GENERALI ASSET MANAGEMENT

Market Perspectives

Bonds Wobble, Risk Holds

31 August 2026

GenAM Macro & Market Research

'Market Perspectives' provide our monthly macro & market outlook and investment recommendations

- **Bond vigilantes have made their point: 30y UST yields hit a 19-year high on 19/8, and absent fiscal consolidation the long end remains a vulnerability.**
- **US Treasury's increased long-dated bond repurchases may cap the tail risk of a bond rout for now, but they clash with Fed Chair Warsh's leaner-balance-sheet plans, which blunts their market impact.**
- **We expect a Fed rate hike later in autumn, but with a September move now a tight call. An ECB move this month now seems highly likely but much less so the further ECB hikes priced by markets.**
- **Resilient growth and strong earnings keep us long Credit vs. Govies, slightly overweighted Equities (but negative Sep. seasonals) and short US duration.**

Content

Global View – Bonds Wobble, Risk Holds

Thomas Hempell

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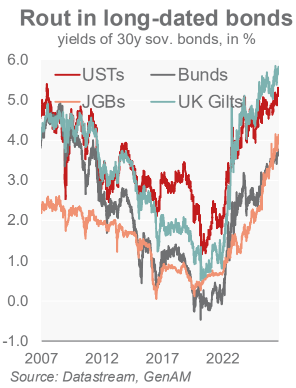
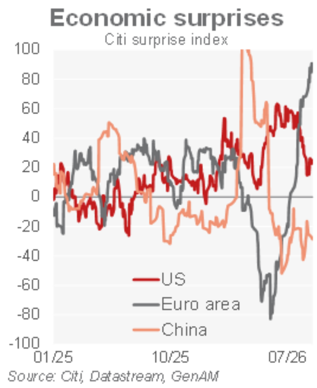
Resilient global growth and strong earnings keep the backdrop supportive for risk assets. A main vulnerability sits at the long end of bond markets.





Bond vigilantes have made their point: 30y UST yields reached their highest levels in 19 years before retracing on easing oil prices (left chart). No single trigger explains it, but rather a mix of confusing Fed communication, a fight for capital (AI Capex super-cycle & heavy hyperscaler duration issuance vs. elevated public deficits), and solid global data. The US Treasury's announced increases in long-dated bond repurchases amount to a (rather weak) 'Bessent put', burdening the dollar as financial repression nurtures debasement risks. They sit awkwardly with Fed Chair Warsh's signals: no forward guidance (let the 'market speak') and a leaner Fed balance sheet. A disorderly rout remains a tail risk, but the dissonance curtails the effectiveness of Bessent's initiative and may even stir investor defiance.

On policy rates, our tight call is one Fed hike after the mid-terms: a stickier July core PCE and Warsh's hawkish tone at Jackson Hole tilt the risks to an earlier move. A September ECB hike is virtually a done deal now on solid data and higher energy prices. Another step into restrictive territory would require material second-round effects, which we do not expect – markets' expectations of nearly three more hikes in this cycle look ambitious.

The euro area has weathered the Iran/energy shock well (right chart): Q2 GDP rose 0.4% qoq and rising survey optimism (PMIs, Ifo, ZEW, ESI) bodes well for the outlook. Risk assets have absorbed the bond crosscurrents and the breakdown of the US/Iran ceasefire with striking resilience. Doubts about the AI boom caused a semi-conductor correction in July but August has seen a nice bounce, partly on Nvidia's reassuring revenue outlook. The US/Iran conflict remains a wildcard, but a more durable ceasefire deal would ease geopolitical risk and energy prices.

Pro-risk tilt focused on Credit, still cautious on duration

This backdrop argues for keeping a cautious pro-risk tilt. Credit remains our preferred expression, with healthy balance sheets and high demand amid attractive all-in yields. We hold only a small Equity overweight, though, as equity seasonals are poor in Sept. (but very positive in Q4) and valuations leave less cushion against a renewed bond rout. Still, earnings growth does support broadening.

We remain cautious on duration and expect long yields to stay range-bound, with risks still skewed higher in the US. The summer sell-off exposed the vulnerabilities from the lack of fiscal consolidation, energy and policy uncertainty. US inflation risks still look underpriced, even if higher real yields make exposure less risky. Bunds could gain if excessive rate hike expectations reverse and the Strait of Hormuz reopens, but solid economic data, spillovers from USTs and JGBs and fiscal concerns should cap any rally.

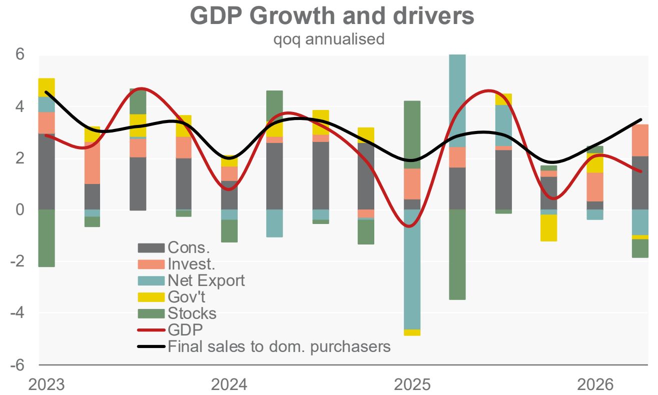
10-Year Gvt Bonds	Current*	3M	6M	12M
US Treasuries	4.65	4.70	4.80	4.80
Germany (Bunds)	3.23	3.25	3.30	3.25
Credit Spreads**				
EA IG Non-Financial	75	70	70	70
EA IG Financial	78	70	70	70
Forex				
EUR/USD	1.17	1.17	1.18	1.19
USD/JPY	159	159	158	156
Equities				
S&P500	7695	7770	7825	7950
MSCI EMU	220	221	224	226

**3-day avg. as of 27/08/26 **ICE BofA (OAS)*

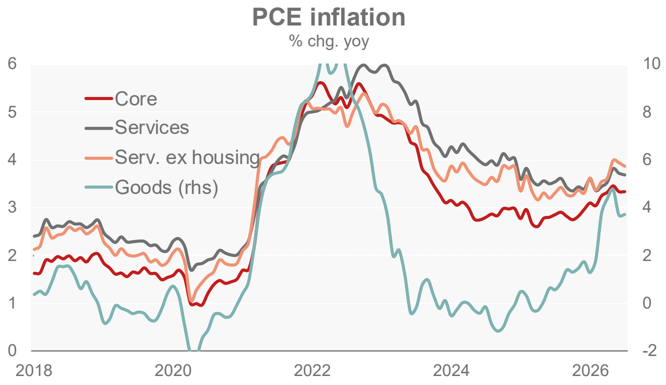
EUR/USD looks balanced short-term, as bearish dollar news – pared Fed expectations, recovering EA growth – is priced. By year-end and into 2027, dear USD valuations, stretched positioning and diversification tilt the risks to the upside.

United States

Paolo Zanghieri



Source: BEA, GenAM



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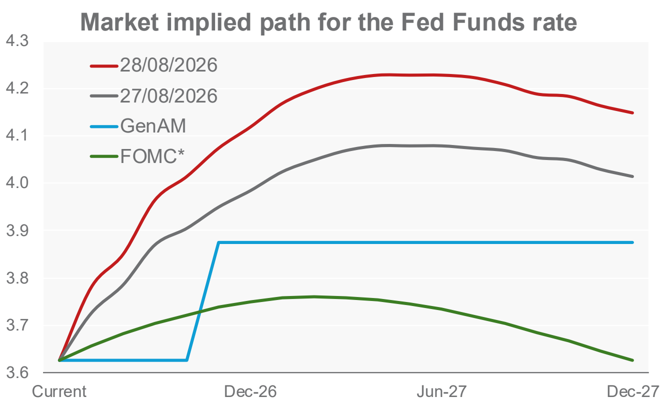


*Source: Refinitiv, GenAM. * Cubic interpolation of the yearend projections from the dots*

- **US activity remains consistent with GDP growth above 2%. Orders show that capex is expanding beyond AI, but July consumption data were mixed.**
- **Private sector hiring remains stable and wages are gradually cooling, but not enough to prevent inflation from staying just above 3% by year end.**
- **Chair Warsh struck a hawkish tone at Jackson Hole. We see a rate hike in December, but action could come sooner if August inflation data disappoint.**

Q2 GDP growth was unrevised at 1.5% annualised, but revisions showed stronger consumer spending and continued strength in business investment. The AI investment boom remains a key support to growth, although recent orders data suggest capital spending is broadening beyond technology-related sectors, helped by the OBBBA tax incentives. We expect GDP to grow by 2.2% this year and have revised up our 2026 forecast to 2.3%. The very low household saving rate (3% in July) is a key downside risk for demand, given the sluggish real income dynamics. Indeed, July price adjusted consumption was flat

The decline in July nonfarm payrolls reflected temporary factors in government employment. Private sector hiring, however, remains largely confined to healthcare. The unemployment rate fell to 4.1% on slower labour supply, and the employment cost index rose 3.4% yoy in Q2, a pace consistent with the 2% inflation target.

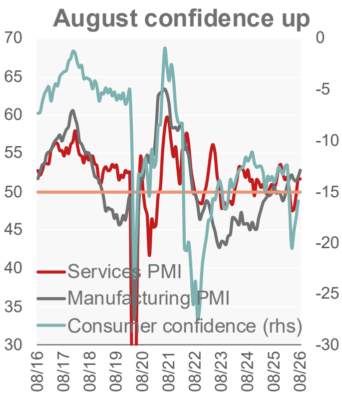
July core PCE inflation rose 3.3% yoy. Part of the strength reflects portfolio-management fees and AI-related price distortions that may be revised lower in coming months. The descent toward the 2% target remains gradual. We see core PCE inflation just above 3% by the end of the year.

