GENERALI ASSET MANAGEMENT

Market Perspectives

Driving in the fog

November 2025

GenAM Macro & Market Research

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

- **Markets continue to climb a wall of international uncertainties, incl. US/China trade frictions, the French political deadlock, a prolonged US shutdown and a resulting dearth of US data.**
- **The risk of setbacks has increased, following a 36% rally in global equities since April's 'Liberation Day' trough, led by soaring US tech stocks.**
- **That said, resilient economic data and the outlook of further Fed rate cuts should keep risk assets underpinned for now.**
- **We retain a cautious stance on EUR fixed income duration amid an expected euro area economic recovery through the turn of the year. We still favour EUR IG Credit amid resilient risk premia as fundamentals remain decent and demand solid.**
- **We expect the EUR/USD to resume its upward trend before long amid narrowing yield differentials.**

Content

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Global View – Driving in the fog

Thomas Hempell

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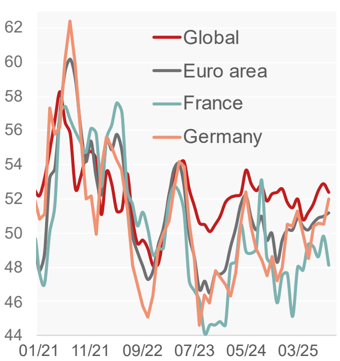
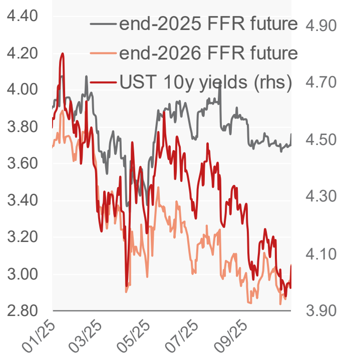
Political uncertainties abounded in October. France's new PM Lecornu struggled to survive no-confidence votes at the cost of fiscal concessions. US/China tensions saw a renewed escalation (before a last-minute truce extension). And the protracted US government shutdown since Oct. 1 has deprived policy makers and markets of key US data – which Fed Chair Powell likened to "driving in the fog". Markets climbed this wall of worries regardless. A solid earnings season has supported equities (MSCI World up almost 3% by Oct 29) and fixed income benefitted from both falling core yields (10y UST -8bp) and tighter Credit spreads.

Composite PMIs



Source: Datastream, GenAM

US rates exp. and yields



Source: Datastream, GenAM calculations

We acknowledge the risen risk of partial setbacks. Global equities are 36% up from their April troughs after 'Liberation Day'. Gains are heavily concentrated in the US tech sector ('Mag 7' are up 70%!) and an increasingly circular and debt-financed AI ecosystem. And there are warning signals from the Credit markets amid bankruptcies and fraud allegations around *First Brands*, *Tricolor* and *Cantor*.

Global economic fundamentals still look conducive for enduring resilience of global risk sentiment. The US economy appears unusually contrasted, yet data point to a slowdown, not a recession. The euro area seems headed for a recovery through the turn of the year, helped by eased trade uncertainties, improved financial conditions and the phasing-in of the German stimulus. Q3 GDP growth of 0.2% was still sluggish, but green shoots in PMIs (chart), Ifo, ESI and ZEW all point to an improving cyclical momentum despite the drag from French political uncertainties. China seems on track to weather the 27%yoy (Sep.) slump in exports to the US, coming close to its 5% annual growth target thanks to fiscal stimulus and the re-routing of exports.

Further Fed rate cuts, but less than priced by markets

The disinflation trend in Europe remains intact while the inflationary impact of tariffs in the US keeps proving milder than feared. This has allowed the Fed to reduce the funds rate by another 25bp to now 3.75-4.00%. Fed Chair Powell has cautioned that another cut in December is far from a done deal – potentially to not fuel already very advanced rate cut expectations (right chart). We deem another move this year more likely than not but expect the Fed to land at a terminal rate of 3.25-.50% next year rather than the close to 3.0% priced by markets.

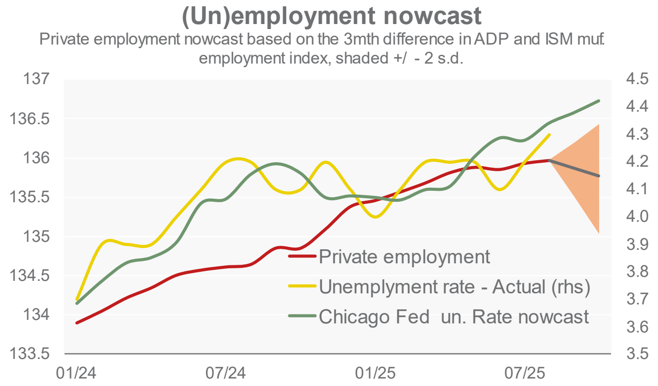
10-Year Gvt Bonds	Current*	3M	6M	12M
US Treasuries	4.01	3.95	3.95	3.90
Germany (Bunds)	2.62	2.70	2.80	2.90
Credit Spreads**				
EA IG Non-Financial	73	70	70	70
EA IG Financial	77	75	75	75
Forex				
EUR/USD	1.17	1.18	1.20	1.21
USD/JPY	153	150	148	145
Equities				
S&P500	6886	6900	6865	7000
MSCI EMU	194	194	194	199

**3-day avg. as of 29/10/25 **ICE BofA (OAS)*

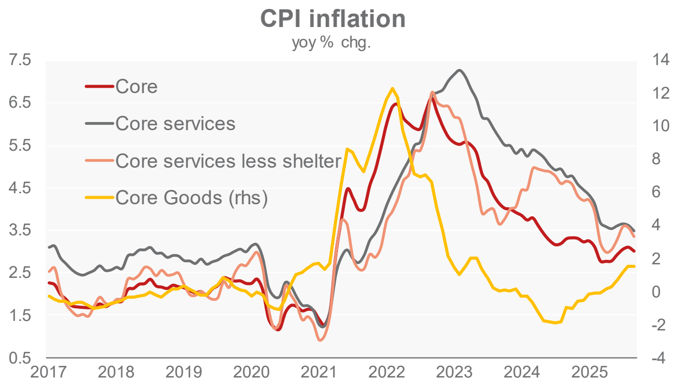
The shrinking US yield advantage, resilient global growth and continued diversification efforts by international investors should induce more USD weakness before long. We prepare for higher volatility among global equities but keep a moderate overweight amid persistent global macro support and moderate investor risk positioning. 10y Treasury yields have not reached our 3.80-3.90% target, but have come very close. We retain a small short duration in EUR fixed income with risks to Bund yields tilted to the upside. We still favour EUR IG Credit amid resilient risk premia as fundamentals remain decent and demand solid.

United States

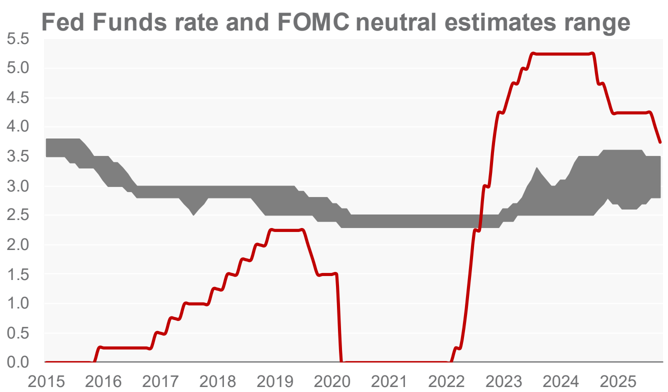
Paolo Zanghieri



Source: ADP, ISM, Chicago Fed, BLS, GenAM



Source: BLS, GenAM



Source: Federal Reserve, GenAM

- **With few public data due to the shutdown, alternative indicators still point to resilient consumption despite weak confidence and a fragile labour market. We expect growth of 1.8% both this year and in 2026.**
- **The September core CPI, at 3% yoy, showed that despite weakening rents, services inflation remains sticky, and tariffs are pushing up goods prices.**
- **We expect the Fed to keep cutting by another 50bps, bringing the policy rate in the 3.25-3.5% range, but the timing will depend on how the labour market evolves. QT will end in December.**

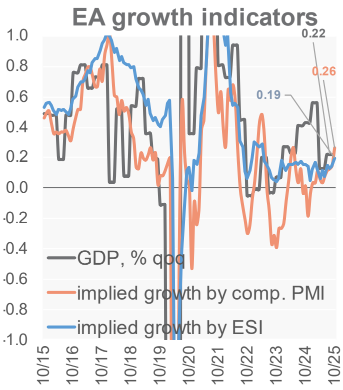
The ongoing government shutdown (the second longest so far) has stopped the provision of public data, and privately produced data provide only a partial picture. The halt in Federal activity is partly responsible for sliding consumer confidence, but data on spending based on credit card transactions still point to solid demand. This could worsen if a prolonged shutdown impacts the payment of welfare benefits. Nowcasts point to a further increase to 4.4% in the unemployment rate, with tentative evidence of some job destruction. We expect GDP growth of around 1.8% this year and next. Risks for 2026 are tilted to the upside, as the fiscal boost legislated may prove more beneficial than expected for households. AI-related investment remains a relevant two-sided risk, as it currently accounts for almost all capex growth over recent quarters. September CPI data were released and showed core inflation still at 3% yoy. While rents continue to cool, inflation in other services remains strong, supported by demand. Core goods annual inflation has climbed from 0.1% mom in April to 1.5% mom due to tariffs. We do not see core PCE inflation drop down from the current 2.9% yoy before Q1 2026.

