GENERALI ASSET MANAGEMENT

Market Perspectives

Oil, OATs and AI: Earnings to beat the worries

30 October 2026

GenAM Macro & Market Research

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

- **Solid growth and earnings should carry risk assets through Mid-East, French and AI-financing stress; we stay mildly overweight Equities and Credit.**
- **AI stress has spilled into Credit, but strong AI demand should keep earnings resilient.**
- **Main risk is a renewed Mid-East escalation after the US mid-terms that could push the Fed and ECB beyond our expected 50bp of hikes.**
- **We stay neutral on EUR duration. ECB rate expectations look stretched, but the term premium has more upside. Continued fiscal and political uncertainty keeps us cautious on long-dated OATs for now.**

Content

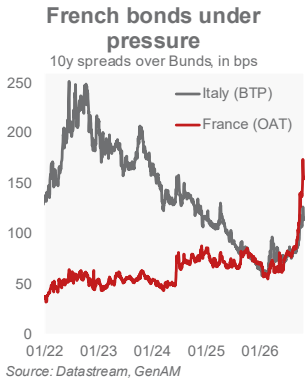
1. Global View 2
2. USA 3
3. Euro area 4
4. Japan 5
5. China 6
6. Central and Eastern Europe 7
7. Government Bonds 8
8. Credit 10
9. EM Sovereign Bonds 11
10. Currencies 12
11. Equities 13
12. Asset Allocation 15
13. Forecast Tables 16
14. Imprint 17

Global View – Oil, OATs and AI: Earnings to beat the worries

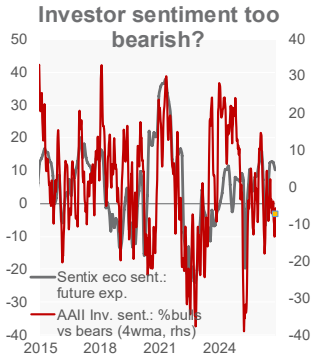
Thomas Hempell

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- **AI stress has spilled into Credit, but strong AI demand should keep earnings resilient.**
- **Main risk is a renewed Mid-East escalation after the US mid-terms that could push the Fed and ECB beyond our expected 50bp of hikes.**
- **We stay neutral on EUR duration. ECB rate expectations look stretched, but the term premium has upside. Continued fiscal and political uncertainty keeps us cautious on long-dated OATs for now.**

The global economy has been resilient, but three risks have been building: Mid-East tensions, French debt woes and AI financing worries. Political uncertainties compound volatilities. Our baseline is that growth and earnings prevail.



Source: Datastream, GenAM



Source: Datastream, GenAM

Mid-East tensions keep looming as a near-term risk. Brent oil has jumped to $115/bbl and European gas (TTF) above €100/MWh (highest since Dec 2022) as Iran stepped up attacks on shipping and the Houthis against Riyadh. Escalation risks are high, with the US and Israel reportedly preparing new strikes on Iran after the US mid-terms. Oil futures price only a partial fade over 2027, with 12m Brent near $90/bbl. A renewed spike would test the global economy and risk deeper central bank hikes (see below).

French debt woes are likely to persist. The 10y OAT spread over Bunds at 160bp (and ~40bp over BTPs, left chart) already prices a lot of caution. Yet public unrest, a hung parliament and uncertainty into the 2027 elections complicate the much-needed fiscal consolidation, keeping French bonds vulnerable for now, notably long-dated OATs.

AI investment, the backbone of this year's resilience, is under intense scrutiny. Hyperscalers and semiconductor providers experienced severe pressure in October: the SOX (semiconductor index) suffered its longest losing streak since 2008, and unsecured debt of Neocloud provider CoreWeave fell into distressed territory. Unlike earlier this year, tech equity weakness has spilled into Credit spreads. Core government bonds have gained from the risk aversion, recovering somewhat from their summer sell-off.

AI frontier models may see more margin pressure from open-weight competition and clients' cost awareness. Yet despite recurrent setbacks amid lofty expectations, we would not write off the prospects of a strong AI buildout prematurely. As AI unfolds as a powerful *General Purpose Technology* globally, demand for AI applications and computing power should keep growing fast, supporting the resilience of global economic growth and earnings amid geopolitical and energy headwinds.

Prudent pro-risk tilt, neutral on duration

We keep a mild overweight in Equities and Credit. Earnings are strong and broadening beyond the Mag-7. The setback in risk sentiment looks too bearish vs. robust economic conditions (right chart). Fading US policy uncertainty post mid-terms may help, too: the S&P500 gained 6.7% on average in mid-term Q4s since 1950 (vs. 3.4% in other Q4s). In Credit, solid earnings, no recession and deteriorating public balances should keep a lid on spreads.

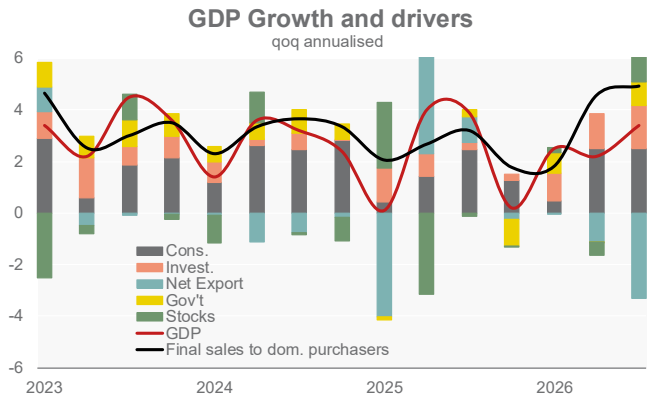
10-Year Gvt Bonds	Current*	3M	6M	12M
US Treasuries	5.00	5.10	5.15	5.25
Germany (Bunds)	3.36	3.40	3.45	3.50
Credit Spreads**				
EA IG Non-Financial	103	85	75	80
EA IG Financial	111	90	75	80
Forex				
EUR/USD	1.12	1.11	1.13	1.17
USD/JPY	158	156	154	151
Equities				
S&P500	7714	7800	7945	8220
MSCI EMU	211	213	218	226

**3-day avg. as of 28/10/26 **ICE BofA (OAS)*

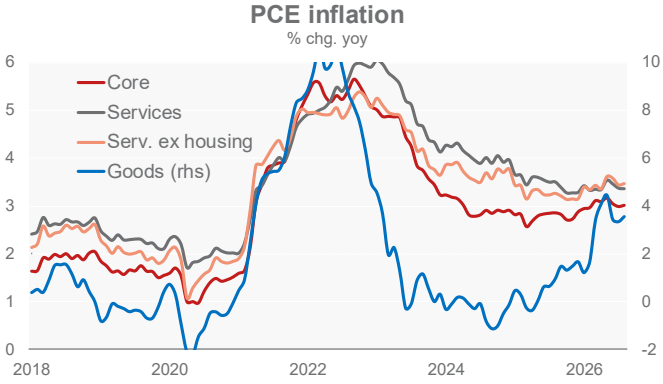
We keep our pro-risk tilt prudent, though. Central banks are the key variable to watch amid the risks mentioned above. We expect only 50bp of further hikes each from the Fed and the ECB by Q1/27, slightly less than markets price. This assumes that inflation expectations remain anchored and 2nd-round effects on wages absent. Faster hikes (e.g. if the Iran conflict drags on or escalates) would raise interest burdens, deepening worries about high public debt and increasing scrutiny of debt-financed AI investment. We favour a neutral stance on EUR duration and a slight short in the US. Markets' ECB rate pricing looks stretched (3.25% in five years). But any pullback is prone to be offset by a higher term premium at the long end amid lingering fiscal concerns. US bonds look more exposed amid stickier price pressure and stronger economic momentum.

United States

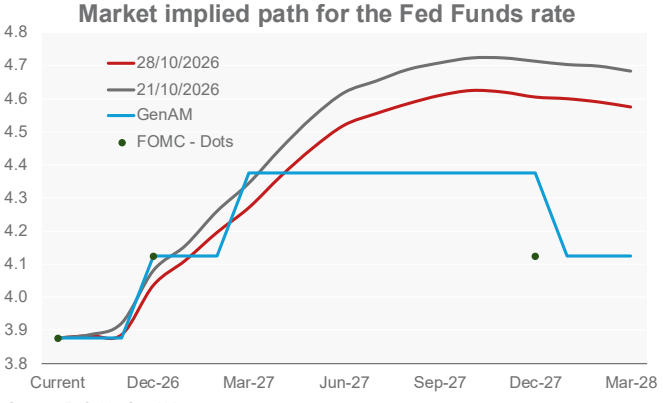
Paolo Zanghieri



Source: BEA, GenAM



Source: BEA, GenAM



Source: Refinitiv, GenAM.

- **GDP grew by a stronger-than-expected 3.4% annualised in Q3, with domestic demand soaring 4.9%. We expect 2.4% growth this year and next.**
- **Core PCE inflation stood at 3.1%, but producer and import prices point to further pressure. We do not expect it to fall below 3% before year-end.**
- **Despite sticky inflation and upside risks to growth, the Fed stayed put in October. We see two more hikes in December and March.**

The better-than-expected Q3 GDP was due to a further acceleration in capex. Non-residential fixed investment was up by 12.7% ann., its fastest in three years, again led by information processing equipment. With capital goods orders still growing faster than shipments, capex should remain a key driver into next year. We expect GDP to grow by a faster-than-trend 2.4% this year and next. Risks are two-sided and hinge heavily on AI developments.

High mortgage rates and sluggish demand keep weighing on housing: residential investment fell at a 3.3% rate, its sixth decline in seven quarters. Consumption growth remained steady (3.8% ann.), and continued to outpace disposable income, which raises doubts about the durability of this speed of expansion. In September, the saving rate dropped to 3.8%, the lowest since October 2022.