First hike in December, unless the next CPI and PPI prints disappoint

Chair Warsh's speech at Jackson Hole was unequivocally hawkish: he cited the insufficient pace of disinflation and reiterated the commitment to the 2% target. Markets took notice, raising the odds of a September hike to around 50% and attaching a one-third probability to two hikes by December. We remain more dovish, while acknowledging that our call for a December hike is getting tighter. We are more concerned than Warsh about the labour market, given the stagnation in private, ex-healthcare hiring, and we stress that a big part of inflation is in goods, reflecting the fading impact of tariffs and the AI boom. The August CPI and PPI prints will be key in tilting the balance towards early policy action.

Euro Area

Martin Wolburg



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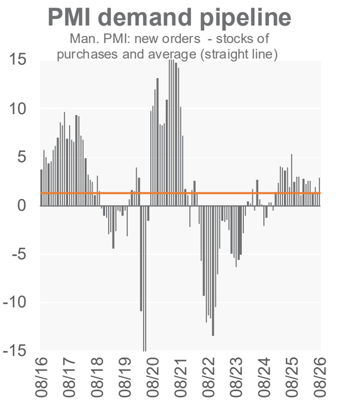

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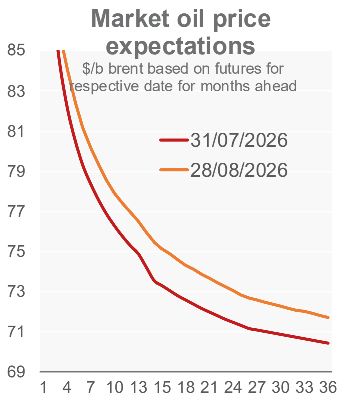

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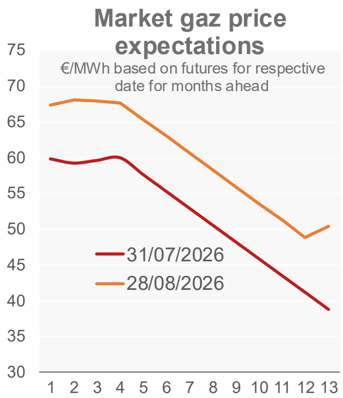

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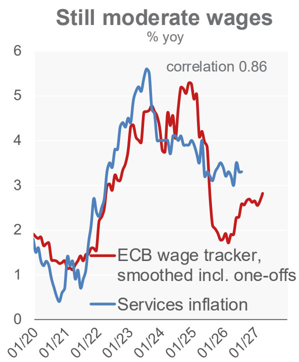

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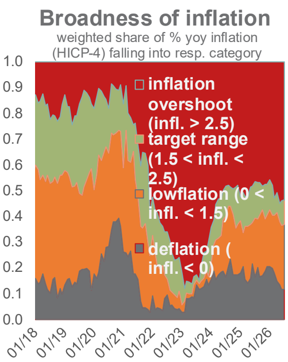


Source: Datastream, GenAM

- **Euro area activity is strengthening, supporting steady near-term growth despite weak hard data. We stick to our 2026/27 growth forecast of 0.8%/1.2%.**
- **Persistent energy risks and resilient demand make a September ECB hike more likely than not.**

Euro area sentiment improved broadly in August despite renewed geopolitical tensions. The flash composite PMI reached its highest since November as manufacturing benefited from firmer inventories, defense procurement and likely AI-related capital expenditure (see top-right chart). Employment rose 0.1% qoq in Q2, and the PMI points to further gains. Industrial production in June stagnated while retail sales fell 0.3% mom and missed expectations. But solid employment and confidence should support a near-term consumption recovery while stronger manufacturing orders should translate into higher production too.

Adjusting for Ireland-related GDP volatility, the euro area expanded by around ¼% qoq in both Q1 and Q2. Current PMI and ESI readings indicate a similar near-term pace, in line with our baseline growth forecasts of 0.8% in 2026 and 1.2% in 2027. A renewed energy shock or wider geopolitical disruption is the main downside scenario, threatening real incomes, margins and growth.

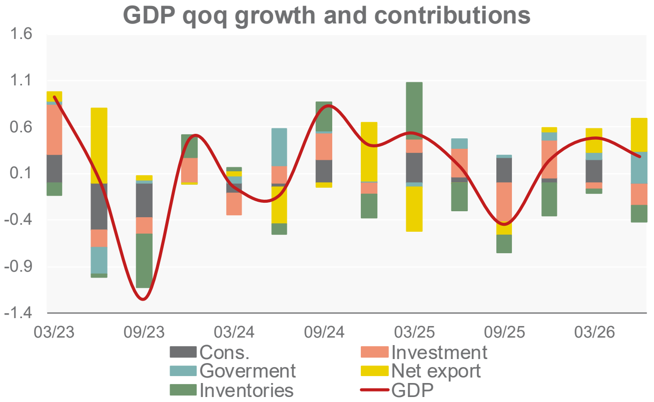
ECB: A Sep. hike is now the base case

At the 23 July press conference, ECB President Christine Lagarde said incoming data would determine the 10 September decision. Second-round effects remain limited: July inflation was 2.9% headline and 2.5% core, price pressures eased in the August flash PMIs, and the ECB wage tracker still points to moderate wage growth (see bottom-left chart). Yet the risk balance has worsened. Geopolitical tensions persist, energy prices remain elevated: if they stay at the August's €62/MWh level through year-end, this would lift the 2026 average to about €53/MWh — above the ECB's June assumption of €47.4/MWh. ECB staff are therefore assessing alternative energy-price scenarios.

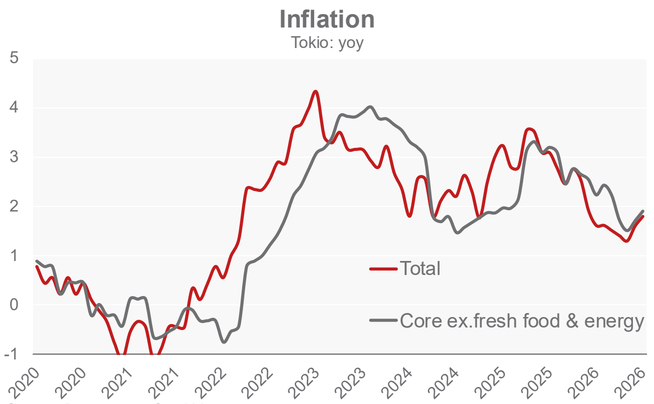
Resilient sentiment and a recovering manufacturing cycle also show that the economy can absorb tighter monetary policy. Also, ECB's Schnabel was quite explicit in stating that further tightening will be needed. We therefore now see a September hike as the baseline: the cost of underreacting to persistent energy inflation has risen. A rapid energy-price retreat or sharp activity slowdown is the risk scenario that could keep the ECB on hold. Markets should price a firmer front end and some support for the euro, while longer-duration assets remain vulnerable to a more hawkish outcome.

Japan

Paolo Zanghieri



Source: BoJ, GenAM



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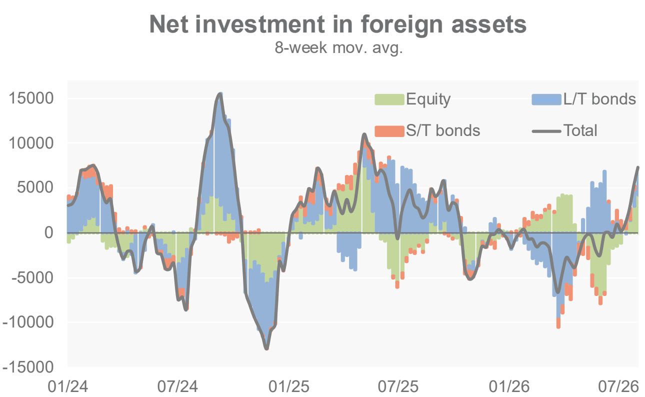


Source: MoF, GenAM

- **Growth remains resilient, but domestic demand is weak. Q2 GDP increased by 1.1% q/q annualised, below expectations, as falling consumption and capex were offset by net exports. We expect GDP growth of 0.5% in 2026 and 0.7% next year.**
- **Inflation reaccelerated in July. The core rate was up by 1.9% due to memory chips. Headline rose by 1.9% on refined fuels.**
- **Strengthening underlying pressures and a weak Yen will force the BoJ to raise the policy rate in September.**

The first estimate showed Q2 real GDP expanding by 1.1% q/q annualised, marking a third consecutive quarterly increase but falling short of the 2.0% market forecast. The composition was less encouraging than the headline figure: private consumption and business investment declined. Exports increased modestly and imports fell sharply amid crude-oil supply constraints. July export volumes nevertheless remained firm, rising by 5.2% yoy. The improvement in foreign demand should continue to support manufacturing output, particularly in technology-related sectors, but the benefit to domestic activity will remain limited unless wage gains translate into firmer household spending. Higher imported energy costs also create a renewed drag on real incomes and corporate margins. This combination argues for positive but moderate growth through the second half of the year, with the recovery remaining more dependent on external demand than previously expected. Inflation moved higher again in July. The new core measure excluding fresh food and energy increased from 1.7% to 1.9%. Diesel prices brought up the headline rate to 1.9% too. The surge in import prices is likely to have a much quicker impact on prices than expected, increasing upside risks to inflation.