Fed to cut by another 50 bps, timing uncertain

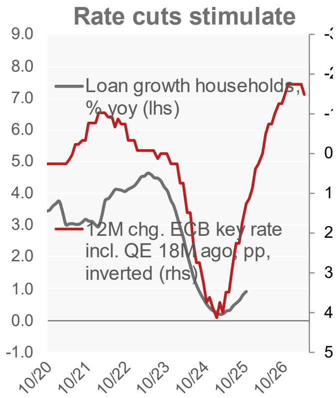
Preventing a further weakening of the labour market was the main reason for the October cut. But Powell warned that another easing in December is far from a done deal. Lack of data suggests a more cautious approach, especially as the policy rate is getting closer to the range of the FOMC members' neutral rate estimates. We expect two more rate cuts, to the 3.25-3.5% range. The timing and sequencing will depend mostly on the labour market. Despite the hawkish surprise of the October meeting, market still expect a bit more of three rate cuts. We suspect that the more dovish market pricing discounts at least in part a reduction in the Fed's independence. On December 1st balance sheet reduction will end, as bank reserves have reached the desired level. The composition of the bond holding will gradually tilt away from MBS and duration will decrease.

Euro Area

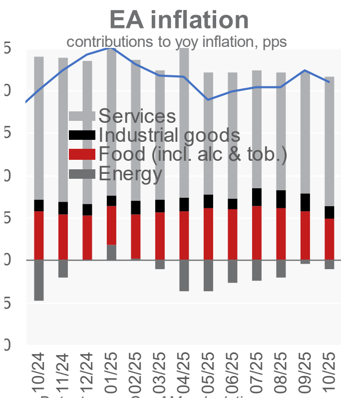
Martin Wolburg



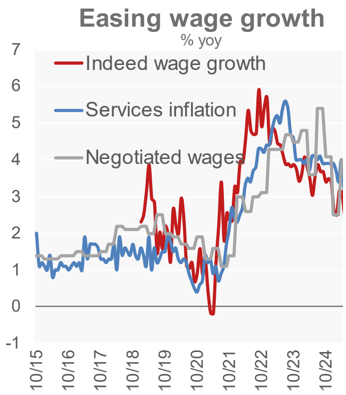
Source: Datastream, GenAM



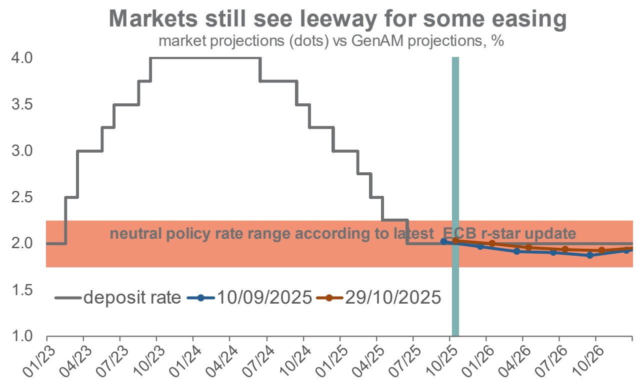
Source: Datastream, GenAM



Source: Datastream, GenAM calculations



Source:Datastream, indeed, GenAM



Source: Datastream, ECB, GenAM calculations

- **After a surprising 0.2% qoq growth in Q3, latest data hint at further strengthening of activity. We raised our 2025/26 growth forecasts to 1.4%/ 1.3%.**
- **Yet, the fallout from the crisis in France and semiconductor shortages will mitigate the push from fiscal spending and monetary policy easing.**
- **The ECB left its key rates unchanged in October and sees itself still in a good place. We continue to expect that the easing cycle has run its course.**

The recent news flow confirms our view that following lukewarm activity over the summer half the economy will gain traction towards year-end. A first Q3/25 GDP estimate of 0.2% qoq was above expectation showing strengthening growth (from 0.1% qoq in Q2). There is mounting evidence that activity gains more momentum in the final quarter. The October composite PMI rose to the highest since May 2024 and an improving order flow amid higher employment suggests a pickup of activity, a message also mirrored by the ESI confidence index. A key driver of the forthcoming recovery is ECB policy easing with past rate cuts still stimulating activity (see upper rhs chart). In Q4 increased German fiscal spending will start to become effective and boost demand. Yet, new potential headwinds emerged. Chinese restrictions on the exports of rare earths or semiconductors to Europe could reverse the tentative manufacturing recovery albeit the recent US-Chinese trade deal reduces this risk. Prolonged political woes in France drag on confidence and increase uncertainty. Nevertheless, France grew by 0.5% qoq in Q3 which led us to revise its growth forecast to 0.8%/0.9% for 2025/26 already incorporating ongoing subpar growth; but still e.g. a full-blown political crisis could ultimately drag on euro area growth.

Being aware of downside risks, data are consistent with growth expectations of 1.4%/1.3% in 2025/26, above consensus (+0.1/+0.2 pp) and in case of 2025 above our previous forecast of 1.2%.

ECB still in a good place, easing cycle is over

At its October 30 meeting the ECB again left its key rate unchanged and restated that it sees itself in a good place. Latest data like the October headline inflation of 2.1% yoy and Q3 GDP growth are in line with the ECB's constructive macro-outlook. The Governing Council is well aware that inflation will fall below 2% in 2026. Only if the updated and extended (to 2028) macro projections were to show significant undershooting also by then we would expect further easing. But as we see activity recovering and inflation staying close to target medium term, we see no need for further action and expect the easing cycle to be over.

Japan

Paolo Zanghieri

- **The expansionary fiscal policies announced by the new PM Takaichi will have a limited impact on both growth and the fiscal balance. Better relationship with the US could lead to a reduction in tariffs.**
- **In September inflation moderated but expectations of another round of wage rises reduce the future downside. We expect the BoJ to remain on hold until early next year and see two rate hikes next year.**
- **Despite high inflation, weak economic activity and domestic as well as global policy uncertainty prevent the BoJ from raising rates further quickly. We expect the next hike for the beginning of 2026.**

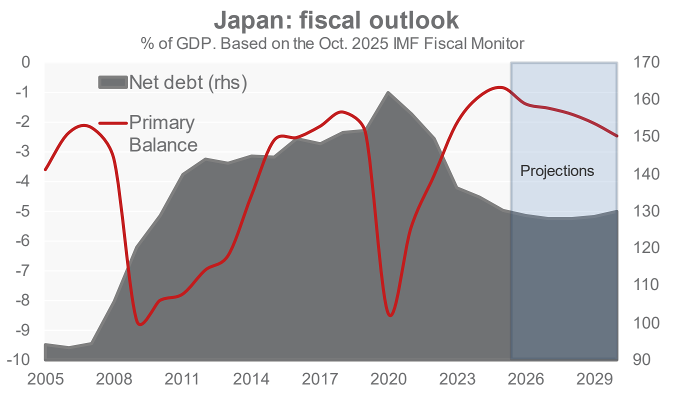
Sanae Takaichi was elected LDP president on October 4 and appointed prime minister on October 21. The newly formed LDP-JIP coalition remains a minority and will need opposition cooperation to pass legislation. The administration aims to pass a supplementary budget by year-end and the FY2026 main budget by March, prioritizing inflation countermeasures to bolster household income, with a limited impact on deficit and growth. However, debate may shift to permanent tax cuts, though large fiscal expansion could threaten public debt sustainability driving markedly up the term premium on JGBs. We expect GDP to grow by 0.9% this year before decelerating to 0.5% under the impact of US tariffs. On this front, the first statements of the new PM may lead to a de-escalation of tension and a lowering of tariffs.

In September core CPI (ex fresh food and energy) printed at decelerated by 0.3 pp to +3.0% yoy, decelerating by -0.3 pp from August (market forecast: +3.1% yoy), mainly attributable to a slowdown in rice and durable goods prices. Still the potential downside to inflation remains limited as we expect structural labour shortage to lead to a 3% yoy pay rise in the forthcoming wage negotiations.

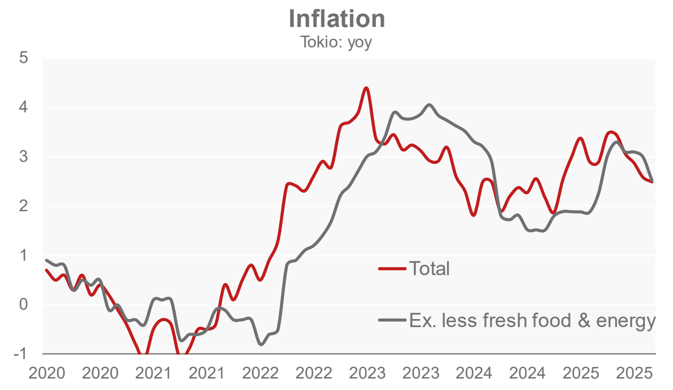
BoJ forced to hold rate rises

The Bank of Japan maintained its policy rate at 0.5% in October. We expect the BoJ will hike in January to 0.75% as incoming data confirm that the economy is performing in line with the bank's forecasts. This should be followed by final rate increase to 1% in mid-2026, but risks are tilted to the downside, as inflation may continue to decline smoothly towards 2% in H1 2026. Moreover, US tariffs might squeeze profits, putting a lid to wage growth.

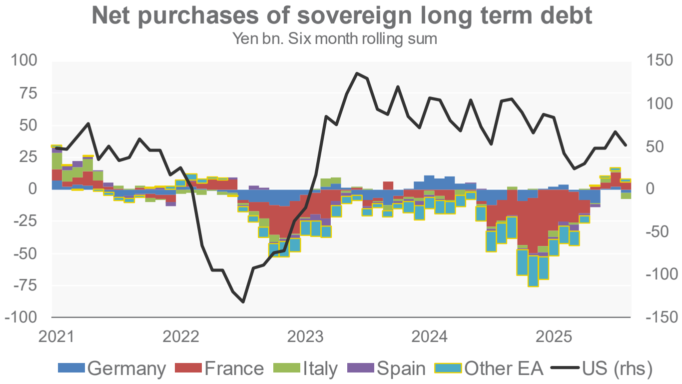
Despite rising JGB yields, net purchases of foreign bonds increased. UST and French OAT were especially in demand.



