Flash Economics

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Which financial assets are prudent to invest in?

An observation of the various financial asset classes shows that:

- Public debt levels are very high in the United States, Canada, France, Italy, the United Kingdom, Spain, and Japan, which ought to discourage investors from holding sovereign debt issued by these countries.
- The equity market is very expensive in the United States, and investors should be concerned about the extremely high level of investment required to develop artificial intelligence. Growth in Europe remains weak, which ought to discourage holding European equities. The appeal of Japanese equities should be tempered by the prospect of very large public deficits.
- The prices of speculative assets (gold, silver, and cryptocurrencies) rose to extremely high levels in 2025.

It is therefore reasonable for investors to avoid sovereign debt and equities in OECD countries, as well as speculative assets, and instead shift to selected local-currency debt instruments or equities in emerging markets. The debt instruments to favour are those issued by countries with high interest rates but where inflation is stable or declining (Brazil, Turkey, Malaysia, and the Philippines). The MSCI Emerging Markets index is dominated by countries with strong growth and favourable prospects.

These recommendations should again become fully relevant once the war in Iran ends and financial markets return to normal conditions.

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Debt and equity in the United States and the euro zone have become less attractive

1. Most OECD countries have very high public debt levels

This is the case in the United States, Canada, France, Italy, the United Kingdom, Spain, and Japan (Charts 1A/B).

Chart 1A
Public debt (as % of nominal GDP)

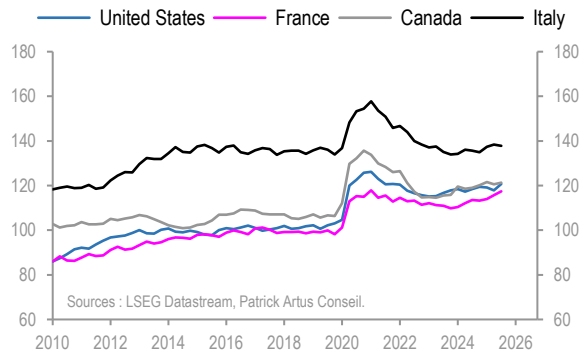
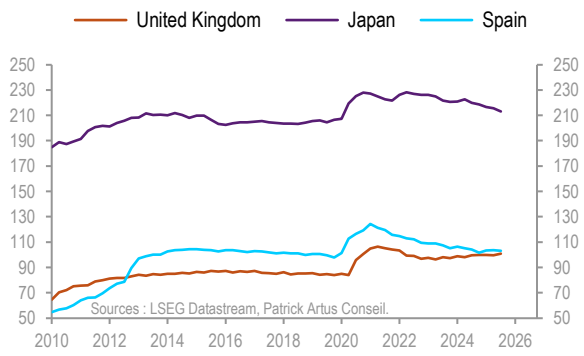


Chart 1B
Public debt (as % of nominal GDP)



Germany's public debt ratio is also expected to rise, along the infrastructure investment programme and increased military spending, from 64% of GDP in 2025 to 74% of GDP in 2030. **Public deficits** are high in the United States (more than 7% of GDP in 2026), France (at least 5% of GDP in 2026), the United Kingdom (4.5% of GDP in 2026), Japan (following Sanae Takaichi's stimulus plan worth 3 percentage points of GDP), and Germany (4.5% of GDP in 2026). The combination, in most countries, of high public debt and significant fiscal deficits should lead to **an increase in the term premium and therefore in long-term interest rates** (**Charts 2A/B**), which is likely to discourage investors.

