GENERALI ASSET MANAGEMENT

Market Perspectives

Pressure points

29 May 2026

GenAM Macro & Market Research

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

- **Two forces are pulling markets in opposite directions – the Iran supply shock on one side, a powerful AI investment boom on the other. The economic outlook will improve materially if Strait of Hormuz flows restart soon, driving energy prices lower and easing stagflationary pressures.**
- **We prefer a moderate pro-risk bias, centered on an overweight in Credit where compelling all-in yields and a low recession probability support carry. On Equities we are tactically neutral, but more constructive on 3-6 months, especially if a credible deal ensures gradual energy normalization.**
- **On duration we run a slight short, concentrated in the US, but less aggressively than before. Near-term inflation pressure from energy disruption and AI capex, combined with rising public debt and term premium risks, argue against chasing any deal-driven rally in bonds.**

Content

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Global View – Pressure points

Thomas Hempell

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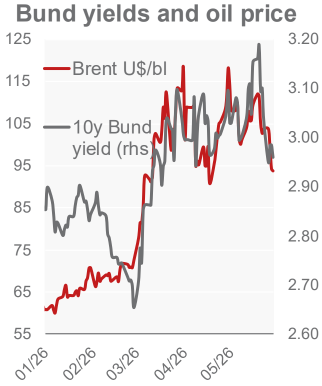
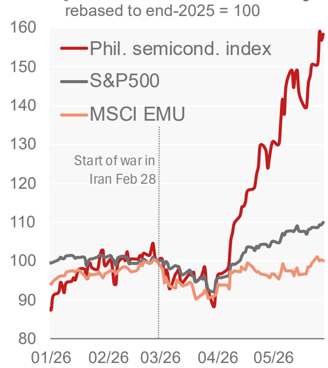
With the crisis now in its fourth month, economic damage is compounding fast. Soaring fuel, food and transport costs are squeezing household budgets and eroding consumer sentiment, while the persistent inflation surge chips away at political support for President Trump ahead of the November mid-terms. For markets, the tension is clear: growing pressure on Washington to secure a deal, against the risk that the path to one runs through further escalation.



Source: Datastream, GenAM



Source: Datastream, GenAM

As we go to press, the US and Iran were reported to be close to a deal on extending the ceasefire for negotiations on the Iranian nuclear program. A robust agreement to re-open the Strait would bring relief, driving energy prices sharply lower and lifting both bonds and equities. Iran, however, has reasons to stall: the longer the closure persists, the greater the Western economic pain and the larger the concessions Tehran can extract. Yet time works against both sides. Temporary supply buffers – inventory drawdowns, pipeline re-routing – are running thin, and oil prices risk spiking to new highs if the Strait is not reopened in the coming weeks.

This raises the prospect of renewed US and Israeli strikes targeting Iranian infrastructure and regime leaders. Such an "escalate to de-escalate" approach could accelerate a deal but carries substantial market risks of its own.

Bond markets sit at the sharp end of these tensions. High energy prices and looming supply shortages are feeding inflation expectations, keeping yields closely tied to volatile Mid-East news and oil prices (left chart). AI compounds the pressure: while its long-run productivity gains should eventually improve the growth-inflation trade-off, the massive near-term capital outlays for chips and data centres add to demand-side price pressures. Combined with rising public debt levels and upside risks to the term premium, this keeps us cautious on duration even if a deal triggers an initial retreat in yields.

Equities tell a different story – at least for now. Strong earnings growth keeps risk appetite alive, particularly in the US, where lower crisis exposure and heavy tech/AI index weight provide a cushion (right chart). European stocks, more depressed by war uncertainties, offer greater upside on a deal – though superior US earnings support argues against overstating any regional preference. The key constraint remains the rate backdrop: rising yields would erode valuation support for growth stocks, whose elevated multiples are most sensitive to discount rates.

10-Year Gvt Bonds	Current*	3M	6M	12M
US Treasuries	4.51	4.45	4.40	4.35
Germany (Bunds)	2.97	2.90	2.95	3.00
Credit Spreads**				
EA IG Non-Financial	76	70	70	70
EA IG Financial	79	75	75	75
Forex				
EUR/USD	1.16	1.18	1.19	1.20
USD/JPY	159	157	155	152
Equities				
S&P500	7504	7570	7595	7650
MSCI EMU	211	213	216	218

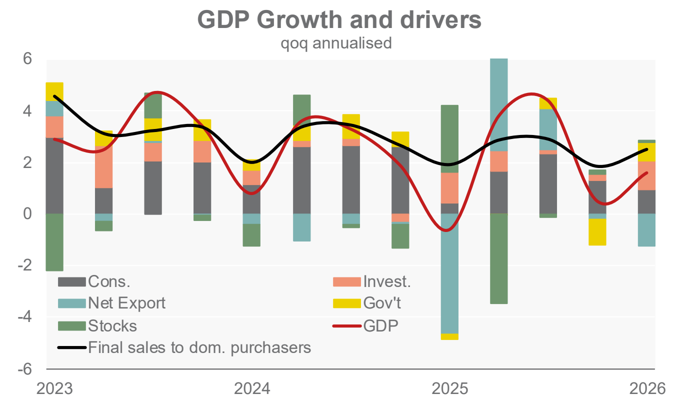
**3-day avg. as of 27/05/26 **ICE BofA (OAS)*

Positioning: leaning into Credit, cautious on duration

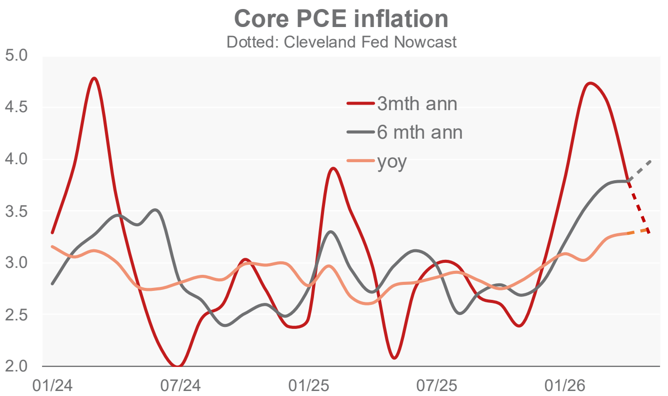
We favour a moderate pro-risk bias through an overweight in Credit over Government bonds. All-in yields remain compelling enough to sustain demand, and only an outright recession – not our base case – would trigger meaningful Credit spread widening. On Equities we stay neutral, but a credible US/Iran deal ensuring gradual energy normalisation would reassure us in our more constructive stance on 3-6 months. On duration we remain cautious, especially for the US. Yields would retreat on falling energy prices. But lingering inflation risks, rising public debt and term premium upside are likely to cap any bond rally beyond a knee-jerk move.

United States

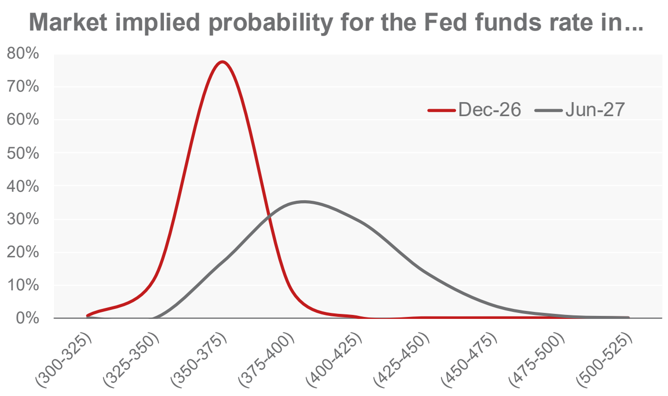
Paolo Zanghieri



Source: BEA, GenAM



Source: BEA, ClevelandFed, GenAM



Source: CME, GenAM

- **Growth is still holding up, but its dependence on stronger households, equity wealth, and AI-led investment makes the expansion less balanced and more fragile. We expect GDP up by 2% this year.**
- **Inflation is rebounding, due to higher energy costs and early pass-through. The core rate will exceed 3% yoy for the rest of the year.**
- **The Fed is likely to stay on hold for longer, because the growth and employment outlook have not worsened enough to justify cuts and inflation has not eased enough to allow them.**

The second revision of Q1 GDP downgraded growth to just 1.6% qoq ann. Yet consumption is holding better than expected: in the first four months of the year, it was up 2.2% yoy. Industrial production has also rebounded, supported by AI-related investment and the early stages of an inventory cycle: We then expect a moderate expansion, with GDP up by 2% this year, slightly below consensus.

That said, the underlying picture looks less robust and more prone to shocks. Consumption is increasingly supported by dissaving (the saving rate fell to 2.6% in April), and the boost from tax refunds is likely to fade already in Q2. Higher gasoline prices will squeeze real incomes in coming months. Job creation has accelerated, but remains concentrated in non-cyclical sectors such as healthcare, while the low unemployment rate (4.3% in April) largely reflects slower labour force growth.

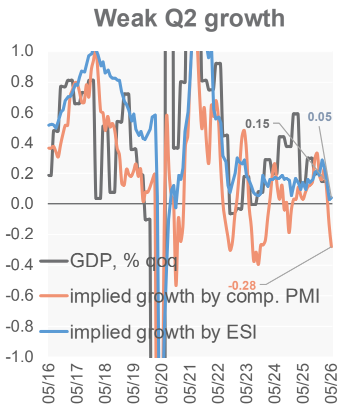
Recent data point to a renewed rise in headline inflation, driven mainly by energy, while core inflation has rebounded on second round effect from oil. Core PCE edged up to around 3.3% in April and Nowcasts show it will remain at that level into summer. Energy costs and AI-related demand are adding to price pressures, but housing disinflation and a stable, labour market should cap the acceleration. PCE inflation should remain above target, ending at around 3% but will not enter a new sustained upswing.

