#5 MONTHLY COMMENTARY
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Degussa GROUP

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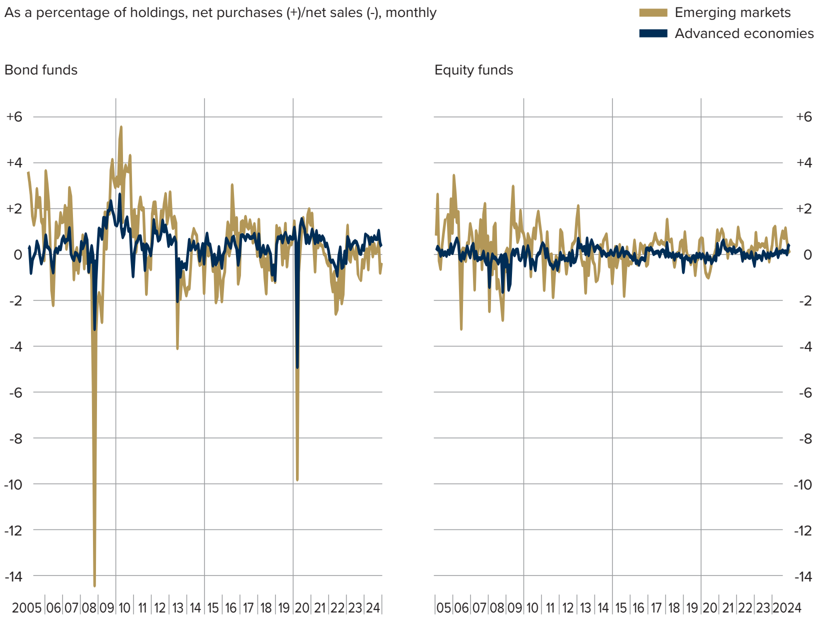
Market Report

Developments in Financial and Commodity Markets

Global markets are navigating a period of shifting economic power and rising geopolitical tensions. China is expanding its use of the yuan in trade and investment, strengthening its influence in emerging markets and supporting its long-term strategy of accumulating gold reserves. Tensions between China and Japan may introduce a new source of geopolitical risk, with potential spillovers into global currency and equity markets due to Japan's economic fragility and high level of foreign asset holdings.

Investment fund flows



Source: EPFR Global. Deutsche Bundesbank

Highlights

- **Global Power Balance is Shifting Amid Rising Geopolitical Tension**
  Global markets are adjusting to a redistribution of economic influence and a more volatile geopolitical backdrop.

- **China Expands Yuan Usage to Boost Strategic Influence**
  Beijing's long-term gold accumulation strategy is bolstering the yuan's international standing and supporting its wider use in global trade and investment.

- **Dollar Weakness Boosts Euro's Safe-Haven Appeal**
  Political tensions, debt concerns, and soft US data have made the euro a preferred defensive asset for foreign investors throughout 2025.

- **Asian Wealth Reshapes Global Gold Dynamics**
  Wealthy Asian investors are transforming gold from a passive hedge into an active asset, with allocations doubling in 2025 and new yield-generating strategies emerging.

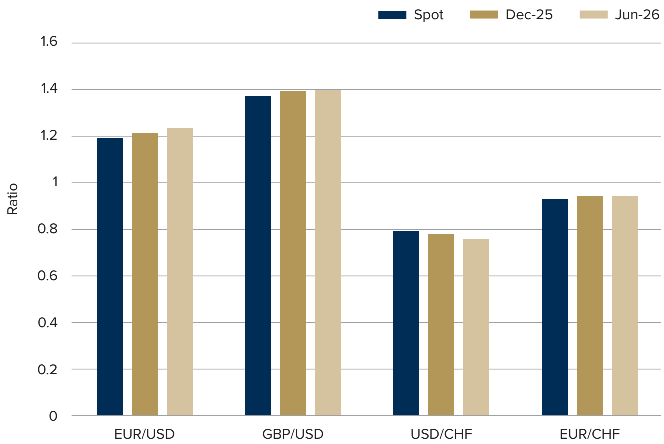
- **Neutral Risk Signal Supports Slightly More Aggressive Positioning**
  Reduced tail risks allow for a modest shift from cash into equities, while maintaining a slightly elevated allocation to precious metals.

