

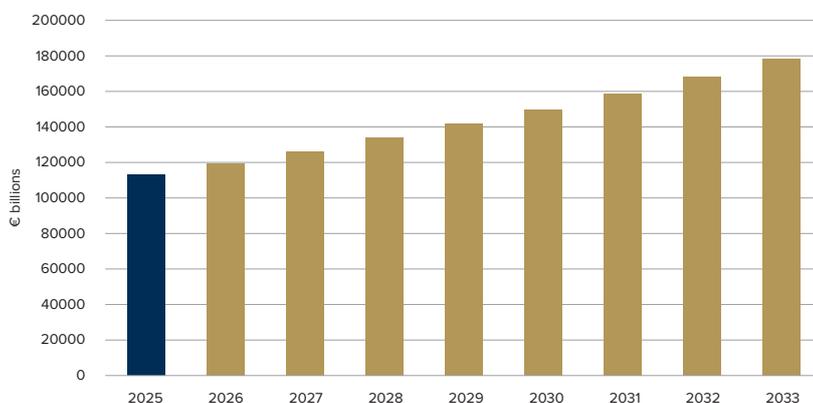
UNITED KINGDOM

Market Report

Developments in Financial and Commodity Markets

Global markets are entering a late-cycle phase marked by rising financial fragility and policy constraints. The Fed is facing a balance-sheet trilemma which limits its capacity to stabilise rates without expanding intervention. Japan's reduced bond-market support has triggered volatility with spillovers to global yields. Precious metals' sharp swings reflect tightening liquidity, geopolitical stress, and late-cycle dynamics, reinforcing demand for real assets. Meanwhile, WEF 2026 takeaways highlight global economic and policy trends, including evolving defence budgets, AI-driven investment patterns, and variations in energy policy, which may influence market diversification and regional investment strategies.

Spain Construction Market Size



Highlights

- **Fed Balance-Sheet Trilemma Exposes Policy Limits**

The Fed outlined balance-sheet constraints, noting it cannot achieve stability, limited intervention, and a smaller footprint simultaneously. These trade-offs limit policy flexibility in future stress.

- **Japan Bond Volatility Sends Global Shockwaves**

Reduced Bank of Japan (BoJ) support triggered sharp JGB selloffs, spilling into higher global yields and FX volatility, exposing structural fragility in debt-heavy markets.

- **Precious Metals Signal Late-Cycle Stress**

Silver and gold volatility, influenced by margin adjustments and supply factors, reflects liquidity conditions and demand for real assets in a complex market environment.

- **WEF 2026 Highlights Global Economic and Policy Trends**

Davos outcomes highlight shifts in global economic and policy trends, including changes in defence budgets, emerging AI-driven investment patterns, and variations in energy policy, which may influence market diversification and regional investment patterns.

- **Risk Signal Turns Cautious as Tail Risks Rise**

Market indicators suggest trimming overall risk exposure, favouring higher cash allocations, lower equity weightings, and a modest shift toward bonds over gold.

Spain's construction and infrastructure firm, Ferrovial, became the first Spanish IBEX 35 company to join the Nasdaq-100 in December 2025, following its US market debut in May 2024. The move reflects the firm's growing international footprint and investor appeal, supported by a strong domestic backdrop. Spain's construction sector has been a key driver of economic growth, accounting for 10.4% of GDP in gross

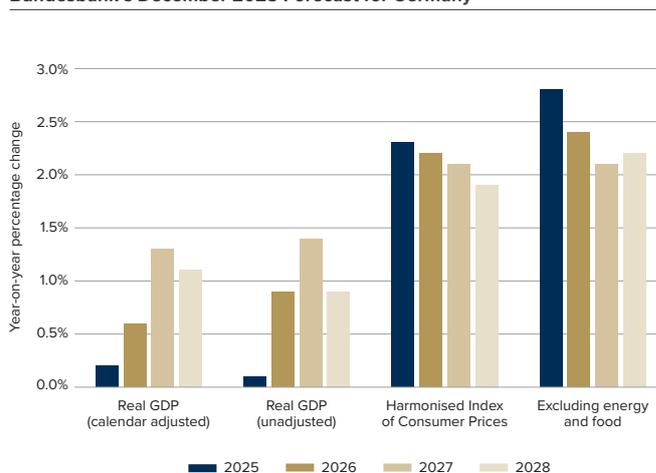
fixed capital formation and 5.3% of gross value added in 2024. A supportive environment of rising infrastructure investment, urbanisation, and affordable energy has contributed to the sector's expansion. The construction market, valued at €112.7 billion in 2025, is projected to grow at a 5.4% CAGR through 2033, providing a strong foundation for companies such as Ferrovial to expand abroad and attract global capital.