Fed pauses until next year

Growth remains firm enough to delay easing, while inflation is still too high to justify early rate cuts. Recent comments from FOMC members suggest that the easing bias could be removed from the statement very soon. The new Governor Warsh argued for lower rates, but persistent inflation keeps the bar for easing high. At the same time, doubts about the resilience of the labour market limit the case for further tightening, even if markets now price higher rates in 2027. Our baseline is that the Federal Reserve will stay on hold for an extended period, with the next move still more likely to be a cut than a hike, but not before Q1 2027, with risks tilted towards no action at all.

Euro Area

Martin Wolburg



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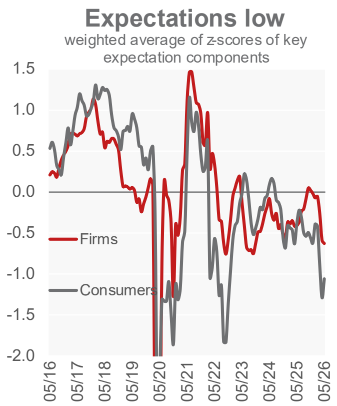
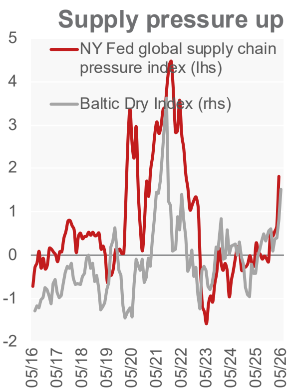


Source: Datastream, GenAM calculations



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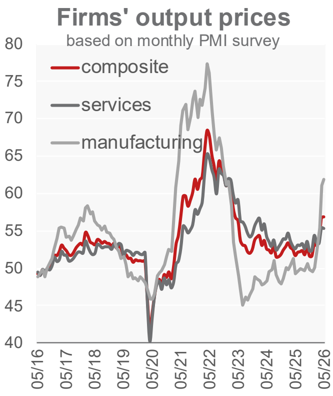

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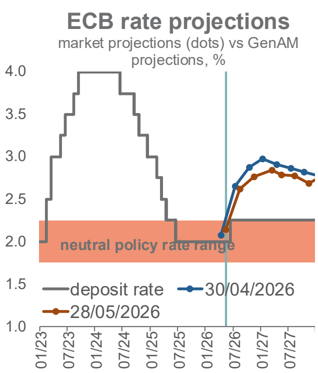
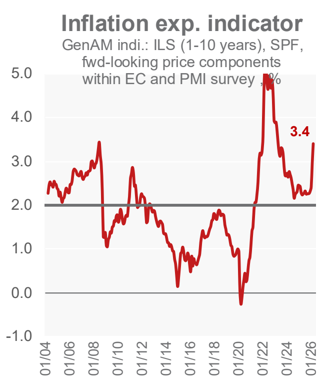


Source: Datastream, ECB, GenAM



Source: Datastream, GenAM

- **A stagflationary momentum is building up in the euro area. Sentiment indicators suggest that Q2 activity is stalling as the energy price shock spills over into goods prices.**
- **We cut our 2026 growth forecast to 0.7% and raise inflation to 3.0% as the Iran war drags on for longer than expected.**
- **An ECB insurance hike in June remains the base case, but risks are shifting towards further tightening.**

Three months into the Iran war, stagflationary effects are increasingly evident. The flash composite PMI fell further into contraction (47.5, from 48.8), with both services (46.4, from 47.6) and manufacturing (51.4, from 52.1) weakening. The ESI stabilized at low levels, pointing to near-zero growth in Q2. Forward-looking survey components remain subdued for consumers and have deteriorated for firms – suggesting a swift recovery would be challenging even if the war ended in Q2. The 2026 growth forecast has been revised to 0.7% (from 0.8%).

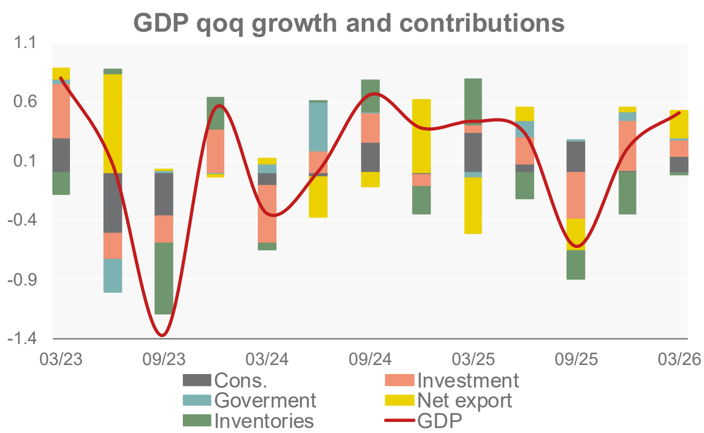
The continued closure of the Strait of Hormuz keeps oil prices elevated, with supply pressures feeding through to selling prices, especially in manufacturing. May PMI input prices rose at their fastest pace in 3½ years; prices charged at the fastest in 38 months. So far, the inflation spike is predominantly energy-driven (core inflation at 2.2% yoy in April vs. 3.0% yoy headline), but recent surveys signal broadening price pressures. The 2026 inflation forecast has been raised to 3.0% (from 2.8%).

ECB to hike in June with risks tilted towards more hikes

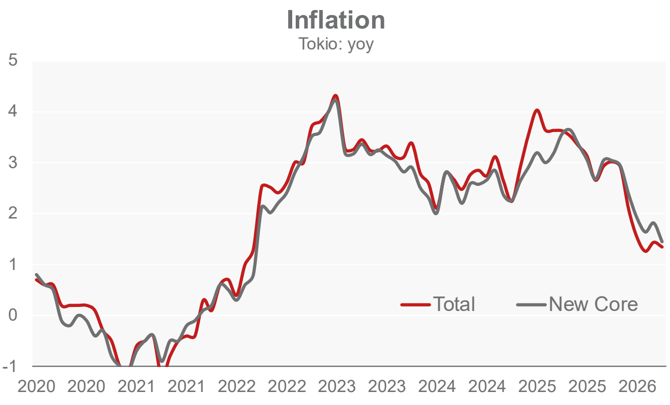
At the June 11 meeting, the ECB will most likely lift its key rate by 25 bps, following hawkish communication. Beyond that, monetary policy is torn between excessive inflation and weak activity. With inflation spreading to broader goods prices, inflation expectations up, and real rates falling, the ECB's asymmetric risk approach supports further hikes. However, a disinflationary slowdown is already under way, credit conditions have already tightened, there are no signs of second-round effects on wages and monetary policy cannot address the root of the supply shock. Then the June hike amid hawkish rhetoric is credibility-preserving and should help to anchor inflation expectations. Unlike to markets we still think that lifting the key rate to 2.25%, the upper bound of the neutral policy range, will be sufficient to navigate through the stagflation shock. But this became a close call and we see the risks are clearly tilted towards more tightening, with the duration of the Iran war being a key signpost to watch.

Japan

Paolo Zanghieri



Source: BoJ, GenAM



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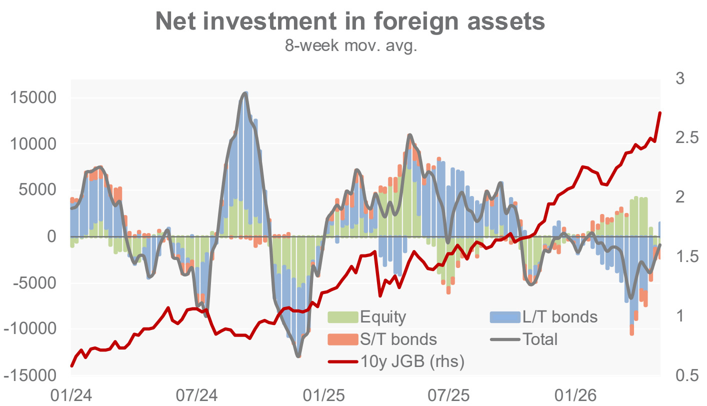


Source: MoF, GenAM

- **GDP rose by 0.5% q/q in Q1, but full-year growth is expected to slow to just 0.3% in 2026 as higher energy prices and a weaker terms of trade squeeze real incomes, margins and domestic demand.**
- **Headline and core inflation eased in April, but adjusted measures still point to underlying inflation around or above 2%, and higher energy costs are likely to push inflation higher again in coming months.**
- **The Bank of Japan left the policy rate unchanged at 0.75% but kept a tightening bias, and we expect the next rate hike in June despite the weaker growth backdrop.**

Recent data suggest that growth has held up in early 2026 but remains fragile. GDP expanded by 0.5% q/q in Q1, supported by exports and some improvement in consumption and investment. However, the outlook has weakened materially, with growth expected at around 0.3% in 2026, reflecting the drag from higher energy prices and a deteriorating terms of trade. Higher import costs are squeezing real incomes and corporate margins, with consumption and capex both expected to soften in the near term.

Headline and core inflation slowed in April, reflecting policy measures and easing food price pressures. However, this likely understates underlying pressures. Adjusted indicators excluding policy distortions remain closer to or above 2% in some measures.

