GAMA Strategic Asset Allocation 2026-2036

Key Takeaways – December 2025

Table of Contents

1. Annual Strategic Asset Allocation Review

1.1 Introduction:

Since GAMA's launch in 2019, we have consistently emphasised the importance of dedicating time and resources to the rigorous assessment of the long-term forces shaping the global investment landscape. This work underpins our definition of strategic asset allocation, which serves as a reference neutral position representing the optimal combination of market exposures, or betas. As global fixed income specialists, our focus is on designing an allocation framework that delivers robust outcomes for global investors, while recognising that equity exposure often represents the dominant source of risk within their overall portfolios.

At its core, investing is about harvesting risk premia and managing the associated risks. In practice, however, the industry has often focused excessively on short-term dynamics, while underestimating the slower-moving structural forces that shape economies and markets over time. Tactical asset allocation has therefore dominated investment decisions.

By contrast, strategic asset allocation, which defines an investor's long-term neutral position, has frequently been overlooked. Many professional investors rely on peer benchmarks or industry conventions rather than developing an independent strategic view, even when this results in persistent alignment with consensus positioning.

The value of strategic asset allocation lies in anchoring decisions in a robust understanding of history, a clear assessment of current conditions as the starting point of the exercise, and a disciplined evaluation of key secular forces. Strategic thinking is not about forecasting the future, an inherently uncertain exercise, but about navigating the interaction of three categories of factors:

- Known knowns: Elements already discounted by markets.
- Known unknowns: Important but uncertain outcomes of observable trends.
- Unknown unknowns: Emerging factors that are not yet on our radar but may prove significant.

"Secular megatrends are long-term, structural changes that can have a profound impact on economies, industries and companies and therefore financial markets"
GAMA Asset Management
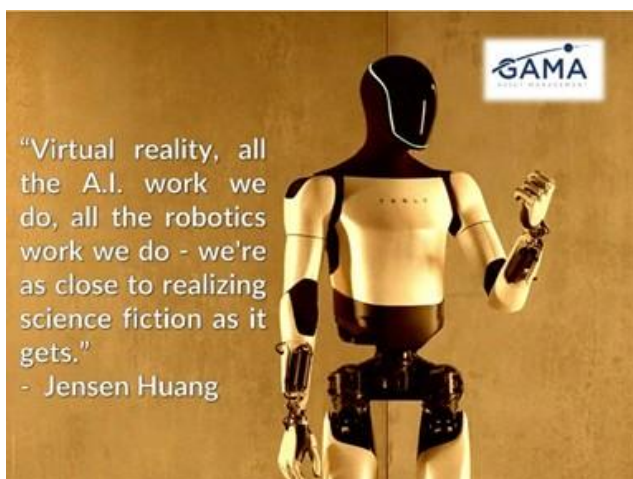
This process is as much an art as a science and requires a systematic methodology, sound judgement, and humility. Our investment horizon spans ten years, long enough to smooth cyclical fluctuations and to prioritise structural forces over temporary factors. At GAMA, we frame our projections around three distinct scenarios, optimistic, median and pessimistic, each representing a plausible path with different outcomes. This multi-scenario approach allows readers to align the analysis with their own convictions and encourages ongoing dialogue, both internally and with our clients, whom we view as valuable sparring partners in refining our perspectives.

"Virtual reality, all the A.I. work we do, all the robotics work we do - we're as close to realizing science fiction as it gets."
- Jensen Huang

1.2 Key Questions for 2026-2036

This year's strategic asset allocation update is particularly challenging, reflecting elevated strategic uncertainty and a rising risk of material structural shifts over the coming decade. Among the key dynamics under our framed outlook, we pose the following questions:

China at a Strategic Inflection Point?

China has reached a new level of strategic importance, having established leadership across critical industrial and technological value chains, including advanced manufacturing, clean energy, and rare-earth processing. At the same time, the country faces mounting internal constraints: a rapidly ageing and shrinking population, a prolonged real-estate downturn, elevated leverage across local governments and banks, and weakening confidence in its growth model.

"China is confronting a toxic mix of high debt and weakening demographics"
-Nouriel Roubini

Will China successfully rebalance from a debt-driven, investment-heavy model toward a more sustainable growth path, or will structural headwinds lead to prolonged stagnation and a more inward-looking posture? How will this transition reshape global trade, capital flows, and geopolitical alignments?

Technology and AI: Productivity Breakthrough or Capital-Intensive Illusion?

Artificial intelligence and automation are widely seen as the core drivers of a new technological super-cycle, promising significant productivity gains, efficiency improvements, and new forms of human-machine interaction. At the same time, this technological wave is distinguished by its exceptional capital intensity, rapid obsolescence cycles, rising energy requirements, unresolved

intellectual-property challenges, and potentially disruptive effects on labour markets. These dynamics are unfolding against a backdrop of already elevated inequality between capital and labour.

"AI will impact every job, every industry, every country."
-Satya Nadella

Will AI deliver durable, economy-wide productivity gains that justify the scale of investment currently underway, or will its benefits remain concentrated, reinforcing inequality, capital concentration, and social tensions? More fundamentally, will the massive capital expenditures required for AI infrastructure, including datacentres, semiconductors, energy, and compute, ultimately generate sufficient monetization and returns on invested capital, or does this cycle risk evolving into a capital-heavy bubble with limited economic payoff? How will governments, regulators, and societies navigate the trade-offs between innovation, energy constraints, and social cohesion?

The Rise of Populism, Geopolitical Risks and the Transformation of Globalization

Persistent inequality, immigration pressures, perceived failures of global institutions, and declining trust in democratic systems are fuelling a global shift toward populism. This trend is reshaping policy priorities toward national sovereignty, strategic autonomy, and protection of domestic interests. The result is rising trade frictions, selective decoupling, friend-shoring, and increased macroeconomic and political volatility, alongside a growing reliance on fiscal policy in already highly indebted economies.

"Politics determine who has the power, not who has the truth."
— Paul Krugman

Does the rise of populism represent a cyclical political phenomenon, or a structural break in the post-Cold-War global order? Will globalization adapt into a more fragmented and regionalized system, or retreat further, with lasting consequences for efficiency, growth, and financial stability?

Global Debt and Liquidity: are the Limits of Monetary-Fiscal Coordination being reached?

"Government borrowing habits pose the biggest danger to world economic stability."
- Pablo Hernández de Cos

Global debt, particularly at the sovereign level, continues to rise faster than economic output, raising questions around fiscal sustainability, financial repression, and long-term growth potential. Avoiding debt-deflation dynamics may increasingly require sustained monetary accommodation, central-bank balance-sheet expansion, and implicit or explicit forms of debt monetization. These risks entrenching a structural decoupling between debt accumulation and real economic growth, with long-term implications for inflation dynamics, asset prices, and currency stability.

Can the global financial system sustain ever-higher debt levels without triggering fiscal or monetary instability? Will liquidity creation remain sufficient to stabilize growth, or are we approaching the limits of debt-driven expansion, with profound consequences for inflation regimes, real returns, and financial repression?

We hope this year's strategic asset allocation update is thought-provoking and insightful. As always, your feedback is invaluable to us, and we look forward to engaging with you in meaningful discussions.

Rajeev De Mello,
Partner at GAMA, Chief Investment Officer

Manuel Streiff
Founding Partner at GAMA, Global Bond Portfolio Manager
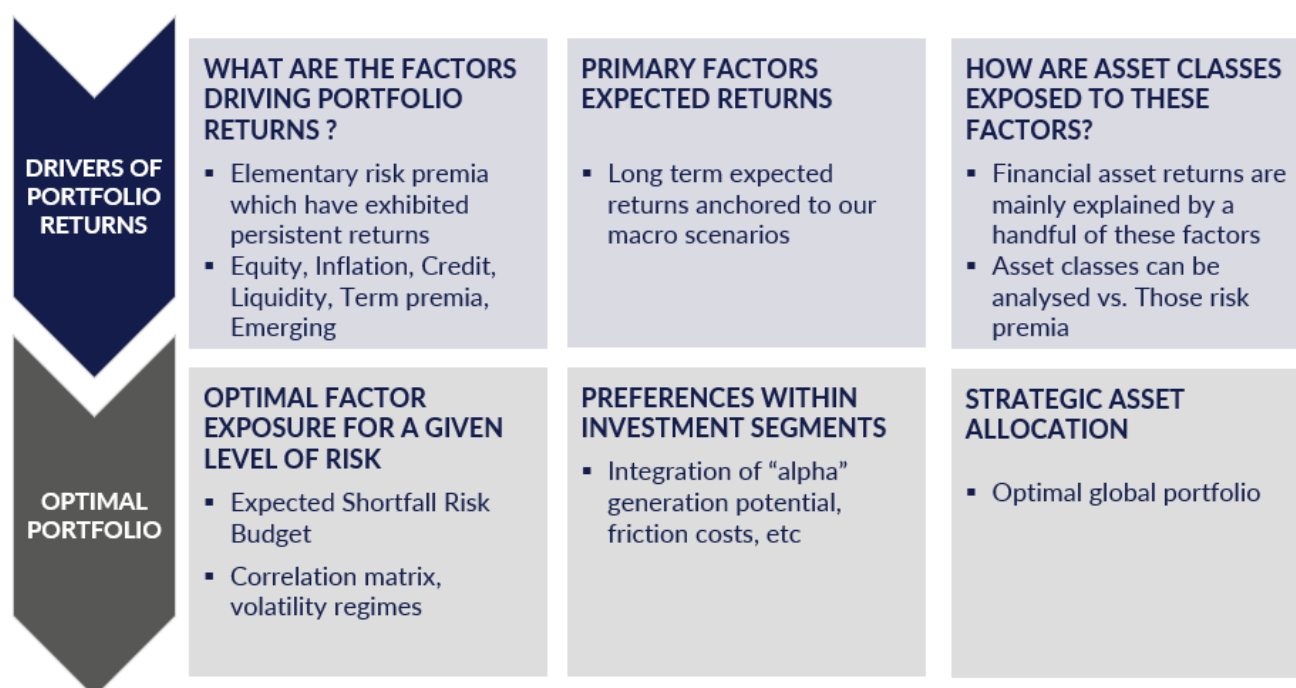
2. Methodology

2.1 The Importance of a Robust Strategic Asset Allocation Framework

The strategic asset allocation framework is built around identifying the core drivers of portfolio returns and constructing portfolios that are efficient for a given level of risk. Returns are ultimately driven by a set of fundamental risk premia, including inflation, term, credit, equity and emerging market premia, which form the foundation of long-term performance across asset classes. These premiums are anchored in structural macroeconomic assumptions, particularly around growth, inflation and debt dynamics, providing a coherent basis for long-term return expectations.

These factors primarily influence financial assets and allow investors to systematically analyse their risk exposures relative to these underlying risk premia. The objective is to integrate factor exposures effectively, considering correlation matrices and volatility regimes, to construct a globally diversified portfolio that balances risk and return across multi-scenarios.

Figure 1: Strategic Asset Allocation Framework

| DRIVERS OF PORTFOLIO RETURNS | WHAT ARE THE FACTORS DRIVING PORTFOLIO RETURNS ?
• Elementary risk premia which have exhibited persistent returns
• Equity, Inflation, Credit, Liquidity, Term premia, Emerging | PRIMARY FACTORS EXPECTED RETURNS
• Long term expected returns anchored to our macro scenarios | HOW ARE ASSET CLASSES EXPOSED TO THESE FACTORS?
• Financial asset returns are mainly explained by a handful of these factors
• Asset classes can be analysed vs. Those risk premia |
| OPTIMAL PORTFOLIO | OPTIMAL FACTOR EXPOSURE FOR A GIVEN LEVEL OF RISK
• Expected Shortfall Risk Budget
• Correlation matrix, volatility regimes | PREFERENCES WITHIN INVESTMENT SEGMENTS
• Integration of "alpha" generation potential, friction costs, etc | STRATEGIC ASSET ALLOCATION
• Optimal global portfolio |

Source: GAMA

The framework outlined in Figure 2 emphasizes key areas: identifying factors that drive portfolio returns, assessing primary factors of expected returns, understanding asset class exposures, and optimizing factor exposures for a given level of risk.

This systematic approach integrates alpha generation potential, cost efficiency, and global diversification with the objective of delivering robust outcomes for investors across market environments.

2.2 Multi-scenario Framework

Our strategic asset allocation is anchored in a deliberately parsimonious scenario framework. Rather than proliferating narratives, we distil the distribution of plausible macro-financial outcomes into three internally consistent scenarios that balance analytical realism with decision clarity.

The scenarios differ primarily in the relative dominance of structural tailwinds, productivity gains, technological diffusion, creativity and capital deepening, versus structural headwinds, including geopolitical fragmentation, climate-related disruptions, fiscal constraints and debt overhangs. Across all scenarios, two macro variables act as the principal state variables: trend growth and the inflation equilibrium.

Trend growth is decomposed into its core drivers: (i) Labour force dynamics, shaped by demographics, participation rates and migration; and (ii) productivity growth, reflecting capital intensity, technological adoption and human-capital efficiency. (iii) Inflation outcomes emerge endogenously from the interaction of these growth forces with supply constraints, policy regimes and expectations.

To maintain analytical discipline, we restrict the framework to three regimes:

Lower-Gravity World: Characterized by subdued trend growth, modest productivity gains and structurally contained inflation, reflecting dominant disinflationary and risk-averse forces.
Median Scenario: A balanced regime in which growth and inflation stabilize near long-run equilibria, with neither structural tailwinds nor headwinds decisively prevailing.
Higher-Octane World: Defined by stronger trend growth driven by productivity acceleration and capital deployment, accompanied by higher but controlled inflation pressures.

These scenarios form the backbone of our return, risk and correlation assumptions and allow us to stress-test portfolios across materially different macro regimes without diluting conviction through excessive granularity.

Figure 2: Multi scenario framework
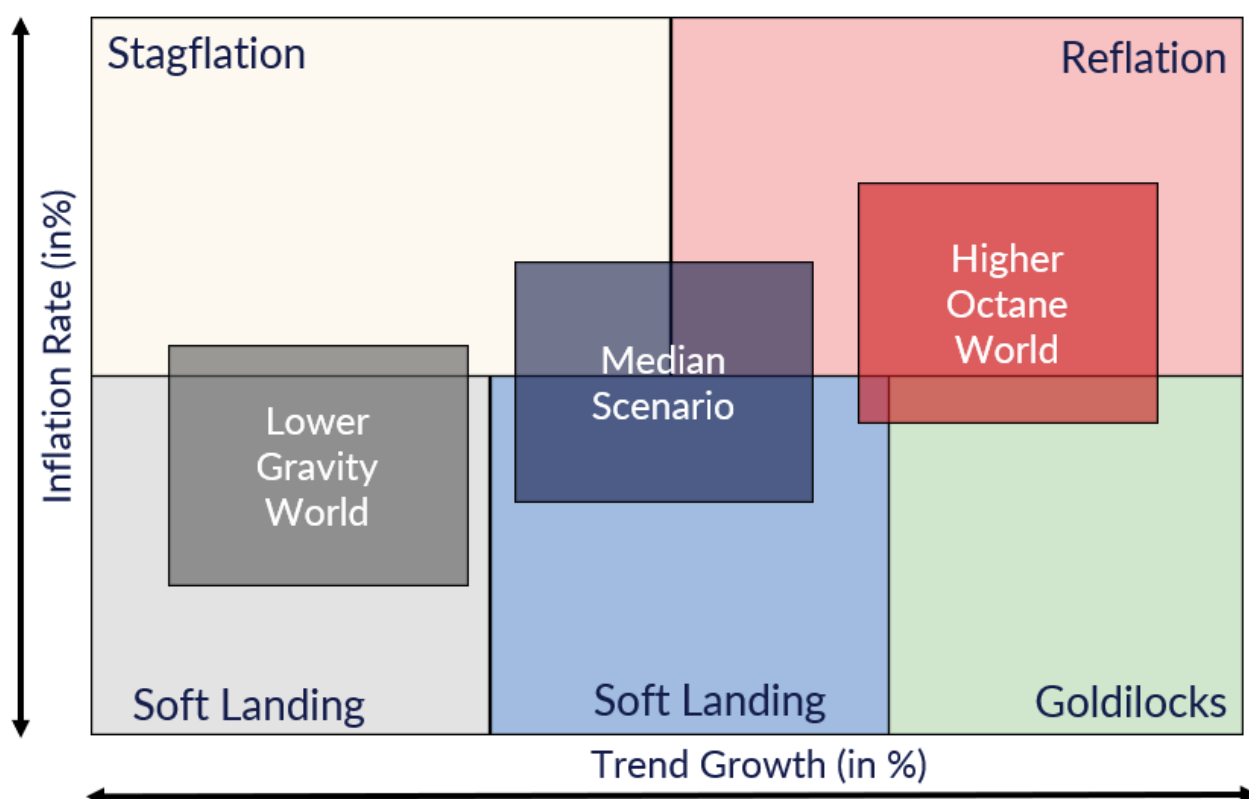
Source: GAMA

Our analysis spans seven core economic blocs: the United States, Europe, China, India, Japan, Switzerland, Emerging Markets ex-China/India, as well as the global aggregate.

