

Market outlook 2026

Climbing towards new highs



All data and figures in
texts and graphs are as of
November 14th, 2025.

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Samantha Ricciardi
CEO of SAM

Dear investor,

We are delighted to present our *2026 Market Report*, jointly compiled by our global team and local experts. The product of this work is a comprehensive strategic vision, balancing global trends with in-depth knowledge of domestic assets, to help you build a diversified, consistent portfolio that is tailored to an increasingly interconnected and dynamic environment.

The global economy's resilience confirms that the cycle is not merely standing its ground, but evolving. Looking ahead to 2026, we anticipate an environment of sustained growth, contained inflation and economic policies that support activity, setting up a favourable framework for investment and diversification. Against this backdrop, we highlight three major investment ideas for the year:

- Global equity: climbing towards new highs beyond the U.S. technology sector, more countries and more sectors are joining in the rally.
- Fixed income: opportunities for policy normalisation in Brazil and the UK, without losing sight of carry in the Eurozone.
- Gold: a natural portfolio diversifier and long-term structural trend.

The path ahead is not without uncertainty. Our team continuously monitors and assesses the economic and financial risks that could alter the core scenario, as well as weighing up geopolitical factors and their potential impact on economic policy design.

Last year, we underscored the importance of including investment in private markets as a key structural trend. This year we go one step further: we present our Capital Market Assumptions (CMAs), which are allowing us to incorporate alternative assets in multi-asset portfolios and more efficiently harness the sources of structural returns offered by markets. The CMAs model is proprietary and places conventional assets and private markets in a single analytical framework, aimed at providing a robust and long-term view of expected returns, risk and correlation between asset classes. This framework strengthens the analytical basis for our strategic decisions and builds on our global investment approach.

In 2026, private markets will continue to play an increasingly important role in building diversified portfolios: they are no longer merely ancillary, but are now an integral component. Within this universe of alternatives, European private debt stands out for its intrinsic value, underpinned both by structural factors—given the more modest development of the capital market and alternative financing compared to the weight of the banking system—and Europe's relative allure compared to other regions, especially the United States.

At Santander Asset Management, we share with you our global knowledge and local analysis, grounded on a long-term strategic vision. We actively manage your investments, standing with you every step of the way to ensure that decisions are consistent with your personal goals. We are committed to supporting you with an accessible and responsible approach, aimed at helping you build a solid and secure financial future.

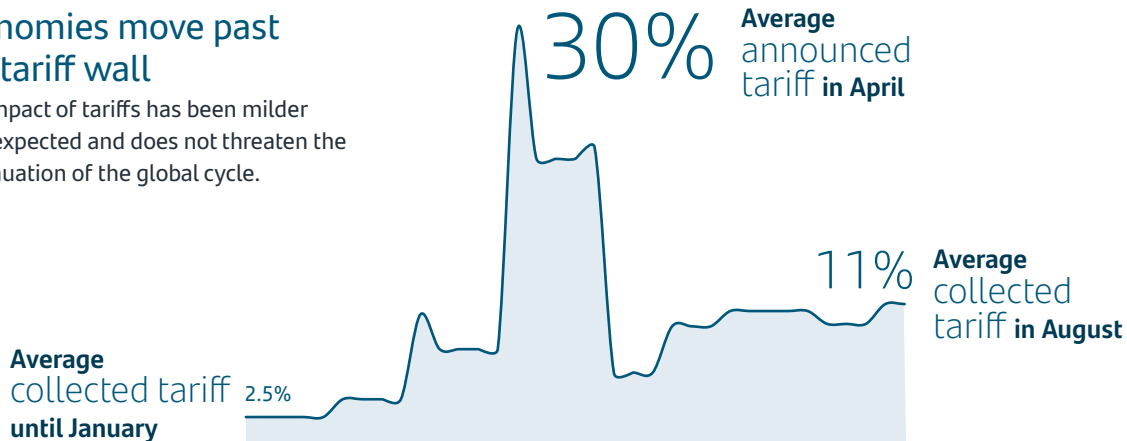
Climbing towards new highs



José Mazoy, PhD
Global Chief Investment Officer at SAM

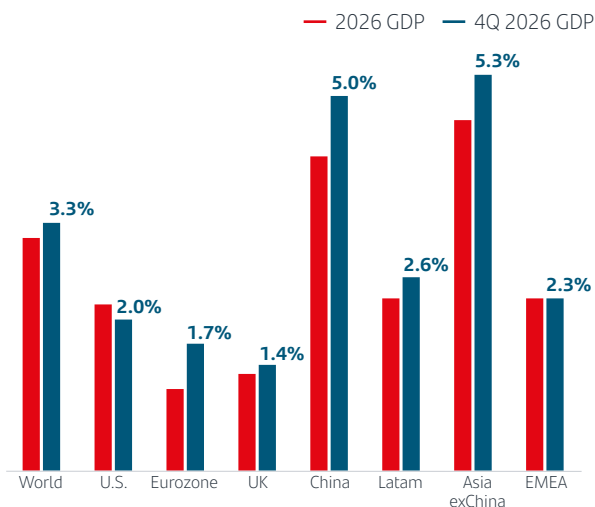
Economies move past the tariff wall

The impact of tariffs has been milder than expected and does not threaten the continuation of the global cycle.



The global cycle extends

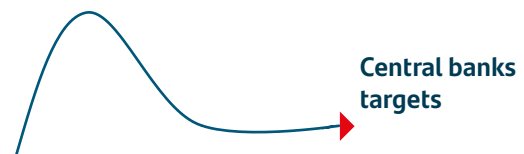
All regions continue to post positive growth and gain momentum in the second half of the year. AI will remain a key driver of growth, particularly in the U.S.



Source: FMI, World Economic Outlook October 25

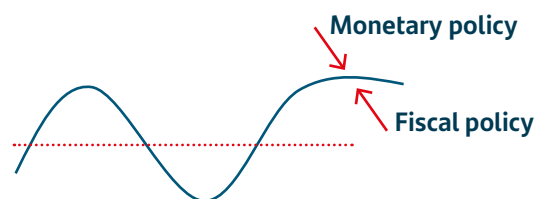
Inflation is no longer the problem

The disinflationary trend continues, although the pace varies across regions.



Economic policies support the cycle

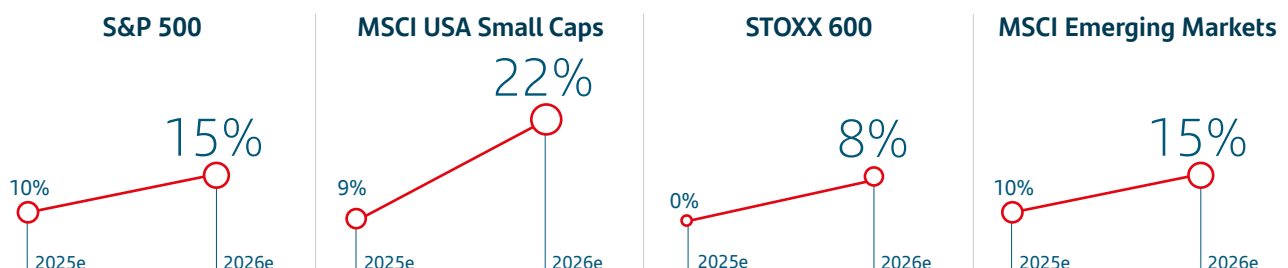
Interest rates are shifting from restrictive to neutral, while fiscal policy stimulates investment.