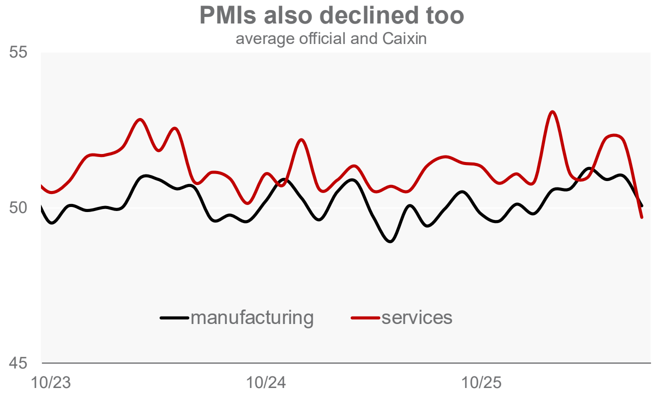
Inflation and Yen force a September rate rise

Faced with sluggish domestic demand, clear upward pressures on underlying inflation and a weaker yen (despite the heavy coordinated US Treasury-BoJ intervention), we think that the BoJ will ultimately raise rates at the Sept. 18 meeting. The rise in JGB long yields is in part due to rising inflation expectation on the back of the ambitious fiscal expansion. A bolder BoJ would help strengthen the Yen and limit the pass through from import prices to domestic inflation.

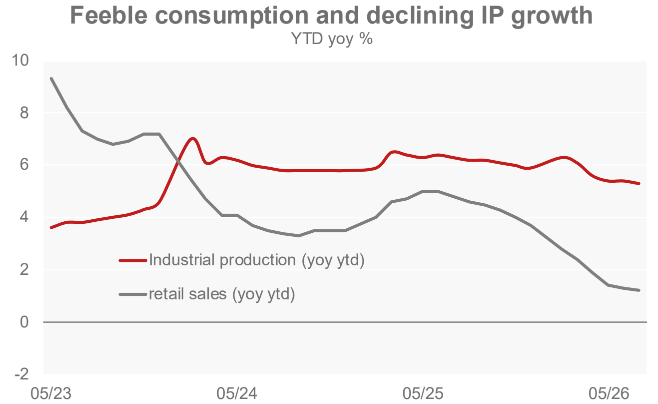
Demand for foreign assets picked up in July- early August thanks to both equities and long-term bonds, despite the tax and regulatory incentives to prop up domestic demand for JGBs.

China

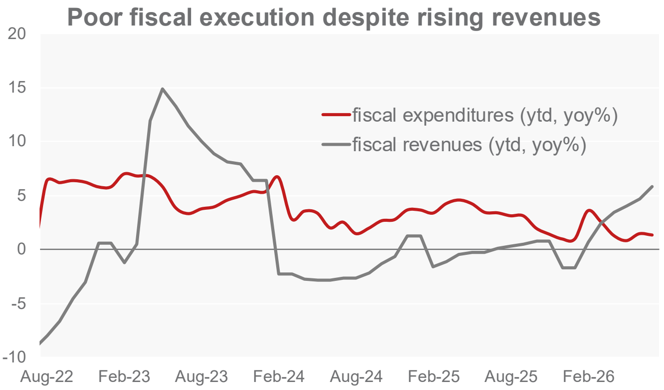
Guillaume Tresca



Source: Bloomberg, S&PGlobal, GenAM



Source: Bloomberg, NBC, GenAM



Source: Bloomberg, MoF

- **Economic activity has continued to slow down with sluggish internal demand and strong external and tech sectors.**
- **Policymakers' tone has been more supportive, pushing for faster execution of existing fiscal measures. There is little appetite for a large new stimulus package**
- **President Xi's visit in the US will focus on managing trade tensions as the truce trade remains fragile.**

The slowdown in economic activity has continued, and the latest July economic data have fueled more concerns as the figures clearly disappointed. Investment remained weak across all sectors, while industrial production growth was softer and retail sales disappointed again. Even the PMIs, which had been steady over recent months, edged lower, and inflationary pressures have been losing momentum again, with CPI coming in on the weak side at 0.5% yoy and headline PPI decelerating significantly.

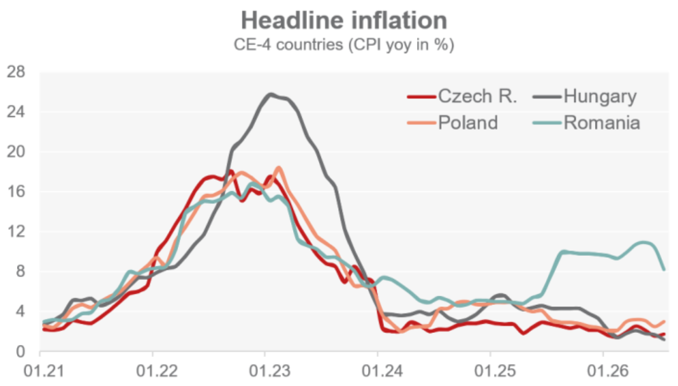
China's economy remains K-shaped: the main area of strength is exports, which rose by 23.9% yoy in July, while domestic demand remains weak. The immediate drag is also well known: the weaker credit impulse in Q2, reflecting lower-than-usual local bond issuance and limited use of the available fiscal room.

Policymakers' narrative is changing only at the margin, and the late-July Politburo meeting adopted a slightly more supportive tone. The focus remains on better fiscal execution and faster spending of local government bond proceeds, rather than a large new stimulus package. This points to continued policy support for infrastructure projects such as the Six Networks but limited direct relief for household consumption. As a result, the K-shaped profile of the economy is likely to persist in the months ahead. So far, support still looks too small, with GDP growth hovering close to the lower bound of the target range. If the data weaken further, additional policy support is possible, but it is likely to remain modest.

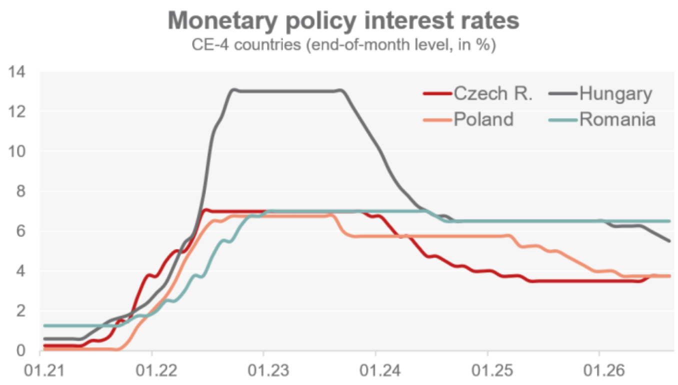
Meanwhile, the IMF's annual External Sector Report highlighted China's wider current account surplus and estimated the REER undervaluation at 21%. President Xi's visit to the US on 24 September is unlikely to change that underlying imbalance. We instead expect discussions to focus on managing trade tensions and avoiding the kind of escalation seen in 2025. The truce remains fragile, however, as the US is preparing to impose a 7.5% tariff on Chinese goods under Section 301. Washington could use this threat as leverage to push China to buy more US agricultural products and ease access to rare earths.

Central and Eastern Europe

Jakub Krátký



Source: www.czso.cz, www.ksh.hu, www.stat.gov.pl, www.insse.ro, GenAM



Source: www.cnb.cz, www.mnb.hu, www.nbp.pl, www.bnr.ro, GenAM

Main Forecasts

Czech Republic	2024	2025	2026f	2027f
GDP	1.1	2.7	1.7	2.0
Consumer prices	2.4	2.5	2.0	2.9
Central bank's key rate	4.00	3.50	4.00	3.50
Hungary	**2024**	**2025**	**2026f**	**2027f**
GDP	0.6	0.5	1.7	2.5
Consumer prices	3.7	4.4	1.8	2.8
Central bank's key rate	6.50	6.50	5.25	4.75
Poland	**2024**	**2025**	**2026f**	**2027f**
GDP	3.2	3.6	3.4	2.8
Consumer prices	3.7	3.6	3.3	3.0
Central bank's key rate	5.75	4.00	3.75	3.75
Romania	**2024**	**2025**	**2026f**	**2027f**
GDP	0.9	0.7	-0.2	2.2
Consumer prices	5.6	7.3	8.3	4.8
Central bank's key rate	6.50	6.50	6.50	6.00

Source: www.cnb.cz, www.mnb.hu, www.nbp.pl, www.bnr.ro, GenAM

- **Adverse weather and droughts may weigh on so far resilient growth and imply some upside inflation risk via costlier commodities. Polish GDP should still outperform the rest of the region.**
- **Prudent monetary policy stances prevail, with the exception of Hungary, where the MNB will reassess the ongoing easing cycle in September.**

The Czech CNB switched to waiting mode and kept the key repo rate on hold at 3.75%. Although it had sent a dovish signal, a modest tightening may be considered later this year, despite July CPI remaining below the target at 1.7% yoy. Changes to budget rules are pushed by the government, which may result in a less predictable and looser fiscal policy ahead.

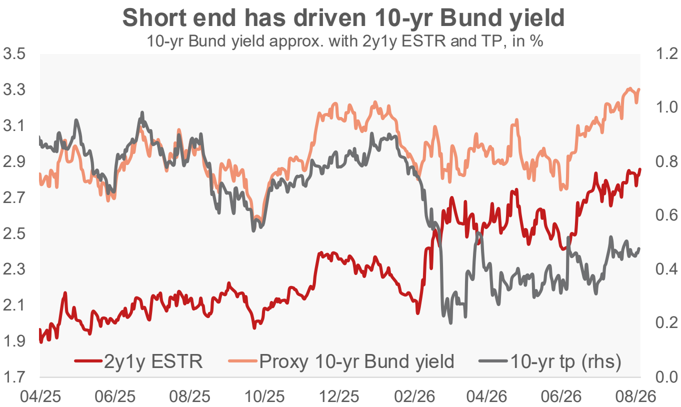
Hungary can't cut the budget deficit below the revised 7.5% of GDP this year due to the droughts. Besides agriculture across the region, the energy sector shock linked to the low Danube water level may weigh on growth in multiple countries. The MNB continued its easing cycle and again cut by 25bp to 5.50% in late August. The cycle will be reassessed with a new prognosis in September, but some easing space likely remains available as CPI fell to 1.2% yoy in July. The MNB also started a revision of its 3% inflation target to align it more closely with the ECB's, a necessary step for euro adoption targeted by 2030.

