GENERALI ASSET MANAGEMENT

Market Perspectives

Dollar tremor

February 2026

GenAM Macro & Market Research

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

- **Global equity markets entered the new year with further advances. New US foreign and economic policy uncertainty triggered only temporary setbacks – but lasting damage to the US dollar.**
- **An unabated dollar sell-off is unlikely amid solid US growth and a lasting AI boom. Yet US policy crosscurrents, an eroding yield gap and continued investor diversification still keep the USD's outlook to the weaker side for the remainder of 2026.**
- **Advanced valuations, high index concentration and more bullish investor positioning make risk sentiment vulnerable to setbacks.**
- **That said, with the overall macro backdrop still benign (euro area green shoots, solid US growth, eased inflation risks) and cost-of-living concerns taming Trump's appetite for a broad trade conflict into the mid-terms, we keep a pro-risk bias in our portfolios.**

Content

Global View – Dollar tremor

Thomas Hempell

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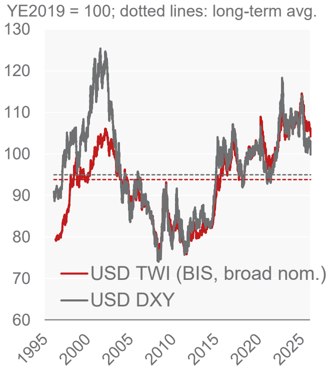
The US dollar suffered its strongest weekly loss (-2.5%) in January since 'Liberation Day' as US president Trump further challenged the geopolitical order. Defying resilient US economic data and pared Fed rate cut expectations, the dollar tremor came on the heels of actual and threatened US foreign interventions (Venezuela, Iran, Greenland). Signals that the administration may favour a weaker dollar added insult to injury. More USD weakness may be ahead. But, as detailed in our FX section (p.12), it is unlikely to unfold further as a straight line as main FX peers, incl. EUR and JPY, are burdened by their own shortcomings. Gold may still be the main beneficiary for now.

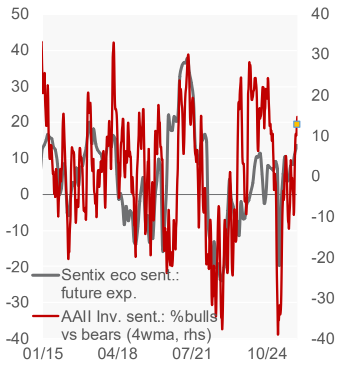
USD weaker, but still dear

YE2019 = 100; dotted lines: long-term avg.



Source: Datastream, GenAM

Investors turn more bullish



Source: Datastream, GenAM

Trump's tariff threats over his Greenland claims unsettled global equity markets (biggest daily drop of S&P500 since Oct.), but after Trump backtracked in Davos, risk assets advanced relentlessly (MSCI World +2.6%, EUR IG spreads falling to tightest since 2007). Advanced valuations, high index concentration in tech names, a more bullish market positioning and the risk of spillovers from higher FX volatility, notably on USTs, increase the vulnerability to temporary setbacks. We also closely observe US politics and renewed government shutdown risks.

Overall, however, we expect the benign outlook for risk assets to continue to prevail over the coming weeks. The global economy keeps expanding steadily as past rate cuts keep feeding through and trade uncertainties subside from their 2025 peaks. While geopolitical tensions will keep lingering, Trump will have to tread more carefully on tariffs with US voters primarily concerned over costs of living into the November mid-terms. Growth is set to pick up further in the euro area as the German fiscal stimulus kicks in. And tax cuts, solid consumption and broadening investment activity will bolster US growth and corporate earnings. The Fed needs to remain vigilant on inflation (price expectations have rebounded over January) but is still likely to deliver a final rate cut by June. Public finances in France remain strained but government's survival of a no-confidence vote over the 2026 budget have greatly reduced the risks of new elections (and sent spreads of OATs to their tightest since pres. Macron called snap elections in June '24).

10-Year Gvt Bonds	Current*	3M	6M	12M
US Treasuries	4.23	4.25	4.25	4.30
Germany (Bunds)	2.87	2.90	2.95	3.00
Credit Spreads**				
EA IG Non-Financial	71	70	70	70
EA IG Financial	73	75	75	75
Forex				
EUR/USD	1.19	1.19	1.20	1.21
USD/JPY	153	154	152	150
Equities				
S&P500	6969	7030	7000	7140
MSCI EMU	203	204	200	208

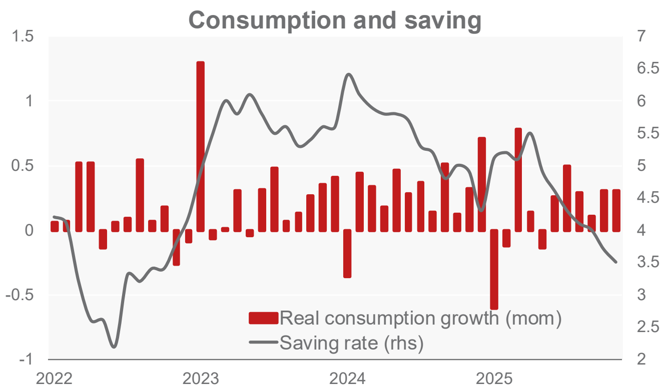
**3-day avg. as of 28/01/26 **ICE BofA (OAS)*

Maintained pro-risk bias in our portfolios

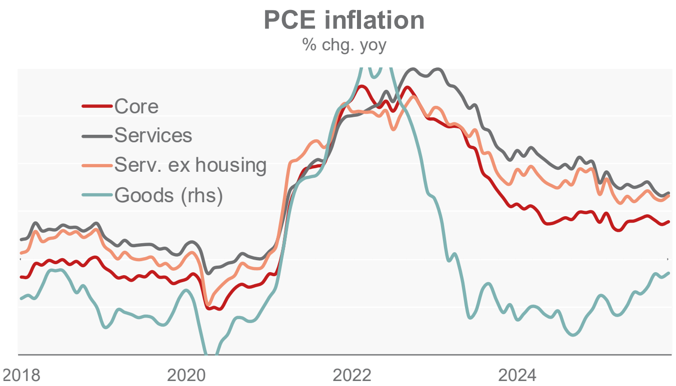
Against this backdrop, we keep favouring a pro-risk tilt in our portfolios, reassured also by signals from our proprietary ML tools. We maintain a slight short duration on EUR fixed income as high issuance, continued quantitative tightening (QT) by the ECB and a cyclical recovery may lift yields somewhat further. For the US, a softer labour market and elevated long-term rates expectations tame upside pressures on yields for now. That said, the balance of risk renders caution on UST duration, too, owing to the continued US fiscal expansion and uncertainties over the Fed outlook under a new Chair from May onwards, with long-dated Treasuries particularly exposed to any dollar debasement risks. We continue to see value in EM, both in hard currency sovereign bonds and in EM equities.

United States

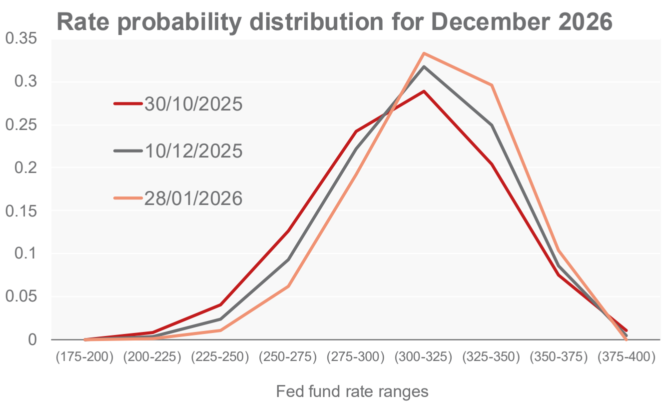
Paolo Zanghieri



Source: BEA, GenAM



ource: BEA, GenAM



Source: CME, GenAM

- **Data for the final months of 2025 show strong demand; we revised up to 2.5% our growth forecasts for 2026, as tax cuts will spur both consumption and investment. Still the labour market remains weak.**
- **Core PCE inflation ended the year close to 3% yoy, as the impact of tariffs offset the still slow descent of services inflation. We do not expect the core rate to be below 2.5% yoy by the end of the year.**
- **At the January meeting the Fed sounded upbeat on the growth outlook and indicated a pause in easing: we expect the final rate cut not before June.**

After the better-than-expected GDP Q3 numbers (4.4% ann.) activity has remained surprisingly strong in Q4 despite the disruption from the shutdown. The resilience of the economy to the tariff shock and the incoming boost to consumption and investment from the tax cuts led us to revise up to an above consensus 2.5% our 2026 growth forecasts. Yet with consumption increasingly financed out of savings and wealth effects, and investment heavily reliant on AI related outlays, downside risks remain. Strong activity did not much to prop up weak labour demand, and in the last quarter of the year the economy lost on average 20k jobs per month, the worst performance since 2010. Slower labour supply, allowed the unemployment rate to fall to 4.4% in November.