Chart 2A
Interest rate on 10-year government bonds (as %)

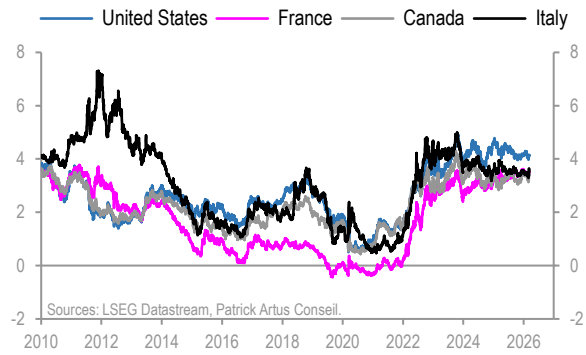
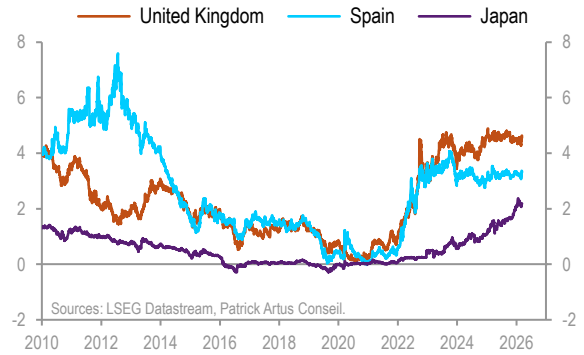


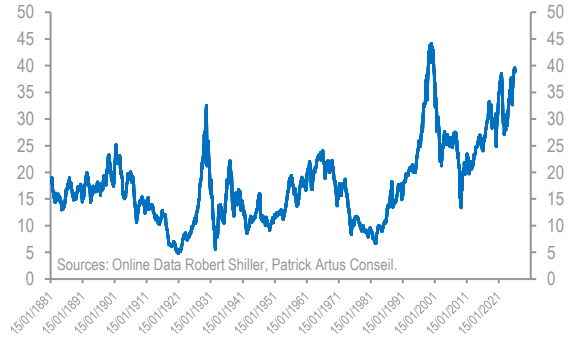
Chart 2B
Interest rate on 10-year government bonds (as %)



2. The U.S. equity market is very expensive

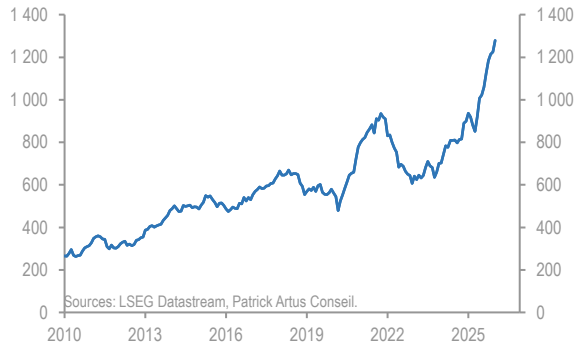
If we look at Robert Shiller's CAPE ratio (**Chart 3**—the ratio of stock market capitalisation to earnings, averaged over 10 years and adjusted for inflation), **the U.S. equity market appears extremely expensive today**.

Chart 3
CAPE / Shiller PE Ratio



This high valuation is linked to expectations of corporate profits boosted by **artificial intelligence**. However, it fails to take several factors into account: **the need for massive investments to develop artificial intelligence models**; the fact that not all companies developing such models will succeed; the fact that **stock purchases are largely financed through credit** (margin credit, **Chart 4**).

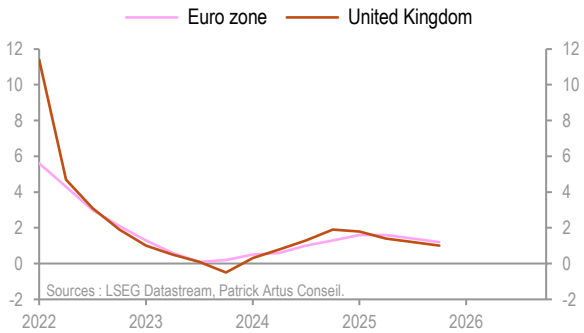
Chart 4
United States: Margin loans outstanding (bn USD)



3. Growth is weak in Europe

In the euro area and in the United Kingdom alike, growth was weak in 2025 and is expected to remain weak in 2026 (**Chart 5**).

