Bloomberg Adria

Markets Report
Equity & Bonds

Geopolitical noise, regional signal: why Adria stands out

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Table of content

Key messages 01
Global equity 02
Regional equity 03
Global and regional bonds 04
Bitcoin and EUR/USD 05
Outlook 06

Key messages

The global bull market continued in 2025; however, rising geopolitical and macroeconomic risks further underline the importance of portfolio diversification. In this environment, the **Adria region stands out as an attractive investment alternative, offering more favorable valuations and solid fundamental support** compared with most developed markets. Despite strong performance in recent years, markets such as Croatia and Slovenia continue to trade at relatively low P/E multiples, indicating that index growth has been driven primarily by earnings expansion rather than valuation re-rating. The region is further differentiated by its high dividend yields, which can provide a stable source of returns and downside protection during periods of market corrections. **Within the broader region, Poland and Romania remain among the most compelling opportunities**, with Romania's potential inclusion in the MSCI Emerging Markets index representing a meaningful catalyst for increased visibility and capital inflows.

Throughout the year, global bond markets experienced elevated volatility as shifting macroeconomic data and changing expectations around rate cuts drove sharp swings in yields and investor sentiment. In the Adria region, spreads continued to compress in the second half of the year, with key factor behind this trend being the sharp rise in German Bund yields, driven by Germany's shift toward a more expansionary fiscal stance, including large-scale spending programs, particularly in infrastructure, energy transition and deffense.

Bitcoin's performance in 2025 was highly volatile, reaching new all-time highs driven by spot ETF inflows, institutional adoption and post-halving supply dynamics, before undergoing a sharp correction and ending the year roughly 15% lower despite earlier record levels. Throughout the year, Bitcoin increasingly traded as a macro risk asset, reacting primarily to shifts in Fed rate-cut expectations, dollar liquidity and positioning in ETFs and derivatives, with most other major cryptocurrencies broadly mirroring this pattern. **Looking into 2026**, **Bitcoin's outlook remains anchored in institutional flows, macro policy and regulation, with continued Fed easing and a weaker dollar likely to be supportive, especially if regulatory clarity encourages further institutional participation.**

EURUSD reversed early-2025 weakness and strengthened significantly as expectations of Fed easing and concerns over U.S. fiscal and trade policy weighed on the dollar, despite limited improvement in Eurozone fundamentals. Looking ahead to 2026, a shift toward faster and deeper Fed rate cuts under new leadership could further weaken the dollar, creating a more supportive environment for the euro, although near-term moves will remain highly headline-driven. **Under our base scenario, EURUSD is expected to trend higher, with the exchange rate around 1.20 in 2026**, with additional upside risk should an ECB rate hike materialize.

