#6 MONTHLY COMMENTARY
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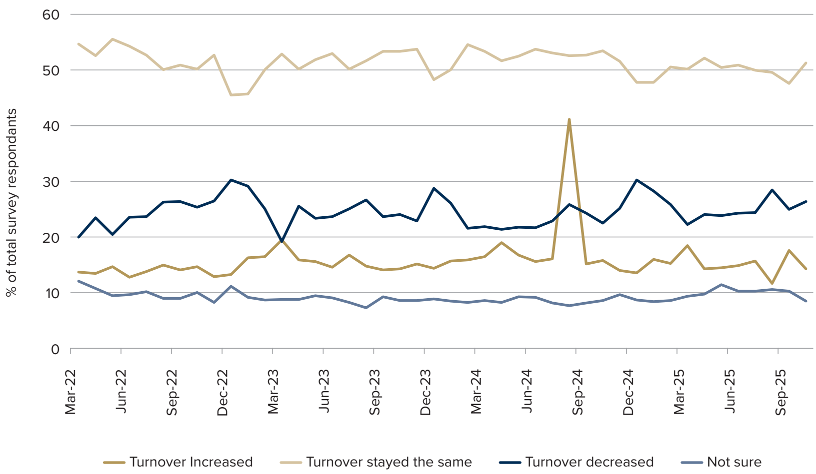
Degussa GROUP

UNITED KINGDOM
Market Report

Developments in Financial and Commodity Markets

Major banks' outlooks for 2026 are cautiously optimistic regarding growth, though largely driven by fiscal expansion, monetary easing, and AI-led investment rather than underlying productivity gains. Europe's recovery hinges on debt-funded public spending, raising hopes for growth as well as questions over sustainability. China's launch of Hainan as a free-trade port demonstrates Beijing's push to deepen global integration while selectively liberalising aspects of its economy. Meanwhile, precious metals continue to outperform amidst some seasonal volatility.

Impact on turnover from UK businesses currently trading



Highlights

- **Structural Shifts Redefine Global Markets Heading Into 2026**

  Major banks remain cautiously optimistic, with 2026 growth expectations increasingly driven by fiscal stimulus, monetary easing, and AI investment.

- **China Deepens Global Integration Through Targeted Liberalisation**

  The development of Hainan as a free-trade port reflects an approach aimed at gradually expanding selected economic areas and strengthening international economic cooperation.

- **Silver Rallied to Historic Highs**

  Silver surged to record highs in late December, driven by strong demand, tight supply dynamics, and safe-haven flows.

- **Gold Reasserts Its Role as a Core Portfolio Anchor**

  Gold's strong 2025 performance has restored its mainstream prominence in portfolio allocations, with demand expected to remain robust through 2026.

- **Risk Signal Supports Heightened Market Uncertainty**

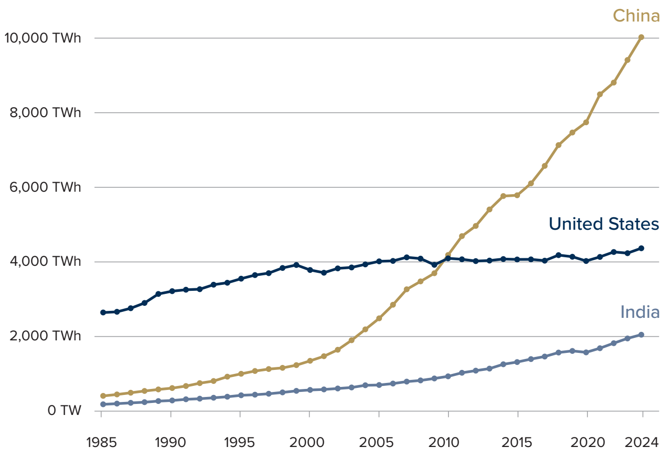
  Various macroeconomic and global developments continue to support a greater focus on liquidity, inflation protection, and capital preservation.

In October 2025, most UK trading businesses reported stable turnover compared with the previous month, while 51% reported turnover had stayed the same, 14% saw increases, and about 26% reported declines. Economic uncertainty remained the most significant challenge affecting turnover, alongside competition and rising material and labour costs. In late November, 35% of medium and large businesses reported rising staffing costs and wage increases compared with earlier in the year, although levels remained only slightly above those of 2024. Most firms reported no impact from worker shortages, although recruitment difficulties persisted, driven mainly by skills shortages and low application volumes. Among exporting businesses, 34% reported being affected by US tariffs, and 46% expect to pass higher costs on to consumers.

