

## Market Perspectives

AI disruptions

March 2026

### GenAM Macro & Market Research

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

## Content

- AI euphoria has cooled as cheap AI tools threaten business models, especially in software, and raise broader macro concerns. Higher uncertainty around labour markets and consumer spending argues for greater tactical prudence.
- Markets have nonetheless absorbed the shock well amid a Goldilocks mix of moderate growth, easing inflation and hopes of rising productivity. Euro-area green shoots, solid US activity and a solid Q4 earnings season continue to support risk sentiment.
- We keep favouring Equities as earnings growth still underpins prices but trim tactical overweights amid two-sided risks from AI uncertainties.
- We increase tactical duration close to neutral as yield risks have become more symmetric. A euro area recovery and rising public debt may still lift Bund yields medium term, but AI uncertainty (labour markets) tempers conviction. We keep favouring Credit and EM mostly for the carry.

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## Global View – AI disruptions

Thomas Hempell

- **AI euphoria has cooled as cheap AI tools threaten business models, especially in software, and raise broader macro concerns. Higher uncertainty around labour markets and consumer spending argues for greater tactical prudence.**
- **Markets have nonetheless absorbed the shock well amid a *Goldilocks* mix of moderate growth, easing inflation and hopes of rising productivity. Euro-area green shoots, solid US activity and a solid Q4 earnings season continue to support risk sentiment.**
- **We keep favouring Equities as earnings growth still underpins prices but trim tactical overweights amid two-sided risks from AI uncertainties.**
- **We increase tactical duration close to neutral as yield risks have become more symmetric. A euro area recovery and rising public debt may still lift Bund yields medium term, but AI uncertainty (labour markets) tempers conviction. We keep favouring Credit and EM mostly for the carry.**

AI-driven equity euphoria is giving way to concerns over disruption from cheap AI tools. A new wave of releases, led by Anthropic's Claude Cowork plugin, has raised doubts over business models, hitting software stocks hardest (down ~30% from October peaks, left chart) but increasingly spilling over into other sectors and Private Debt markets.

The debate has broadened into macro territory, with fears of labour-market disruptions leading to weaker consumer spending. This has weighed on long-term Fed rate expectations and US Treasury yields (right chart) despite chronic fiscal risks, while also highlighting diverging views within the Fed on AI's temporarily **inflationary** versus **disinflationary** effects (inflation breakevens are falling).

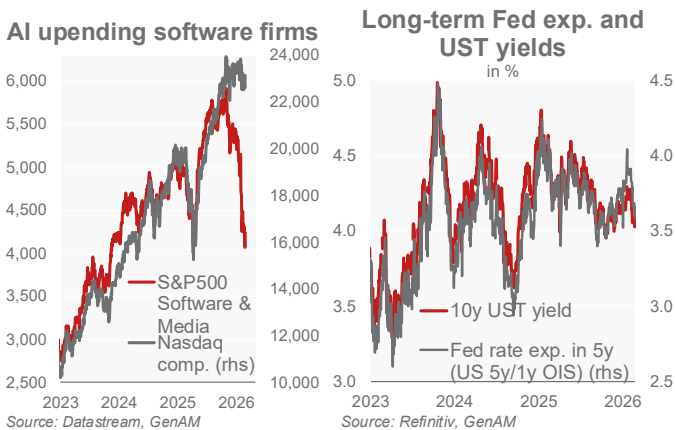
Recent worries about broader economic disruption from AI may also prove more persistent than last year's brief setbacks following the [DeepSeek emergence](#) (Jan.) or a [bearish MIT report](#) on AI productivity (Aug.). This argues for greater tactical prudence in risk positioning.

That said, we trim but maintain our overweight in Equities. Overall markets have digested AI-related concerns remarkably well (S&P500 broadly flat, while MSCI EMU & EM and Topix are markedly higher in Feb.). It is all about rotation, but the upcoming AI-led productivity gains are positive for overall profits. We expect the *Goldilocks* of continued moderate expansion and easing inflation to remain supportive. Strengthening euro area green shoots (PMIs, industrial production, Ifo) point to a cyclical recovery while the unfolding US tax relief should sustain the US expansion. The US Supreme Court's rejection of President Trump's IEEPA tariffs adds uncertainty around alternative protectionist measures and the stability of agreed trade deals. Yet it deprives Trump of a key tool for ad-hoc tariffs and – despite the new universal 10% sect. 122 tariff – should lower the effective US tariff rate.

10-Year Gvt Bonds	Current*	3M	6M	12M
US Treasuries	4.04	4.05	4.10	4.15
Germany (Bunds)	2.71	2.80	2.85	2.95
Credit Spreads**				
EA IG Non-Financial	75	70	70	70
EA IG Financial	80	75	75	75
Forex				
EUR/USD	1.18	1.19	1.20	1.21
USD/JPY	156	155	153	150
Equities				
S&P500	6891	6950	7045	7230
MSCI EMU	209	207	210	217

\*3-day avg. as of 25/02/26

\*\*ICE BofA (OAS)



We have previously **cautioned** against fresh setbacks amid high elevated tech valuations and high index concentration.

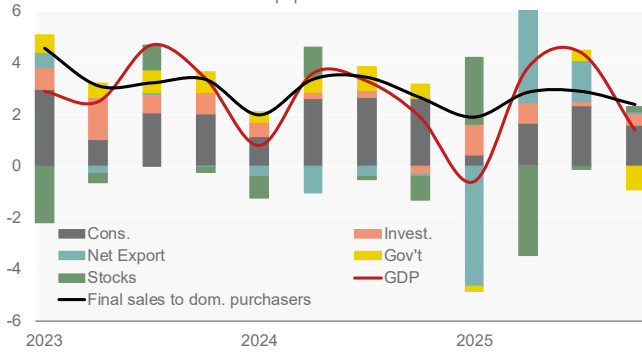
### Trim Equity and FI duration exposure

This backdrop does not rule out temporary market setbacks but makes sharp corrections less likely. A good Q4 reporting season suggests that recent price gains remain backed by solid earnings growth. We see more two-sided risks on yields and therefore raise our duration exposure from a small short to near neutral. While the cyclical recovery and rising public debt still tilt Bund yields to the upside over the medium term, heightened macro uncertainty – stemming from the potentially disruptive effects of AI diffusion on labour markets and consumption – tempers that conviction. We maintain a bearish bias on the USD and continue to favour Credit and EM bonds (prefer local currency debt), primarily for their attractive carry, as well as EM equities.

## United States

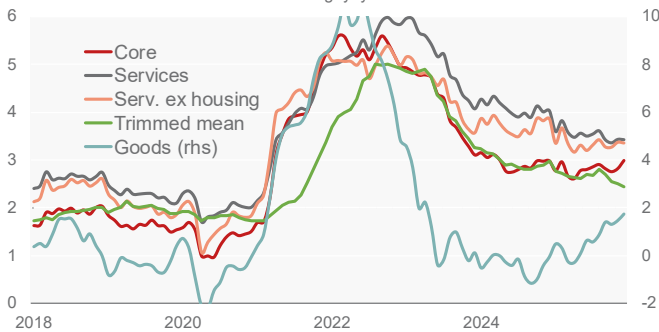
Paolo Zanghieri

**GDP Growth and drivers**  
 qoq annualised



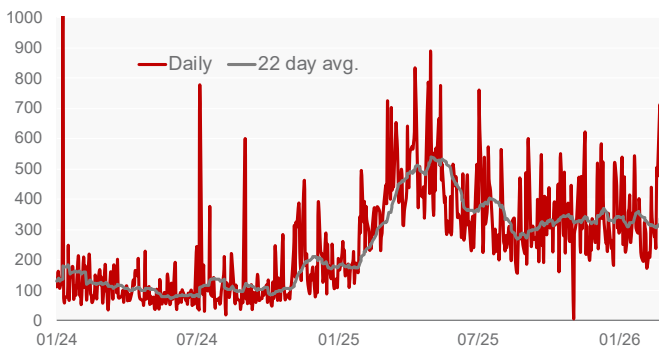
Source: BEA, GenAM

**PCE inflation**  
 % chg. yoy



Source: BEA, GenAM

**Economic Policy Uncertainty**



Source: www.policyuncertainty.com, GenAM

- The weak Q4 GDP printing (1.4% ann.) was entirely due to the government shutdown. Investment and consumption remain healthy; we predict GDP growth at 2.5% this year, just above consensus.
- Core PCE inflation ticked up to 3% yoy in December. The Supreme Court ruling against reciprocal tariffs has increased uncertainty.
- Sticky inflation and labour market stabilisation provide no case for early rate cuts. We expect the Fed to deliver its final cut in June or later.

GDP growth was rather weak in Q4 2025, but this was due solely to the impact of the shutdown: government consumption and investment took out around 1 pp from activity, which will be largely recovered in Q1. Private sector domestic demand remained solid (2.4% ann.), as capex offset the mild deceleration in consumption. Data on durable orders and industrial production point to an ongoing strengthening in capex beyond tech and a stabilisation in manufacturing activity. Employment picked up in January (130k new jobs), but job creation remains concentrated in noncyclical sectors like healthcare. Tax cuts to business and wealthy households will continue to stimulate growth, and we see GDP up by 2.5% this year.