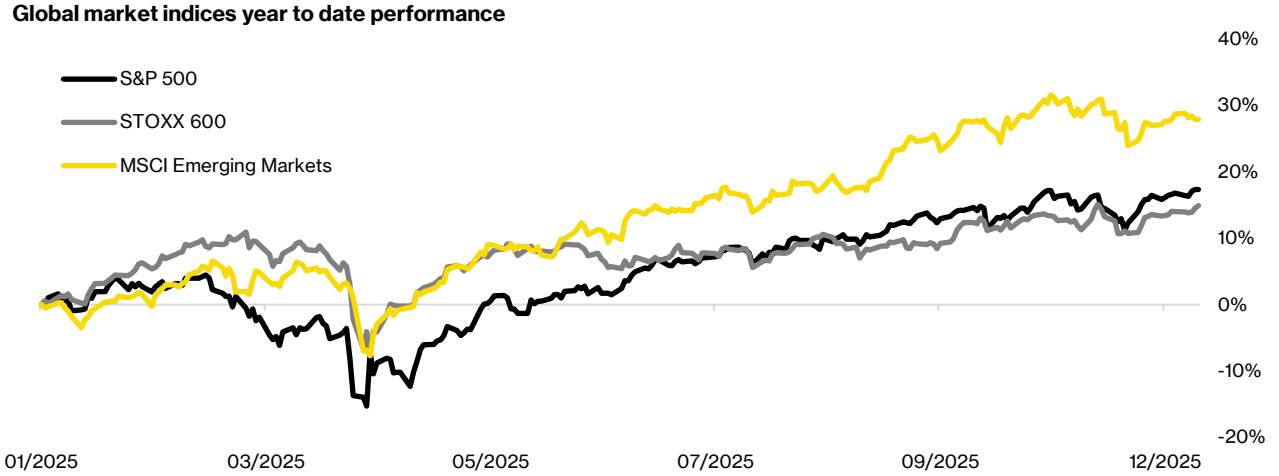
Source: BBA Analytics, Bloomberg

Global bull run continues in 2025

In 2025 global markets have extended the bull run seen in 2023 and 2024, supported by broad-based gains across nearly all major indices. The S&P 500, the world's key benchmark, has risen roughly 18% year-to-date, while European equities follow with gains of around 14%. Emerging markets continue to stand out, buoyed by a weaker dollar and robust capital inflows, driving returns to an impressive +28% since the start of the year.

Behind the headline numbers lies a year marked by sharp volatility and pronounced swings in sentiment. The end of first quarter was defined by a sudden risk-off move as tariff announcements, escalating trade concerns and a tense geopolitical backdrop weighed on equities. But as geopolitical pressures eased and tariff negotiations progressed throughout the year, markets regained their footing. **The rebound was led primarily by tech**, supported by continuation of announcements of significant capital investments in AI infrastructure and optimism about future growth and business prospects in the AI industry.

Global market indices year to date performance



Source: BBA Analytics, Bloomberg

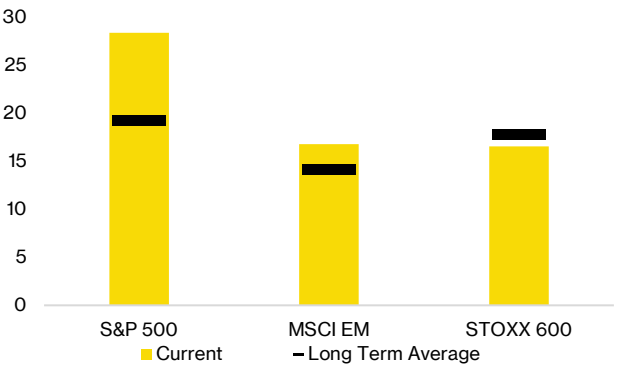
Rising risks highlight the case for diversification

Looking at the global valuation landscape, the U.S. market appears expensive both relative to other regions and its own historical averages. The strong rally, particularly in the U.S. leading the global AI wave, has pushed valuations notably higher. Europe and emerging markets, by contrast, trade close to their long-term averages, with Europe even slightly below its historical P/E median.

The key risk in the U.S. market remains its extreme concentration. **Today, the ten largest companies in the S&P 500, representing just 2% of all index constituents, account for nearly 40% of the index's total weight**, the highest level in five decades. Almost all these companies share a common theme: artificial intelligence. These tech giants are at the forefront of the AI boom. Notably, Google alone contributed roughly one-fifth of the S&P 500's total year-to-date return, and the top ten companies combined have generated about 60% of the index's gains this year.

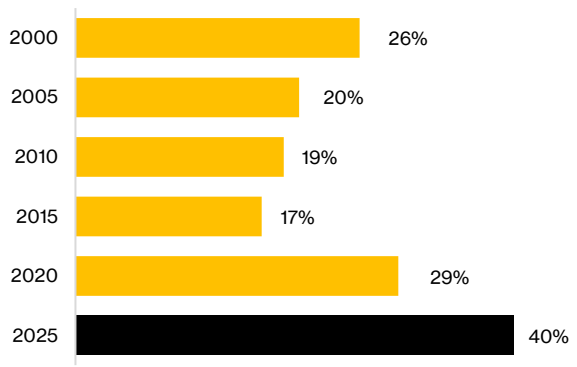
Such valuation imbalances and concentration risks suggest that portfolio diversification remains a prudent strategy. This doesn't mean excluding U.S. equities entirely, as the market could continue to deliver strong returns, but moderating exposure can reduce risk. Allocating to Europe offers stability and fundamentally sound developed-market exposure, while emerging markets provide growth potential at comparatively lower valuations and act as a hedge against a weakening dollar, given their historically strong inverse correlation with the U.S. currency.

