

Market update

December 2025

December 2025: Silver takes gold

Various results in the financial markets in December. US stocks fell in local currency terms following negative closes in the last four trading days. While emerging markets and Asian equities showed positive results, they remained in the background. The mood in Europe was however clearly positive, even though capital market interest rates rose there.

Countries with 'South' in their name and a stock exchange performed well in December. South Korea posted +11%, followed by South Africa with +8% (both measured in euros). In addition to South Korea, Malaysia and Taiwan also performed well, with the MSCI Asia Pacific index ending the month with a modest gain of 0.8%. In emerging markets, performance was held back by disappointing results in China, Indonesia and India, as well as in South American Brazil. As a result, emerging markets did not improve on their very good performance over 2025 as a whole, closing the year with a gain of 1.8%. US stocks moved sideways on balance in the final month of the year. Due to a weaker dollar, they closed with a small loss in euro terms. European equities, on the other hand, performed well and showed positive results almost across the board. Leading performers were Poland and Spain, while France and the Netherlands clearly lagged. Overall, European equities added 2.7% in December, bringing the 2025 result to +19%. European listed real estate did not benefit from positive sentiment and lagged the broader equity index by 0.3%.



December was a difficult month for fixed income securities. European government bonds lost 0.6% and corporate bonds also failed to close the month in positive territory. Although riskier high yield corporate bonds still showed a slight positive return, the performance in this segment was still generally disappointing.

Finally, it was silver that stole the show. With a spectacular jump of no less than 30% in December, the precious metal ended the year with an astonishing gain of 145% year-on-year.

The returns on the various asset classes were as follows:

Rendementen (total return, in euro's)	december	Q4	2025	12 mths
Bloomberg Barclays Eurozone Staatsobligaties	-0.6%	0.3%	0.6%	0.6%
Bloomberg Barclays Euro Bedrijfsobligaties	-0.2%	0.3%	3.0%	3.0%
Bloomberg Barclays Euro High Yield Bedrijfsobligaties	0.3%	0.6%	5.2%	5.2%
FTSE/EPRA Europe Onroerend Goed	-0.3%	1.5%	2.3%	2.3%
MSCI Europe Aandelen	2.7%	6.3%	19.4%	19.4%
MSCI North America Aandelen	-1.2%	2.5%	4.1%	4.1%
MSCI Asia Pacific Aandelen	0.8%	3.4%	12.8%	12.8%
MSCI World Developed Markets Aandelen	-0.5%	2.8%	5.3%	5.3%
MSCI Emerging Markets Aandelen	1.7%	4.6%	17.7%	17.7%
EUR/USD	1.3%	0.1%	13.4%	13.4%

Source: Bloomberg

Eurozone economy is doing reasonably well

The eurozone economy grew by 1.4% in the third quarter compared to a year earlier. The export-oriented German economy in particular is experiencing several problems due to US trade policy. A strong euro pushes competitiveness towards other trade blocs, while China is marketing some of its exports originally destined for the US in the eurozone. Moreover, China's export mix has changed significantly: it is no longer just low-value copycat products, it increasingly features high-quality industrial goods that compete directly with core German sectors, such as the tainted auto industry. The German economy received a welcome boost in October, as industrial production increased by 1.8% compared to a year earlier, the first such increase in a long time. Yet, with annual growth of 0.3% in the third quarter, the German economy is underperforming other European economies, particularly the peripheral countries such as Ireland, Cyprus, Bulgaria (new member of the eurozone) and Spain. These countries have emerged from the malaise of the euro crisis of the 2010s on the back of rising tourism, a stronger banking sector and, paradoxically, stricter budgetary discipline.

In the long run, the Merz government's increased public spending, including investment in the defence industry, will help to revive Germany's economy. But, as is usual in Germany, this will be a slow process. Almost a year on, the effects of releasing the debt brake are still hardly visible, if at all. The 2026 budget has however now been approved by the Bundestag, paving the way for major defence orders, which are expected to begin in early 2026.

At the same time, the size of the tax multiplier remains uncertain: estimates range from around 0.5x ([Goldman Sachs](#)) to 1.0x–1.5x ([Kiel Institute](#)).