Despite an evident deceleration in job creation (Q3 payroll grew by 51k/month, versus 80k in Q2), the labour market continued to show little sign of deterioration. Initial jobless claims fell to 194,000 in mid-October, and the unemployment rate remained at 4.2%.

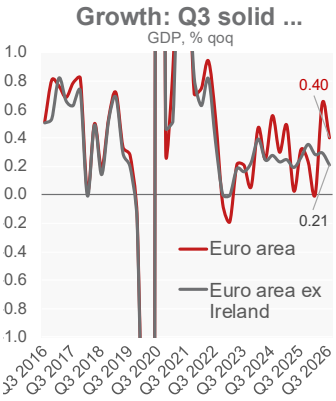
Inflation continues to disappoint core PCE was up 3.1% yoy, but monthly growth accelerated markedly. Moreover, both producer and ex-fuel import prices point to further pressure. Core PCE inflation is expected to stay slightly above 3% in the final months of the year.

The Fed chooses a gradual tightening

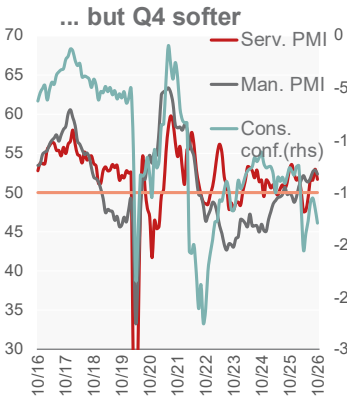
At the October meeting the FOMC decided to keep rates unchanged. The press release justified this apparent contradiction with sticky inflation, accelerating activity and the commitment to return inflation quickly to 2% by the need for more evidence before deciding the next moves. We expect a rise in December followed by another in March, fewer hikes than currently priced in by markets. From the beginning of next year, disinflationary forces, coming especially from the labour market, should reduce the need for further tightening.

Euro Area

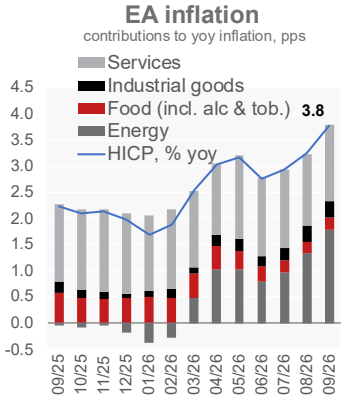
Martin Wolburg



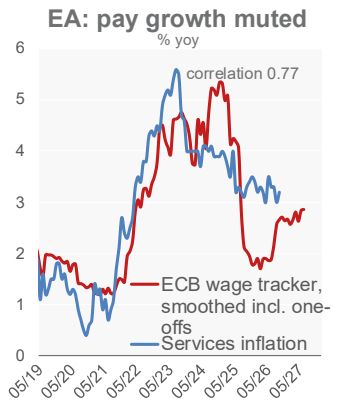
ource: Datastream. GenAM



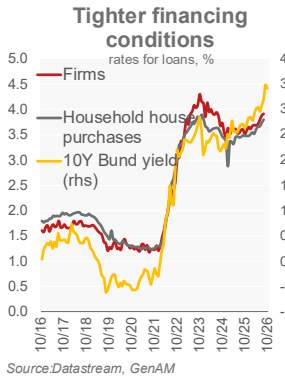
Source: Datastream, GenAM



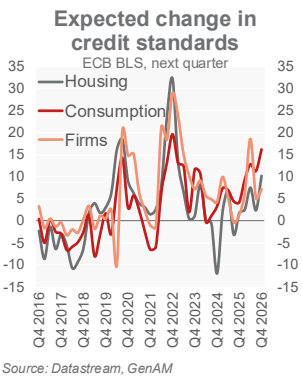
Source: Datastream, GenAM



Source: Datastream, GenAM



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- **Q3 GDP growth of 0.4% qoq underlines euro area resilience, but softer surveys and tighter financing conditions point to slower activity ahead.**
- **We stick to our 2026/27 growth forecasts of 1.0%/1.2%.**
- **Inflation spiked to 3.8% yoy in September and is set to abate meaningfully only after Q1 2027. The ECB is set to hike in Dec after being on hold in October.**

The euro area economy has once again proved surprisingly resilient. According to the preliminary estimate, GDP expanded by 0.4% qoq in Q3 (see top-left chart), despite elevated energy prices and geopolitical tensions. Looking ahead, however, momentum excluding volatile Irish data is set to soften. The latest flash PMIs point to weaker growth, and the forward-looking components of the survey as well as consumer confidence receded too (see top-right chart). The woes in France amplified the downturn in sentiment. Taken together, this suggests a slower pace of expansion around the turn of the year.

Financing conditions are also a headwind. Loan growth stalled in August and September at 3.1% yoy for households and 4.2% yoy for firms. Banks have tightened their credit standards (see bottom-right chart), and rising yields are feeding through to tighter financing conditions (see bottom-left chart). The earlier easing of financing conditions is thus going into reverse, which should weigh on investment and housing activity in the coming quarters.

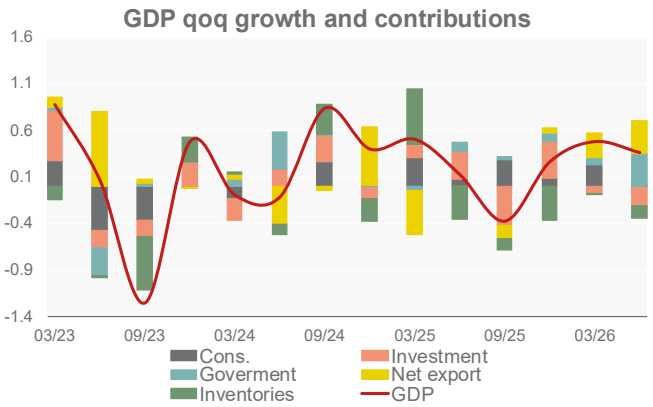
At the same time, inflation spiked to 3.8% yoy in September (see middle-left chart). We expect it to abate meaningfully only after Q1 2027, weighing on real incomes in the meantime. All told, we stick to our growth forecasts of 1.0% for 2026 and 1.2% for 2027. The resilience shown so far and a gradual recovery in real incomes once inflation recedes support our view that growth will pick up next year.

ECB: A further hike in Dec., France is on its own

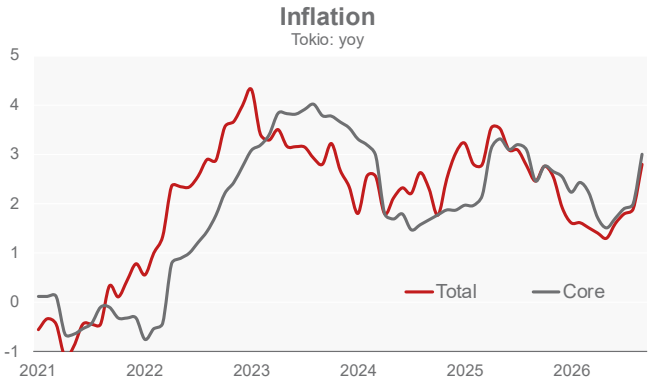
The ECB kept its deposit rate unchanged at 2.50% in October. The Governing Council openly debated a hike but held fire unanimously, as underlying inflation and wages have remained broadly stable so far. Yet Lagarde said that, barring major developments, "the direction of travel is quite clear". Tighter financing conditions, with 10-year sovereign yields up by around 35 bp, gave the ECB room to wait for more data. Lagarde played down speculation about ECB support for French bonds, noting that the criteria for using the TPI are well known. We expect two more 25 bp hikes in December and Q1 2027, taking the deposit rate to 3.0%. Lagarde's departure on 7 February 2027 leaves this outlook unchanged.

Japan

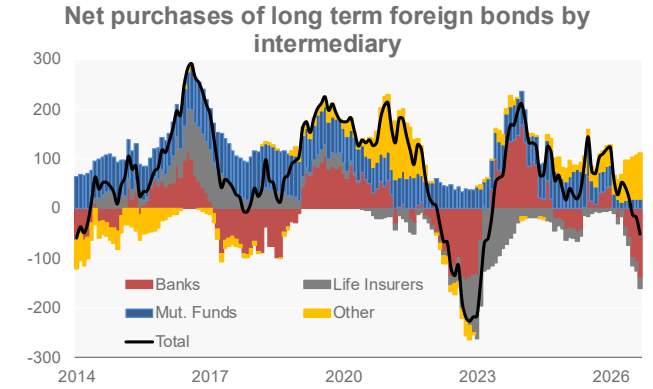
Paolo Zanghieri



Source: BoJ, GenAM



Source: Datastream, GenAM



Source: BoJ. GenAM

- **Growth remains resilient, but domestic demand is subdued. Exports lead the cycle, while households remain cautious due to higher living costs. Growth should decelerate from 0.5% this year to 0.4% next.**
- **Inflation accelerated further in September. Headline CPI rose to 2.1%. Inflation excluding both fresh food and energy accelerated to 2.4%, as price pressures are becoming increasingly broad-based.**
- **Firm wage growth and broader inflation pressures support the case for further policy normalisation, although the BoJ is likely to proceed gradually after pausing in October. We expect a hike in December, followed by a final one in H1 2027.**

Japan's economic recovery remains intact, but its composition is heavily skewed towards exports. Surveys show that activity remained resilient across the country in Q3, supported by solid corporate conditions. However, the inflation spike forces caution in spending. Consumption was up by 1.4% yoy in the three months to August, from 1.8% in the previous three. We expect GDP to grow by 0.5% this year, before slowing to 0.4% in 2027. This reflects a weaker boost from tech exports and worsening terms of trade weighing on consumption.

Inflation strengthened again in September. Tokyo headline CPI rose to 2.8% yoy, while the core-core measure accelerated to 3%. This suggests that price pressures are spreading beyond energy-related components. August nominal cash earnings rose by 3.8% yoy helping real wages stay in positive territory.