Broader breadth in equity markets:

Earnings growth is widening across regions, sectors and companies

Earnings growth estimates



Source of all charts: Bloomberg and Santander AM

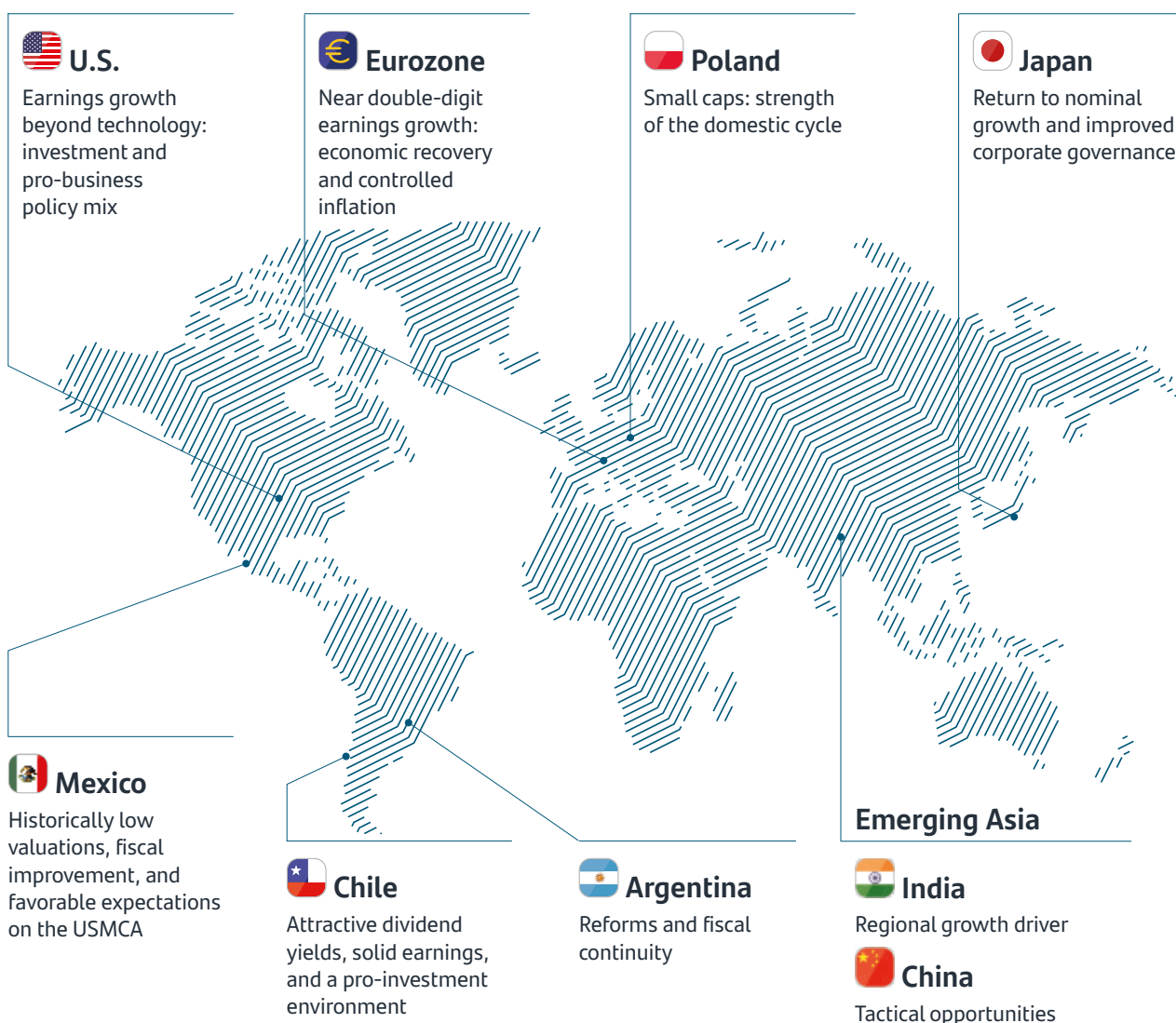
Looking ahead to 2026, we want to highlight the resilience of the global economy. Facing, in succession, an unprecedented health shock, an inflationary shock -which in many economies reached levels unseen since the 1970s- and a tariff shock that called into question the future of global trade has been no easy task, yet the global cycle continues to show a remarkable capacity to expand.

This resilience confirms that the global cycle not only endures but evolves. In particular, this year's AI investment in the U.S. has played a key role in sustaining growth close to 4%. The environment we expect for 2026 combines steady growth, contained inflation, and economic policies that continue to support activity, shaping a constructive framework for investment. All this, underpinned by our proprietary Capital Market Assumptions (CMAs) model and with diversification as a central pillar, allows us to identify three major investment ideas in traditional assets.

1. Global equities: Climbing towards new highs

Equities remain at the core of our strategy for 2026. The global backdrop supports this constructive view, which is further reinforced across most major markets when we drill down to the local level. From the broadening of earnings growth in the United States -extending beyond AI-related technology- to near double-digit earnings growth estimates in the Eurozone and the momentum of Latin American markets, equities combine global macro tailwinds and domestic support, consolidating as the main growth engine in diversified portfolios.

While valuations are demanding in some markets, we do not believe this prevents indices from continuing to reach new highs. Periods of economic growth expansion and sustained corporate earnings growth are typically accompanied by higher multiples. In that context, the main historical triggers for turning points in equities have been recessive environments or aggressive rate-hiking cycles -neither of which form part of our central scenario.



2. Fixed income opportunities: Policy normalization with carry in focus

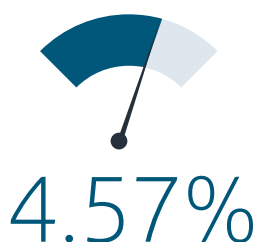
The path toward neutral policy rates progresses at different speeds across geographies. This divergence opens opportunities in UK and Brazilian sovereign bonds, where carry combines with our expectation of rate cuts —potentially deeper than current market pricing. In the Eurozone, strong corporate fundamentals and historically attractive carry make credit a stable source of return for 2026.



UK

Nominal and inflation-linked UK government bonds still offer the highest yields among G7 economies. Proactive measures to curb inflation, a fiscally disciplined budget with potential further tax increases, and an anticipated gradual decline in Bank of England base rates together provide a supportive backdrop for continued performance.

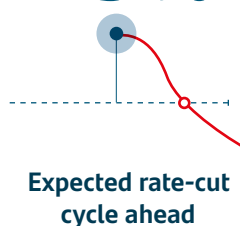
Highest G7 yield*



Brazil

The basic Selic rate is at very tight levels and the combination of moderate economic activity and declining inflation should allow the BCB to start an easing cycle early next year, with potential dovish surprises. The global scenario will also provide support to local fixed income, particularly with the expected cuts in U.S. rates.

15%



Eurozone

We maintain a positive view on Eurozone investment-grade credit for 2026. Yields remain attractive —well above the 10-year and 20-year averages— and offer an additional premium over sovereign debt. Strong demand, particularly from retail investors, and robust corporate balance sheets leave room for further spread tightening.

3.10%

Average BoFA Euro Corporate Index yield 2025*

1.80%

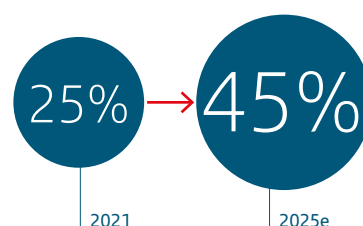
Average BoFA Euro Corporate Index yield 10-year average*

3. Gold: Portfolio diversifier and structural trend

In a context where geopolitical risks persist, inflation has not disappeared, and investors perceive that central banks will continue to prioritize growth over price control, gold remains an effective hedge and a key component for portfolio diversification.

Underlying fundamentals also remain solid: the continuation of central bank purchases and renewed investor demand after several years of negative flows.

Investor demand as a share of total gold demand



Source: ICE Benchmark Administration, Metals Focus, Refinitiv GFMs, World Gold Council and Santander AM

We launch our CMAs for public and private markets

These three key investment ideas reflect the combination of our global and local capabilities and are supported by our proprietary CMAs framework— an approach that allows us to integrate traditional and private markets in a single analytical model. Looking ahead to 2026, we identify European Private Debt as the main investment opportunity within the alternative assets universe (see page 44).

* Source: Bloomberg and Santander AM

Under the CIO's lens

The year ahead will reward focus over forecasts: staying invested in real growth, yet ready to adapt if exuberance, policy, or geopolitics shift the ground beneath us. In a world of structural change, agility in active management is the true edge.

1. AI CapEx super-cycle: transformative or excessive?

Corporate investment in AI infrastructure, semiconductors, and the cloud is surging to record levels and is now large enough to contribute nearly half of U.S. real GDP growth.

CIO watch:

The ratio of CapEx-to-earnings for hyperscalers: a slide in marginal returns or a turn toward vendor-financed projects would flag overheating.

\$ 400Bn
in 2025 CapEx reinvestment
by major tech companies
(70% of profits)¹

2. The age of economic statecraft: politics shapes profits

Trade, technology, and capital are being redirected by industrial policy, tariffs, and sanctions, fragmenting global supply chains.

CIO watch:

The spread between “friendly-shore” and “strategic-rival” trade volumes and the rollout of new subsidy or capital-control regimes: a sharp shift could reprice regions and currencies.

Over \$ 2Trn
in new fiscal-industrial
incentives since 2022²

3. Fiscal dominance: deficits define rates

Persistent government spending and ageing-related outlays keep fiscal policy in the driver's seat, anchoring a structurally higher-nominal world.