Chart 5
Real GDP (Y/Y as %)



Moreover, euro area growth in 2025 is known to have been boosted by Ireland's GDP growth, itself driven by exports of intellectual property and pharmaceuticals. **Excluding Ireland, euro area growth was only 1.0% in 2025.**

As a result, **earnings per share for the Euro Stoxx** increased by only 4.4% in 2025. This explains the relatively low price-earnings ratio (19.1), which reflects weak profit growth.

The one-year increase in the Euro Stoxx (up 9%) and **the increase observed since the beginning of the year through February 28, 2026** (up 4%) **appear strong** when compared with the fundamentals of the European economy or of listed European companies.

4. The surprising rapid rise of the Nikkei Index

The Nikkei 225 index has risen by 77% since early April 2025, even though Japan's growth remains weak (1.1% in 2025).

The appointment of Sanae Takaichi as prime minister and her victory in the February 2026 legislative elections have strengthened investor interest in the Japanese equity market. Yet Sanae Takaichi's program includes:

- a massive stimulus plan exceeding 3% of GDP;
- a VAT exemption on food products;
- a halt to immigration, despite a fertility rate of only 1.15 children per woman and a population already declining by 0.5% per year (122.4 million inhabitants in 2026 compared with 128.2 million in 2010).

The risk is that the rise in long-term interest rates (1.1% at the beginning of 2025, 2.2% today) will intensify and lead to a decline in equity prices.

Overall, it therefore appears careless to invest:

- **in sovereign debt of OECD countries**, because of high public debt levels and, in many countries, large fiscal deficits;
- **in U.S. equities**, because of their very high valuations based on expectations about the impact of artificial intelligence and on debt-financed stock purchases;
- **in European equities**, because of weak economic growth in Europe;
- **in Japanese equities**, because of the sharp rise in the public deficit and its likely effect on long-term interest rates.

Investing in speculative assets is too risky

The prices of gold (**Chart 6**), **silver** (**Chart 7**), and **Bitcoin** (**Chart 8**) exhibited extremely high volatility in 2025.

Chart 6
Gold price (USD per Troy ounce)

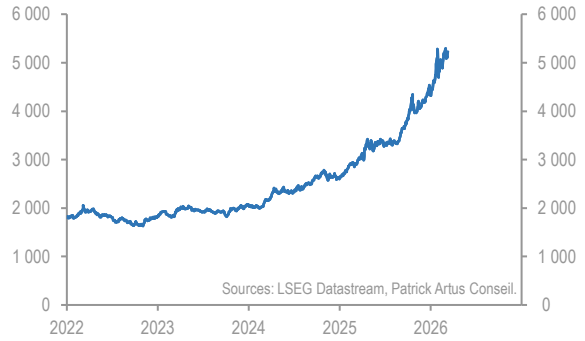


Chart 7
Silver price (USD per Troy ounce)

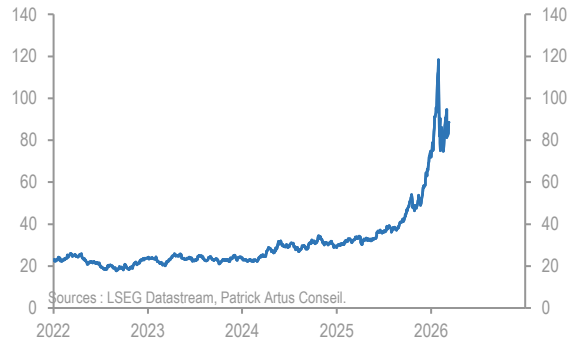
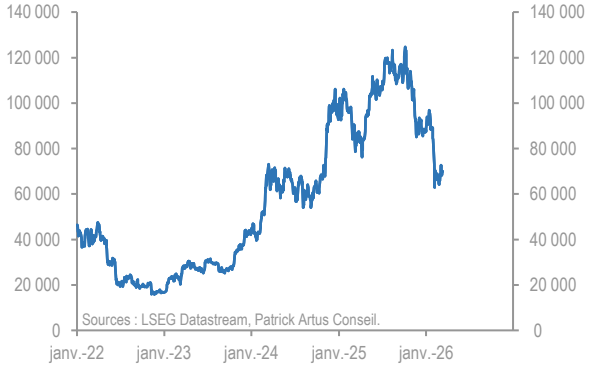


Chart 8
Price of Bitcoin (USD)



This volatility reflects **the uncertainty created by the policies of Donald Trump**: advocacy of a weaker dollar, the appointment of a new Federal Reserve chairman (Kevin Warsh) in favour of sharply lowering short-term interest rates, and an increasingly confrontational stance toward Canada, Europe, China, and countries in Central and Latin America.