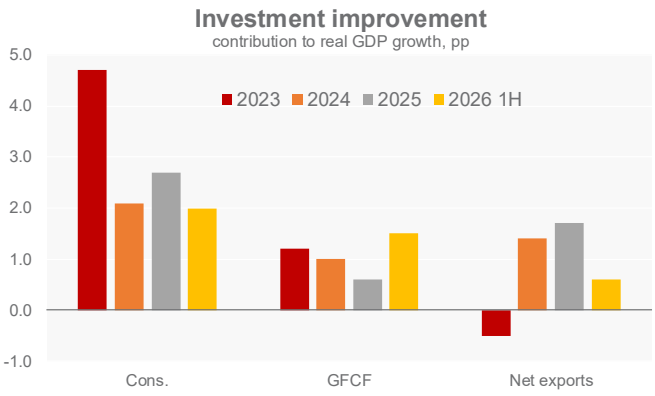
BoJ: two more hikes expected, to 1.75% by mid 2027

Despite clear evidence of inflation build-up, the Bank of Japan proceeds cautiously. It kept rates on hold at the 29-30 October meeting to assess the impact of earlier tightening. It is also monitoring whether stronger wages translate into a sustained recovery in consumption and whether broader inflation pressures persist. We expect rate hikes in December and in the first half of next year, taking rates to 1.75%. However, political pressure to keep rates low, which emerged at the September meeting, may slow it down and possibly delay the process.

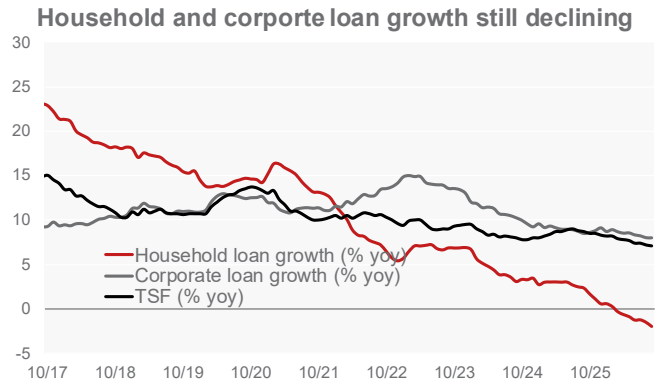
Aggregate data show net foreign-bond sales in September, led by banks and, to a lesser extent, life insurers. Pension funds and trust banks have remained net buyers of overseas bonds, while flows have become more selective, favouring some European and Asian debt markets over US Treasuries. The increasing appeal of higher JGB yields to domestic long-term investors implies a likely further moderation in foreign-bond demand.

China

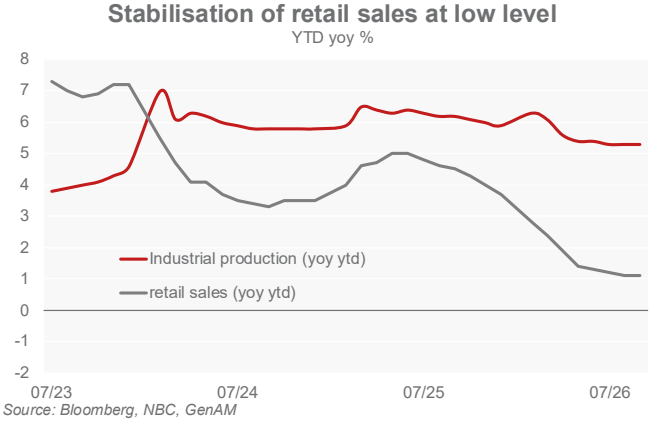
Guillaume Tresca



Source: Bloomberg, SG, GenAM



Source: Bloomberg, PBoC,GenAM



Source: Bloomberg, NBC, GenAM

- **Economic activity has improved slightly, and China will meet its 2026 growth target.**
- **Policy has become more supportive, but the new package remains targeted and investment-oriented. Weak policy transmission remains the main challenge, but the package will help reduce downside risks.**

The economic backdrop has improved marginally, with policymakers adopting a more supportive tone and macroeconomic indicators showing slight gains. We have raised our GDP growth forecast to 4.5% from 4.4%, as further stimulus measures will help China achieve its growth target. However, growth remains lacklustre and unbalanced.

GDP growth rebounded to 4.5% in Q3 after the unexpected Q2 slowdown, putting the 2026 growth target within reach. External demand has been resilient, while household consumption growth remains weak, at its lowest level since the Covid pandemic. The September indicators showed faster industrial growth, a modest recovery in retail sales and, more surprisingly, a sharp improvement in investment.

This marginal improvement in growth momentum coincided with a State Council meeting in September that signalled greater policy urgency and was quickly followed by concrete monetary and fiscal measures. The package remains targeted and investment-oriented rather than a broad reflationary stimulus. It still offers little in the way of genuine consumption-led stimulus.

Specifically, the package called for stronger counter-cyclical adjustment, faster bond issuance and deployment of proceeds, earlier implementation of infrastructure projects, expanded interest subsidies and additional relending facilities. However, investment remains the main transmission channel, and housing support is useful but narrow in scope. One notable initiative is the new interest subsidy for eligible first-home commercial mortgages. There is still no large-scale direct fiscal transfer to households.

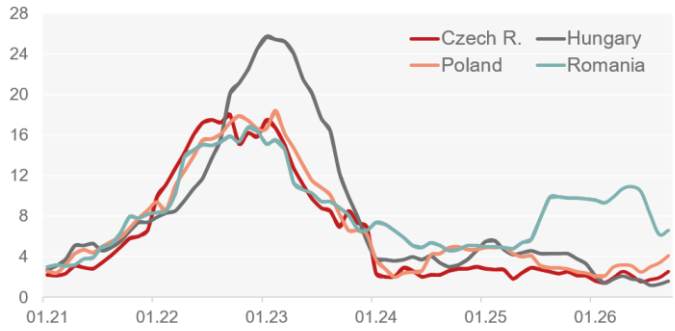
Weak policy transmission remains the main problem. Weak credit demand, constrained local governments and the ongoing property downturn limit the multiplier. The package will help reduce downside risks and increase the likelihood that growth stays within the government's 4.5%-5.0% target range, but it does not mark a change in the macroeconomic regime.

On the external front, the Xi-Trump meeting did not lead to an agreement, but relations have gradually improved. Further meetings are expected by year-end and should lead to more progress.

Central and Eastern Europe

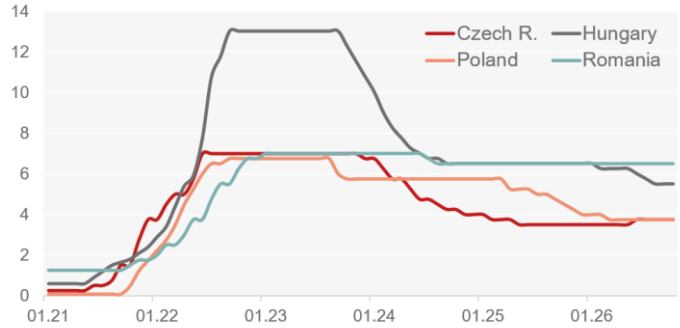
Jakub Krátký

Headline inflation
CE-4 countries (CPI yoy in %)



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

Monetary policy interest rates
CE-4 countries (end-of-month level, in %)



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	2.2
Consumer prices	2.4	2.5	2.0	3.3
Central bank's key rate	4.00	3.50	4.00	3.75
Hungary	**2024**	**2025**	**2026f**	**2027f**
GDP	0.6	0.5	1.7	2.0
Consumer prices	3.7	4.4	1.8	3.1
Central bank's key rate	6.50	6.50	5.50	5.00
Poland	**2024**	**2025**	**2026f**	**2027f**
GDP	3.2	3.6	3.4	2.8
Consumer prices	3.7	3.6	3.6	4.0
Central bank's key rate	5.75	4.00	3.75	4.25
Romania	**2024**	**2025**	**2026f**	**2027f**
GDP	1.1	0.8	-0.4	2.2
Consumer prices	5.6	7.3	8.5	5.5
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

- **Higher energy costs and diminishing food deflation have started to lift inflation from low levels, forcing central banks to abandon easing or even to consider tightening.**
- **Hungary's ambitious fiscal consolidation plan confirms its euro adoption drive. The political dust has settled in Romania, but the solution may not last given the difficult fiscal consolidation ahead.**
- **Growth remains resilient on healthy consumption, while factory activity is growing in most cases.**

The Czech CNB is under mounting pressure to tighten after holding rates at 3.75% through the summer and is expected to hike by 25bp in early November. Further hikes may follow over the medium term, as inflation rose above target and hit 2.5% yoy in September. S&P revised the Czech rating outlook to AA/Positive despite the adoption of looser fiscal rules and a projected increase in the budget deficit to 3.5% of GDP in 2027.

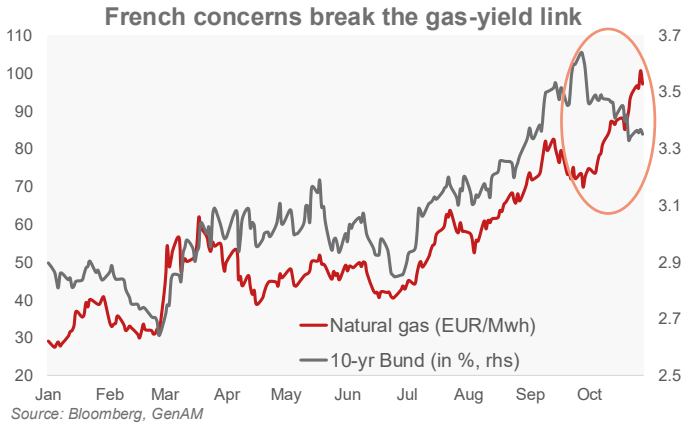
Hungary unveiled an ambitious fiscal consolidation plan, targeting a deficit below 5% of GDP in 2027 (vs. 7.5% in 2026) and a further reduction to 2.8% by 2030, with euro adoption planned for 2032. The plan includes a wealth tax and an increase in social spending. Although inflation remained subdued at 1.6% yoy in September, the MNB has turned cautious and is holding rates at 5.50%. Room to resume easing may emerge only in mid-2027.