Source: IMF, GenAM



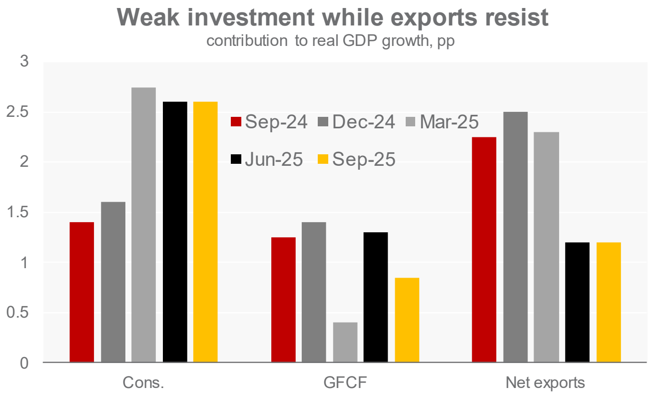
Source: Datastream, GenAM



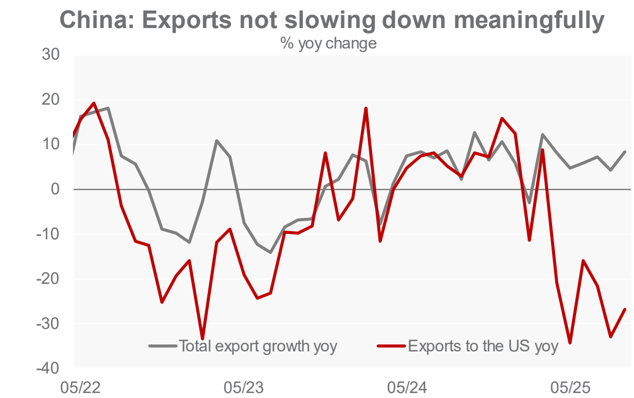
Source: Bank of Japan, GenAM

China

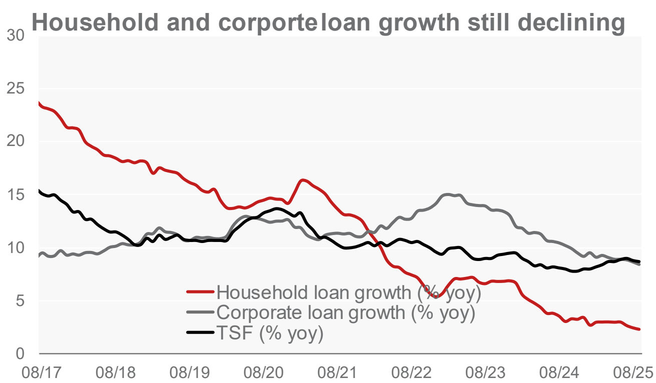
Guillaume Tresca



Source: Bloomberg, SG, GenAM



Source: Bloomberg, China Custom Administration, GenAm



Source: Bloomberg, PBoC, GenAM

- **Growth has stabilised and will be close to the official 5% target for 2025. The imbalances between the supply and demand sides remain though.**
- **Trade war concerns have eased, and it will marginally help sentiment. China and the US are still in a long-term confrontation and tensions can re-emerge.**
- **Long-term challenges are acute. The housing sector and domestic demand have barely recovered while disinflationary pressures are still in place.**

The economic outlook has stabilised with some upside risks, but long-term challenges remain. Indeed, Q3 GDP exceeded expectations at 4.8% yoy or 1.1% qoq after a strong Q2, but the September data pack continues to depict a stable supply-side sector while internal demand has been lacklustre. Industrial production remains robust, benefiting from resilient exports, while retail sales growth is slow as the government subsidy programme fades. The tariff war has so far had a limited impact, with US exports shrinking, but this has been more than offset by exports from the rest of the world. Short-term sentiment indicators suggest that the current situation will persist until the end of the year, prompting us to revise our growth forecast upwards to 4.8% for 2025. There is even a modest upside risk, as policymakers are maintaining their proactive approach. They have just announced two new supportive measures (special project funding and new bond issuance).

Similarly, the latest meeting and trade agreement between Presidents Trump and Xi will alleviate concerns about the deterioration of the trade war and could marginally support sentiment. Tensions could resurface later as the US and China are long-term rivals and are decoupling. However, tensions should be lower than in April as neither nation is interested in a disorderly decoupling..

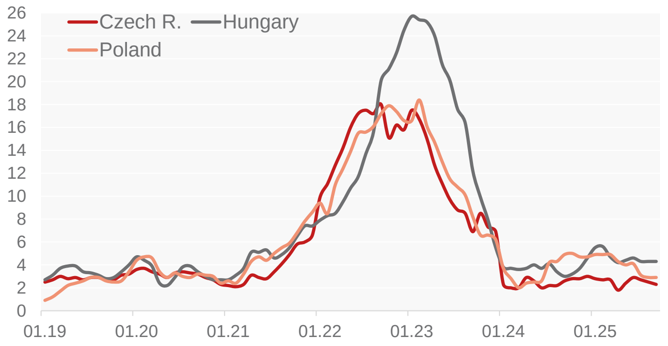
Beyond this short-term improvement, the long-term challenges remain. Fixed asset investment is still contracting, and although the anti-involution campaign has had a positive impact on disinflation, it is limiting the capital expenditure plans of manufacturing firms. More importantly, there has been no meaningful improvement in the housing sector. New home sales have deteriorated further, with prices falling faster than in August. Household consumption will hardly rebound as long as there is no real turnaround.

Unfortunately, the policy priorities of the 15th Five-Year Plan did not mention the housing market. However, it continues to emphasise the need to strengthen the domestic market and speed up the new economic model, and above all, it insists on modernising industries and accelerating technological self-sufficiency.

Central and Eastern Europe

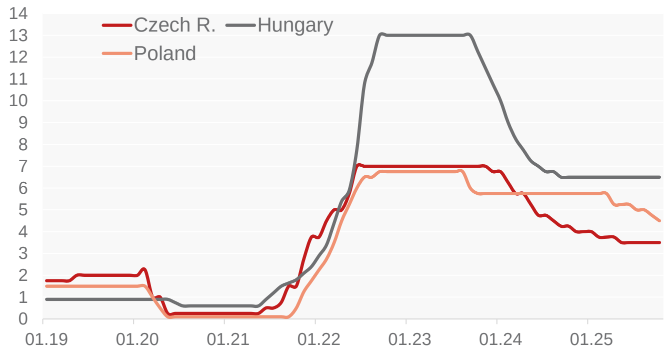
Radomír Jáč

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

Czech Republic	2023	2024	2025f	2026f
GDP	0.2	1.1	2.5	2.2
Consumer prices	10.7	2.4	2.5	2.1
Central bank's key rate	6.75	4.00	3.50	3.50
Hungary	**2023**	**2024**	**2025f**	**2026f**
GDP	-0.7	0.6	0.4	2.2
Consumer prices	17.6	3.7	4.5	3.5
Central bank's key rate	10.75	6.50	6.50	5.50
Poland	**2023**	**2024**	**2025f**	**2026f**
GDP	0.2	2.9	3.2	3.0
Consumer prices	11.4	3.7	3.7	3.2
Central bank's key rate	5.75	5.75	4.25	3.75

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

- **The Polish NBP is currently the only central bank among the CE3 countries changing interest rates. The most recent rate cut by the NBP occurred in early October. In contrast, the Czech CNB has indicated that its rate-cutting cycle has ended, while Hungary may resume policy easing only in H1 2026.**
- **Preliminary Q3 GDP data showed growth of 0.7% qoq for Czechia (a positive surprise) and stagnation for Hungary (a disappointment). Poland's GDP data will be published in mid-November.**

Czech GDP increased by 0.7% qoq and 2.7% yoy in Q3 (vs. market expectation at 0.3% qoq). This led us to raise the full-year 2025 GDP growth forecast from 2.2% to 2.5%. Hungary reported GDP for Q3 at 0.0% qoq and 0.6% yoy (market: 0.2% qoq). Consequently, we have lowered our full-year 2025 growth projection from 0.7% to 0.4%, with risks skewed to the downside.

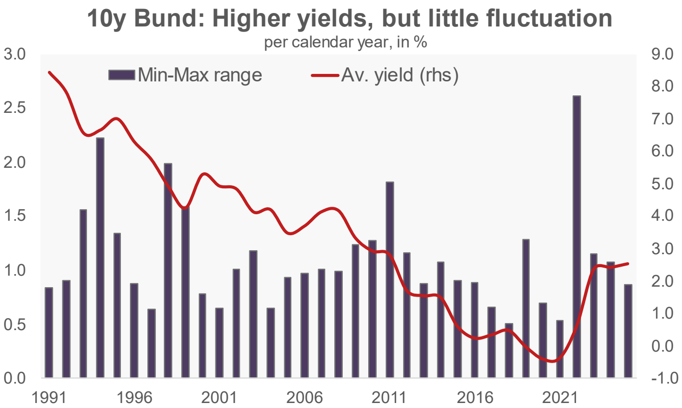
Czech inflation (2.3% yoy in September) remains within the CNB's target range (set at 2% yoy +/-1pp). However, rising service prices argue against further rate cuts. Headline CPI in Hungary came at 4.3% yoy in September and is likely to fall within the inflation target range (3% yoy +/- 1pp) in Q4. Nonetheless, persistent price pressures in services also speak against rate cuts in the case of the MNB. In Poland, headline CPI was 2.9% yoy in September (with target range set at 2.5% yoy +/-1pp), suggesting room for further rate cuts, but the timing of the NBP's steps remains uncertain.