Eurozone sentiment indicators weakened slightly without any clear conclusion. Consumer confidence fell slightly from -14.2 to -14.6. This is below the long-term average of -12, but the deviation is limited. On the producer side, the composite PMI cooled from 52.8 to 51.9, continuing to point to slight growth. This decline is due to further weakening in the manufacturing sector, where the Purchasing Managers' Index (or 'Manufacturing PMI') fell to 49.2, and a weakening in the services sector, where the Purchasing Managers' Index (the 'Service PMI') fell to 51.9. On the other hand, investor confidence improved slightly from -7.4 to -6.2, albeit still below the long-term average.

All in all, the eurozone economy is in reasonable shape. Manufacturing is struggling, but the services sector (which is the largest part of the economy) is growing. The consensus growth forecast for 2026 is 1.2% on average. Nothing to write home about, but not bad either. The main risk is relative rather than absolute: if other regions continue to produce higher growth in the longer term, the eurozone will gradually lose market share in global growth and thus a larger share of the economic pie.

A dichotomy for the US economy

The US government failed to approve a new budget in good time, after which the federal government went into shutdown on 1 October. Non-essential officials laid down their work, including employees from both the Bureau of Labor Statistics (BLS) and the Bureau of Economic Analysis (BEA). In the style of President Trump, this shutdown was also 'great': with 43 days, it lasted historically long. The BLS did not collect any data up to and including 12 November, which means that both underlying statistics and subsequent revisions have to be interpreted with extra caution. The 'noise' from this may continue until at least the first quarter of 2026, before any really hard conclusions can be drawn.

While the numbers are in serious doubt, the US economy looks remarkably resilient based on the information available. In the third quarter, the real economy grew by 1.1% compared to the previous quarter, representing 4.3% on an annualised basis. As a result, economic growth was significantly higher than the expected 3.3%. Underlying this, US consumer spending (which accounts for roughly 70% of GDP) remains robust. Remarkably, this is happening while sentiment is weak: the consumer confidence index stands at around 89 (with 100 being considered neutral).



This is partly due to rising real disposable income: approximately +1.5% on an annual basis, as wage growth is now higher than inflation. A second important component is the development of household net assets, which have risen sharply due to rising house prices and high stock prices. The fact that willingness to spend remains high among pessimistic consumers may look contradictory, but the difference lies in the statistical weighting. Consumer confidence is a (weighted) cross-section in which the concerns of the broader public (and therefore low income groups) are given a relatively large weight. Overall household wealth, on the other hand, is strongly influenced by the high-net-worth group. This is the group that disproportionately affects asset statistics and therefore consumption. This mechanism is often referred to as a 'K-shaped' economy: diverse experiences of prosperity can exist while the macroeconomic outcome can remain solid.

The IMF however takes the view that this poses a major risk for 2026. If the high earnings expectations of US companies are not met and financial markets sharply correct, it could directly affect the total wealth of the highest income groups (the 80th percentile). This group owns approximately 90% of equities and investment funds, including mutual funds. Given the above-average contribution of these households to domestic consumption, a sharp correction could remove a key driver of growth and increase the likelihood of a broad economic downturn.

In addition to consumer confidence, supply-side sentiment indicators, as described in the October monthly update, are also unconvincing, especially in manufacturing. In fact, the manufacturing PMI points to contraction at 48.2, while the services PMI at 52.4 indicates slight growth.

Nevertheless, there are some bright spots for the US economy in the short term. The 'One Big Beautiful Bill Act', which includes tax cuts for businesses and consumers, can provide a temporary growth stimulus. In addition, the American mid-term elections in November 2026 are on the agenda, with both President Trump and the Republicans keen to shore up their approval ratings. In this context, it is not inconceivable that the previously proposed plan will return to convert (all or part of) the income from import duties into "stimulus checks", with the aim of increasing political support for the elections.