Rising Polish inflation, which hit 4.1% yoy in September, is prompting the NBP to abandon plans for a rate cut and consider tighter policy, perhaps as early as late 2026, as renewed measures to lower fuel prices, including substantial tax cuts, will provide only temporary relief. A windfall tax on fuel refiners is intended to finance the measures, although additional fiscal costs remain possible. The budget deficit is planned to remain above 7% of GDP in 2027. The fiscal challenges prompted Moody's to cut the rating to A3/Stable.

Romania's political paralysis finally ended after PM Niculescu's government regained the support of pro-EU parties and reaffirmed its commitment to fiscal consolidation. However, this process may prove difficult for the left-leaning minority government given elevated inflation, which rebounded to 6.6% yoy in September, and an economy that has barely emerged from three quarters of recession. The political woes pushed the RON to a record low amid concerns about a potential rating cut to junk. This risk could resurface if political conditions deteriorate. Against this backdrop, a cautious monetary policy stance remains warranted, with the policy rate likely to stay at 6.50% until late spring 2027.

Government Bonds

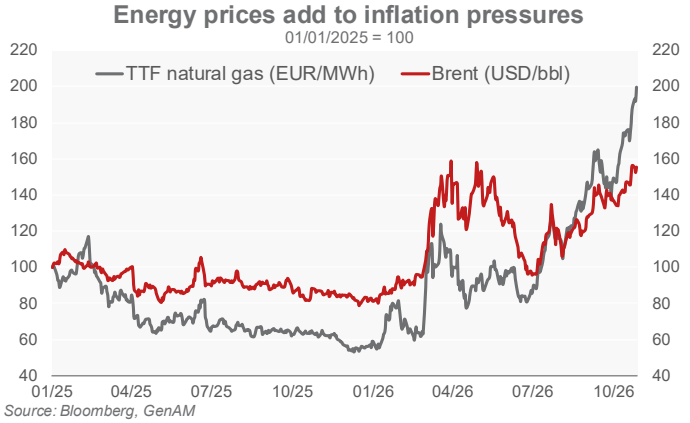
Florian Späte



Source: Bloomberg, GenAM



Source: Datastream, GenAM



Source: Bloomberg, GenAM

- **October's bond rally was a risk-aversion episode, not a trend reversal: 10-year US yields fell about 30 bps from their peak to 5%, but the drivers should fade.**
- **Yields should rise again, led by the US: higher energy prices, inflation swaps and a likely Fed/ECB hike in December expose long duration. Euro area: stay neutral on duration.**
- **Euro area non-core spreads should tighten moderately after the sharp widening. Only political gridlock in France that dilutes fiscal consolidation would derail this.**

Government bonds regained their safe-haven status in October. Unease over AI valuations in equity markets, intensifying unrest in France, softer euro area data and lower Fed and ECB rate hike expectations all lifted demand for duration. 10-year Treasury yields fell by around 30 bps from their early-October peak and are back to 5%. Bunds also benefited, while concerns over OATs added to demand for the perceived safest markets.

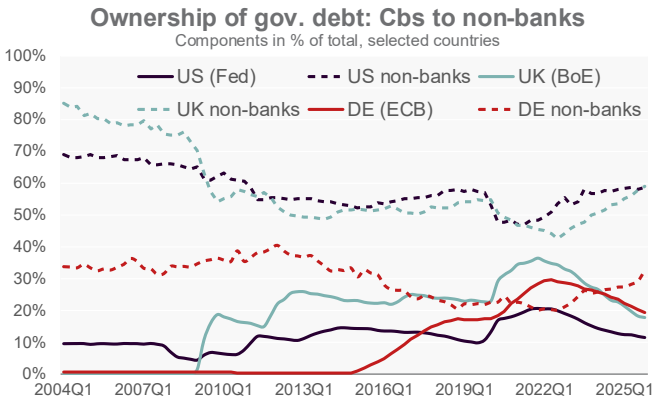
The long-standing link between energy prices and yields therefore broke down in October. Energy prices rose again (Brent +10%, natural gas +30% in October) yet yields fell as risk aversion and softer policy expectations dominated. Weakness in AI-related sectors such as semiconductors and hyperscalers revived the hedging role of bonds. We do not expect this decoupling to last: it reflects a growth and risk-appetite scare, not a fading sensitivity to inflation.

We expect yields to rise slightly again over the coming months, most clearly in the US, where 10-year yields also screen rich versus macro fundamentals. Even if the ECB stops hiking (not our base case), Bund yields should drift higher once safe-haven demand fades. Inflation is the key risk. Energy prices have risen noticeably again, and euro area 1-year inflation swaps have climbed above 3.8%. Higher energy costs typically filter through with a lag, so a renewed Middle East escalation after the US mid-term elections could add further price pressure. Markets have so far looked through the energy move, which leaves duration vulnerable if higher costs spill over into core inflation or wages.

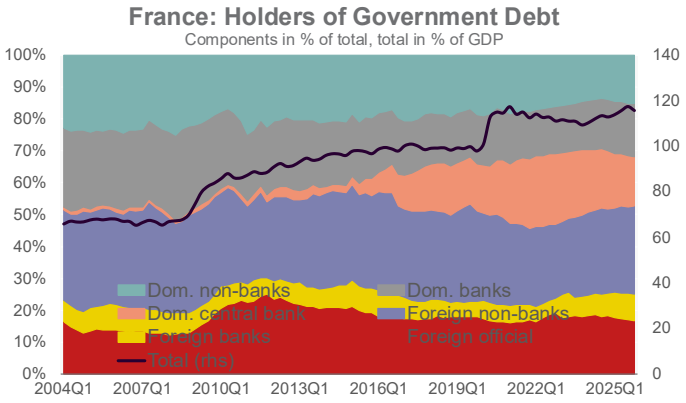
Growth also argues against extrapolating the rally. Euro area data have softened, but the global economy remains robust. Unless the AI-related equity correction tightens financial conditions materially, resilient activity should support higher yields. A Fed hike in December remains likely, and the Fed has often tightened by more than priced in. The recent scaling-back of hike expectations therefore looks vulnerable to reversal, which argues against adding long duration now.

Government Bonds

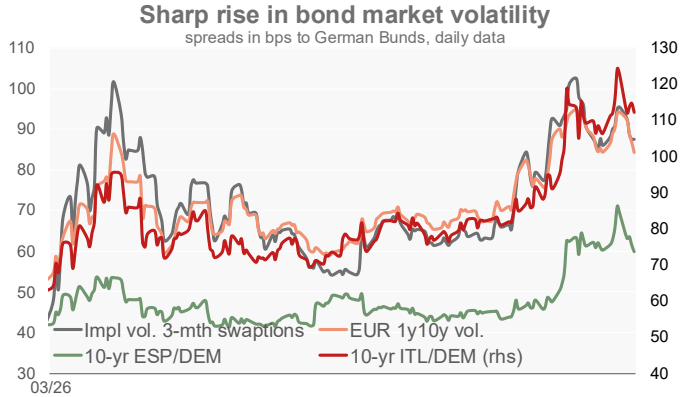
Florian Späte



Source: IMF, GenAM calculations



Source: IMF, GenAM calculations



Source: Bloomberg, GenAM

Structural factors point in the same direction. Persistently high deficits and rising debt ratios imply heavy sovereign supply, and the US Treasury is likely to raise coupon issuance in 2027. At the same time, rate-insensitive buyers are retreating: most central banks continue QT, and foreign official holders, once the anchor buyers of Treasuries, now hold a smaller share. Yield-sensitive private investors must therefore absorb more issuance. Together with a lasting departure from the low-inflation environment of the 2010s and the risk of recurring supply shocks, this should keep term premia elevated. Safe-haven demand helps in growth scares, but much less when fiscal or inflation worries dominate.

Overall, it is too early to bet on a continued bond rally. Growth and inflation concerns argue against it, as do the structural factors above. Bunds should remain a defensive anchor in stress episodes, but markets have already priced out much of the expected ECB tightening, which limits scope for yields to fall much further. We therefore regard October's move as a pause in a gradual upward trend and would not add duration at current levels.

Euro non-core: cautiously constructive, short-dated

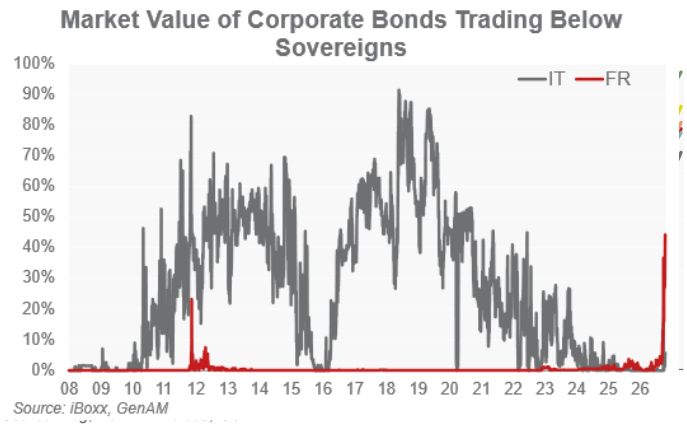
After the sharp widening, we are cautiously constructive on short-dated euro area non-core bonds, but remain cautious at the long end. France was the epicentre: the 10y OAT/Bund spread rose by more than 30 bps after the 17 October riots and reached new highs above 170 bps. Yet markets reacted in a less disorderly way than on 1-2 October, and contagion to BTPs and SPGBs, especially at the front end, remained limited. Moody's decision not to downgrade France brought further relief. Italy and Spain also rely more on domestic and euro area investors than France does and, unlike in 2010-12, show no large macroeconomic imbalances.