After several years of contraction, the Bundesbank expects the German economy to gradually recover during 2026, with growth gaining momentum from the second quarter onward. The upturn is projected to be supported by increased public investment in infrastructure and other sectors. Additionally, a rebound is expected in exports, housing investment, and private consumption, supported by wage growth.

Export momentum may face some headwinds from evolving trade dynamics.

Calendar-adjusted GDP is forecast to rise by 0.6% in 2026 and 1.3% in 2027, before easing slightly in 2028. Inflation has been declining more slowly than expected and is projected to reach the 2% goal between 2027–2028. While fiscal expansion should support activity, it will also lead to a higher government deficit ratio in the coming years.

Bundesbank's December 2025 Forecast for Germany



Precious Metals and Commodities

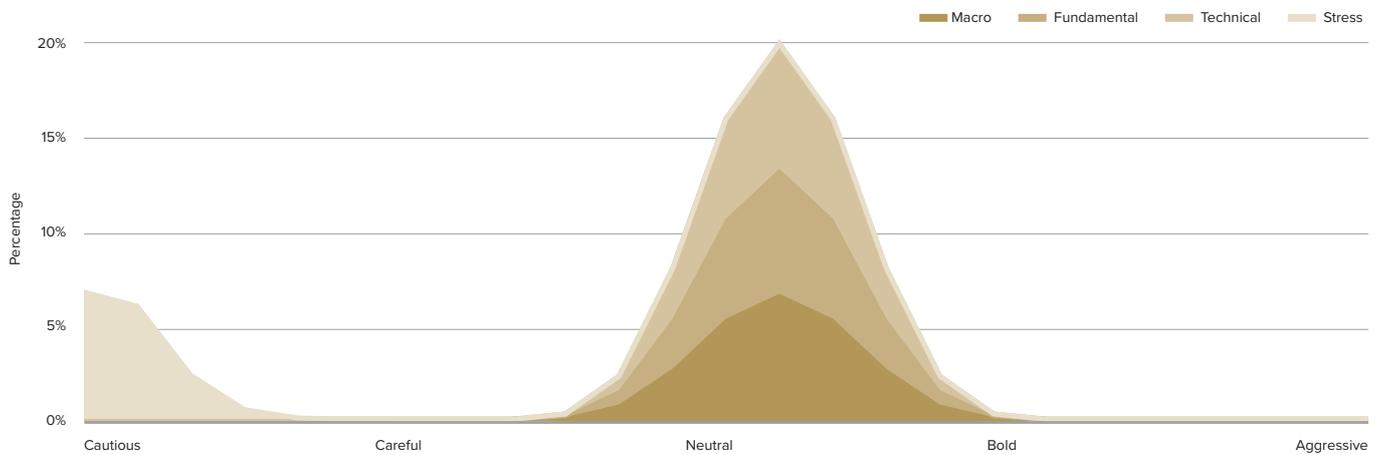
Oil and agricultural commodities are likely to rise in the near term, narrowing their performance gap with precious metals. While recent volatility makes near-term price movements in

precious metals difficult to forecast, the structural factors supporting the broader commodities bull market remain intact.

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

Market Risk Signal

Market Risk Signal

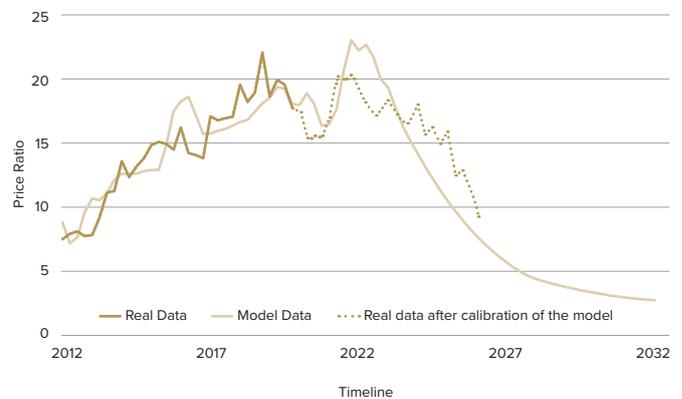


Gold vs stocks forecasting model

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

Over the full year 2025, the S&P 500's performance varied significantly when expressed in different currencies. The index finished 2025 up with a 17% increase in US dollar terms. However, gains were 8.4% in British pounds, only 2.1% in euros, and a mere 1.7% in Swiss francs. Even more surprisingly, when measured in gold terms, the S&P 500 actually declined by 29%. All series were rebased to 100 at the start of the period on January 1, 2025, then tracked using the S&P 500's dollar performance with daily, date-matched FX conversions. Gold performance was calculated using XAUUSD.