Poland eases monetary policy, rest of CEE cautious

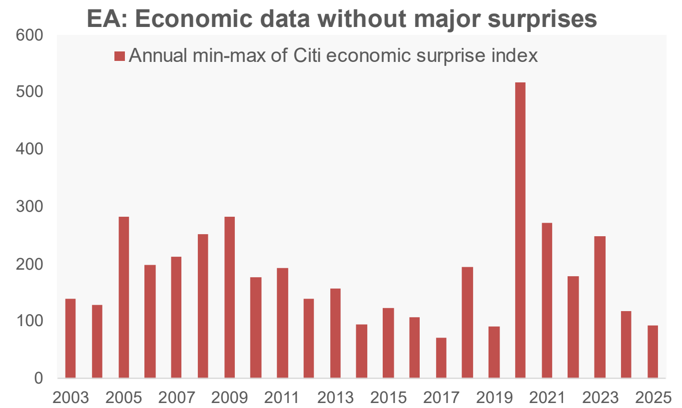
The Czech CNB kept its key rate at 3.50% in Q3 (the last cut by 25 bps came in May). Statements from central bankers suggest that the rate cutting cycle has ended, and that future moves could go in either direction. We expect CNB rates to remain unchanged in Q4 (monetary policy meetings will take place in early-November and mid-December). Our baseline scenario assumes stable rates throughout 2026. In Hungary, the MNB maintained its base rate at 6.50% in October (the last rate cut came in September 2024). The MNB continues to emphasize the need for maintaining tight monetary conditions. We do not expect a rate cut in the rest of 2025. Policy easing is likely to resume in H1 2026, although the MNB may wait until after parliamentary elections, scheduled for early April. The Polish NBP reduced its key rate by 25 bps to 4.50% in early October, which was the third cut in a row. The timing of this move surprised markets and signals from the MPC in this regard were not very reliable in H2. We expect one more rate cut in the rest of 2025, to 4.25 %, but the risk is skewed to a possibility of unchanged rates in November and December with the next rate cut potentially occurring only in Q1 2026.

Government Bonds

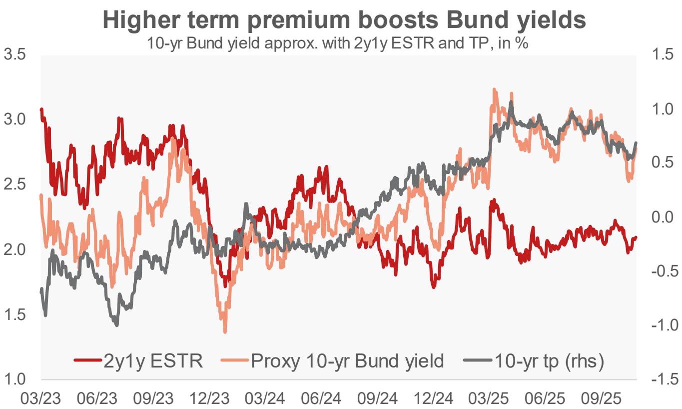
Florian Späte



Source: Bloomberg, GenAM



Source: Bloomberg, GenAM



Source: Bloomberg, GenAM

- **In a friendly market environment, government bond yields declined across the curve in October.**
- **In the weeks to come, we expect Bund yields to rise moderately, given the improving economic outlook and the persistence of elevated bond supply levels in 2026. Conversely, in the US, yields are anticipated to exhibit a modest decline. However, the potential to the downside is constrained by the priced key rate cuts.**
- **With the political situation in France having calmed down for the time being, and with bond market volatility continuing to decline, euro area spreads on non-core government bonds have narrowed further. We maintain our positive outlook and anticipate a further outperformance versus Bunds. However, a cautious approach regarding OATs is still warranted.**

Government bonds rallied globally in October. In the UK, in particular, yields fell due to unexpectedly low inflation data and the resulting expectation of further key rate cuts. In the absence of US economic data due to the shutdown, the decline in yields primarily reflected hopes for further key rate cuts by the Fed and the ECB. With yields moving sideways in anticipation of expansionary fiscal policy by the new government, the Japanese market once again decoupled from the global trend.

We expect the market environment to remain calm over the next few weeks. Having already fallen significantly, volatility is likely to decline further. Overall, we anticipate a slight rise in euro area government bond yields. Following some disappointing economic data in October, the trend has recently been somewhat more positive. We believe this is likely to continue. In addition, a correction in key rate expectations should reinforce the upward trend. Financial markets are still pricing in a probability of over 50% for a key rate cut within the next 12 months. However, we assume that the cutting cycle is over. Accordingly, the component of yields relating to key rate expectations (approx. by 2y1y ESTR) is likely to rise. Furthermore, the term premium has upside potential again following the recent decline. Despite low bond market volatility, markets will have to cope with inflation rates close to the ECB's target in the medium term (and thus higher than in the 2010s), as well as a continued elevated supply of government bonds given the high fiscal deficits.

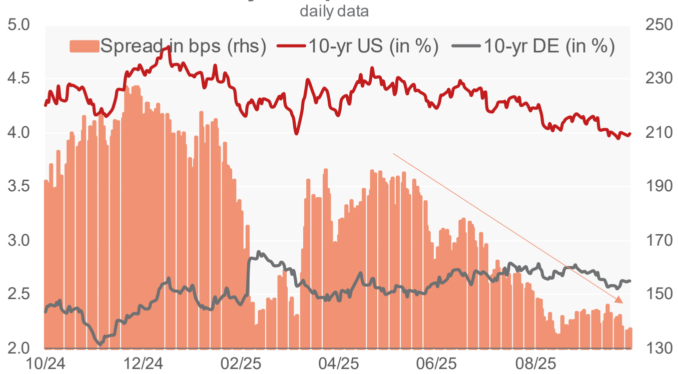
Over the next three months, we expect the yield on 10-year German government bonds to rise to 2.70%. As the economy continues to recover, we expect the yield on 10-year Bunds to reach 2.90% on a 1-year horizon.

Government Bonds

Florian Späte

Transatlantic yield spread on a downtrend

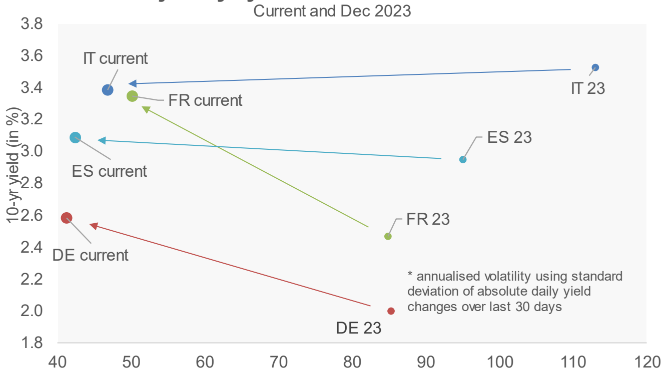
daily data



Source: Bloomberg, GenAM

Risk adj. 10-yr yield* of various EA countries

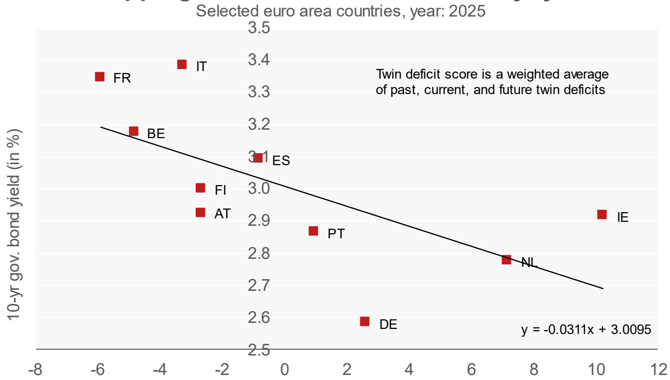
Current and Dec 2023



Source: Datastream, GenAM

Mapping of twin deficit score vs. 10-yr yield

Selected euro area countries, year: 2025



Source: Datastream, GenAM

Following the Fed's decision to cut key rates by a further 25 bps in October, we anticipate an additional reduction of 50 bps by the end of the first quarter. However, financial markets are anticipating a reduction of almost 90 bps by spring 2026. We consider this to be excessive, given the still moderate growth of the US economy and the fact that inflation remains above the Fed's target. The situation is further complicated by the US government shutdown, which makes it difficult to reliably assess the current economic situation. In this context, we forecast 10-year US yields to trend slightly downward (3-mth: 3.95%, 12-mth: 3.90%). However, a pronounced rally is not to be expected. Therefore, if the 10-year US yield slips below 3.90% in this environment, we recommend reducing positions.

Due to the low expected changes in yields on both sides of the Atlantic, we recommend an overall cautious approach. However, due to opposite yield movements, we expect US Treasuries to outperform German government bonds. Consequently, we anticipate that the 10-year transatlantic spread will fall below the 130 bps threshold, dropping below the previous year's low recorded in September.