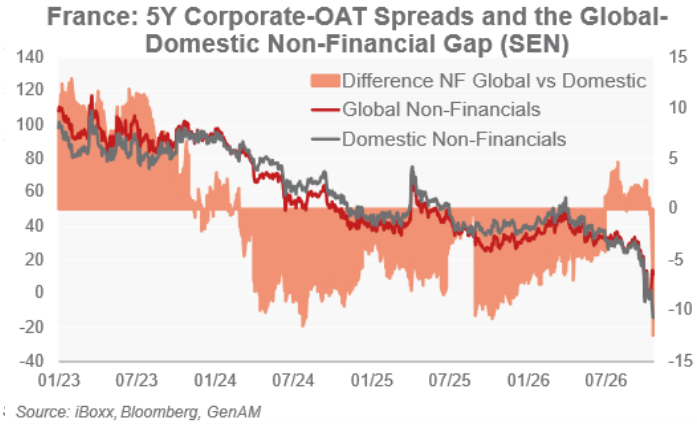
Investors increasingly differentiate France from the rest of the periphery, which limits contagion to Italy and Spain. At the same time, domestic banks and asset managers are tentatively returning to OATs, although insurers remain on the sidelines. With valuations improved and the budget likely to pass, we see scope for spread compression, although volatility should persist until the 2027 elections.

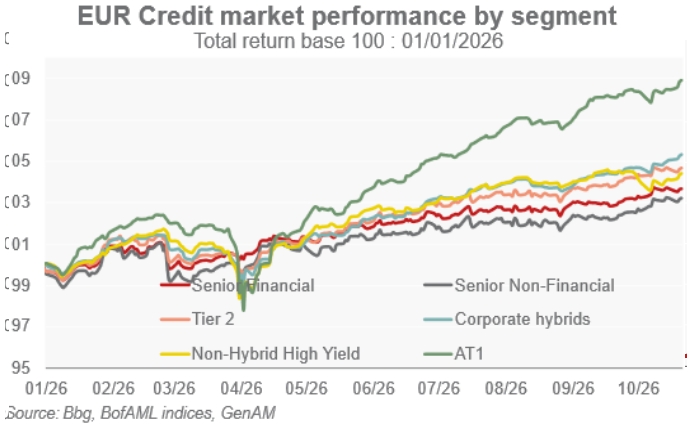
The main risk to this view is political gridlock in France. If it dilutes consolidation so much that the deficit again ends up clearly above 5% of GDP, or if growth disappoints, OAT spreads could widen sharply once more, with broader contagion. Bund yields would then fall instead of rising moderately. Because this is an idiosyncratic risk, we do not expect the ECB to intervene for the time being; lasting stabilisation requires credible fiscal tightening.

Credit

Elisa Belgacem







- **European credit has undergone a meaningful repricing, with October volatility driven primarily by French sovereign stress and higher rates rather than a deterioration in corporate fundamentals. The subsequent recovery reinforces our view that the sell-off has created a more attractive entry point into credit.**
- **Higher all-in yields, wider spreads and still-supportive technicals strengthen the carry proposition across both IG and HY. We therefore maintain our constructive stance and would use episodes of volatility to add exposure rather than turn defensive.**
- **Our preference remains centred on carry-rich segments of the market. We remain overweight Financials, supported by resilient bank fundamentals and favourable technicals, while continuing to favour subordinated instruments, notably AT1s and corporate hybrids, where the recent repricing has improved risk-reward.**

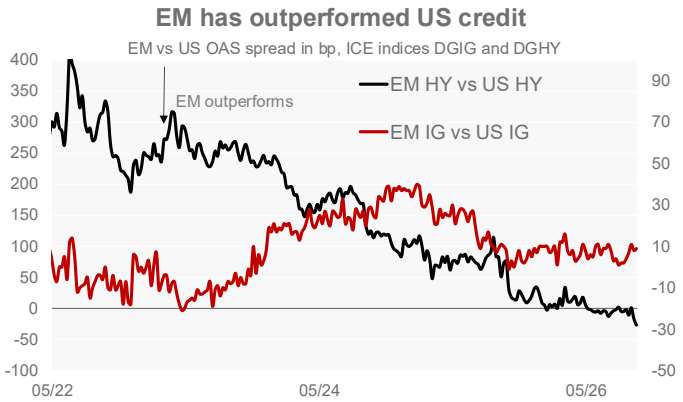
At current levels, credit spreads account for just c.16% of the all-in yield on the global IG index, underscoring the extent to which European IG has effectively become a rates-plus product. Nevertheless, technicals remain highly supportive: sticky demand from insurance and pension portfolios, manageable net supply and strong reinvestment flows continue to underpin the market. All-in yields around 4% provide a meaningful buffer against adverse rate or spread moves, keeping the carry proposition attractive on a risk-adjusted basis. While spread upside in senior IG now appears limited, we still see scope for marginal compression and expect total returns to remain largely carry-driven. Our base case remains a yield-buyer-led regime with modest further tightening and no need for a broad defensive stance, despite stretched valuations and elevated intraday volatility beneath the surface.

Where Carry Still Works

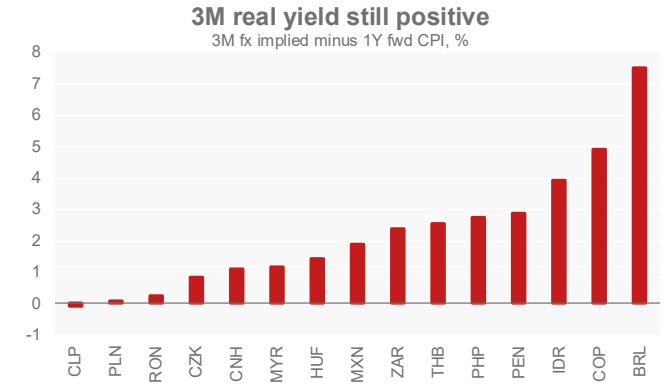
We expect credit spreads to tighten slightly in the coming months, though the pace of compression is likely to remain gradual. Sector positioning is therefore selective rather than defensive, favouring areas with stronger resilience and more stable carry profiles. We upgrade Financials to overweight, reflecting limited evidence of contagion from private credit at this stage, supported by resilient earnings and a favourable technical backdrop, including lower net supply relative to Non-Financials. While senior IG offers diminishing spread value, we see more attractive risk-reward further down the capital structure — notably in high yield, AT1s and hybrid instruments — where spreads still represent a more meaningful share of total yield..

EM sovereign bonds

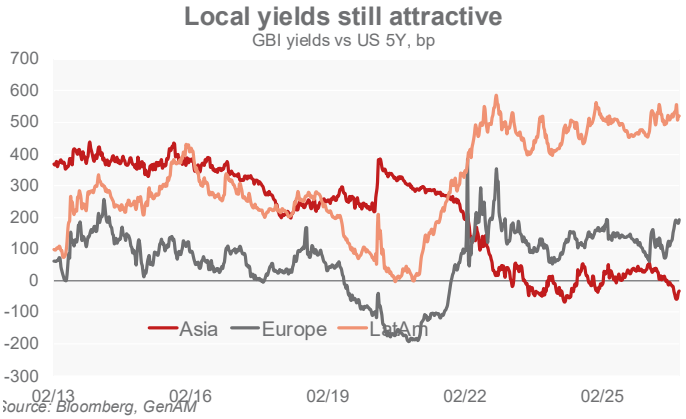
Guillaume Tresca



Source: Bloomberg, ICE, GenAM



Source: Bloomberg, GIAM



Source: Bloomberg, GenAM

- **The positive long-term EM narrative remains intact despite some deterioration in global risk appetite, which offers better entry levels.**
- **Macroeconomic fundamentals have barely changed. EMs remain on an upward credit rating trajectory.**
- **EM fixed income has been resilient, outperforming US credit, and we expect this to continue. We maintain our preference for local debt and BBs.**

EM fixed income has not escaped the global deterioration in risk appetite, with some spread widening, but the EM macroeconomic outlook has barely budged. The underlying positive story remains intact. More credible institutions, an upward rating trajectory and positive technicals make EM fixed income a compelling asset class.

Global EM PMIs have held up, with even a slight rebound in the manufacturing sector, especially in Asia and EMEA. EM IP and retail sales are holding up well. Inflation has reaccelerated, but the move is contained and central banks have been proactive. More importantly, the latest IMF GDP forecasts show a re-widening of the EM-DM GDP growth differential, bringing it close to the top of its 10Y range.

During the latest widening in credit spreads, EM fixed income has been resilient, outperforming US credit. We would expect this outperformance to continue as long as global growth expectations remain in check and technicals remain positive.

We also maintain our preference for local vs external debt given better valuations and for HY external debt over IG.

Local debt: more value

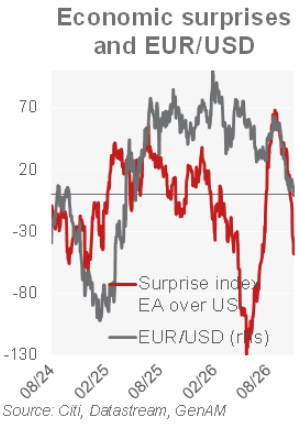
Local debt has suffered somewhat from the latest bout of USD strengthening, but it still offers several compelling local stories. Our view has hardly changed, as we still expect some USD weakening and real yields remain high across the complex. On FX, we avoid CEE except for the HUF, and we expect Asia to catch up. The carry trade environment is somewhat less favourable, but the risk-reward remains positive. In local rates, the outlook has improved, with a large yield pick-up over US rates. We like South African, Brazilian and Hungarian bonds (convergence trade).