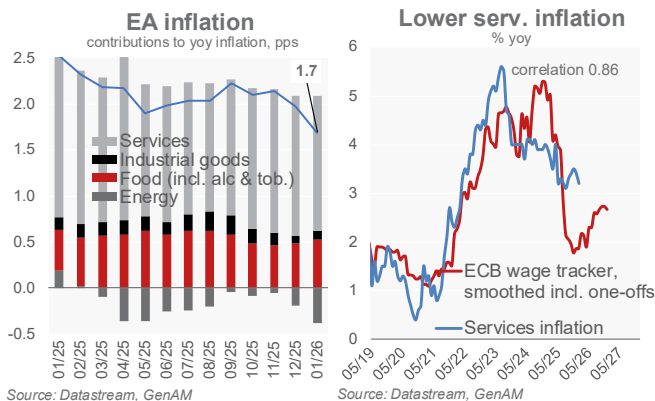
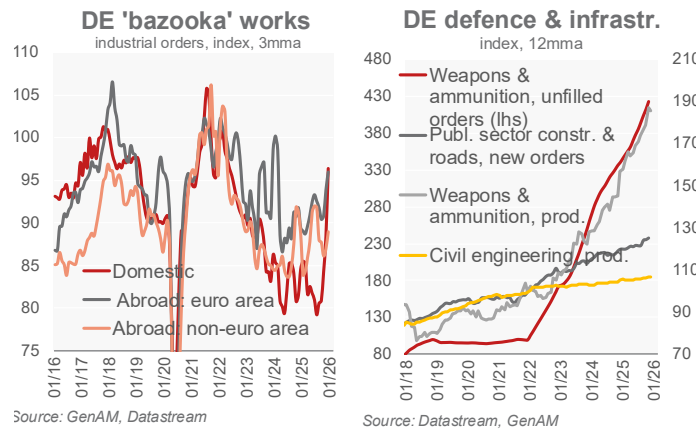
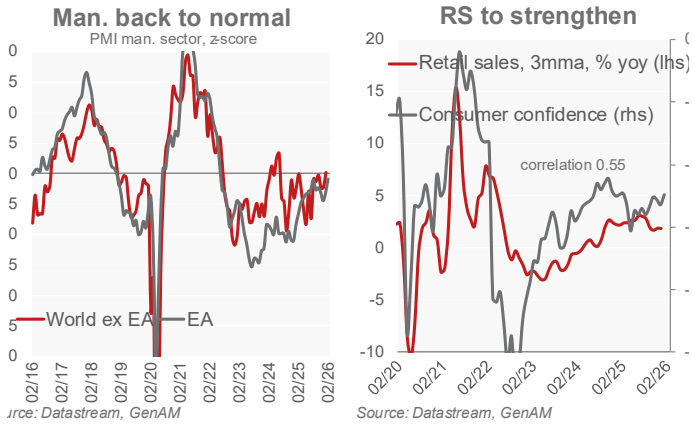
December PCE inflation data were mixed: the core rate edged up to 3% yoy due to the impact of tariffs on goods, while service inflation was stable: however, a measure which strips out volatile items edged substantially down (2.4%). The Supreme Court rebuttal of reciprocal tariffs, has sparked a bout of uncertainty on several fronts: it has deprived the Treasury of a substantial source of revenue (around 0.7% of GDP), and upended the deals the US had struck last year with main trade partners. The administration has reinstated a 10% global tariff, which will expire at the end of August and requires Congress approval for renewal, which looks unlikely. Other tariffs remain in place.

### The Fed will not ease before June

The minutes of the January meeting underlined the FOMC's very cautious approach on rate cutting, which is backed up by evidence of sticky inflation and a tentative stabilisation of the labour market. We expect no rate cuts in the last two meeting chaired by J. Powell and suspect that the new chair K. Warsh will have to work hard to turn the FOMC dovish. We pencil in the final cut for June, but see risks tilted towards later action.

## Euro Area

Martin Wolburg



- We maintain a positive outlook, given expectations of fiscal support, lower inflation boosting real income growth and a pickup in global manufacturing.
- Our 2026 growth expectation of 1.4% is slightly above consensus.
- The ECB still sees its policy rate in a 'good place' and makes clear that the hurdle to cut rates is high. We continue to look for constant key rates.

We remain constructive on euro area activity and continue to look for strengthening growth from spring onwards. Following a better-than-expected Q4/2025 growth rate of 0.3% qoq this momentum should be maintained at the outset of the year. Sentiment, according to the ESI, advanced against the previous quarter, thanks to a notable uptick of consumer confidence, heralding stronger consumption. It will be supported by wage growth (of 2.7% according to the ECB wage tracker) exceeding inflation that we expect to average 1.8% in 2026. EA business mood has been upbeat since the beginning of the year according to most surveys and manufacturing sentiment outside the euro area is back to normal, implying finally an end to the three-year recession. We do not think that the US Supreme Court decision on tariff will have a meaningful impact on EA export as the average tariff rate will not change much, but the European Parliament decision to slow down the ratification of the trade deal of the EU could lead to some uncertainty. Finally, the effects of the German fiscal push will increasingly be felt. German industry orders rose sharply in December (+7.8% mom, with the domestic component up by 10.6%). While we have some concerns that the emerging activity pickup could be just a **flash in the pan** medium term, we are confident that the 1.2 pp fiscal impulse will help to German lift growth to 1.2%, from 0.4%, which alone mechanically adds ¼ pp to euro area growth. All in all, we slightly revised our 2026 growth forecast up to 1.4% (from 1.3%).

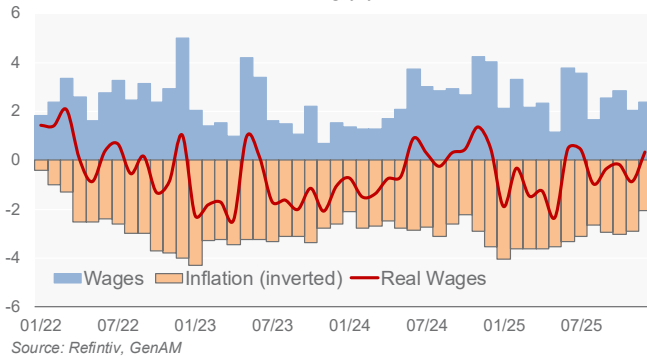
### Hurdle for an ECB rate cut is high

The recent euro appreciation sparked speculations about a loser monetary policy. However, at its **February meeting** the ECB made clear that it was still in a 'good place'. Exchange rates were discussed, with the stronger euro being seen as a burden the external environment and a downside risk to inflation. But President Lagarde played down latest developments, claiming that there has been no materially new appreciation in 2026. Analogously, she sounded relaxed on macro as the latest inflation data were below the ECB's expectation while growth was above. We stick to our expectation of unchanged policy rates for the time being. The hurdle for policy action is high, but we still see the risk tilted towards a cut, e.g. in the case of a significant further EUR appreciation or deteriorating financing conditions.

## Japan

Paolo Zanghieri

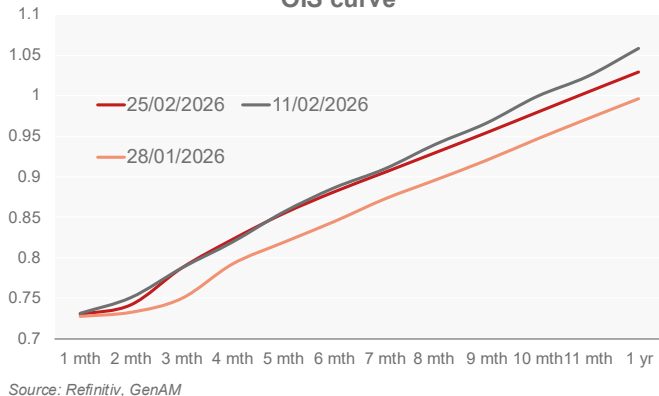
**Real wage growth**  
% chg. yoy



**Inflation**  
Tokio: yoy



**OIS curve**



- The landslide electoral victory will make it easier for the LDP to implement its expansionary fiscal agenda, but the impact on activity should be modest. We raised to 0.6% our growth forecast for 2026.
- January inflation surprised to the downside and should continue to head lower, boosting real wages on top of the expected nominal rise.
- The government appointed two relatively dovish figures to the BoJ board. Better data on inflation and easing fiscal woes led us to move to July the next rate hike.