Polish GDP firmed to 0.9% qoq and 3.8% yoy in Q2, confirming the upbeat growth picture. The NBP is expected to stick to a neutral tone and to keep the interest rate on hold at 3.75% in the foreseeable future, as the expected moderation of inflation in August (from 3% yoy in July, above the 2.5% target) will be driven by temporary fuel prices regulation. Fiscal metrics remain a concern, as Fitch affirmed its A-/Negative rating. The recently introduced tax reform should be budget neutral, as a lower income tax for the middle class should be compensated by higher corporate taxation.

Romania's economy continues to struggle. GDP remained in marginal qoq contraction and fell by -0.4% yoy in Q2, combined with weak activity data and a still bleak outlook, as Romania hit the debt brake at 60% of GDP, leading to a freeze of some public spending. Most reforms to meet the EU RRF milestones were passed but some are still pending, threatening access to ca. 15% of the overall EUR 5bn allocation. The NBR stayed on hold at 6.50% but may start to think about easing in early 2027, as CPI started to moderate to 8.2% yoy in July on favourable base effects. Rating agencies confirmed the BBB- rating with negative outlook and see a solution to the protracted political crisis in autumn.

Government Bonds

Florian Späte



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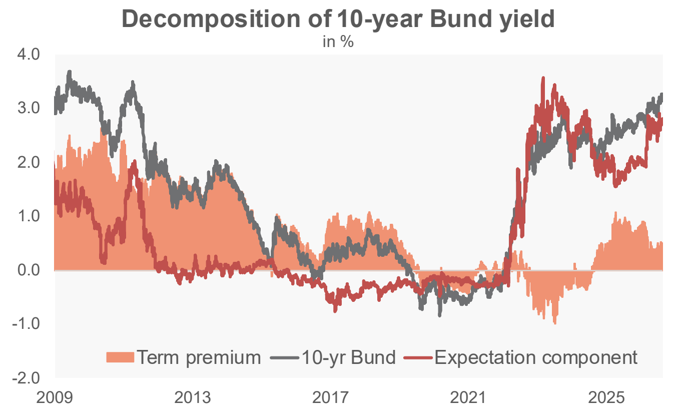

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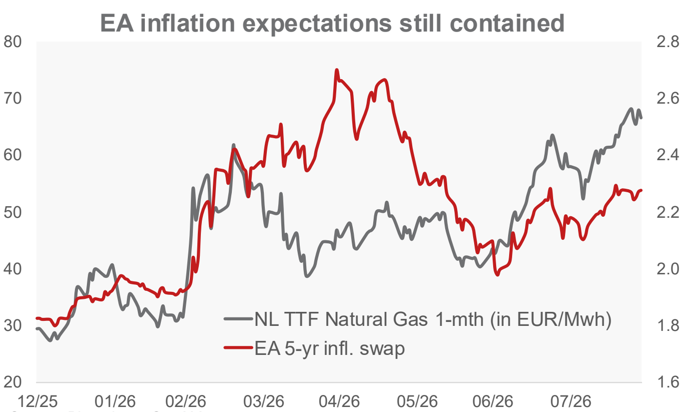


Source: Bloomberg, GenAM

- **Bunds' sharp August sell-off has restored valuation appeal, but global yields still point higher. US yields have risen less, term premia remain exposed, and adding long duration still looks premature.**
- **The bigger concern is a global rebuilding of term premia, not ECB pricing alone. Persistent deficits, AI-driven capital demand and fiscal dominance fears should keep long-term yields under pressure.**
- **Euro area non-core spreads should stay range-bound, but France remains vulnerable as fiscal slippage and election risks leave OATs exposed to widening.**

Bund yields have risen sharply, restoring valuation appeal, but it is still too early to position for a sustained rally. Markets price an ambitious ECB path, while term premia may rise further as inflation, fiscal and supply risks persist. We expect yields to stay under pressure, with declines likely temporary.

Higher Bund yields reflect policy-rate expectations and rebuilding term premia. Markets price around 62 bps of ECB tightening by summer 2027, which looks excessive. A September hike remains plausible given high energy prices, resilient activity and ECB communication. Beyond that, clearer wage and core-inflation second-round effects are needed but remain limited.

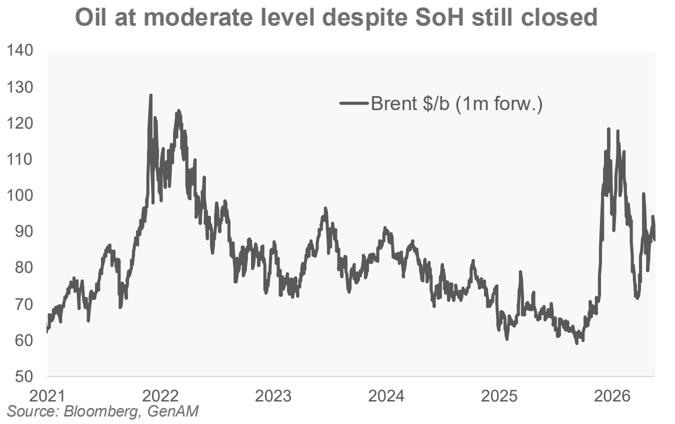
An overextended ECB path should cap front-end yield upside but not ensure lower long-end Bund yields. Term premia can still rise as investors seek compensation for inflation uncertainty, fiscal risks and heavier supply. Better PMIs and tentative German survey rebounds weaken the case for a lasting bond rally.

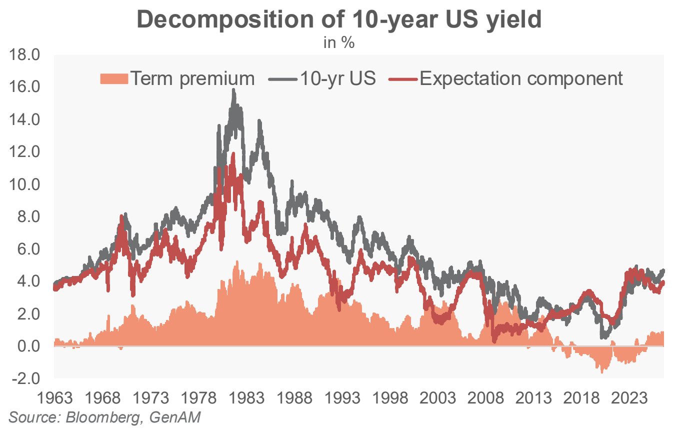
Inflation risks reinforce this view. Oil moved sideways in August, but European gas prices rose sharply amid low storage. Strait of Hormuz disruptions, AI-related energy demand and geopolitical and El Niño-related food-price risks could add pressure. In our baseline, second-round effects stay contained; the risk scenario is persistent energy and food pressure lifting inflation expectations and risk premia.

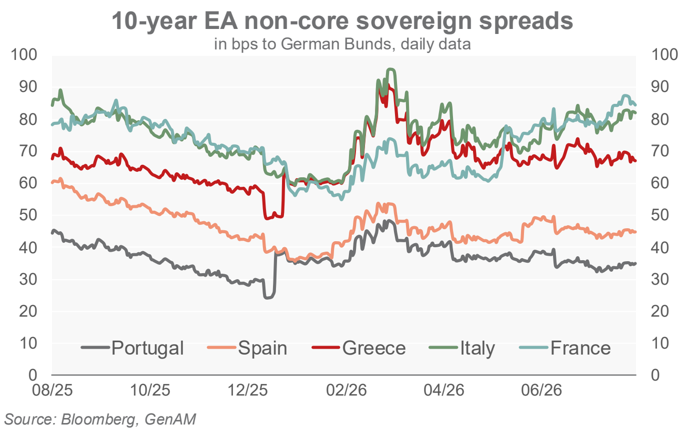
Fiscal dominance fears add upward pressure on yields. Debt burdens keep rising, and interest expenditure is becoming a larger budget item. Investors may question whether central banks can keep policy restrictive if higher rates threaten debt sustainability. Even without an explicit shift, the perception that inflation could become a politically tolerable adjustment mechanism can lift expectations. Larger financing needs and less credible frameworks should keep inflation risk premia and long-dated term premia elevated.

Government Bonds

Florian Späte







For Bunds, the conclusion remains cautious. Repricing has improved valuations, but not enough for a compelling long-duration entry. High energy prices, resilient activity and contained second-round effects still point to slightly higher 10-year yields: 3.25% in three months and 3.30% in six. A stronger rally needs clearer growth weakness or faster inflation-risk-premium compression.

The same caution applies to Treasuries. US yields have risen less, so valuations offer less support. Term premia remain exposed to the “fight for capital” between public borrowing and AI capex, keeping real yields pressured. Persistent deficits, heavy issuance and the Fed’s weak inflation record reinforce this risk, while a 10-year TIPS breakeven near 2.3% still looks too low.

Treasury Secretary Bessent’s long-dated buyback expansion triggered a rally but leaves the structural picture unchanged: the programme is more a tactical yield cap than a credible plan to lower borrowing costs sustainably, easing near-term pressure without resolving supply and credibility challenges.

The broader US policy mix reinforces this concern. Fed Chair Warsh wants less guidance and more price discovery, while Treasury caps long yields through buybacks. Fiscal consolidation remains limited, and Warsh favours a smaller, shorter-duration Fed balance sheet. This combination limits Treasury term premium compression.