From an asset-class perspective, we model expected returns, volatilities and correlations across a broad opportunity set comprising:

Fixed Income (10 segments): global sovereigns, global inflation-linked bonds, short-dated high-yielding bonds, global investment-grade corporates, credit opportunities (including corporate hybrids and financial subordinated debt), global high yield, emerging-market corporates, emerging-market sovereigns, and emerging-market local-currency debt.

Equities (8 Segments): US large-cap, US small- and mid-cap, European, Swiss, Japanese, Chinese, Indian and broad emerging-market

Real Assets: gold and diversified commodity futures.

Currencies: EUR/USD, USD/JPY, EUR/CHF, USD/CNY, USD/INR and USD/BRL.

Fixed-income returns are generally assessed on a **currency-hedged basis**, reflecting their role as portfolio stabilisers. The principal exception is emerging-market local-currency debt, which is evaluated unhedged, with returns expressed relative to the reference currency. Equity returns are likewise considered relative to the reference currency, reflecting the embedded currency exposure borne by international equity investors.

Figure 3: Segments
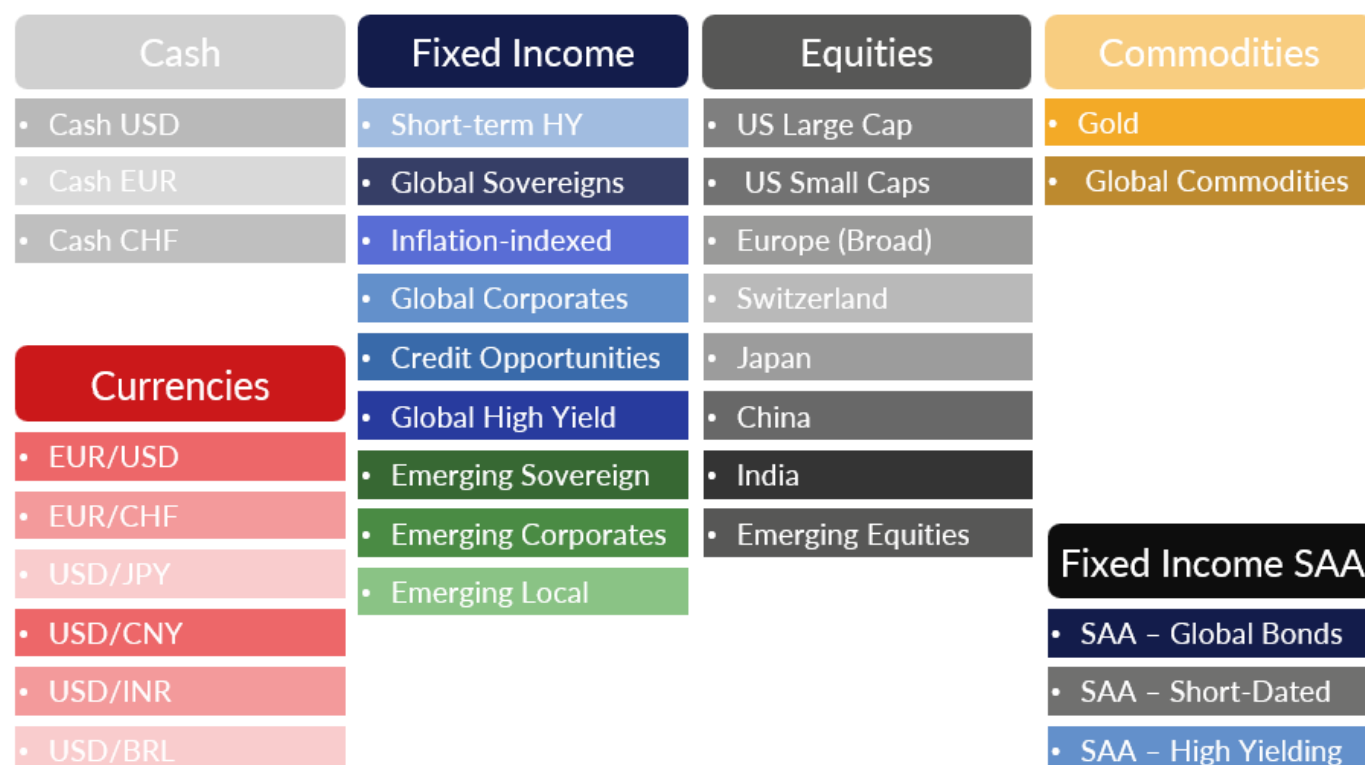
Source: GAMA

2.3 Risk Premia Decomposition

Expected returns for each major asset class are derived from a structured decomposition into eight distinct risk premia, each projected over a 10-year horizon across our three macro scenarios.

The real risk-free rate serves as the foundational building block for all return estimates, upon which asset-specific premia are layered. This framework makes explicit the sources of return and risk embedded in each asset class and ensures internal consistency across scenarios. By systematically harvesting these premia, investors can target durable long-term excess returns while maintaining deliberate control over the underlying risk exposures driving portfolio outcomes.

Figure 4: Risk Premia

REAL RISK-FREE RATE	Extracting interest returns from safe borrowers
INFLATION PREMIUM	Compensating for inflation risk
TERM PREMIUM	Compensating for duration and monetary policy risk
CREDIT PREMIUM	Excess spreads by lending to corporate issuers
EM PREMIUM	Taking advantage of higher EM growth, risk
EQUITY PREMIUM	Capturing global economic growth
SMALL CAP PREMIUM	Capturing innovation and new ventures
COMMODITY ROLL-DOWN	Getting rewarded for longer term commitments

Figure 5: Illustration of Global Bond Decomposition in Various Risk Premium
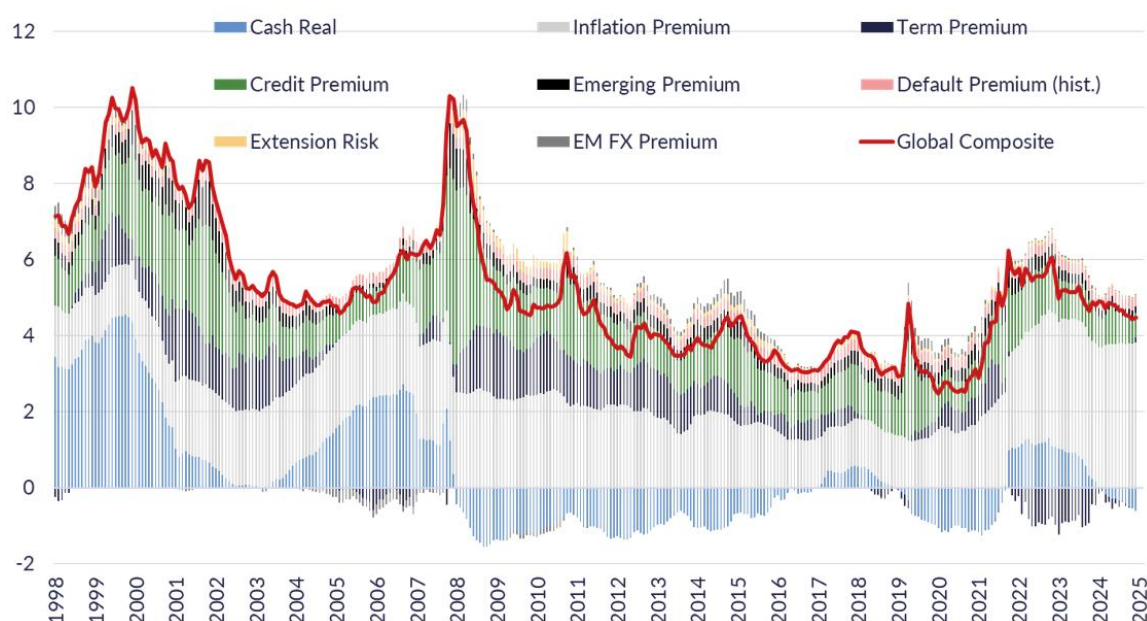
Source: GAMA

2.4 Expected Returns, Volatilities and Correlations

Expected returns are derived by translating the underlying risk premia into forward-looking return estimates through a cash-flow–based projection framework.

For fixed income, expected returns are anchored to yield-to-maturity, with adjustments reflecting roll-down effects (under the assumption of broadly stable duration over the horizon), expected credit losses, and the gradual realisation of price appreciation or depreciation over time. As a result, projected bond returns remain closely tied to starting yields, while explicitly incorporating the key sources of deviation from carry.

For equities, expected returns are built from the earnings yield as the initial anchor, with cash flows evolving over time in line with explicit earnings-per-share growth assumptions. These growth projections reflect differences in economic regimes, profitability dynamics and valuation normalisation across scenarios.

Volatility assumptions form a critical input into the strategic asset allocation process and are explicitly projected alongside expected returns. Likewise, cross-asset correlations are modelled on a scenario-consistent basis, recognising their material impact on portfolio construction, diversification benefits and optimal asset weights.

Optimal Factor Exposure for a Given Level of Risk

Risk Budgeting

A key component of portfolio optimization is the **Expected Shortfall Risk Budget**, which focuses on managing extreme losses rather than just average volatility. Unlike Value-at-Risk (VaR), which measures potential losses at a given confidence level, Expected Shortfall provides a more comprehensive view of tail risks. This is particularly crucial for fixed income portfolios with credit segments

By allocating risk budgets across factors and asset classes, investors can achieve their desired risk-return trade-offs while maintaining downside protection.

Correlation and Volatility Analysis

Understanding correlations and volatility regimes is critical for constructing resilient portfolios:

- **Correlation Matrices**: Analysing the relationships between asset classes helps identify diversification opportunities.
- **Volatility Regimes:** Recognizing shifts in volatility regimes (e.g., during market crises) allows investors to adapt their allocations.

During periods of market stress, correlations between risky assets tend to rise, reducing the benefits of diversification. Dynamic allocation strategies that account for changing correlations can enhance portfolio resilience.

Risk-Return Optimization

We use a Monte Carlo simulation mean-variance optimization method to optimise our strategic asset allocation in our multi-scenario framework. We use as inputs our forecasts of expected returns, expected volatilities and expected correlations for our median scenario and our two alternative scenarios.
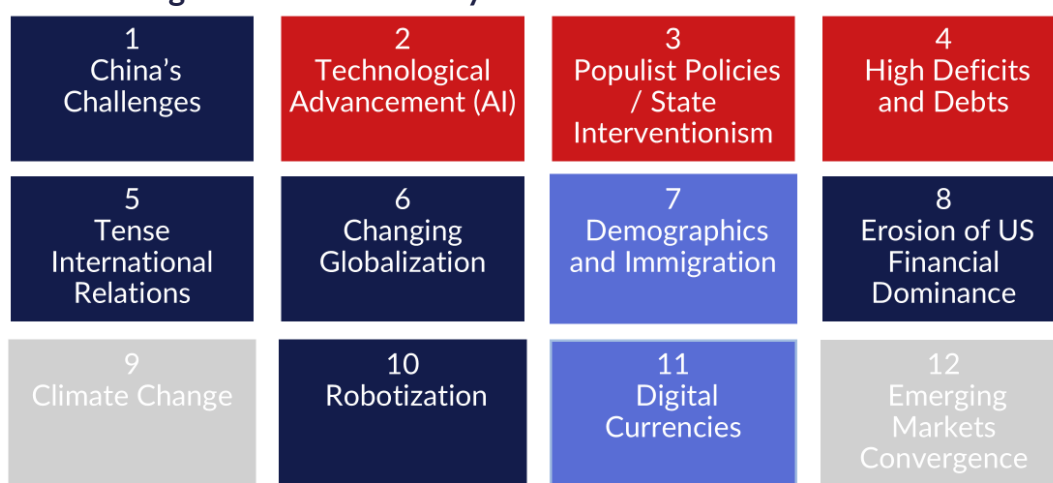
3. Megatrends

3.1 Main Changes

While megatrends are by nature long-term and slow-moving, we regularly reassess their relative importance. This year, we place greater emphasis on China's growth slowdown and its broader global spillovers. Technological change has also gained importance, as artificial intelligence is now diffusing across most sectors of the economy.

At the same time, the rise of populism in both developed and emerging markets is reshaping the political environment. Greater political fragmentation and weaker institutional consensus are reducing governments' ability to pursue stable, long-term policies. Persistently high fiscal deficits and rising public debt are adding further constraints, bringing fiscal sustainability to the forefront of policy debates. As social pressures grow and budgetary space narrows, policy responses are likely to become more volatile and increasingly inward-looking.

Figure 6 & 7: 12 Megatrends to Materially Drive Global Economic and Financial Markets

1 China's Challenges	2 Technological Advancement (AI)	3 Populist Policies / State Interventionism	4 High Deficits and Debts
5 Tense International Relations	6 Changing Globalization	7 Demographics and Immigration	8 Erosion of US Financial Dominance
9 Climate Change	10 Robotization	11 Digital Currencies	12 Emerging Markets Convergence

Red: Increasing importance, Light blue: Adjusted megatrend, Gray: Fading importance, Dark blue: Unchanged versus last year

| Megatrend	Details
1 China Challenges (internal/external)	China faces domestic political, economical and demographic challenges. The political system imposes constraints on policy options. Exporting surpluses is a short-term solution. Extreme nationalism could lead to geopolitical conflict
2 Technological Advancement (AI)	AI has significant potential to enhance growth. It could be assimilated quickly or follow a gradual path like the rise of the internet.
3 Populist Policies	Populist policies include industrial policy, protectionism (trade and capital) and other economically inefficient policies
4 High Deficits and Debt	Higher deficits since the GFC and Covid have lifted total debt to high levels which will constrain growth. Few politicians favour austerity measures
5 Tense International Relations	Tensions between large powers have increased. US foreign policy has changed leading to a more unstable world. USChina tensions are simmering
6 Changing Globalisation	Trade in goods will grow within blocks (on-shoring, friend-shoring) . Higher tariffs will reduce economic efficiency. Trade in services continues to grow.
7 Demographics & Immigration	Aging seems to be accelerating in some countries. Policies have not been able to reverse the trend. Very old citizens are dissaving while others are increasing savings
8 Erosion of US Financial Dominance	As the US gradually becomes more of a "normal" economy, the US will have to pay foreigners more to finance its deficits. The dollar is weakening.
9 Climate Change	Controlling the rising temperatures and their impact is costly overall but has diverse effects across the economy. More frequent natural disasters.
10 Robotization	The increasing adoption of robotics and automation across diverse sectors with far-reaching social and economic impacts
11 Digital Currencies	New more efficient forms of payment will reduce frictions in international trade but will drain capital from more fragile countries
12 Emerging Markets Convergence	As EM countries get richer, further growth-enhancing reforms become more challenging. Some technologies allow a faster catchup.

Source: GAMA

3.2 Key Highlights

To dive into these key catalysts, we will highlight in more detail four main megatrends:

- China's Challenges
- Technological Advancement (AI)
- Populist Policies & Interventionism
- High Deficits and Debt

3.2.1 China's Challenges

Despite the presence of several extremely wealthy metropolitan areas, such as Beijing, Shanghai, Shenzhen, Guangzhou, and Tianjin, China as a whole remains a middle-income country. In 2024, nominal GDP per capita was approximately RMB 95,700, equivalent to roughly USD 13,300 at average exchange rates. This places China well below advanced-economy income levels and underscores the large internal disparities between leading urban regions and much of the rest of the country. These income levels also help explain Beijing's sensitivity to employment stability and social cohesion, even at the cost of lower headline growth.

Figure 8: 2024 GDP Per Capita (USD)
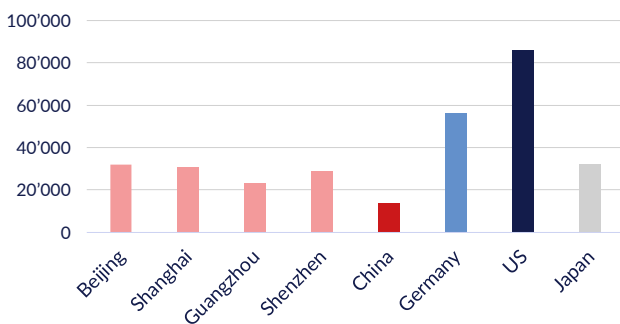
*Source: World Bank, China National Bureau of Statistics*

Demographics represent a material structural headwind. China's population has begun to decline, and the working-age population is shrinking more rapidly than in most other large economies. The IMF, World Bank, and OECD all project that adverse demographics will subtract meaningfully from trend growth over the coming decades, unless offset by sustained productivity gains. While automation, artificial intelligence, and capital deepening can mitigate some of this drag, they are unlikely to fully compensate for the scale and speed of population ageing.