CIO watch:

Primary-deficit-to-GDP and long-term yield curves: a sustained rise in real yields above 2 % would challenge equity markets.

5.9% of GDP
U.S. deficit, the highest ever
outside wartime
or recession³

4. Market crowding & valuation risk: when leadership narrows

AI-linked megacaps dominate indices; breadth and credit spreads are the pressure points of this rally. The surge of retail flows into large-cap tech ETFs reinforce the rally but raise the risk that any reversal in sentiment could cascade quickly across assets.

CIO watch:

Cross-asset volatility and credit spreads: simultaneous deterioration has preceded past multi-asset corrections.

**38% share
of S&P 500**
market capitalization
concentrated in the ten
largest companies,
a record high⁴

5. U.S. consumption surprise: the engine of growth

U.S. consumption is estimated to have accelerated to 3.4% in Q3 2025 and strength is broad across income groups. Household balance sheets remain solid.

CIO watch:

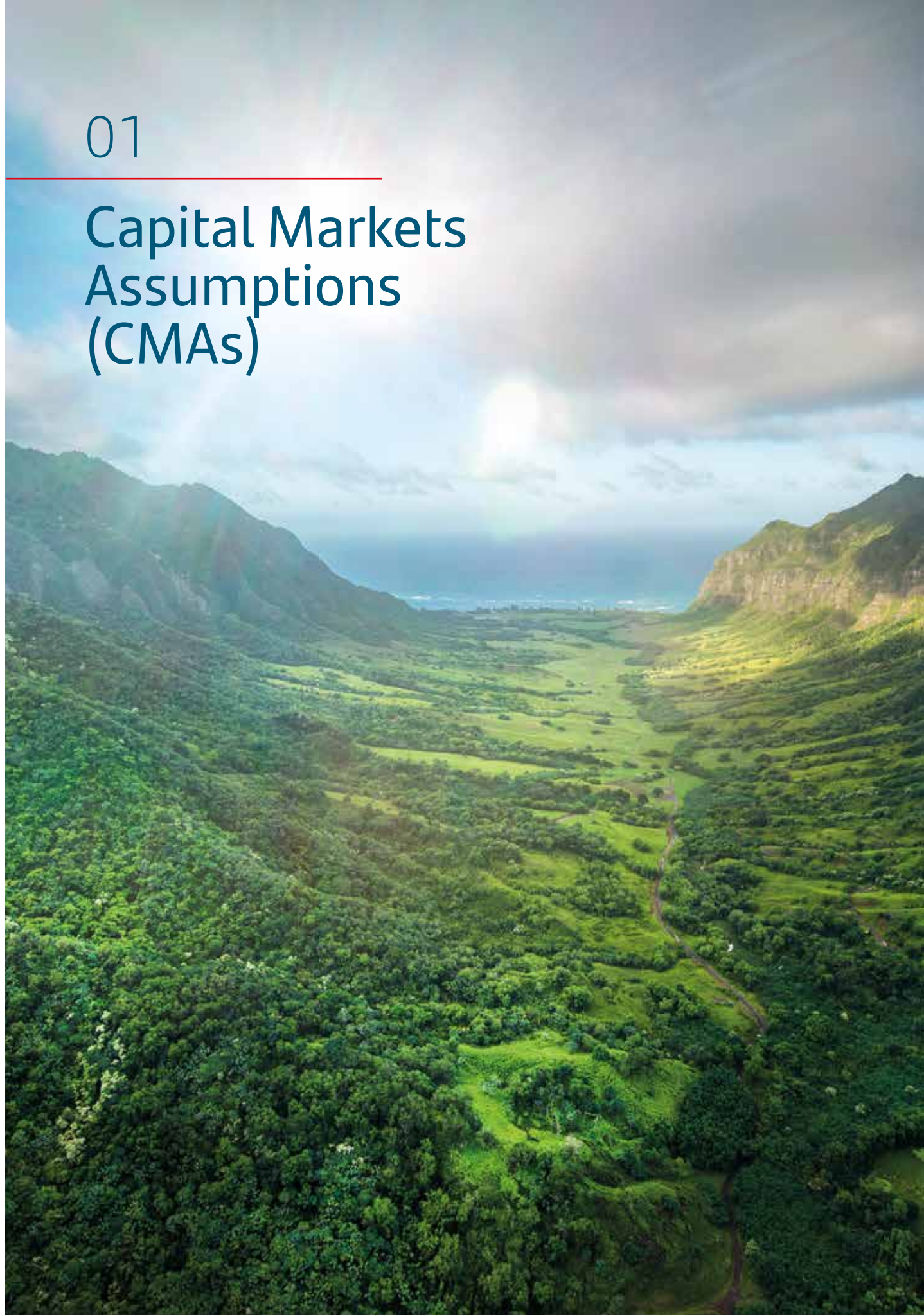
Payrolls, cyclical investment, and AI-driven productivity gains: out-of-consensus data could reshape growth expectations.

**97%
of liabilities**
in households segment
are covered by cash, best
balance-sheet position
since the 1980s⁵

Source: 1. Santander AM. 2. FMI Fiscal Monitor October 2025. 3. U.S. Congressional Budget Office August 2025. 4. Santander AM. 5. Federal Reserve Distributional Financial Accounts Q2 2025

01

Capital Markets Assumptions (CMAs)



Source:

Return expectations for a long-term strategic horizon



Luiz Felix, PhD
Global Head of Asset
Allocation SAM



Haydn Davies,
Head of Quantitative
Research SAM

Strategic Asset Allocation (SAA) remains the primary driver of long-term portfolio performance, typically accounting for more than 80% of total return variability over time. In an environment characterized by a soft global landing, delayed disinflation in the U.S., and policy normalization across major economies, robust Capital Market Assumptions (CMAs) are essential to anchor strategic decisions. They translate macro expectations into consistent estimates of return and risk across asset classes. As 2026 approaches, the calibration of CMAs captures monetary conditions moving toward neutrality and resilient economic momentum, setting the stage for a cycle of renewed breadth of global growth.

A global soft landing and policy normalization underpin healthy medium-term expectations across asset classes

Nominal 7-year expected returns¹

		Local	1-year Δ	USD	EUR	GBP
Equities	Equities U.S.	8.3%	0.0%	8.3%	7.8%	9.3%
	Equities Eurozone	7.6%	-0.9%	8.1%	7.6%	9.1%
	Equities UK	8.2%	-1.0%	7.3%	6.8%	8.2%
	Equities Japan	7.8%	-0.6%	8.3%	7.9%	9.3%
	Equities World	8.3%	-0.5%	8.3%	7.9%	9.4%
	Equities Emerging	7.2%	-0.9%	6.2%	5.7%	7.2%
Govies	Govies U.S.	4.5%	-0.5%	4.5%	3.3%	4.3%
	Govies Eurozone	3.7%	-0.1%	4.8%	3.7%	4.7%
	Govies UK	5.1%	-0.2%	5.3%	4.1%	5.1%
	Govies +10Y U.S.	5.2%	0.0%	5.2%	4.0%	5.0%
	Govies +10Y Eurozone	4.4%	0.3%	5.6%	4.4%	5.4%
	Govies +10Y UK	5.7%	0.1%	5.8%	4.6%	5.7%
	ILBs U.S.	4.2%	-0.5%	4.2%	3.0%	4.0%
	ILBs Europe	4.4%	0.0%	5.6%	4.4%	5.5%
Credits	Investment Grade U.S.	5.5%	-0.5%	5.5%	4.3%	5.3%
	Investment Grade Eurozone	4.1%	-0.3%	5.3%	4.1%	5.2%
	Investment Grade UK	5.4%	-0.6%	5.5%	4.3%	5.4%
	High Yield U.S.	6.3%	-0.5%	6.3%	5.1%	6.1%
	High Yield Eurozone	5.1%	-0.4%	6.3%	5.1%	6.2%
	Emerging debt HC	6.4%	-0.8%	6.4%	5.2%	6.2%
	Emerging debt LC	7.4%	0.0%	6.1%	5.7%	7.2%
	Commodities	5.6%	-0.3%	5.6%	5.2%	6.2%
Private Assets	Private Equity	10.6%		10.3%	9.9%	11.3%
	Venture Capital	12.0%		11.7%	11.3%	12.7%
	Real Estate	8.6%		8.3%	7.9%	9.3%
	Infrastructure	8.3%		8.0%	7.6%	9.0%
	Private Debt	8.9%		8.6%	8.2%	9.6%

Source: Santander AM 1. Expected returns across the three investors' base currencies covered (EUR, USD and GBP) are estimated in an FX un-hedge basis for 1) equities, 2) commodities, 3) local currency emerging market debt and 4) private assets, whereas estimated in a FX hedge basis for the remaining fixed income assets.