OATs are fundamentally cheap, but not yet a buy

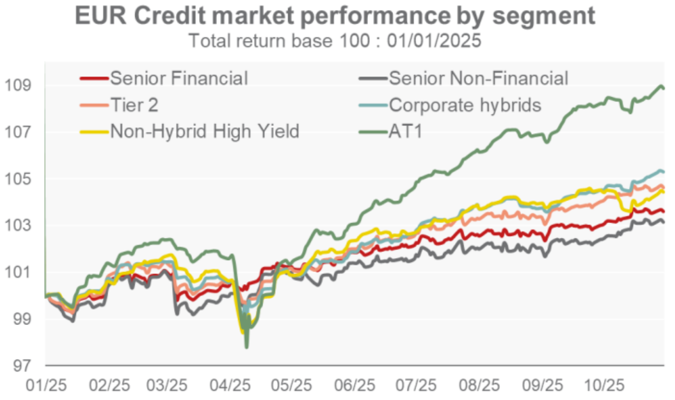
The decline in volatility and the temporary calming of the political situation in France boosted the performance of non-core euro area government bonds. Spreads continued to tighten across all countries. Italian BTPs continue to perform impressively. Having achieved the highest total return among all euro area markets in 2024 at over 5%, they are currently back in the lead with a total return of 3.5% year-to-date. At 76 bps, the 10-year BTP/Bund spread has reached its lowest level in over 15 years.

Until further notice, euro area non-core government bond spreads are likely to remain low in calm market conditions. Low volatility favours carry trades. In addition, activity on the primary market is expected to decline further in the coming weeks, which should also have a supportive effect. We continue to favour countries with solid fundamentals as these provide some protection in the event of a deterioration in market sentiment.

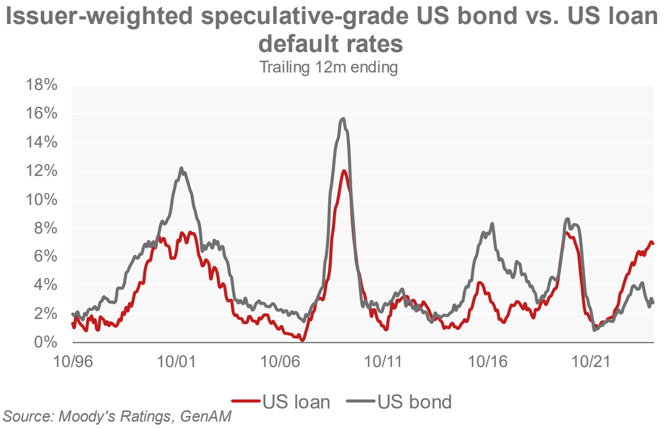
As France's structural problems remain unresolved and Prime Minister Lecornu has only bought himself time by suspending the pension reform, we are maintaining our cautious stance on OATs. Although there has been a decline, volatility remains relatively high compared to that in other euro area countries. Furthermore, France has the worst twin deficit score of all euro area countries (see chart). While we do not anticipate a significant spread widening in our base scenario, we continue to view the risk/reward ratio as unfavourable and advise caution.

Credit

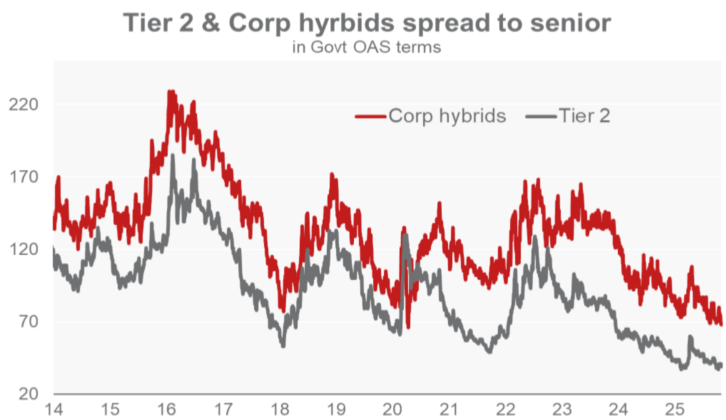
Elisa Belgacem



Source: Bbg, BofAML indices, GenAM



Source: Moody's Ratings, GenAM



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

- **The persistent strong demand for credit, coupled with anticipated further decreases in Fed rates, supports our long position in investment-grade securities.**
- **Despite high yield underperforming IG in spread terms since this liberation day, the carry remains elevated.**
- **We recommend either extending duration in IG non-financial, the 5-7Y bucket, or preferring subordination risk to credit risk with AT1 corporate hybrids remaining more attractive than BBs.**
- **Financials typically have a higher beta than non-financials, but their fundamentals are currently very strong and their exposure to tariffs is lower, hence we keep a neutral stance on financials versus non-financials.**

In recent days, credit spreads have tightened significantly due to fewer issuances and still very strong demand.

Private credit woes have been short lived

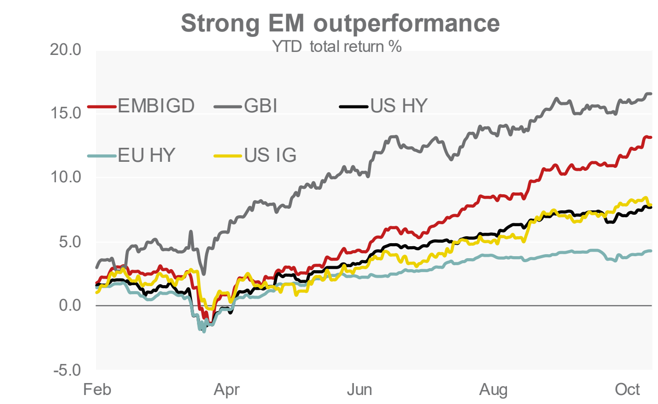
Recent bankruptcies of US firms like Tricolor and First Brands have temporarily affected confidence in the private credit market, prompting fears of deeper systemic risks, leading to some widening mostly in the lower end of the rating spectrum, namely HY. We recognise that it is a clear point of vulnerability yet in our view we think the risks remain at the idiosyncratic level for now.

IG is well positioned to perform in a low growth world

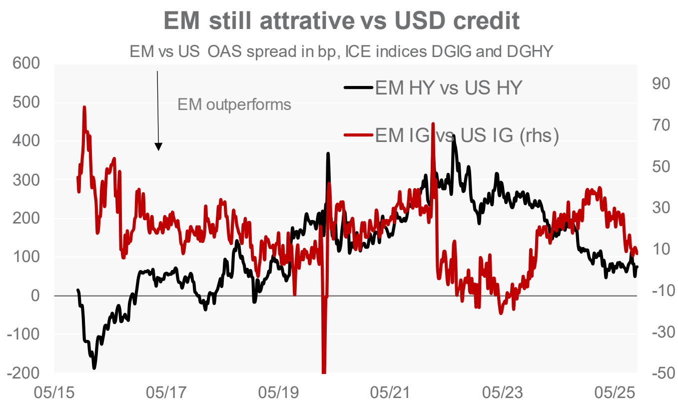
Spreads are less appealing, but the carry remains attractive. We expect credit spreads to hover around current levels in the coming months, keeping carry elevated. Valuation considerations also lead to a preference for Europe over the US. We prefer long IG and subordination risk to pure HY, but keep a slight HY overweight. With HY defaults declining but fundamentals under slight pressure, a strategic move would be to leverage IG to enhance credit returns. While extending duration may not be favourable from a spread perspective, a positive view on rates justifies a long position, especially in the 5-7 year bucket. AT1 has been the best-performing asset class within credit so far this year. Despite limited spread tightening potential going forward, we continue to favour AT1, particularly versus single-Bs.

EM sovereign bonds

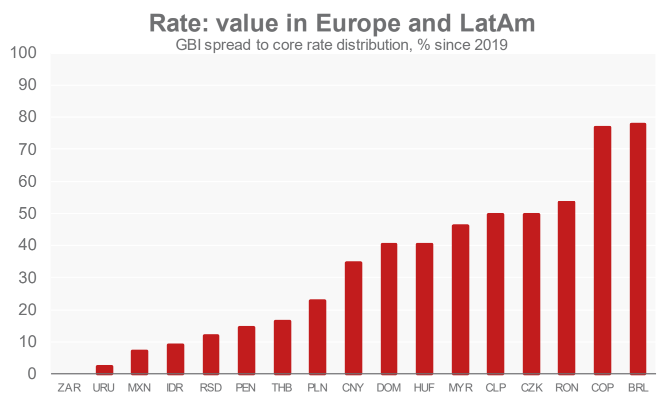
Guillaume Tresca



Source: Bloomberg, JP, GenAM



Source: Bloomberg, ICE, GenAM



Source: Bloomberg, JP, GenAM

- **EM fixed income remains in a sweet spot, supported by a positive macroeconomic environment, strong risk appetite and solid technicals.**
- **Valuations have tightened further, and we maintain our preference for local debt, relative value trades and avoid the highest beta parts of the EM complex.**
- **For external debt, technicals provide an anchor to spreads and we prefer IG over HY. For local debt, valuations are reasonable and real rates are high.**

EM fixed income remains in an attractive sweet spot, with returns on local and external debt up by 1.3% and 2.2%, respectively, over the past month. This is supported by a positive macro environment that has hardly changed, buoyant global risk appetite and solid technicals that offset tight valuations. Indeed, EM activity has remained resilient with a limited impact of the tariff war so far. The latest agreement with Asian countries and the easing of Chinese fentanyl tariffs will further ease growth concerns. The US growth slowdown, if any, is limited, as is its impact on EM activity. Moreover, we maintain our view of USD weakening, which benefits EM carry trades. It remains that valuations have tightened further, especially for external debt, and so we maintain our preference for local debt and relative value trades, while avoiding the highest beta EM names.

External debt: focus on relative value

Although valuations have reached new multi-year tights, spreads still offer value relative to US credit, particularly in the IG space. Technical factors are solid and help to offset the tight valuations and provide an anchor. Indeed, issuance is expected to decline significantly until the end of the year, while dedicated-EM fund inflows have reached a two-year high. For example, EM HY spreads only widened slightly in early October, despite tensions in the US HY market. We favour BB names with IG upgrade potential, such as Serbia and Ivory Coast. We favour Western Balkans EUR debt but are negative on Saudi Arabia and Peru.