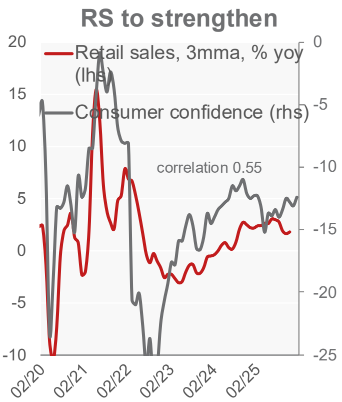
In November core PCE inflation stood at 2.7% yoy, 0.2pp down from the Q3 average. The slow descent in the services component should accelerate as labour costs are slowing; tariffs are increasingly contributing but their effect is peaking. Still, strong demand keeps inflation sticky, and we do not see the core rate below 2.5% yoy by year end

The Fed will not ease before June

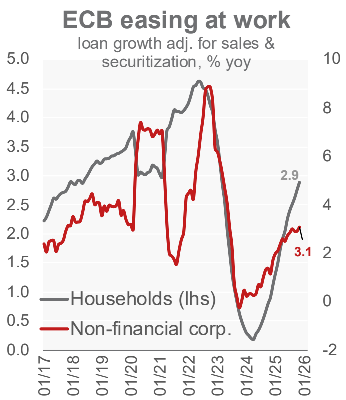
At the January meeting the Fed paused rate cuts, as strong activity data shows that monetary policy is not restrictive and the FOMC thinks that the downside risks to the labour market seem to have decreased since the December meeting. We expect only one final rate cut, that will be delivered no earlier then June, when the Fed has a new chair. Markets are rapidly repricing up the year-end level of the policy rate. During the first hearing on the administration attempt to fire governor Cook, several Supreme Court members expressed scepticism about the legal basis of her dismissal. Moreover, the search for a replacement of Powell as head of the Fed is shifting to more credible candidates. We do not expect the Fed independence to be challenged this year.

Euro Area

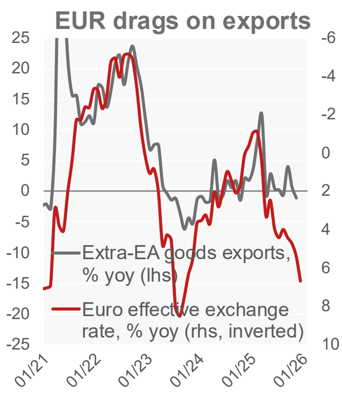
Martin Wolburg



Source: Datastream, GenAM



Source: Datastream, GenAM



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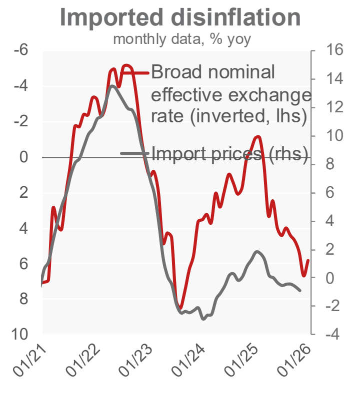

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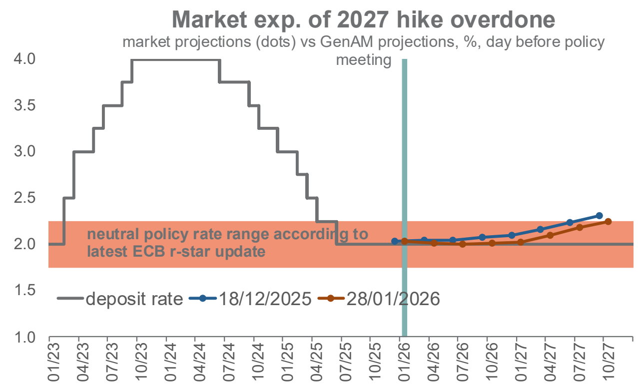


Source: Datastream, ECB, GenAM

- **We stay positive on euro area activity and continue to look for a 2026 growth rate of 1.3%.**
- **Rising consumer confidence, a solid labour market, the German bazooka implementation and easing inflation should support a broad-based recovery.**
- **We expect the ECB to stay on hold for the time being but see the risks tilted towards a cut, especially should euro appreciation gain further momentum.**

While economic sentiment had been improving since last summer, this development stalled as of late. For instance, the composite PMI rested at 51.5 in the last two months. According to the first estimate, Q4/25 GDP growth was at 0.3% qoq, unchanged from Q3 and defying expectations of a slight slowdown.

We expect a strengthening of activity. Consumer confidence continued to trend higher in January, reaching the highest since early 2025 and loan growth keeps on improving. Domestic activity will be backed by a combination of falling inflation, a solid labour market (unemployment rate at a low of 6.3%) and the German fiscal bazooka becoming more and more effective. Moreover, the global environment shows signs of improvement helping to at least stabilize the situation in the manufacturing sector.

All in all, we stick to our growth forecast of 1.3% for 2026. Downside risks stem from a re-escalation of trade conflicts, financial sector vulnerabilities and euro appreciation.

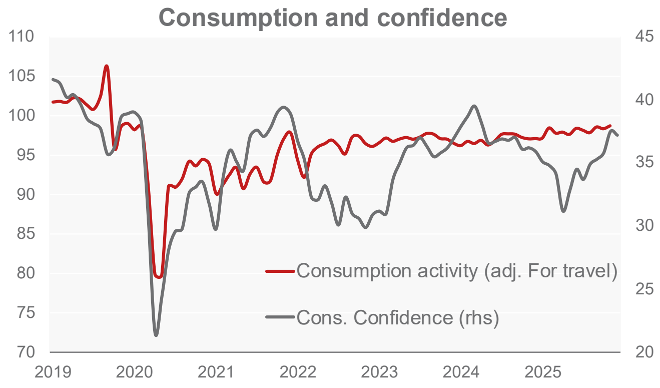
ECB to stay on hold but EUR strength an easing risk

Given our constructive economic outlook and the overall inflation picture still broadly in line with the latest ECB macro projections, we continue to see key rates on hold for the time being. President Lagarde should reiterate that it still sees monetary policy in a 'good place' at the Feb. 5 policy meeting.

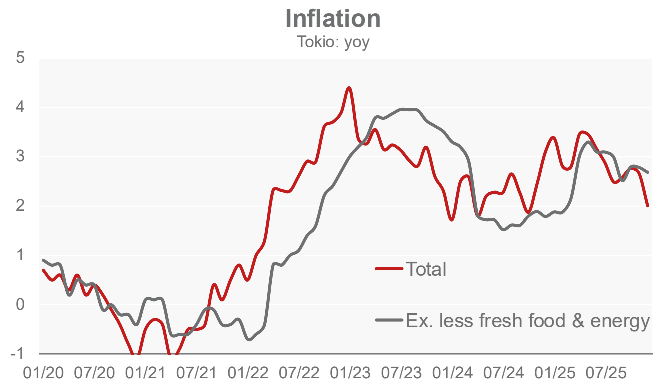
That said, in its December projections the ECB assumes an increase of the effective euro exchange rate of 1.6% in 2026 but currently it is up by already 2.2%. An ECB study finds that a 1% EUR appreciation reduces headline inflation by around 0.04% within a year. But it comes on top of an already challenging global environment with ongoing US tariffs and fierce competition with China. Recent ECB Governing Council members' remarks suggest that euro strength has become a more explicit input to the reaction function, with BdF Governor Villeroy de Galhau saying that a "strong euro" is an element that will guide ECB policy. We therefore see further euro appreciation as a key risk that could trigger policy easing. Against this backdrop we also deem market expectations of a 2027 rate hike overdone.

Japan

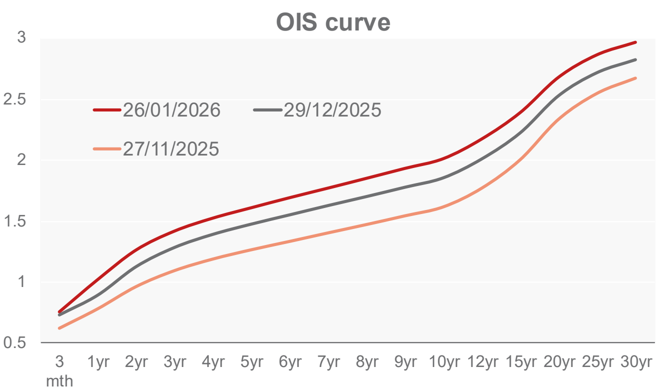
Paolo Zanghieri



Source: BoJ, CAO, GenAM



Source: Datastream, GenAM



Source: Refinitiv, GenAM

- **Economic growth in Japan is expected to rebound in 2026, driven by recovering consumer spending, and investment. Inflation appears to have peaked and is projected to slow toward the 2% target.**
- **Fiscal policy is set to become more expansionary after the upcoming snap election, which has triggered a steep rise in long JGB yields.**
- **The Bank of Japan signaled a hawkish shift, and we now expect two further rate hikes likely this year.**

After the bad Q3 GDP numbers (-0.6% qoq) the pickup in consumption have lifted activity in Q4. Inflation seems to have peaked, with core-core CPI at 2.7% yoy in November, slightly down from October. Consumer spending is rebounding, driven by higher real incomes and optimism for strong wage growth in the 2026 spring negotiations. Industrial output declined towards the end of 2025, particularly in export-oriented sectors, and business sentiment remains cautious.

Prime Minister Takaichi has called a snap general election for early February. Regardless of the outcome, fiscal policy is expected to become more expansionary. The ruling LDP has pledged to reduce the consumption tax on food to 0% for two years, while opposition parties also advocate for tax relief. The government forecasts a small primary surplus, but analysts anticipate a 2–3% deficit, assuming a likely supplementary budget after the election.

We expect GDP to increase by a healthy 0.7% this year. Consumption is anticipated to improve as inflation moderates and wages rise. Business investment is expected to grow at a moderate pace, supported by diminishing global trade uncertainty and strong demand for digital transformation. Inflation is projected to slow towards 2% in 2026. Expansionary fiscal policy will provide short-term economic support, though this might be counteracted by tighter monetary policy if inflation remains elevated or the yen depreciates further.