Global indices current and long term average P/E multiple



Source: BBA Analytics, Bloomberg

Weight of top 10 companies in S&P 500



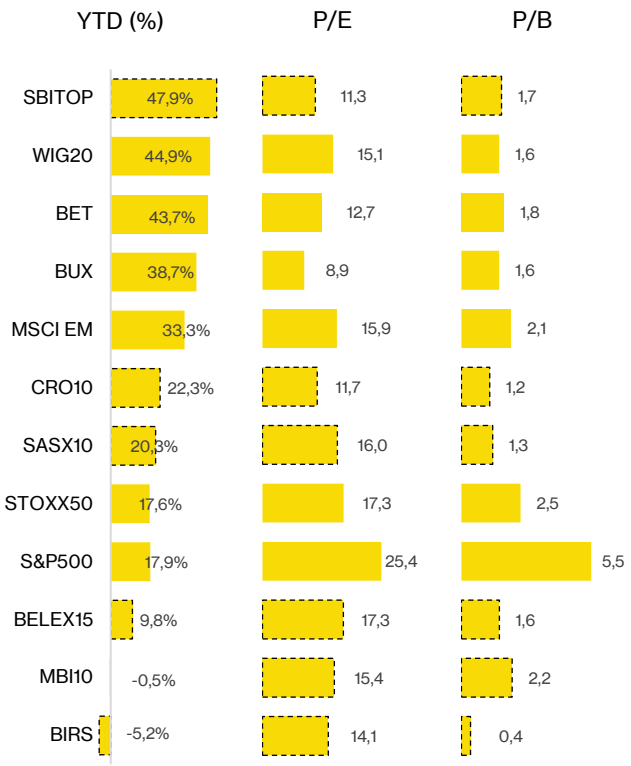
Source: BBA Analytics, Bloomberg

Adria region: from winners to laggards

The second half of 2025 in the Adria region was **characterized by a broad recovery, as markets stabilized following the indirect shocks triggered by Trump's renewed tariffs, yet performance remained truly mixed across the region.**

Slovenia leading the region, with the SBITOP index rising nearly 50%, making it one of the strongest markets in 2025. The performance has been supported by robust corporate earnings across the board, with almost all index constituents posting gains above 40%. **The weakest market this year remains Bosnia's BIRS index**, down 5% year-to-date, largely due to underperformance in the energy sector, persistent political uncertainty, and the market's primary focus on bonds.

Croatia's Cro10 continued its solid trajectory, up over 20% YTD, driven primarily by Končar, which gained more than 50%, and its subsidiary Končar DT, which doubled in value. **SASX posted similar growth, following a comparable pattern**, led by Energoinvest, which marked 2025 as a turnaround year thanks to strategic and operational shifts in the second half, resulting in more than doubling of its price. **MBI**, **which was in positive territory at mid-year, ended roughly flat**, a contextually expected outcome given the index's strong 100% surge in 2024 from a lower base. **BELEX, despite significant political uncertainty, moved from neutral levels** to around 10% growth this year with the main driver being gains in a handful of blue-chip names in energy, insurance and transport.



Source: BBA Analytics, Bloomberg

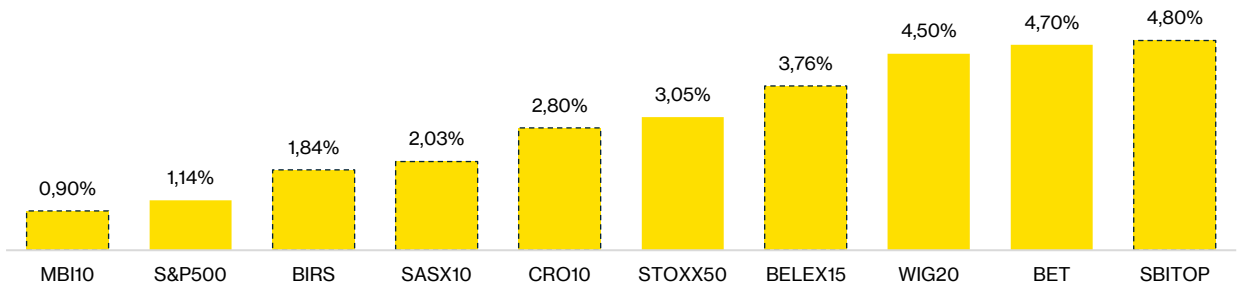
Region remains attractive

We have highlighted the importance of diversification in today's volatile global markets, and the Adria region stands out as a particularly effective way to achieve it. Looking at regional valuations, markets such as Croatia and Slovenia continue to shine despite strong growth over the past few years. With P/E multiples around 12, these markets remain attractive, slightly higher than in previous years, yet still below most other peers. This indicates that robust index growth has been supported by strong corporate earnings and improving fundamentals. **Additionally, the region stands out for its exceptionally attractive dividend yields**, with Slovenia's SBITOP leading its peer group, and Serbian BELEX15 alongside Poland's WIG20 and Romania's BET within the broader region. **These dividends can be particularly valuable during market corrections, providing a reliable source of cash flow when price appreciation slows or reverses.**

Other regional indices are trading roughly in line with the broader European average, with the notable exception of Bosnia's BIRS, which appears cheaper when measured against book value.