The property sector remains a central drag on the economy and has not yet reached a clear cyclical bottom. Residential sales volumes continue to decline, and price adjustments remain incomplete in many cities. Major international and domestic research institutions broadly expect further weakness through 2026 and onwards, with additional declines in activity and further price falls. The downturn reflects not only cyclical excesses but also structural shifts: adverse demographics, tighter financing conditions, and a policy decision to de-emphasize property as a growth engine.

In response, housing is increasingly being "socialised." Central and local governments have expanded relending facilities and policy-bank support, while state-owned or state-controlled enterprises are being encouraged to purchase unsold housing stock or take over stalled projects. This effectively transfers part of the property sector's balance-sheet stress from households and private developers to the public sector. While this approach reduces near-term financial instability and social risk, it also entrenches lower returns on capital and raises contingent liabilities for local governments.

Figure 9: Housing Bubbles
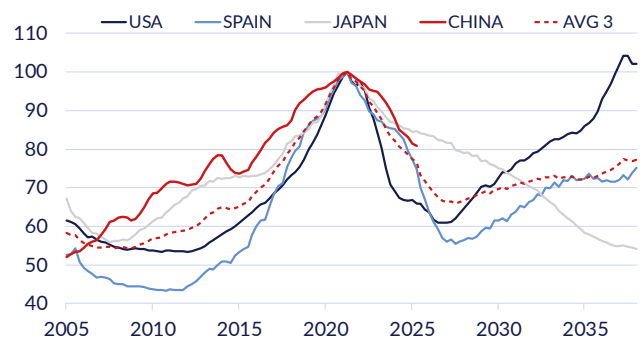
Source: FRED Data, GAMA Calculations, with last housing real price peak at 100; NB: for the US, the real price is now higher than during the last Sub-prime housing crisis

China's macroeconomic structure remains heavily skewed toward investment rather than consumption. Investment still accounts for over 40% of GDP, far higher than in most large economies—while household consumption remains below 40% of GDP. Even including government consumption, total final consumption is only in the mid-50% range,

roughly 15–20 percentage points below typical advanced-economy levels. The IMF, World Bank, and U.S. Federal Reserve researchers consistently identify this imbalance as a core structural weakness that suppresses household welfare and constrains sustainable long-term growth. That said, an investment-led development model is not unprecedented: economies such as Germany, Japan, South Korea, Switzerland, and Taiwan relied on high investment shares during earlier phases of their development with considerable success. Chinese policymakers now state that they want consumption to play a larger role, but concrete progress remains limited, reflecting deep institutional and fiscal constraints.

Figure 10: Consumption as % of GDP
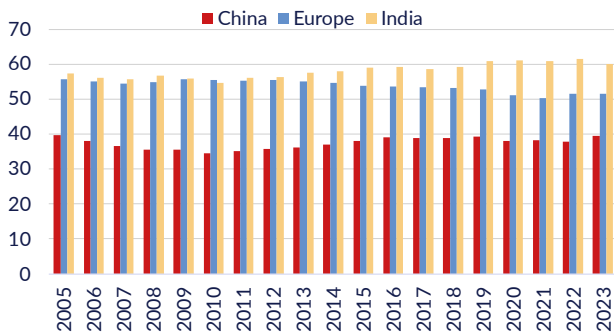
Source: World Bank

China will increasingly be both a challenge and a source of growth for other emerging markets. Persistent overcapacity in sectors such as steel, electric vehicles, solar panels, batteries, and selected capital goods is driving strong export growth and putting downward pressure on global prices. This squeezes producers in countries such as India, Vietnam, Brazil, and parts of Eastern Europe. At the same time, the availability of low-cost Chinese clean-energy equipment has enabled many emerging economies to accelerate electrification, renewable deployment, and energy-transition goals that would otherwise have been financially prohibitive.

The economy is becoming more bifurcated. Dynamic "new economy" sectors, particularly clean energy, advanced manufacturing, and parts of AI-enabled information and communications technology, are emerging as major growth engines. Clean-energy-related activity alone is estimated by multiple research bodies to have contributed close to 10% of GDP in 2024. In contrast, large parts of the traditional economy, property, segments of heavy industry, low-margin manufacturing, and many private service sectors,

remain under pressure from weak demand, excess capacity, high debt burdens, and policy uncertainty.

At the geopolitical level, the risk of a so-called "Thucydides trap", in which rivalry between an established power and a rising one leads to sustained conflict, remains a genuine concern for the global economy and security architecture. Chinese official discourse increasingly frames the United States as a relative power in decline, marked by domestic polarization and policy volatility that could translate into unpredictable external behaviour. Within this framework, Taiwan occupies a central strategic position. Over the coming decade, many defence and security analysts judge that China is likely to test the West's resolve to defend Taiwan not primarily through an immediate large-scale invasion, but via incremental and ambiguous forms of pressure. These could include sustained hybrid warfare (cyber operations, disinformation, and legal or political coercion), limited military actions such as the occupation of smaller offshore Taiwanese islands, or coercive economic measures including blockades or embargoes. Such actions would be designed to alter the status quo while staying below the threshold of full-scale war, probing alliance cohesion and escalation tolerance, and increasing the risk of miscalculation even in the absence of an outright conflict.

Figure 11: Summary Infographic

Source: GAMA with AI

3.2.2 Technological Advancement (AI)

Over the next decade, artificial intelligence and related digital technologies are expected to provide a meaningful, though not transformative, lift to labour productivity in advanced economies. Estimates from the OECD and the International Monetary Fund suggest annual productivity gains on the order of roughly 0.4–0.9 percentage points, depending on adoption rates and sectoral diffusion. These gains should partially offset the drag from ageing populations and shrinking workforces but are unlikely to fully reverse adverse demographic trends.

Investment associated with AI is already substantial. Capital expenditure on data centres, advanced semiconductors, cloud infrastructure and software has risen sharply and is now a material share of total corporate investment, particularly in the United States and parts of Asia. Available evidence suggests this elevated level of AI-related capex is likely to persist for much of the coming decade, reflecting both competitive dynamics among large technology firms and the scale of infrastructure required to deploy AI at economy-wide levels.

Figure 12: Summary Infographic
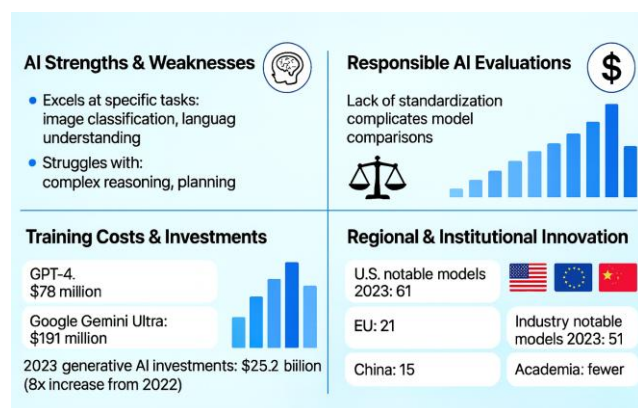

Source: GAMA with AI

Both the OECD and IMF characterise artificial intelligence as a general-purpose technology, comparable in principle to electricity or information technology. As with earlier GPTs, AI has the potential to revive weak productivity growth, but the timing, magnitude and distribution of gains are highly uncertain.

Historical experience suggests that economy-wide benefits may materialise only gradually, following a prolonged phase of experimentation, complementary investment and organisational change.

Productivity gains are expected to accrue first to economies that are relatively well prepared in terms of digital infrastructure, human capital, regulatory frameworks and access to capital. Current assessments point to the United States, parts of Europe, and segments of advanced Asia as early beneficiaries. Countries that lag in preparedness risk falling further behind in productivity and income levels unless offsetting policy measures, particularly in education, competition and innovation, are implemented.

Financial markets have already capitalised a significant portion of expected AI benefits. Equity valuations are increasingly concentrated in a narrow group of large technology firms that dominate AI hardware, software and platforms. This concentration raises the risk that market drawdowns could be amplified if earnings expectations, adoption trajectories or returns on AI investment fail to meet current assumptions.

In an optimistic scenario, continued advances in AI could eventually move society to forms of artificial general intelligence. While such an outcome remains speculative and highly uncertain, progress in this direction would imply substantially larger productivity gains and a higher long-run growth path than currently embedded in baseline forecasts.

Figure 13: Historical Bubbles
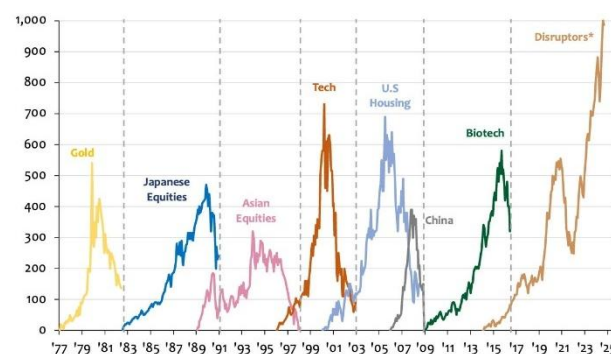
Sources: Financial Fables Substack, BankOfAmerica

3.2.3 Populist Policies

Populism has moved from the margins to the centre of policymaking in both developed and emerging economies. The role of the state is shifting away from simply setting rules or acting as an arbiter, and toward a more active use of direction, intervention, and persuasion, with clear implications for economic incentives and institutional balances. This change is not purely political. It has become a central geopolitical and macroeconomic force, reinforced by fiscal dominance, rising trade tensions, and a renewed emphasis on power-based politics at both the domestic and international levels.

There are structural implications that we need to integrate in our framework:

Expansionary fiscal policies driven by electoral cycles and social pressures are accelerating public-debt accumulation, reducing fiscal flexibility and increasing reliance on accommodative monetary conditions.

Figure 14: The Populist Path Infographic
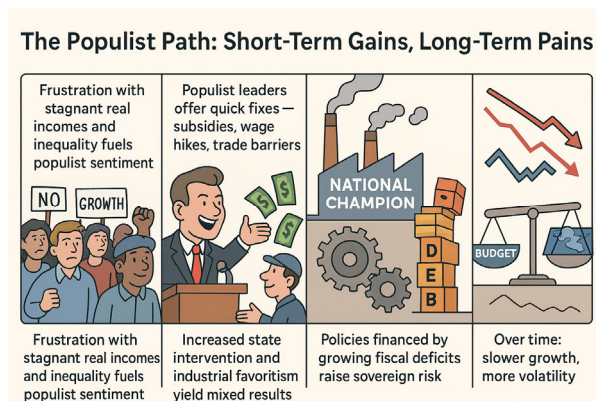
Source: GAMA with AI

Interventionist policies, trade barriers, supply-chain reconfiguration, and redistribution mechanisms introduce persistent cost pressures, complicating the task of anchoring inflation expectations with inflation risks biased on the upside.

The weakening of checks and balances, judicial independence, and regulatory credibility undermines the ability of institutions to protect minorities, enforce rules impartially, and sustain long-term policy coherence, with an erosion of institutional quality. The independence of central bank's policies is also a key risk to consider.

Another point is the fragmentation of global trade. Protectionism, re-shoring, and friend-shoring are replacing multilateralism, leading to less efficient capital allocation, higher production costs, and structurally lower global growth potential. Populist redistribution policies tend to create clear sectoral winners and losers, raise regulatory uncertainty, and weaken price signals. These effects are most visible in areas such as energy, infrastructure, defence, and other strategic industries, where market distortions are already significant. Policy unpredictability materially weakens investment visibility, forcing investors to demand higher risk premia across assets and geographies, given rising uncertainty.

A key consequence is capital misallocation, combined with growing doubts over central-bank independence under fiscal dominance. This dynamic raises the risk of inflation becoming structurally entrenched - undermining one of the core pillars of macroeconomic stability, where inflation is neither too low nor too high.

Figure 15: Capital War Infographic

Source: GAMA with AI

Another important secular trend is democratic backsliding. Democratic erosion has accelerated over the past decade, amid rising inequalities, immigration-related tensions, and deepening political fractures. According to Freedom House, in 2024 nearly twice as many countries (around 60) experienced a deterioration in political rights or civil liberties compared with those showing improvement (around 34). Data from International IDEA similarly highlight a persistent global trend of democratic slippage, reinforcing political uncertainty as a structural—not cyclical—feature of the next decade.

3.2.4 High Debt and Deficits

Global debt has become a structural necessity rather than a cyclical excess. With world GDP around USD 100 trillion, total debt, both public and private, now exceeds USD 300 trillion, while global liquidity has expanded to nearly USD 200 trillion. This configuration reflects a system increasingly dependent on debt creation and liquidity provision to sustain growth, social cohesion, and political stability.

Figure 16: World GDP, Debt, Liquidity and Markets
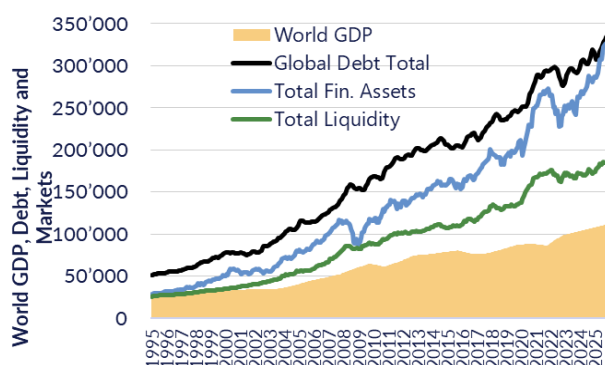
Source: BIS, IIF, Crossborder, Bloomberg, GAMA calculations

The debt problem is less a cause of global imbalances than a symptom of weakening potential growth. Structural headwinds, including aging demographics, deglobalisation, excess capacity from past overinvestment, and weak productivity gains, have lowered the economy's natural growth rate. In this environment, rising debt has acted as a stopgap, narrowing the gap between expectations and economic reality.

Figure 17: Global Debt
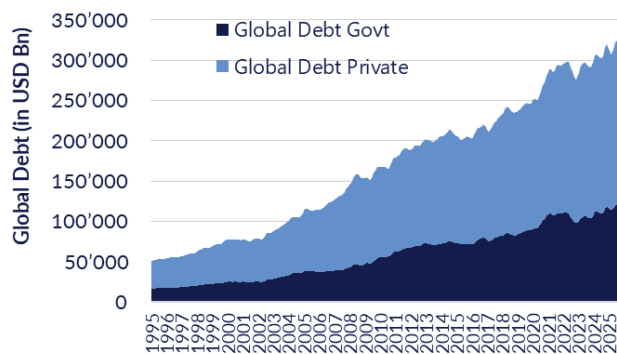
Source: BIS, IIF, Crossborder, Bloomberg, GAMA calculations

Technological progress remains structurally disinflationary and productivity-enhancing over the long term, but it also disrupts labour markets, exacerbates inequality, and weakens income

visibility for large segments of the population. These effects reinforce political pressure for fiscal intervention and redistribution, further embedding debt accumulation into the policy framework.

Over the past three decades, global debt-to-GDP has risen by nearly 2 percentage points per year, with sovereign debt now the dominant marginal driver. Persistent fiscal deficits, rising interest burdens, and counter-cyclical social spending have created a structural imbalance in which debt grows faster than underlying economic output.

To prevent financial instability and enable continuous debt rollovers, the system requires abundant and elastic liquidity. Central banks have become the ultimate backstop, linking monetary policy to fiscal sustainability and reinforcing a regime of fiscal dominance.

The expansion of global liquidity has been driven primarily through three channels: central-bank balance-sheet expansion (money creation), credit growth via the banking and shadow-banking systems, and cross-border capital flows reflecting persistent current account imbalances.

Figure 18: Global Liquidity
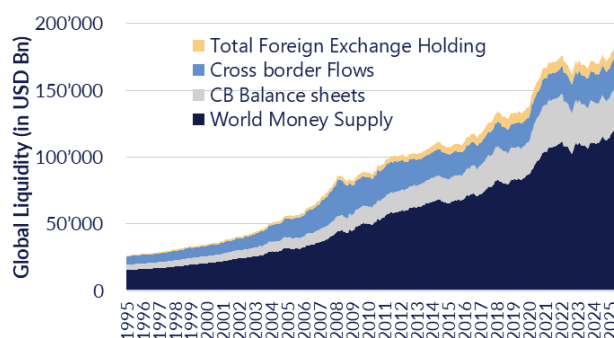
Source: BIS, IIF, Crossborder, Bloomberg, GAMA calculations

When adjusted for liquidity expressed in U.S. dollars, world GDP has effectively declined by around 2% per year over the past three decades, revealing a growing gap between nominal growth and underlying economic substance. In contrast, the only truly stable anchor in the system has been the ratio of total debt to global liquidity, which has remained broadly flat since the mid-1990s, highlighting a self-reinforcing equilibrium between debt accumulation and liquidity provision.

January 2026

This persistent liquidity injection has disproportionately benefited financial assets. Equities, bonds, and cash have collectively appreciated at roughly 3% per year in global liquidity-adjusted terms, supported by a gradual transfer of wealth from the public balance sheet to private asset holders.