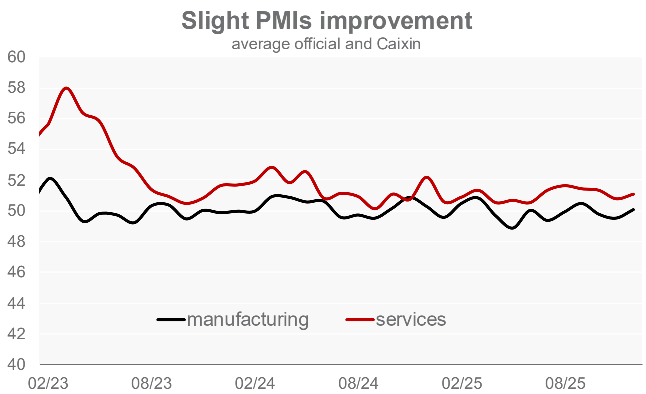
Fiscal woes and a more hawkish BoJ push up yields

On top of fiscal concerns and anticipation of a reflation the spike in JGB yield is also driven by markets pricing in a more assertive BoJ. In the January meeting it maintained its policy rate at 0.75% but signaled a hawkish shift, with further hikes to 1.0% or higher likely if conditions warrant. We brough forward the next rate hike to April and add another one in Q3. A final move in 2027 will bring the policy rate to around its estimated neutral level. While the spike in bond yields should not affect much the economy, as private sector borrowing is mostly at shorter maturities, the BoJ hinted at the possibility of tilt bond purchases towards the long end, to ensure market functioning.

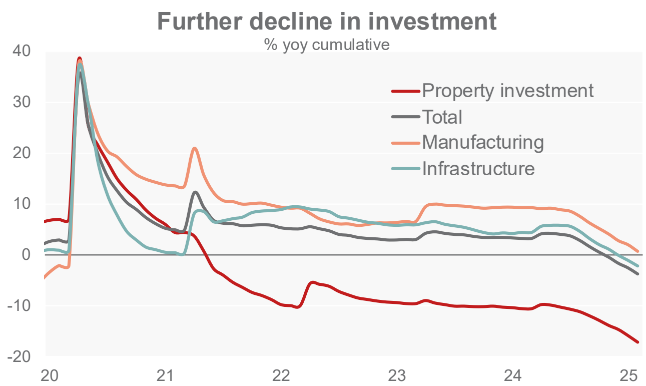
China

Guillaume Tresca

Source: Bloomberg, China Custom Administration, GenAm



Source: Bloomberg, S&PGlobal, GenAM



Source: Bloomberg, PBoC, GenAM

- **China met its 5% growth target in 2025, but the growth momentum is slowing down. We expect GDP growth at 4.5% in 2026.**
- **Imbalances between a disappointing consumption and a resilient manufacturing sector remain.**
- **Policymakers will keep focusing on quality growth and maintain a prudent approach. We expect modest tailwinds from consumption while a big real estate market support plan is still lacking.**

China ultimately achieved its 5% growth target in 2025; however, underlying momentum still points to a slowdown in 2026, with structural imbalances persisting. Consumption remains a drag on activity, while the manufacturing sector has been resilient supported by buoyant exports leading to a record trade surplus.

We forecast GDP growth of 4.5% in 2026, with inflation rebounding to an average of 0.8%. The latest high-frequency indicators confirm weak retail sales dynamics and an acceleration in the contraction of investment, particularly in the real estate sector. Encouragingly, industrial activity has improved, supported by exports and high-tech industries. Another positive development is the easing of disinflationary pressures as the GDP deflator contracted marginally.

The “Two Sessions” in early March will provide guidance on upcoming policy steps and the 2026 GDP growth target. Media reports suggest a more flexible target range of 4.5–5.0%, which would confirm a rebalancing strategy focused on flexibility and quality growth. Policymakers are also expected to announce some consumption support, albeit in a moderate form, potentially through a new consumption coupon programme. The fiscal deficit is likely to increase only marginally, remaining close to 4% of GDP. On investment, the December Central Economic Work Conference (CEWC) emphasized the need for additional support, although the anti-involution campaign should limit the extent of any recovery.

On the monetary policy front, we expect modest and targeted easing. The PBoC has remained cautious, as reflected in its December communication, and has already implemented limited rate cuts through structural tools, which caps expectations for more aggressive easing in the near term. Broader and stronger support for the housing sector, from both policymakers and the PBoC, still appears distant. This remains a key concern. As long as the sector’s recovery is delayed, any rebound in domestic consumption is likely to remain subdued.

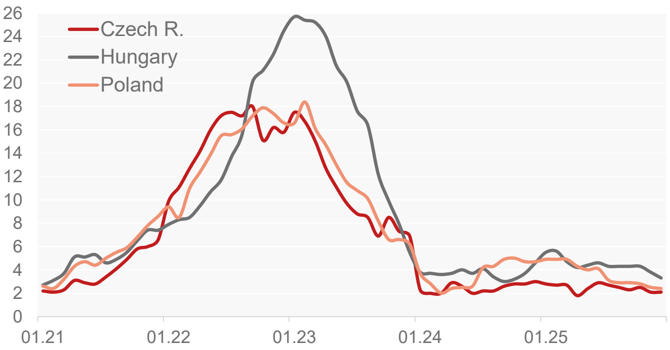
Central and Eastern Europe

Radomír Jáč

- **The Polish NBP cut its key rate to 4.00% in December and left it unchanged in January; we expect two more 25 bps cuts by mid-2026.**
- **Hungary may resume policy easing in Q1. We expect a 25 bps rate cut from currently 6.50% in March thanks to more favourable inflation developments.**
- **The Czech key rate is likely to stay at 3.50% this year. Although headline CPI may fall below 2% yoy, wage growth and fiscal policy argue against a rate cut.**

Headline inflation

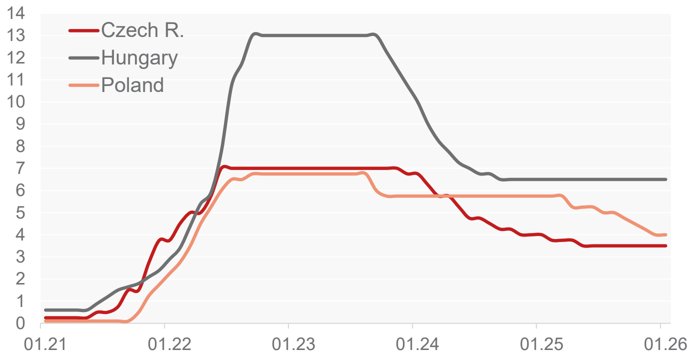
CE-3 countries (CPI yoy in %)



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

Monetary policy interest rates

CE-3 countries (end-of-month level, in %)



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

Headline CPI stands in the inflation target range across the CE-3 region. Czech inflation was unchanged at 2.1% yoy in December (vs. target set at 2% yoy +/-1pp). Food and energy prices are likely to lead headline CPI slightly below 2% yoy in early 2026. However, the CNB is focusing on lasting price pressures in services, wage growth, and the fiscal policy of the new government.

In Hungary, inflation stabilized in the 3% yoy +/-1pp target range in Q4, falling from 3.8% to 3.3% yoy in December. Government price measures and the postponement of the excise tax increase on fuels will reduce inflation in the near term, but the low base resulting from the measures will lead to a temporary increase in CPI in late 2026 and early 2027.

In Poland, headline CPI decreased from 2.5% to 2.4% yoy in December. The inflation target range, set at 2.5% yoy +/-1pp, should be held also in the coming quarters. However, the NBP adopted a cautious policy stance in early 2026 after cutting the key rate by cumulatively 175 bps in 2025. We expect the current policy easing cycle to end by mid-2026.

Monetary policy in early 2026: caution prevails

The Czech CNB is leaving its key rate at 3.50% since the last cut delivered in May 2025. Central bankers have been saying that rates were equally likely to move in either direction in the future, but Deputy Governor Frait recently hinted at the possibility of discussing a modest rate cut. Our baseline scenario assumes Czech rates unchanged in 2026 and possibly also in 2027. In Hungary, the MNB maintained its base rate at 6.50% in 2025 (the last rate cut came in September 2024). However, at the meeting in December 2025 it indicated that the more favourable inflation outlook puts the possibility of resuming rate cuts back on the table. We expect policy easing to resume in March but a cut already in February cannot be ruled out. The Polish NBP reduced its key rate by 25 bps to 4.00% in December and took a pause in January. We expect two final rate cuts in the current cycle, by 25bps to 3.50 %, most likely in March and in Q2 but a move already in February is also possible.