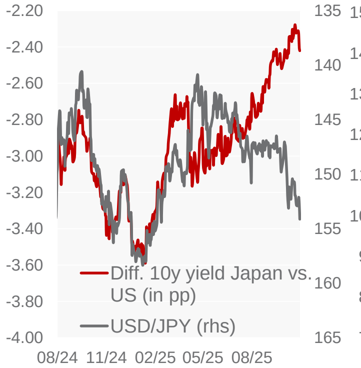
Local debt: still positive on rates

We continue to favour local debt due to its superior valuation. EM real rates still offer value, particularly in LatAm (Brazil) and CEE (Hungary). Asian countries are barely attractive. However, as the monetary easing cycle matures, we recommend moving further out along the local yield curves. While we remain positive on EM FXs, the overcrowded positioning of carry trades makes us slightly more cautious and we are partially refocusing on mid-yielders. We still favour the TRY, the EGP, but we see less value in LatAm than before and are being selective in Asia.

Currencies

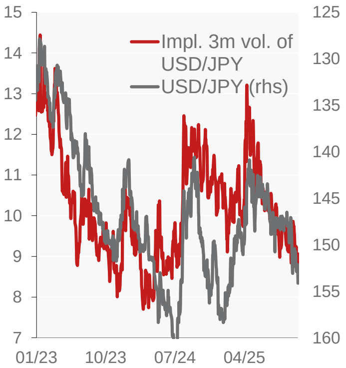
Thomas Hempell

USD/JPY and yield gap



Source: Datastream, GenAM

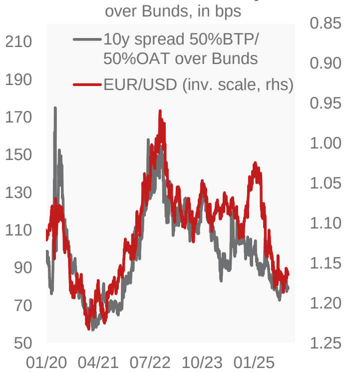
FX vol. and USD/JPY



Source: Datastream, GenAM

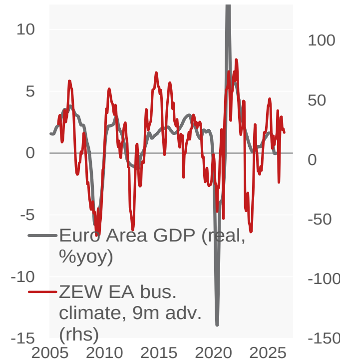
EUR/USD and EGB spreads

over Bunds, in bps



Source: Datastream, GenAM

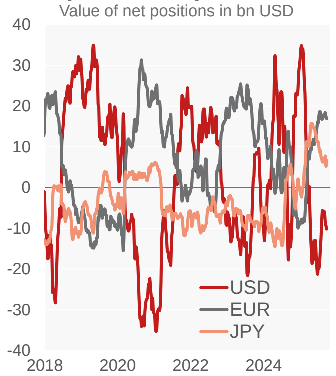
Euro area green shoots



Source: ZEW, Datastream, GenAM

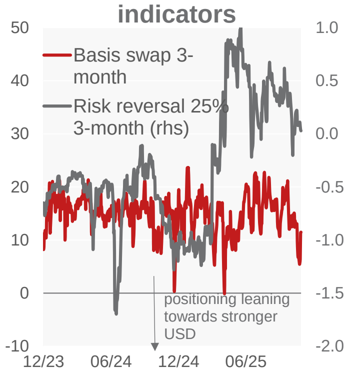
Speculative positions

Value of net positions in bn USD



Source: CFTC, Datastream, GenAM

EUR/USD market indicators



Source: Refinitiv, GenAM

- **October's US dollar's respite reflected weakness among peers rather than genuine USD strength.**
- **Further Fed easing and a US slowdown will keep weighing on the dollar while diversification efforts by international investors will continue.**
- **We expect the EUR to be bolstered by an ensuing euro area recovery and eased French political risks.**
- **Worries about fiscal dominance under new PM Takaichi keep burdening the JPY. But much of this seems priced while support from lower valuations and repatriation flows should ultimately prevail.**

The US dollar recovered some ground in October. However, this move reflects worries about JPY and EUR in the first place, which we do not expect to extend. In Japan, political and fiscal uncertainties and low FX volatility have been weighing on the JPY since summer, widening the gap between rate differentials and the yen (top charts). The new PM Takaichi has been advocating a combination of looser fiscal and monetary policy, raising worries about fiscal dominance. While these concerns may keep lingering, they are strongly priced already. Conversely, very cheap JPY valuation and resuming repatriation flows keep the outlook for USD/JPY tilted to the downside into 2026.

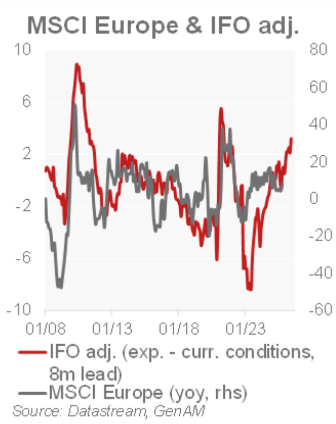
EUR/USD to resume upward trend before long

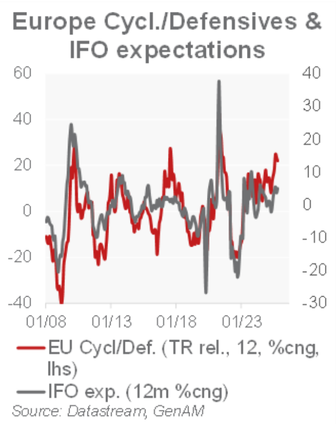
Political woes in France have burdened the EUR. While parliamentary support of PM Lecornu's new minority government remains fragile and the fiscal consolidation path will be sluggish, the risk of snap elections has decreased recently. Importantly, contagion from OATs to other EGBs has been muted, with the average OAT/BTP spread over Bunds leaving scope for a higher EUR/USD (mid left chart). Furthermore, while hard data (notably German IP) disappointed, we still expect a euro area recovery by year-end amid the upbeat tone from forward-looking survey data (mid right chart).

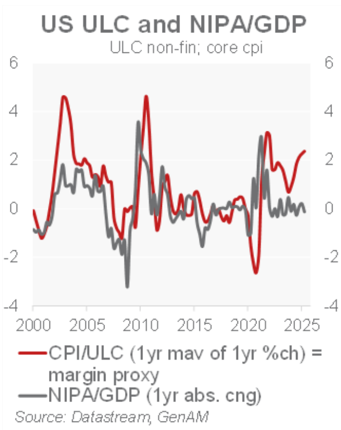
Conversely, the outlook for the USD remains bleak. Despite its more cautious tone at the Oct. FOMC, the Fed is likely to follow through with further rate cuts and will end QT in December. It may even opt for a renewed gradual extension of its balance sheet next year. Bearish USD market positioning has eased, with speculative USD shorts trimmed and basis swaps and risks reversals becoming more neutral (bottom charts). This eases the risk of a sudden positioning wash-out. The US political impasse (as evidenced by the October government shutdown), fear of USD weaponization and attacks on the Fed's independence will continue to incentivize diversification efforts by international investors.

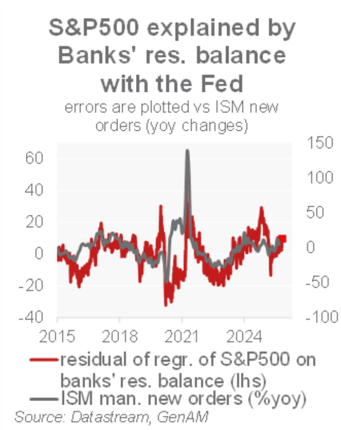
Equities

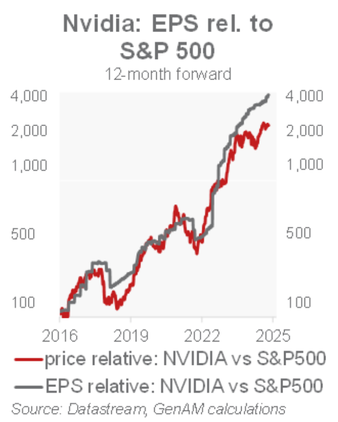
Michele Morganti and Vladimir Oleinikov

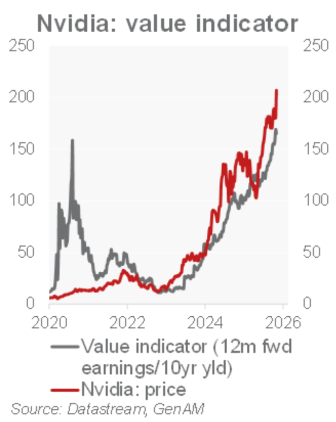












- **We maintain our cautious OW on equities and our preference for cyclical sectors. We bring the US tech sector to N from slight OW and start a small OW EMU vs. SPX. We initiate an OW on Switzerland (undervalued, with better momentum).**
- **The macro and quantitative equity picture remains broadly positive, despite less appealing valuations vs one month ago. Global macro surprises have resumed an upward trend, and leading indicators for margins remain supportive.**
- **The Q3 reporting season is positive in both the US and EU, with significant surprises relative to analysts' expectations. Machine learning signals, seasonality, declining political as well as trade uncertainty should also contribute to the positives.**
- **Our 12-month TR for the EMU stays attractive at around 6.5%, based on cautious assumptions. Under more benign scenarios, the upside potential for EMU equities could reach 15.5%. For the SPX, we see a target range of 7,000-7,200 in one year, to be eventually reached earlier in the coming months.**
- **OW MDAX and EMs, specifically Korea and Poland (both reduced OW). Slight OW China & CH IT. Mid-term view: diversify US into equally weighted SPX, Gold firms, AI phase4 – productivity – and Uranium.**
- **EU sectors: OW Banks, Defense, Constructions, Insurance, Pharma, Retailing, Software. UWs: Durables, FBT, HPP, Media, Transport, Utilities.**

We maintain our cautious OW on equities, still favouring cyclical sectors. We bring the US tech sector to N from slight OW. We start with a small OW in EMU vs. SPX, as EMU's negative earnings revisions and the strong euro are more discounted, while macro surprises are improving, and trade risks are diminishing. We initiate an OW on Switzerland (undervalued, with better momentum). The IFO index and PMI trend support EU equities, as well as cyclicals vs. defensives. Our sector model, based on global growth and EU inflation, still shows a clear preference for cyclicals. The macro as well as quant equity picture remains positive. We observe a slight deterioration in PE vs. real yields, and to some extent in our long-term models after the ongoing rally. However, global macro surprises have resumed an upward trend and leading indicators for US margins (CPI/unit-labour costs) look supportive. Our 12-month TR for the euro area (EA) stays attractive at around 6.5%, based on cautious inputs: target PE of 14.3X, which is the average of our model estimates. However, considering the current supportive financial conditions and the German fiscal impulse, we could take the highest level of our estimates, which is 14.8X.