Research by the Bundesbank looking at 25 emerging and 21 advanced economies between 2005–2023, shows that during recent major crises, such as 2008 and the Covid-19 pandemic, bonds suffered the steepest outflows, far exceeding those from equities. The findings reveal that bond markets can be highly vulnerable during crises. This challenges the conventional 60:40 portfolio approach, indicating that bonds may not be fulfilling the stabilising role during periods of elevated global uncertainty as well as commonly thought. However, a similar passive strategy, which has outperformed a representative 60:40 equity-bond strategy without any significant risk-loading, is the equity-gold portfolio, where equity retains its traditional role in targeting growth and expanding the portfolio returns, and gold acts as a hedge against the negative effects of monetary inflation.

Dollar uncertainty, driven by weak US economic signals, political tensions, and concerns over debt sustainability, has caused the euro to be viewed as a safer asset by foreign investors throughout 2025. In their Q4 Outlook, UBS has kept its EUR/CHF forecast at 0.94 through to mid-2026, despite recent franc strength driven by global uncertainty and dollar debasement. The bank expects safe-haven demand for the Swiss franc to ease once US political and trade tensions subside.

With Swiss interest rates at zero, UBS sees better euro returns ahead, which could support a gradual EUR recovery and stabilisation of the exchange rate. Overall, UBS anticipates the franc's current strength will moderate in the medium term.

UBS Q4 2025 Currency Forecasts



Source: https://share.google/dzwhJ2942ZF3HeoUh

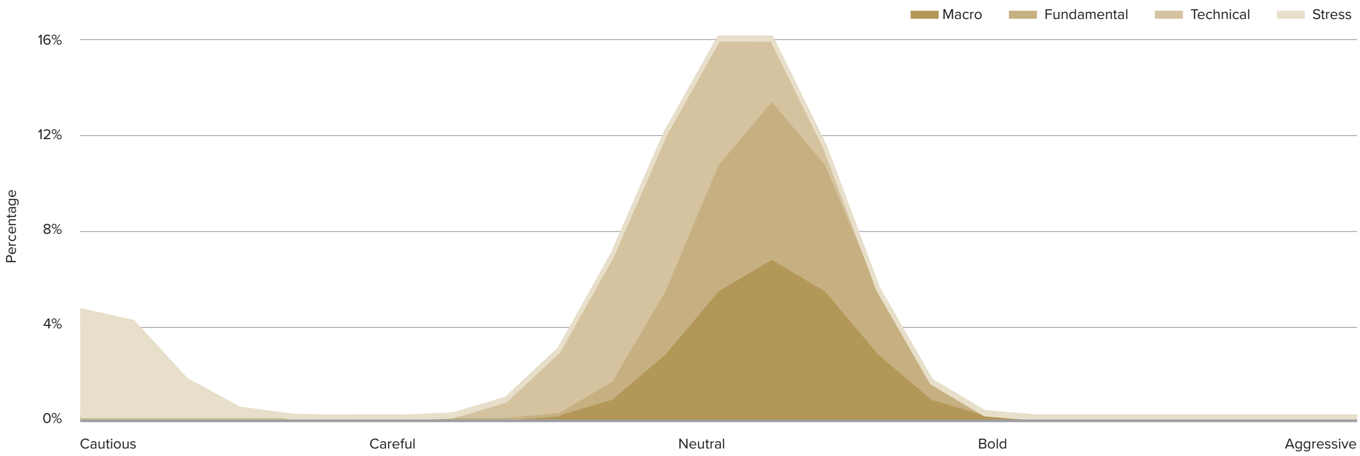
Precious Metals and Commodities

In the short term, gold, silver, and oil are likely to see sideways movement, but remain bullish in the mid and long term. Meanwhile, copper, oil, and agricultural commodities are projected to trade mostly flat over the short and medium term, yet continue along a long-term upward trajectory.