Main Forecasts

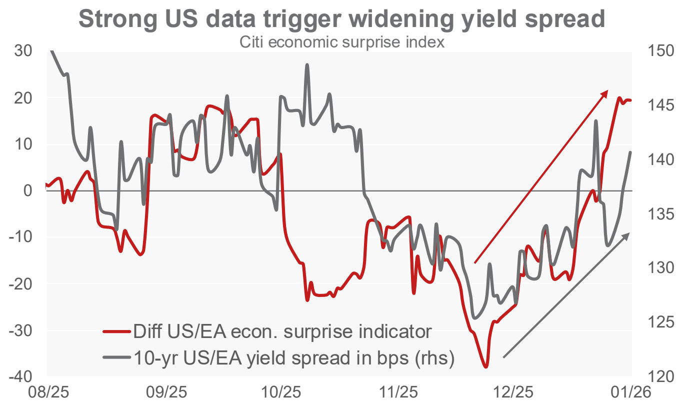
Czech Republic	2024	2025e	2026f	2027f
GDP	1.1	2.5	2.3	2.4
Consumer prices	2.4	2.5	1.7	2.2
Central bank's key rate	4.00	3.50	3.50	3.50
Hungary	**2024**	**2025e**	**2026f**	**2027f**
GDP	0.6	0.4	2.2	2.8
Consumer prices	3.7	4.4	3.3	3.3
Central bank's key rate	6.50	6.50	5.50	5.00
Poland	**2024**	**2025e**	**2026f**	**2027f**
GDP	3.0	3.4	3.0	3.0
Consumer prices	3.7	3.6	2.8	2.6
Central bank's key rate	5.75	4.00	3.50	3.50

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

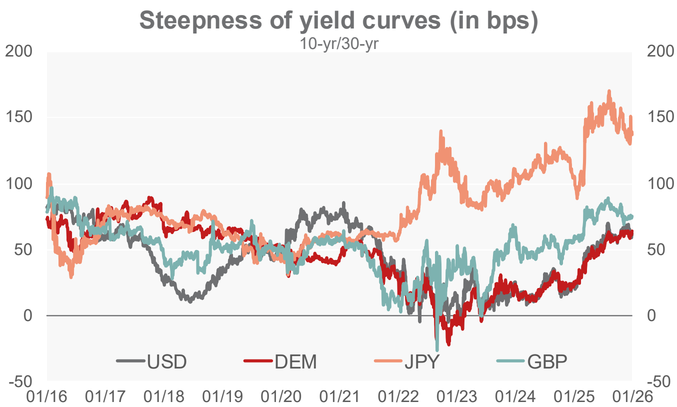
Government Bonds

Florian Späte

Source: Bloomberg, GenAM



Source: Bloomberg, GenAM



Source: Bloomberg, GenAM

- **Despite various geopolitical upheavals, volatility in the international bond market remains low. While yields on German Bunds have remained virtually unchanged since the start of the year, those on US Treasuries have risen moderately.**
- **We are maintaining our fundamental position. While we still anticipate some upside potential for German government bond yields, given the expected economic recovery and despite the appreciation of the euro, the improved economic development in the US is likely to have been sufficiently priced in.**
- **Notwithstanding a very active primary market, euro area non-core government bonds are performing well in a favourable market environment. In particular, French OATs are benefiting from declining political uncertainty.**

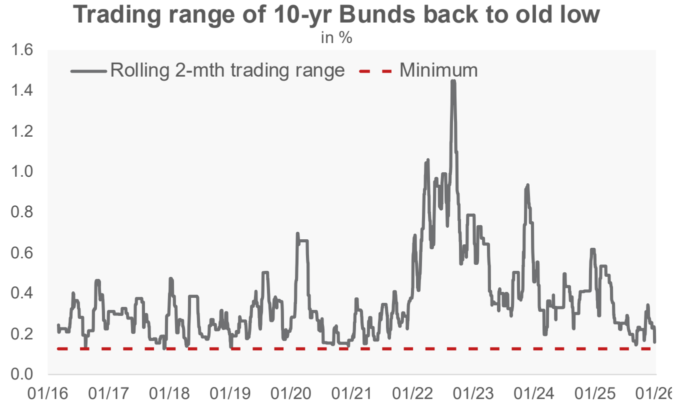
While government bond yields remained within a narrow trading range on both sides of the Atlantic, yields on long-term Japanese government bonds rose noticeably in January. This was triggered by the announcement of snap elections in February, with expectations that Prime Minister Takaichi would secure a stable parliamentary majority. This would give her the freedom to pursue her expansionary fiscal policy. However, given the already very high level of debt, we do not consider such a policy to be sustainable. In this respect, the sharp increase in yields on certain days represents a vote of no confidence by the financial markets and will ultimately help to curb the rise in the budget deficit.

In recent weeks, concerns about military escalation in the Middle East and the cold snap at the beginning of the year have caused energy prices to rise significantly. A barrel of Brent crude is now costing more than USD 70 for the first time since summer 2025, and European wholesale gas prices have risen by around 35% since the beginning of the year. Consequently, inflation expectations have increased noticeably. In the euro area, however, this has had little impact on nominal yields, as real yields have fallen in response. This is mainly because the economic upturn in the euro area is not gaining momentum. The recent appreciation of the euro has also fuelled speculation about a possible ECB key rate cut (7 bps are now priced until Q3 2026). However, as we do not expect the euro to continue appreciating unabated, we consider such speculation to be exaggerated. A sustained rise in 10-yr Bund yields requires noticeably stronger economic data, which would allow the upward trend to continue. Looking ahead one year, we expect 3.0% for 10-year Bunds, conditional on the ECB key rate speculation being priced out and on a further increase in the term premium.

Government Bonds

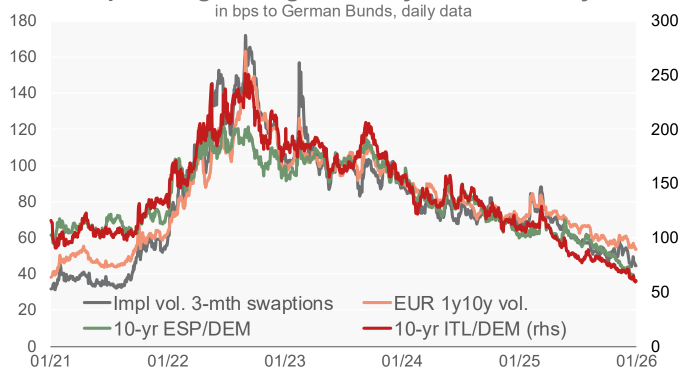
Florian Späte

Trading range of 10-yr Bunds back to old low



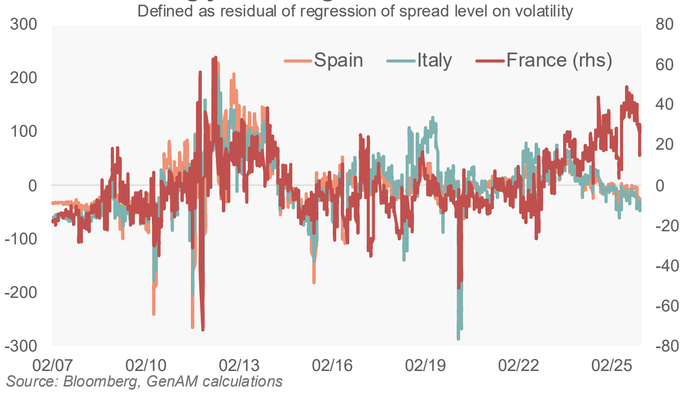
Source: Bloomberg, GenAM

Spread tightening driven by lower volatility



Source: Bloomberg, GenAM

Strongly declining risk aversion for OAT



Source: Bloomberg, GenAM calculations

In addition to the aforementioned higher inflation expectations, we attribute the rise in US yields to positive economic data, which has dampened expectations of key rate cuts. We also attribute it to the latent 'Sell America' sentiment, which continues to exist – not least due to the Greenland crisis and simmering concerns about a reduction in the Fed's independence. In the short term, however, we see little upside potential for US yields in our base scenario. This is partly because the Fed's cycle of key rate cuts is not yet over. Over a 3-mth (1-yr) horizon, we expect the yield on 10-year US Treasuries to be 4.25% (4.30%).

However, due to the upcoming appointment of the new Fed chairman and the US administration's sometimes erratic policies, we consider the risks to our forecast to be skewed to the upside. The rise in yields after Liberation Day, and most recently in Japan, has made it clear that bond markets are sensitive to policies that are perceived as unsustainable.

French OATs outperform in a favourable environment

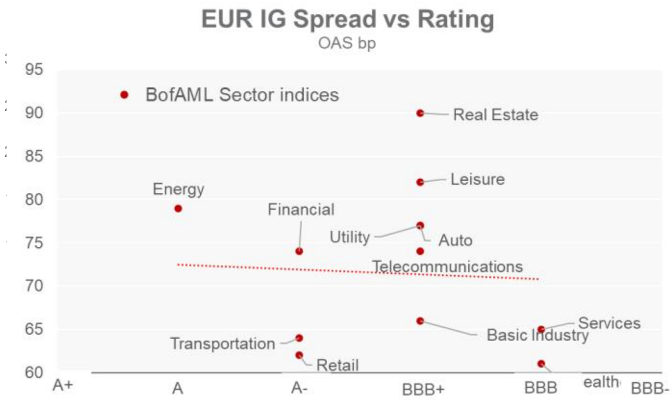
Since the beginning of the year, euro area non-core government bond spreads have continued to narrow. Consequently, German government bonds have generated the lowest total return among the larger countries in the euro area since the end of 2025. French OATs have performed particularly well, with a total return of over 1%. As larger euro area non-core countries (Spain, Italy) will reduce the annual net supply and smaller countries (Greece, Ireland, Portugal) reduce or maintain low net issuance, bond markets have responded well to the record issuance of new bonds.

The outlook for non-core government bonds remains positive, bolstering carry trades. The asset class is supported by stronger fundamentals, further improving ratings and robust investor demand. The overall market environment is also seen to remain favourable, continuing to support risky fixed-income assets relative to euro area core bonds. Among others, bond market volatility has continued to decline recently. However, there is still scope for it to fall further towards the long-term lows recorded in 2021.