Looking ahead, inflation is likely to re-accelerate. Higher energy costs are expected to feed into both headline and core inflation, with spillovers into broader price components. Wage growth remains strong, sustaining medium-term inflation but not preventing a near-term squeeze in real incomes. Overall, the picture is one of cost-push inflation with only gradual demand-driven normalisation.

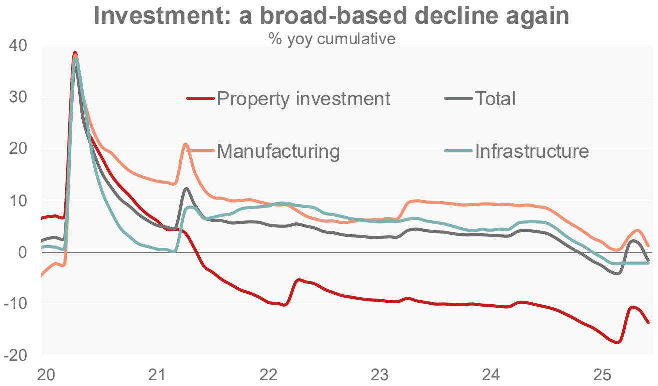
BOJ to hike this month despite growth uncertainties

The Bank of Japan has kept the policy rate at 0.75% in the latest meeting, while maintaining a clear tightening bias. The April forecast revised growth down and inflation up, with risks tilted to the downside for activity and to the upside for prices. The baseline remains one of continued gradual rate hikes. We expect the next one for June.

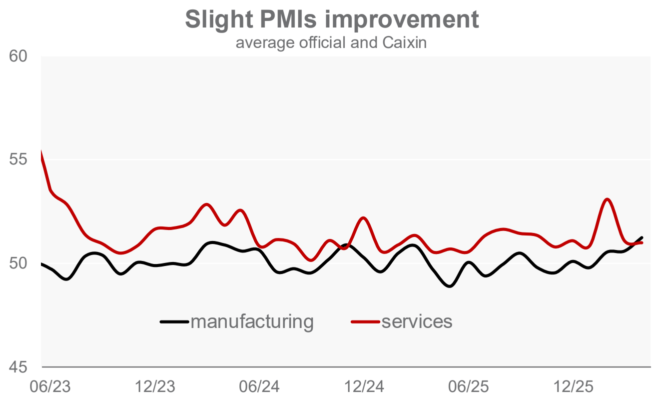
Rising JGB yields are beginning to affect portfolio allocation. While large-scale repatriation is not yet evident, recent data show a stabilisation or partial reversal of outward bond investment and stronger inflows into Japanese assets.

China

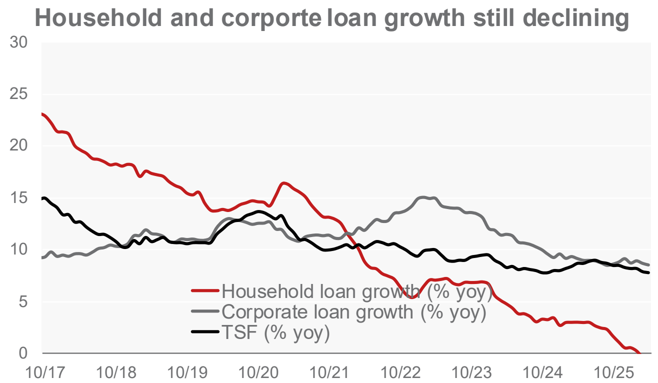
Guillaume Tresca



Source: Bloomberg, PBoC, GenAM



Source: Bloomberg, S&PGlobal, GenAM



Source: Bloomberg, PBoC,GenAM

- **Growth dynamics have slowed after a strong start to the year. The full impact of the Middle East conflict is still to fully unfold.**
- **Export growth has been significantly boosted by AI developments, and business sentiment has strengthened.**
- **The President Trump–Xi meeting failed to deliver meaningful breakthroughs, but relations have improved.**

After a solid start to the year that offered some comfort on the growth outlook, the latest data point to a deterioration. We maintain our GDP growth forecast at 4.4%, at the bottom of the target range.

Investment has weakened across the board and some details show the first signs of the Strait of Hormuz blockade. Industrial growth has also slowed, reaching its lowest level in three years, while on the consumption side retail sales growth was only 0.2% year on year. Household credit growth has also decelerated, again highlighting ongoing deleveraging. In the housing sector, there are tentative signs of stabilisation, but confirmation is still needed.

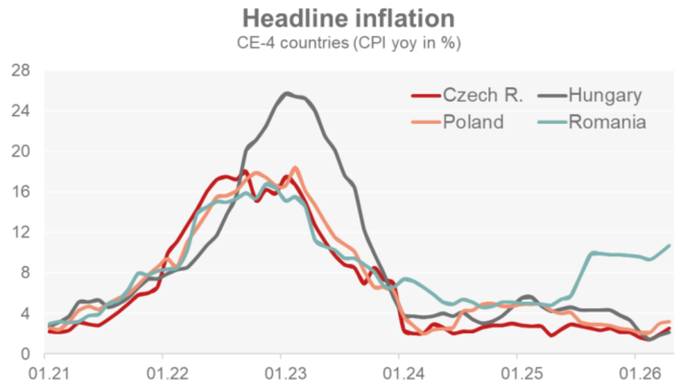
The slowdown mainly reflects disappointment over fiscal easing in April after strong front-loading in Q1. So far, the policymakers' narrative has barely evolved, but the PBoC has increased liquidity support to the real economy. We expect policymakers to remain pragmatic and to help stabilise investment growth in the coming months through a faster pace of fiscal spending if the deterioration continues.

There are nevertheless positive developments. First, PMIs have remained resilient, especially in manufacturing. Second, export growth has been very robust despite headwinds from tariffs and stricter transshipment controls. China is fully benefiting from the AI momentum, but not only, as export strength is concentrated not just in memory but also in EVs, solar and batteries. This could create some upside risk to GDP growth.

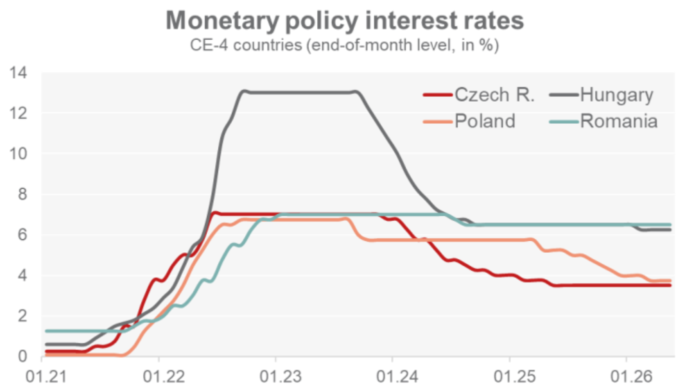
Regarding the Iran conflict, the anticipated Trump–Xi meeting failed to change the narrative, and we expect only indirect intervention from China. On the trade front, progress has been limited, although both sides show goodwill. There could be renewed tensions over tariffs as the Section 301 review concludes in early July, but we do not expect a repeat of the escalation seen in 2025, as both parties have adopted more constructive stances. Trump and Xi have also set further opportunities to meet later this year leaving the doors open for further constructive discussions.

Central and Eastern Europe

Jakub Krátký



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



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

Main Forecasts

Czech Republic	2024	2025	2026f	2027f
GDP	1.2	2.5	1.8	2.2
Consumer prices	2.4	2.5	2.5	2.8
Central bank's key rate	4.00	3.50	3.75	3.50
Hungary	**2024**	**2025**	**2026f**	**2027f**
GDP	0.6	0.4	1.7	2.5
Consumer prices	3.7	4.4	3.8	3.5
Central bank's key rate	6.50	6.50	5.75	5.25
Poland	**2024**	**2025**	**2026f**	**2027f**
GDP	3.2	3.6	3.4	2.8
Consumer prices	3.7	3.6	3.5	3.2
Central bank's key rate	5.75	5.75	3.75	3.75
Romania	**2024**	**2025**	**2026f**	**2027f**
GDP	0.9	0.7	0.0	2.0
Consumer prices	5.6	7.3	8.5	5.0
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

- **CEE central banks stick to a neutral tone but hawkish hints are mounting with rate hike talks nearby in Poland and the Czech Republic while Hungary could start to think about a rate cut.**
- **The new Hungarian government proceeds in talks with the EU to unblock frozen funds. Other priorities include budget stabilization, the restoration of democratic institutions, and the recovery of state assets. The Maastricht criteria are to be met by 2030. Euro adoption is part of the program, although no specific date has been set.**
- **Fiscal metrics across the region are deteriorating with large budget deficits of 6-7% GDP, feeding into growing debt. The Czech Republic is better positioned but the outlook is also worsening.**

While the CEE economies are still doing well, there are increasing signs that the Middle East conflict is taking its toll. April CPI went further up across the region and activity data are pointing on some cracks in the so far solid growth story. Pressures on the central banks to act will mount in case of a potential ECB's rate hike.

Czech CNB remains on hold at 3.50% already for a year. However, hints on possible rate hikes resurfaced as headline CPI rose to 2.5% yoy in April while Q1 GDP growth eased to 0.2% qoq; 2.1% yoy, the lowest in around two years.