A similar pattern emerges outside the US. The Euro STOXX 50 delivered strong gains, rising 35% in USD terms, 26% in GBP, 19% in euros, and 18% in Swiss francs, while the CBOE UK 100 advanced 30% in USD, 21% in GBP, 15% in euros,

and 13% in CHF. Despite these solid performances, both indices fell sharply when measured in gold terms, declining 18% and 20% respectively, using gold priced in each index's native currency.

For investors, this shows that headline equity gains can be heavily diluted by currency effects. While equities performed quite satisfactorily in fiat terms, the negative performance in gold terms demonstrates how gold preserves real purchasing power. Viewed in this way, gold can become a powerful yardstick for assessing real value. Measuring equities in gold terms strips out currency debasement and monetary distortion, revealing whether gains truly increased purchasing power or merely reflected inflation and FX effects embedded in fiat returns.



Current investment situation

The global investment environment in 2026 is increasingly characterised by late-cycle dynamics, rising financial fragility, and constrained policy capacity. Growth remains uneven and is supported by fiscal measures, accommodative financial

conditions, and ongoing productivity improvements, particularly in AI-driven sectors. Central banks face narrower operational flexibility, highlighting the need for careful coordination in maintaining financial stability.

Europe's outlook is influenced by evolving fiscal priorities, including increased investment in industrial and infrastructure sectors. These initiatives may support regional equity markets and the euro. The associated increase in debt issuance will require monitoring to ensure long-term sustainability and balanced capital allocation.

Commodities, particularly precious metals, remain central to portfolio positioning in this late-cycle phase. Despite short-term volatility, physical market tightness and late-cycle financial conditions continue to support precious metals relative to equities. Silver's classification as a critical commodity subject

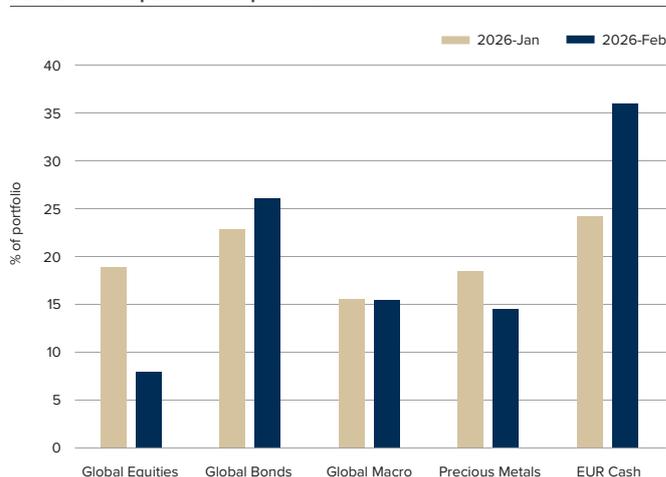
to export controls, alongside a persistent premium for precious metals in Asian markets demonstrates rising concerns over physical supply security and the growing disconnect between paper pricing and physical demand.

Overall, markets are transitioning deeper into a late-cycle regime marked by higher volatility, policy trade-offs, and rising tail risk. Financialised assets are increasingly exposed to liquidity shocks and political constraints, while real assets and jurisdictional diversification are gaining strategic relevance.

Allocation adjustments

The current investment climate remains cautious, influenced by persistent macroeconomic uncertainties and evolving risks. Portfolios are being recalibrated with a significant reduction in global equities and a significant increase in EUR cash holdings, while global bonds see a slight increase and precious metals a modest decrease. This adjustment underscores a more defensive stance, emphasising liquidity and capital preservation amid heightened volatility and uneven regional growth. Investors are prioritising flexibility and active management to navigate shifting interest rate expectations and market conditions.