Q4 GDP disappointed, dragged down by net export, but the first data for 2026 have been encouraging, with Tokyo inflation turning sharply down, (1.4% headline, 2.4% core). We think the economy is set to accelerate in the first half of 2026, leading GDP to increase by 0.6% this year. Real wage gains, resulting from lower inflation and a sizeable rise in wages after the Spring negotiation, will prop up consumption. Capex should tick up thanks to reduced policy uncertainty and tech-related demand. Another, but very limited, boost to domestic demand will come from the tax plan the new government is preparing. The ruling LDP got a significant majority in the Feb. 8 election but fell short of the very large one that would have removed any constraint to its ambitious fiscal expansion plans. The most relevant part of it, the temporary cut on food taxes will take time to be implemented in full. Moreover, PM Takaichi pledged not to fund any tax cut with more debt. More broadly, pressure on yields and the yen will constrain the government action, on top of the weight of the more fiscally conservative wing of the LDP. Still, we expect the pledged increase in expenditure to be largely unfunded and see primary deficit to deteriorate to around 2.7% in the next fiscal year. The US Supreme Court ruling should entail a minimal reduction to tariffs, and so far, the government has signalled no intention to walk back from the trade agreements with the US.

### Dovish twist in the board unlikely to change BoJ stance soon

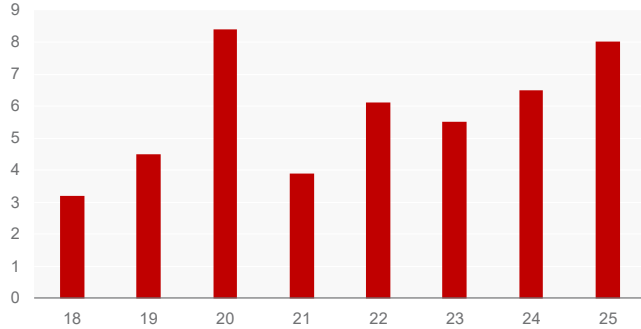
One of the first actions of the new government was the replacement of two BoJ members with academics that in the past were in favour of a less aggressive attitude towards inflation. This should not lead to an abrupt change in monetary policy stance, as the rest of the board remains committed to curb inflation and the Yen weakness is a powerful catalyst. Markets have repriced only mildly down the path for risk-free rates. Still, stronger evidence of disinflation and slimmed down fiscal expansion expectations make it more likely that the BoJ will raise rates in July than in April.

## China

Guillaume Tresca

### Limited fiscal support widening is expected

Broad fiscal balance (excl. bank recap.), % GDP



Source: MoF, GenAM

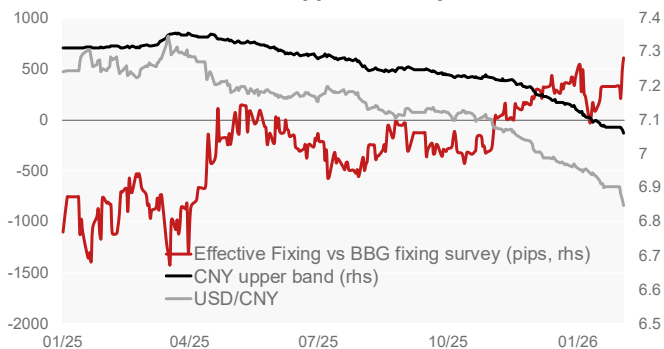
### Resilient exports

% yoy change



Source: Bloomberg, China Custom Administration, GenAM

### CNY: smooth appreciation pressure



Source: Bloomberg, GenAM

- **Policymakers should set lower and more flexible 4.5–5.0% growth target, with a strong focus on tech self-reliance and clearer support for consumption.**
- **There is less need for policy support. We expect a modest widening of fiscal deficit via higher bond issuance.**
- **With marginally better data and a less hostile tariff backdrop, we expect only 20bp of rate cuts, and gradual managed CNY appreciation.**

After meeting its 5% growth target in 2025, early March will be a crucial period with the National People’s Congress and the release of the 15th Five-Year Plan, which will set the main macroeconomic targets and key development priorities.

First, the new Five-Year Plan is expected to emphasize technological self-reliance and offer more clarity on measures to support consumption (notably through the social safety net) and the anti-“involution” campaign.

Second, the growth target is likely to be revised lower and presented as a more flexible 4.5–5% range, with a stronger focus on “quality growth” and sustainability to avoid exacerbating supply–demand imbalances. Earlier partial releases of the 15th Five-Year Plan even suggested that a growth rate of around 4.2% would be sufficient through 2035 to meet long-term policymakers’ objectives.

Given the likely lower target, we do not expect major stimulus. Any fiscal widening should remain modest and would primarily take the form of higher CGB and LGB issuance. Similarly, we do not expect a significant expansion of consumption-related stimulus; the trade-in programme should remain broadly unchanged.

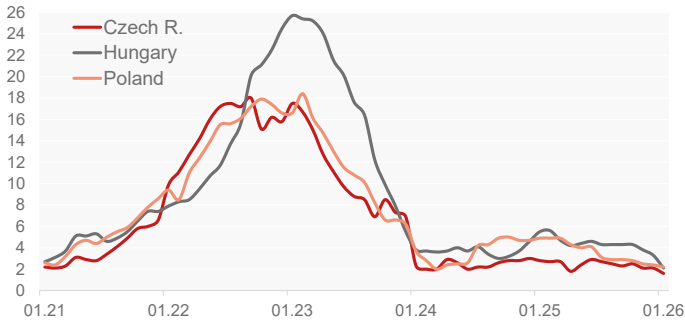
There is also less need for additional support, as the latest high-frequency indicators point to marginal improvements. Exports have been resilient and US tariffs have been lowered. President Trump and President Xi are scheduled to meet in late March or early April. We do not expect major breakthroughs, but the outcome should be positive for sentiment. President Trump has also lost some leverage over China following the SCOTUS tariff decision. Congress has regained influence, and the peak of the tariff tit-for-tat cycle is likely behind us.

Within this framework, we reduce our expectations for PBoC easing and now anticipate only 20bp of rate cuts this year. The PBoC is more likely to rely on targeted tools (notably selective RRR cuts). We also note growing comfort with CNY appreciation: the daily fixing has surprised on the stronger side in recent weeks. The appreciation trend should remain gradual and tightly managed.

## Central and Eastern Europe

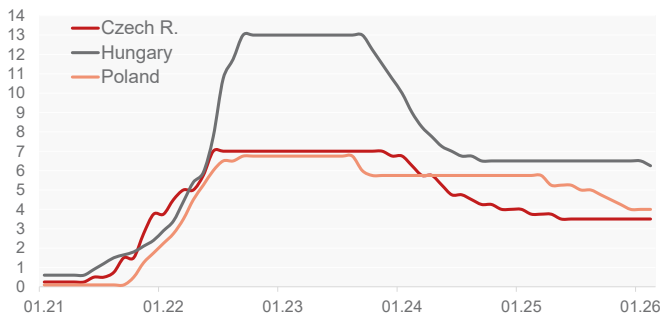
Radomír Jáč

**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

### Main Forecasts

	2024	2025e	2026f	2027f
<b>Czech Republic</b>				
GDP	1.1	2.5	2.4	2.4
Consumer prices	2.4	2.5	1.5	2.1
Central bank's key rate	4.00	3.50	3.50	3.50
<b>Hungary</b>				
GDP	0.6	0.3	2.1	2.9
Consumer prices	3.7	4.4	3.0	3.5
Central bank's key rate	6.50	6.50	5.50	5.00
<b>Poland</b>				
GDP	3.0	3.6	3.6	3.0
Consumer prices	3.7	3.6	2.5	2.7
Central bank's key rate	5.75	4.00	3.50	3.50

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

- Hungary resumed monetary easing in February after a 17-month hiatus and cut its key rate to 6.25%.
- Poland's NBP cut its key rate to 4.00% in December and has kept it unchanged so far this year but resumption of easing in March appears likely.
- The Czech CNB left its key rate at 3.50% in February in a unanimous vote. While the possibility of a slight rate cut was discussed, we continue to view stable rates as the main scenario for the year.

Headline CPI stands in the inflation target range across the CE-3 region. Czech inflation fell from 2.1% to 1.6% yoy in January (vs. target set at 2% yoy +/-1pp). The drop was driven primarily by energy, fuel and food prices, i.e., by non-core items. Core inflation fell only marginally from 2.8% to 2.7% yoy and remains high from the CNB's perspective.

In Hungary, inflation fell from 3.3% to 2.1% yoy in January (vs. target set at 3% yoy +/-1pp). The moderation in overall inflation was broad-based and included core CPI items. However, base effects are likely to push inflation somewhat higher from Q2 onwards and we therefore expect cautious approach to monetary policy easing in Hungary.

In Poland, headline CPI decreased from 2.4% to 2.2% yoy in January (vs. target set at 2.5% +/- 1pp) but exceeded the market consensus of 1.9% yoy. The decrease was driven by non-core items, notably by fuel and energy prices and by alcohol and tobacco prices. We nevertheless expect headline CPI to moderate further in the near-term, creating room for further monetary policy easing.