Looking more broadly across the region, Poland's WIG and Romania's BET still stand out as compelling investment opportunities. BET, in particular, is undergoing a recovery following a period of heightened political uncertainty linked to elections. Contrary to initial expectations that a pro-Russian party would prevail, a pro-European party secured victory, effectively stabilizing the political landscape. While macroeconomic challenges remain, particularly elevated inflation and fiscal deficits, confidence is growing that the government can manage these issues in the near term, supporting a more favorable outlook for investors. Additionally, the potential inclusion of Romania in the MSCI Emerging Markets index could act as a meaningful catalyst for sentiment, increasing visibility among global investors and potentially unlocking fresh capital inflows.

Global and regional market indices dividend yield



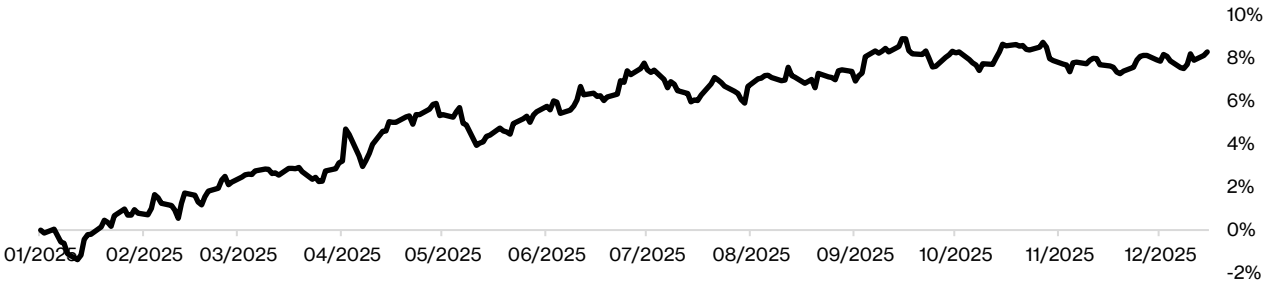
Source: BBA Analytics, Bloomberg

Global bond market marked by shifting sentiment

Throughout the year, **global bond markets were marked by elevated volatility, driven by mixed signals from macroeconomic data and shifting expectations around interest-rate cuts.** The first half of the year was dominated by high yields, particularly in U.S. Treasuries, as strong macroeconomic data delayed the anticipated central bank pivot. As the year progressed, markets increasingly priced in slower growth and gradual monetary easing, triggering periods of falling yields and strong bond rallies. European bond markets broadly followed the U.S., though with additional sensitivity to fiscal risks and political developments in certain countries. Overall, the year highlighted how dependent bond markets remain on macro data and central bank communication, with rapid swings in investor sentiment.

The Fed's recent restarting of its easing cycle, assuming a recession is off the table, could signal a more constructive outlook for markets. However, given the fragile balance of risks, it remains an open question whether markets can sustain current conditions or whether underlying stresses could eventually surface.

Bloomberg global bond index change year to date



Source: BBA Analytics, Bloomberg

Adria bond spreads continue to compress as bund yields rise

In the second half of the year, a continued trend of spread compression across the region was observed. Slovenia and Croatia recorded a relatively modest increase in 10Y yields of around 13bp year-to-date, broadly unchanged compared with mid-year levels. Importantly, **Slovenia received a credit rating upgrade from several agencies, including S&P upgrade from AA- to AA**, reflecting strong fiscal consolidation, declining government debt, economic resilience, and progress on structural reforms (like pensions), with stable outlooks indicating confidence in continued fiscal health and economic stability despite global headwinds.