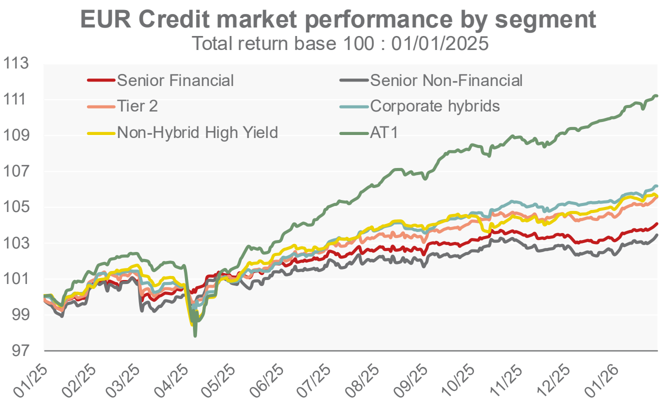
The recent OAT/Bund spread tightening reflects short-term relief after PM Lecornu survived two no-confidence votes, briefly reducing political risks. However, this improvement remains fragile as France's minority government faces a divided National Assembly and uncertain progress on key legislation such as the 2026 budget. Persistent structural issues – weak consolidation, high deficits, and an unfavourable twin deficit profile – continue to weight on valuations. Given ongoing political instability and fiscal concerns, we remain cautious on OATs. While spreads may react positively to political headlines, the underlying risk framework argues against increasing exposure at this stage.

Credit

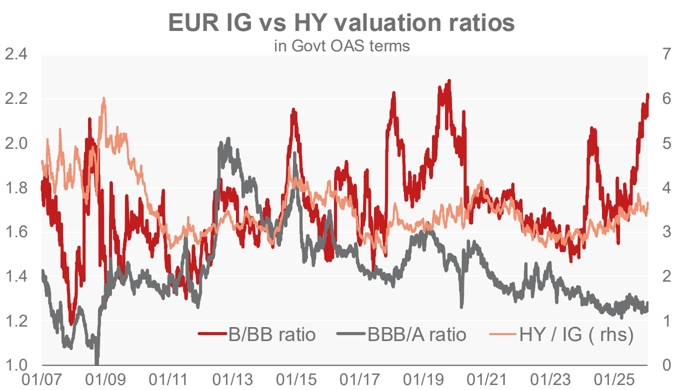
Elisa Belgacem



Source:Bloomberg, BofAML indices, GenAM own calculations



Source: Bbg, BofAML indices, GenAM



Source: Bloomberg, BofAML Indices, GenAM own calculations

- **Credit spreads opened the year strongly, revisiting 2007 lows, with limited room but still some scope for marginal compression.**
- **Supply has lagged expectations so far; large US tech issuers remain absent, pushing potential supply pressure to the post-earnings period.**
- **We see value in extending duration within IG non-financials, particularly in the 5–7Y sector. In the current environment, we continue to favour subordination risk over pure credit beta, with AT1 corporate hybrids offering a more compelling risk-reward profile than BB-rated credit.**
- **Hedging costs remain relatively contained, and we maintain a preference for protection via the iTraxx Subordinated Financials Index, which provides efficient downside mitigation.**

Credit spreads have started the year on a firm footing, retracing back toward the tight levels last seen in 2022–27. The combination of supportive risk sentiment, light early-year supply, and resilient macro data has reinforced the strong technical backdrop. While valuations now leave limited room for further tightening, the market still appears positioned for marginal compression, driven by solid demand for carry and a lack of near-term catalysts to materially widen spreads.

The re-rating of credit vs. sovereign remains underway

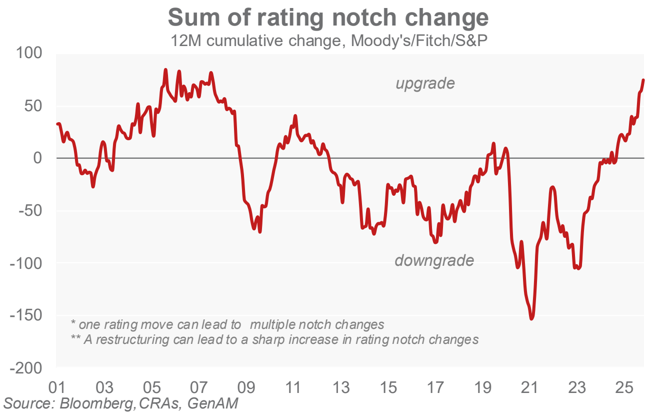
Within corporates, we expect high yield to deliver the lightest supply in relative terms, while investment-grade issuance will be shaped by an upcoming wave of large tech-sector deals. Flow data show that demand for credit has strengthened steadily through 2025, supported by comparatively scarce supply versus sovereign markets and resilient fundamentals. This favourable technical backdrop should persist in the coming weeks, as new issuance is set to slow into the reporting season, allowing demand to continue outpacing supply.

Carry is set to remain the dominant driver of returns

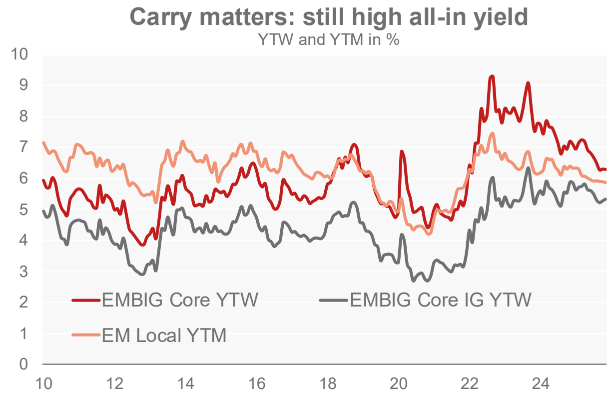
Valuation considerations continue to tilt the balance in favour of Europe over the US. Within credit, we maintain a preference for long IG exposure and subordination risk over pure high yield, while keeping a modest HY overweight as defaults trend lower despite some softening in fundamentals. Although extending duration offers limited spread advantage at this stage, our constructive view on rates supports a long positioning in the 5–7Y segment. AT1s remain the standout performer year-to-date, and despite tighter valuations, we continue to favour the asset class—particularly relative to single-B high yield, where the risk-reward is less compelling.

EM sovereign bonds

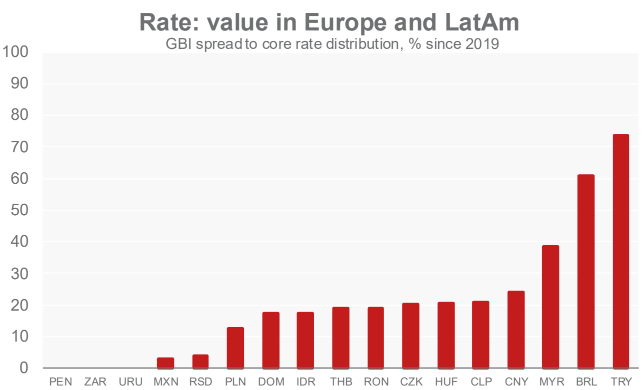
Guillaume Tresca



Source: Bloomberg, CRAs, GenAM



Source: Bloomberg, JP, GenAM



Source: Bloomberg, JP, GenAM

- **The EM macroeconomic environment coupled with the USD diversification narrative is still supportive.**
- **Valuations are tight but the all-in yield levels are attractive, fueling further inflows into the asset class.**
- **We maintain our preference for local debt over external debt. We now favour Em FX over rates and HY external debt over IG.**

The EM fixed income market delivered its best performance since 2009, with local and external debt posting returns of 19.3% and 14.3%, respectively. We maintain our significant overweight with a preference for local over external debt. Spreads may compress further, supported by positive technical factors, and we continue to favour HY over IG.

The long-held positive macroeconomic outlook has remained largely unchanged. The recent acceleration in USD weakness, together with the diversification narrative, has provided additional support. The EM macroeconomic backdrop has proven resilient While EM growth is not exceptional, the growth differential versus DM has widened. Moreover, both fiscal and external balances continue to improve. This represents a structural and fundamental long-term improvement, which reassures investors seeking diversification away from the USD.

Geopolitical tensions have indeed increased recently, but they have remained localized, with no contagion to broader EM markets. EM assets have demonstrated resilience, which should persist as long as geopolitical developments do not materially affect the global macroeconomic environment.

Local debt: favouring FX over rates

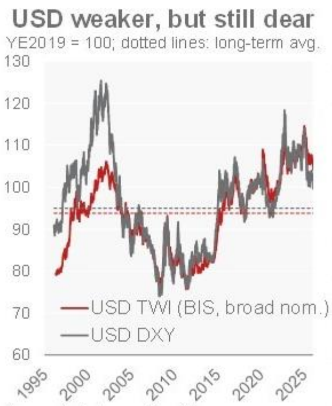
We prefer EM FX over rates, although we remain constructive on both. Central bank easing cycles are nearing their end. EM rates continue to offer value relative to USD rates, but the outlook is heterogeneous. We prefer to pay rates in Asia and see selective value in Brazil and CEE. Colombia offers value, but we prefer to wait until after the elections. On the FX side, we focus on high yielders (BRL, MXN) and frontier currencies (TRY, EGP). Asian low yielders (KRW) could also benefit from the USD weakness.