### Hungary was the first country in CEE to cut rates in 2026

The Czech CNB is leaving its key rate at 3.50%. However, at the February meeting, the option of a fine-tuning rate cut was discussed. While a stronger CZK may serve as an argument for lower rates, robust wage growth and the development of core inflation should, on the contrary, point to a cautious monetary policy. Our baseline scenario assumes unchanged Czech rates throughout 2026 and likely also in 2027. In Hungary, the MNB cut its base rate by 25 bps to 6.25% in February – the first rate cut since September 2024. The MNB decision reflected low inflation, weak GDP growth and a strong HUF. We expect the MNB to gradually reduce interest rates to 5.50% by year-end. In Poland, the NBP lowered its key rate by 25 bps to 4.00% in December and left the rate unchanged in January and February. However, a 25 bps rate cut was signalled for the March meeting – and we also expect a rate cut in March, despite the higher-than-expected January inflation print. The final rate cut to 3.50% is likely in Q2.

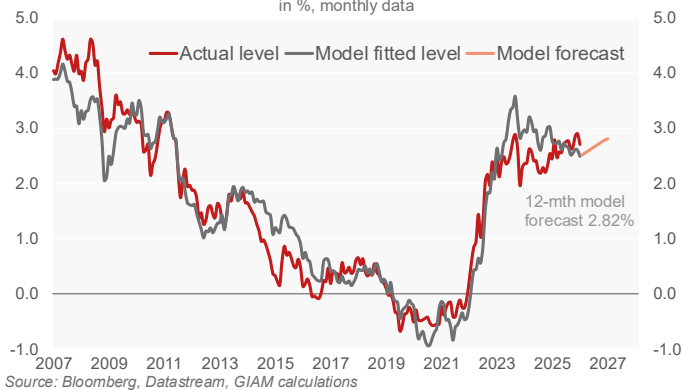
## Government Bonds

Florian Späte

**Short end has driven 10-yr Bund yield**  
 10-yr Bund yield approx. with 2y1y ESTR and TP, in %



**10-year Bund yield**  
 in %, monthly data



**Germany: Nominal growth and bond yields**  
 Quarterly growth forecasts by Oxford Ec., in %



- Despite overall robust economic data and generally hawkish comments from central banks, yields on government bond markets declined globally in February, particularly for medium- and long-term maturities.
- Amidst the tension between more volatile equity markets and uncertainty about the macroeconomic impact of AI developments on the one hand and accelerating growth alongside rising government debt on the other, we are maintaining a minor short duration stance for Bunds but a neutral positioning in US Treasuries for the time being.
- The positive development in euro area non-core government bond markets is supported by a further decline in volatility. The Bund/OAT spread has almost returned to its pre-snap-election level of June 2024 – a point at which renewed caution is warranted.

The mild increase in stock market volatility continued in February (before declining slightly again recently). Uncertainty about the long-term effects of further developments in AI also supported global bond markets. Although the market's expected key rate levels for the ECB and the Fed in 2026 has changed only slightly, medium-term expectations (approximated by 5y3m OIS) fell by around 30 bps in the US and around 20 bps in the euro area. This led to a pronounced bull flattening of yield curves, with the decline in yields on 10-year US Treasuries (20 bps) moderately exceeding that of German Bunds (14 bps).

As in recent months, medium-term key rate expectations have remained the primary driver of long-term yield developments (rather than the term premium). This is noteworthy given that the central bank comments in February were, on balance, rather hawkish. Additionally, economic data surprised on the upside, signalling a slight increase in momentum.

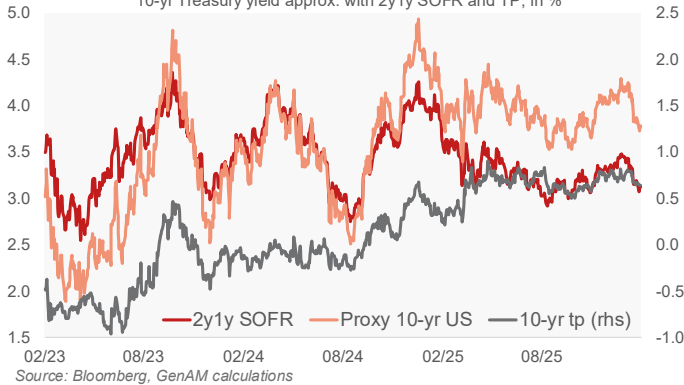
We assume that the recent decline in 10-yr Bund yields is temporary and does not mark the beginning of a sustained downward trend. Our regression model for 10-year Bund yields now indicates slight overvaluation (a fair value gap of approximately 20 bps, middle chart). According to the model, over a one-year horizon there is upside potential of at least 30 bps, not least due to the ECB's ongoing Quantitative Tightening and Germany's expansionary fiscal policy. The estimate based on nominal growth (see lower chart) also indicates that higher yields are likely in the medium term. In this respect, we are maintaining our cautious short duration recommendation despite the decline in yields over a 1-year

## Government Bonds

Florian Späte

### Higher term premium boosts Treasury yields

10-yr Treasury yield approx. with 2y1y SOFR and TP, in %



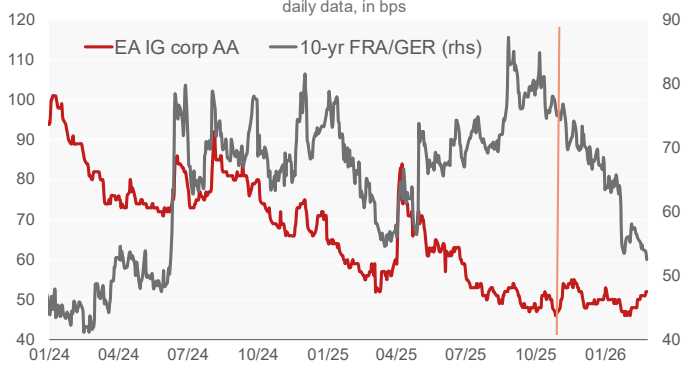
### Spread tightening driven by lower volatility

in bps to German Bunds, daily data



### Strong outperformance of OATs since Nov 25

daily data, in bps



horizon. We expect 10-year Bund yields to reach 2.95% (3-month: 2.80%).

In our base scenario, we expect 10-year US yields to remain stable. Given the overly aggressive pricing of key rate cut expectations (73 bps by December 2027; GenAM: 25 bps) and the economic recovery being driven by fiscal stimulus measures, among other things, we do not believe that 10-year US yields will fall below 4% on a sustained basis. However, if there are significant disruptions to the capital markets (e.g. due to geopolitical developments or concerns about the implications of AI on stock valuation and/or labour markets), a further decline cannot be ruled out. Conversely, the latest inflation figures suggest a slowdown, and we also anticipate a further Fed rate cut in the middle of the year, so a sharp upward movement is not on the cards either. Over a 3-month horizon, we forecast 4.05% (1-year: 4.15%). We continue to recommend a neutral duration on US Treasuries.

### EA non-core gov. bonds: The air is getting thinner

In February, EA non-core government bonds continued to perform well in an environment unaffected by AI concerns. A further decline in bond market volatility, improving fundamentals and strong investor demand drove spreads to narrow slightly and new supply to be smoothly absorbed in the primary market.

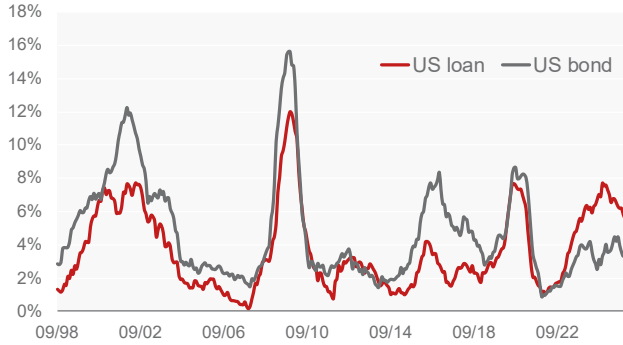
Despite the favourable environment, we now see little scope for further spread narrowing. E.g., bond market volatility is only slightly above the historic lows of 2019, so the potential for improvement in the determining factors is limited. This is particularly true given that 10-year BTPs, which have the lowest spread levels versus Bunds since 2008, have already priced in the current favourable environment. Nevertheless, this does not mean that investors should underweight non-core government bonds relative to Bunds. Carry remains a positive factor and is likely to continue contributing to outperformance relative to core bonds in future.

OATs remain a special case. In light of the more stable political situation, outperformance has continued, and the 10-year OAT/Bund spread has almost reached the level seen before the snap election announcement in June 2024. This is notable given that, while we anticipate stable market conditions in the short term, France's structural issues will take centre stage again over the course of the year and the presidential elections scheduled for April 2027 will cast their shadow ahead. In this respect, we do not foresee any catalyst for a sharp increase in risk premiums in the coming weeks. However, we are maintaining our cautious outlook, particularly in view of the high twin deficit and therefore see no reason to increase exposure.