Equities

Analysis of the median stock: Q3 2025 reporting season

Median stock	Earnings Growth		Sales Growth		margin trend *		availability
	Q2 2025	Q3 2025	Q2 2025	Q3 2025	Q2 2025	Q3 2025	Q3 2025
S&P	9.4 %	9.9 %	6.0 %	7.3 %	3.4 %	2.7 %	44.4%
Stoxx	2.3 %	3.7 %	1.4 %	0.7 %	0.9 %	3.0 %	36.3%
Euro Stoxx	0.0 %	3.7 %	0.6 %	0.3 %	(0.6)%	3.4 %	33.7%
Topix	5.5 %	8.9 %	5.1 %	5.4 %	0.4 %	3.5 %	14.7%

Median stock	Earnings Surpr		Sales Surpr		margin trend *		availability
	Q2 2025	Q3 2025	Q2 2025	Q3 2025	Q2 2025	Q3 2025	Q3 2025
S&P	4.5 %	4.6 %	1.4 %	1.3 %	3.1 %	3.3 %	44.4%
Stoxx	2.3 %	2.1 %	(0.2)%	0.0 %	2.5 %	2.1 %	36.3%
Euro Stoxx	(1.4)%	4.6 %	(0.4)%	(0.2)%	(1.0)%	4.8 %	33.7%
Topix	6.3 %	1.8 %	0.7 %	0.2 %	5.6 %	1.6 %	14.7%

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

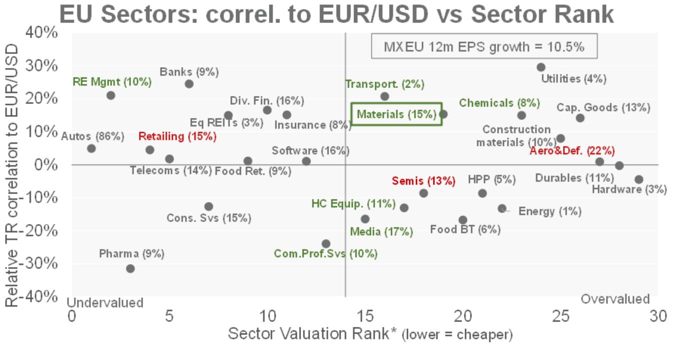
Source: Bloomberg, GenAM calculations

as of 29/10/2025

Index	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%	12%	14%	17%	23.5	17.0	38%	1.4
SPX 493 (median)	8%	8%	10%	9%	18.7	17.6	7%	1.9
Mag. 7 (median)	39%	19%	14%	14%	33.0	27.8	19%	1.5
Global AI 175 Basket	11%	9%	14%	10%	22.1	17.2	29%	1.9
US AI Basket (ex-NVIDIA):	15%	12%	14%	14%	21.4	17.9	19%	1.6
· Phase 2 - Infrastructure	10%	11%	14%	13%	21.3	16.1	32%	1.6
· Phase 3 - New Revenues	24%	14%	15%	14%	28.3	30.9	-8%	1.8
· Phase 4 - Productivity	15%	10%	12%	14%	17.5	17.9	-2%	1.5
MSCI US IT	18%	25%	20%	23%	32.3	21.7	49%	1.2
MSCI China IT	-33%	68%	39%	36%	26.4	20.4	30%	0.5
Gold Basket - 20 co's	56%	72%	29%	40%	11.2	18.0	-38%	0.4
MSCI EMU	0%	-3%	15%	11%	15.3	14.4	7%	1.4
Russell 2000	7%	52%	45%	14%	27.1	22.7	20%	1.0
MDAX	16%	-5%	28%	9%	14.5	15.4	-6%	1.1
MSCI India	6%	12%	16%	14%	22.8	15.8	44%	1.3
MSCI Korea	91%	25%	28%	20%	12.3	10.1	21%	0.5
Japan (TOPIX)	12%	4%	10%	12%	15.8	15.0	5%	1.4
MSCI EM	21%	10%	16%	17%	14.3	12.0	20%	0.8
MSCI China	14%	1%	15%	10%	13.5	12.0	12%	1.2

__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.

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



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

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

= Best performing models

Source: Refinitiv, GenAM calculations as of 29/10/2025

On the earnings side, we also remain under consensus for 2026 and 2007 by 4% and 5%, respectively. In an environment like the one described, we cannot rule out that consensus may be correct this time. Under more benign assumptions, the upside potential for EMU equities could reach 15.5%. As for the SPX, we project a target range of 7,000-7,200 in one year, to be reached eventually earlier in the coming months. The tech sector remains supported by its earnings trend (albeit now more correctly priced by markets) and, indeed, PEs adjusted for EPS growth (PEG = PE/LT EPS growth) are not yet high. In addition, the median PE of the SPX 493 index is much less exuberant than the SPX 500 one (+7% vs history, vs +38% of the SPX 500).

Our ML models still prefer equities over government bonds. The Fed's easing cycle is not over yet. Investor positioning is still neutral, corporate cash flow exceeds investment needs, and the M&A activity is recovering and should be more so in 2026. Although banks' liquidity at the Fed is decreasing, this is now offset by a recovery in the ISM New Orders. The final months of the year are typically positive for the stock markets, and political uncertainty indicators continue to subside, even though news remain volatile. However, in the Middle East, de-escalation is expected to continue over the coming weeks, just as the recent trade agreements between China and the US should partially calm spirits. The Q3 reporting season is very positive in both the US and EU, with large surprises compared to analysts. The US EPS growth is solid at 11.2% (vs. 7.4% in Q2), with beats at 6.2%, similarly to Q2. For the Stoxx 600, EPS growth is well above that in Q2 (9.6% vs. 3.3%), with much stronger beats (7.6% vs. 3.8% in Q2). These beats are well above the average over the last 9 quarters of 4.8%. For the median stock, results are good, too (see table). Our leading indicators for corporate margins continue to be tilted to the upside.

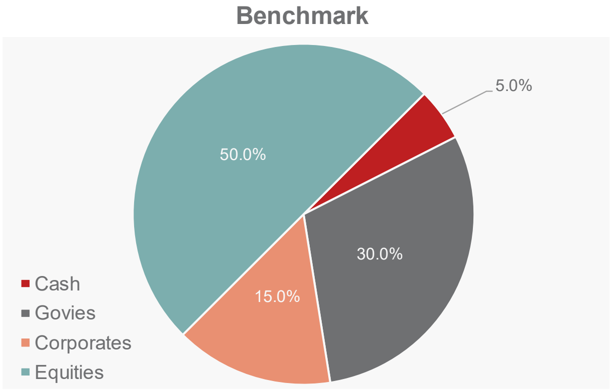
OW MDAX and EMs, specifically Korea and Poland (both reduced OW). Slight OW China & CH IT, and India. Mid-term view: diversify US into equally weighted SPX, Gold miners, AI phase 4 – enhanced productivity – and Uranium.

EU sectors: reducing risks, but still a cyclical tilt

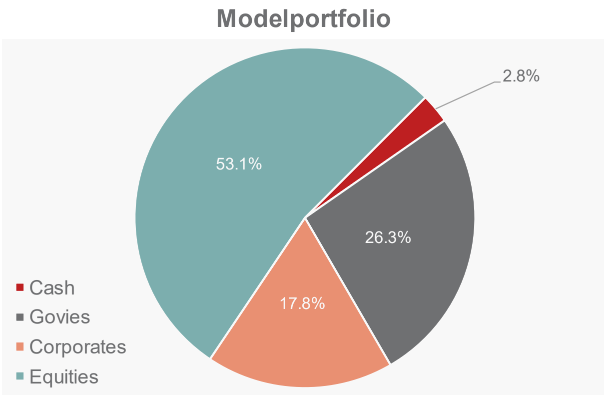
We reduce risks, adding back some defensive sectors and neutralizing some positions after recent market moves. We keep a small cyclical tilt, notably in Banks, Defense and Software. We upgrade Auto to neutral, due to very good valuation (scoring 1° in our proprietary valuation) and positive developments on the CO2/ICE ban. After the strong rally, we downgrade Tech Hardware to neutral. We close our long Small vs Large cap, as we believe the positive catalysts for small cap are already priced. OWs: Banks, Defense, Constructions, Insurance, Pharma, Retailing, Software. UWs: Durables, FBT, HPP, Media, Transport, Utilities.