External debt: focus on quality countries

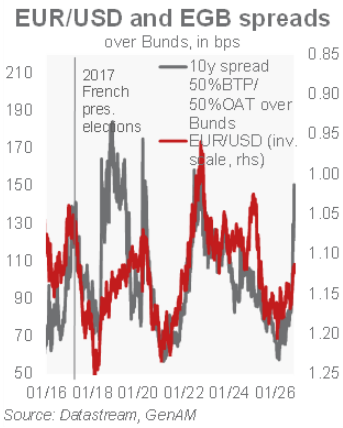
In a less supportive environment, we maintain our preference for quality BB countries that offer wide spreads but improving fundamentals. We avoid Bs and the lowest-rated names. We maintain our favourable stance on Mexico, Ivory Coast, the Balkans and have closed our Romania OW.

Currencies

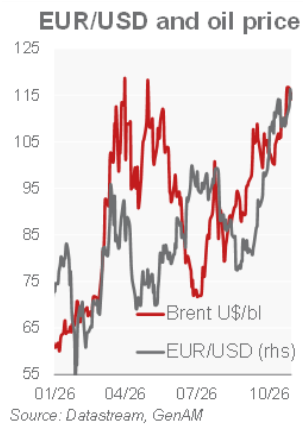
Thomas Hempell



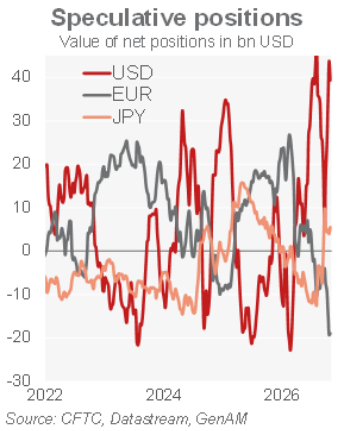
Source: Citi, Datastream, GenAM



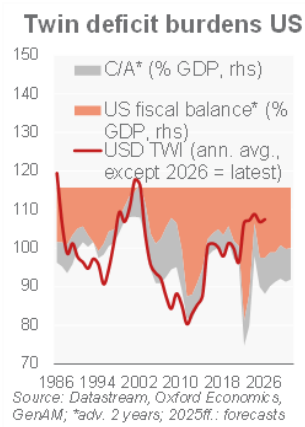
Source: Datastream, GenAM



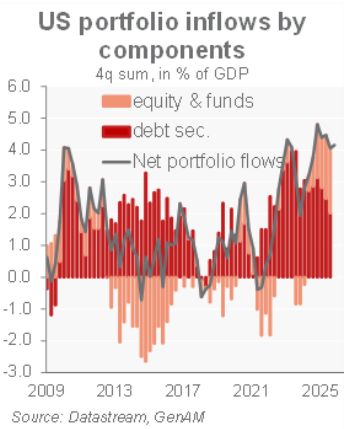
Source: Datastream, GenAM



Source: CFTC, Datastream, GenAM



Source: Datastream, Oxford Economics, GenAM; *adv. 2 years; 2025ff.: forecasts



Source: Datastream, GenAM

- **We cut our 3-month EUR/USD forecast to 1.11. Softer data, French fiscal woes and high energy prices will keep weighing on the EUR near term.**
- **That said, the USD bounce rests on fragile foundations, too. Crowded long positions, US fiscal and Fed-independence risks and reliance on AI-linked equity inflows make it vulnerable to setbacks.**
- **We expect a weaker USD into 2027, favouring a EUR/USD rebound beyond the short-term drag.**

EUR bulls are scarce these days. French fiscal worries and a rising energy import bill have pushed EUR/USD down 4% since mid-August. We stay cautious on the euro near term, too, and lower our 3-month forecast to 1.11, for three reasons. First, euro area economic momentum has cooled after the summer rebound: the German Ifo remains upbeat, but other key sentiment indicators (incl. Oct flash PMIs) have undershot expectations, sending the surprise indicator plummeting, also relative to resilient US data (top left chart). Second, French debt woes are likely to keep burdening the single currency (top right): the path towards urgently needed fiscal consolidation remains narrow, justifying an elevated risk premium. Third, high energy prices weigh on the EUR (mid left chart). A lasting US/Iran ceasefire, the key to lower energy prices, still looks distant.

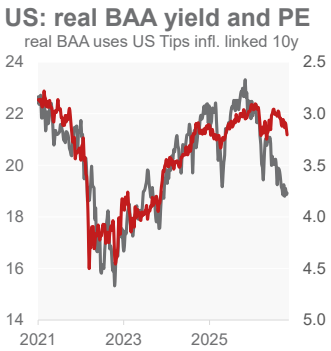
Recent USD bounce disguises looming weakness

Yet the USD rally, driven by higher Fed rate expectations and AI-related inflows, rests on fragile foundations, too. First, long USD (and conversely short EUR) positions look crowded (mid right chart), leaving the EUR prone to sharp short-covering. Second, an Iran/US deal, though unlikely near term, would ease energy price pressures and the euro area's terms-of-trade squeeze. Third, US domestic risks keep lingering. The Fed defied pressure from President Trump by hiking in September, but the investigation committee against Governor Cook shows that attacks on Fed independence may resurface any time. Unaddressed fiscal challenges also keep the risks of fiscal dominance and financial repression alive. Fourth, the US twin deficit burdens the USD (bottom left chart). Increasing reliance on volatile equity rather than bond inflows (bottom right chart) ties the dollar ever more to the AI outlook, as the mid-October USD dip amid wobbling tech stocks showed.

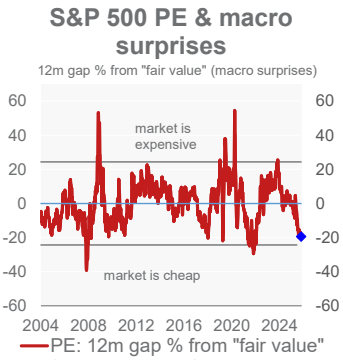
The USD may stay resilient near term amid energy uncertainty and European debt worries. But US domestic challenges tilt the outlook to the weaker side into next year, which should support EUR/USD above 1.15 in H2 2027.

Equities

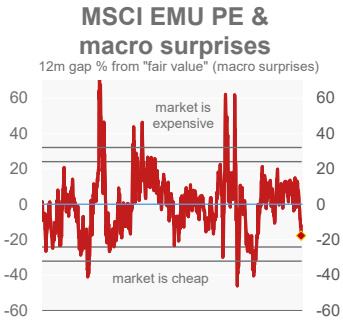
Michele Morganti and Vladimir Oleinikov



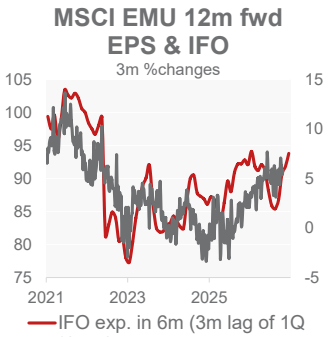
Source: Datastream, GenAM



Source: Datastream, GenAM calculations



Source: Datastream, GenAM calculations



Source: Datastream, GenAM

Analysis of the median stock: Q3 2026 reporting season

Median stock	Earnings Growth		Sales Growth		margin trend *		availability
	Q2 2026	Q3 2026	Q2 2026	Q3 2026	Q2 2026	Q3 2026	Q3 2026
S&P	13.3 %	12.7 %	8.9 %	8.3 %	4.5 %	4.5 %	46.6%
Stoxx	12.8 %	13.7 %	5.9 %	7.2 %	6.9 %	6.5 %	41.1%
Euro Stoxx	16.5 %	12.7 %	5.9 %	7.5 %	10.6 %	5.2 %	40.8%
Topix	13.0 %	2.2 %	8.2 %	7.2 %	4.9 %	(5.0)%	19.1%

Median stock	Earnings Surpr		Sales Surpr		margin trend *		availability
	Q2 2026	Q3 2026	Q2 2026	Q3 2026	Q2 2026	Q3 2026	Q3 2026
S&P	5.6 %	3.8 %	1.6 %	0.9 %	4.0 %	3.0 %	46.6%
Stoxx	3.5 %	2.5 %	1.2 %	0.7 %	2.3 %	1.8 %	41.3%
Euro Stoxx	2.6 %	2.8 %	1.1 %	0.9 %	1.5 %	2.0 %	40.8%
Topix	8.7 %	0.9 %	1.9 %	0.9 %	6.8 %	(0.0)%	19.1%

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

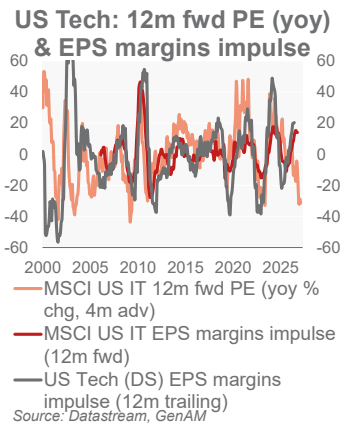
- **We retain a cautious overweight (OW) in equities. Resilient growth, a still very benign FCF gap, healthy balance sheets and ML signals favouring equities over bonds mitigate higher real yields, geopolitical risks and demanding, though less so recently, valuations.**
- **Tech PE, as well as US and EMU PEs relative to the trend in macro surprises, look quite subdued now.**
- **EPS remain the key support. US NIPA profits rose +23% yoy in Q2, with near-record margins; in the Q3 season (~50% complete), S&P 500 EPS growth slowed to 28% yoy, with 84% of companies beating expectations, but by a thin ~2% average surprise (norm: 6.0%).**
- **EU EPS are stronger: Stoxx 600 Q3 EPS growth rose to 33%, with a 12.2% surprise (4% norm), while Q4 consensus stands at +39%. We stay neutral on EMU versus the US and US Tech, while diversifying within the US towards mid-caps, the S&P 493 and gold stocks. We remain OW EM and Japan.**
- **Our 12-month total-return forecasts are 9% for the S&P 500 and 11.5% for EMU, with upside to around 20% if consensus EPS estimates are met.**
- **Key risks: energy inflation, a further rise in real yields and credit spreads (tighter financial conditions), and weaker momentum in AI investment and profits.**

Solid global growth and strong EPS remain conducive to risk assets, even though global equities were flat over the past two weeks amid chip/AI swings, higher energy prices and credit spreads, a stronger USD and French political unrest, which pushed STOXX Banks to a four-month low.