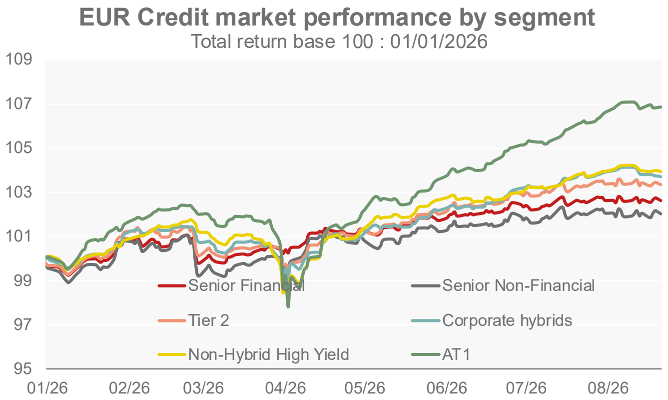
Overall, we prefer a balanced but cautious duration stance. Bund valuations have improved, but our baseline still points to modestly higher yields rather than a sustained rally. Treasuries look less compelling and need either a more credible policy mix or a decisive nominal GDP slowdown. We forecast 10-year Treasury yields at 4.70% in three months and 4.80% in six months. The key implication is that the global rise in yields has probably not run its course, so investors should avoid adding duration too aggressively.

OAT risk premium set to stay elevated

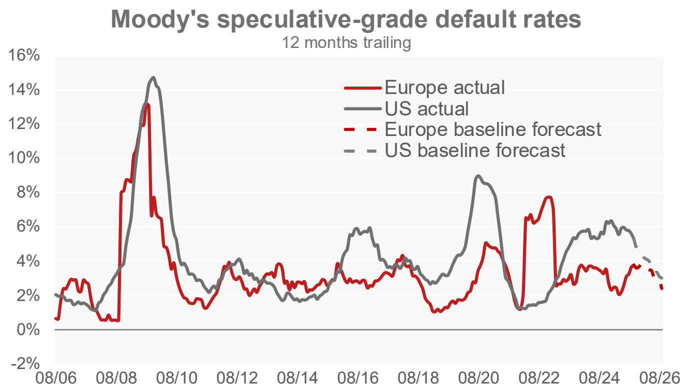
Euro area non-core spreads should remain broadly range-bound, with France the main source of relative risk. August’s yield rise reflected a global duration sell-off rather than fragmentation pressure, as higher energy prices, firmer inflation expectations, rising term premia and fiscal concerns lifted core and non-core yields in parallel. This still argues against broad peripheral de-risking. In our baseline, non-core spreads remain resilient, while OATs retain a risk premium tied to France’s fiscal trajectory, rising debt and the 2027 election. The main risk is sharper French political or fiscal deterioration, which could trigger further OAT-Bund widening. We expect OAT spreads to widen moderately on a probability-weighted basis.

Credit

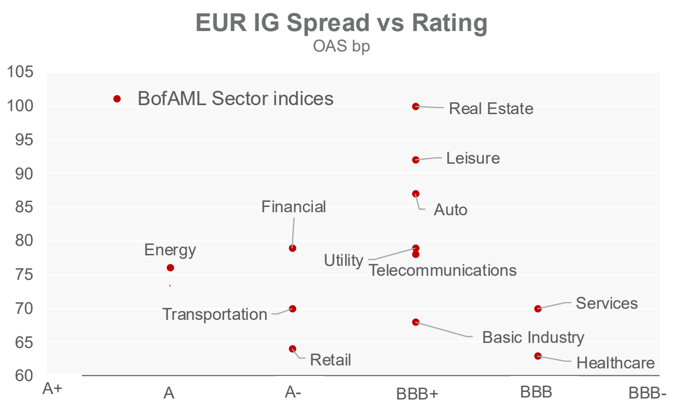
Elisa Belgacem



Source: Bbg, BofAML indices, GenAM



Source: Moody's, GenAM



Source:Bloomberg, BofAML indices, GenAM own calculations

- **We remain constructive on European credit spreads, with robust technicals, attractive all-in yields and resilient corporate fundamentals continuing to support a carry-led market environment.**
- **Credit significantly outperformed sovereign bonds over the past month, with HY spreads tightening and IG spreads remaining near cycle tights despite a sharp repricing in European government debt led by France.**
- **The limited transmission of sovereign stress into corporate markets highlights strong investor demand and reinforces our preference for spread products, particularly Financials and selected higher-carry segments of the credit universe.**

We continue to expect a modestly constructive spread environment, although the pace of tightening is likely to remain gradual given already-rich valuations. Sector positioning therefore remains selective rather than defensive, favouring segments with resilient fundamentals and attractive carry profiles. We maintain our overweight stance on Financials, supported by strong profitability, limited evidence of spillovers from private credit concerns and a favourable technical backdrop, with lower net supply than Non-Financial sector. Recent market moves have once again highlighted the relative attractiveness of credit versus sovereign bonds. French government bonds have come under pressure amid fiscal concerns and political uncertainty, while Italian debt has continued to outperform as investors seek attractive carry opportunities within the euro area.

Why We Still Prefer Credit

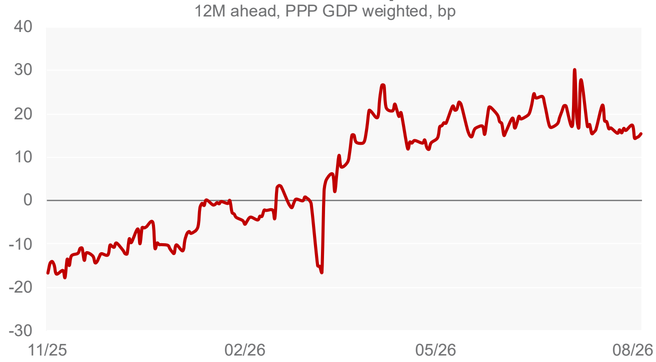
This reinforces a preference we have maintained for several years: favouring corporate credit over sovereign exposure, given stronger fundamentals, superior carry and more supportive technicals. Recent spread performance has validated this stance, with corporate spreads remaining resilient despite heightened volatility across government bond markets. While sovereign risks warrant monitoring, they have so far had limited transmission into corporate credit. Further down the capital structure, we continue to favour selected higher-beta segments including High Yield, AT1s and hybrid instruments.

EM sovereign bonds

Guillaume Tresca

Wolrdwide EM rate expectations

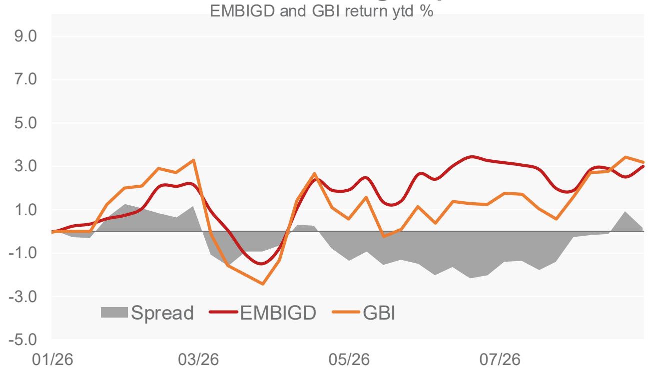
12M ahead, PPP GDP weighted, bp



Source: Bloomberg, GenAM

EM local debt return has caught up this summer

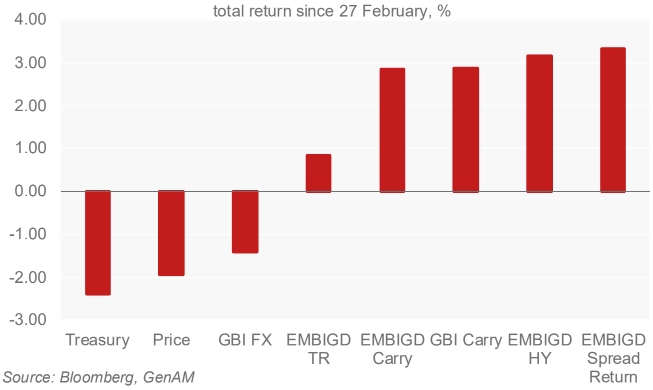
EMBIGD and GBI return ytd %



Source: Bloomberg, JP, GenAM

EM fixed income resilience

total return since 27 February, %



Source: Bloomberg, GenAM

- **EM sovereign bonds have remained resilient to geopolitical tensions. The positive outlook is supported by solid technicals and firm economic backdrop.**
- **We still favour local over external debt on better valuations. EM FXs have our preference, but EM rates offer more value than before.**
- **For external debt, we prefer HY over IG, but this is a selective preference rather than a broad beta call.**

The ebbs and flows of geopolitics and the rise in DM yields have had only a limited impact on EM sovereign bonds. External debt spreads remain tighter than before the Iran conflict, close to their all-time lows, while local debt has benefited from the USD weakness. The positive EM narrative is intact: we maintain our constructive outlook.

The macroeconomic outlook has remained positive, with some marginal improvement. Business sentiment has edged up on average, while global retail sales and industrial production have accelerated. Inflation has finally stabilised, and central bank rate-hike expectations have eased. This backdrop supports EM fixed income through stronger growth, lower policy-rate pressure and still-attractive carry.

Resilience is also driven by solid technicals. Fund inflows, especially into local debt, have remained steady, while slower summer issuance has supported external debt spreads. This combination has helped absorb the impact of higher yields and intermittent geopolitical shocks.

We still favour EM local debt over external debt, as local valuations look more attractive, while renewed September issuance could temporarily weigh on external debt spreads.

Local debt: supportive USD weakness

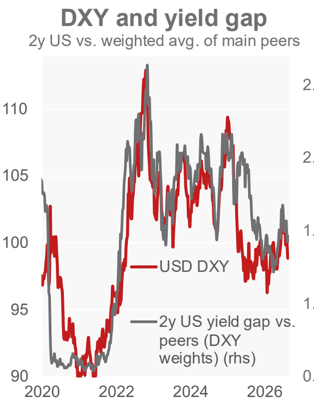
EM local debt offers the better risk-reward, supported by USD weakness and still-high real yields. Within FX, we maintain our preference for high yielders such as the BRL and the TRY, while Asian FXs have caught up somewhat but still have room to perform. Within rates, attractive real yields remain supportive, although risks related to the Iran conflict and higher energy prices call for selectivity. We like South African, Brazilian and Hungarian bonds (convergence trade).