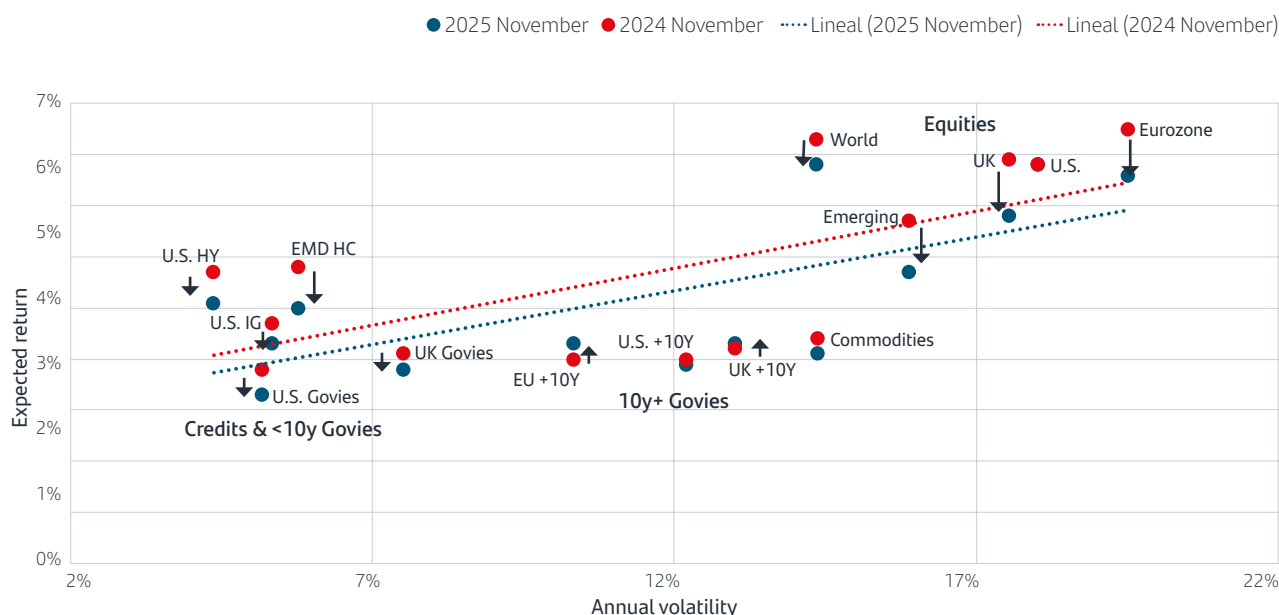
Building on this global backdrop, **U.S. equities** remain a key engine of long-term portfolio returns, supported by strong productivity gains, resilient profit margins, and a durable earnings cycle. U.S. investors should enjoy an annual nominal return of 8.3% in the medium-term consistent with a mature yet still dynamic phase of the cycle. Amid elevated valuations, our framework suggests that potential repricing in US equities should be offset by accelerating earnings growth. Across **other developed equity markets**, expected 7-years nominal returns cluster around 8% when currency effects are excluded. The **UK** is set to deliver above average local performance of 8.2%, supported by high shareholder yields and supportive valuations despite earnings growth prospects being a headwind. Eurozone markets are structurally less dynamic than the U.S. and earnings growth is also expected to be slower but higher dividend yield partially compensates for this difference. In **Japan**, meanwhile, investors face robust earnings growth but mediocre dividend yield, something that might change once meaningful improvements in corporate governance are achieved. **Emerging markets** posts the lowest level of buybacks among regions and weak earning growth while strong dividend yield and some valuation buffer lead to an expected return of 7.2% for the region. Overall, despite a strong year for global equities, the medium-term outlook remains constructive. While higher valuations dampen prospective returns in many regions, overall expectations remain consistent with a continued global expansion warranting investors to maintain a diversified exposure across regions.

U.S. and Japan earnings growth, strong dividend yields in the Eurozone and the UK, and selective value in EMs sustain constructive global equity outlooks

Fixed income yields, especially in the Eurozone, have largely traded in a narrow range this year, leaving the outlook broadly unchanged. Concerns over debt sustainability have, however, improved compensation for duration risk, mostly in the Eurozone, while tighter spreads have decreased the potential for credits, especially in the USD denominated debt. Despite that, long-term investors still find opportunities in credits. A U.S. investor can expect a nominal return of 6.3% from High Yield in the medium term, compared with 5.5% in Investment Grade and 4.5% in Treasuries. In the Eurozone, the pattern is similar: we expect returns of 5.1% in High Yield, 4.1% in Investment Grade, and 3.7% in sovereign bonds.

We expect a diversified **Commodity** portfolio to return 5.6% for U.S. investors, above the 4.2% and 4.4% anticipated from inflation-linked bonds in the U.S. and Eurozone.

Expected 7-year return and risk: current vs one-year ago



Source: Santander AM

Private markets in 2026 should offer a differentiated return spectrum aligned with risk, illiquidity, and value-creation potential. Our long-term forecasts for Private Equity (Buyout and Growth) average 10.6% net of fees², maintaining the segment's high-return profile. Sentiment among managers has turned cautiously optimistic as exit conditions and deal flow improve after some subdued years. Fundraising remains selective, and distributions are below long-term norms, yet liquidity constraints have eased. Venture Capital continues to present the strongest nominal upside at around 12%, though with wide dispersion—underscoring the importance of vintage and manager selection as growth visibility improves.

Real assets retain an income-anchored profile. Real Estate combines steady income from Core strategies with the cyclical upside of Value-Add opportunities averaging an expected return of 8.6%. Infrastructure offers a similar balance: Core and Brownfield assets provide resilient, inflation-linked yields, while Greenfield projects—particularly in renewables, digital networks, and energy transition—offer higher nominal potential with greater execution risk (averaging 8.3%).

Within **Private debt**, we expect mid-term net returns of 8.9%, supported by elevated base rates and strong current income. However, crowding and uneven credit quality are likely to test manager skill, especially in the U.S. While fundraising cycles have lengthened, structural demand from institutional allocators remains strong, reinforcing the segment's role as a portfolio stabilizer in a higher-for-longer rate environment. Natural Resources, with expected nominal returns near 8%, continue to serve as inflation-sensitive, low-correlation exposures.

Overall, private assets are entering a phase of measured recovery and selective optimism. Despite somewhat elevated valuations, liquidity conditions are improving, macro risks are receding, and investor pacing is normalizing—setting the stage for private markets to reassert their role as long-term return drivers within diversified portfolios.

Taken all together, our CMAs point to a more balanced and differentiated return landscape — one shaped by a soft landing for the global economy, delayed disinflation in the U.S., and the normalization of monetary policy. In this environment of moderate growth and stable inflation, medium-term return expectations remain broadly healthy. Above all, disciplined SAA continues to be the most effective compass for long-term investors, enabling them to capture opportunities across regions and asset classes as policy support, financial conditions, and corporate fundamentals work in tandem to extend the cycle.

Private assets anchor long-term return potential in a higher-for-longer rate world

2. We report private asset returns on a net basis to reflect the impact of management fees and carried interest on investor outcomes, while public asset returns are shown gross of fees to ensure comparability across liquid markets where costs vary by mandate and implementation.