On the other hand, the president (like his election promise) could focus on improving employment, precisely because the labour market is visibly cooling. Unemployment has risen steadily to 4.6% since the low of 3.4% at the beginning of 2023. That level is still historically low, but the direction is clearly less favourable. Stricter migration rules and plans to expel 'illegal' migrants can also hit the labour market by limiting the supply of labour and thus increase frictions. The change in the number of jobs in the United States excluding agricultural jobs (Non-Farm Payrolls) seems to confirm this picture, with an increase of 64,000 in November that was lower than expected by the market.

Eurozone inflation near ECB 'target'

Headline inflation in the eurozone moved slightly higher but remained unchanged at 2.1% in November. As a result, inflation is in line with the ECB's objective. Core inflation, excluding volatile food and energy prices, has remained unchanged for three months, after rising from 2.3% to 2.4% year-on-year in September. Underlying services inflation, which is highly correlated with wage growth, remains persistent at 3.5% year-on-year.

Looking ahead, both economists and financial markets expect headline inflation to remain at or slightly below 2% through 2027, while core inflation will gradually decline to 2% in 2027. As Europe remains relatively dependent on foreign energy, this forecast depends on the development of oil and gas prices. A surplus of output from OPEC is currently keeping the price of oil (Brent) at a low level of around \$60 per barrel, certainly adjusted for inflation. As OPEC intends to further increase production, this oversupply is still likely to continue for the time being. Nevertheless, the oil price is naturally approaching a natural bottom: the point at which production techniques (such as 'fracking') are no longer profitable. As a result, it is difficult to assess how much potential for deflation due to lower oil prices remains. At the same time, oil prices can also rise due to geopolitical tensions, especially now that Ukraine is stepping up pressure on the Russian fossil fuel sector by directly attacking, for example, oil tankers from the shadow fleet. Despite recent diplomatic efforts, an end to the conflict in Ukraine does not seem imminent.

Finally, the new tax plans are an uncertain factor. On the one hand, extra investment and public spending can boost inflation in the short term. But higher government deficits could push government bond yields higher. In the longer term, higher bond yields have a negative impact on the economy, which may result in lower inflation (and inflation forecasts).

Inflation in the US is above the Fed's target, and is expected to remain there

We finally saw some relief in the United States in the third quarter. Inflation eased from 3.1% yoy in September to 3.0% in October, followed by a notable decline in November. Headline inflation came in at 2.7% yoy versus a forecast of 3.1%. Core inflation was also significantly lower at 2.6% than expected at 3.0%. Still, it's too early to celebrate. There are serious doubts about the reliability of this figure, as the BLS was still closed during the first half of November due to the shutdown. As a result, not all data points were collected and an unusually large number of observations, 45 data points, were estimated. It is not clear which assumptions were used for this.

Import duties remain another source of uncertainty. This is not just President Trump's favourite card to play in any discussion, legally there is still a big question mark behind it. The Supreme Court is still considering the legal framework used to introduce import duties. The outcome could have a major impact on the US Treasury and inflation developments, but at the moment this would seem to be a tail risk. We can conclude cautiously that the biggest shock of the first phase has now been processed, although the situation remains very sensitive to new developments.

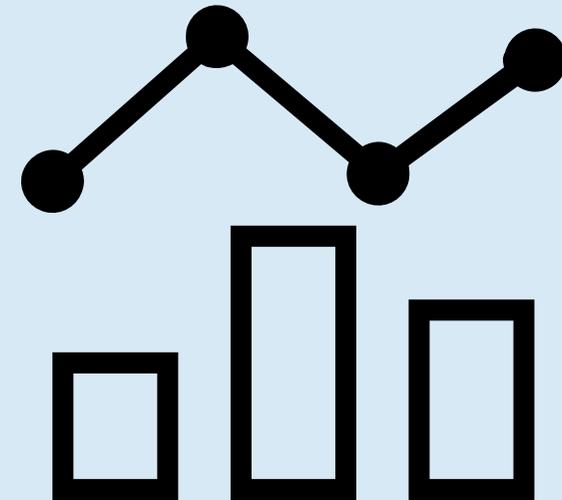
As in the eurozone, services inflation in particular remains an issue for US policymakers. At 3.0%, it remains significantly above the Fed's target. However, it seems more likely that a cooling labour market will ultimately result in falling rather than rising services inflation.