Figure 19: Key Ratios
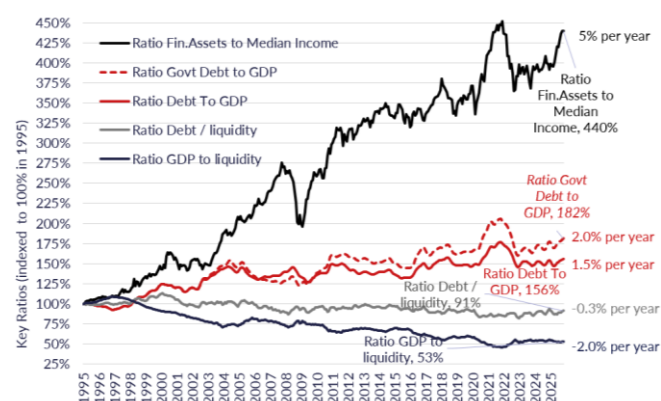
Source: BIS, IIF, Crossborder, Bloomberg, GAMA calculations

Gold, with a supply that is structurally constrained and immune to policy expansion, has proven an effective hedge against fiat currency debasement. Its long-term performance has broadly matched that of financial markets, with a marked acceleration over the past three years.
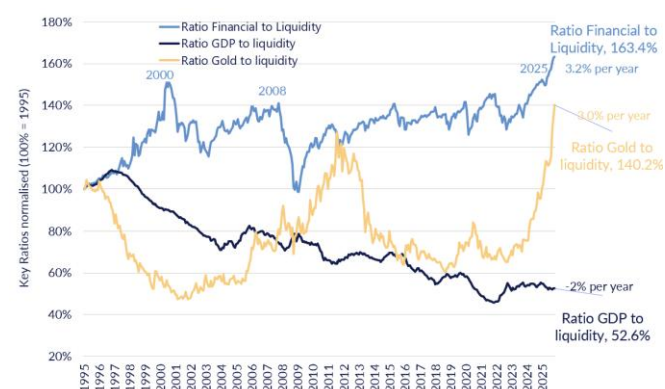
Figure 20: Financial Markets
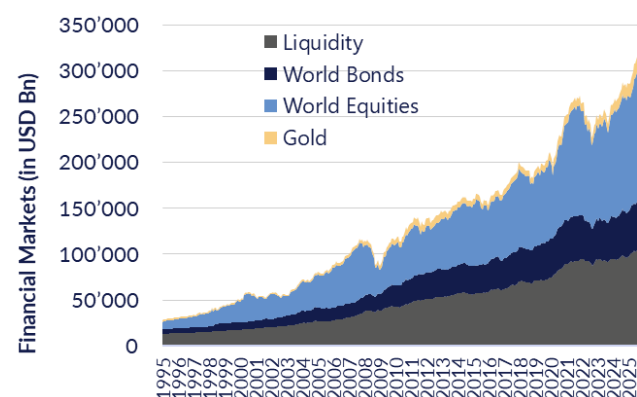
Source: BIS, IIF, Crossborder, Bloomberg, GAMA calculations

A striking secular trend is the widening gap between returns on capital and labour income. Financial assets have outpaced median household income by roughly 5% per year, meaning capital returns have structurally exceeded wage growth. This gap has become a key driver of wealth inequality, fuelling social tensions and strengthening political support for more interventionist and populist policies.

Figure 21: Key Ratios (Normalized)

Source: BIS, IIF, Crossborder, Bloomberg, GAMA calculations

A striking secular trend is the widening gap between returns on capital and labour income. Financial assets have outpaced median household income by roughly 5% per year, meaning capital returns have structurally exceeded wage growth. This gap has become a key driver of wealth inequality, fuelling social tensions and strengthening political support for more interventionist and populist policies.

While this model has so far proven resilient, its limits are becoming clearer. Rising refinancing needs, higher real interest rates, and weaker sovereign balance sheets are increasing solvency risks, particularly in highly indebted or politically constrained economies. Early signs of sovereign stress suggest that postponing adjustment is becoming both costlier and less stable.

Figure 22: US Solvency Ratio*
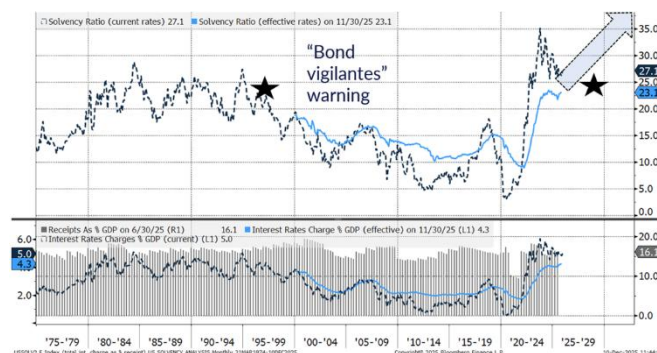
Sources: Bloomberg, GAMA

The global economy is entering a phase in which debt sustainability, liquidity provision, and political legitimacy are increasingly intertwined. Preserving this balance without fuelling inflation, financial repression, or sovereign stress is likely to be one of the central challenges of the next decade.

4. Strategic Outlook

4.1 Impact of Megatrends

The table above shows the importance and impact of each of the megatrends in our scenarios and growth, inflation or volatility assumptions.

Figure 23: Impact of Key Megatrends on Growth, Inflation and Volatilities under Scenarios

Megatrend	Weight	Scenarios			Impact		
		Optimistic	Base	Cautious	Growth	Inflation	Others
1 China Challenges	❄❄❄❄		-	--	--	-	
2 Technological Advancement (AI)	❄❄❄	+++	++	+	++	-- (+ ST)	Volatility
3 Populist Policies	❄❄❄		-	--	-	+	Volatility
4 High Deficits and Debt	❄❄❄		-	--	-	+	Volatility
5 Tense International Relations	❄❄		-	--	-	+	Volatility
6 Changing Globalization	❄	+		-		+	
7 Demographics & Immigration	❄		-	--	-	-	
8 Erosion of US Financial Dominance	❄	+	-	--	-	+	
9 Climate Change	❄	+		-	-	+	
10 Robotization	❄	+			+	-	
11 Digital Currencies	❄	+		-	+		
12 Emerging Markets Convergence	❄	++	+		+	-	

Source: GAMA

4.2 Economic Scenarios

From the previous assessment we quantify our projections for growth and inflation across the different regions under our 3 scenarios:

Figure 24: Economic Scenarios

Median Scenario
- Structurally lower growth in China.
- AI increases potential growth
- Central Banks tolerate slightly higher inflation
- Higher risk of a Taiwan crisis
- Some Emerging markets grow

Technology-led Growth
- Potential growth increases rapidly as assimilation rockets
- China evolves its economic model
- Most emerging markets reform enough to continue growing

Lower Gravity World
- High sovereign debt and aging weigh on growth
- Misallocation of capital due to populism
- Geofragmentation reduces global economic efficiency
- Weak institutions and poor governance in EM
- Rising cost of defense.

Source: GAMA

January 2026

4.2.1 Median Scenario

In the median case, global growth remains uneven and more supply-constrained than in the pre-pandemic era. China contributes less to global expansion as structural headwinds, weak productivity growth, slower capital formation, and adverse demographics keep trend growth below prior decades.

At the same time, the broad diffusion of AI supports potential output in advanced economies through productivity gains, but the lift is incremental rather than transformative, and it does not fully offset demographic drag.

Inflation also settles into a slightly less "anchored" regime. With geopolitical fragmentation, supply-side volatility and sustained public spending needs, central banks are assumed to tolerate inflation outcomes that are modestly above past targets at times, accepting a higher-volatility path rather than forcing inflation back to target at any cost. Geopolitics requires a persistent risk premium: in this scenario, the probability of episodic stress is higher than in the 2010s, including an elevated risk of a Taiwan-related crisis that could disrupt trade, confidence, and risk assets.

Finally, some emerging markets continue to grow, but outcomes diverge; countries with credible policy frameworks, improving institutions, and reform momentum sustain growth, while weaker governance and capital-market frictions continue to limit how much headline growth translates into investable returns.

4.2.2 Technology-led Growth

In the technology-led growth scenario, the defining feature is a faster-than-expected transition from "AI buildout" to broad adoption and economic transformation. AI investment remains heavy and persistent, with capex and infrastructure spending reinforcing a multi-year productivity upswing. As technology diffuses, productivity gains become visible across a wider set of sectors and countries, supporting higher trend growth and improving earnings durability in economies and firms that can effectively integrate AI.

China, in this scenario, adjusts its growth model more successfully than in the median case, shifting toward higher-value manufacturing and innovation while stabilizing key domestic imbalances, so that growth is slower than in the past but structurally more sustainable than in the baseline.

Most emerging markets also benefit, but crucially through reform and institutional improvement rather than demographics alone. Countries that deepen capital markets, improve governance and competitiveness, and attract supply-chain realignment capture more of the upside from global technology diffusion and investment re-routing.

4.2.3 Lower Gravity World

In the "lower gravity" scenario, high sovereign debt burdens and aging populations become the binding constraints on growth and policy flexibility. Rising debt service needs, larger issuance programs, and an increasingly price-sensitive investor base push term premia and rate volatility structurally higher, weighing on both public and private investment.

Politics and policy choices also reduce allocative efficiency. Populist pressure and industrial policies can lead to capital misallocation—more directed spending and less productivity-enhancing investment, while geoeconomic fragmentation (trade barriers, reshoring, technology restrictions) lowers global efficiency and raises the risk of recurrent supply shocks. In this environment, AI to advance, but its macro benefits diffuse more slowly and are partly offset by weaker competition, regulatory frictions, and constrained capital formation.

Emerging markets are more challenged here: weaker institutions and governance issues curb reform momentum and raise risk premia, producing wider dispersion between "winners" and "laggards," and making aggregate EM growth less reliable as a portfolio anchor. Finally, defence and security spending rises as fragmentation deepens, adding to fiscal pressure and reinforcing the higher-rate, higher-volatility macro backdrop.

4.3 Risk Assessment

We have identified several key risks and indicated their potential impact or likelihood of occurrence based on our best estimates. The objective is to encourage you to critically evaluate and assess your risks and analyze how they might influence your assumptions.

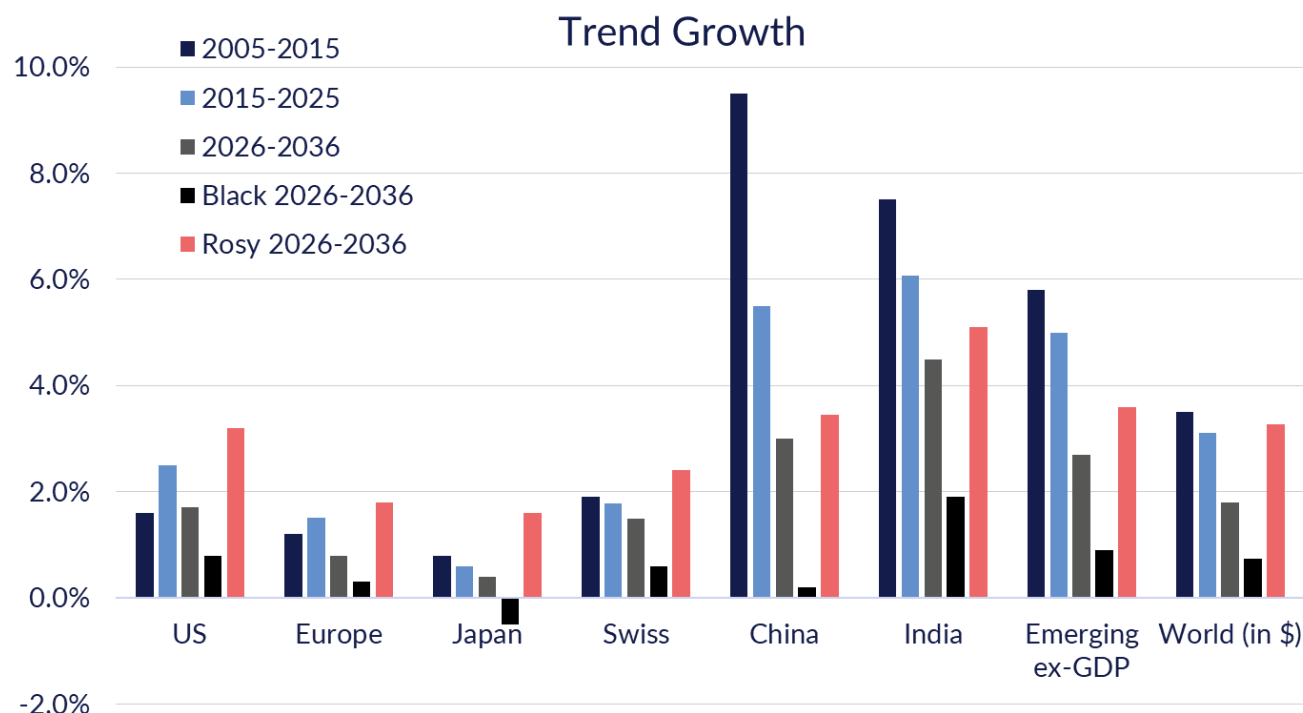**Figure 25: Key Risks Assessment**
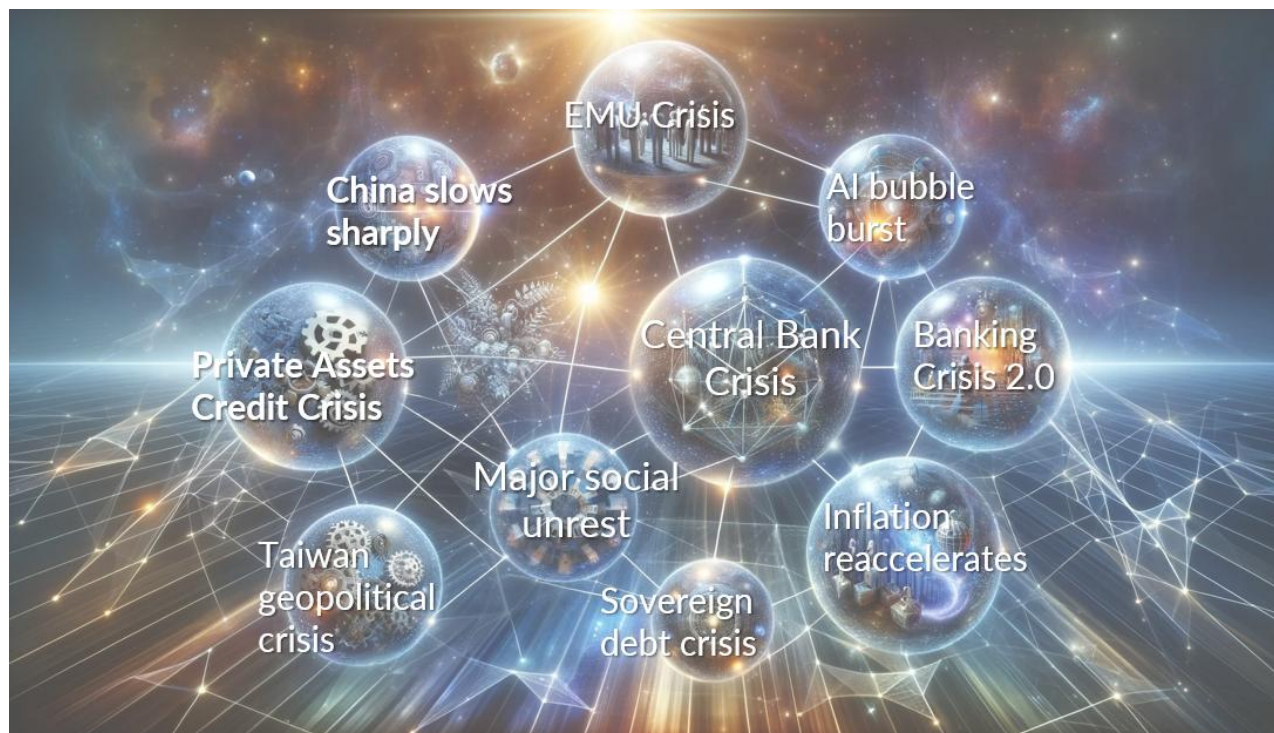
Source: GAMA

Figure 26: Major Risks Over a Strategic Horizon


Source: GAMA

4.4 Projections Under Different Economic Scenarios

Figure 27: Trend Growth (or Potential Growth) in Real Terms (Annual)
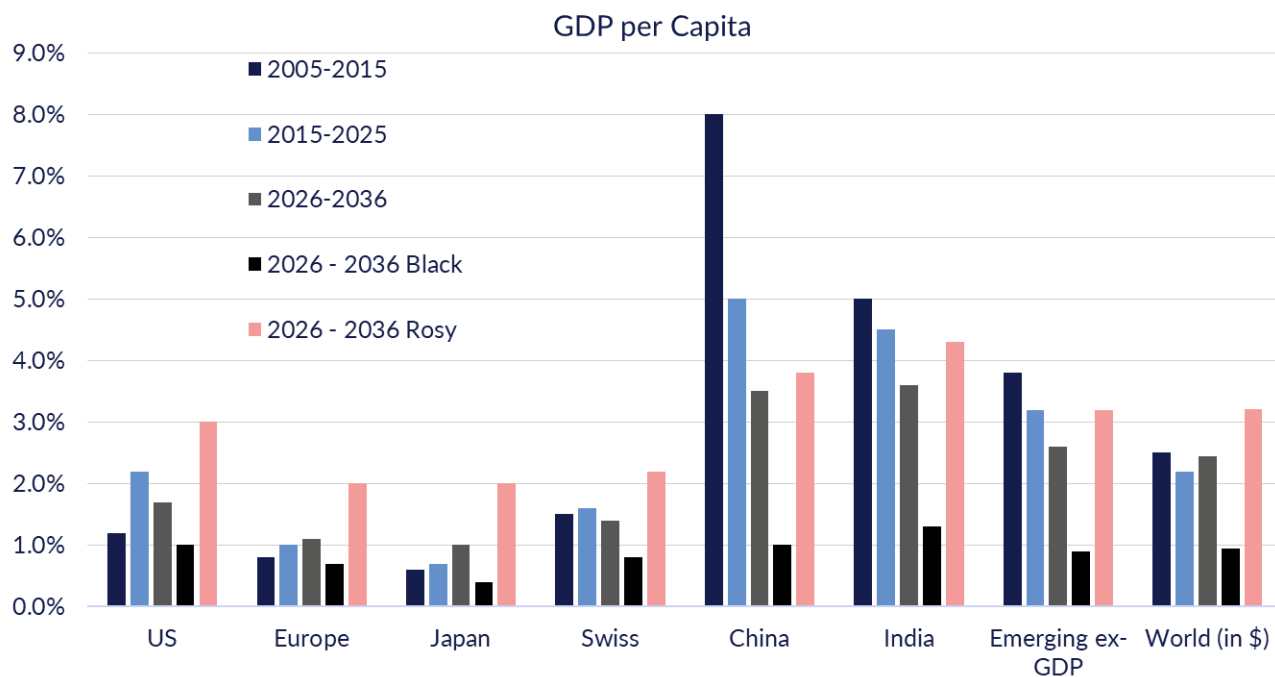

Sources: OECD, GAMA projections

Historical and projected trends in annualized population growth across major regions and the world highlight a clear deceleration in population growth. The trends reflect structural demographic challenges amid limited migration flows, particularly in developed economies.