02

Global view



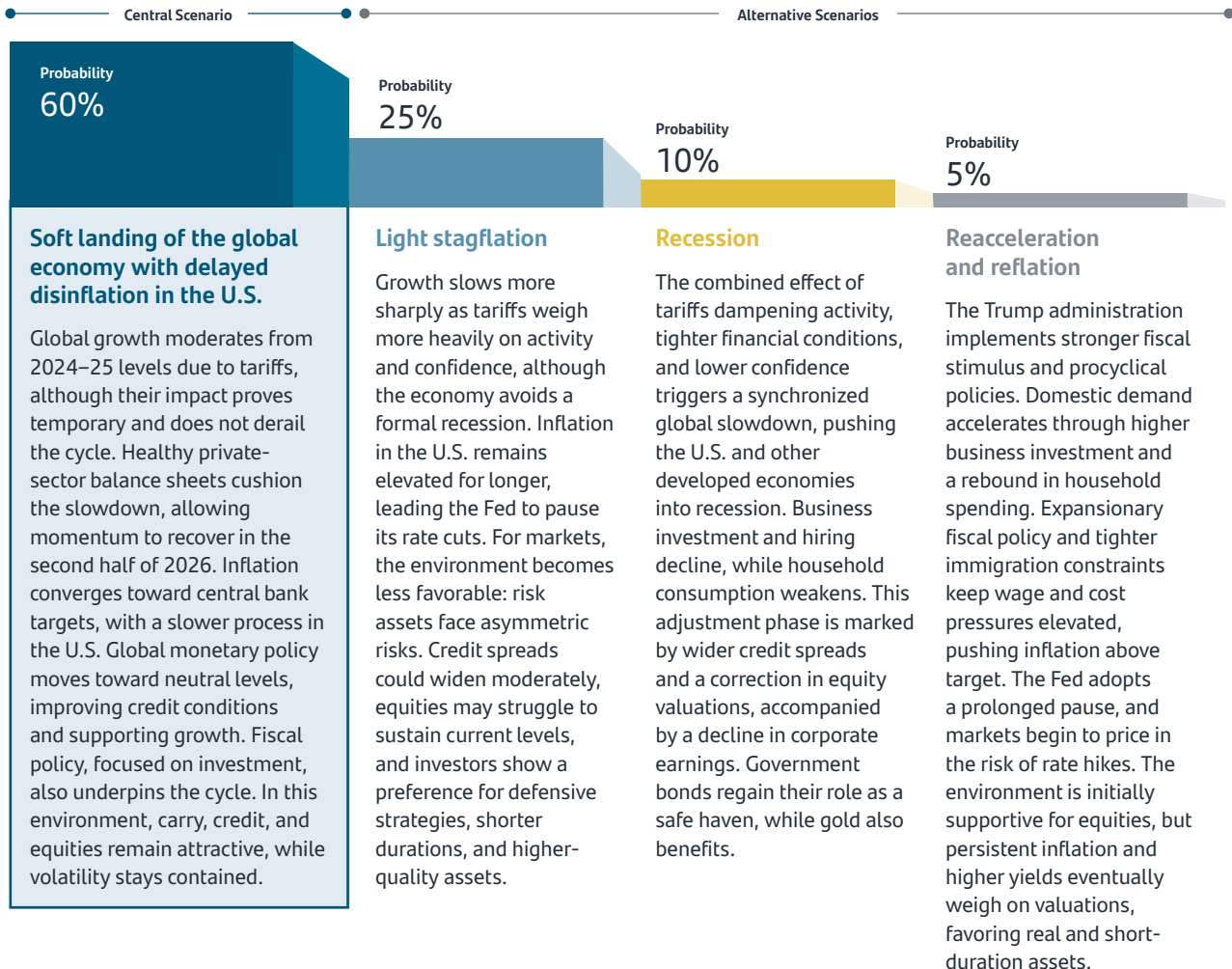
Global investment scenario



Delfina Pérez, CIIA
Head of Markets
Strategy SAM

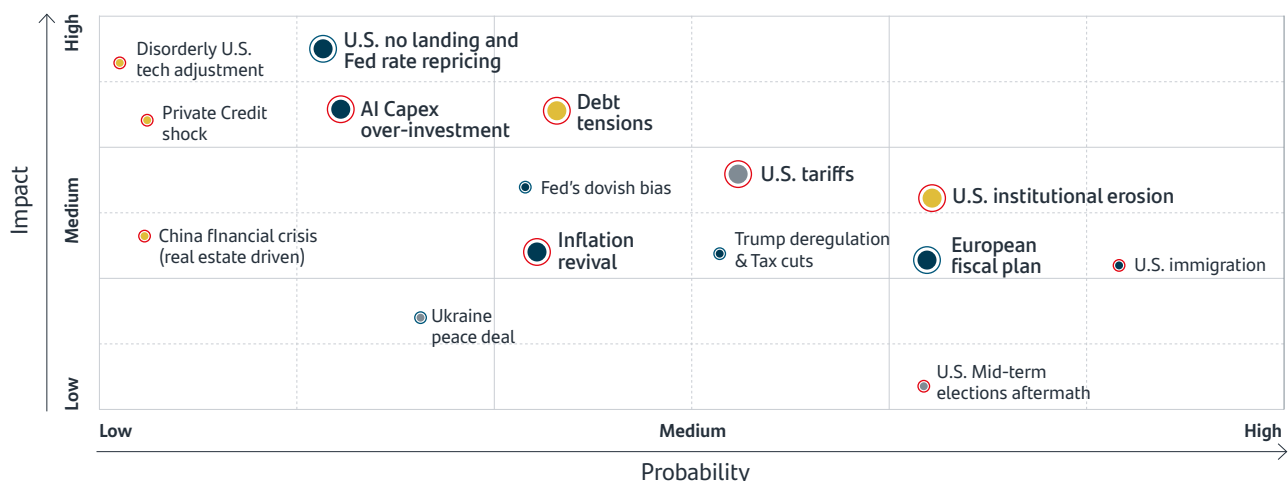


Luiz Felix, PhD
Global Head of Asset
Allocation SAM



Risk Map

- Negative geopolitical risk
- Negative financial risk
- Negative macroeconomic risk
- Material risk to the scenario
- Positive geopolitical risk
- Positive financial risk
- Positive macroeconomic risk
- Non-material risk to the scenario



Our central investment scenario —a soft landing for the global economy with a delayed disinflation process in the U.S.— outlines a global backdrop that, after the initial impact of tariffs, preserves its growth capacity and extends the expansionary phase of the cycle. Tariffs represent a temporary shock to growth, whose impact—milder than initially expected both for the U.S. and exporting economies— gives way to a soft landing of the world economy. This constructive outlook also assumes that growth momentum will gradually pick up in the second half of 2026.

The disinflation process continues to advance. Although in the U.S. price moderation has been slower than initially anticipated, the risk of a return to restrictive monetary policies has receded from market focus. Central banks have succeeded in their fight against inflation, and policy rates are approaching neutral levels. This enables a gradual improvement in financial and credit conditions, supporting credit expansion and the financing of investment projects. Monetary policy is thus ceasing to be a drag and instead is becoming an ally in extending the cycle.

Fiscal policy adds to this momentum. The packages approved in the U.S. (One Big Beautiful Bill Act) and in the European Union promote investment in strategic sectors—such as defense, infrastructure, digitalization, and AI—move in the same direction as monetary policy. Unlike previous stimulus programs that focused on addressing pandemic emergency and, in some cases, on boosting private consumption, this new fiscal wave has a more structural character. Moreover, many of these measures benefit small and mid-sized enterprises, improving their access to financing and investment capacity.

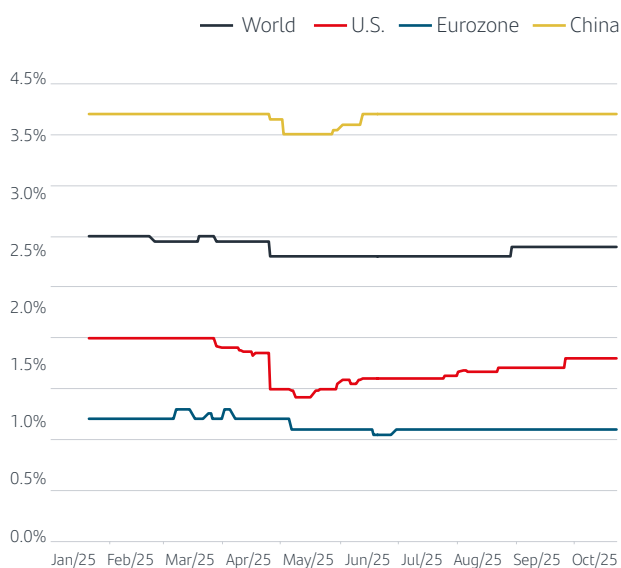
Investment support is essential to sustain job gains and prevent a labor market slowdown from spilling over into consumption and growth. In the U.S., the Fed is seeking to balance these risks by lowering rates to foster employment through more accommodative financial conditions. Overall, investment will benefit from the combined support of monetary and fiscal policies, which are acting in tandem to sustain the cycle.

The strength of private-sector balance sheets is another key pillar of our central scenario. Household savings and corporate profits do not show the imbalances that have historically marked the end of expansionary cycles. This financial soundness improves the effects of economic policies, reduces cyclical vulnerability, and strengthens the continuity of global expansion.