Looking ahead, both economists and financial markets expect US inflation to remain above the Fed's target in the coming years. According to the Bloomberg consensus, the forecast for 2025 and 2026 is around 2.8%, after which inflation will decline to around 2.5% in 2027. That's still on the high side. A crucial uncertainty is the extent to which the Fed can continue to carry out its mandate independently of White House interference. If that credibility comes under pressure, inflation expectations, already above 2%, could rise even further.

Monetary policy: ECB marks time as Fed cuts

The ECB's interest-rate policy is reasonably predictable. Since June 2025, the ECB has chosen to wait, and without new information, it is likely that this will remain the case for most of 2026. The ECB will close the COVID-19 balance sheet of around EUR 6 trillion by around EUR 40 billion per month as redemptions are no longer reinvested. Although there are no concrete indications yet (there is still sufficient liquidity in the market), how this progresses could become a topic of discussion in the course of 2026. Finally, Bulgaria (approximately 7 million inhabitants) joined the eurozone on 1 January.

For the Fed, the playing field is more complicated. Like the author of this update, the Fed faces a practical problem: the BLS and BEA figures are currently difficult to interpret. Moreover, political interference from the White House is on the rise, while the Fed needs to shape policy with limited certainty about the effects of import taxes on prices and growth. If that is not complicated enough, the Fed also has a double mandate: inflation around 2% in the medium term and maximum employment. That's putting the Fed in a squeeze right now. Inflation remains above target as described, while the labour market shows signs of cooling. The lower inflation figures in November prompted the Fed to cut rates by 25 basis points in December, making the policy rate currently 3.75%.



Uncertain outlook for the Fed

The Fed stopped tapering its bond portfolio (quantitative tightening) in December, as acute liquidity shortages arose in the financial system and short-term interest rates on the money market suddenly rose. So the Fed is behind the curve with a balance sheet of about \$6.5 trillion and Mortgage Backed Securities (MBS) redemptions fully reinvested in US government bonds. Interest-rate markets have slightly lowered their forecast for 2026 and are now expecting two rate cuts of 25 basis points next year, with a final policy rate around 3%. This estimate however remains uncertain. If inflation does remain above target, 3% may be on the low side. On the other hand, if political interference is successful and the Fed's independence comes under further pressure interest rates may decline, but that could raise long-term rates in the short term and will almost certainly be inflationary in the longer term. President Trump is expected to nominate a new Fed Chair in early 2026 who after confirmation by the Senate will take over in May. The first meeting under a new Chair will take place in June.

Although the Fed cut its policy rate in December, the vote was the most divided since 2019, with nine votes in favour and three against. The dot plot also shows that there are widely divergent views within the FOMC, reflecting the level of uncertainty regarding the expected path in 2026. The minutes also showed that several members who agreed to the cut also found no action to be a defensible option. A further decline in inflation or an additional cooling of the labour market is required for future interest-rate cuts.

'As goes January, so goes the rest of the year' ...?

Sentiment in the financial markets appeared to reverse in November. Concerns about valuations of AI-related companies briefly turned into risk aversion, while third-quarter earnings did not justify any widespread panic. Many prices fell below their 50- and even 100-day averages, which is often technically seen as a break in the trend. From the end of November, however, the market rebounded, with equity indices still closing the year well, although a Christmas rally failed to materialise.

The downside of the positive sentiment is that risky asset classes, which have historically been expensive, have become even more expensive. Valuations (or overvaluations) of equities and other high-risk asset classes make them vulnerable to a deep correction if this materialises, for example due to negative geopolitical developments or an unexpected risk event. But this has been the case for some time already, and valuations are a very poor predictor of returns over the next 12 months. There are few signs at this point that positive market sentiment will turn rapidly in the short term. Moreover, the fundamentals are still supportive, thanks to accommodative monetary policy, the discontinuation of quantitative tightening and additional fiscal stimulus. The US labour market is cooling, but it is not yet at a critical stage, while consumers continue to spend. To sum up, we look ahead to 2026 with optimism, although macroeconomic and geopolitical risks remain important reasons for a cautious stance.

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