External debt: HY preference

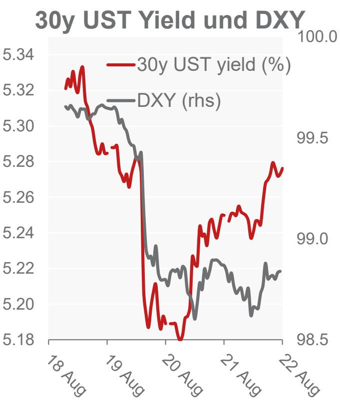
We still favour HY over IG, but this is a selective preference rather than a broad beta call: BBs offer a better carry buffer in a still-stretched valuation environment. In IG, we avoid the highest-duration and Middle East names, and we still like Mexico, which offers a decent spread to the rating.

Currencies

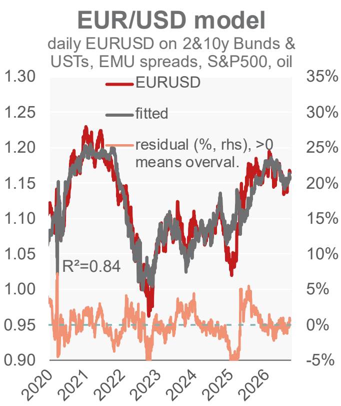
Thomas Hempell



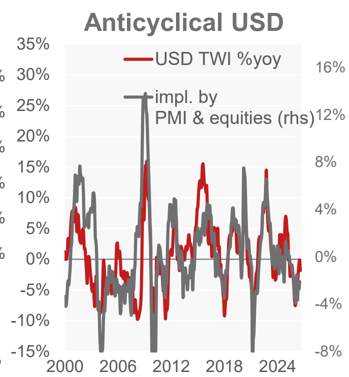
Source: Datastream, GenAM



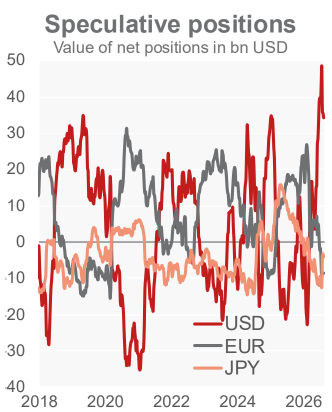
Source: Refinitiv, GenAM



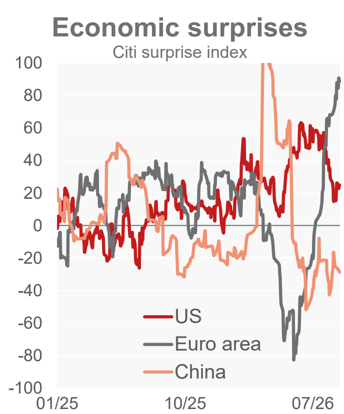
Source: Datastream, GenAM calculations



Source: Datastream, GenAM calculations; model 2000-2022 based on MSCI World %yoy and global man. PMI yoy



Source: CFTC, Datastream, GenAM



Source: Citi, Datastream, GenAM

- **August delivered part of the dollar weakness we expected for H2, as softer payrolls and inflation relief compressed the US yield advantage – and we see a bit more of that repricing to come.**
- **The Treasury's announced UST buybacks shift the adjustment burden from bonds to the currency: capped yields cut the return on US paper, so foreign investors demand a cheaper entry point.**
- **We see EUR/USD balanced short-term, with much bearish dollar news priced, but tilted slightly higher towards 1.18 by year-end.**

We cautioned against extrapolating dollar strength and positioned for a softer greenback over H2. August delivered part of that move: weak July payrolls and inflation relief unwound part of the excessive Fed hike expectations, compressing the US yield advantage (top left chart). We expect further unwinding, even though we acknowledge that Fed Chair Warsh's hawkish Jackson Hole speech has made a Sept. hike (not yet our base call) more likely.

The Treasury's plan to at least double UST buybacks, a response to the surge in long-dated yields, shifts the price pressure from bonds to the exchange rate. If the authorities cap yields, foreign investors still need a cheaper entry point to keep buying – the currency has to provide it. Price action supports this: bonds largely pared their initial gains, yet the dollar failed to recover (top right). Unorthodox surprises erode trust in policy more lastingly than they soothe markets. Add the US role in Japan's JPY intervention, and policy uncertainty becomes a persistent drag on the dollar.

EUR/USD: balanced short term, 1.18 by year-end

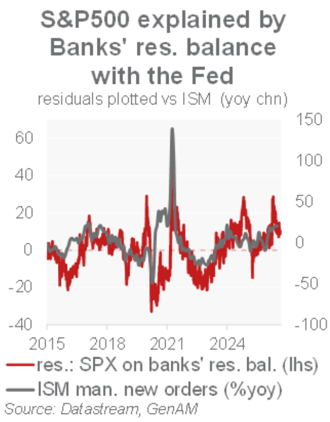
We expect the dollar to weaken somewhat further by year-end, as excessive rate hike expectations unwind, US growth outperformance shrinks and diversification continues. Admittedly, the recent setback looks a bit stretched vs. the yield gap and fair value (mid charts). Yet still strong long USD positioning leaves the currency vulnerable (bottom left).

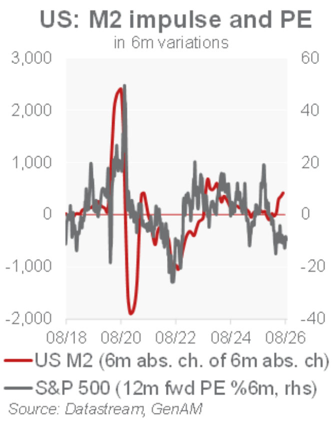
The euro area economy has been surprising with high resilience, contrasting with some reversal of optimism about the US (bottom right chart). A steady H2 recovery should keep the EUR underpinned. We see EUR/USD balanced short term, with much bearish dollar news priced, but tilted up towards 1.18 by year-end.

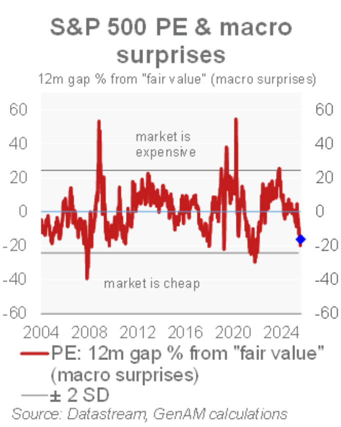
USD/JPY has pared about half of the losses from the joint US/Japan intervention in late July. Over 12 months, deep undervaluation, repatriation flows and further BoJ hikes should pull it lower, though we see it range-bound near-term. We still hold a small JPY short: with EUR/JPY likely sideways, the negative carry outweighs the medium-term appreciation case.

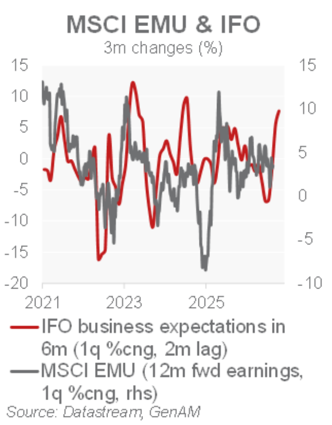
Equities

Michele Morganti and Vladimir Oleinikov









- **Amid geopolitical uncertainty, interest-rate risks and AI monetisation concerns, the macro backdrop remains solid and financial conditions are still supportive for equities, even as these headwinds warrant caution.**
- **Q2 earnings delivery has been very robust in both the US and Europe, with beats in the US at 25% - significantly above the average over the recent history.**
- **While US valuations seem expensive in absolute terms, they look less stretched once the macro conditions and strong earnings momentum are considered.**
- **In the euro area, stronger sentiment and activity support earnings and valuations, while inflation and ECB policy risks argue for a balanced stance.**
- **Our 12-month total-return forecasts are around +6% for the S&P 500 and +7% for the Euro Area, with upside to around +18% and +13% if ambitious IBES consensus estimates prove correct.**
- **We keep a slight OW equity stance with a cyclical sector bias and stronger diversification. We are neutral Euro Area vs. the S&P 500 and US Tech; OW DAX, MDAX and Russell MidCap; and OW EMs, favouring Korea, Poland, slightly China/China Tech and tactically Indonesia.**

Equities continue to benefit from a solid macro-financial backdrop. Financial conditions remain benign, with stable credit spreads, limited funding stress and no meaningful tightening in liquidity. Corporate fundamentals are also supportive, driven by resilient cash flows, moderate leverage, buybacks and M&A activity. In addition, our machine-learning models continue to favour equities over bonds.

The US market remains expensive in absolute terms. However, valuations look less stretched in the context of a resilient macro backdrop. US P/E multiples are low relative to macro surprises, suggesting investors have not fully priced the strength of growth and earnings. Moreover, contained spreads and the absence of financing pressure make higher real rates less damaging for valuations.