## Credit

Elisa Belgacem

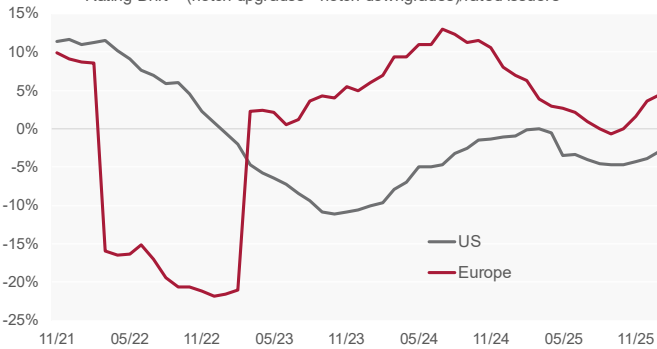
**Moody's issuer-Weighted Speculative-Grade US Bond vs. US Loan Default Rates**



Source: Moody's, GenAM

**Trailing 12-month rating drift**

Rating Drift = (notch upgrades - notch downgrades)/rated issuers



Source: Moody's, GenAM

**Direct Lending yield premium over Broadly Syndicated Loans in %**



Source: BofA, LCD, LSEG, GenAM

- The still-constructive macro backdrop argues for maintaining our long credit positioning, despite rising tail risks linked to renewed headlines around the private credit sector.
- We remain equally long investment grade and high yield, as we expect carry to produce superior returns relative to government bonds.
- While staying constructive on the spread outlook, we adjust the sector allocation to better account for the risk of a potential escalation of stress originating from the private asset space.

Credit spreads have widened modestly in recent weeks, driven by concerns around the private debt market and its growing interconnection with the technology sector.

### Demand-driven markets with private credit in focus

Demand for credit remains strong and continues to exceed available supply, with the market entering 2026 broadly in line with how it ended 2025. While supply levels remain elevated, they have not been sufficient to meet demand. Corporate fundamentals remain solid, as reflected in leverage metrics reported during earnings seasons, and most companies continue to show discipline in spending. At the same time, US and European financial institutions have built substantial exposure to private credit, with around USD 1.2 trillion in loans and USD 940 billion in undrawn commitments to non-bank financial institutions, raising concerns around capital adequacy and loss-absorption capacity, should defaults rise and valuations deteriorate.

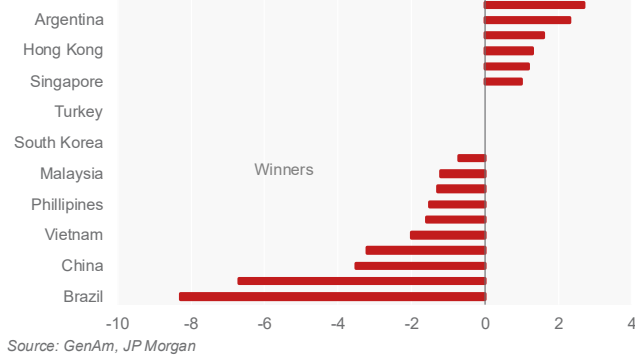
### Constructive on spreads selective on sectors

We expect credit spreads to tighten slightly in the coming months, keeping carry elevated, and therefore see no reason to adopt a defensive overall stance. That said, we implement targeted adjustments to mitigate potential spillovers from AI disruption and the private asset space. We maintain our preference for Europe over the US. We downgrade Financials, moving Banks from overweight to neutral and Insurance from overweight to underweight. At the same time, we maintain our overweight in cyclical sectors such as Materials and Autos, while increasing our overweight in the defensive Telcos and Utilities. Finally, we reiterate our recommendation of the iTraxx Subordinated Financials Index as the most appropriate hedge in the current environment.

## EM sovereign bonds

Guillaume Tresca

**Tariff changes, winners and losers**  
 assuming +15% Section 122 tariffs, ppt

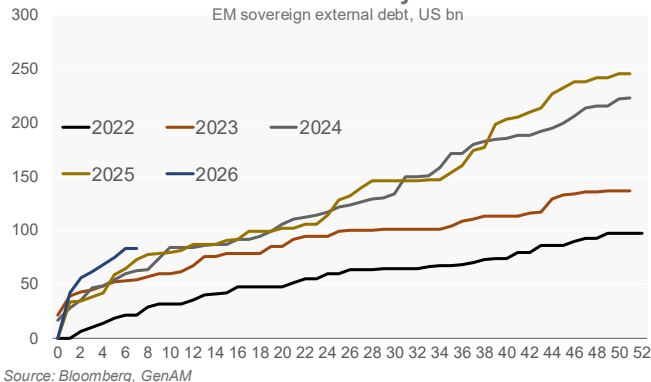


- The macroeconomic environment has kept improving, further supporting our positive view.
- Strong technicals and improving fundamentals will provide further buffers.
- We maintain our preference for local debt over external debt. We prefer Em FX over rates and HY external debt over IG.

EM has kept performing gently with external debt and local debt up by 2.2% and 3.5% YTD respectively. The broad set-up has remained a supportive one even if valuations have been demanding. We maintain our global EM overweight stance with a preference for local over external debt and HY over IG.

**Record issuance easily absorbed**

EM sovereign external debt, US bn



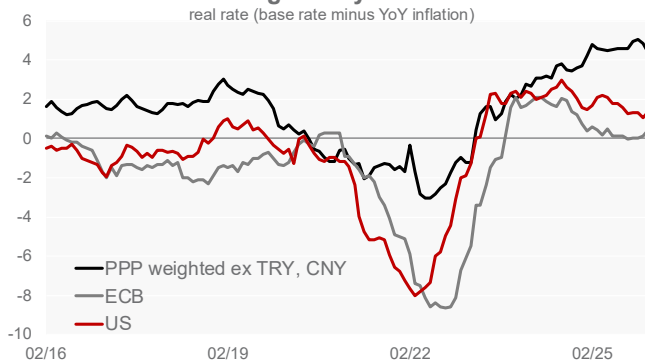
Indeed, the macro environment has even improved. First, the latest US tariff development is marginally positive for EMs as on average tariffs are declining even if the impact is uneven. The Congress is also regaining some power in the process. Second, EM inflationary pressures are losing steam and EM central banks can extend further their easing cycle. Third, strong technical factors are still in place. The share of foreigners in local markets is below their long-term average and last year's inflows into the asset class represent less than 25% of the outflows seen in the last 10 years. Geopolitics is still a risk but so far EMs have been resilient and impacts have been very localized. A rise in oil prices will have mixed impacts as roughly 60% of the main EM fixed income indices are oil importers.

### Favour local debt over external debt on valuations

We still prefer local debt as EM rates are still wide to US rates. More specifically, we maintain our preference for FX over rates, but FX attractiveness has diminished marginally as the nomination of Kevin Warsh reduces USD credibility risks. That said, we still hold a negative USD view and EM FXs should appreciate on their own merits: high real yields, attractive valuations and lower volatility than before. We like high yielders (BRL, TRY) and frontier currencies (EGP). HUF should benefit ahead of the general election. Asian FXs are turning increasingly attractive (KRW). Rate-wise, we have selective payers (Asia) and prefer receivers in CEE and LatAm.

**High real yields**

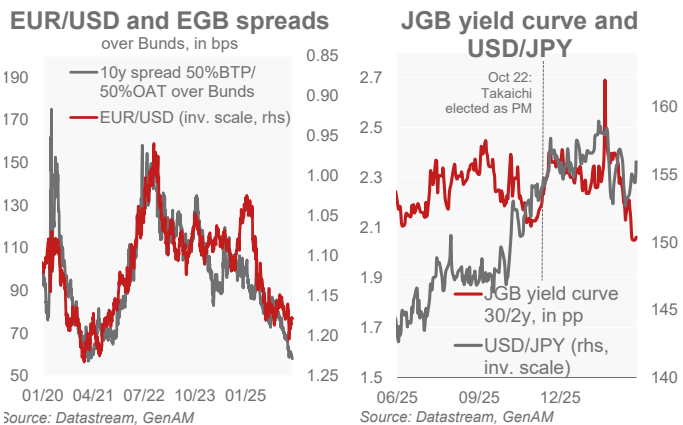
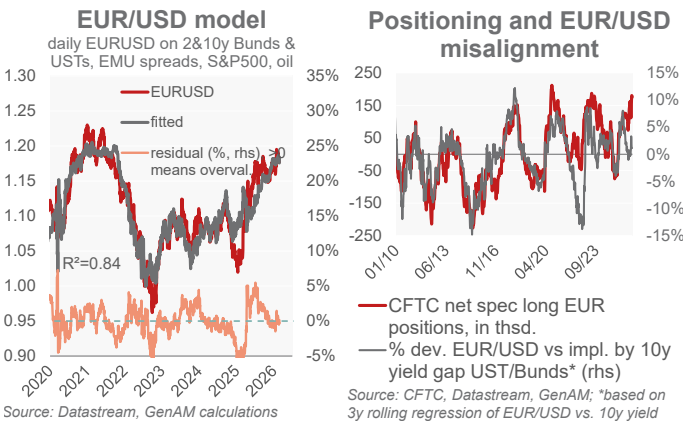
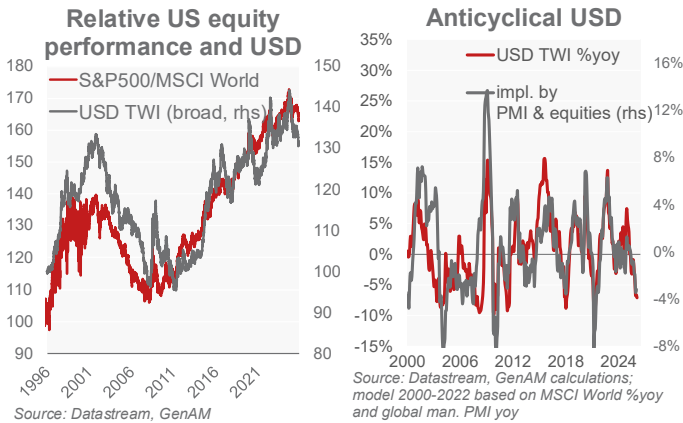
real rate (base rate minus YoY inflation)



External debt still offers a decent all-in yield level and a pickup over US credit that will keep attracting crossover inflows. EM HY has better value because of its larger carry and its idiosyncratic component. We like Western Balkans, Ivory Coast, South Africa, Morocco. In IG, we have turned tactically constructive on Hungary and more positive on Romania. We still like China, dislike Saudi Arabia and Peru.