Serbia and Romania have seen yields decline by 5bp and 11bp year-to-date, respectively. This move stands in contrast to the initial rise in yields observed mid-year, which was largely driven by heightened political uncertainty in both countries. **In Romania, political risks have eased following the victory of pro-EU candidate Nicușor Dan, a mathematician and former mayor of Bucharest. However, the sovereign remains on negative rating watch, underscoring persistent concerns around elevated fiscal deficits and still-high inflation**. While recent data suggest inflation has stabilized, the negative outlook highlights the need for credible fiscal consolidation. That said, Dan's leadership is expected to support gradual macroeconomic normalization, which could allow spreads to continue tightening if fiscal discipline improves. **Serbia presents a more complex case. Despite weaker macroeconomic indicators, a downgraded growth outlook, ongoing political instability, and a sharp 55% decline in FDI year-on-year between January and September, government bond yields have fallen.** One possible explanation is that investors are pricing in a medium-term macroeconomic recovery linked to EXPO 2027, which is expected to drive a significant increase in public investment and related economic activity.

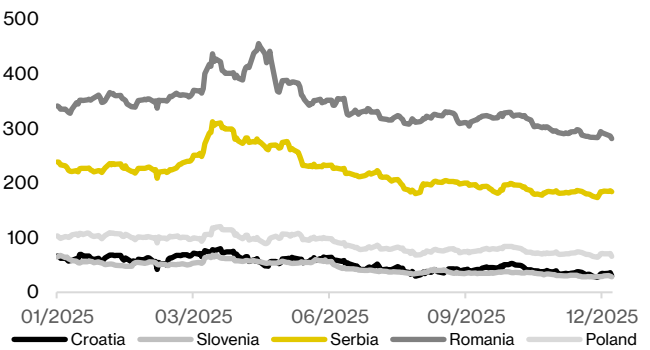
Overall, **spreads narrowed across the board**, even though, excluding Serbia and Romania, regional yields increased by around 15bp. A key factor **behind this trend was the sharp rise in German Bund yields, driven by Germany's shift toward a more expansionary fiscal stance**, including large-scale spending programs, particularly in infrastructure, energy transition, and defense.

Regional government bond indicators

10Y EUR gov. bond	Yield		Spread		S&P rating
	current (%)	ΔYTD (bp)	current (bp)	ΔYTD (bp)	
Germany	2,86	49	0	0	AAA
Austria	3,10	33	25	-16	AA+
Croatia	3,16	13	30	-36	A-
Slovenia	3,14	13	28	-37	AA
Serbia*	4,70	-5	184	-54	BBB-
Romania	5,67	-11	282	-60	BBB-
Poland	3,51	12	66	-37	A-

Source: BBA Analytics, Bloomberg

Regional government bond spreads this year (EUR)



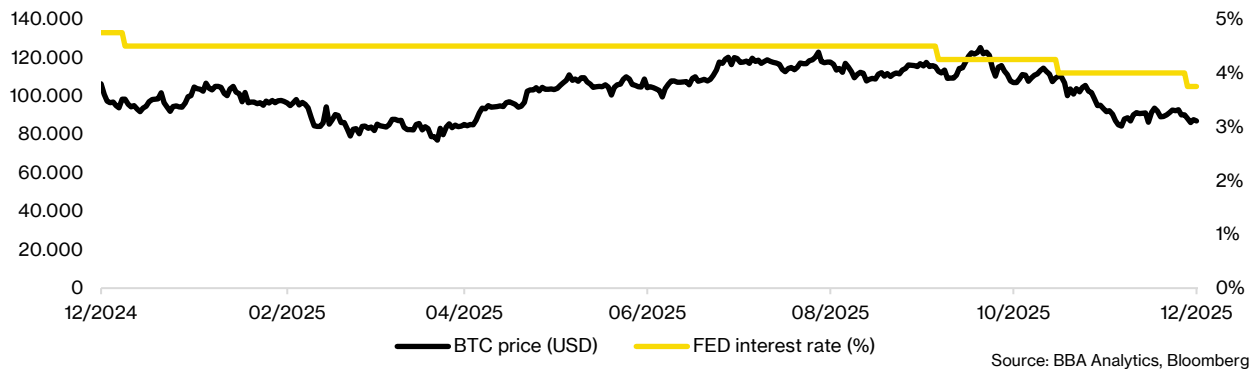
Source: BBA Analytics, Bloomberg

Bitcoin eyes Fed liquidity

Bitcoin's path through 2025 was defined by **pronounced swings**, with the asset first pushing to **new all-time highs** on the back of spot ETF inflows, institutional adoption and a post-halving supply squeeze, before giving back a significant part of those gains in a **sharp correction**. Bitcoin increasingly traded like a macro risk asset, **reacting to shifts in Fed rate-cut expectations** and dollar liquidity, while ETF flows and positioning in derivatives amplified both the rally and the subsequent drawdown, leaving it trading roughly **15% lower year-on-year by mid-December 2025** despite having set a record high earlier in the year. Regarding other significant cryptocurrencies, most of them broadly **mirrored Bitcoin** in 2025, surging to new cycle highs before suffering deep corrections that left many majors roughly flat or modestly negative year-on-year by December.