Indicator	Gold	Silver	Copper	Oil	Agriculture
Current	→	→	→	→	→
Outlook	↗	↗	→	↗	→
Trend	↗	↗	↗	↗	↗

Market Risk Signal

Market Risk Signal

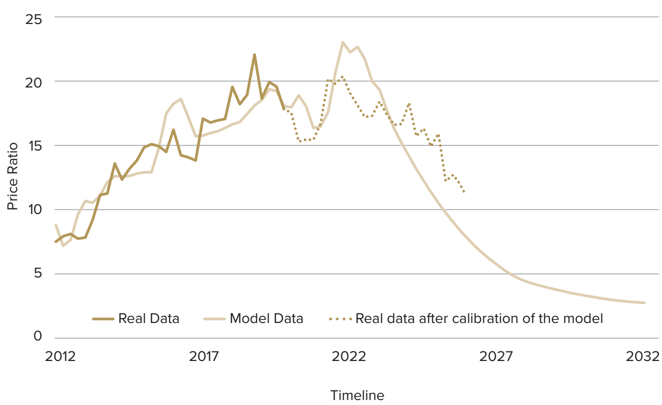


Gold vs stocks forecasting model

The current level of debt relative to real economic output is similar to the situation in the Germanic nations prior to the World Wars in the 1910s, and in France leading up to the French Revolution in the 1790s. In such high-debt scenarios, the likelihood of instability and a deleveraging process is greatly increased. Since gold holdings are typically free from another's liability, the deleveraging process has a gentler impact on gold prices than on equities. The anticipated deleveraging process can be modelled using coupled differential equations, which suggest that gold will likely outperform stocks from 2022 onwards. The model was calibrated in 2019 and has not since been adjusted for new input data.

According to the model, the peak at which economic activity assets (such as equities) will outperform gold is around Q3 2022. From that point forward, the model predicts an outperformance of gold relative to stocks (light line). When compared to real data on the stock-to-gold price ratio (dotted line), the trend of gold outperforming stocks appears to have begun early in 2022. Whether a short-term reversal will occur remains uncertain; however, the long-term trend towards stronger gold performance remains evident.

Ratio of stock to gold prices in the US



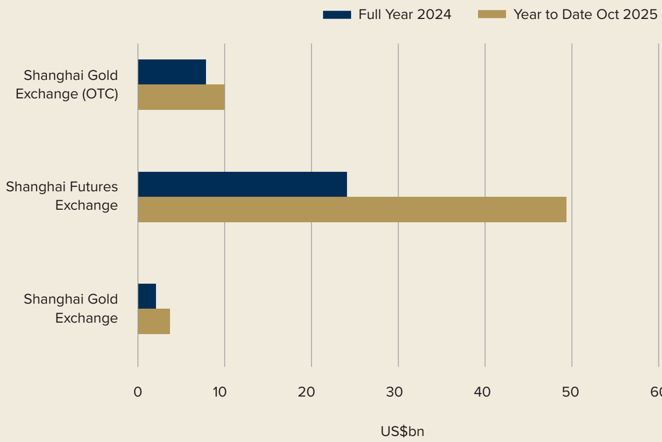
Gold Feature

For decades, the world of gold was defined by the West. London set the price, New York traded the futures, and Zurich refined the bars. But the balance may be quietly shifting eastward, as Bloomberg reports, by the force of Asian wealth and China's growing financial ambitions. Asians see gold beyond its value as a passive hedge against inflation, and allocations to gold in wealthy Asian portfolios has doubled in 2025. Billionaire families in Hong Kong have begun lending out their bullion to jewellers, quietly compounding their holdings at yields of 3–4% a year. Some have entered into profit-sharing ventures with established precious metals traders, turning their bullion into an active, profitable business, while others are arbitraging between Dubai and Hong Kong. And when liquidity is needed, gold bars serve as collateral for everything from stock purchases to crypto trades.

Yet the most profound shift is happening at the systemic level. China's Shanghai Gold Exchange (SGE) has opened its first offshore vault in Hong Kong, allowing international investors to buy yuan-denominated gold and take delivery outside the mainland for the first time. This vault is the first step in a planned Asian-centred, 24-hour gold trading network spanning Hong Kong, Singapore, Zurich, and Dubai, that could eventually compete with the LBMA and COMEX. With incentives designed to boost liquidity, and with the Bank of China leading the effort, Beijing is building a sanctions-resistant financial architecture to strengthen the yuan's global role. While the SGE's total trading volume remains small compared to the LBMA and COMEX, these developments represent the first credible challenge to their dominance in recent history.