## Currencies

Thomas Hempell



- February's modest USD rebound reflects still-robust US data and a cautious Fed stance, as well as GBP and JPY troubles.
- Nonetheless, policy uncertainty and ongoing investor diversification, combined with a gradual European recovery, should keep the EUR/USD biased toward 1.20.
- In Japan, easing fiscal concerns after PM Takaichi's election victory offer short-term relief, but political pressure on the BoJ argues for maintaining a neutral JPY stance despite deep undervaluation.

We stick to [our view](#) of continued structural USD weakness, albeit in a non-linear fashion. Resilient US data and moderately hawkish Fed minutes allowed the greenback to recoup most of its moderate January losses against major peers, while cyclical, commodity-linked and many EM counterparts continued to outperform.

Admittedly, the USD still enjoys cyclical support. Following a Q4 soft patch related to the government shutdown, activity should rebound on the back of OBBBA-induced fiscal stimulus. The US lead in AI sectors and resulting productivity gains also remain supportive. While US stocks have underperformed global peers year-to-date, we see only limited risk of an outright AI-driven sell-off weighing materially on US assets. This will prevent a long-standing USD support (top left chart) from turning into a sharp headwind.

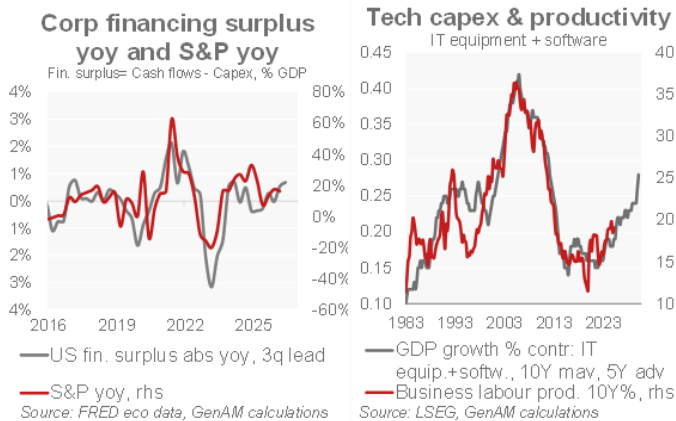
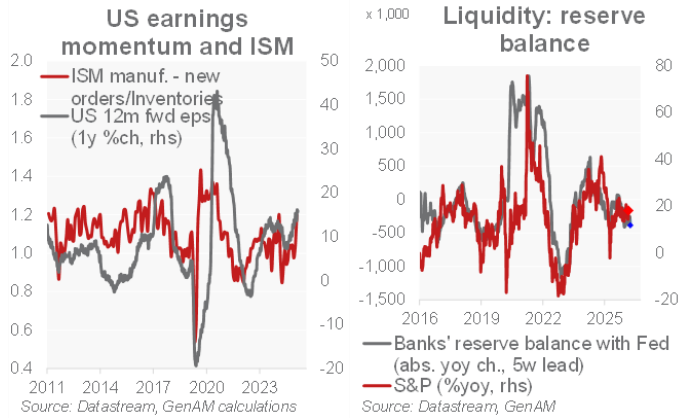
### Modest upside for EUR/USD

Still, the USD is likely to trend lower. The USD remains historically dear. Solid global growth and risk sentiment are backing the dollar's decline (top right chart). The persistent US C/A deficit requires continued capital inflows. Investors' diversification out of the USD amid uncertainties over domestic and foreign US policies require a higher USD discount to attract inflows. The EUR/USD currently shows no material political premium despite long speculative EUR positions (mid charts). A recovering euro area and low EMU risk (bottom left chart) point to further EUR/USD upside.

The absolute majority secured by Japanese PM Takaichi in February snap elections has ultimately eased worries over reckless fiscal policy (chart) as she no longer needs to accommodate fiscal demands by a coalition partner. While this has temporarily supported the yen, ailing growth and mounting pressure by the government on the BoJ to move slowly on rates normalisation (including via the appointment of two new dovish BoJ members) keep burdening the yen. While we see scope for yen recovery later in the year, still sluggish growth and policy constraints justify a tactically neutral stance for now.

## Equities

Michele Morganti and Vladimir Oleinikov



Sector	S&P earnings growth, yoy: Q4 2025	Stoxx earnings growth, yoy: Q4 2025	Euro Stoxx earnings growth, yoy: Q4 2025	S&P earnings surprise: Q4 2025	Stoxx earnings surprise: Q4 2025	Euro Stoxx earnings surprise: Q4 2025
Energy	1.4%	-9.3%	-5.7%	8.1%	-6.7%	0.9%
Materials	25.6%	12.9%	21.7%	19.2%	3.0%	6.1%
Industrials	13.5%	-22.5%	-19.8%	19.6%	-9.4%	-12.6%
Cons. Discretionary	0.9%	-29.0%	-50.9%	3.7%	17.3%	24.5%
Consumer Staples	2.7%	3.8%	5.5%	2.9%	5.4%	7.2%
Health Care	0.3%	1.9%	22.6%	5.1%	2.1%	5.8%
Financials	16.5%	45.1%	20.9%	7.0%	6.8%	5.4%
IT	33.2%	6.5%	2.4%	7.8%	2.4%	0.4%
Comm. Services	13.0%	-11.9%	-6.5%	6.9%	-29.8%	-22.6%
Utilities	4.5%	534.7%	158.7%	2.4%	19.8%	9.7%
<b>Market</b>	<b>14.6%</b>	<b>12.4%</b>	<b>6.9%</b>	<b>7.5%</b>	<b>0.8%</b>	<b>0.9%</b>
<b>Median (all sectors)</b>	<b>4.5%</b>	<b>3.8%</b>	<b>5.5%</b>	<b>6.9%</b>	<b>2.4%</b>	<b>5.4%</b>
<b>Median stock</b>	<b>10.3%</b>	<b>5.7%</b>	<b>6.0%</b>	<b>4.6%</b>	<b>2.8%</b>	<b>3.3%</b>

Source: Bloomberg, GenAM

- We keep but reduce the equity OW after the recent strong EMU performance. Prefer cyclical sectors, EMs, and keep a neutral stance on US IT (increasingly attractive). Neutral EMU vs. SPX (from OW) and Japan.
- Equities are keeping a good momentum despite the strong rotation within indices. The macro backdrop is constructive, with leading indicators pointing to continued growth, supported by positive fiscal impulses, financial conditions and firms' cash-flow surplus. Our ML models still favour equities.
- We upgrade our 2026 US EPS estimates and confirmed a decent EMU earnings outlook.
- While AI-driven uncertainty has not yet subsided, the market reaction has already created victims that now trade at much cheaper valuations. Positioning is neutral and net equity-bond flows at a cyclical low.
- Our 12-month TR for the EMU is 8% in the good scenario that we expect to materialise. The target range for the SPX is 7,000-7,300 in one year (even 8,000, should consensus EPS be met).
- OW MDAX, India, Korea and Poland. Slight OW China & China IT. Diversify US into equally weighted SPX, Gold firms, AI "productivity" and Uranium. EU sectors: OW Banks, Cap. Goods, A&D, Pharma, Materials, Telecoms, Utilities, Software and Semis.

We maintain an OW position, albeit reduced after the recent performance. Equities continue to show solid momentum despite the significant rotation within indices. This rotation is largely driven by concerns about AI's disruptive impact on various sectors (media, software, business and financial services, etc.) and "unsustainable" high investment levels of IT hyperscalers. But that is only part of the story. As we have written recently, US stocks have become less exceptional vs. EU, Japan, EMs and ex-AI US stocks, including small caps. This is not only due to more attractive valuations – an old, if still valid, argument - but also due to improved relative macro and earnings (EPS) momentum. Furthermore, AI-related benefits are spreading to new countries (China, Korea, Japan) and sectors (Utilities, Industrials etc.). Meanwhile, EU Banks, Defense, Material and Telecom have been outperforming over the past year, supported by both macro and specific sector dynamics. Overall, the macro story remains favourable. Leading indicators point to continued growth, supported by positive fiscal impulses in the US, Japan and EMU. Financial conditions still represent tailwinds, too: corporate financial surplus, M2 and banks' loans momentum, credit spreads, trend in Fed liquidity and central banks' stance. Our Machine-Learning models (ML) still favour equities vs. bonds.

