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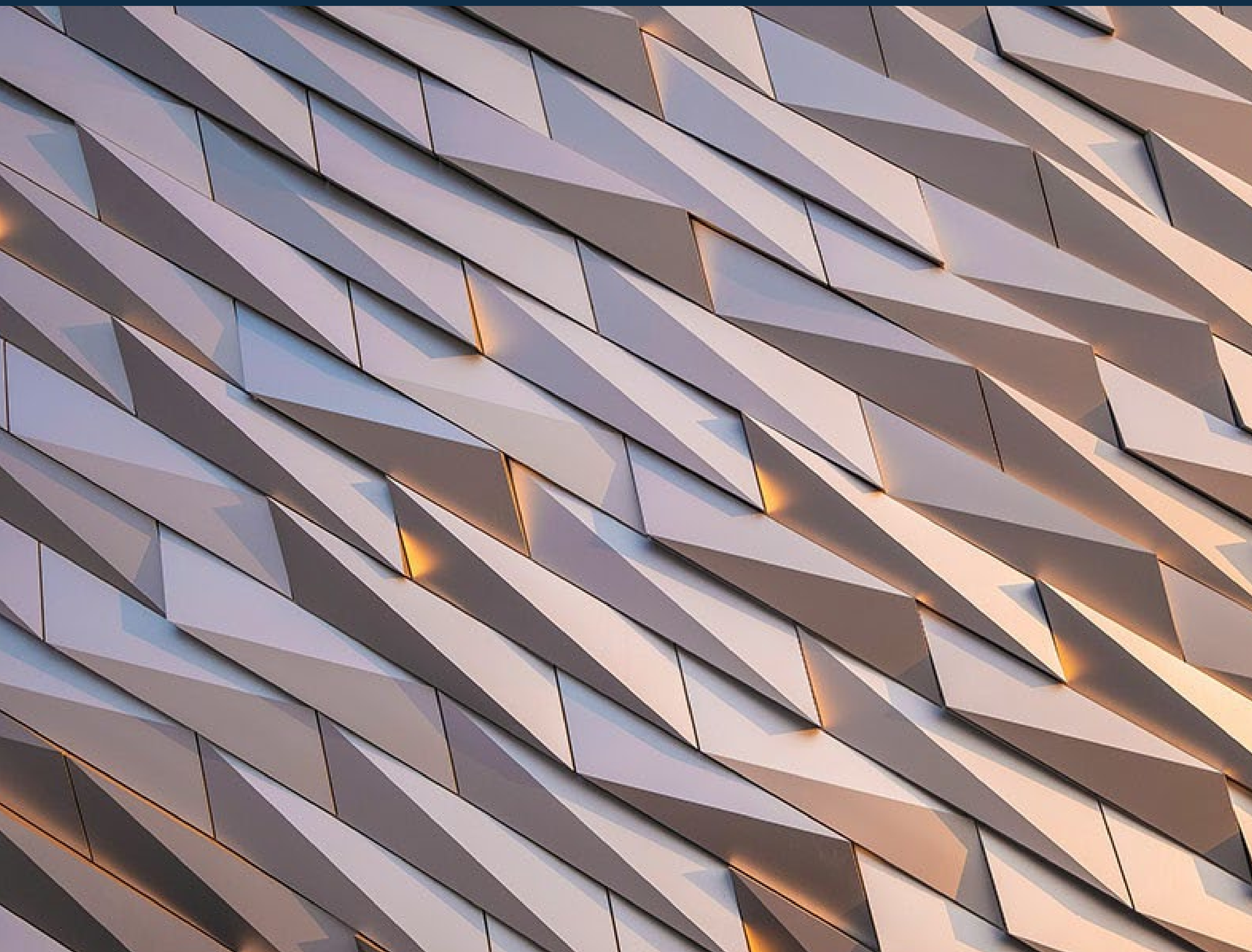
Atlas Monthly Equity Navigator

DECEMBER 2025



A Year of Rotation: 2025 Market Review and 2026 Outlook

December marked the conclusion of a remarkable year for global equity markets—one defined by violent swings in the first half and decisive rotation in the second. The narrative that dominated 2025 revolved around three interconnected themes: Trump's policy agenda, tariff uncertainties, and stretched technology valuations. What began as another year of US mega-cap technology dominance evolved into a historic rotation as investors repositioned for broader opportunities across regions, sectors, and styles.