External debt: tight spreads but still attractive all-in yields

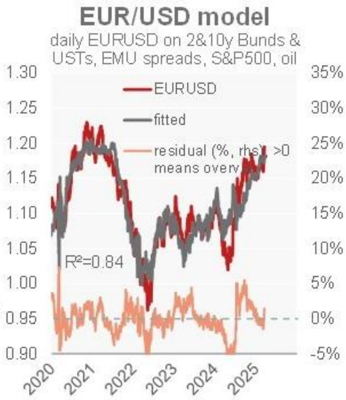
Spreads will compress further on positive technicals. Despite tight valuations, high all-in yield level keep attracting inflows. We favour EM HY because of its higher carry that offers protection and the risk that US IG crowds out EM IG. We like Western Balkans, Chine, Ivory Coast.

Currencies

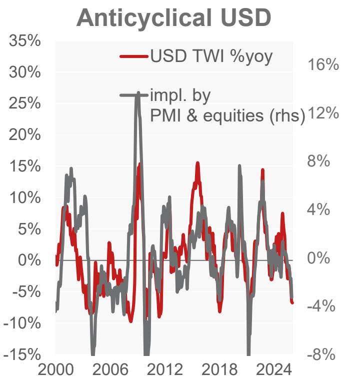
Thomas Hempell



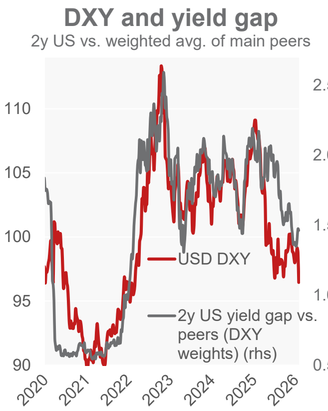
Source: Datastream, GenAM



Source: Datastream, GenAM calculations



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



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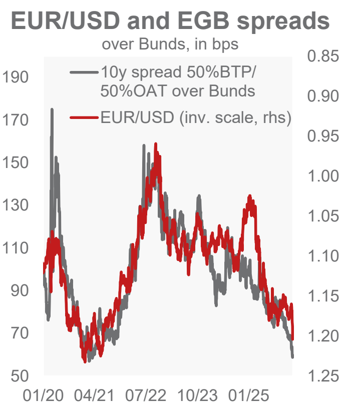

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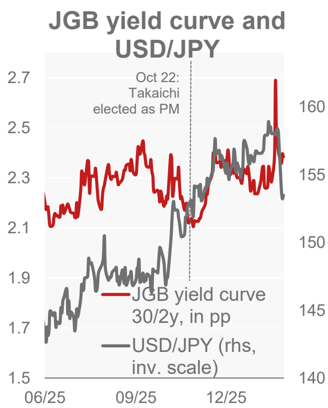


Source: Datastream, GenAM

- **High US policy uncertainty keeps burdening the US dollar. Even after another slide in January, the USD remains dear, the priced political discount is moderate. The US' twin deficit and the eroding yield advantage expose the USD to further weakness.**
- **That said, more two-sided volatility may be ahead. Given the euro area's own shortcoming, the EUR/USD may struggle to sustainably pass the 1.20 threshold for now.**
- **We remain cautious on JPY into the Feb. 8 snap elections but see the outlook tilted towards a weaker USD/JPY later in the year.**

The USD had a dismal start into 2026 as US policy uncertainty dominated resilient economic US data. Territorial claims over Greenland, speculation about joint FX intervention with the BoJ, and comments by Pres. Trump that the dollar value was "great" sent the USD DXY to a 4-year low and the EUR/USD temporarily above 1.20. Treasury Secretary Bessent's rushed reaffirmation that the US still had a strong dollar policy provided only limited relief.

Further USD weakness unlikely to prove a straight line

We had been expecting further dollar weakness for this year, and the outlook remains tilted towards a moderate further decline. Even after the 10% slide over the past twelve months, the USD remains historically dear. Our EUR/USD models points to only a moderate political USD discount and global growth (top charts). Risk sentiment backs the dollar's decline (mid left). Moreover, the shrinking US yield advantage (mid right), the US' reliance on capital inflows to finance its high twin deficit and the unpredictability of domestic and foreign US policies (incl. the risk of a renewed government shutdown) may further raise investors' appetite for USD hedges. Conversely, cyclical green shoots in the euro area and compressed EGB spreads (bottom left) will support the EUR.

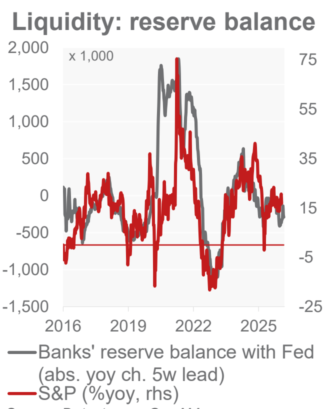
Further USD weakness is unlikely to happen in a straight line, though. Solid US growth and a sustained AI boom bolster the greenback. The EUR/USD may struggle to surpass 1.20 sustainably for now given the euro area's own deficiencies (red tape, competitiveness, pol. dependency). We raise our YE2026 target only moderately to 1.21.

Worries about fiscal expansion amid Feb. 8 snap elections kept burdening both JPY and JGBs until Japan's mulling of joint intervention with the US triggered a yen bounce. We remain cautious on the yen for now but with two further BoJ hikes ahead, the deeply undervalued yen may ultimately still gain ground throughout this year against the beleaguered USD.

Equities

Michele Morganti and Vladimir Oleinikov

- **We remain OW equities and maintain our preference for cyclical sectors, a neutral stance on the US tech. Slight OW EMU vs. SPX, OW Switzerland and EMs.**
- **Equity markets enter 2026 with a constructive tone, supported by resilient earnings, improving macro conditions – including fiscal expansion - and a favourable financial backdrop.**
- **The Q4 reporting season is expected to remain strong, with positive surprises vs. analysts' expectations. Better-than-expected US Q3 NIPA profit and unit-labour costs have already led us to revise our global 2026 EPS growth estimates upward.**
- **Our 12-month TR for the EMU is 6.5%, and 12% in a upside scenario. The EU cash yield to shareholders is 4.5%, financed by operating cash-flow. The target range for the SPX is 7,000-7,300 in one year, potentially reached earlier in Q1-Q2. Should consensus EPS materialise, the 8,000 target is not excluded.**
- **OW MDAX, India, Korea and Poland. Slight OW China & CH IT. Mid-term view: diversify US into equally weighted SPX, Gold firms, AI "productivity" and Uranium. EU sectors: OW Banks, Cap. Goods, A&D, Insurance, Pharma, Retailing, Materials, Telecoms and Software.**
- **Risks: geopolitical tensions, pressure on government yields and higher-than-average valuations.**



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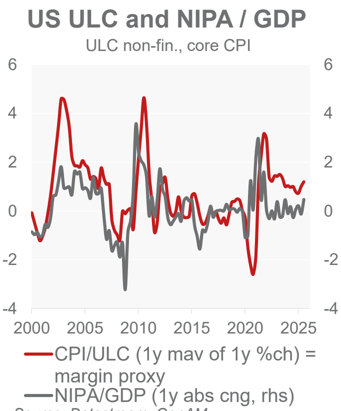
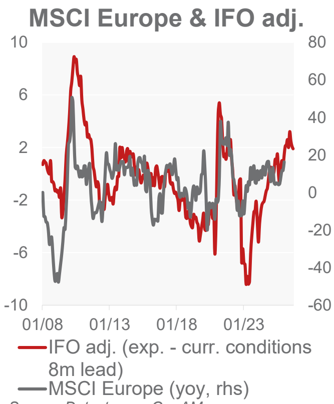


Source: Datastream, GenAM



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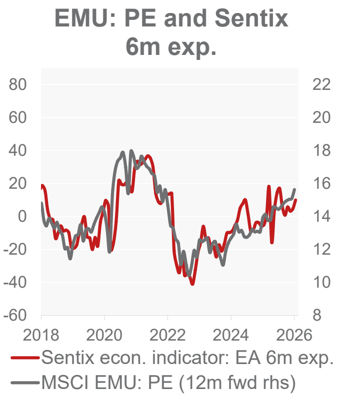


Source: Datastream, GenAM

29/01/2026

Analysis of the median stock: Q4 2025 reporting season

Median stock	Earnings Growth		Sales Growth		margin trend *		availability
	Q3 2025	Q4 2025	Q3 2025	Q4 2025	Q3 2025	Q4 2025	Q4 2025
S&P	10.7 %	11.5 %	7.9 %	6.9 %	2.8 %	4.6 %	23.4%
Stoxx	5.9 %	4.5 %	0.9 %	2.3 %	5.0 %	2.3 %	8.4%

Median stock	Earnings Surpr		Sales Surpr		margin trend *		availability
	Q3 2025	Q4 2025	Q3 2025	Q4 2025	Q3 2025	Q4 2025	Q4 2025
S&P	5.5 %	4.5 %	1.3 %	1.0 %	4.2 %	3.5 %	23.4%
Stoxx	3.3 %	2.2 %	0.0 %	0.6 %	3.2 %	1.6 %	8.4%

Note: numbers for Q2 are calculated only for the companies which have so far reported in Q3
proxy for margin trend = earnings growth - sales growth

Source: Bloomberg, GenAM calculations

Equity markets enter 2026 with a constructive tone, supported by resilient earnings dynamics, improving macro conditions, and a favourable financial backdrop. We remain overweight, as also recommended by our ML models. The U.S. Q4 reporting season is expected to remain strong as it started and improving in the euro area (EA) one: in both cases with positive surprises vs. analysts' expectations. The better-than-expected US Q3 NIPA profit has already led us to revise upward our global 2026 EPS growth estimates, adding 1.5 pp for the US (to 10% yoy) and 1pp for EMU (to 9%). US margins remain healthy, too, helped by subdued unit labour cost (ULC) growth, with our margin proxies (including CPI/ULC, taxation, credit yields, and TW USD) looking more favourable than they did at the end of 2025.