## Equities

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%	14%	15%	18%	21.8	17.0	28%	1.0
SPX 493 (median)	8%	9%	9%	11%	19.1	17.4	-10%	1.6
Mag. 7 (median)	39%	19%	18%	16%	26.1	27.6	-5%	1.1
Global AI 175 Basket	11%	13%	15%	13%	21.6	17.3	25%	1.4
US AI Basket (ex-NVIDIA):	15%	16%	13%	14%	20.7	17.8	16%	1.3
- Phase 2 - Infrastructure	10%	14%	18%	16%	24.2	16.1	50%	1.4
- Phase 3 - New Revenues	24%	20%	15%	15%	19.2	32.8	-42%	1.2
- Phase 4 - Productivity	16%	11%	10%	13%	15.2	16.4	-8%	1.1
MSCI US IT	19%	25%	37%	28%	24.4	21.7	13%	0.7
MSCI China IT	-32%	68%	31%	49%	22.5	20.4	10%	0.3
Gold Basket -20 co's	56%	92%	64%	7%	13.6	17.9	-24%	0.5
MSCI EMU	1%	-2%	13%	13%	15.8	14.4	10%	1.0
Russell 2000	-4%	51%	63%	19%	26.0	22.7	14%	0.8
MDAX	19%	3%	7%	6%	15.3	15.4	-1%	1.5
MSCI India	5%	11%	18%	16%	21.7	15.9	37%	1.2
MSCI Korea	89%	43%	105%	31%	10.1	10.1	0%	0.3
Japan (TOPIX)	12%	7%	12%	15%	17.0	15.0	13%	1.3
MSCI EM	21%	14%	29%	21%	13.6	12.0	14%	0.6
MSCI China	15%	3%	12%	8%	12.1	12.0	0%	1.0

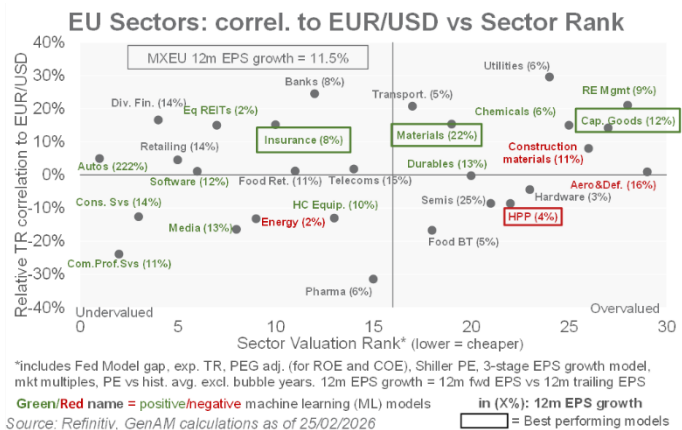
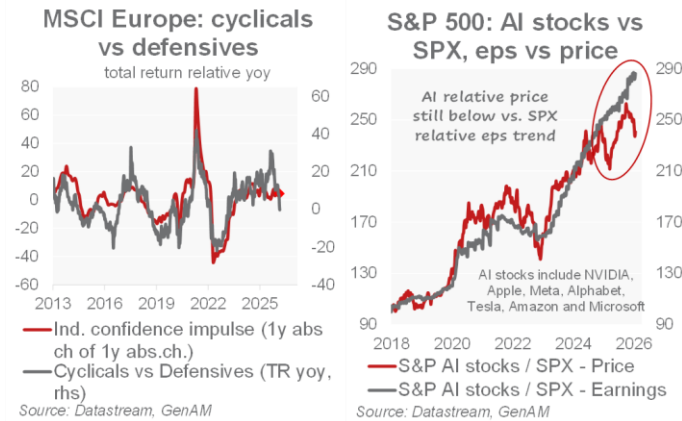
Global AI 175 (proprietary) has 175 AI-related firms, 60% US & 40% RoIV. US AI (baskets from GS) has 162 firms split in 3 phases: AI infrastructure (utilities, semis, hardw), new revenues (software), increased productivity (diversified firms). Phase 1 is NVIDIA. Gold Basket is a proprietary basket that 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.

Volatility remains contained – for both equities and bonds – and overall investor positioning is neutral, while net equity-minus-bond flows have reached a cyclical low. While AI-driven uncertainty has not abated yet, the market reaction has already created “victims” that now trade at significantly cheaper valuations, e.g. Software. US IT sector valuations are unusually cheap versus the S&P 500, according to PE, EPS momentum, ML models, and our broad valuation scores. EU sectors like Auto, Durables, Prof. and Consumer services, Media, HC equipment and Software have also derated meaningfully. The underperformance of Cyclical vs. Defensives also appears stretched relative to the current macro momentum. Concerning profits, a strong US Q4 EPS season (constructive also for EMU) underpin equities. Thanks to improved GDP growth expectations, contained unit-labor-costs (and strong productivity), as well as positive momentum in margin proxies, we revised marginally up our 2026 EPS forecast, especially for the US (while still remaining below consensus).

Our 12-month target range for the S&P 500 is unchanged at 7,000–7,300, with potential upside toward 8,000 should earnings expectations be met. We became tactically neutral on the EA vs. the S&P 500 (from OW) after the notable outperformance since early 2025 of the former (+15%). In a positive scenario, EA deserves a +8% 12-month TR (down from 12% last month), of which 4.5% comes from cash yield financed by operating free-cash flow. OW the DAX, and MDAX, Gold basket, EMs like China and China Tech, Korea, India, and Poland. We stay neutral on US Tech, although we are monitoring it closely with a view to re-entering. EM equities continue to be supported by higher macro surprises and increasing Sentix investment sentiment (close to all-time high), while composite PMIs are slightly up as well. They should benefit further from earnings revisions and a weaker TW dollar.

### EU sectors: confirmed a cyclical tilt

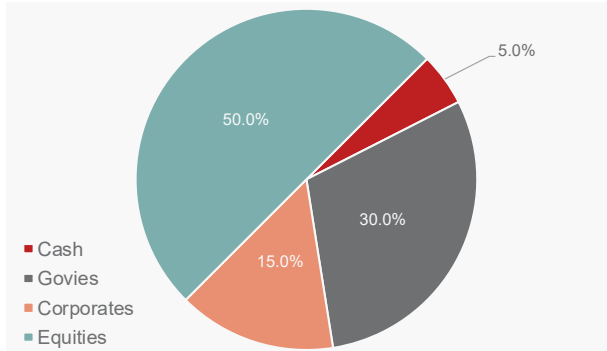
We maintain a cyclical tilt guided by valuation, revisions, ML models and our sector macro model which signals “Goldilocks” (good growth, contained inflation). We moved Semis and Utilities to OW, and increased the OW in Materials. We downgraded Energy (further UW), and both Insurance and Retailing (to Neutral). The underperformance of Media, Software, and Comm. & Prof. Services cleaned the space and brought a reset in the valuation. We believe that this underperformance may be overdone, especially in Software, which now looks attractive in terms of valuation and ML models, probably overly penalized on indiscriminate AI fears. OWs: Banks, Cap. Goods, A&D, Pharma, Materials, Telecoms, Utilities, Software and Semis. UWs: Durables, Energy, Consumer Staples.



## Asset Allocation

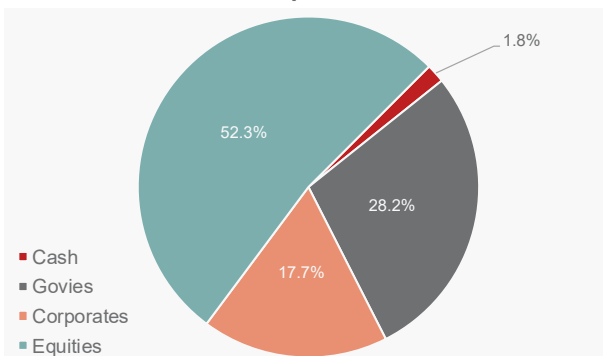
Thorsten Runde

Benchmark



Source: GenAM

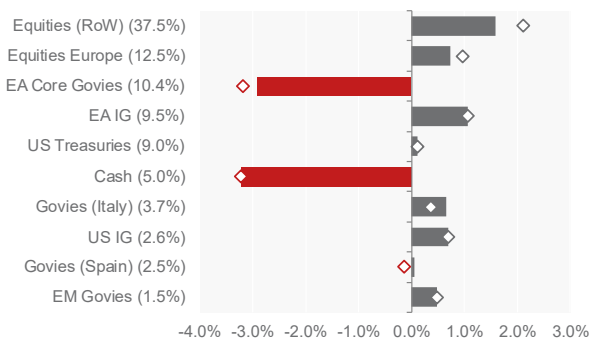
Modelportfolio



Source: GenAM

Active Positions

TOP 10 Benchmark Constituents



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

- In February (25.02.26) all Equity markets performed positively ranging from around +0.2% for the US to over +4% for Europe to more than +7% for Japan.
- All relevant Govie markets stayed in positive territory, with the long end of the curve clearly dominating the short end throughout all markets. Most attractive were Japan 10Y+ (+3.2%) and US 10Y+ (+3%).
- HY Credit underperformed IG by -80 bps in total return. We saw a moderate superiority of non-Fin vs Fin (+15 bps) and of US vs EA (+27 bps).
- Resilient global growth, receding price pressures and easing trade uncertainties continue to support a pro-risk tilt.
- We maintain a strong OW in IG Credit and OWs in HY Credit, Equities, and EM debt, while slightly trimming the Equity OW. Bunds & OATs and Cash stay underweighted. We reduce the already small short duration gap in EUR fixed-income and completely for the US.