The transformation was striking. After the first half's volatility driven by trade policy uncertainties and AI valuation debates, the second half witnessed a fundamental shift in market leadership. Europe emerged as the best-performing major region for the year—a stunning reversal after years of underperformance. In fact, all major non-US regions (Emerging Markets, Japan, and Frontier Markets) outperformed the United States in 2025, marking the biggest relative outperformance in 15 years. This historic shift underscored a critical lesson: diversification across sectors, regions, factors, and themes matters profoundly when growth prospects expand beyond a narrow cohort of overpriced US mega-cap technology stocks.

The year's best-performing sectors and themes told the story of this rotation. European Banks delivered exceptional returns as net interest margins remained elevated and loan growth accelerated. Defence stocks benefited from continued geopolitical tensions and rising European military budgets. European utilities and industrials outperformed as Germany's infrastructure fund, datacenter demand and the green transition drove returns. Semiconductors and select AI-related themes continued to capture structural growth, though with increasing differentiation between winners and overvalued momentum plays. By year-end, expensive AI and technology valuations drove further rotation into reasonably priced themes during Q4, while healthcare stocks gained sharply as technology stocks declined into December.

1. First Half Volatility, End-of-Year Rotation
    - H1 2025: Volatility and Uncertainty: The first half was characterized by violent swings as markets grappled with the implications of Trump administration policies, escalating tariff tensions with China and Europe, and growing concerns about AI infrastructure valuations. Technology stocks initially surged to new highs in February, only to experience sharp corrections in March and April as a growth scare grew among investors following the escalation of tariffs. The US dollar got hammered during H1. As a consequence, President Trump pulled the brakes in the aggressive trade policies as the US administration got cold feet amid a simultaneous drop in US stocks, government bonds and the dollar. Markets made a U-turn and rallied until the end of 2025.
    - Q4 2025: The Great Rotation: The end of the year witnessed a fundamental reordering of market leadership. As economic data showed resilience outside the US, capital flowed into regions and sectors that had been overlooked during the AI frenzy. The rotation accelerated when expensive AI and technology names faced renewed selling pressure, while value-oriented sectors and international markets surged. Healthcare emerged as the year's defensive winner, gaining sharply in the final quarter as technology stalled.
2. Europe's Comeback and Global Rebalancing
    - European Exceptionalism: Europe's more than 20% gain in 2025 represented its best relative same currency performance versus the US in 19 years. Multiple factors converged: German fiscal stimulus providing multi-year revenue visibility, attractive valuations entering the year, the strong move in the EUR/USD, and the emerging Ukraine reconstruction theme. European Banks led with 76% gains, while Industrials and Materials benefited from infrastructure spending.
    - Ukraine Peace Dividend: Continued progress in Ukraine peace negotiations led by US diplomacy created a new investment narrative. The Ukraine Rebuild theme gained momentum as investors positioned for an estimated €500 billion reconstruction opportunity over the next decade. European industrials, materials, engineering, and infrastructure companies were primary beneficiaries.
    - Emerging Markets and Japan: EM markets benefited from a weakening dollar, an improving earnings outlook and rotation away from expensive US growth, while Japan's reform agenda under Prime Minister Takaichi continued to attract global capital. Both regions posted double-digit gains, outperforming US markets significantly.

Global Equity Performance

The year 2025 will be remembered as the year diversification reasserted itself as a critical portfolio principle. After several years of narrow US technology leadership, markets rewarded investors who looked beyond the Magnificent 7. Indeed, there were only two magnificent companies among the seven mega-techs that were able to outperform the US market.

United States

- US markets posted solid absolute returns but underperformed international peers, especially in same currency terms. Communication Services dominated in H2 and during 2025 (+32% in 2025) driven mainly by the strong performance in Alphabet. In H2, Healthcare rebounded strongly after a weak first half. Within styles, Momentum and Growth outperformed while Value and Quality firms lagged.

Europe

- European markets delivered their strongest relative performance against the US in 19 years. The combination of fiscal stimulus (particularly defence spending and Germany's infrastructure spending), improving earnings, Ukraine reconstruction positioning, and attractive valuations drove exceptional returns. Banks (+76%), Defence (+67%), Utilities (+29%) and Industrials (+23%) led sector performance. The region's small and mid-cap value segment posted particularly strong gains in H2. Value was the strongest factor, while Quality underperformed.

Emerging Markets

- EM outperformed developed markets as the US dollar weakened and investors rotated toward more attractive valuations. South Korea, Pakistan and Poland were among the countries with the highest returns. Materials and Technology were the strongest sectors, while Growth was the best performing factor. The shift away from expensive US growth benefited also value-oriented EM names significantly.