Earnings carry the market as Tech takes a breather. We retain a cautious OW in equities. Resilient growth, solid balance sheets, a benign FCF gap and ML signals favouring equities over bonds offset higher real yields, wider spreads and geopolitical risks. Valuations, still demanding vs. long-term history, leave earnings, not multiples, to drive returns.

That said, Tech, US and EMU P/Es now look undemanding against both macro surprises and real-rate trends. Market multiples tend to correlate with margins: profit margins expanded by 270bp in the US and 110bp in the EA over the past year. In the EA, margins are now nearly 350 bps above 2019 levels (12% vs. 8.5%). On valuations, the EU offers more cushion, with better CAPE and FCF yield metrics (5.5% vs. 3.5% in the US) and lighter positioning, though the US is tactically regaining momentum on stronger EPS and GDP growth and lower energy risks.

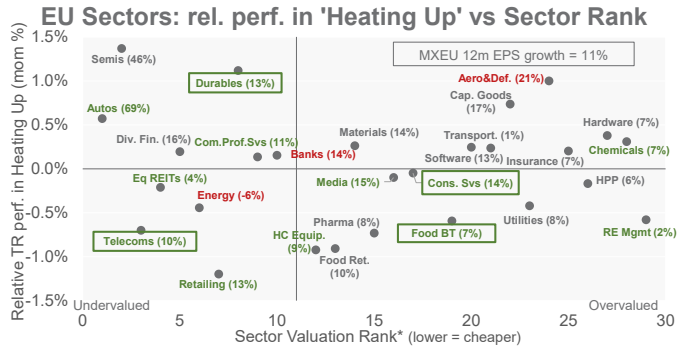
Equities



Source: Datastream, GenAM



Source: Datastream, GenAM calculations



*includes Fed Model gap, exp. TR, PEG adj. (for ROE and COE), Shiller PE, 3-stage EPS growth model, mkt multiples, PE vs hist. avg. excl. bubble years. 12m EPS growth = 12m fwd EPS vs 12m trailing EPS

Green/Red name = positive/negative machine learning (ML) models **in (X%): 12m EPS growth** = Best performing models

Source: Datastream, GenAM calculations as of 30/10/2026

as of 28/10/2026

Index	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%	35%	18%	26%	18.9	17.1	10%	0.7
SPX 493 (median)	10%	12%	10%	11%	17.6	17.7	-1%	1.4
Mag. 7 (median)	22%	23%	17%	19%	23.2	27.2	-15%	1.0
Global AI 175 Basket	14%	22%	16%	18%	18.9	17.6	8%	0.9
US AI Baskets:	19%	20%	16%	17%	18.3	19.4	-6%	1.0
· Phase 2 - Infrastructure	20%	42%	25%	33%	19.1	16.9	13%	0.5
· Phase 3 - New Revenues	18%	20%	14%	16%	22.6	39.1	-42%	1.4
· Phase 4 - Productivity	14%	14%	11%	13%	16.0	18.0	-11%	1.1
EU AI Beneficiaries (79 co's)	6%	14%	15%	16%	18.0	17.5	3%	0.9
MSCI US IT (cap. weight)	23%	57%	50%	42%	20.0	21.7	-8%	0.4
MSCI China IT (cap. weight)	29%	39%	49%	28%	17.4	20.5	-15%	0.4
Gold Basket (20 co's)	92%	46%	15%	22%	10.0	18.6	-47%	0.4
MSCI EMU	-5%	24%	12%	18%	13.8	14.4	-4%	0.7
Russell 2000	0%	114%	55%	19%	22.9	22.8	1%	0.6
MDAX	-4%	3%	43%	17%	12.6	15.5	-19%	0.5
Japan (TOPIX)	9%	21%	13%	20%	14.9	15.1	-1%	0.8
MSCI EM	9%	76%	24%	42%	8.9	12.0	-26%	0.2
MSCI China	-3%	13%	14%	13%	9.4	12.0	-22%	0.6
MSCI Korea	35%	334%	37%	83%	4.3	10.0	-58%	0.0
MSCI India	13%	12%	18%	17%	18.3	15.9	15%	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

EPS remain the key support for our stance. US NIPA profits rose +23% yoy in Q2, with near-record margins. In the US Q3 season (~50% complete), S&P 500 EPS growth slowed to 28% (from 50% in Q2), with 84% of companies beating expectations, led by Energy (+167%), IT (+85%) and Materials (+54%); However, the ~2% average surprise is below the 6.0% norm, while Q4 consensus stands at ca. 30%. The Stoxx 600 delivered 33% EPS growth (30% in Q2) and a 12.2% surprise, well above the 4% norm, with a broader-based recovery than in the US; Q4 consensus stands at +39%. German fiscal stimulus, AI capex and supportive IFO expectations underpin forward EPS, even if energy prices and Chinese competition remain a drag.

Event watch: historically, markets have recovered soon after US midterm elections, and the reaction so far is in line with the post-1995 pattern.

Cautious OW equities, cyclical tilt reduced

Regionally, we remain neutral on the euro area versus the US and US Tech: tactically, the US is regaining relative momentum on earnings, while the euro area stays attractive over the mid-term (lower CAPE, higher FCF yield, light positioning). We diversify within the US towards mid-caps, the S&P 493 and gold stocks. We remain OW EM and Japan.

EU sectors: keep a cyclical tilt, but more defensive amid credit risks

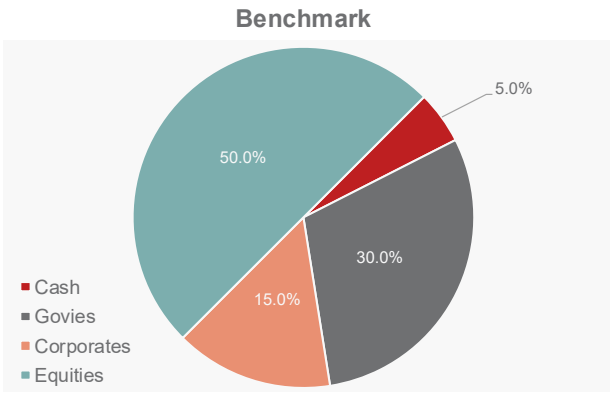
Our cycle clock still points to "Heating up". Following revisions and valuation signals, we turn slightly more defensive while maintaining a cyclical tilt, supported by resilient GDP, still-strong AI investment, defence and infrastructure spending. We reduced our OW on Banks due to wider credit and non-core EA spreads, but EPS revisions, relative ROE trends, higher-for-longer rates and high cash yield justify keeping marginal exposure. We reduced Div. Financials and Equity REITs (negative revisions, valuation, higher rates), raised Food Retail to N and moved Utilities to OW. OW: Banks, Div. Fin., Utilities, Pharma, Cap. Goods, Semis, Materials. UW: Staples, Real Estate, Hardware.

US Tech: neutral, as risk/reward looks balanced

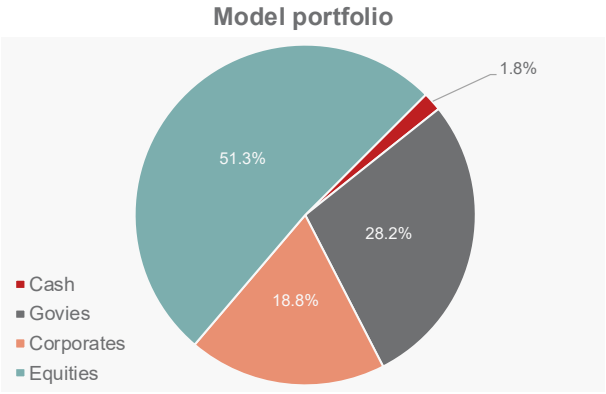
We stay neutral on US Tech. Valuations look attractive: Tech PE has decreased by 35% over the last year, and the Mag. 7 trades at a 15% discount vs. history. However, the AI investment cycle faces structural risks that could affect the pace and profitability of deployment: financing and monetisation, competition, regulation, and infrastructure and environmental constraints. We propose new thematic baskets to capture opportunities in the AI space while also diversifying across sectors and regions. We overweight "Phase 4: enhanced productivity".