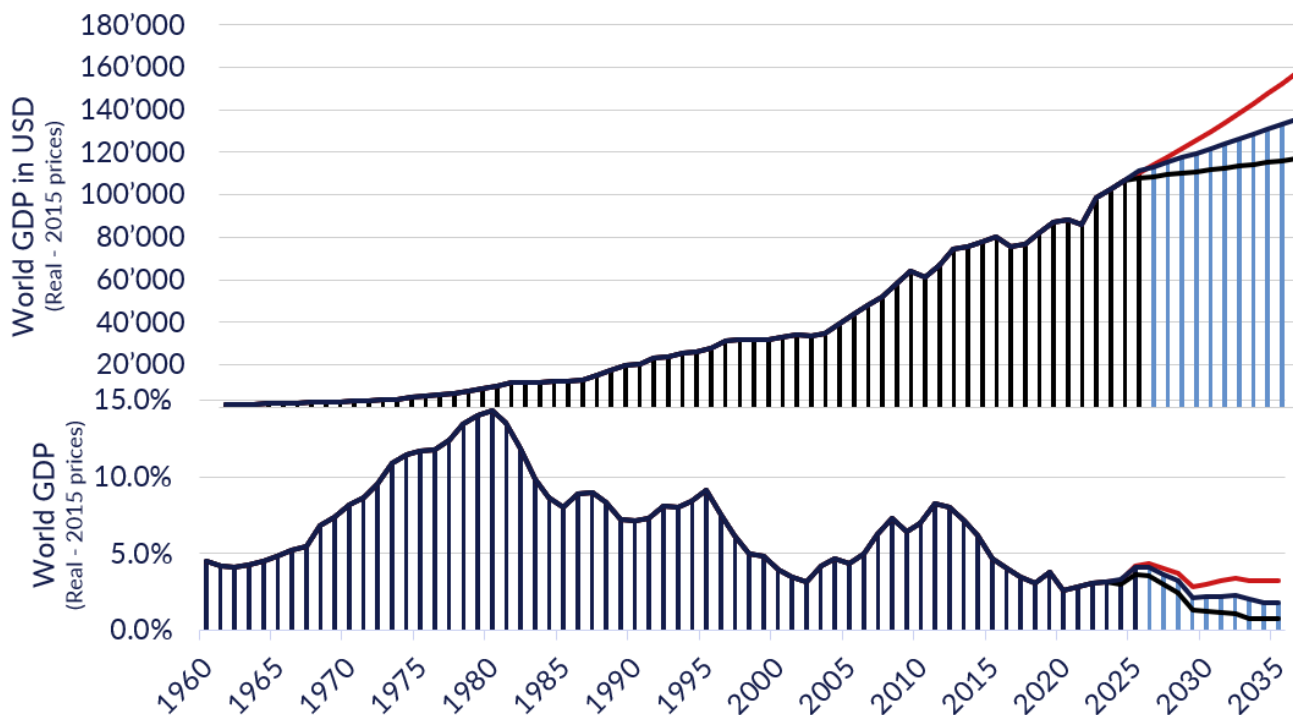### Figure 28: Working Age Population (Demographic Projections and Migration Assumptions)
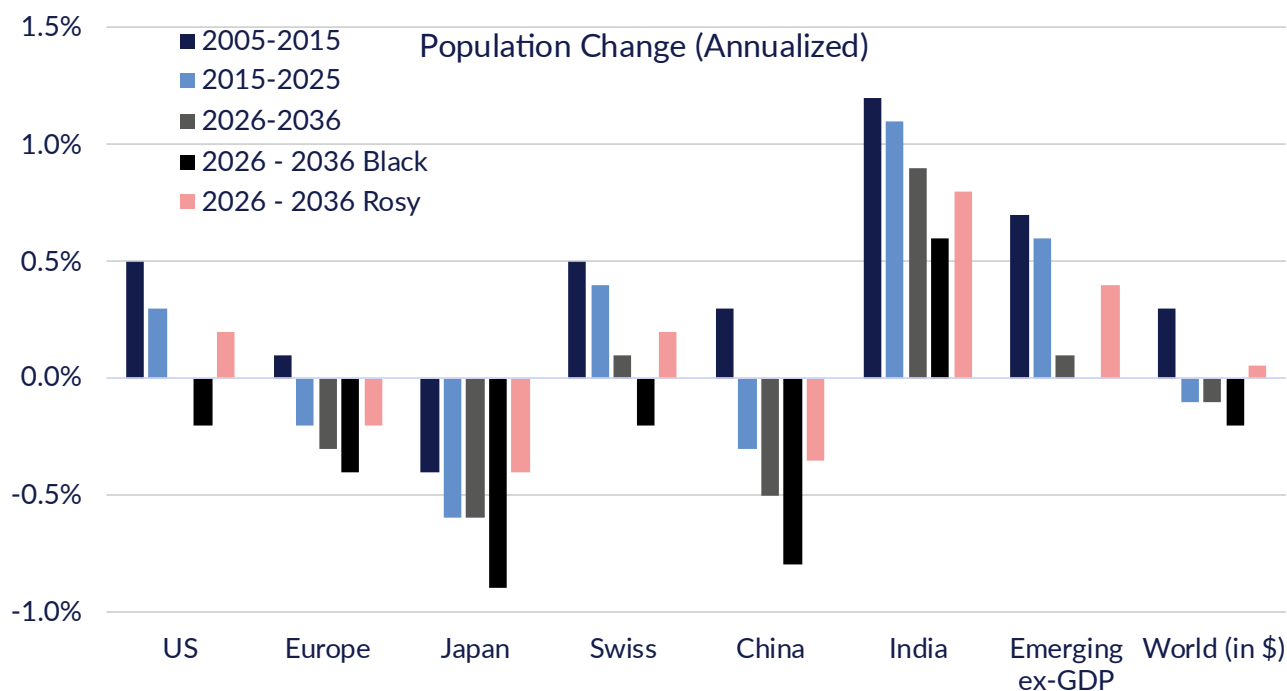
Sources: United Nations, GAMA projections

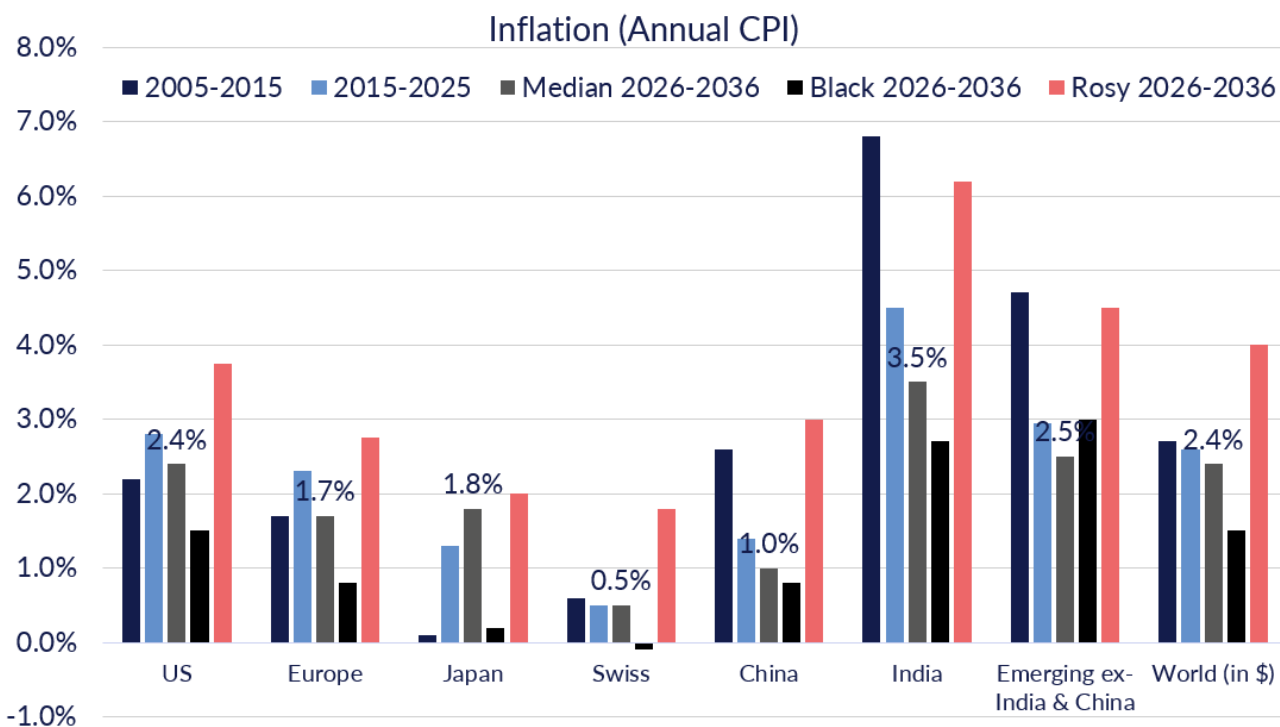## Figure 29: Productivity With Projections Under Three Scenarios

GDP per Capita

Legend:
- 2005-2015
- 2015-2025
- 2026-2036
- 2026 - 2036 Black
- 2026 - 2036 Rosy

Sources: Bloomberg, GAMA projections

Figure 30: World GDP (in Real Terms)

Sources: OECD, GAMA projections

Figure 31: Inflation Projections

Inflation (Annual CPI)

Legend: 2005-2015 | 2015-2025 | Median 2026-2036 | Black 2026-2036 | Rosy 2026-2036

- US: 2.4%
- Europe: 1.7%
- Japan: 1.8%
- Swiss: 0.5%
- China: 1.0%
- India: 3.5%
- Emerging ex- India & China: 2.5%
- World (in $): 2.4%

Sources: OECD, GAMA projections

After a few decades of declining inflation, the Pandemic triggered a renewed increase. The chart illustrates historical and projected trends in inflation (annual CPI) across major economies and regions, highlighting both the structural decline in inflation over recent decades and the divergence between potential future scenarios. Inflation dynamics reflect a combination of global macroeconomic forces, including demographic trends, monetary policy frameworks, and structural productivity changes.

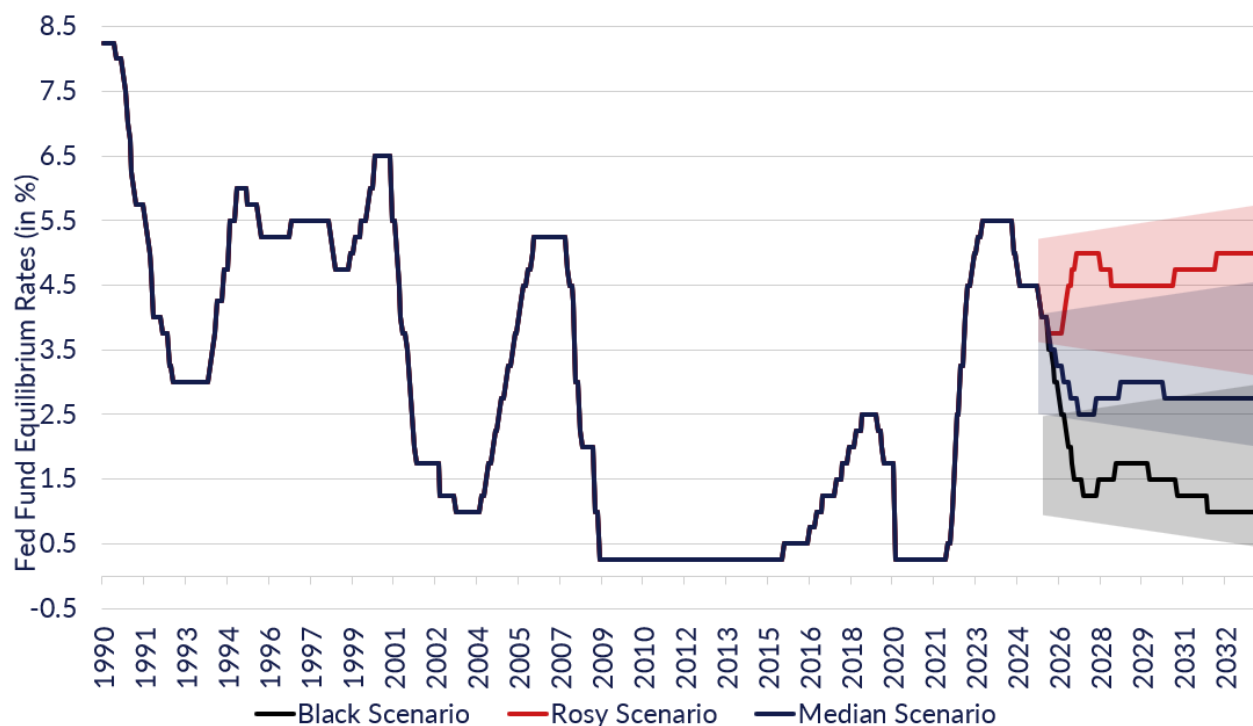**Figure 32: World Inflation Projections Under Three Scenarios**