Domestic reforms in China may further reinforce the shift. New rules for VAT are making investment gold more attractive by raising costs for jewellery, effectively pushing consumers towards bars and coins tied directly to the SGE system. Local retailers and small banks are facing higher prices and thinner margins, which is likely to result in the market power being consolidated among China's major institutions. Individually, these developments are subtle, but collectively, they may mark the genesis of a reshuffling of global gold dynamics.

Average daily gold trading volumes in Shanghai 2024 vs 2025



Source: World Gold Council

Current investment situation

The global economic landscape is experiencing a notable shift as BRICS nations accelerate their adoption of yuan-based financial systems, gradually reducing reliance on the US dollar. This transition is reinforcing China's gold- backed monetary strategy, which aims to strengthen the yuan's role in international trade and reserves. While the long-term implications for global financial stability remain uncertain, the trend signals a move toward a more multipolar currency system. These developments could reshape cross-border transactions, central bank reserves, and investment patterns, reflecting broader geopolitical and economic ambitions.

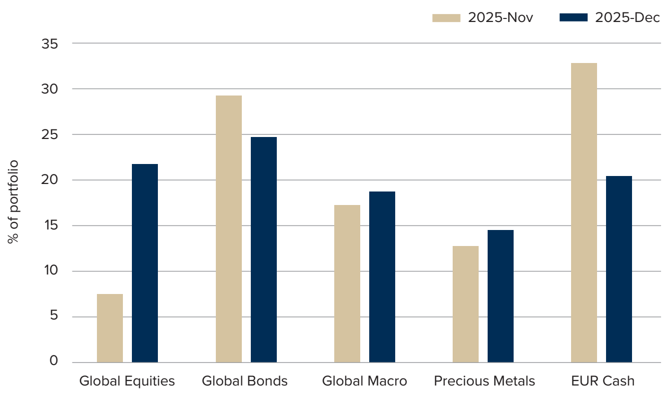
Europe enters the final month of 2025 with a mixed economic outlook. While the region continues to grapple with sluggish growth and persistent inflationary pressures, there are signs of stabilisation in key sectors. The European Central Bank's monetary policy remains cautious, balancing the need to curb inflation with supporting economic activity. Structural challenges, such as energy transition costs and demographic shifts, persist, but green investments and digital transformation initiatives are providing new growth impulses. Meanwhile, geopolitical tensions and trade dynamics with neighbouring regions add layers of complexity to Europe's economic trajectory.

Southeast Asia stands out as a dynamic force in the global economy, driven by rapid advancements in financial technology. The region's FinTech sector is closing credit gaps, promoting financial inclusion, and attracting strategic investments from around the world. As one of the most vibrant digital economies, Southeast Asia is leveraging innovation to fuel growth, offering opportunities for both local entrepreneurs and international investors. This momentum not only supports economic diversification but also highlights the transformative role of technology in fostering inclusive and sustainable development across emerging markets.

Allocation adjustments

The current investment climate is marked by cautious optimism, despite lingering macroeconomic uncertainties. Portfolios are being recalibrated with an increase in allocations to global equities, global macro strategies, and precious metals, reflecting a more dynamic approach to capturing opportunities across asset classes, while hedging for inflationary pressures. This adjustment is paired with a reduction in cash and global bonds quotas, as some tail risks have moderated. Investors are increasingly turning to flexible, actively managed strategies to adapt to evolving interest rate environments and divergent regional growth trajectories.

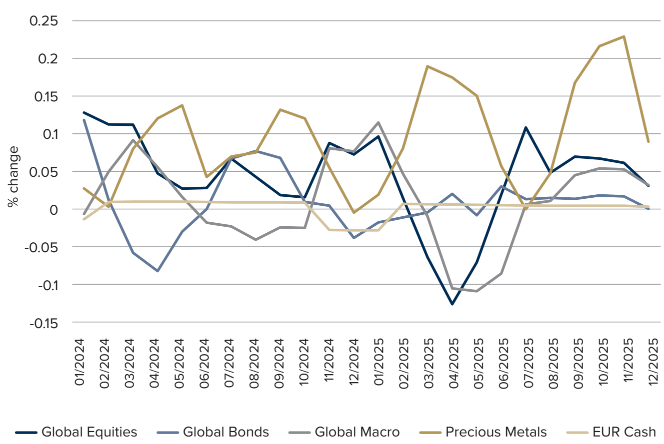
Allocation compared to the previous month



Rolling three-month performance of various asset classes

An analysis of rolling three-month performance shows that active allocation between equities, bonds, and gold has consistently added to portfolio returns. This pattern remains evident over the long term, highlighting the value of dynamic asset management. Although gold has seen a brief pullback as markets consolidate the post-summer gains, it continues to be the strongest contributor to performance, reaffirming its role as a core diversifier in uncertain market conditions.