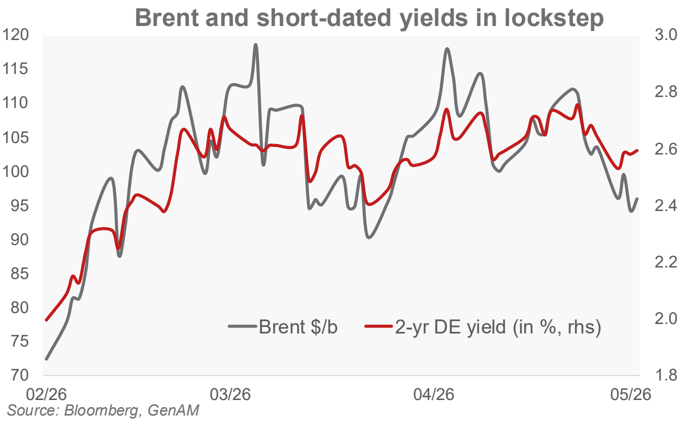
Polish NBP confirmed its on-hold stance at 3.75% and ruled out a rate hike before next projection due on July, although headline CPI rose to 3.2% yoy in April. Q1 GDP slowed more than expected to 0.5% qoq, 3.4% yoy due to the harsh winter in early 2026.

The Hungarian MNB kept the base rate at 6.25%, but a rate cut was discussed due to the improving inflation outlook. If the market rally persists, a rate cut at the next policy meeting should follow, as the strong forint helps keep inflation in check: it rose to 2.1% yoy in April, still well below the 3% target. Q1 GDP rebounded to 0.8% qoq and 1.7% yoy, close to a four-year high. Budget slippage so far is not a concern for investors, although the new government indicated that the budget deficit may be close to 7% GDP this year.

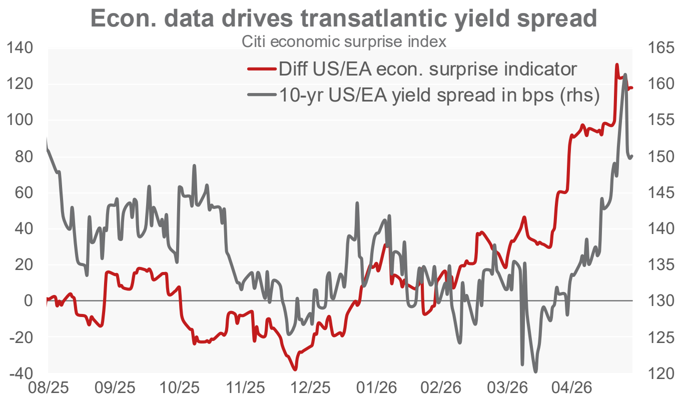
The situation in Romania remains complicated with political turmoil still unsolved, keeping the leu under pressure. Economic data also cause headache with increase of headline CPI to 10.7% yoy in April. Q1 GDP points on extension of recession: -0.2% qoq, -1.7% yoy, forcing the central bank to wait and stay on hold at 6.50% for now. However, the past fiscal consolidation is bearing fruit with a visible budget deficit reduction vs. last year, providing anchor for the lowest IG rating.

Government Bonds

Florian Späte



Source: Bloomberg, GenAM



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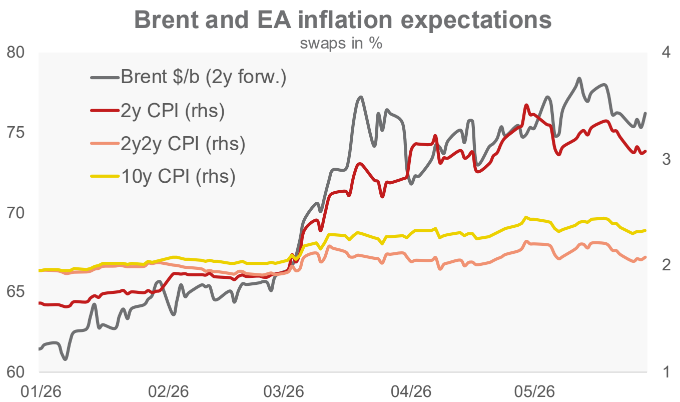


Source: Bloomberg, GenAM

- **Bond markets steadied in May as oil prices fell and market stress eased. If geopolitical tensions continue to recede, there is scope for slightly lower yields near term.**
- **We maintain a neutral duration stance because escalation risks persist – renewed geopolitical stress would push inflation and long-end yields materially higher again.**
- **Euro area non-core government bond spreads tightened, but the outlook remains tied to the Iran war. We favour countries with stronger fiscal stories.**

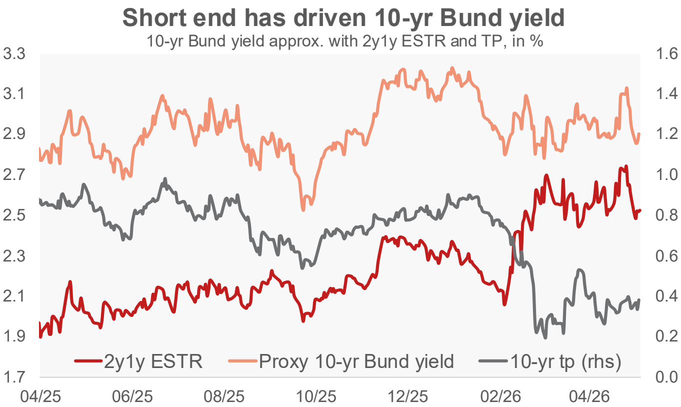
Government bond markets steadied in May after a spell of volatility driven by geopolitics, energy prices and shifting central bank expectations. Lower oil prices and a partial easing in market stress pulled Bund yields modestly lower across the curve. US Treasuries, by contrast, stayed under pressure, with the sell-off led by the front end but extending into longer maturities. That divergence widened the transatlantic yield spread again after the compression seen until mid-April. More importantly, the rise in global yields since February reflects more than a reaction to headlines. Markets are repricing medium-term inflation risk and demanding higher term premia to absorb heavy long-duration sovereign supply. That regime shift, rather than short-term noise, frames our outlook.

Our baseline still allows for slightly lower yields over the next three months, but the case is tactical, not structural. Further easing in geopolitical tensions would relieve pressure from energy prices and unwind part of the inflation premium embedded in long-end yields. Euro area data have also softened more clearly than US data, which supports Bunds on a relative basis and should limit further repricing of euro area key rate policy expectations. In the US, meanwhile, markets already discount a demanding higher-for-longer key rate path. If incoming inflation data fail to validate that hawkish pricing, yields should correct lower from recent highs. Taken together, factors support a modest tactical rally in duration, especially if oil prices continue to moderate.

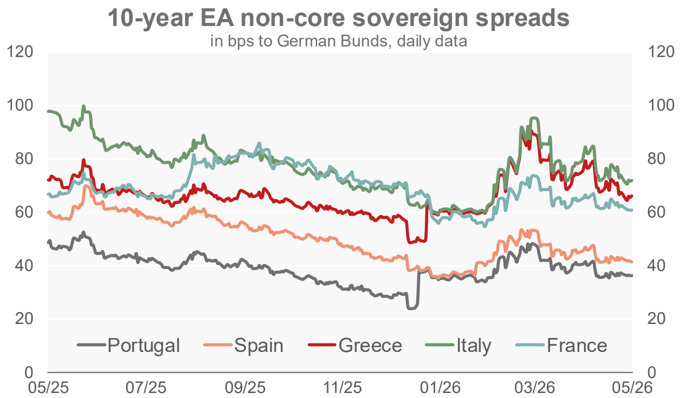
The stronger medium-term case, however, still points to structurally higher yields. Inflation risks remain tilted to the upside in both the US and the euro area, while the US starts from a less favourable position because underlying price pressures remain firmer. If the recent decline in energy prices proves temporary, inflation expectations could reprice higher and keep long-end yields elevated. Term premia are also rising for structural reasons. Large fiscal deficits, especially in the US, require heavy bond issuance, while

Government Bonds

Florian Späte



Source: Bloomberg, GenAM



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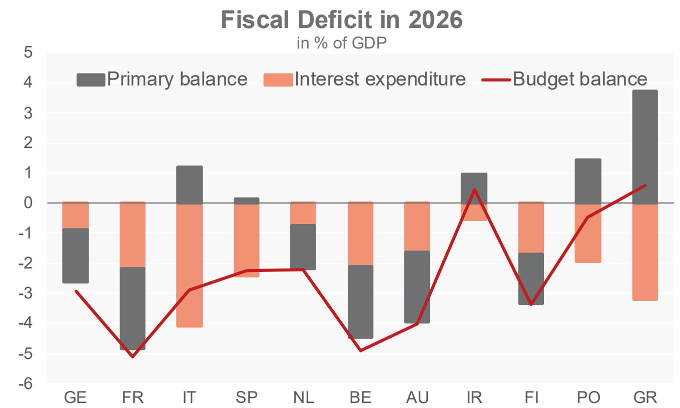


Source: Datastream, Oxford Economics, GenAM

Quantitative Tightening in the euro area reduces official demand and leaves more duration risk with private investors. Slower reserve accumulation by foreign official buyers reinforces that shift. Even if policy rate expectations stabilise, these forces weaken the case for a sustained rally and tighten the link between fiscal credibility, sovereign supply and market pricing, particularly in the US. In our risk scenario, renewed geopolitical escalation would add a stagflationary impulse through higher energy prices, stickier inflation and higher inflation risk premia. That would push both Bund and Treasury yields higher again.