For most of history, money was tied to tangible productive assets like grain, livestock, and gold. As the world shifts towards an electrified and digital economy, the fundamental unit of value may be re-emerging in a new form: the kilowatt-hour. Electricity underpins productive capacity, making it a universal, measurable, and storable base of economic activity. In this framework, the "electro-dollar" (or electro-yuan) may replace the petrodollar as the foundation of modern output. China appears to be operating on this principle, with electricity generation capabilities that far outpace its competitors. Beijing is channeling this power surplus into strategic industries to strengthen both its self- sufficiency and its global industrial leadership.

Electricity generation

Total electricity generated in each country or region, measured in terawatt-hours[1].



1. Watt-hour: A watt-hour is the energy one watt of power delivers for one hour. Since one watt equals one joule per second, a watt-hour equals 3600 joules of energy.
Metric prefixes are used for multiples of the unit, usually:
• kilowatt-hours (kWh), or a thousand watt-hours;
• Megawatt-hours (MWh), or a million watt-hours;
• Gigawatt-hours (GWh), or a billion watt-hours;
• Terawatt-hours (TWh), or a trillion watt-hours.

Source: Our World in Data - Ember (2025); Energy Institute - Statistical Review of World Energy (2025)

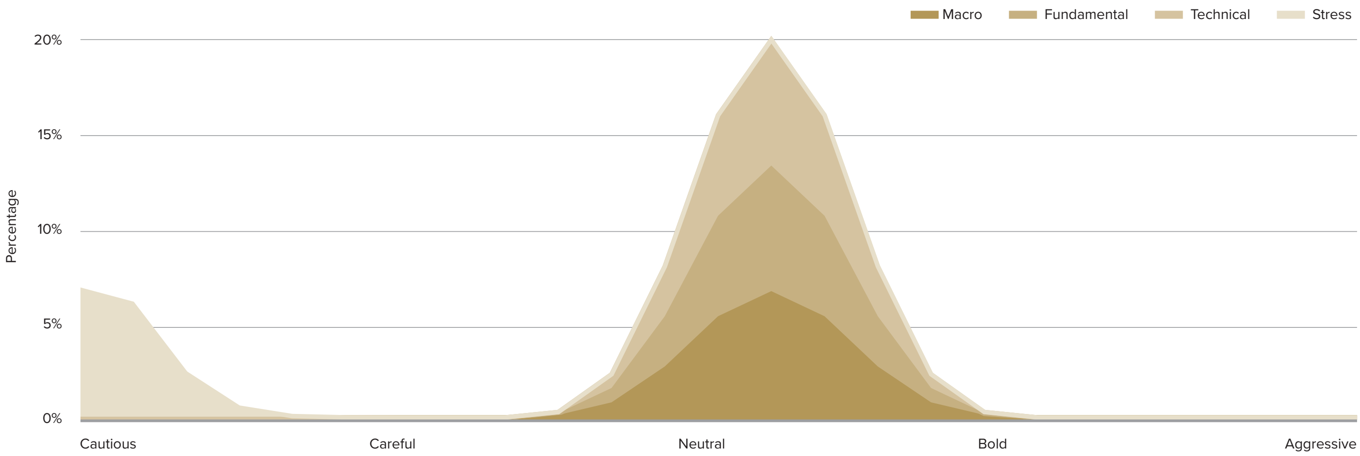
Precious Metals and Commodities

Gold, silver, and copper are likely to experience sideways movement in the short and mid-term. Oil prices are expected to rise over this period, while agricultural commodities are anticipated to enter a new growth cycle as inflationary pressures mount. All precious metals and commodities are expected to remain on a long-term upward trajectory.

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

Market Risk Signal

Market Risk Signal

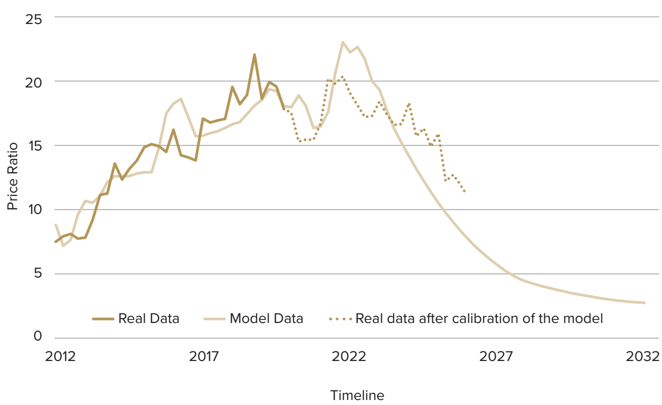


Gold vs stocks forecasting model

The current level of debt relative to real economic output is similar to that 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 been adjusted for new input data since.