Rolling 3-month performance

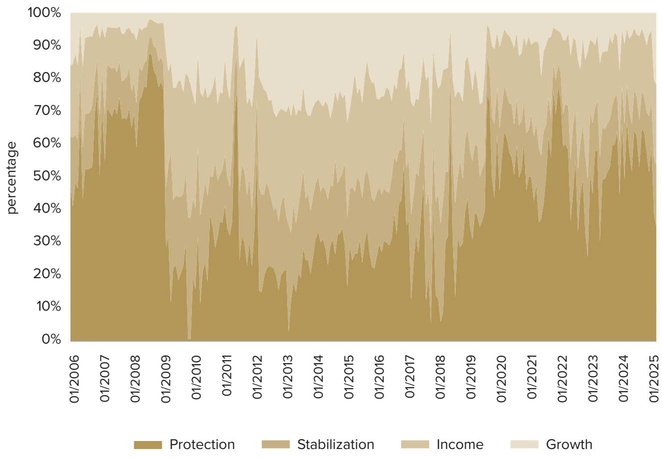


Historical analysis of a dynamic gold allocation

The market risk signal—derived from economic data, capital investment valuations, and market behaviour—provides guidance on both asset class selection and allocation levels. In general, a more favourable environment supports higher exposure to equities, while a more critical or uncertain market environment calls for increased allocations to hedging assets such as precious metals or cash.

Allocation changes over time

Allocation by portfolio role

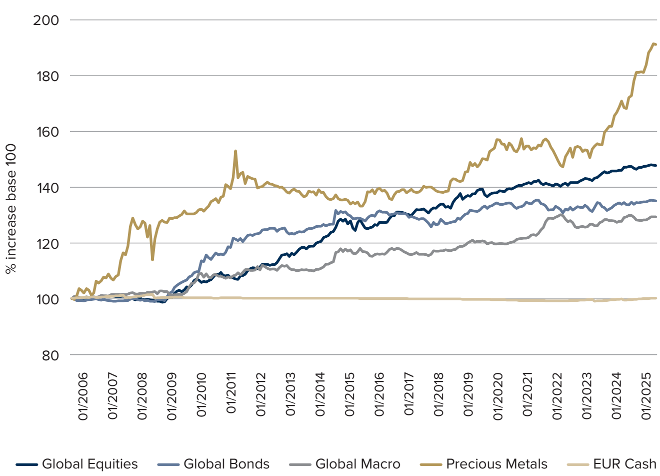


Accordingly, asset class allocations are adjusted based on the market risk signal. For instance, in the summer of 2008, when market risk was very high, the portfolio was heavily weighted towards cash, precious metals, and bonds.

In contrast, between 2012 and 2015, risks in the European market were relatively low, resulting in a higher allocation to equities (fulfilling the portfolio role of "Growth") and a reduced need for hedging assets. The market risk signal has continued to decline but remains within neutral territory, permitting a slightly more aggressive allocation. While the overall environment is less aggressive than in previous months, the reduction in tail risk supports a modest increase in equity exposure. This shift allows for a partial reallocation from cash back toward equities, while maintaining a slightly increased quota in precious metals.

Performance contribution of various asset classes

Performance Contribution



Performance attribution illustrates how much each asset class has contributed to overall portfolio performance during a given period, with relative allocation playing a key role. For example, between 2014 and 2019, the allocation to gold was relatively low, and the majority of returns were generated by bonds and equities. In more economically challenging years, the allocation to gold increased, and—due to gold's strong performance during those periods—the portfolio achieved attractive overall returns.

At present, precious metals continue to outperform all other asset classes by a considerable margin.

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