In the euro area, the Sentix signal supports EMU valuations, pointing to a macro-sentiment backdrop consistent with stable rather than declining multiples. Recent comments from ECB's Schnabel reinforce this view, highlighting stronger-than-expected growth thanks to fiscal stimulus, rising defense spending and the global AI boom. This underpins the pro equity narrative, even if it also keeps

Equities

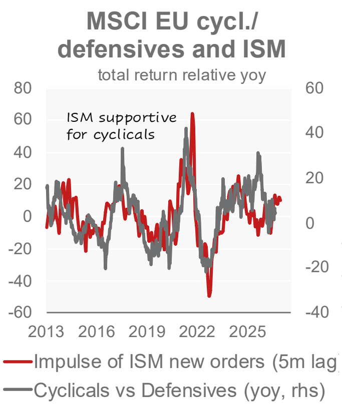
Analysis of the median stock: Q2 2026 reporting season

Median stock	Earnings Growth		Sales Growth		margin trend *		availability
	Q1 2026	Q2 2026	Q1 2026	Q2 2026	Q1 2026	Q2 2026	Q2 2026
S&P	13.7 %	14.5 %	8.8 %	8.9 %	4.9 %	5.7 %	96.0%
Stoxx	5.8 %	11.4 %	1.4 %	5.8 %	4.4 %	5.6 %	77.7%
Euro Stoxx	6.4 %	10.0 %	1.6 %	5.8 %	4.8 %	4.2 %	86.4%
Topix	19.3 %	23.4 %	6.4 %	9.1 %	12.9 %	14.3 %	95.5%

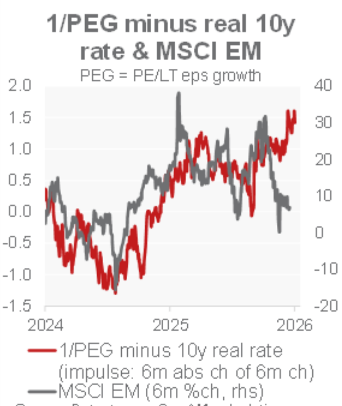
Median stock	Earnings Surpr		Sales Surpr		margin trend *		availability
	Q1 2026	Q2 2026	Q1 2026	Q2 2026	Q1 2026	Q2 2026	Q2 2026
S&P	5.8 %	5.8 %	1.7 %	1.6 %	4.0 %	4.1 %	96.0%
Stoxx	3.6 %	3.4 %	0.2 %	1.2 %	3.4 %	2.2 %	77.7%
Euro Stoxx	2.6 %	3.9 %	0.3 %	1.3 %	2.2 %	2.6 %	86.4%
Topix	12.6 %	13.4 %	1.3 %	2.3 %	11.3 %	11.1 %	95.5%

Note: numbers for Q2 2026 are calculated only for the companies which have so far reported in Q1 2026
proxy for margin trend = earnings growth - sales growth

Source: Bloomberg, GenAM calculations



Source: Datastream, GenAM



Source: Datastream, GenAM calculations

Index (as of 26/08/2026)	2025 EPS growth	2026 EPS growth	2027 EPS growth	EPS Long-Term growth	12m fwd PE	Avg 12m fwd PE since 1995	% diff	Avg PEG FY3
S&P500 (cap. weight)	12%	33%	15%	25%	19.7	17.1	15%	0.7
SPX 493 (median)	10%	12%	11%	11%	18.4	17.7	4%	1.5
Mag. 7 (median)	22%	35%	9%	18%	23.0	27.3	-16%	1.0
Global AI 175 Basket	14%	21%	16%	17%	19.9	17.5	14%	1.0
US AI Baskets:	19%	17%	16%	17%	20.1	19.3	4%	1.0
· Phase 2 - Infrastructure	20%	40%	25%	31%	21.8	16.9	29%	0.6
· Phase 3 - New Revenues	18%	17%	14%	16%	21.6	36.1	-40%	1.3
· Phase 4 - Productivity	14%	14%	12%	13%	18.2	18.1	1%	1.2
EU AI Beneficiaries (79 co's)	6%	15%	15%	16%	18.9	17.5	8%	1.0
MSCI US IT (cap. weight)	24%	52%	40%	39%	21.7	21.7	0%	0.4
MSCI China IT (cap. weight)	22%	44%	47%	31%	23.7	20.5	16%	0.4
Gold Basket (20 co's)	92%	52%	14%	23%	12.5	18.7	-33%	0.6
MSCI EMU	-6%	22%	12%	17%	15.1	14.4	5%	0.8
Russell 2000	9%	103%	51%	19%	25.6	22.8	12%	0.7
MDAX	-6%	13%	36%	15%	13.7	15.5	-11%	0.6
Japan (TOPIX)	9%	17%	13%	19%	16.1	15.1	7%	0.9
MSCI EM	8%	72%	23%	42%	10.2	12.0	-15%	0.2
MSCI China	-4%	14%	14%	11%	10.8	12.0	-10%	0.8
MSCI Korea	35%	331%	35%	86%	5.1	10.1	-49%	0.1
MSCI India	13%	11%	18%	17%	20.3	15.9	27%	1.0

__Global AI 175__ (proprietary) has 175 AI-related firms, 60% US & 40% RoW. __US AI__ (proprietary) has 233 firms split in 4 phases: __AI infrastructure__ (utilities, tech, industrials), __new revenues__ (mostly software), __productivity__ (diversified firms). Phase 1 is Mag. 7. __EU AI Beneficiaries__ (proprietary) includes 79 diversified firms. __Gold Basket__ (proprietary) includes 20 gold mining companies. Baskets use median values. EPS long-term growth refers to next 3-5y eps growth. Avg PEG FY3 = avg PE using FY3 EPS over 3-5y EPS growth and over FY3-FY0 EPS CAGR. Topix avg 12m fwd PE is from 2003.
Source: Datastream, IBES Estimates, GenAM

upside inflation risks alive and suggests further ECB tightening may be needed. For equities, the message is nuanced: stronger activity and sentiment support earnings and valuations, but policy-rate risks remain.

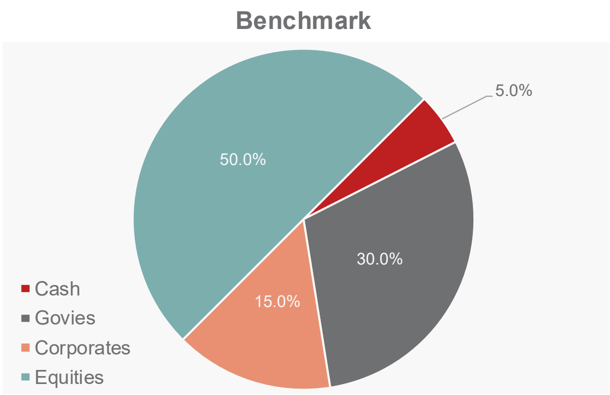
Q2 Nipa corporate profits were out at 22.8% yoy, the highest increase since the post-Covid boom in 2021. The Q2 2026 reporting season is nearing completion and supports the case for maintaining equity exposure. Annual earnings growth for the S&P 500 accelerated to 52%, up from 28% in the previous quarter. US companies have significantly outperformed expectations, with an average earnings surprise of 26.9%, well above the 10% average recorded over the past nine quarters. Overall, 90% of companies exceeded earnings expectations, with the strongest growth delivered by Energy, Telecommunications, Information Technology, and Consumer Discretionary. The STOXX Europe 600 has also delivered a solid reporting season, with earnings growth increasing to 25.1% in Q2 from 10.4% in Q1. Based on our analysis of the median stock, the earnings recovery in Europe appears broader-based than in the US. European companies have exceeded expectations by 4.5%, in line with previous quarters. As in the US, Energy recorded the strongest earnings growth, followed by Materials, Financials, Information Technology, and Industrials, while Consumer Discretionary, particularly autos, disappointed. Looking ahead to Q3, consensus expectations point to moderating earnings growth in both the US and Europe, which supports staying overweight but argues against increasing risk materially from here.

Slight OW equity, maintain a cyclical tilt

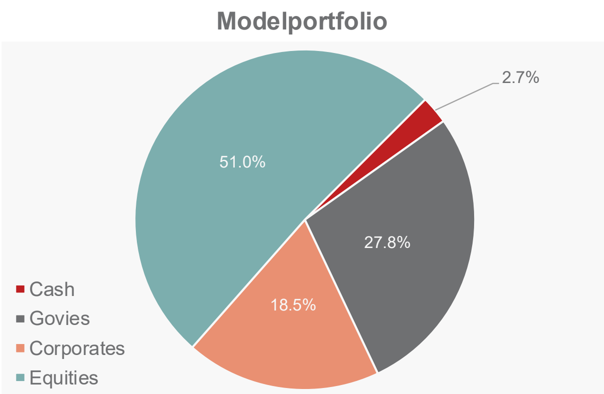
We reiterate our slight OW equities, maintaining a cyclical sector bias in Europe: OW banks, diversified financials, consumer services, capital goods, materials and select tech (software, semis); among defensives we favour Pharma, and stay UW, albeit a small one, in Energy, Staples, Real Estate and Hardware. Regionally, we keep the euro area neutral versus the US and US Tech (risks are justified but largely priced in, while demand remains resilient), stay overweight DAX and MDAX on German reforms, and remain overweight US Russell Mid Cap. We remain overweight EMs given deeply discounted relative valuations vs MSCI World (Z-score: -1.8) and accelerating growth-to-valuation profile relative to bonds (s. middle chart). Within EM, we favour Korea and Poland, have a tactical OW in Indonesia, and hold a slight OW in China/China Tech. We also add thematic exposure on the AI cycle. We like AI Phase 4: Productivity, and within Phase 2, Infrastructure, we prefer the Cooling theme. We reiterate our OW on Gold Basket (strong PE discount and good eps growth), which in August returned +40%, and on Uranium & Nuclear Power.