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 with 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



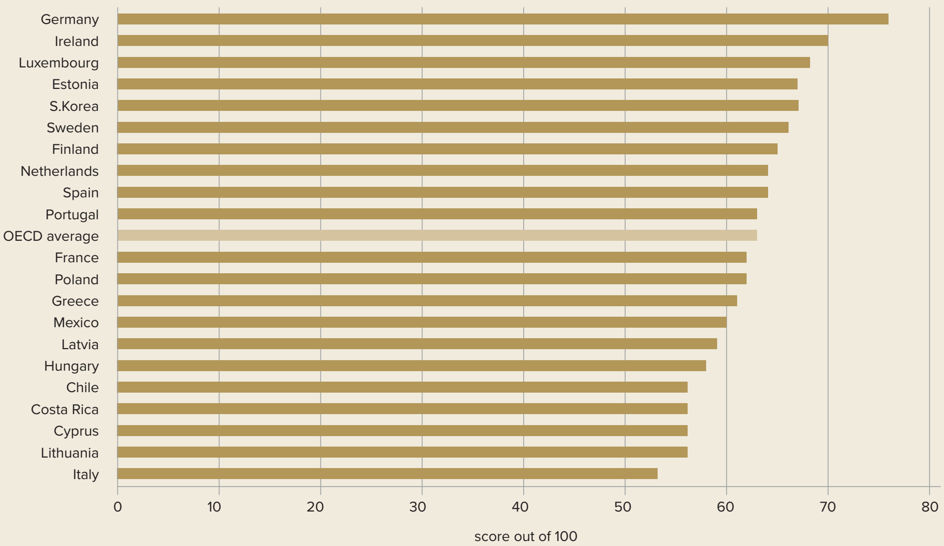
Gold Feature

OECD data shows some disparities in financial literacy across advanced economies, with countries such as Germany, Ireland and Luxembourg scoring well above the OECD average, while others, including Italy and Lithuania, lag behind. Financial literacy is defined as the ability to understand concepts such as inflation, interest rates, and risk. It gained prominence after the 2008 financial crisis, when complex investment products were widely mis-sold to consumers, with damaging consequences for household finances. Weak financial knowledge can also lead to households saving in low or no-return products, which can limit both the robustness of personal wealth and broader economic growth.

Small-scale emerging market studies looking at the correlation between financial literacy and increased gold purchases found that households with a greater understanding of finance are more likely to invest in gold, regardless of income levels. Gold is also gaining popularity amongst the youth. Research in Germany revealed that, for 25–34-year-olds, gold is the most popular and trusted investment, with many viewing it as a protective, retirement-enhancing, and sustainability-focused asset.

Gold is re-emerging in the mainstream as a central topic in portfolio strategy due to its outstanding 2025 performance. Research examining portfolios during multiple drawdown periods — such as the Gulf War, the dot-com bubble, September 11, the 2008 financial crisis, and the COVID-19 crash — showed a 10% allocation to gold improved portfolio performance in every one of these events. Many analysts believe gold demand will continue for the foreseeable future, supported by expectations of continued central bank demand, elevated geopolitical and economic uncertainty, inflationary pressures from increased fiscal spending in 2026, and shifting market dynamics.

Financial literacy score of select OECD countries



Source: Financial Times/OECD
Some OECD countries did not respond to the 2022 survey

Current investment situation

The global economy in early 2026 is marked by cautious optimism, but growth remains uneven and heavily reliant on fiscal expansion, monetary easing, and AI-driven investment. Europe's recovery is increasingly dependent on debt-funded public spending, raising questions about its effects on inflation rates and long-term sustainability. Switzerland's economic outlook is stable, with the SNB maintaining an expansionary stance and inflation within target, though global risks persist. Spain and Germany show signs of resilience, with Spain emerging as a European AI hub and Germany's growth hinging on defence spending and export recovery.