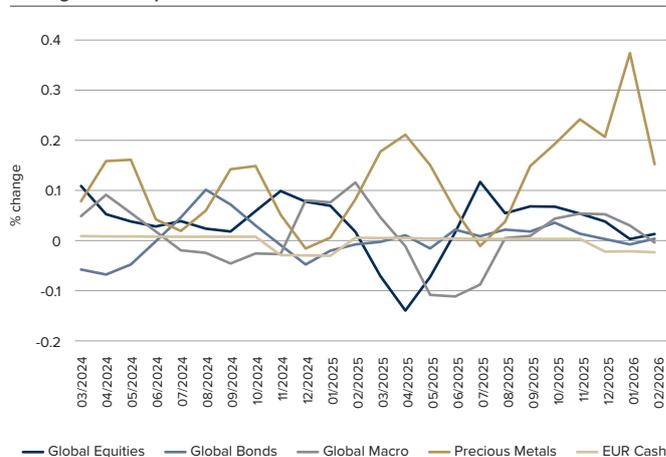
Allocation compared to the previous month



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 experienced a brief pullback as markets consolidate January's 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



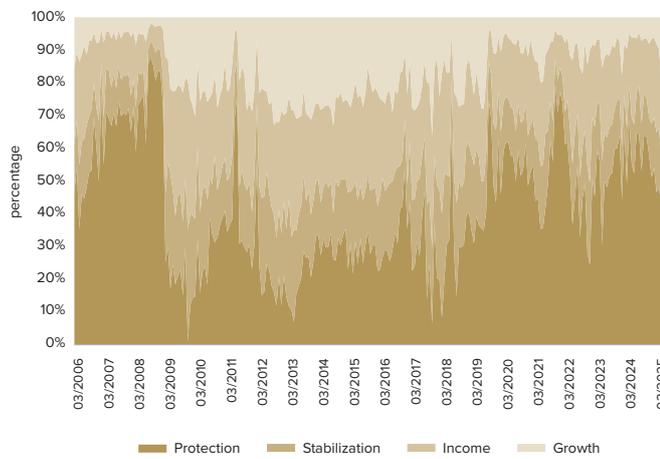
Historical analysis of a dynamic gold allocation

The market risk signal—derived from economic data, capital investment valuations, and market behaviour—provides guidance on both asset class selection and allocation levels. Generally, a favourable environment supports higher equities

exposure, whereas a more challenging or uncertain market environment favors increased allocations to hedging assets such as precious metals or cash.

Allocation changes over time

Allocation by portfolio role

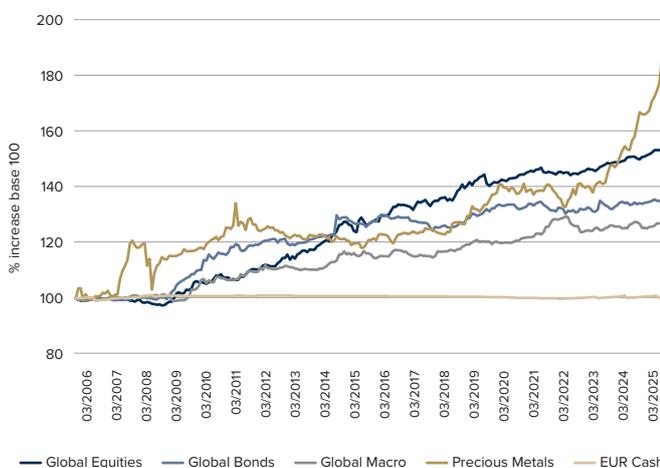


Accordingly, asset class allocations are adjusted based on the market risk signal. For instance, in the summer of 2008, when market risk was very high, the portfolio was heavily weighted towards cash, precious metals, and bonds. In contrast, between 2012 and 2015, European market risks were relatively low, leading to a higher allocation to equities (fulfilling the portfolio “growth” role) and a reduced need for hedging assets.

The market risk signal remains in neutral territory but suggests a more cautious stance. Although conditions are less aggressive than last year, rising tail risks call for trimming overall risk exposure. This implies higher allocation to cash, reduced equities weightings, and a modest increase in bonds relative to gold, supporting a more defensive portfolio positioning.

Performance contribution of various asset classes

Performance Contribution



Performance attribution illustrates the contribution of each asset class to overall portfolio performance, with relative allocation playing a key role. For example, between 2014 and 2019, allocations to gold were relatively low, and the majority of returns were generated by bonds and equities. In more economically challenging years, higher allocation to gold, combined with its strong performance, contributed to attractive overall portfolio returns.

Currently, despite recent volatility, precious metals continue to outperform other asset classes by a considerable margin.

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