Looking ahead to 2026, **Bitcoin's outlook** remains anchored in three main pillars: **institutional flows, macro policy** and **regulation**. If Fed easing continues and the dollar weakens, liquidity should, over time, be supportive for Bitcoin, especially if spot ETFs keep attracting assets and clearer regulatory frameworks encourage wider institutional participation. Again, regarding **other cryptocurrencies**, looking into 2026, their prospects **remain tied to the same drivers as Bitcoin** – liquidity, regulation and institutional demand, but market expectations generally favor Bitcoin and a few leading smart-contract platforms over smaller, more speculative tokens.

Bitcoin 1Y price movement (lhs) and FED interest rate cuts (rhs)



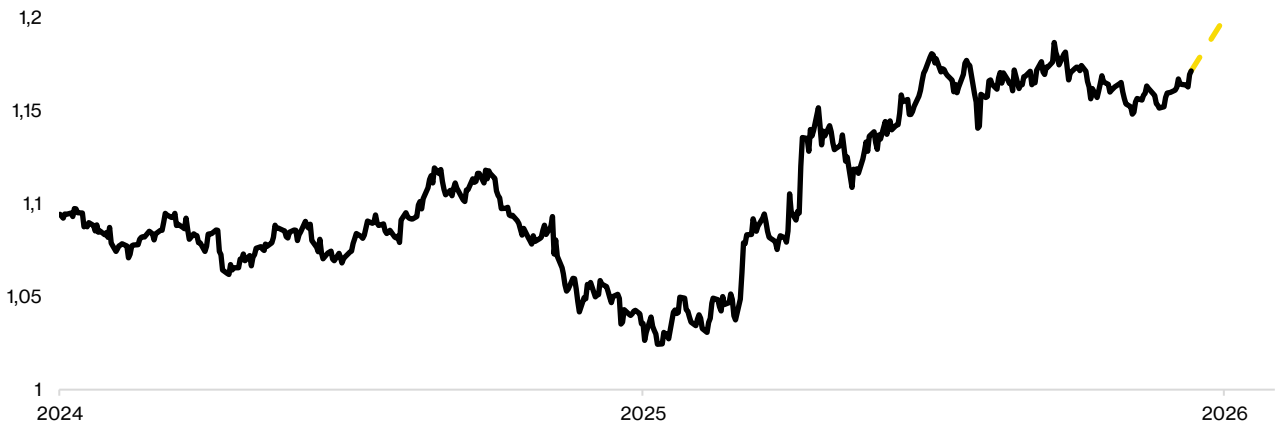
Source: BBA Analytics, Bloomberg

Fed money printer to pressure dollar in 2026

EURUSD initially dipped at the start of 2025 but then **reversed and climbed** from around **1.03** in January to roughly **1.17** in December as the **dollar weakened** on expectations of earlier Fed rate cuts and **rising concerns** over U.S. fiscal and trade policy, while Eurozone fundamentals themselves did not materially improve. When President **Trump replaces Powell** with a **new Fed chair** in 2026 who is likely to favor **faster and deeper rate cuts**, the rate differential should gradually move against the dollar, which would, over time, create conditions that are more favourable for the euro. In the meantime, the pair will remain highly sensitive to headlines on **Fed appointments, tariff policy, and growth surprises** on both sides of the Atlantic.

Based on our assumptions, we expect **EURUSD** to drift **upward in the period ahead**, with scope for further euro gains if this policy path plays out and the **rumored ECB rate hike materializes**, which would provide additional support for the currency. Our base scenario suggests that in **2026 EURUSD** rate to be around **1.20**.