Themes & Styles

- European Comeback Themes:
    - **German Economic Renaissance & European Industrials:** Germany's historic shift toward fiscal stimulus represented the most significant European policy change in decades. Multi-year infrastructure spending created clear revenue visibility for industrials, engineering firms, and construction companies.
    - **European Green Transition & Climate Investment:** Europe's binding climate commitments and substantial public funding continued to create opportunities in clean technology, renewable energy, and sustainable infrastructure—though returns were more modest than high-growth themes..
    - **European Small & Mid-Cap Value:** The combination of low valuations, accelerating earnings, and strengthening economic backdrop created exceptional risk-reward. This strategy posted 45% gains, significantly outperforming large-cap indices.
    - **European Banks:** The standout sector of 2025. Net interest margins remained elevated throughout the year as central banks maintained restrictive policies longer than anticipated. Loan growth accelerated in H2 as European fiscal stimulus drove credit demand. Capital returns to shareholders increased significantly, and valuations—while improved—remain attractive relative to historical averages and US financial peers.
    - **European Defence:** Geopolitical tensions and rising European military budgets drove consistent outperformance. Despite periodic pullbacks on Ukraine peace talk optimism, the long-term trajectory of European defence spending remains firmly upward. NATO's commitment to 2%+ GDP spending and renewed focus on European strategic autonomy ensure multi-year revenue visibility.
    - **Ukraine Rebuild:** This emerging theme gained significant momentum in Q4 as peace negotiations advanced. European industrials, materials, engineering, and infrastructure companies positioned to benefit from an estimated €500 billion reconstruction program over the next decade. Early movers captured substantial gains as the market began pricing in this multi-year opportunity.

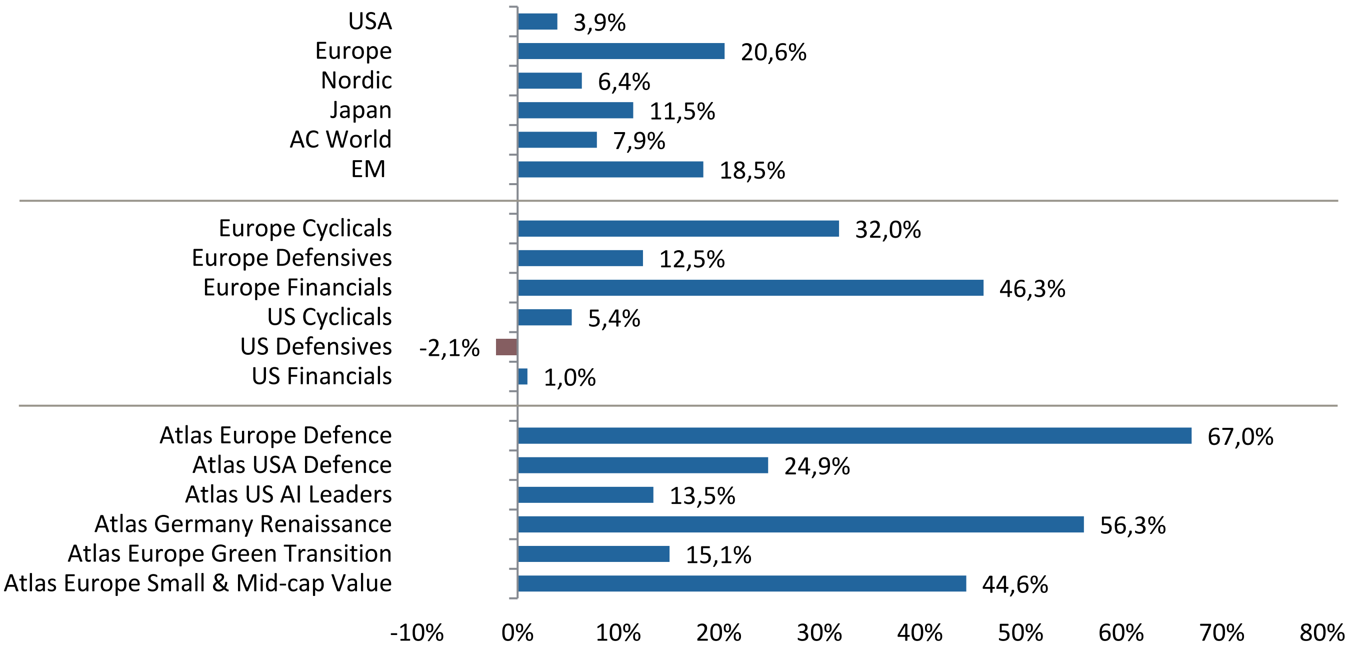
— AI Themes:

— **The AI Theme Evolved:** 2025 marked an inflection point for AI investing. The blanket enthusiasm of 2023-2024 gave way to careful differentiation. As infrastructure valuations corrected in H2, investor attention rotated toward:

- Enterprise software and vertical-specific AI applications with clear revenue visibility
- AI-enabled productivity and operational efficiency across traditional industries
- Semiconductors with diversified end-markets beyond pure AI infrastructure

— The lesson: AI remains transformational, but indiscriminate exposure to the highest-multiple names proved costly. Diversification across the AI stack—from infrastructure through applications to operational transformation—was essential for positive returns.

Atlas Equity Chart of the Month: Equity market returns, euro returns, full year 2025



Source: Evli Atlas Portfolio Technologies; Total returns in euros.

Looking Ahead: 2026 Theme Outlook

— **European Defence:** Long-term structural drivers remain intact
— **European Banks:** Still attractively valued with positive earnings momentum
— **German Industrials and Infrastructure:** The renaissance gains momentum
— **Ukraine Rebuild:** Multi-year opportunity just beginning to be priced in
— **European Small & Mid-Cap Value:** Valuation gap vs. large-cap remains wide
— **Selective AI Leaders:** Focus on profitability and sustainable business models

Emerging Themes for 2026:

— **Healthcare Innovation:** Continued defensive quality with growth potential
— **Asian Technology Revival:** If US tech valuations remain extended
— **Resource Demand:** Materials companies look attractive

The 2026 Outlook: Opportunities and Risks

Potential for a 2025 Replay: Many of the dynamics that drove 2025's rotation could persist into 2026. If economic and earnings growth continue to spread more broadly beyond US mega-caps, international markets and value-oriented sectors may extend their outperformance. The themes that worked in 2025—European Banks, Defence, Ukraine Rebuild, Healthcare—retain attractive fundamentals and reasonable valuations.

US Valuation Concerns: Despite H2's correction, US equity valuations remain elevated by historical standards. The S&P 500 trades at approximately 22x forward earnings, above the long-term average of 16x. Pockets of the market—particularly in technology—remain expensive even after recent declines. This leaves limited margin for disappointment and increases vulnerability to negative surprises.

Trumponomics and Policy Uncertainty: The Trump administration's policy agenda combines fiscal stimulus (tax cuts, infrastructure spending) with monetary pressure (Federal Reserve independence) and protectionism (tariff threats). This mix creates significant uncertainty as fiscal expansion could reignite inflation concerns, keeping bond yields higher for longer. Moreover, 2026 is a US midterm election year, amplifying political risks. Higher bond yields represent a key risk for equity valuations, particularly for expensive growth stocks whose valuations are most sensitive to discount rates. The 10-year Treasury yield ended 2025 above 4%. Simultaneously, a weaker dollar could signal concerns about US fiscal sustainability or Fed policy errors.

The Broadening Growth Narrative

The most constructive aspect of 2025's market action was the clear evidence that earnings growth is no longer confined to a handful of US mega-cap technology companies. European corporates are posting accelerating earnings, although not yet on a broader scale. Japanese companies are improving profitability and capital returns. Select emerging markets are demonstrating strong earnings growth. This breadth of earnings expansion is healthy for global equity markets and supportive of continued non-US outperformance.

If this broadening continues in 2026—and the structural drivers suggest it should—then diversified portfolios will likely continue to outperform concentrated US-heavy world indices. The key is positioning to capture this opportunity while remaining vigilant about risks that could derail the narrative: valuation corrections, policy errors, or geopolitical shocks.

Final Thoughts: Humility and Flexibility

2025 taught us that markets can surprise even sophisticated investors. Few predicted at the start of the year that Europe would be the best-performing major region or that all non-US markets would outperform the US by the widest margin in 15 years. These surprises underscore the importance of humility in forecasting and flexibility in portfolio allocation.

As we enter 2026, maintain conviction in the themes and strategies that have worked, but remain open to adjusting as new information emerges. The broadening of economic growth, the rotation toward banks, defence, value and non-US markets, and the emergence of new investment themes like Ukraine reconstruction all appear to have further room to run. Simultaneously, respect the risks: elevated US valuations, policy uncertainty, and the potential for geopolitical disruption.

The equity markets of 2026 may well replay elements of 2025—but the specific drivers, leadership, and surprises will undoubtedly differ. Stay diversified, stay flexible, and stay focused on long-term structural opportunities rather than short-term noise.

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