Asset Allocation

Thorsten Runde



Source: GenAM



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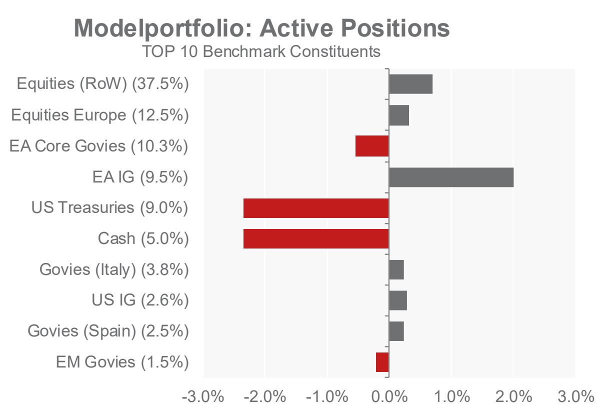


Source: GenAM; Benchmark weights in parentheses

- **In August, equities rebounded: EM ex China led (+7.6%) in a stark reversal from July. While the US (+3.4%), Japan (+2.7%) and EMU (+1.1%) advanced, China was the sole decliner (-0.5%).**
- **Across fixed income, US long govies ultimately advanced following a temporary sell-off (US Gvt. 10Y+ +1.4%, US IG non-Fin 10Y+ +1.3%), whereas euro-area long duration lagged (France Gvt. 10Y+ -1.6%, Germany 10Y+ -0.7%). US govies outperformed EA govies by ~105 bps; long govies trailed short by ~39 bps.**
- **Within Credit, HY outperformed IG by around +30 bps on a total-return basis. US IG outperformed EA IG by about +59 bps, while financials underperformed non-financials by about -4 bps.**
- **Hormuz risks stayed elevated. Yet Iran–Oman corridor talks (25 Aug) eased oil price pressures before new fights emerged towards month-end. Long-end sovereign stress, sticky inflation and continued Fed uncertainty argue for keeping risk contained.**
- **We keep our selective pro-risk stance unchanged: OW Credit and EM local debt, a small OW in Equities, and UWs in Cash and Government bonds.**

Since end-July (and as of 27.08.26), our model portfolio outperformed its benchmark by around 1.3 bps. At the aggregate level, the UW in Cash (+3.1 bps) was the main contributor, with Equities (+1.6 bps) and Govies (+1.4 bps) adding further, while the OW in Corporates (-4.8 bps) was the main drag. At the position level, short-dated US Govies (+1.4 bps), US large-cap Equities (+0.9 bps) and Germany 10Y+ (+0.8 bps) stood out positively, whereas long-dated French Govies (-1.0 bps), euro-area IG non-financials 5–7Y (-0.7 bps) and euro-area HY non-financials (-0.7 bps) detracted most.

Iran–Oman corridor talks (25 Aug) revived diplomacy. Yet, sporadic tanker attacks show the de-escalation path remains fragile. Record equity highs followed by a late-August AI-led rotation, and a spike in long-end yields (US 30Y near a 19-year high) kept the risk balance two-sided. Resilient earnings and global growth support a selective pro-risk stance, while duration stress and sticky inflation keep the focus on carry.

Selective pro-risk tilt, cautious on duration

As the risk balance remained two-sided, we reaffirm our TAA stance: OW Credit (IG and HY) and EM local debt, a small and selective OW in Equities, and UWs in Cash and Government bonds. Duration remains neutral in the euro area and moderately short in the US, as carry remains the key return engine while sticky inflation, long-end/fiscal stress and Fed uncertainty limit the appeal of adding duration.

Forecasts

Macro Data

Growth[1]	2025	2026 forecast	2026 Δ vs. cons.	2027 forecast	2027 Δ vs. cons.	2028 forecast
US	2.1	2.2	0.1	2.3	0.3	2.1
Euro area	1.3	0.8	0.3	1.2	- 0.0	1.2
Germany	0.3	0.7	0.1	1.3	0.2	1.1
France	0.9	0.6	- 0.1	0.8	- 0.1	1.5
Italy	0.7	0.7	0.1	0.6	- 0.0	0.5
Non-EMU	1.5	1.0	- 0.0	1.3	- 0.0	1.7
UK	1.3	0.6	- 0.0	1.1	- 0.0	1.6
Switzerland	1.4	1.0	0.0	1.4	0.0	1.8
Japan	1.2	0.5	- 0.2	0.7	- 0.2	0.6
Asia ex Japan	5.5	4.8	- 0.3	4.8	- 0.1	4.7
China	5.0	4.4	- 0.3	4.3	- 0.2	4.3
CEE	2.1	1.7	0.0	2.2	- 0.1	2.1
Latin America	2.4	1.7	- 0.2	2.1	0.0	2.6
World	**3.4**	**2.8**	**- 0.1**	**3.1**	**- 0.0**	**3.0**

1) Regional and world aggregates revised to 2024 IMF PPP weights

Inflation[1]	2025	2026 forecast	2026 Δ vs. cons.	2027 forecast	2027 Δ vs. cons.	2028 forecast
US	2.6	3.4	0.2	2.6	0.2	2.2
Euro area	2.1	2.9	0.2	2.3	0.1	2.1
Germany	2.3	2.9	0.2	2.4	0.1	2.0
France	0.9	2.0	- 0.1	1.8	0.1	1.9
Italy	1.7	3.0	0.2	1.8	- 0.2	1.9
Non-EMU	2.7	2.5	0.1	2.2	0.0	1.9
UK	3.4	3.2	0.1	2.5	0.0	2.0
Switzerland	0.2	0.7	0.1	0.7	0.0	0.6
Japan	3.2	2.9	1.0	2.3	0.0	2.0
Asia ex Japan	0.9	2.4	0.1	2.2	0.1	2.2
China	0.0	1.2	0.2	1.2	0.1	1.5
CEE	13.9	11.4	0.1	8.7	- 0.0	7.1
Latin America[2]	4.6	4.8	0.0	3.9	0.0	3.0
World	**2.9**	**3.6**	**0.1**	**3.0**	**0.1**	**2.7**

1) Regional and world aggregates revised to 2024 IMF PPP weights ; 2) Ex Argentina and Venezuela

Financial Markets

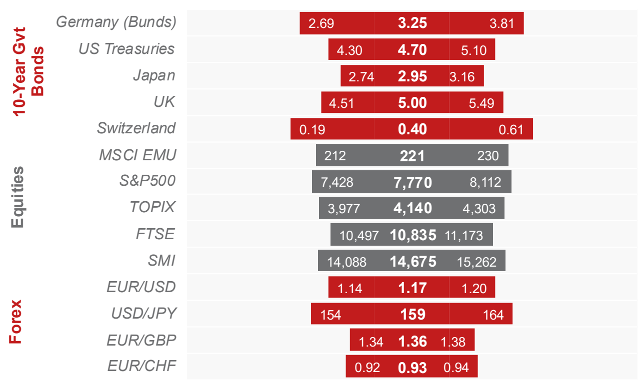
Key Rates	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
US (upper bound)	3.75	3.75	*3.86*	4.00	*3.97*	4.00	*4.02*
Euro area	2.25	2.50	*2.51*	2.50	*2.67*	2.50	*2.78*
Japan	1.00	1.25	*1.29*	1.50	*1.50*	1.75	*1.85*
UK	3.75	4.00	*3.92*	4.00	*4.14*	4.00	*4.30*
Switzerland	0.00	0.00	*-0.03*	0.00	*0.00*	0.00	*0.22*
10-Year Gvt Bonds							
US Treasuries	4.65	4.70	*4.71*	4.80	*4.76*	4.80	*4.84*
Germany (Bunds)	3.23	3.25	*3.27*	3.30	*3.31*	3.25	*3.38*
Italy	4.05	4.05	*4.13*	4.10	*4.20*	4.05	*4.32*
Spread vs Bunds	*83*	*80*	*86*	*80*	*89*	*80*	*94*
France	4.08	4.10	*4.12*	4.20	*4.19*	4.15	*4.31*
Spread vs Bunds	*85*	*85*	*84*	*90*	*87*	*90*	*92*
Japan	2.89	2.95	*2.98*	2.95	*3.05*	3.00	*3.19*
UK	5.02	5.00	*5.16*	5.00	*5.22*	4.95	*5.30*
Switzerland	0.37	0.40	*0.42*	0.40	*0.44*	0.40	*0.48*

**3-day avg. as of 27/08/26*
***ICE BofA (OAS)*

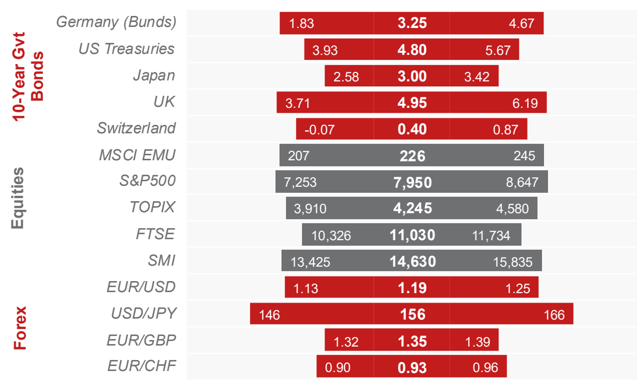
Credit Spreads**	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
EA IG Non-Financial	75	70		70		70	
EA IG Financial	78	70		70		70	
EA HY	257	250		250		250	
EM Sov. (in USD)	161	160		155		150	
Forex							
EUR/USD	1.17	1.17	*1.17*	1.18	*1.17*	1.19	*1.18*
USD/JPY	159	159	*158*	158	*157*	156	*155*
EUR/JPY	186	186	*185*	186	*184*	186	*183*
GBP/USD	1.36	1.36	*1.36*	1.36	*1.36*	1.35	*1.36*
EUR/GBP	0.86	0.86	*0.86*	0.87	*0.86*	0.88	*0.87*
EUR/CHF	0.94	0.93	*0.93*	0.93	*0.92*	0.93	*0.91*
Equities							
S&P500	7,695	7,770		7,825		7,950	
MSCI EMU	219.8	221.0		224.0		226.0	
TOPIX	4,107	4,140		4,175		4,245	
FTSE	10,852	10,835		10,920		11,030	
SMI	14,484	14,675		14,820		14,630	

Forecast Intervals

3-Months Horizon*



12-Months Horizon*



**Forecast ranges of ±1 stdv. centred around point forecasts; based on historical volatilities; length of bars indicative only*

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