Risk assets are benefiting also from a dovish policy of the Fed and broader good financial conditions, including higher cash-flow vs. capex needs and very low interest expenses on cash-flow. Fiscal expansion across the U.S., Japan, Germany, and the Chinese policy support add to the positive. Low volatility (for both equity and Treasury) helps, too, together with increasing M&A activity, and a seasonally positive 3-month window.

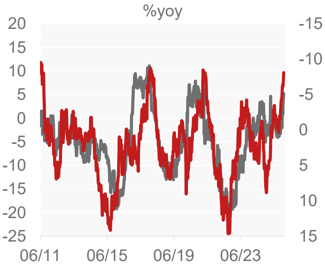
Equities

Index (as of 28/01/2026)	2024 EPS growth	2025 EPS growth	2026 EPS growth	EPS Long-Term growth	12m fwd PE	Avg 12m fwd PE since 1995	% diff	Avg PEG FY3
S&P500	9%	13%	15%	19%	22.4	17.0	31%	1.2
SPX 493 (median)	8%	8%	9%	10%	18.8	17.5	7%	1.8
Mag. 7 (median)	39%	18%	17%	17%	29.5	27.7	7%	1.3
Global AI 175 Basket	11%	11%	14%	12%	22.3	17.3	29%	1.6
US AI Basket (ex-NVIDIA):	15%	14%	14%	14%	21.8	18.3	19%	1.4
· Phase 2 - Infrastructure	10%	13%	14%	15%	24.8	16.1	54%	1.6
· Phase 3 - New Revenues	24%	17%	15%	14%	23.1	32.8	-30%	1.4
· Phase 4 - Productivity	16%	11%	11%	14%	17.8	16.4	8%	1.3
MSCI US IT	19%	28%	31%	27%	26.2	21.7	21%	0.9
MSCI China IT	-32%	68%	34%	43%	23.4	20.4	15%	0.4
Gold Basket - 20 co's	56%	84%	45%	39%	15.7	17.9	-12%	0.3
MSCI EMU	-2%	-2%	14%	12%	15.6	14.4	9%	1.4
Russell 2000	-3%	48%	67%	16%	26.5	22.7	17%	0.9
MDAX	19%	7%	9%	6%	14.7	15.4	-4%	1.6
MSCI India	5%	11%	18%	16%	21.8	15.8	38%	1.2
MSCI Korea	89%	39%	67%	35%	10.9	10.1	8%	0.3
Japan (TOPIX)	12%	8%	11%	14%	15.9	15.0	6%	1.3
MSCI EM	20%	14%	22%	21%	14.2	12.0	19%	0.7
MSCI China	15%	2%	12%	7%	13.1	12.0	9%	1.4

***Global AI 175** (proprietary) has 175 AI-related firms, 60% US & 40% RoW. **US AI** (baskets from GS) has 162 firms split in 3 phases: **AI infrastructure** (utilities, semis, hardw.), **new revenues** (software), **increased productivity** (diversified firms). Phase 1 is NVIDIA. **Gold Basket** is a proprietary basket that includes 20 gold mining companies. Baskets use median values. EPS growths are based on calendar years. EPS long-term growth refers to next 3 - 5 years 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: LSEG Datastream, GenAM Calculations. Estimates are IBES.

EM EPS rel. to World & real TW USD

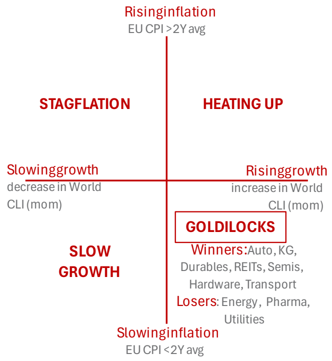
%yoy



—MSCI EM / MSCI World (12m fwd eps, yoy)
—Real TW USD (yoy, inv., rhs)

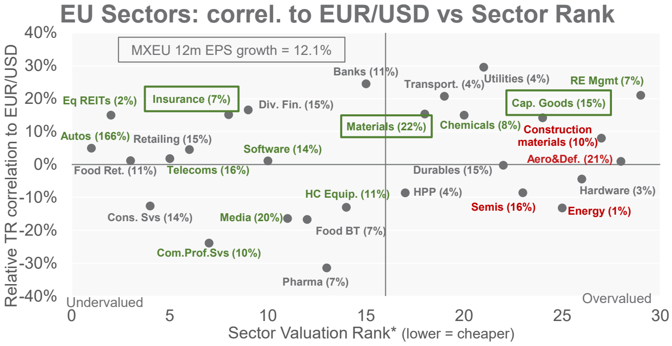
Source: Datastream, GenAM calculations

Economic Cycle Clock



Source: GenAM

EU Sectors: correl. to EUR/USD vs Sector Rank



*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: Refinitiv, GenAM calculations as of 28/01/2026

Our 12-month target range for the S&P 500 remains 7,000–7,300, with potential upside toward 8,000 should earnings expectations materialise. We suggest a slight OW in the more cyclical and cheaper EA vs. the S&P 500. EA can deserve a +6.5% TR in 12 months, of which cash yield is 4.5%, the latter fully covered by the operating free-cash flow. The EMU TR could eventually extend to 12% in one year, in an optimistic case, i.e. using consensus EPS estimates (higher than ours by 3% in 2026 and 8% in 2027) and the higher PE band of our modelled PE target (from 14.3X to 14.6X). We consider also the broadening of the AI benefits outside the US, into different countries and sectors (look Nvidia-Siemens agreement as an example for adopting AI in industrial processes).

We OW the DAX, and MDAX, supported by the German Bazooka, overall improving confidence indicators (Orders, IFO, Sentix etc.) and still not exuberant valuations. OW also EMs like China-CH Tech, Korea, India, and Poland. Still neutral US M7 notwithstanding their lingering good EPS momentum and PEs not far from mean. Indeed, we prefer to diversify into cheaper and cyclical indices which can give clearer signs of EPS recovery going forward.

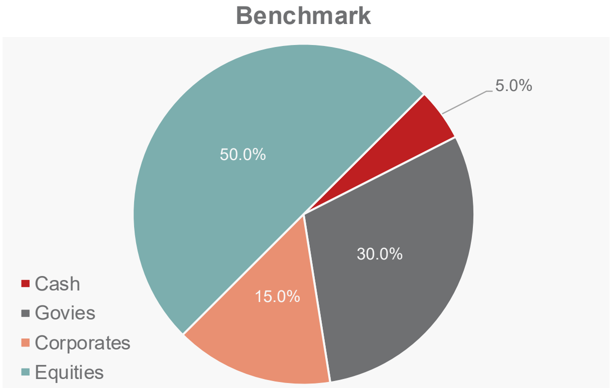
EM equities should benefit further from earnings revisions, improved sentiment, and a weak TW dollar. Long-term eps growth for MSCI EM has increased over last month from 19% to 21%, resulting in an even more appealing PEG adj (PE/LT eps growth, corrected by ROE and cost of equity) for FY3 (1.3 vs 1.9 for EA, 1.5 for US). A benign global macro backdrop and improving fundamentals should lead to robust earnings and drive EM equities higher in the year ahead.

EU sectors: maintaining a cyclical tilt

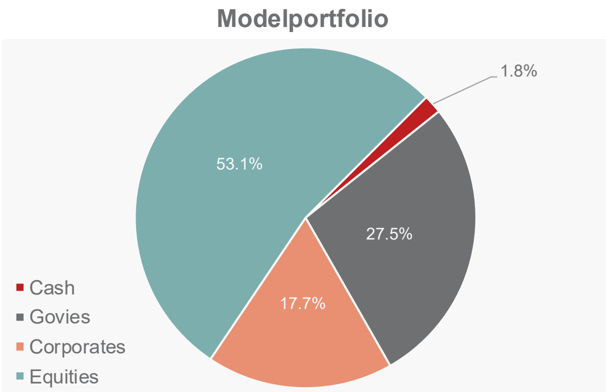
We maintain a cyclical tilt guided by valuation, revisions and our cycle plus ML models. 2026 started with a strong performance for semis, mining and defense, also due to the renewed geopolitical tensions. On the other side, durables, media and commercial & prof. services lagged behind. More recently software slipped on fears of the “AI-losers” narrative. Our sector model based on our proprietary economic cycle clock currently places us in a goldilocks phase. Recently, following our composite valuation rank, revisions and ML models, we moved Media, Transportation and Utilities to neutral, and increased Materials and Telecoms to a slight OW. We financed this move with a further UW in Consumer Staples and a slight UW in Energy. Additionally, we OW the whole Cap. Goods sector, instead of a localised OW in Construction. OWs: Banks, Insurance, Pharma, Cap. Goods, Aero & Defense, Materials, Retailing, Software, Telecoms. UWs: Durables, Energy, Food Retail, Food Bev. Tob., Household & Pers. Products.