This volatility in speculative asset prices is further amplified by **the rigidity of their supply**: all fluctuations in demand translate directly into price fluctuations.

In our view, investing in these assets today is therefore excessively risky.

Reallocation toward selected emerging market debt and equities

1. Emerging market debt

The emerging market debt instruments in local currency that are attractive to investors are public debt securities characterised by:

- **high interest rates;**
- **and declining inflation in the issuing countries.**

Countries where interest rates are very low (China, Thailand, Taiwan, for example) are not attractive for bond investors. Countries where inflation is rising (for example South Africa, Mexico, and Indonesia) are also unattractive.

This leads to a positive assessment, for example, of investment in local-currency debt issued by:

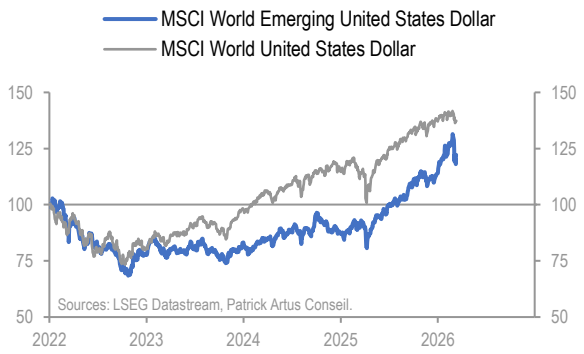
- Brazil (10-year interest rate of 13.7%, declining inflation);
- Turkey (10-year interest rate of 31.6%, declining inflation);
- Malaysia (10-year interest rate of 3.6%, low and stable inflation);
- the Philippines (10-year interest rate of 6.4%, low and stable inflation).

Exchange-rate risk must also be taken into account: the Turkish lira has been continuously depreciating, whereas the Brazilian real, Malaysian ringgit, and Philippine peso have not.

2. Emerging market equities

We also recommend **investing in emerging market equities**. The recent performance of the **MSCI Emerging Markets index** has been impressive (**Chart 9**).

Chart 9
Stock market indices (01.01.2022 = 100)



This performance can be explained by the fact that the MSCI Emerging Markets index **assigns significant weights to stock markets in high-growth countries**, as shown in **Table 1**.

Table 1: MSCI Emerging Markets Index Weight and GDP Growth

Countries	MSCI EM Index Weight* (%)	GDP Growth (%)
China	23.76	5
Taiwan	22.5	8.6
Republic of Korea	18.08	1.8
India	12.82	7.4
Brazil	4.56	2.2
Others	18.26	
Of which:		
South Africa		1.3
Saudi Arabia		4.5
Mexico		0.7
United Arab Emirates		4.8
Malaysia		4.9
Indonesia		5.1
Thailand		2.2
Türkiye		3.5
Philippines		4.4

* Weights as at 27.02.2026
Sources: MSCI, LSEG Datastream

Only South Africa and Mexico—and to a lesser extent South Korea—recorded modest growth in 2025.

Summary: underweight OECD countries, overweight emerging markets

With regard to bonds, we believe the main risk is a rise in long-term interest rates in OECD countries. Some emerging countries offer high bond yields together with declining inflation. As for equities, concerns arise from the high valuation of U.S. stocks, weak growth in Europe, and excessive investor optimism regarding Japanese equities, given the risk that Japan's public deficits will push long-term interest rates higher. By contrast, emerging-market equities offer strong performance supported by robust growth in most emerging economies.

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