The growth and inflation backdrop supports risk assets

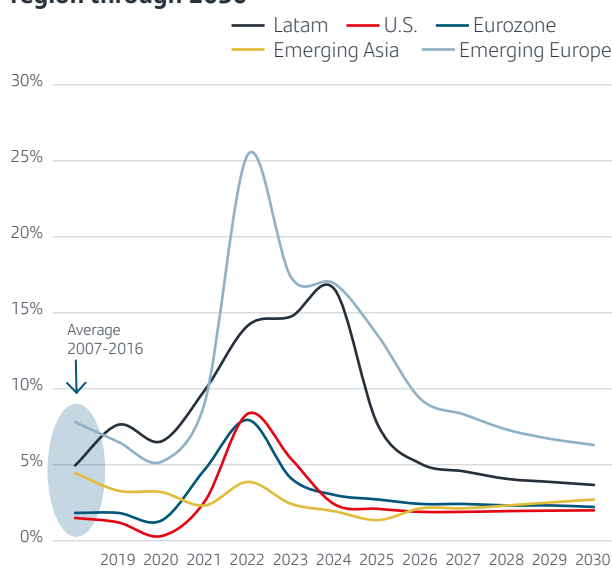
Economic policies and the strength of private-sector balance sheets are key pillars of our investment scenario

2026 GDP consensus forecast



Source: Bloomberg and Santander AM

Historical and projected year-on-year inflation by region through 2030



Source: FMI, World Economic Outlook October 25

The regulatory environment also contributes positively. The deregulation trend led by the U.S. is now being joined by Germany, where the shift toward a more flexible and business-friendly framework marks a structural change. This direction supports investment, productivity, and corporate dynamism.

The constructive outlook for equities is underpinned by a broader and more positive earnings picture: we expect the broadening that began in 2025 to consolidate in 2026, so that leadership is no longer concentrated solely in AI-related technology names in the U.S. or in sectors such as defense and financials in Europe, but extends to other industries and regions that also benefit from the momentum in economic growth. The policy mix -fiscal incentives, more favorable financial conditions, and deregulation- materially enhances companies' ability to translate growth into earnings by supporting productive investment, demand, and operating margins. Regarding valuations, in those markets in which they are near the upper end of historical ranges, we view it as reflecting both an expansionary phase of the cycle and the dominance of technology stocks; however, under our scenario of ongoing cycle expansion and sustained earnings growth, we do not see these valuation levels as an impediment for indices to reach new highs, with potential returns broadly aligned with earnings trends. This outlook is consistent with further gains across both developed and emerging markets, where we see particularly attractive opportunities in Latin America, given its higher leverage to the cycle, the rebound in investment, and appealing valuation in certain markets.

In fixed income, except for markets such as the U.K. or Brazil, yield curves already reflect expected monetary policies, and market rates should remain stable in both sovereign debt and credit. At the same time, solid corporate balance sheets, favorable financing conditions, and resilient investor demand continue to support the relative appeal of credit versus sovereigns. The tightening of spreads reflects confidence in issuers and in the macroeconomic backdrop, while current yield levels remain attractive in historical terms.

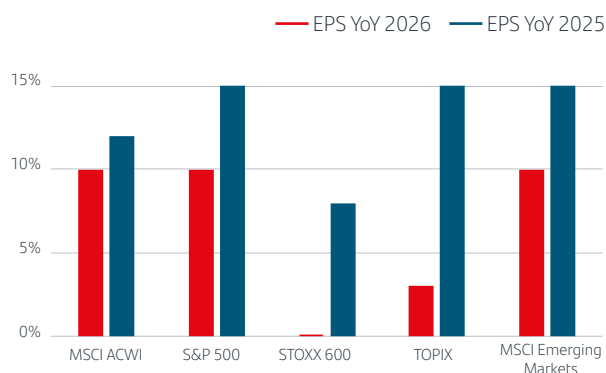
In currencies, no major moves are expected in the dollar, which will continue to act as an anchor of stability in a gradually adjusting global environment. In commodities, gold maintains its essential role, both on fundamental grounds and as a key portfolio diversifier.

Our investment scenario is not without risks, which we closely monitor. Among them, the possibility that tariffs turn out to be higher or more persistent than expected, potentially weighing on growth, confidence, and global trade. It is also necessary to remain alert to any factors that could trigger more durable inflationary pressures or an excessive tightening of financial conditions that might undermine investment and consumption. On the opposite end, a more aggressive fiscal stimulus or clearly procyclical policies could fuel a rebound in demand and reignite reflationary dynamics. Overall, the balance of risks remains broadly even, though with a margin of uncertainty that calls for active risk management.

Earnings growth is broadening across regions, sectors, and companies

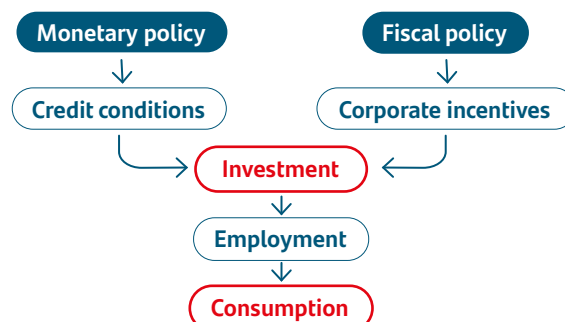
In global fixed income, value lies in the carry

Broadening earnings growth across regions



Source: Bloomberg and Santander AM

The policy mix supports the extension of the economic cycle



Global macro outlook



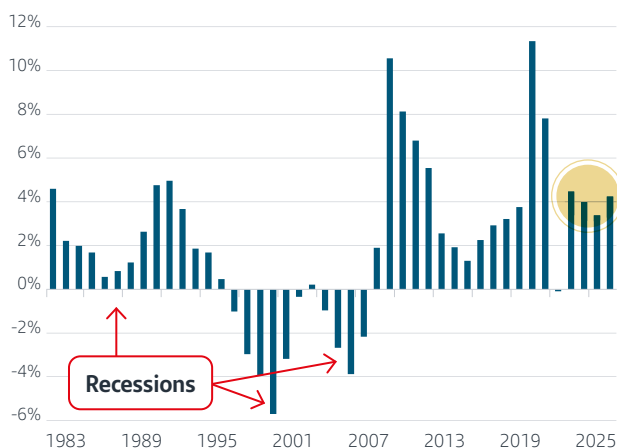
Agustín Carles, CFA
Head of Macroeconomics SAM



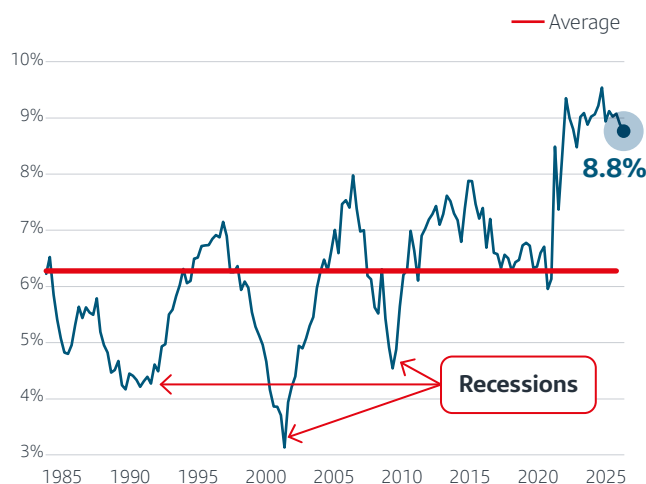
U.S.

We estimate GDP growth of 2% in 2025 and around 1.6% in 2026. Although the increase in tariffs in 2025 poses a downside risk to growth, we believe the expansionary cycle is not yet exhausted, as neither the financial position of households and companies nor credit conditions are at levels that, in the past, have led to a recession. On the contrary, households and companies are in a healthy financial situation in terms of financing capacity, and credit conditions are also consistent with GDP growth of around 1.5% to 2%.