Sources: OECD, GAMA projections
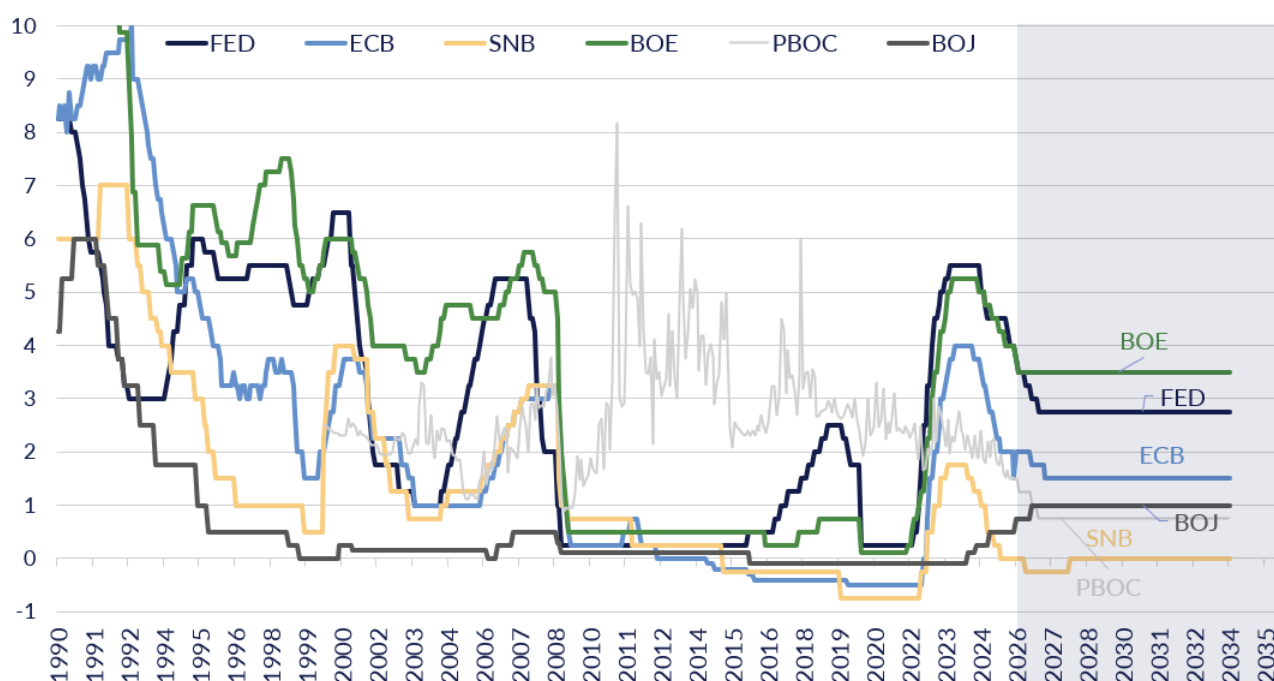
January 2026
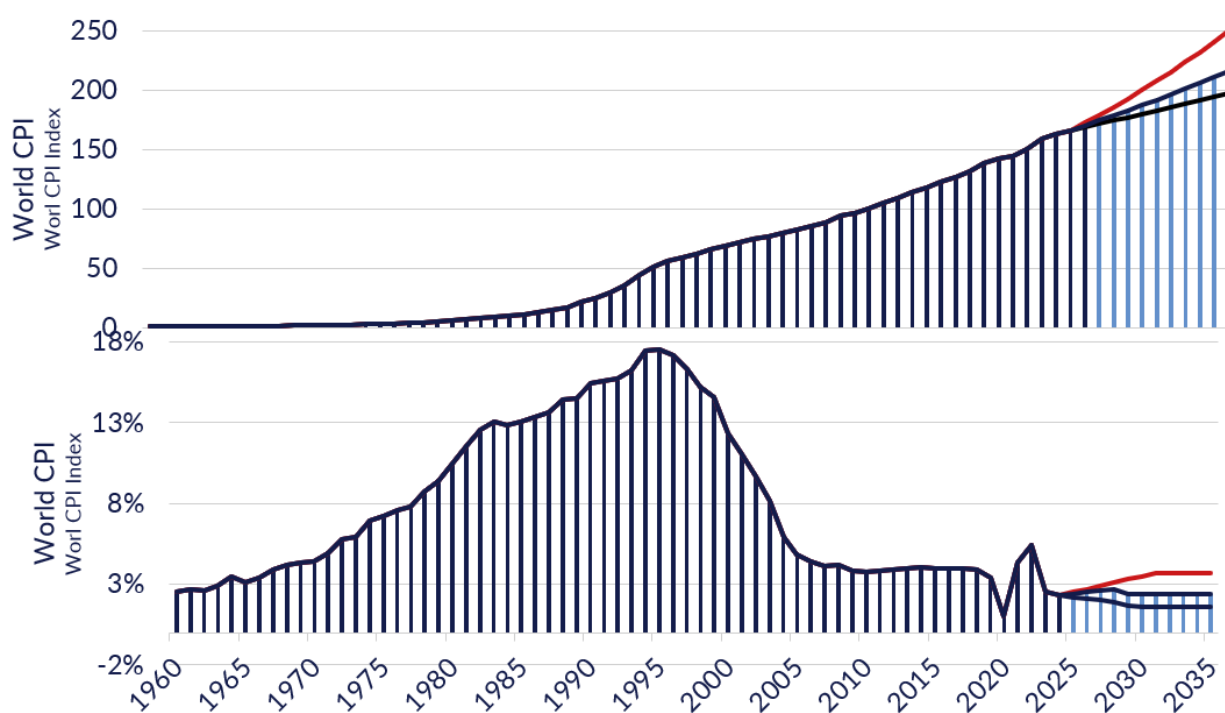
4.5 Interest Rate Scenarios

We project interest rates based on long-term fundamental factors which are described in our scenarios.

Figure 33: Illustration of Short-Term Rates Projections for the US

Source: Bloomberg, GAMA

**Figure 34: Projected Target Rates of Key Central Banks (Median Scenario)**

Source: GAMA

4.6 Credit Spreads

The starting point for credit spreads is key to calculating excess returns for credit-related fixed-income segments, as illustrated by the relationship between excess returns and credit spreads for high-yield bonds.
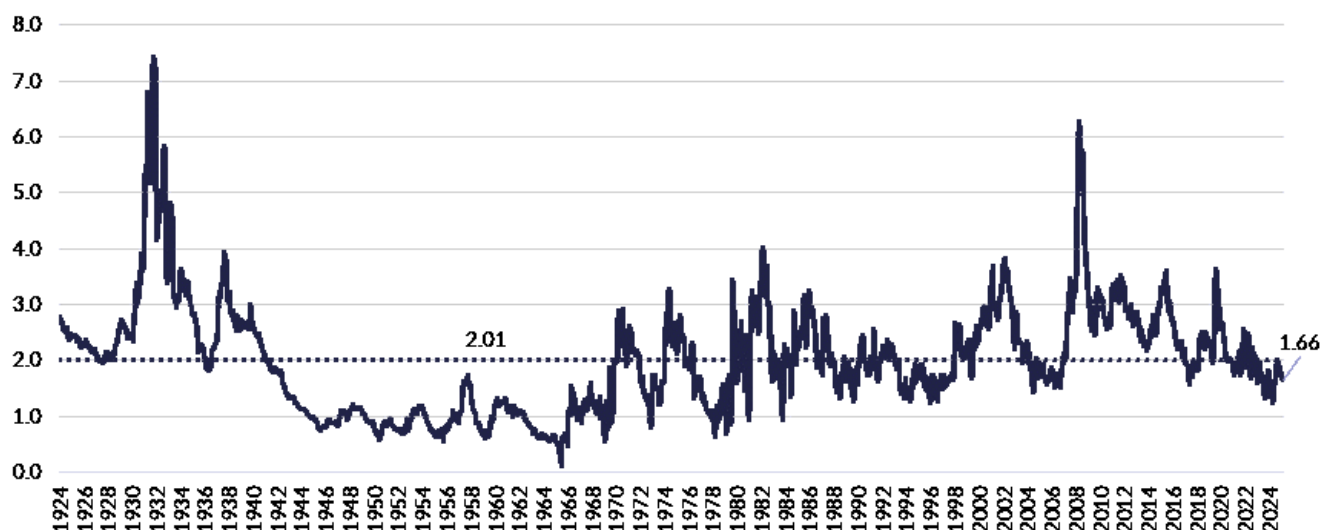
The relationship is relatively linear at a high level of spreads and tends to become skewed to the downside when credit spreads are low.

Figure 35: One year Forward Return of High Yield by Credit Spread Decile Over 15 Years
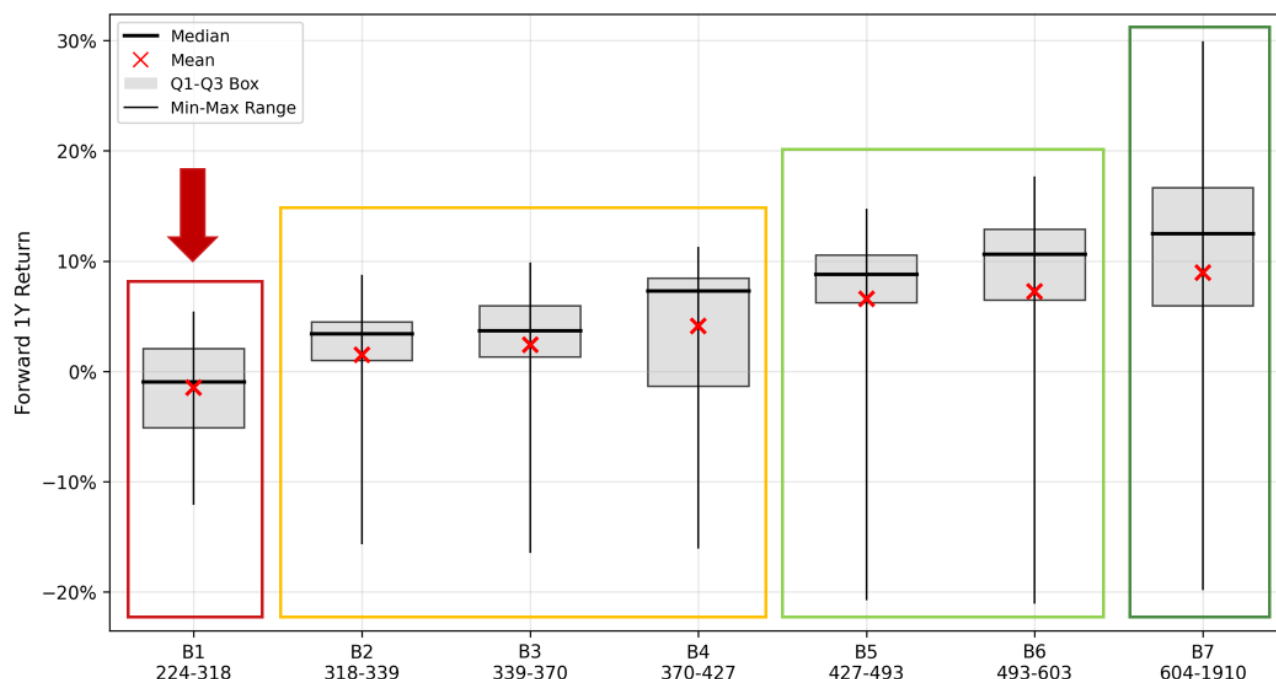
Source: GAMA calculations

Figure 36: Long-Term Baa Credit Spread

Sources: Bloomberg, Moody's, Gama calculations

4.7 Currency Equilibrium Rates

To calculate expected returns for currency pairs, we consider valuations derived from real effective exchange rates normalized over a rolling 20-year period, assuming that valuation gaps will close over a 10-year horizon. We then adjust the return for the expected inflation differential to maintain stable real effective exchange rates and account for productivity differentials. Over the long term, currencies are supported by relative productivity advantages. The Balassa–Samuelson effect provides a framework for understanding how higher productivity growth in the tradable sector drives real exchange rate appreciation.

Figure 37: Long-Term Expected Return of a Currency Pair.

$$\text{Expected Return}_{A/B} = \text{Valuation Adjustment}_{A/B} + \text{Productivity Gap}_{A/B} - \text{Inflation Differential}_{A/B}$$

Where:

- $\text{Valuation Adjustment}_{A/B}$: How undervalued or overvalued currency A is relative to B.

- $\text{Productivity Gap}_{A/B}$: Difference in productivity growth between country A (issuing currency A) and country B (issuing currency B).

- $\text{Inflation Differential}_{A/B}$: Difference in inflation rates, where higher inflation in country A reduces the expected return of A vs B.

Figure 38: Long-Term Expected Return of Currency (Assumptions, Spot Only)

in Local currency	Spot Expected Returns over 10 years, per year		
Currency Pairs	Median	Black	Rosy
EUR / USD	1.5%	-0.5%	2.0%
USD / JPY	-2.0%	-3.1%	0.4%
EUR / CHF	-2.5%	-4.5%	1.5%
USD / CNY	-2.1%	-2.1%	-3.4%
USD / INR	-1.0%	0.0%	-2.5%
USD / BRL	1.0%	1.5%	-1.5%

Source: GAMA calculations

5. Key Asset Classes Strategic Outlook

5.1 Strategic Expected Returns

Figure 39: Cash Projections and Excess Returns Over Cash for Fixed Income Segments

Currency	Cash Projections & Hedged Cost		
	Median	Black	Rosy
Cash USD	2.75%	1.50%	4.0%
Cash EUR	1.50%	0.00%	3.75%
Cash CHF	0.00%	-0.50%	1.00%

in CHF	Excess Expected Returns over 10 years, per year		
Segments	Median	Black	Rosy
Cash	-	-	-
Short-term High Yielding	1.75%	2.30%	1.50%
Global Sovereigns	2.15%	3.40%	0.10%
Global Inflation-Indexed	2.35%	3.60%	0.60%
Global Corporates	2.15%	3.50%	0.90%
Credit Opportunities	3.75%	3.60%	2.30%
Global High Yield	3.15%	2.35%	2.60%
Emerging Sovereigns	3.25%	3.55%	1.80%
Emerging Corporates	3.15%	3.40%	2.40%
Emerging Local Debt (vs. USD)	3.85%	3.30%	4.00%

Figure 40: Past and Expected Returns in USD Reference
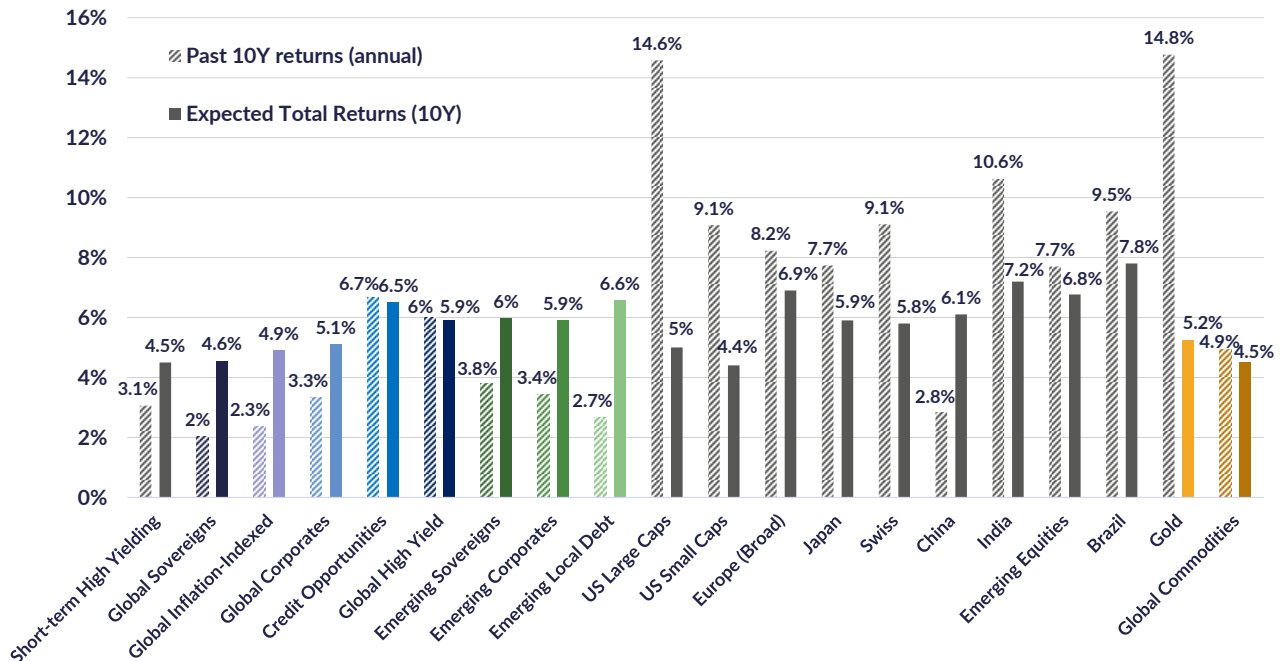
Source: GAMA

5.2 Expected Volatilities

Several of the structural megatrends shaping the global economy are likely to result in higher and more persistent macro-financial volatility over the coming years. The rapid expansion of artificial intelligence is widely characterised as a general-purpose technology, historically associated with investment booms, valuation overshooting, and subsequent periods of correction as productivity gains diffuse unevenly across sectors. Episodes of exuberant pricing followed by normalization are therefore a plausible feature of the AI investment cycle, consistent with historical experience documented by central banks and the IMF.

At the same time, the rise of populist and interventionist economic policies increases the risk of larger boom-bust dynamics. Expansionary fiscal measures, industrial policies, or trade restrictions can initially boost activity or specific asset classes but often lead to resource misallocation and weaker medium-term growth, amplifying volatility when policy reversals or financing constraints emerge.

High public and private debt levels further add to financial fragility. The IMF and BIS have repeatedly highlighted that elevated debt amplifies sensitivity to interest-rate changes, risk-premia repricing, and growth disappointments. As a result, asset prices are likely to react more sharply to macroeconomic shocks, while the overall financial system becomes more exposed to confidence effects and liquidity stress.

Geopolitical fragmentation is another important source of volatility. Rising geopolitical tensions, trade restrictions, and the increased use of sanctions raise the probability of episodic market stress, particularly through energy markets, supply chains, and capital flows. Finally, any sustained erosion of central bank independence risks unanchoring inflation expectations. Historical evidence shows that weaker institutional credibility tends to translate into higher inflation volatility, more volatile interest-rate cycles, and less stable financial conditions.