In February 2026 (25.02.26) our model portfolio again outperformed its benchmark by around +5.7 bps. At the aggregate level, the UW in Cash (+5.4 bps) and the OW in Equities (+3.2 bps) remained most rewarding. The OW in Corporates again did not pay off (-3.6 bps). At the individual contribution level, we find the positions in Japanese Equities (+2.4 bps) and EM Equities (+1.4 bps) outstanding. On the negative side US Equities (-2.4 bps) stand out.

Global growth should remain resilient in 2026, supported by benign financial conditions, fiscal expansion and easing US-related trade uncertainty. In the US, solid domestic demand and improving manufacturing data keep activity slightly above trend. Euro-area surveys have softened but still signal a coming cyclical recovery as German orders and confidence improve. Inflation continues to ease: US tariffs keep prices elevated early in the year, while euro-area inflation temporarily undershoots on energy base effects, with cooling wages reinforcing disinflation.

### Slightly reduced pro-risk tilt

We maintain a strong OW in IG Credit and OWs in HY Credit, Equities and EM debt, supported by solid fundamentals and a still favourable macro backdrop. The equity OW was reduced slightly, reflecting elevated index concentration and more bullish positioning, which increase the risk of setbacks. Cash and Core Govies remain underweighted. EUR duration stays slightly short as an improving euro area outlook may put upward pressure on yields, while US duration is neutral as strong US data and easing inflation risks broadly offset each other.

## Forecasts

### Macro Data

Growth <sup>1)</sup>	2025	2026		2027		2028
		forecast	Δ vs. cons.	forecast	Δ vs. cons.	
US	2.2	2.5	0.1	2.1	0.1	2.0
Euro area	1.4	1.4	0.2	1.4	0.0	1.3
Germany	0.2	1.2	0.2	1.4	- 0.1	1.1
France	0.8	1.0	0.1	1.2	0.1	1.5
Italy	0.6	0.7	- 0.0	0.6	- 0.2	0.5
Non-EMU	1.5	1.3	0.0	1.5	0.0	1.5
UK	1.4	1.0	0.0	1.3	0.0	1.4
Switzerland	1.6	1.2	0.0	1.5	0.0	1.8
Japan	1.2	0.6	- 0.2	0.6	- 0.4	0.6
Asia ex Japan	5.3	4.8	- 0.0	4.7	- 0.1	4.7
China	5.0	4.5	- 0.1	4.4	0.0	4.4
CEE	1.9	2.1	0.1	2.3	0.0	2.3
Latin America	2.0	1.9	0.0	2.3	0.0	2.6
<b>World</b>	<b>3.3</b>	<b>3.1</b>	<b>0.0</b>	<b>3.1</b>	<b>- 0.0</b>	<b>3.1</b>

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

Inflation <sup>1)</sup>	2025	2026		2027		2028
		forecast	Δ vs. cons.	forecast	Δ vs. cons.	
US	2.8	2.5	- 0.1	2.2	- 0.2	2.2
Euro area	2.1	1.8	0.1	2.0	0.0	2.0
Germany	2.2	2.0	- 0.0	2.0	- 0.1	2.1
France	1.0	1.4	0.1	1.7	0.1	1.9
Italy	1.7	1.8	0.3	2.0	0.2	2.0
Non-EMU	2.5	1.9	0.0	1.9	0.0	1.8
UK	3.4	2.4	0.0	2.2	0.0	2.0
Switzerland	0.2	0.4	0.0	0.7	0.0	0.7
Japan	3.1	2.1	0.3	1.8	- 0.1	2.0
Asia ex Japan	0.9	2.0	0.3	2.0	- 0.0	2.2
China	0.0	0.8	0.2	1.1	0.1	1.5
CEE	14.0	9.9	0.5	7.6	0.2	7.0
Latin America <sup>2)</sup>	4.2	4.1	0.0	3.7	0.0	3.0
<b>World</b>	<b>2.9</b>	<b>2.9</b>	<b>0.2</b>	<b>2.7</b>	<b>- 0.1</b>	<b>2.7</b>

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

### Financial Markets

Key Rates	Current*	3M		6M		12M	
		Forecast	Fwd	Forecast	Fwd	Forecast	Fwd
US (upper bound)	3.75	3.75	3.58	3.50	3.36	3.50	3.01
Euro area	2.00	2.00	1.92	2.00	1.89	2.00	1.89
Japan	0.75	0.75	0.91	1.00	1.03	1.25	1.31
UK	3.75	3.75	3.47	3.50	3.32	3.25	3.26
Switzerland	0.00	0.00	-0.08	0.00	-0.10	0.00	-0.11
<b>10-Year Gvt Bonds</b>							
US Treasuries	4.04	4.05	4.09	4.10	4.13	4.15	4.24
Germany (Bunds)	2.71	2.80	2.76	2.85	2.81	2.95	2.90
Italy	3.33	3.45	3.40	3.50	3.47	3.60	3.61
Spread vs Bunds	61	65	64	65	66	65	71
France	3.27	3.40	3.36	3.50	3.42	3.65	3.55
Spread vs Bunds	56	60	60	65	61	70	64
Japan	2.11	2.20	2.20	2.25	2.27	2.30	2.39
UK	4.31	4.30	4.47	4.30	4.52	4.25	4.63
Switzerland	0.24	0.25	0.25	0.25	0.27	0.30	0.32

\*3-day avg. as of 25/02/26

\*\*ICE BofA (OAS)

Credit Spreads**	Current*	3M		6M		12M	
		Forecast	Fwd	Forecast	Fwd	Forecast	Fwd
EA IG Non-Financia	75	70		70		70	
EA IG Financial	80	75		75		75	
EA HY	263	260		260		260	
EM Sov. (in USD)	171	160		155		155	
<b>Forex</b>							
EUR/USD	1.18	1.19	1.18	1.20	1.19	1.21	1.20
USD/JPY	156	155	154	153	153	150	151
EUR/JPY	183	184	183	184	182	182	181
GBP/USD	1.35	1.35	1.35	1.35	1.35	1.34	1.35
EUR/GBP	0.87	0.88	0.88	0.89	0.88	0.90	0.89
EUR/CHF	0.91	0.92	0.91	0.93	0.90	0.93	0.89
<b>Equities</b>							
S&P500	6,891	6,950		7,045		7,230	
MSCI EMU	209.1	207.0		210.0		217.0	
TOPIX	3,823	3,805		3,865		3,950	
FTSE	10,724	10,675		10,775		11,050	
SMI	13,948	13,620		13,880		14,400	

### Forecast Intervals

**3-Months Horizon\***

Germany (Bunds)	2.31	<b>2.80</b>	3.29
US Treasuries	3.70	<b>4.05</b>	4.40
Japan	2.04	<b>2.20</b>	2.36
UK	3.87	<b>4.30</b>	4.73
Switzerland	0.06	<b>0.25</b>	0.44
MSCI EMU	198	<b>207</b>	216
S&P500	6,644	<b>6,950</b>	7,256
TOPIX	3,654	<b>3,805</b>	3,956
FTSE	10,341	<b>10,675</b>	11,009
SMI	13,055	<b>13,620</b>	14,185
EUR/USD	1.16	<b>1.19</b>	1.22
USD/JPY	150	<b>155</b>	160
EUR/GBP	1.33	<b>1.35</b>	1.37
EUR/CHF	0.91	<b>0.92</b>	0.93

**12-Months Horizon\***

Germany (Bunds)	1.70	<b>2.95</b>	4.20
US Treasuries	3.37	<b>4.15</b>	4.93
Japan	1.96	<b>2.30</b>	2.64
UK	3.16	<b>4.25</b>	5.34
Switzerland	-0.12	<b>0.30</b>	0.72
MSCI EMU	199	<b>217</b>	235
S&P500	6,606	<b>7,230</b>	7,854
TOPIX	3,638	<b>3,950</b>	4,262
FTSE	10,355	<b>11,050</b>	11,745
SMI	13,240	<b>14,400</b>	15,560
EUR/USD	1.15	<b>1.21</b>	1.27
USD/JPY	140	<b>150</b>	160
EUR/GBP	1.31	<b>1.34</b>	1.38
EUR/CHF	0.90	<b>0.93</b>	0.96

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

 **Imprint**

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