Asset Allocation

Thorsten Runde



Source: GenAM



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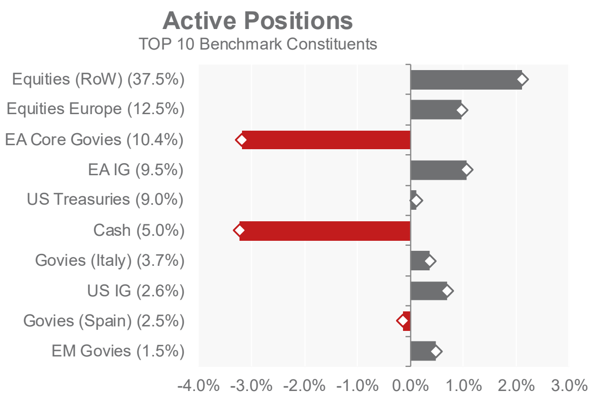


Source: GenAM; Benchmark weights in parentheses, diamonds indicating prev. recommendation

- **In January (28.01.26) all Equity markets performed positively ranging from +1.7% for Europe ex EMU to +11% EMs.**
- **On the Govie side the picture is less appealing and mixed. Average returns range from +0.7% for EMU over -0.4% for the UK to more than -1% for Japan.**
- **HY Credit outperformed IG by +11 bps. Within IG, Fin and non-Fin nearly moved in lockstep while US underperformed the EA by around -60 bps.**
- **Global resilient growth, easing inflation pressures, a still dovish Fed bias and easing trade uncertainties still favour a continued preference for Equities and Credit over Cash and Govies.**
- **We leave our tactical positioning unchanged, keeping our pro-risk tilt. Thus, we maintain a strong OW in IG Credit and OWs in HY Credit, Equities, and EM debt. We underweight Bunds & OATs, and Cash. We stay (small) short duration in EUR fixed-income.**

In January 2026 (28.01.26) our model portfolio outperformed its benchmark by around +7.7 bps, with the UW in Cash (+5.5 bps) and the OW in Equities (+4.9 bps) proveing most rewarding. The OW in Corporates did not pay off (-3.8 bps). At the individual contribution level, EM Equities (+3.4 bps) and French OATs 1-5Y (+ 1 bp) stood out. On the negative side US Treas-uries 5-10Y (-0.8 bps) and EM Govies (USD) (-0.7 bps) stand out.

Global growth should remain moderately resilient at roughly 3% in 2026, helped by easing trade frictions and supportive financial conditions. After a winter slowdown, fiscal backing and rising non-AI investment are expected to lift US activity slightly above potential. Euro-area surveys have softened. Yet, they still point to a forthcoming recovery as German fiscal measures gain traction. Inflation is generally easing. US tariffs keep prices high early in the year, while euro-area inflation drops temporarily on energy base effects, with cooling wages aiding disinflation.

Maintain constructive stance

We therefore maintain a strong overweight in EUR IG and HY Credit, in line with solid fundamentals and the still favourable macro backdrop. Equities remain preferred, supported by resilient earnings and broadly positive econo-mic signals, even if valuations appear demanding. We con-tinue to underweight Cash and Core Govies, as their relative attractiveness is limited. EUR fixed-income duration stays slightly short, reflecting expectations of upward pressure on euro area yields. We keep a neutral US duration for now but acknowledge the exposure of longer-dated USTs to dollar debasement risks.

Forecasts

Macro Data

Growth[1]	2024	2025 forecast	2025 Δ vs. cons.	2026 forecast	2026 Δ vs. cons.	2027 forecast
US	2.7	2.2	0.2	2.5	0.4	2.1
Euro area	0.9	1.4	0.0	1.3	0.1	1.4
Germany	- 0.5	0.3	0.1	1.2	0.1	1.4
France	1.1	0.8	0.0	0.9	- 0.0	1.4
Italy	0.5	0.6	0.1	0.5	- 0.2	0.4
Non-EMU	1.3	1.5	0.0	1.3	0.0	1.5
UK	1.1	1.4	0.0	1.0	0.0	1.5
Switzerland	1.4	1.6	0.3	1.2	0.0	1.1
Japan	- 0.2	0.9	- 0.3	0.7	- 0.0	0.5
Asia ex Japan	6.0	5.3	0.2	4.8	- 0.0	4.7
China	6.4	5.0	0.1	4.5	- 0.0	4.4
CEE	3.5	1.9	- 0.1	2.1	0.1	2.3
Latin America	1.8	2.0	0.0	1.9	0.0	2.5
World	**3.6**	**3.3**	**0.1**	**3.1**	**0.1**	**3.1**

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

Inflation[1]	2024	2025 forecast	2025 Δ vs. cons.	2026 forecast	2026 Δ vs. cons.	2027 forecast
US	3.0	2.7	- 0.1	2.5	- 0.3	2.2
Euro area	2.4	2.1	- 0.1	1.8	0.0	2.0
Germany	2.5	2.1	- 0.2	2.0	- 0.1	2.0
France	2.3	1.2	0.2	1.5	0.1	2.0
Italy	1.1	1.8	0.1	1.8	0.3	2.0
Non-EMU	2.2	2.5	0.0	1.7	- 0.3	1.8
UK	2.5	3.4	0.0	2.1	- 0.4	2.0
Switzerland	1.4	0.2	0.0	0.4	0.0	0.7
Japan	2.7	2.9	- 0.2	2.1	0.3	1.8
Asia ex Japan	1.7	1.7	0.8	2.0	0.3	2.0
China	0.2	0.0	- 0.0	0.8	0.2	1.1
CEE	19.3	14.0	1.1	9.9	0.4	7.6
Latin America[2]	4.7	4.2	0.0	3.9	0.0	3.1
World	**3.9**	**3.2**	**0.4**	**2.9**	**0.1**	**2.6**

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

Financial Markets

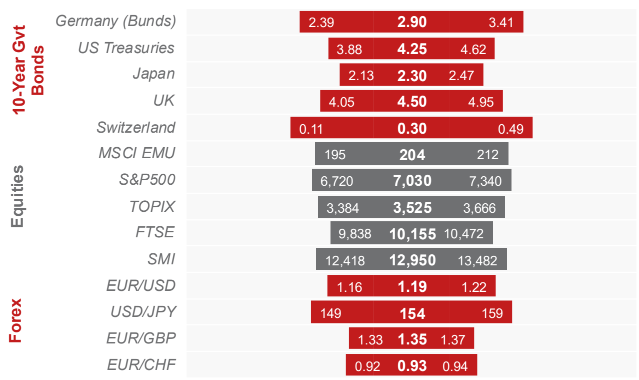
Key Rates	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
US (upper bound)	3.75	3.75	*3.57*	3.50	*3.37*	3.50	*3.19*
Euro area	2.00	2.00	*1.92*	2.00	*1.89*	2.00	*1.98*
Japan	0.75	1.00	*0.90*	1.00	*1.03*	1.25	*1.35*
UK	3.75	3.75	*3.56*	3.50	*3.43*	3.25	*3.43*
Switzerland	0.00	0.00	*-0.07*	0.00	*-0.09*	0.00	*-0.03*
10-Year Gvt Bonds							
US Treasuries	4.23	4.25	*4.30*	4.25	*4.35*	4.30	*4.46*
Germany (Bunds)	2.87	2.90	*2.91*	2.95	*2.96*	3.00	*3.07*
Italy	3.47	3.50	*3.54*	3.55	*3.61*	3.65	*3.76*
Spread vs Bunds	*60*	*60*	*63*	*60*	*65*	*65*	*69*
France	3.43	3.50	*3.52*	3.60	*3.58*	3.70	*3.71*
Spread vs Bunds	*57*	*60*	*61*	*65*	*62*	*70*	*65*
Japan	2.26	2.30	*2.33*	2.35	*2.41*	2.40	*2.54*
UK	4.53	4.50	*4.66*	4.45	*4.72*	4.40	*4.82*
Switzerland	0.27	0.30	*0.30*	0.30	*0.32*	0.35	*0.37*

**3-day avg. as of 28/01/26*
***ICE BofA (OAS)*

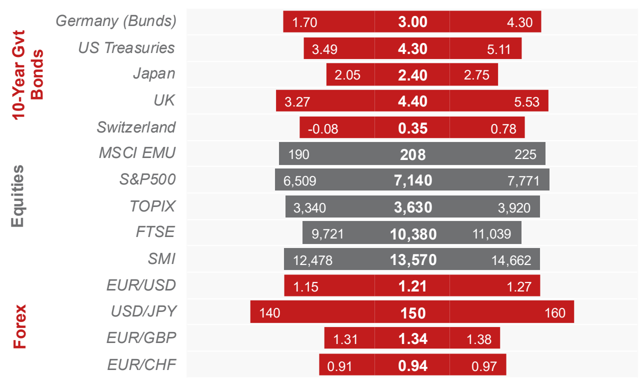
Credit Spreads**	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
EA IG Non-Financia	71	70		70		70	
EA IG Financial	73	75		75		75	
EA HY	257	260		260		260	
EM Sov. (in USD)	166	160		155		155	
Forex							
EUR/USD	1.19	1.19	*1.20*	1.20	*1.20*	1.21	*1.21*
USD/JPY	153	154	*152*	152	*151*	150	*149*
EUR/JPY	183	183	*183*	182	*182*	182	*181*
GBP/USD	1.37	1.35	*1.37*	1.35	*1.37*	1.34	*1.37*
EUR/GBP	0.87	0.88	*0.87*	0.89	*0.88*	0.90	*0.88*
EUR/CHF	0.92	0.93	*0.91*	0.94	*0.91*	0.94	*0.90*
Equities							
S&P500	6,969	7,030		7,000		7,140	
MSCI EMU	202.7	203.5		200.0		207.5	
TOPIX	3,551	3,525		3,570		3,630	
FTSE	10,170	10,155		10,235		10,380	
SMI	13,127	12,950		13,095		13,570	

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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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

Radomír Jáč | GI CEE Chief Economist

Jakub Krátký | GI CEE Financial Analyst

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

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