Bond market volatility is also likely to be structurally higher than in the two decades preceding the pandemic. Since the Covid crisis, central bank policy cycles have become shorter, more forceful, and more reactive to incoming data, reflecting greater uncertainty around inflation dynamics and supply-side shocks. This contrasts with the long, gradual tightening and easing cycles that characterised the pre-2020 period.

In addition, bond market duration has increased meaningfully. Many sovereigns and corporates took advantage of exceptionally low yields to issue longer-maturity debt. As a result, even yield moves of similar magnitude to those observed historically now generate larger price fluctuations, mechanically increasing bond volatility. This duration effect has been emphasised in BIS and central-bank analysis of post-pandemic bond market behaviour. Equity volatility is also likely to be higher going forward. Valuations in several major markets start from elevated levels by historical standards, making equity prices more sensitive to changes in earnings expectations, discount rates, and risk premia. The increasing weight of technology and technology-adjacent sectors further contributes to volatility, as these sectors typically exhibit higher uncertainty around long-term cash flows and stronger sensitivity to shifts in interest rates.

Finally, market concentration has risen sharply. A significant share of recent equity market performance has been driven by a small number of large, predominantly technology-oriented firms. This narrow market breadth reduces diversification benefits within equity indices and increases the risk that negative shocks affecting a limited set of companies or themes translate into outsized index-level volatility, a risk highlighted in multiple IMF and investment-institute assessments.

Figure 41: Implied Volatilities
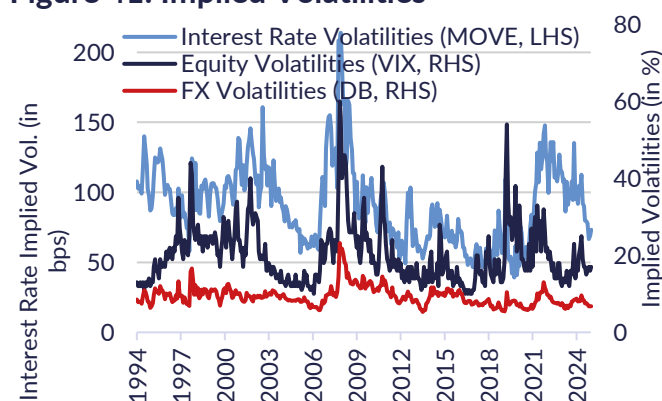
Sources: Bloomberg, Merrill Lynch, CBOE and Deutsche Bank
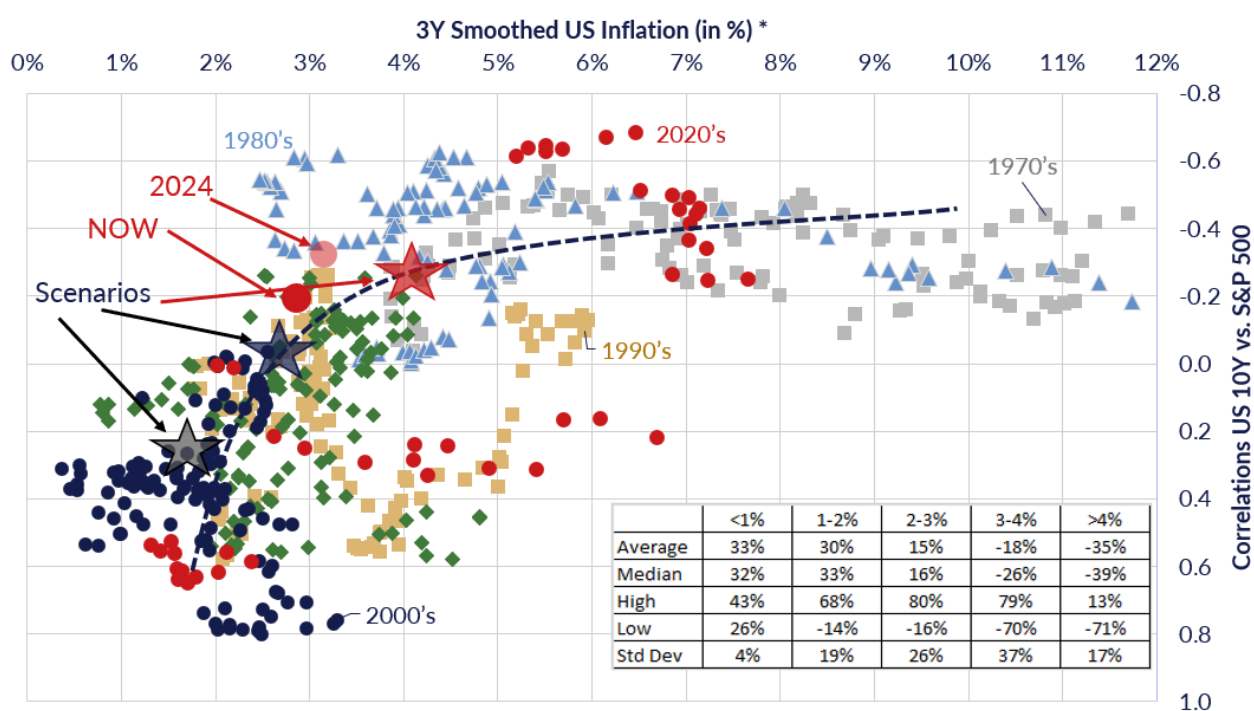
5.3 Expected Correlations

Government bonds have historically played a central role in portfolio diversification because their returns have tended to move inversely to those of risk assets. In periods of economic stress or sharp equity drawdowns, yields on high-quality government bonds typically declined as investors sought safety, generating capital gains that offset losses elsewhere. This effect was particularly pronounced for U.S. Treasury securities, which benefited not only from their credit quality but also from the reserve-currency and safe-haven status of the U.S. dollar. During global risk-off episodes, capital inflows into dollar assets reinforced the negative correlation between U.S. Treasuries and equities.

Looking ahead, this relationship may become less reliable. If confidence in the institutional framework underpinning U.S. monetary policy were to weaken, most notably through an erosion of the Federal Reserve independence, and if current or future U.S. administrations were to tolerate or actively pursue a weaker dollar, the safe-haven properties of U.S. Treasuries could be diminished. In such an environment, Treasuries would be more exposed to fiscal risk, term-premium volatility, and exchange-rate considerations. As a result, their correlation with equities and credit could become less negative,

and at times even positive, particularly during episodes driven by inflation or fiscal concerns rather than growth shocks.

Inflation remains the key variable shaping cross-asset correlations, especially between equities and bonds. Empirical evidence shows that when inflation is low, stable, and well anchored, bonds tend to hedge equity risk, leading to negative correlations. Conversely, when inflation is high or volatile, both asset classes can suffer simultaneously as higher inflation pressures real cash flows and pushes yields upward. Following the post-pandemic surge in inflation, bond–equity correlations turned positive in many markets. However, with inflation having moderated from its peaks, policy rates at restrictive levels, and bond yields now starting from much higher initial levels than in the pre-Covid era, the balance of risks has shifted. Under these conditions, bonds again offer income and some capacity to absorb growth-related shocks. On a medium- to long-term horizon, this supports an expectation that the currently elevated positive correlation between bonds and equities should gradually diminish and move back toward a mildly negative relationship, albeit with more frequent regime shifts than in the past.

Figure 42: Correlations Between US Equities and US 10Y Yields Versus US Inflation


	<1%	1-2%	2-3%	3-4%	>4%
Average	33%	30%	15%	-18%	-35%
Median	32%	33%	16%	-26%	-39%
High	43%	68%	80%	79%	13%
Low	26%	-14%	-16%	-70%	-71%
Std Dev	4%	19%	26%	37%	17%

Source: GAMA calculations

January 2026

# 6. Global Fixed Income Strategic Asset Allocation

The chart illustrates the trade-off between risk and return across different asset classes, measured by annualized expected returns (y-axis) and long-term expected volatilities (x-axis). Each asset class is represented by a bubble, with its size likely reflecting relative market size or strategic importance.

Figure 43: Expected Returns and Annual Long-Run Volatility (10Y)
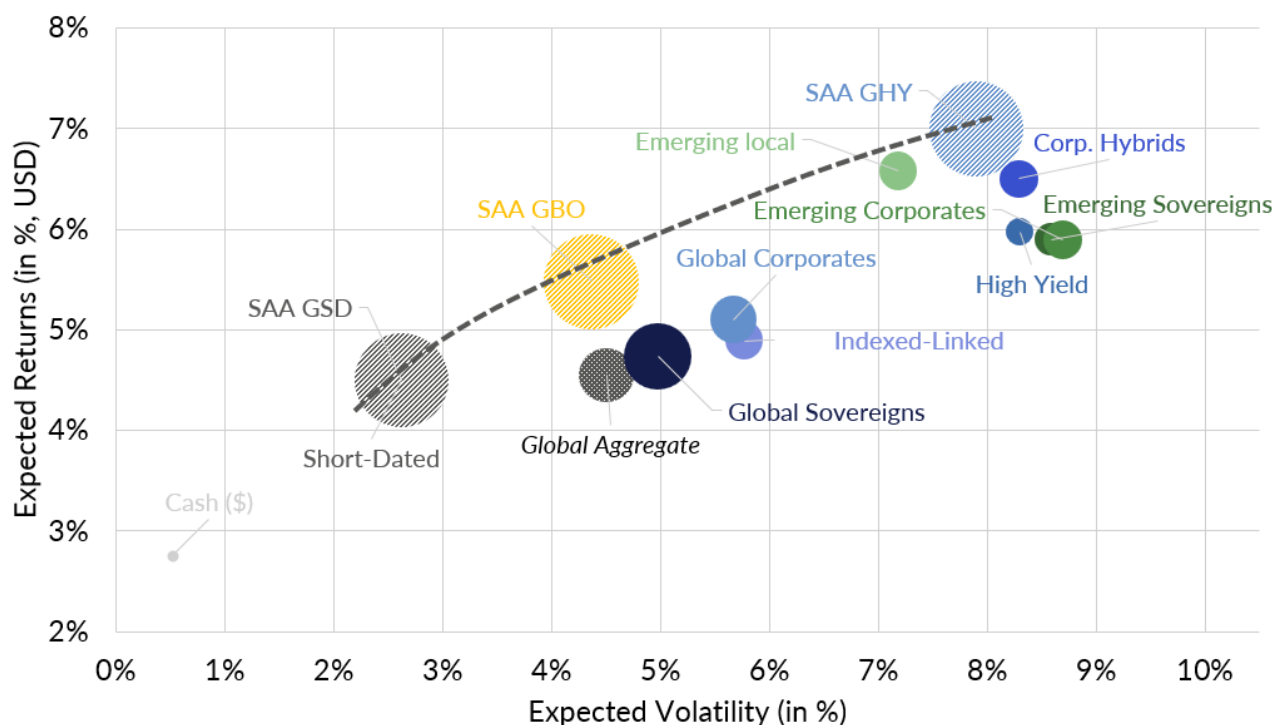
Sources: GAMA calculations, USD reference, with 3 different strategic asset allocation: Global Short Dated (GSD), Global Bonds (GBO) and Global High Yielding (GHY), the latter combining various high yielding segments with some leverage.

Figure 44: Strategic Asset Allocation with Expected Statistics Versus Industry Benchmark
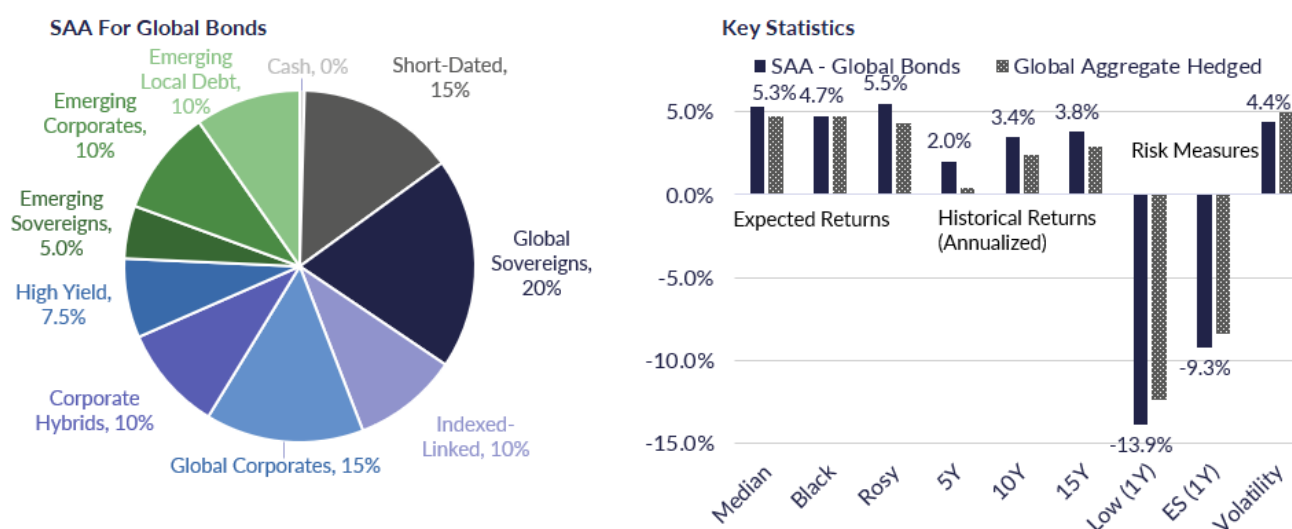
Source: GAMA calculations

The SAA for global bonds is structured to deliver enhanced long-term returns with careful diversification, balancing exposure to stable sovereign and corporate bonds with higher-yielding sectors like emerging markets and credit opportunities. While slightly more volatile, its robust risk management ensures downside protection, making it a superior alternative to the global aggregate benchmark for investors seeking optimized risk-adjusted performance.

Figure 45: Ranges of Potential Outcomes for Global Bonds
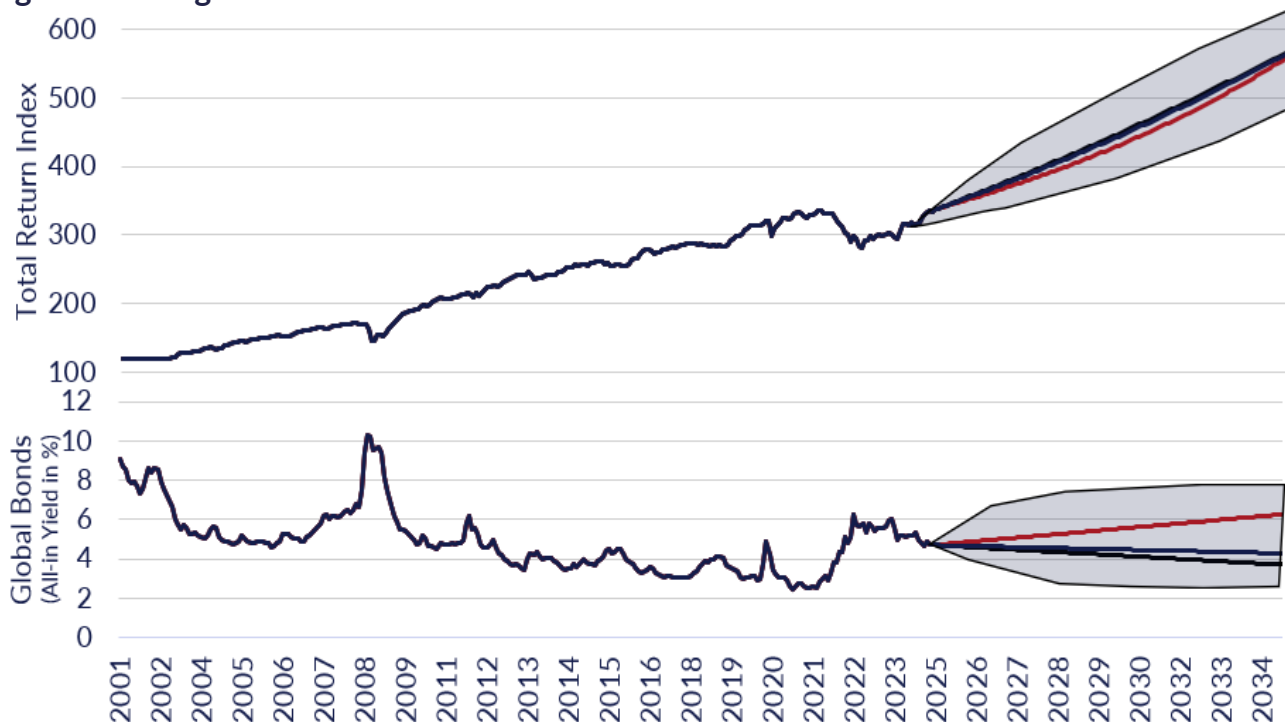
Source: GAMA calculations

Using the paths defined in our scenarios and their expected volatilities, we are able to plot the outcome of our analysis, which is an SAA built from a combination of fixed income segments weighed to optimise returns vs. risk, incorporating alternative scenarios. This approach is superior to a market-weighted index as it explicitly incorporates forward-looking expectations and is optimised to maximise risk-adjusted returns.