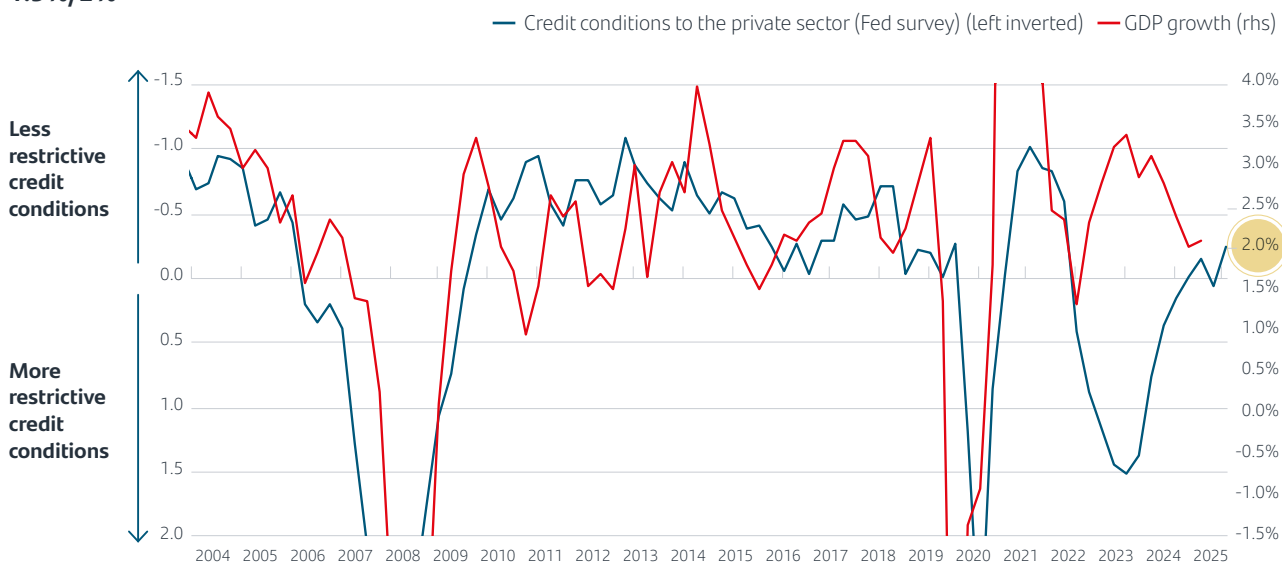
The lending capability of households and companies, as a percentage of GDP, reflects their healthy financial position



U.S. non-financial corporate profits before taxes on income as a percentage of GDP are very high



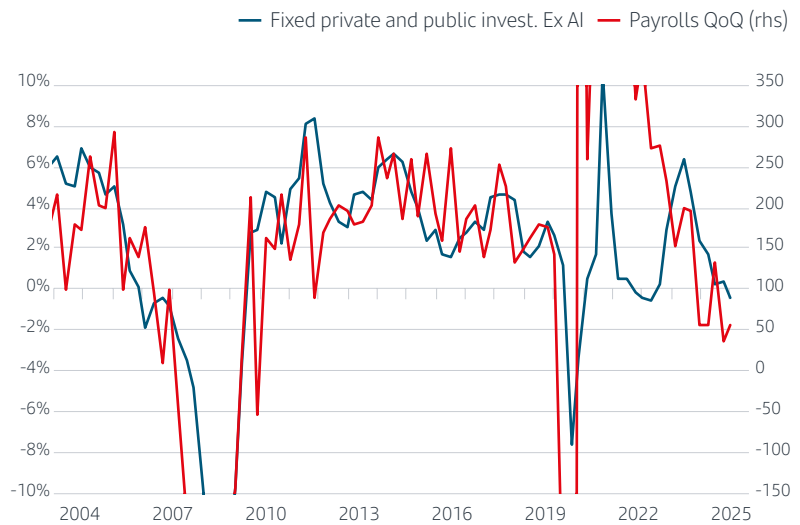
The current status of bank credit conditions to the private sector is consistent with GDP growth around 1.5%/2%



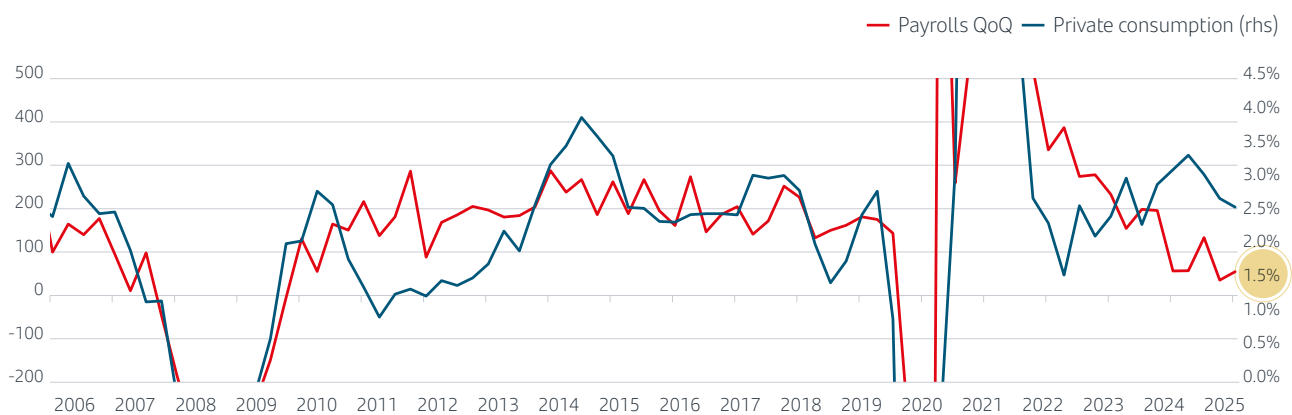
Source of all charts: Datastream and Santander AM

A key factor in 2026 will be the trajectory of investment. The recent trend in corporate earnings suggests that total fixed investment excluding AI will return to positive growth, paving the way for moderate job creation. We estimate employment to stabilize at around 50,000 jobs per month—enough to support private consumption growth of roughly 1.5%. The downside risk to growth stemming from higher tariffs has not disappeared, but the impact has so far been milder than expected, likely because the final increase has been clearly smaller than initially announced. This is due to the broad exemptions currently being applied, particularly to Mexico and Canada. Moreover, the agreement reached with China at the end of October will further reduce the tariff. Against this backdrop, we expect the final average tariff to settle around 14%.

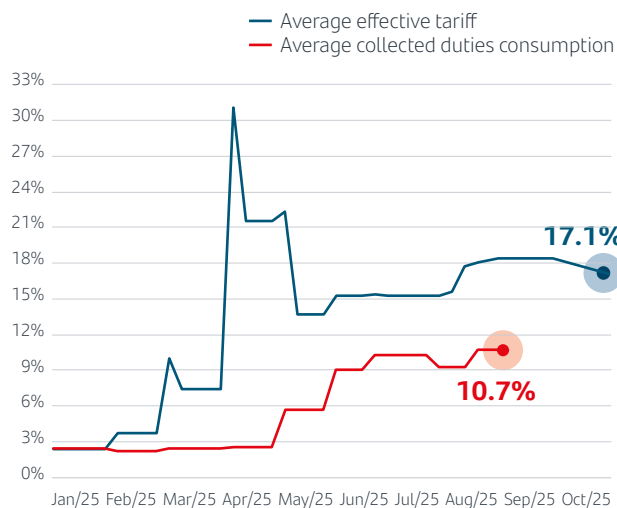
The current growth of ex AI investment is pointing to moderate employment growth but still clearly positive



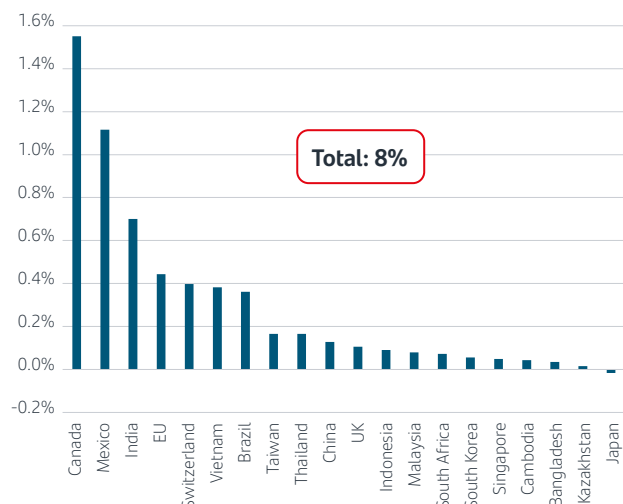
Current employment growth is consistent with a consumption pace below the recent one, but still reasonable



While the effective tariff was expected to exceed 18%, the collected rate has so far remained below 11%



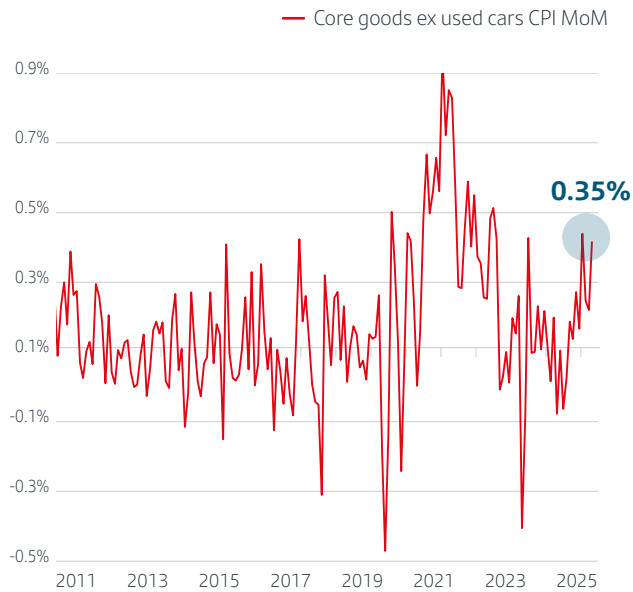
The 8% gap between announced and collected tariffs is explained by several countries, mainly Mexico and Canada