EURUSD exchange rate (historical and forecast)



Source: BBA Analytics, Bloomberg

Adria equity outlook

Looking ahead to 2026, we expect continued growth across most equity indices in the Adria region, albeit at a slower pace compared to recent years, reflecting a higher base following strong performance in 2024–2025. The outlook remains supported by solid corporate earnings, healthy order books and resilient dividend profiles, particularly in Slovenia, Croatia, which continue to combine earnings growth with still-attractive valuations.

At the same time, **we maintain a more cautious stance toward Serbia's BELEX and Bosnia's BIRS indices**. In both cases, elevated political uncertainty continues to weigh on investor sentiment, while BIRS faces additional pressure from the weak performance of energy companies that carry significant index weight. Limited market liquidity further constrains near-term upside in these markets.

Overall, the Adria region continues to offer compelling opportunities for investors, underpinned by attractive valuation metrics, strong dividend yields and gradually improving macroeconomic and fiscal fundamentals. While short-term challenges persist most notably political risks and liquidity constraints in select markets, we see scope for a gradual re-rating over the medium term as investor participation deepens.

CRO10	↑
SBITOP	↑
MBI10	↑
SASX10	↑
BELEX15	↔
BIRS	↔

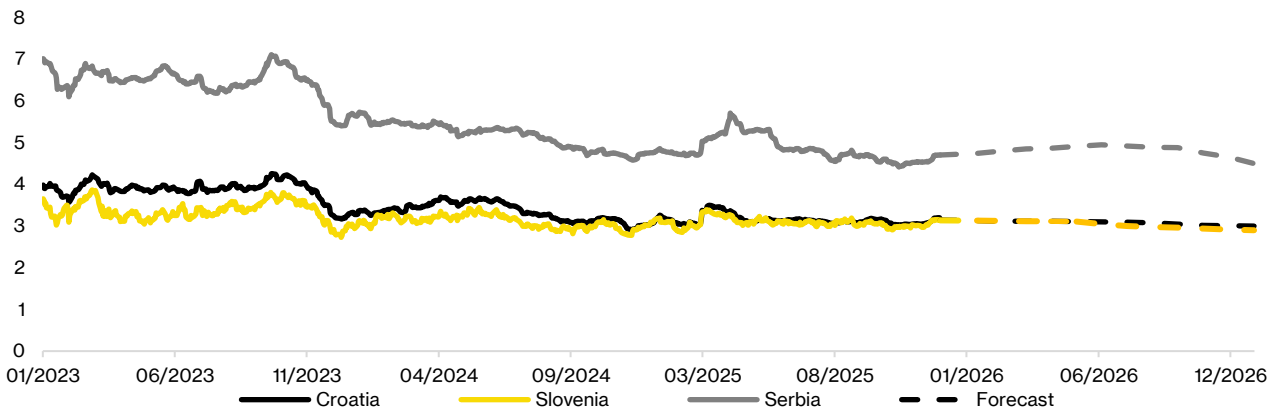
We remain bullish on most of the regional indices, with cautious stance on the BIRS and BELEX indices.

Regional bond yields in focus

Government bond markets across the Adria region point to a broadly constructive, though uneven, outlook into 2026. In Croatia, solid domestic-demand-driven growth and easing inflation should allow 10-year yields to ease toward around 3.0% by end-2026, although the scope for a deeper decline is limited by still-elevated inflation and a higher probability of further ECB rate hikes. Slovenia's recent yield uptick appears driven by weaker near-term macro data rather than a deterioration in fundamentals, and with inflation close to the ECB's target and investment activity remaining strong, yields are likely to stabilise before easing modestly toward around 2.9% by late 2026. The recent upgrade of Slovenia's sovereign credit rating, accompanied by a stable outlook, reinforces this assessment.

Serbia stands out as the region's higher-beta market, where a sharp rally in the second half of the year looks misaligned with weak investment, lower FDI inflows and persistent political risks. As a result, Serbian 10-year yields are likely to edge higher in the first half of 2026 before declining toward around 4.5% by year-end as Expo-related investment begins to underpin growth expectations. North Macedonia also stands out as it is expected to return to the euro bond market in the near term and currently faces the highest borrowing costs in the Adria region, reflecting its BB– credit rating. With no close regional peers by rating, benchmarking is challenging, but a potential seven-year euro bond would likely price around 5.5%, roughly 10 basis points below comparable seven-year euro bonds from Benin and Côte d'Ivoire.

Regional bond yields (%)



Source: BBA Analytics, Bloomberg

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