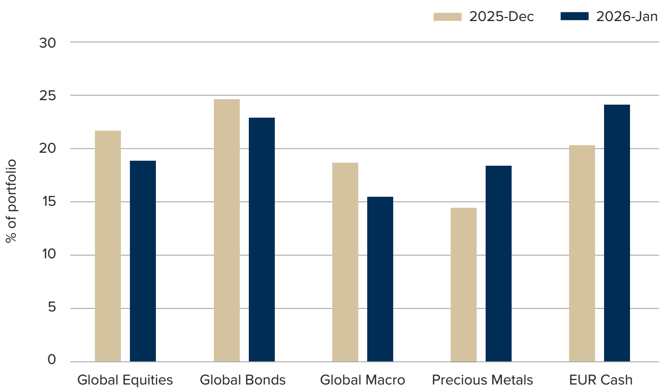
China's aggressive monetary expansion, including a record $4.5 trillion increase in money supply in 2025, has stabilised US credit markets and boosted precious metals, but has also intensified geopolitical competition.

Commodities, particularly gold and silver, are expected to remain on an upward trajectory, driven by central bank demand, geopolitical tensions, and physical shortages. Gold is increasingly viewed as a strategic asset, outperforming equities in periods of instability, while silver's industrial demand from AI and renewable energy sectors is reinforcing its bullish outlook. Meanwhile, Europe's growth prospects for 2026 depend on Germany's fiscal stimulus and the EU's ability to address structural challenges, such as weak exports and productivity gaps. The AI boom continues to reshape industries, but regulatory bottlenecks and capital constraints could temper its momentum.

Allocation adjustments

The current investment climate remains cautious, shaped by persistent macroeconomic uncertainties and evolving risks. Portfolios are being recalibrated: allocations to global equities, bonds, and macro strategies have been reduced, while exposure to precious metals and EUR cash has increased. This adjustment reflects a more defensive stance, prioritising liquidity, inflation hedges, and capital preservation in response to heightened volatility and divergent regional growth. Investors are focusing on flexibility and active management to navigate shifting interest rate environments and geopolitical tensions.

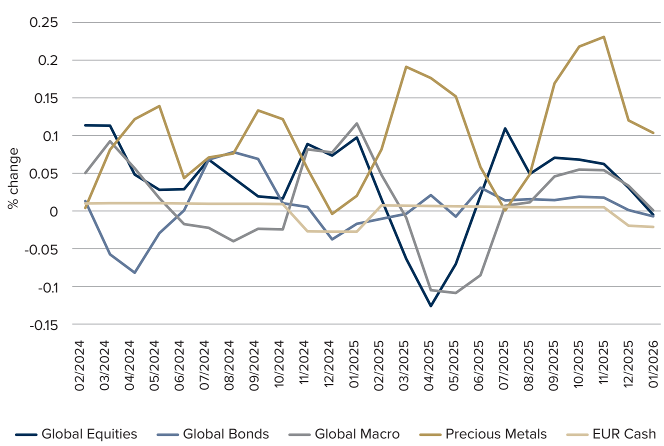
Allocation compared to the previous month



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 end of the year 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

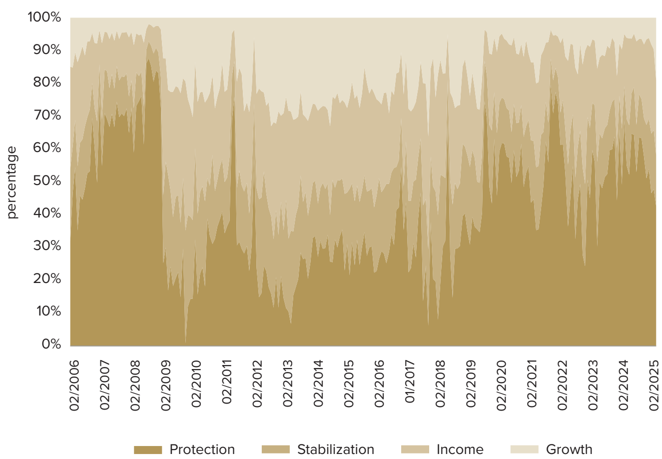


Historical analysis of a dynamic gold allocation

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

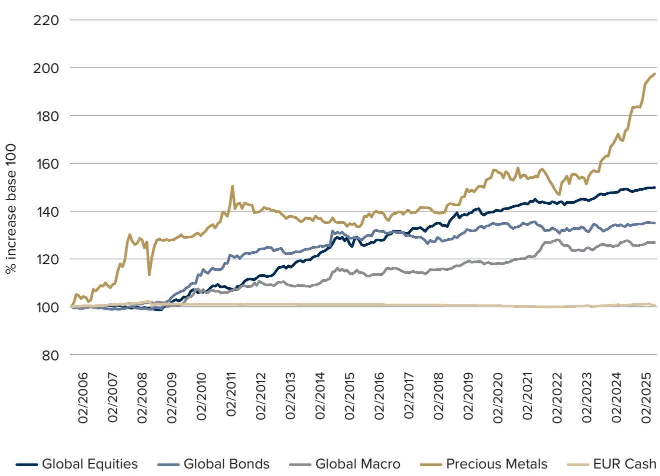
Allocation by portfolio role



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, while remaining within neutral territory, is calling for a slightly more cautious allocation. While the overall environment is less aggressive than last year, an increase in tail risk supports a modest decrease in risk exposure. This shift supports a partial reallocation from equities and bonds towards cash and precious metals, reinforcing a more defensive positioning.