This mix of tactical relief and structural pressure underpins our neutral duration stance. In our baseline, 10-year Bund yields fall to 2.90% over three months before rising back to 3.00% over 12 months. The near-term move reflects weaker euro area growth, some scope for geopolitical easing and key rate policy pricing that still looks slightly too hawkish relative to our base case. Over the medium term, however, higher term premia should reassert themselves as supply rises and inflation uncertainty remains elevated. For 10-year US yields, we forecast 4.45% in 3 months and 4.35% in 12 months. That profile leaves room for a limited tactical decline, but it also signals that US yields should remain high by historical standards, as inflation is stickier and fiscal supply pressure is stronger. The investment message is straightforward: we do not see a convincing case for a sustained duration rally, so a neutral stance remains appropriate. It captures short-term relief potential without losing sight of the bigger risk that renewed geopolitical escalation or an upside inflation surprise pushes long-end yields higher again.

Non-core spreads: geopolitics will set the direction

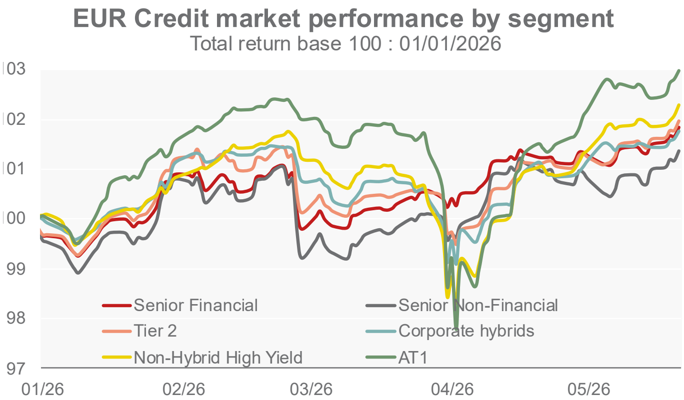
Euro area non-core bond spreads tightened as oil prices fell and volatility eased. With around 50% of 2026 gross issuance already placed, supply remains well absorbed.

The outlook is binary. A reopening of the Strait of Hormuz would compress spreads further – BTPs offer the most upside – while renewed hostilities would trigger a sharp reversal. Even in a peace scenario, a quick return to late-February levels is unlikely given the slow energy market normalisation.

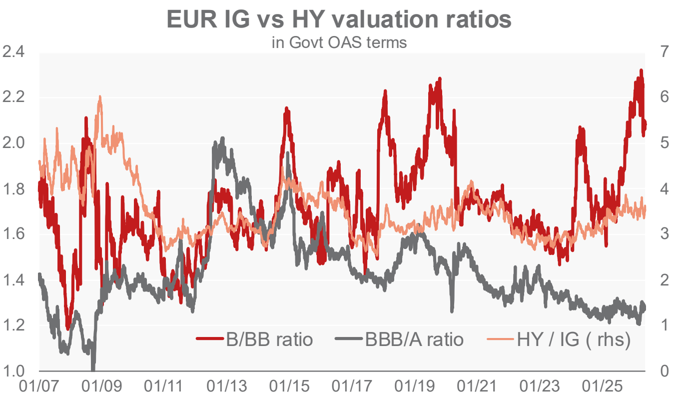
With spreads already tighter, we maintain our cautious stance. We favour sovereigns with solid fiscal track records and sound growth, while urging caution where fiscal consolidation remains elusive – notably Belgium and France. Elevated debt, rising interest costs and limited reform progress leave such countries exposed, particularly amid higher rates and rating agency scrutiny.

Credit

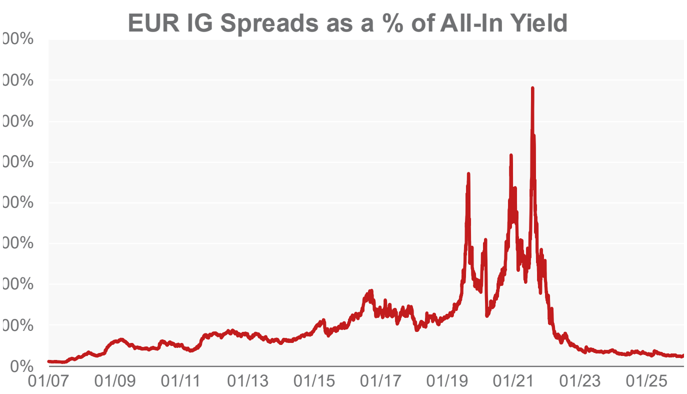
Elisa Belgacem



Source: Bbg, BofAML indices, GenAM



Source:Source:Bloomberg, BofAML Indices, GenAM own calculations



urce: Bloomberg, BofAML indices,GenAM

- **Credit markets have looked through recent geopolitical and oil-related volatility, with European IG now trading in the high-70bp area and HY around 300bp, confirming limited macro spillovers and sustained risk appetite.**
- **We remain constructively positioned across both IG and HY, as elevated all-in yields continue to make carry the dominant driver of returns relative to government bonds in a low-beta environment.**
- **With senior IG increasingly behaving like a rates product, we emphasise selective carry and capital-structure positioning, upgrading Financials to overweight, favouring defensive sectors, and using subordinated indices to manage downside risk.**

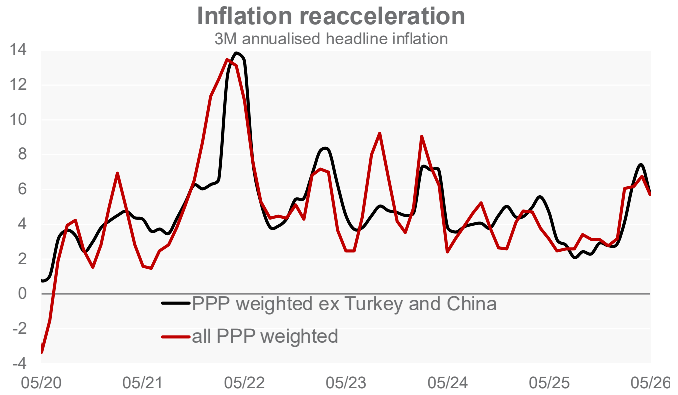
At current levels, credit spreads account for just c.16% of the all-in yield on the global IG index, underscoring the extent to which European IG has effectively become a rates-plus product. Nevertheless, technicals remain highly supportive: sticky demand from insurance and pension portfolios, manageable 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.

Where Carry Still Works

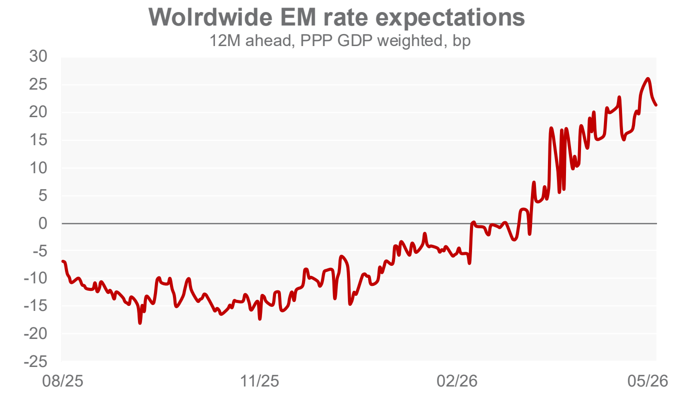
Tthe pace of compression is likely to remain gradual. Sector positioning is therefore selective rather than defensive, favouring areas with stronger resilience and more stable carry profiles. We upgrade Financials to overweight, reflecting limited evidence of contagion from private credit at this stage, 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 , AT1s and hybrid instruments — where spreads still represent a more meaningful share of total yield.

EM sovereign bonds

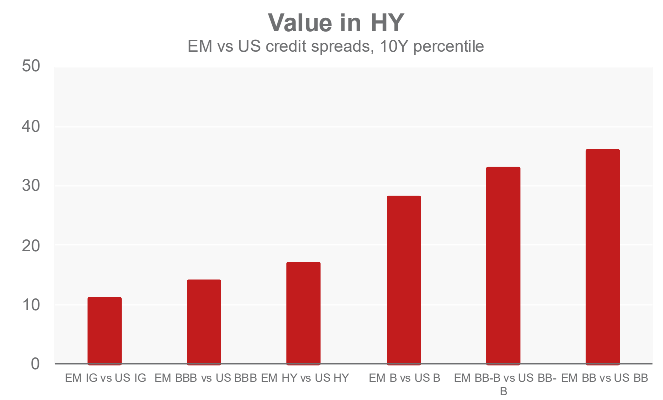
Guillaume Tresca



Source: Bloomberg,countries, GenAM calculation



Source: Bloomberg, GenAM



Source: Bloomberg, GenAM calcuations

- **EM fixed income should continue to perform positively, benefiting from strong technicals and an improved risk environment.**
- **We prefer local debt to external debt, but maintain an overall cautious stance as valuations, particularly external debt spreads, are stretched**
- **In EM local, we favour FX over rates. In external debt, we maintain our preference for HY over IG.**

EM fixed income has shown further resilience to the Middle East conflict, fully benefiting from the improvement in global risk appetite. The extension of the Strait of Hormuz blockade is starting to impact inflation, especially in North Asia. A few EM central banks have started to hike rates. However, solid macroeconomic fundamentals, improved policy credibility and large FX reserves have acted as buffers, and the macroeconomic impact has so far remained manageable. We continue to expect positive returns for both local and external debt as the risk of escalation has diminished and gradual progress towards a peaceful resolution of the Iran conflict has been made. We therefore now prefer EM local over external (from being neutral previously), but maintain an overall cautious stance as valuations, particularly in external debt, are stretched. Returns should continue to come mainly from higher carry and idiosyncratic developments.