7.Special Case — Multi-Asset Optimization for Swiss Pension Funds (LPP)

Our framework can be naturally extended beyond fixed income into a full multi-asset optimization, including the specific constraints of Swiss pension funds operating under an LPP 40 reference framework. That said, methodological discipline becomes even more critical. When asset classes, particularly fixed-income sub-segments, are highly correlated, traditional optimization techniques tend to become unstable, overly sensitive to expected-return assumptions, and prone to hidden concentration risks. In such environments, robust asset allocation requires factor awareness, aggregation, and disciplined constraints, rather than excessive granularity.

To address these issues, we have replaced the traditional fixed-income building blocks of the LPP 40 (2015 reference) with our three optimized fixed-income strategic allocations: Global Bonds, Global High-Yielding, and Global Short-Dated High-Yielding. This approach allows for a broader opportunity set while maintaining risk transparency and compliance with the overall pension-fund framework.

Figure 46: Expected Risk-Return in CHF Across Asset Classes
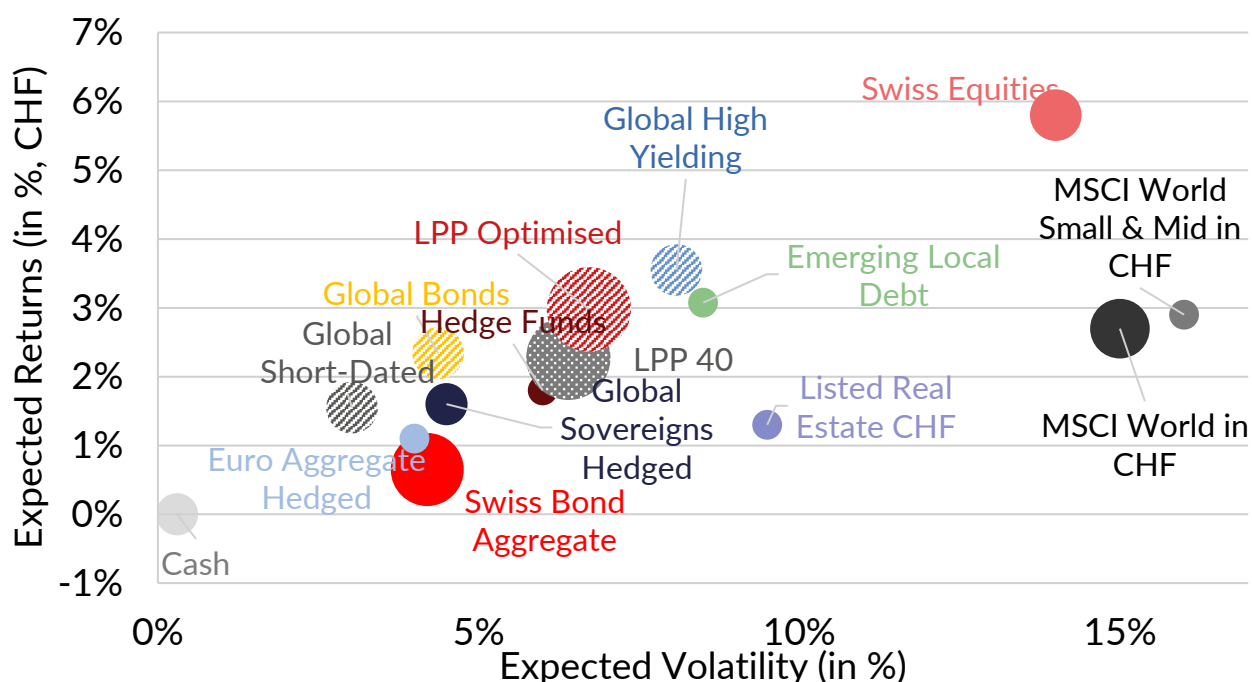
Source: GAMA calculations

Incorporating an optimized global fixed-income allocation materially enhances the overall LPP portfolio, increasing expected returns by approximately 0.7–0.8% per annum versus the neutral LPP 40 allocation.

Swiss franc denominated domestic bonds offer a structurally weak return profile, given extremely low all-in yields, both in absolute terms and relative to global bonds on a CHF-hedged basis. Expanding the fixed-income universe provides access to a wider range of risk premia (duration, credit, carry, roll-down, and liquidity), improving overall portfolio efficiency.

Within the fixed-income allocation, emerging-market local debt stands out as an attractive source of diversification, combining higher expected returns with relatively low correlations to traditional developed-market bonds and equities. Partial currency hedging, particularly against the USD, can further enhance risk-adjusted returns while mitigating drawdown risk.

Under our assumptions of continued CHF strength and more modest forward returns for

U.S. equities following a decade of exceptional performance, global equities (MSCI World in CHF) should be underweighted relative to Swiss equities. The latter benefit from currency alignment, defensive sector composition, and higher earnings visibility in CHF terms.

Gold remains a valuable source of diversification and tail-risk protection within a pension-fund portfolio given the expected rise in dollar liquidity to accommodate for high debt levels. However, expected returns in CHF are likely to be lower than over the past decade, reflecting the anticipated strength of the Swiss franc relative to the U.S. dollar and the already high level of outperformance of gold relative to the global liquidity index. Gold's role should therefore be framed primarily as a risk-management asset, rather than a return driver.

Other alternative assets do not currently offer compelling value from a strategic asset-allocation perspective. Hedge funds, often presented as a mix of market risk premia and idiosyncratic alpha, have historically delivered limited net value at the aggregate level, with strong managers offset by weaker ones before fees.

Similarly, listed Swiss real estate has delivered strong historical performance, supported by declining discount rates, compression of capitalization rates, and resilient rental income. However, current valuation premia, reflected in elevated price-to-NAV multiples and historically low implied net initial yields, materially constrain forward-looking return expectations. At these levels, prospective performance is increasingly driven by asset-level fundamentals, including rental growth, occupancy dynamics, financing structure, and active portfolio management. As a result, returns are likely to be highly manager- and property-specific, making listed Swiss real estate less attractive as a pure top-down allocation lever within our strategic asset-allocation framework.

For Swiss pension funds, optimizing the structure and composition of fixed income, rather than increasing exposure to illiquid or opaque alternatives, offers the most effective and transparent way to improve long-term portfolio efficiency within the LPP framework.
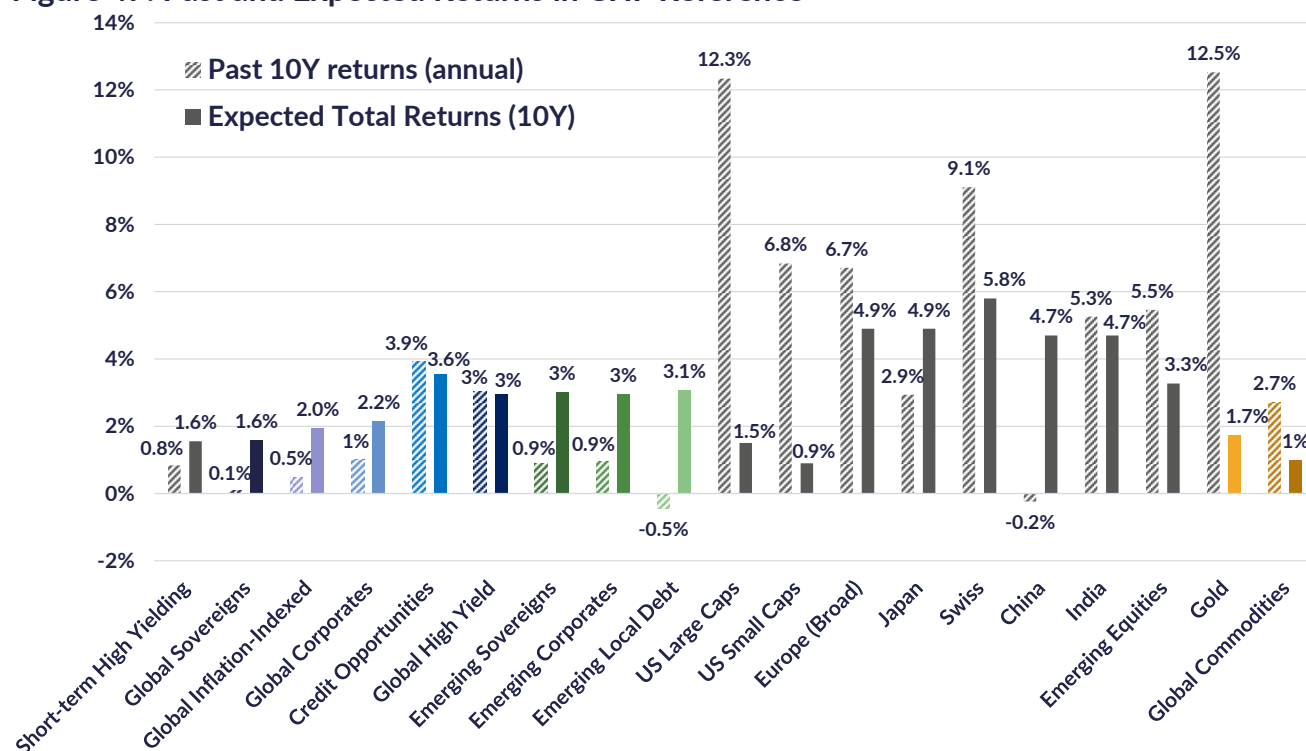
Yours in Bonds,

Rajeev De Mello
Partner at GAMA, Chief Investment Officer

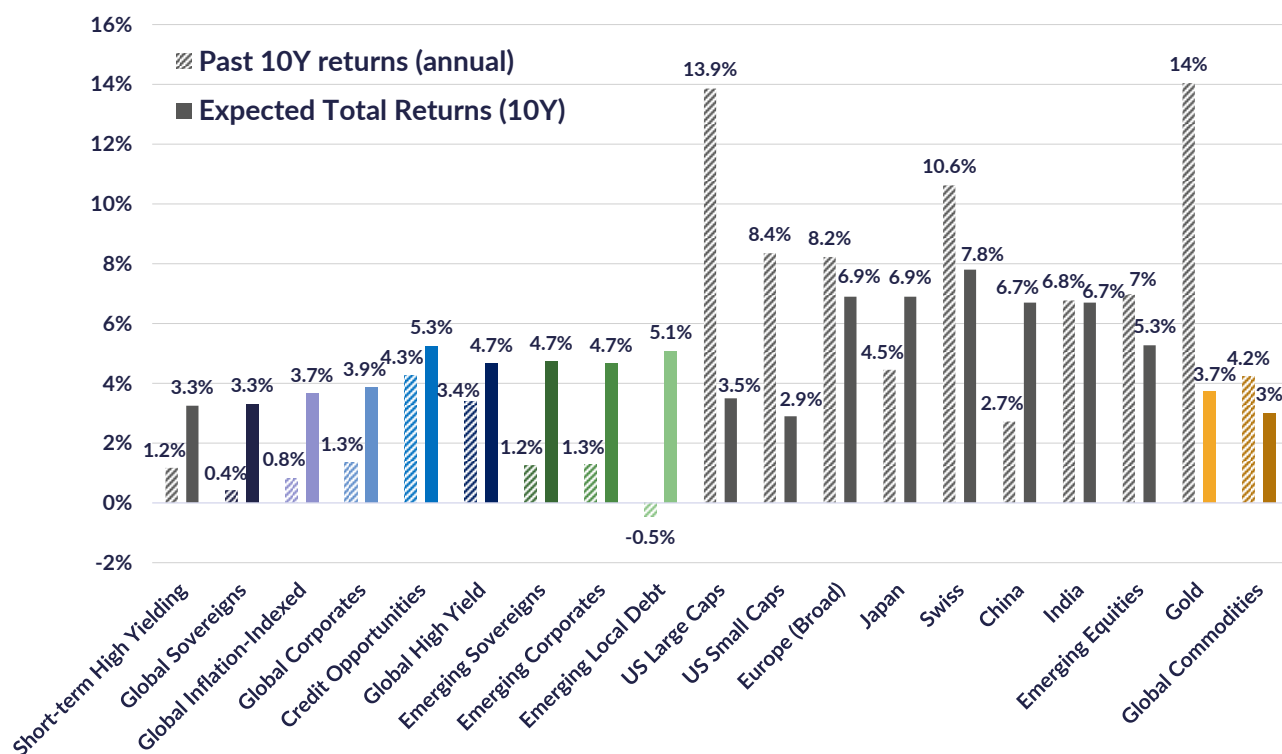**Manuel Streiff**
Founding Partner at GAMA, Global Bond Portfolio Manager

8. Addendum

Figure 47: Past and Expected Returns in CHF Reference

Source: GAMA

Figure 48: Past and Expected Returns in EUR Reference

Source: GAMA

About GAMA

GAMA, an asset management company based in Geneva and founded in 2019, specializes in global bond management. GAMA is majority-owned by its investment team. In addition to striving for excellence in performance, as is typical for any asset manager, GAMA also offers strategy and bond management services for institutional and professional investors. GAMA stands out for its independence and high level of transparency in management, processes, and tools made available to its partners. In an increasingly challenging and complex low-yielding environment, GAMA provides best-in-class asset management solutions as well as bespoke investment services tailored to meet clients' expectations. GAMA is regulated by the FINMA.

About the authors

Manuel Streiff, CFA, FRM

Prior to co-founding GAMA in 2019, Manuel spent 18 years at Banque Lombard Odier & Cie, where he headed the fixed income franchise of the private bank. The solid unconstrained investment framework he established led to successful performance and asset growth. He was also a member of the Bank's investment committee. Manuel began his career at Synthesis Bank, where he launched and managed a global bond fund.

Manuel holds a Master in International Relations from the Graduate Institute of International and Development Studies (IHEID) in Geneva. He has been a CFA charterholder since 2003 and an FRM charterholder since 2007.

Rajeev De Mello

Rajeev De Mello is a global macro investor, with a successful track record in multi asset, bonds and currencies in both developed and emerging markets. He joined GAMA from Singapore in 2021 after holding the position of CIO of Bank of Singapore. Prior to that, he was Head of Asian Fixed Income & co-Head of EM Strategies at Schroders, and Senior Investment Officer at Western Asset in Singapore. He was also Head of Asian Fixed Income and Head of European Bonds at Pictet Asset Management. Before joining the buy side, Rajeev was Head of Asian Fixed Income Trading at UBS in Hong Kong, Head of Foreign Bond Trading at UBS and consultant for McKinsey in Switzerland. He started his career in 1987 as an option trader in Geneva. Rajeev holds an MBA from Georgetown University and a BSc. in economics from the London School of Economics

DISCLAIMER

This marketing document has been issued by GAMA Asset Management SA (hereinafter "GAMA"). This Document is for information purpose only and does not constitute an offer or a recommendation to buy or sell any securities. It is not intended for distribution, use or publication in any jurisdiction where such distribution use or publication would be prohibited. This document is the property of GAMA and is addressed to its recipient exclusively for their personal use. It may not be reproduced (in whole or in part), transmitted, modified, or used for any other purpose without the prior written permission of GAMA. The data are indicative and might differ significantly depending on market conditions. We do not guarantee the timeliness, accuracy, or completeness of the information on this document. Information may become outdated and opinions may change, including as a result of new data or changes in the markets. The document may include information sourced from third parties. We are not responsible for the accuracy or completeness of, and do not recommend or endorse, such information. Except to the extent any law prohibits such exclusion, we are not liable for any loss (including direct, indirect and consequential loss, loss of profits, loss or corruption of data or economic loss of any kind) that may result from the use or access of, or the inability to use or access, the materials on this document. The value of investments and any income from them may go down as well as up. Investors may not get back all of their original investment. Past performance is no guarantee of future results. Each investor must make her / his own independent decisions regarding any securities or financial instruments mentioned herein. Investments are subject to various risks, such as credit risk, interest rate risks, currency risks, or liquidity risks, as well as regulatory, legal and tax risk. The investments mentioned in this document may carry risks that are difficult to assess and quantify and those risks may significantly change over time. Some bond segments with specific features might be considered as complex instruments and may involve a high degree of risks and may be appropriate investments only for sophisticated investors who are capable of understanding and assuming the risks involved. They might therefore be aimed only for those investors that are able to understand the risks involved and are ready to bear their associated risks. Before entering any transaction, investors should consult their investment advisor and, where necessary, get independent professional advice in respect to the risks and suitability of the investment. The liquidity of an instrument may not have a well-established secondary market or in extreme market conditions may be difficult to value, to buy or sell. Tax treatment depends on the individual circumstances of each person and may be subject to change in the future. GAMA does not provide tax advice. Therefore, each investor must verify with his/her external tax advisors whether the securities are suitable for her/his circumstances. GAMA may or may not hold positions in securities as referred to this document in the funds or portfolios managed on behalf of its clients.

GAMA Asset Management SA is authorised and regulated by FINMA as an asset manager of collective investment

Contact:
GAMA Asset Management SA
Rue de la Pélisserie 16
1204 Geneva - Switzerland
www.gama-am.ch
info@gama-am.ch
+41 22 318 00 33