Asset Allocation

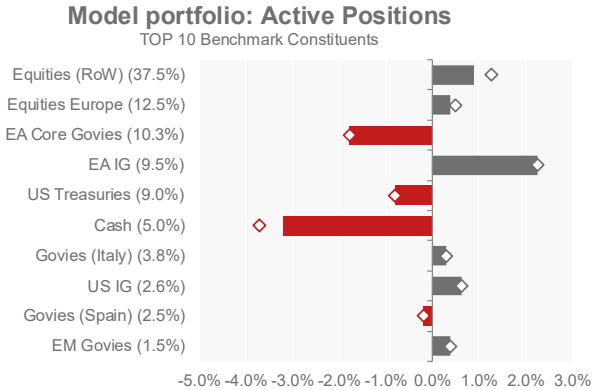
Thorsten Runde



Source: GenAM



Source: GenAM



Source: GenAM; Benchmark weights in brackets, diamonds indicating prev. recommendations

- **In October (28.10.26), Equities lost momentum: China (-6.6%) and EM ex China (-4.7%) fell most. Japan and EMU (-3.2% and -1.2%) also declined, while the US (+1.3%) held up and Europe ex EMU (+3.1%) led.**
- **Across fixed income, long Govies rallied strongly as yields retreated (US Gvt. 10Y+ +3.9%, Germany 10Y+ +3.5%), whereas France lagged amid fiscal stress (France Gvt. 10Y+ +0.4%). US Govies outperformed EA by ~116 bps; long Govies beat short by ~188 bps.**
- **Within Credit, HY underperformed IG by around 117 bps on a total-return basis. US IG outperformed EA IG by about +113 bps, while financials underperformed non-financials by about 11 bps.**
- **Hormuz risks have intensified, with Brent above $110 after renewed attacks on Gulf shipping. French fiscal stress, sticky inflation and further ECB and Fed hikes argue for keeping risk contained, while solid growth and earnings remain a backstop.**
- **We keep a moderate pro-risk tilt: OW Credit (IG and HY), EM local debt and Equities (selectively trimmed); UW Cash and Govies. EA duration turns neutral; US stays mildly short.**

Since end-September (28.10.26), our model portfolio has underperformed its benchmark by around 3.5 bps. At the aggregate level, Govies (-2.6 bps) were the main drag, with Equities (-0.9 bps) and Corporates (-0.8 bps) detracting further while the UW in Cash (+0.8 bps) contributed positively. At the position level, US large-cap Equities (+0.6 bps) and short-/mid-dated French Govies (+0.4/+0.3 bps) stood out positively, whereas long-dated US Govies (-2.0 bps) and EM ex China EQ (-0.6 bps) detracted most.

Attacks on Gulf shipping and Saudi energy sites keep Brent above $110 and inflation risks tilted up; after the Fed's hawkish hold, ECB and Fed hikes in December look likely. France's budget impasse (OAT 10Y above 5%), next week's US mid-terms and rising term premia keep the risk balance two-sided. Resilient global growth, AI-driven investment and solid earnings support a selective pro-risk stance, while volatile long-end yields keep the focus on carry.

Selectively de-risking, neutral on EA duration

Thus, we slightly adjust our TAA stance: OW Credit (IG and HY) and EM local debt, a cautious OW in Equities (trimmed, mainly outside Europe) and UWs in Cash (reduced) and Government bonds. We turn neutral on duration in the euro area but keep a mild short in the US, as sticky inflation, fiscal stress and further hikes limit its appeal there; carry remains the key return engine.

Forecasts

Macro Data

Growth[1]	2025	2026 forecast	2026 Δ vs. cons.	2027 forecast	2027 Δ vs. cons.	2028 forecast
US	2.1	2.4	0.3	2.4	0.3	2.2
Euro area	1.3	1.0	0.0	1.2	- 0.1	0.5
Germany	0.3	1.0	- 0.1	1.3	0.1	1.2
France	0.9	0.5	- 0.0	0.8	- 0.1	1.4
Italy	0.7	0.7	- 0.0	0.5	- 0.2	0.5
Non-EMU	1.5	1.1	- 0.4	1.3	0.0	1.7
UK	1.2	0.6	- 0.6	1.1	0.0	1.6
Switzerland	1.6	1.7	0.0	1.4	0.0	1.9
Japan	1.2	0.5	- 0.3	0.4	- 0.4	0.5
Asia ex Japan	5.4	5.0	- 0.2	4.9	- 0.1	4.8
China	5.0	4.5	- 0.1	4.3	- 0.2	4.3
CEE	2.1	1.6	- 0.0	2.1	- 0.1	2.1
Latin America	2.4	1.6	- 0.2	2.0	0.0	2.7
World	**3.4**	**3.0**	**- 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	0.1	2.6	0.3	2.2
Euro area	2.1	3.0	0.1	2.6	0.1	2.1
Germany	2.3	2.9	0.2	2.4	- 0.0	2.0
France	0.9	2.3	0.1	1.9	0.0	1.9
Italy	1.7	3.0	0.2	2.2	0.0	1.9
Non-EMU	2.7	2.5	0.1	2.4	0.0	1.9
UK	3.4	3.2	0.1	2.8	- 0.0	2.0
Switzerland	0.2	0.7	0.1	0.8	0.1	0.8
Japan	3.2	2.9	1.0	2.3	0.3	2.0
Asia ex Japan	0.9	2.3	0.0	2.2	0.1	2.3
China	0.0	1.0	0.1	1.2	0.1	1.5
CEE	13.9	11.9	0.0	9.3	0.3	7.4
Latin America[2]	4.6	4.7	0.0	4.0	0.0	3.2
World	**2.9**	**3.7**	**0.1**	**3.1**	**0.1**	**2.7**

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

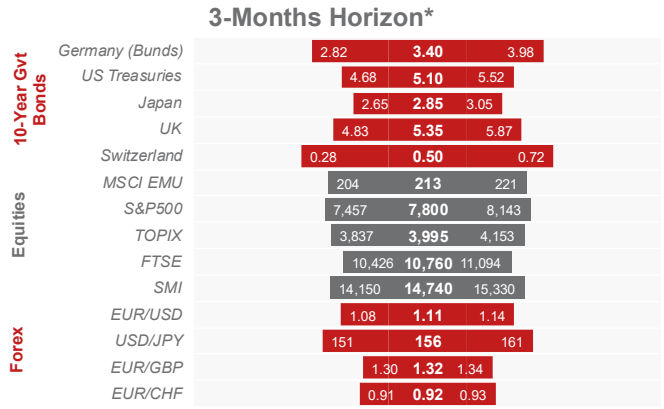
Financial Markets

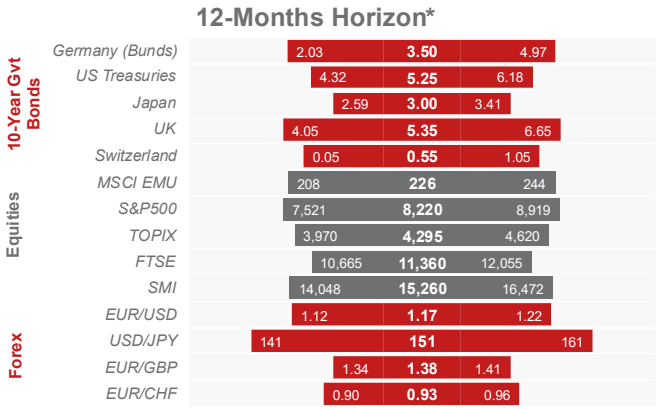
Key Rates	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
US (upper bound)	4.00	4.25	4.20	4.50	4.46	4.50	4.58
Euro area	2.50	2.75	2.70	3.00	2.94	3.00	3.18
Japan	1.25	1.25	1.50	1.50	1.71	1.75	2.02
UK	3.75	4.00	4.26	4.25	4.63	4.25	4.90
Switzerland	0.00	0.00	-0.01	0.00	0.12	0.25	0.52
10-Year Gvt Bonds							
US Treasuries	5.00	5.10	5.06	5.15	5.10	5.25	5.16
Germany (Bunds)	3.36	3.40	3.42	3.45	3.45	3.50	3.49
Italy	4.51	4.50	4.59	4.55	4.65	4.65	4.76
Spread vs Bunds	*115*	*110*	*117*	*110*	*120*	*115*	*126*
France	4.91	4.90	4.97	4.90	5.04	4.90	5.15
Spread vs Bunds	*154*	*150*	*155*	*145*	*159*	*140*	*166*
Japan	2.81	2.85	2.93	2.90	3.00	3.00	3.11
UK	5.34	5.35	5.40	5.35	5.45	5.35	5.51
Switzerland	0.48	0.50	0.50	0.50	0.51	0.55	0.53

**3-day avg. as of 28/10/26*
***ICE BofA (OAS)*

Credit Spreads**	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
EA IG Non-Financial	103	85		75		80	
EA IG Financial	111	90		75		80	
EA HY	358	315		265		275	
EM Sov. (in USD)	192	175		170		170	
Forex							
EUR/USD	1.12	1.11	1.12	1.13	1.12	1.17	1.13
USD/JPY	158	156	157	154	156	151	153
EUR/JPY	176	173	175	174	175	177	174
GBP/USD	1.33	1.32	1.33	1.35	1.33	1.38	1.33
EUR/GBP	0.84	0.84	0.84	0.84	0.84	0.85	0.85
EUR/CHF	0.92	0.92	0.92	0.92	0.91	0.93	0.90
Equities							
S&P500	7,714	7,800		7,945		8,220	
MSCI EMU	210.7	212.5		217.5		226.0	
TOPIX	3,987	3,995		4,080		4,295	
FTSE	10,716	10,760		10,930		11,360	
SMI	14,573	14,740		14,660		15,260	

Forecast Intervals





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

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Issued by: **Generali Asset Management S.p.A. Società di gestione del risparmio | Research Department**

Head of Research: **Vincent Chaigneau**

Head of Macro & Market Research: **Dr. Thomas Hempell, CFA**

Team: **Elisabeth Assmuth |** Research Operations

Elisa Belgacem | Head of Cross-Asset Quant & Dev, Senior Credit Strategist

Jakub Krátký | GI CEE Financial Analyst

Michele Morganti | Head of Insurance & AM Research, Senior Equity Strategist

Vladimir Oleinikov, CFA | Senior Quantitative Analyst

Dr. Thorsten Runde | Senior Quantitative Analyst

Dr. Florian Späte, CIIA | Senior Bond Strategist

Guillaume Tresca | Senior Emerging Market Strategist

Dr. Martin Wolburg, CIIA | Senior Economist

Paolo Zanghieri, PhD | Senior Economist

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