EM local debt: a more constructive view favouring FX

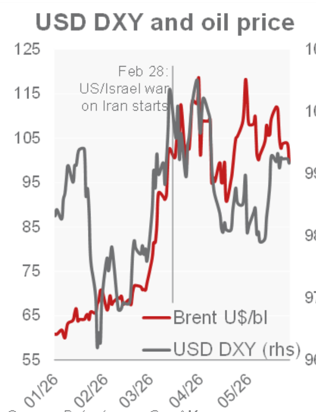
We now favour EM local, with a preference for FX over rates. The growing hawkishness of EM central banks and still-elevated energy prices make receiver positions unattractive. EM FX has fully recovered, and we expect further performance supported by the positive risk environment, our still negative USD view, light positioning and steady inflows into the local debt asset class. We still favour high yielders such as the TRY, where recent political noise offers attractive levels in the forwards, and the HUF, which benefits from a political shift. Asian FX could catch up, and we expect further CNH appreciation.

External debt: a carry story

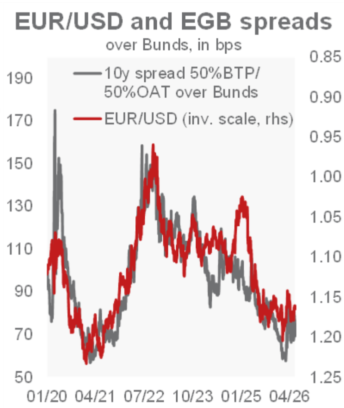
Spread valuations are stretched both historically and on a relative basis, but positive technicals and strong inflows should be sufficient to cap any widening. Recent primary market activity shows significant appetite. We maintain our preference for HY over IG due to lower duration and wider spreads that provide some protection. We continue to favour the BB segment, where economic fundamentals have structurally improved (Ivory Coast, Morocco, South Africa). In IG, despite some deterioration in the backdrop, Mexico offers value and we like Hungary.

Currencies

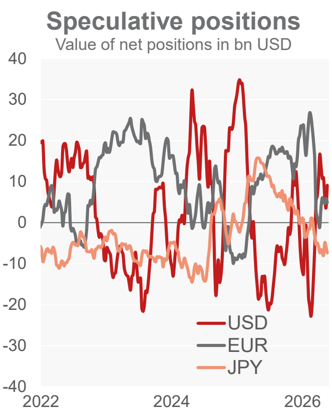
Thomas Hempell



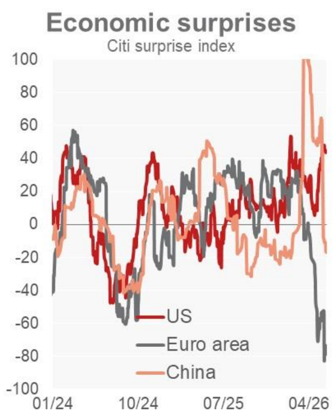
Source: Datastream, GenAM



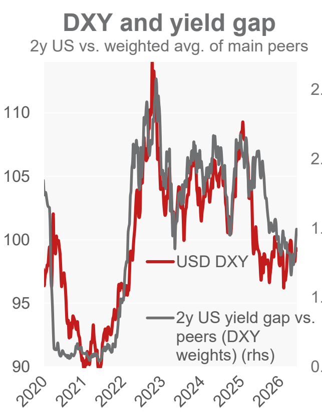
Source: Datastream, GenAM



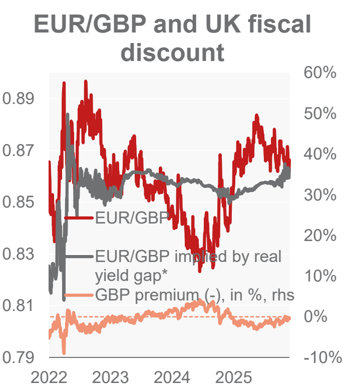
Source: CFTC, Datastream, GenAM



Source: Citi, Datastream, GenAM



Source: Datastream, GenAM



Source: Datastream, GenAM; *EUR/GBP implied by 3y yield gap (3y regrression window)

- **A US/Iran deal should weigh on the dollar, but persistently higher energy prices and the AI boom underpin US relative growth, containing the move. We expect EUR/USD range-bound over the summer.**
- **Markets overprice central bank tightening: ~2.5 ECB hikes vs. our call for one, potentially two under a June deal scenario – leaving the euro vulnerable to a dovish repricing.**
- **In the longer term, though, growing investor diversification – reinforced by US policy uncertainty and lasting petrodollar damage – underpins our moderately bearish USD view.**
- **We also see moderate EUR/GBP upside from sterling fiscal constraints and a euro area recovery once the war ends.**

Our base case remains a US/Iran deal over the coming weeks, where lower oil prices and recovering euro area growth gradually underpin EUR/USD (top left chart). A low euro risk premium embedded in peripheral spreads also anchors the single currency (top right). EUR positioning poses little threat: speculative longs have been washed out to near-neutral (mid-left chart), and barring a war escalation, we see limited scope for further unwinding.

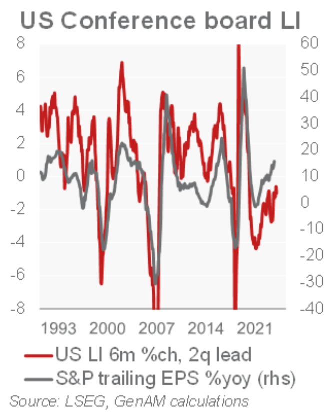
EUR/USD range-bound over the summer

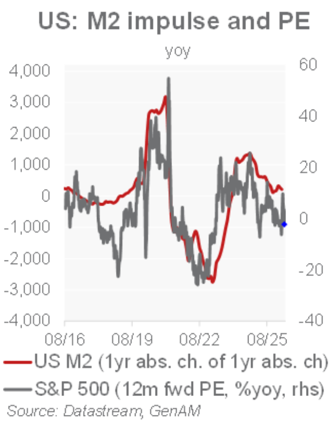
Yet near-term upside will be contained. Energy prices will stay elevated, keeping terms-of-trade headwinds on euro area growth in place . The US – a net oil exporter – faces far less energy exposure, while the AI boom continues to widen the transatlantic growth gap. Markets price ~2.5 ECB hikes – we expect one, potentially two under our base scenario of a deal by June – and a repricing lower would cap EUR gains. US resilience and its AI-driven expansion keep underpinning the dollar. The inflationary threat has reduced the odds of Fed easing under Chair Warsh: we no longer expect a cut this year, and even the final one (Q1 2027) is a close call. Yield differentials have re-widened somewhat recently in the USD's favour (bottom left chart). Over the longer term, however, higher US policy uncertainty – attacks on Fed independence, unpredictable tariffs, questioning of alliances incl. NATO, and an eroding petrodollar – is fuelling demand to diversify away from the dollar, underpinning a moderately bearish USD outlook.

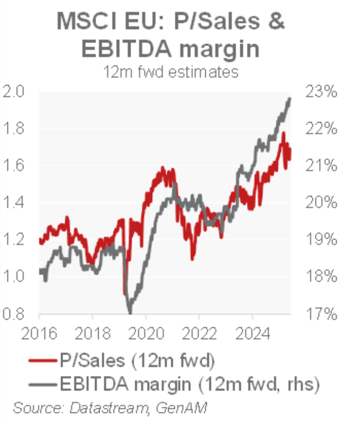
The same euro area recovery should also benefit EUR/GBP, where sterling-specific headwinds add further support. PM Starmer's leadership challenges have driven a UK risk premium, though the GBP discount remains muted vs. the Truss 2022 episode (bottom right chart). Tight fiscal constraints and rising refinancing costs limit pro-growth measures and the BoE's scope to deliver the two hikes priced – we expect just one.

Equities

Michele Morganti and Vladimir Oleinikov







Analysis of the median stock: Q1 2026 reporting season

Median stock	Earnings Growth Q4 2025	Earnings Growth Q1 2026	Sales Growth Q4 2025	Sales Growth Q1 2026	margin trend * Q4 2025	margin trend * Q1 2026	availability Q1 2026
S&P	9.5 %	13.3 %	7.3 %	8.8 %	2.2 %	4.5 %	95.6%
Stoxx	2.8 %	4.2 %	1.6 %	1.3 %	1.2 %	2.9 %	81.9%
Euro Stoxx	2.6 %	5.0 %	1.5 %	1.5 %	1.1 %	3.6 %	89.8%
Topix	9.5 %	18.9 %	4.8 %	6.3 %	4.7 %	12.6 %	95.5%

Median stock	Earnings Surpr Q4 2025	Earnings Surpr Q1 2026	Sales Surpr Q4 2025	Sales Surpr Q1 2026	margin trend * Q4 2025	margin trend * Q1 2026	availability Q1 2026
S&P	3.1 %	5.7 %	1.3 %	1.7 %	1.8 %	4.0 %	95.6%
Stoxx	1.3 %	3.3 %	0.4 %	0.2 %	0.9 %	3.2 %	81.9%
Euro Stoxx	0.8 %	2.1 %	0.4 %	0.3 %	0.4 %	1.9 %	89.8%
Topix	8.1 %	12.6 %	0.9 %	1.3 %	7.2 %	11.3 %	95.5%