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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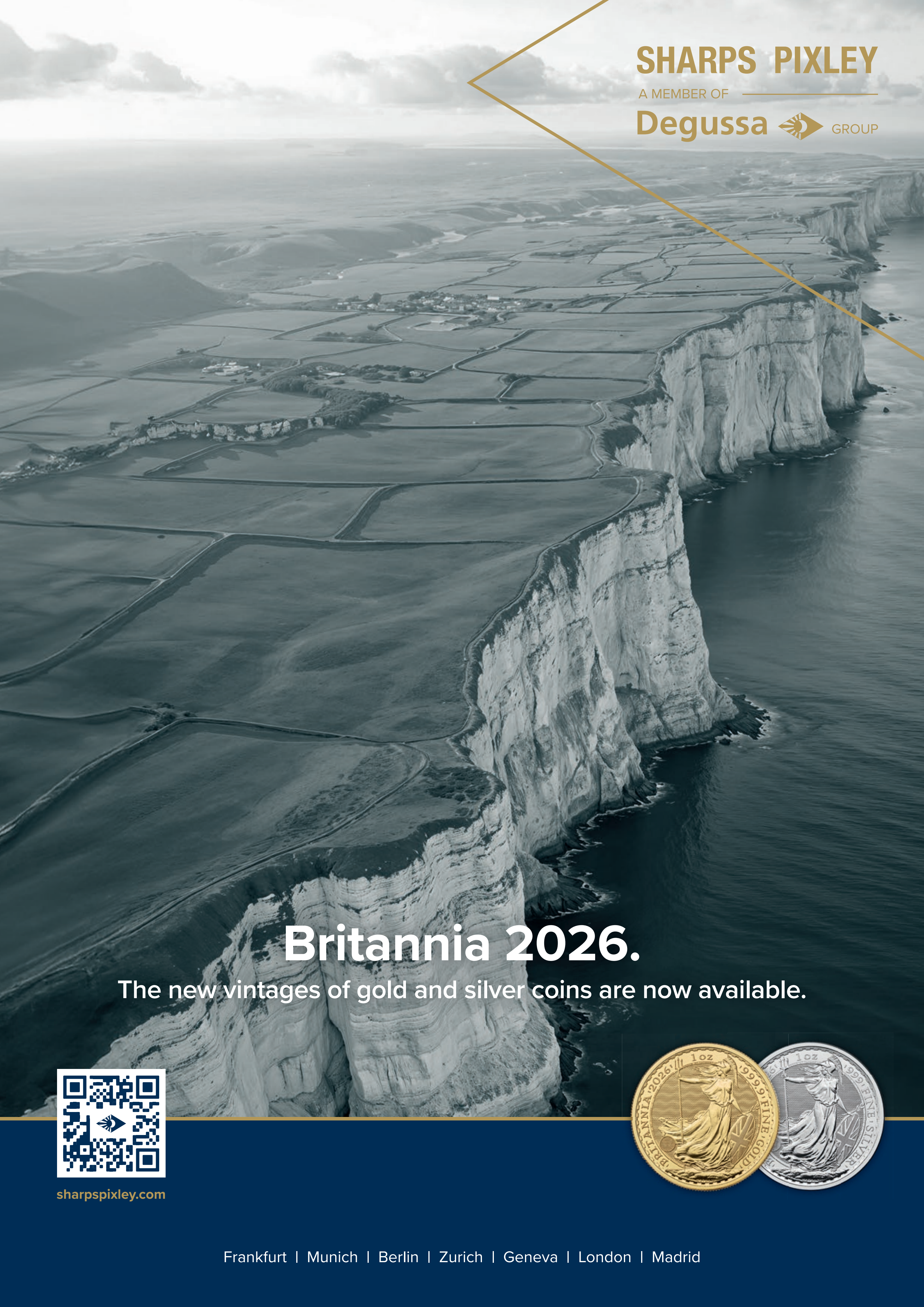
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