Asset Allocation

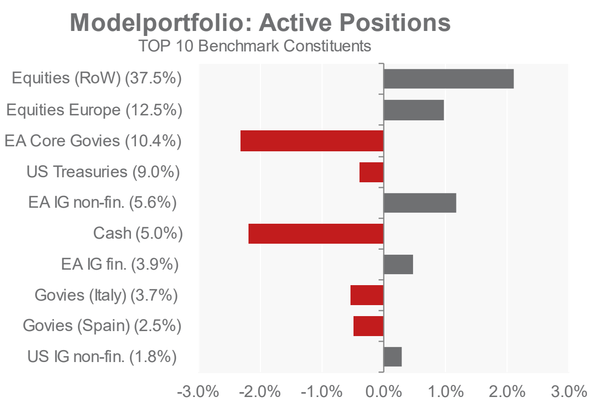
Thorsten Runde



Source: GenAM



Source: GenAM



Source: GenAM; Benchmark weights in parentheses

- **The performance ranking in October 2025 (29.10.25) was again clearly dominated by Equities. Returns are ranging from around +3% for Europe and the US to more than +6% for Japan.**
- **The bottom positions of the ranking are generally held by short-dated fixed income assets.**
- **On the Credit side, HY underperformed IG by -75 bps. Within IG, Fin underperformed non-Fin by -20 bps while US outperformed EA by around +25 bps.**
- **Financial markets are still supported by resilient economic conditions and central bank easing, but political uncertainties — especially in France — and US/China trade tensions are increasing risks.**
- **We keep a mild pro-risk stance, favouring credit and equities over core government bonds, as the potential for further gains is limited by compressed risk premia and ongoing geopolitical concerns**

In October 2025 (29.10.25) our model portfolio continued outperforming its benchmark by around +11.5 bps. All in, the UWs in Govies (+5.6) and Cash (+5.0 bps) proved most rewarding. Not surprisingly, the OW in Corporates again turned out to be most painful (-3.3 bps), given the dominance of Equities in the benchmark and their persisting strong performance. At the individual contribution level, we find the OW in Japanese (+1.6 bps) and US Equities (+1.2 bps) as well as the UW in UST 1-5Y (+1.4 bps) outstanding, while there is again nothing striking on the negative side.

We remain cautiously constructive on equities, supported by resilient growth, solid earnings, and Fed rate cuts, but see limited upside due to stretched valuations and heightened political risks, especially in France and from lingering US/China tensions (despite yesterday's consent). US Treasury yields are biased lower on softer growth and further Fed easing, while euro area yields are likely to rise with increased fiscal spending and inflation risks; overall, we keep a neutral duration stance with a small long in the US.

Constructive risk stance

We still prefer credit over equities as credit spreads remain relatively attractive, and fundamentals stay solid. Risk premia in Equities have become compressed after the recent rally. Thus, we hold a strong OW in IG Credit. HY Credit and Equities should also stay OW given supportive financial conditions and resilient earnings momentum. Conversely, we maintain an UW in Cash and Core Govies, as yields offer limited value and duration risk is elevated. We keep a small short duration in EUR fixed income to reflect our expectation of upward pressure on euro area yields.

Forecasts

Macro Data

Growth[1]	2024	2025 forecast	2025 Δ vs. cons.	2026 forecast	2026 Δ vs. cons.	2027 forecast
US	2.8	1.8	0.1	1.8	0.1	1.9
Euro area	0.9	1.4	0.1	1.3	0.2	1.4
Germany	-0.2	0.3	0.1	1.4	0.3	1.4
France	1.0	0.8	0.2	0.9	0.0	1.4
Italy	0.7	0.6	0.1	0.5	-0.2	0.4
Non-EMU	1.0	1.2	-0.0	1.2	0.0	1.5
UK	0.9	1.2	0.0	1.0	0.0	1.5
Switzerland	1.1	1.1	-0.1	1.3	0.0	1.1
Japan	-0.1	0.9	-0.2	0.5	-0.1	0.6
Asia ex Japan	5.0	4.9	0.1	4.6	0.0	4.5
China	4.8	4.8	0.0	4.3	0.0	4.0
CEE	3.4	1.9	-0.1	2.0	-0.2	2.1
Latin America	1.8	2.0	0.0	1.9	0.0	2.4
World	**3.2**	**3.0**	**0.0**	**2.9**	**0.0**	**2.9**

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

Inflation[1]	2024	2025 forecast	2025 Δ vs. cons.	2026 forecast	2026 Δ vs. cons.	2027 forecast
US	2.9	2.8	0.0	2.7	0.0	2.2
Euro area	2.4	2.1	-0.0	1.8	0.1	2.0
Germany	2.3	2.1	-0.1	2.0	0.1	2.0
France	2.1	1.2	0.1	1.5	-0.0	2.0
Italy	1.1	1.8	0.0	1.8	0.1	2.0
Non-EMU	2.3	2.6	0.0	1.8	-0.3	1.8
UK	2.5	3.4	0.0	2.1	-0.5	2.0
Switzerland	1.4	0.2	0.0	0.6	0.0	0.7
Japan	2.7	2.9	-0.2	1.7	-0.2	1.8
Asia ex Japan	1.8	2.0	0.7	2.1	0.3	2.2
China	0.4	0.5	0.4	1.0	0.3	1.5
CEE	19.3	14.5	1.8	9.7	1.0	7.1
Latin America[2]	4.7	4.5	0.0	3.8	0.0	3.1
World	**4.0**	**3.4**	**0.4**	**3.0**	**0.2**	**2.7**

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

Financial Markets

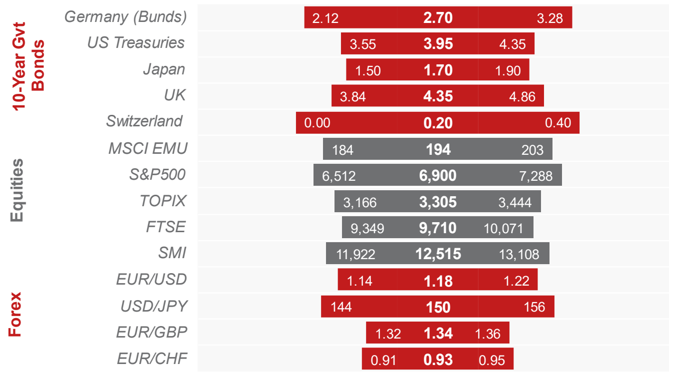
Key Rates	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
US (upper bound)	4.00	3.75	*3.54*	3.50	*3.37*	3.50	*2.98*
Euro area	2.00	2.00	*1.90*	2.00	*1.85*	2.00	*1.83*
Japan	0.50	0.75	*0.69*	1.00	*0.78*	1.00	*1.00*
UK	4.00	4.00	*3.70*	3.75	*3.49*	3.50	*3.34*
Switzerland	0.00	0.00	*-0.07*	0.00	*-0.11*	0.00	*-0.13*
10-Year Gvt Bonds							
US Treasuries	4.01	3.95	*4.07*	3.95	*4.11*	3.90	*4.20*
Germany (Bunds)	2.62	2.70	*2.69*	2.80	*2.73*	2.90	*2.82*
Italy	3.39	3.50	*3.48*	3.60	*3.55*	3.75	*3.70*
Spread vs Bunds	*77*	*80*	*79*	*80*	*82*	*85*	*87*
France	3.41	3.55	*3.47*	3.70	*3.53*	3.85	*3.65*
Spread vs Bunds	*80*	*85*	*78*	*90*	*80*	*95*	*83*
Japan	1.65	1.70	*1.74*	1.75	*1.80*	1.80	*1.92*
UK	4.40	4.35	*4.51*	4.30	*4.55*	4.20	*4.66*
Switzerland	0.14	0.20	*0.16*	0.20	*0.19*	0.25	*0.23*

**3-day avg. as of 29/10/25*
***ICE BofA (OAS)*

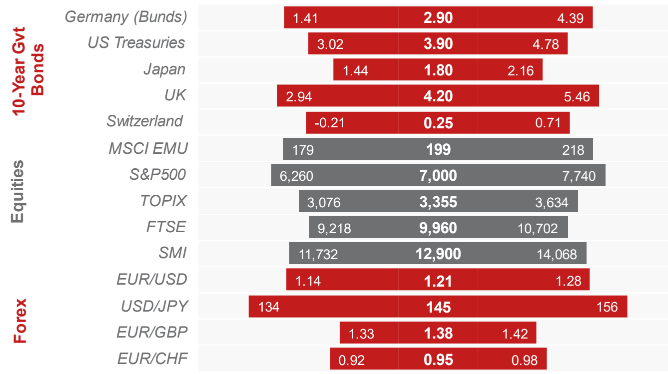
Credit Spreads**	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
EA IG Non-Financial	73	70		70		70	
EA IG Financial	77	75		75		75	
EA HY	280	270		270		270	
EM Sov. (in USD)	182	175		175		175	
Forex							
EUR/USD	1.17	1.18	*1.17*	1.20	*1.18*	1.21	*1.18*
USD/JPY	153	150	*151*	148	*150*	145	*148*
EUR/JPY	178	177	*177*	178	*176*	175	*175*
GBP/USD	1.33	1.34	*1.33*	1.36	*1.33*	1.38	*1.33*
EUR/GBP	0.88	0.88	*0.88*	0.88	*0.89*	0.88	*0.89*
EUR/CHF	0.93	0.93	*0.92*	0.94	*0.92*	0.95	*0.91*
Equities							
S&P500	6,886	6,900		6,865		7,000	
MSCI EMU	193.7	193.5		193.5		198.5	
TOPIX	3,296	3,305		3,300		3,355	
FTSE	9,702	9,710		9,755		9,960	
SMI	12,401	12,515		12,415		12,900	

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*

Imprint

Issued by:	**Generali Asset Management S.p.A. Società di gestione del risparmio | Research Department**
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This document was completed on October 31, 2025