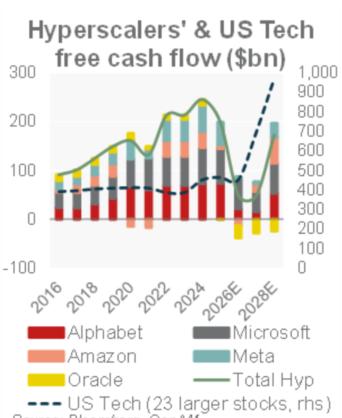
Note: numbers for Q1 2026 are calculated only for the companies which have so far reported in Q4 2025
proxy for margin trend = earnings growth - sales growth
Source: Bloomberg, GenAM calculations

- **In our base scenario, the global macro backdrop remains overall supportive for risk assets, with a still ongoing—albeit bumpy—de-escalation phase.**
- **Financial conditions are favourable, with firms showing solid cash flows, rising buybacks and M&A.**
- **Positioning is only modestly above neutral, while seasonality is slightly positive in the coming months.**
- **Low VIX and MOVE (US bond vol) are helping, too, while our ML models still OW equities vs. bonds. That said, after the rally we turned more cautious but still expect positive TRs for both the SPX and MSCI EMU.**
- **US earnings are strong, with Q1 EPS growth of 27% and high beat rates. Europe has also improved but faces weaker macro conditions ahead. That said, a lower trade-weighted euro and a decline in labour compensation on GDP will offer some respite.**
- **For 2026, we expect EPS growth of 18.5% in the US and 11% in EMU, both below consensus. Firms' margins are at a cyclical high: while US margins should remain resilient in our base case, European margins may moderate somewhat.**
- **We maintain a neutral stance between EMU and the S&P 500. Within equities, we favour US IT, DAX/MDAX, Russell Mid Cap, and selected EM markets (Korea, Poland), alongside a smaller overweight in China and China IT.**

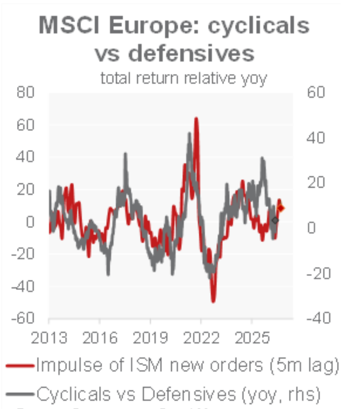
In our base scenario, a bumpy de-escalation phase remains in place, with US NIPA profits' evolution pointing to an ongoing expansion cycle. That said, after the rally we have turned more cautious but still expect positive TRs for both the S&P 500 and MSCI EMU. Low VIX and MOVE (US bond volatility), favourable financial conditions, and rising cash flows (still ample vs. capex needs) remain supportive, alongside rising buybacks and M&A activity. Positioning is only modestly above neutral, while seasonality is slightly positive over the coming months. From a macro-cycle perspective, Europe remains in a "heating-up" phase (rising inflation without significant global growth deterioration), supporting a moderate cyclical tilt. Since late February, European profits have been revised up (~5%), led by energy, materials, semiconductors, construction, metals and banks, while autos, real estate, services and durables have lagged. However, EA leading indicators have softened, pointing to weak GDP growth in 2026 (0.7%). Thus, earlier EPS upgrades may increasingly be offset by weaker macro momentum. Indeed, GDP downgrades (~0.8% for 2026–2027) imply a 3–5% drag on earnings, with risks skewed toward flat EPS growth in a downside scenario/stagflation.

Equities

Source: Datastream, GenAM



Source: Bloomberg, GenAM



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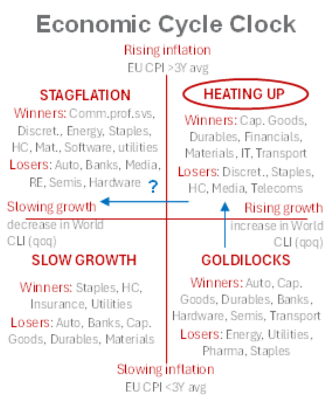


Source: GenAM

as of 26/05/2026 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	13%	24%	17%	22%	21.2	17.1	24%	0.9
SPX 493 (median)	9%	10%	10%	11%	17.4	17.4	0%	1.5
Mag. 7 (median)	20%	23%	14%	17%	26.8	27.5	-2%	1.0
Global AI 175 Basket	13%	17%	17%	15%	22.9	17.4	31%	1.2
US AI Basket (ex-NVIDIA):	17%	16%	17%	15%	20.3	18.5	10%	1.1
· Phase 2 - Infrastructure	14%	23%	19%	21%	25.4	16.5	54%	1.2
· Phase 3 - New Revenues	20%	16%	17%	15%	19.6	32.6	-40%	1.1
· Phase 4 - Productivity	17%	11%	14%	13%	12.5	16.3	-23%	1.0
MSCI US IT	25%	47%	32%	36%	25.2	21.7	16%	0.6
MSCI China IT	22%	40%	38%	32%	29.7	20.4	45%	0.6
Gold Basket - 20 co's	92%	68%	13%	21%	9.7	17.8	-46%	0.3
MSCI EMU	-5%	20%	12%	15%	15.0	14.4	4%	0.9
Russell 2000	27%	80%	45%	23%	27.2	22.7	19%	0.6
MDAX	-4%	9%	24%	11%	15.6	15.4	1%	0.9
MSCI India	12%	14%	17%	14%	20.7	15.9	30%	1.1
MSCI Korea	35%	265%	28%	64%	7.8	10.1	-22%	0.1
Japan (TOPIX)	9%	12%	11%	14%	16.8	15.0	12%	1.2
MSCI EM	8%	56%	20%	34%	12.0	12.0	0%	0.3
MSCI China	-3%	15%	15%	9%	11.2	12.0	-7%	0.8

__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.

That said, a lower trade-weighted euro and a decline in labour compensation as a share of GDP will offer some respite to EMU earnings. In contrast, the US outlook remains strong. The Q1 2026 season delivered 27% YoY EPS growth and a 16.3% beat rate, well above historical average, confirming robust demand and pricing power.

Margins are still a key pillar. Companies' pricing power for the time being helps offset higher costs, supporting valuation levels, especially in the US. US margins are expected to remain strong and may even expand, while EU margins — although at a cyclical high — are more likely to moderate in our base case.

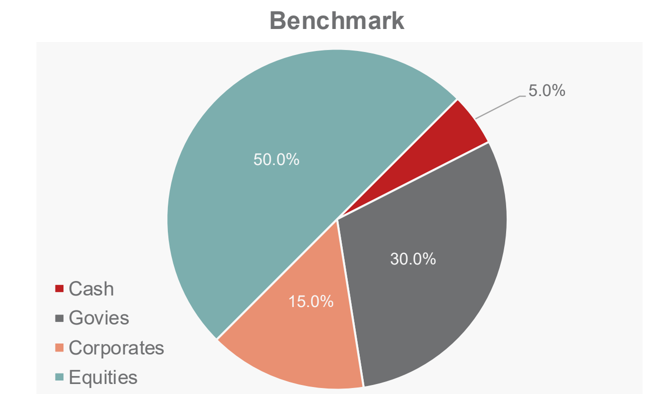
For 2026, we expect EPS growth of 18.5% in the US and 11% in EMU, both below consensus. With our assumptions, US and EMU equities could deliver positive total returns - 5% and 8%, respectively. If consensus proves correct, upside could reach ~12% for the US (SPX at 8,200) and ~17% for EMU equities. Emerging markets offer an attractive opportunity. Despite geopolitical volatility, EPS revisions have improved, supported by AI, industrial capex, and energy transition themes. Valuations remains compelling versus developed markets, supporting selective overweight exposure. We favour a neutral stance between EMU and the S&P 500, but stand ready to shift to an EMU overweight if Iran war de-escalation improves. OW US IT, alongside DAX & MDAX, Russell Mid Cap, and selected EM markets (Korea and Poland), with a slight OW in China and China IT. Within EM, this reflects strong earnings resilience, structural growth drivers and relative valuation support. The US Tech sector is not dear notwithstanding the rally. Free cash flow (FCF) is declining for hyperscalers in 2026, though not for the broader tech sector. For the former, though, a FCF recovery is nevertheless forecasted in 2028.

EU sectors: keep a cyclical tilt

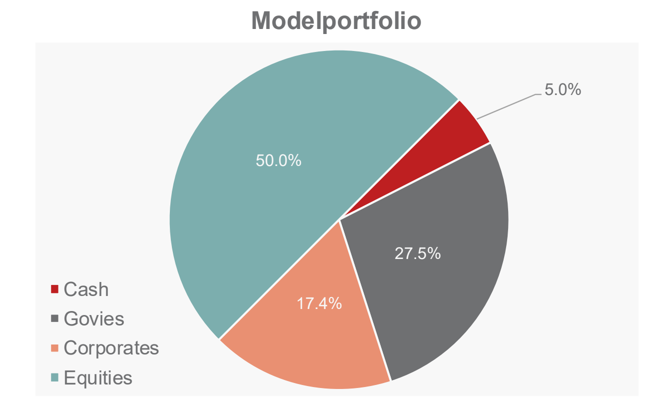
In May, the energy sector underperformed by 10% amid signs of a possible reopening of the Strait of Hormuz, while IT outperformed on EPS revisions and renewed AI optimism. We maintain a cyclical tilt guided by valuation, EPS revisions, ML models and our sector macro model. The latter points to a "Heating-Up" environment (positive global growth with rising inflation): cyclical sectors should tend to outperform defensive ones (ISM supportive and EU confidence still not a drag). That said, risks of stagflation phase are increasing: OW selected defensive, too. EU sectors OW: Financials, Cap. Goods, A&D, Pharma, Materials, Telecoms, Utilities, Software & Semis, plus AI beneficiaries (users) - "Phase 4: enhanced productivity", Gold basket and Uranium & Nuclear basket. UW: staples, energy, RE.

Asset Allocation

Thorsten Runde



Source: GenAM



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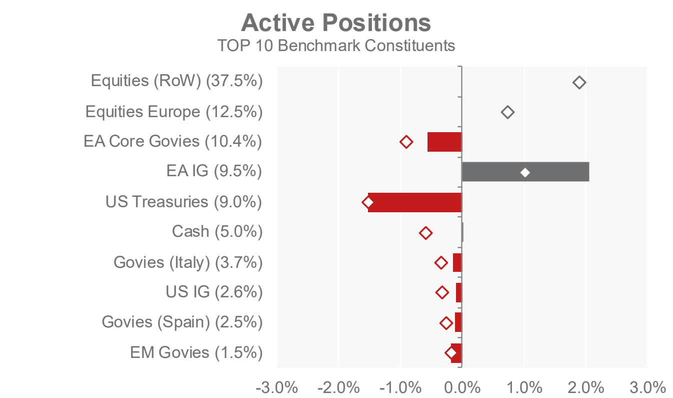


Source: GenAM; Benchmark weights in parentheses, diamonds indicating prev. recommendations

- **Risk assets rallied broadly in May, with equities up around +4.5% in EMU and the US and over +10% in EM ex China; only China equities (-2.5%) and long-duration Swiss and Japanese bonds finished in negative territory, while HY credit narrowly edged out IG.**
- **Solid pre-ceasefire momentum and diplomatic progress on the Strait of Hormuz underpin a cautiously constructive outlook, but elevated energy prices and a still-fragile truce keep upside inflation risks firmly in play.**
- **We concentrate our pro-risk tilt in credit, maintaining overweights in both IG and HY, move equities to neutral after the strong rally, and reduce underweights in cash and government bonds while keeping duration close to neutral.**

In May 2026 (as of 27 May), our model portfolio outperformed its benchmark by roughly +3 bps. The underweight in government bonds was the main contributor (+5.7 bps), led by the US Treasuries position (+4 bps), while the overweight in corporate bonds detracted modestly (-3.6 bps), driven mainly by EA IG non-financials (-2.1 bps).

Resilient macro momentum and ample global liquidity continue to support risk assets, and diplomatic efforts around the Strait of Hormuz offer further upside should de-escalation progress. The ceasefire, however, remains fragile — intermittent incidents and only partial normalisation point to a drawn-out path ahead. The backdrop is increasingly two-sided: elevated and volatile energy prices sustain inflation pressures and reinforce a stagflationary undertone, even as strong earnings and abundant liquidity have fuelled a relief rally. This recovery remains exposed to renewed geopolitical setbacks and persistent energy-driven policy uncertainty, making conviction calls harder to sustain.

Pro-risk tilt now concentrated only in credit

We favour credit over other asset classes, maintaining overweights in both IG and HY where carry and resilient fundamentals provide a cushion. Equities move to neutral following the strong rally, reflecting balanced risks between further de-escalation upside and a persistent drag from energy uncertainties Cash and government bonds stay underweight, with duration held close to neutral (slightly short, mostly in US) given limited yield downside and ongoing energy-driven inflation risks. In sum, the allocation tilts toward carry and income in credit while staying defensive elsewhere — a stance that should hold up under both a gradual normalisation and a renewed risk-off episode.

Forecasts

Macro Data

Growth[1]	2025	2026 forecast	2026 Δ vs. cons.	2027 forecast	2027 Δ vs. cons.	2028 forecast
US	2.1	2.0	- 0.1	2.0	0.0	2.0
Euro area	1.5	0.7	- 0.2	1.1	- 0.2	1.2
Germany	0.3	0.5	- 0.3	1.1	- 0.2	1.1
France	0.9	0.6	- 0.3	0.7	- 0.2	1.5
Italy	0.7	0.4	- 0.2	0.5	- 0.2	0.5
Non-EMU	1.6	1.0	- 0.1	1.3	- 0.0	1.7
UK	1.4	0.6	- 0.0	1.1	- 0.0	1.6
Switzerland	1.6	0.8	- 0.2	1.3	- 0.1	1.8
Japan	1.2	0.3	- 0.4	0.6	- 0.3	0.6
Asia ex Japan	5.4	4.6	- 0.3	4.7	- 0.1	4.7
China	5.0	4.4	- 0.2	4.3	- 0.1	4.3
CEE	2.1	1.8	- 0.2	2.2	- 0.2	2.2
Latin America	2.3	1.7	- 0.3	2.1	- 0.1	2.6
World	**3.4**	**2.7**	**- 0.2**	**3.0**	**- 0.1**	**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	3.5	0.3	2.7	0.3	2.2
Euro area	2.1	3.0	0.3	2.3	0.2	2.0
Germany	2.3	3.1	0.4	2.4	0.2	2.0
France	0.9	2.1	0.3	1.8	0.2	1.9
Italy	1.7	3.0	0.4	1.8	- 0.1	2.0
Non-EMU	2.7	2.4	- 0.0	2.1	0.0	1.9
UK	3.4	3.0	- 0.1	2.5	0.0	2.0
Switzerland	0.2	0.7	0.1	0.7	0.0	0.6
Japan	3.2	2.9	0.8	2.0	0.0	2.0
Asia ex Japan	0.9	2.2	0.0	2.1	0.1	2.2
China	0.0	1.2	0.2	1.2	0.2	1.5
CEE	13.9	11.3	1.1	8.4	0.7	7.1
Latin America[2]	4.6	4.7	0.0	4.5	0.6	3.0
World	**2.9**	**3.6**	**0.2**	**3.0**	**0.2**	**2.7**

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

Financial Markets

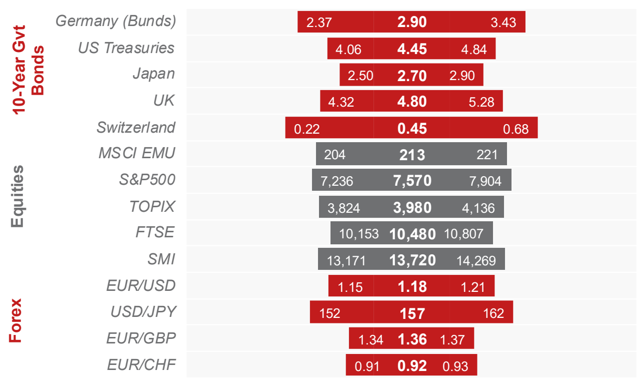
Key Rates	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
US (upper bound)	3.75	3.75	3.69	3.75	3.80	3.50	3.92
Euro area	2.00	2.25	2.28	2.25	2.45	2.25	2.54
Japan	0.75	1.00	0.97	1.25	1.13	1.25	1.48
UK	3.75	4.00	3.89	4.00	4.11	4.00	4.24
Switzerland	0.00	0.00	-0.04	0.00	0.09	0.00	0.30
10-Year Gvt Bonds							
US Treasuries	4.51	4.45	4.57	4.40	4.61	4.35	4.71
Germany (Bunds)	2.97	2.90	3.04	2.95	3.08	3.00	3.15
Italy	3.70	3.60	3.79	3.65	3.86	3.70	3.98
Spread vs Bunds	73	70	75	70	78	70	82
France	3.66	3.60	3.69	3.70	3.75	3.80	3.85
Spread vs Bunds	68	70	65	75	66	80	69
Japan	2.70	2.70	2.77	2.75	2.85	2.80	3.00
UK	4.88	4.80	4.99	4.80	5.04	4.75	5.13
Switzerland	0.50	0.45	0.54	0.50	0.57	0.50	0.60

**3-day avg. as of 27/05/26*
***ICE BofA (OAS)*

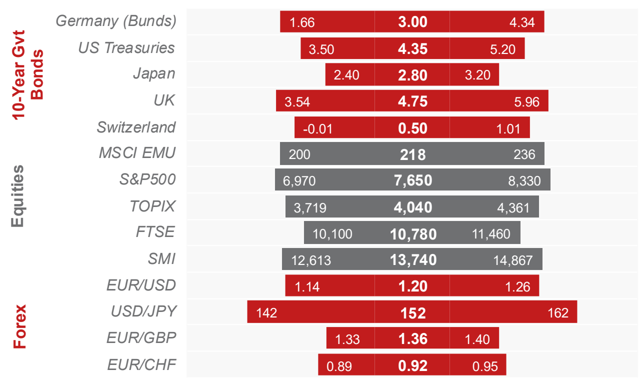
Credit Spreads**	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
EA IG Non-Financial	76	70		70		70	
EA IG Financial	79	75		75		75	
EA HY	276	260		260		260	
EM Sov. (in USD)	167	180		170		165	
Forex							
EUR/USD	1.16	1.18	1.17	1.19	1.17	1.20	1.18
USD/JPY	159	157	158	155	157	152	155
EUR/JPY	185	185	185	184	184	182	182
GBP/USD	1.35	1.36	1.35	1.37	1.34	1.36	1.34
EUR/GBP	0.86	0.87	0.87	0.87	0.87	0.88	0.88
EUR/CHF	0.91	0.92	0.91	0.92	0.90	0.92	0.89
Equities							
S&P500	7,504	7,570		7,595		7,650	
MSCI EMU	210.6	212.5		215.5		218.0	
TOPIX	3,933	3,980		4,000		4,040	
FTSE	10,488	10,480		10,600		10,780	
SMI	13,552	13,720		13,885		13,740	

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

Jakub Krátký | GI CEE Financial Analyst

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

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