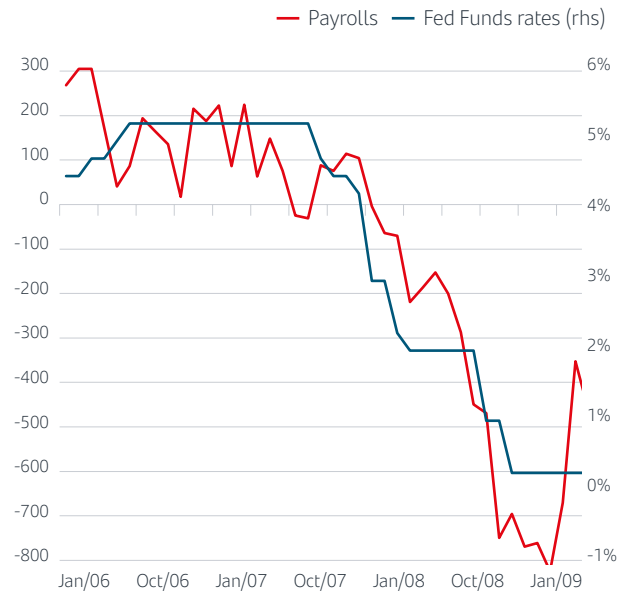
Source of all charts: Bloomberg, Datastream and Santander AM

The increase in tariffs has begun to have an impact on the prices of goods, although this has been less than initially expected. In any case, we believe this effect will be temporary, and that slower GDP growth will mean inflation will not be a problem for the Fed in 2026. In this regard, we anticipate that the Fed will end 2025 with interest rates at 3.5%/3.75%, and that in 2026 there will be another 25 bps cut, bringing rates down to 3.25%/3.5%. We do not rule out a further 25 bps reduction, but we do not foresee rates falling below 3%, as this would require a weaker growth scenario than we currently predict. Rather than being driven by recession risk, these rate cuts are justified by the need to normalize monetary policy, shifting it from the restrictive stance seen in mid-2025 to a more neutral tone.

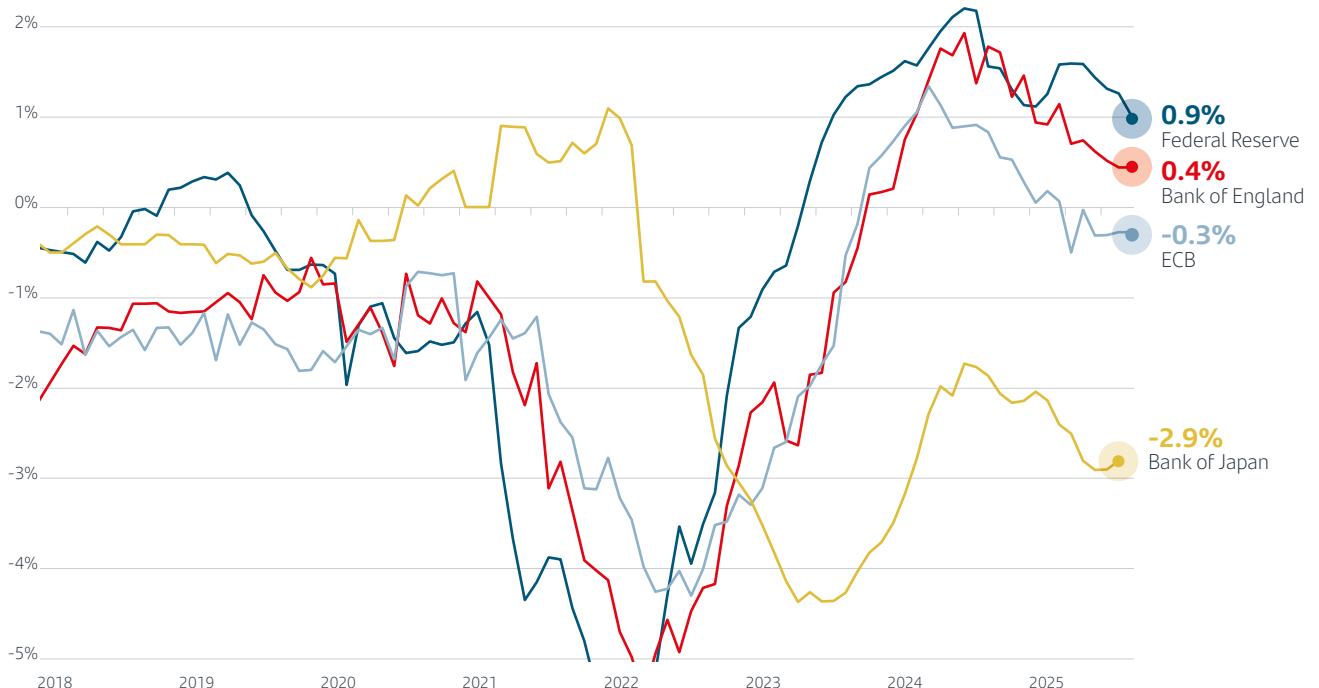
The tariff hike is raising goods inflation, but the impact is proving more moderate than initially expected



An scenario of strong Fed Funds rates would require a sharp contraction in employment, typical of a recession like 2009



In real terms, the Fed Funds rates (deflated by core CPI inflation) are now the highest among developed economies

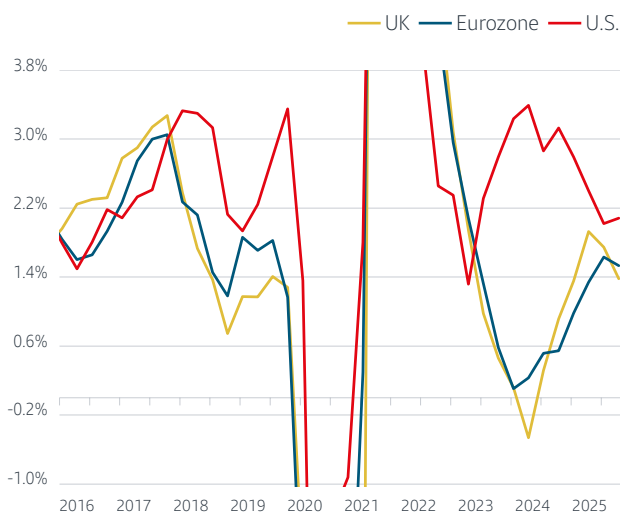


Source of all charts: Bloomberg and Santander AM

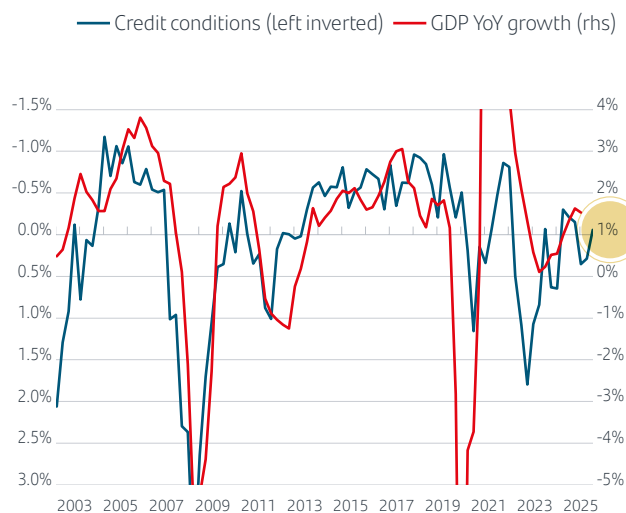
Eurozone

Both the Eurozone and the United Kingdom are at a more nascent stage of the cycle compared to the U.S. The energy shock of 2021–22, being much more intense in Europe, caused the cycles of the former two to decouple from that of the U.S. In the Eurozone, key fundamentals such as relatively relaxed credit conditions for households and businesses, the turning point in corporate profits after two years of sharp deceleration, and finally, the German fiscal stimulus, should offset the potential negative impact of tariffs, leading to a GDP growth that we estimate of around 1% in 2026.

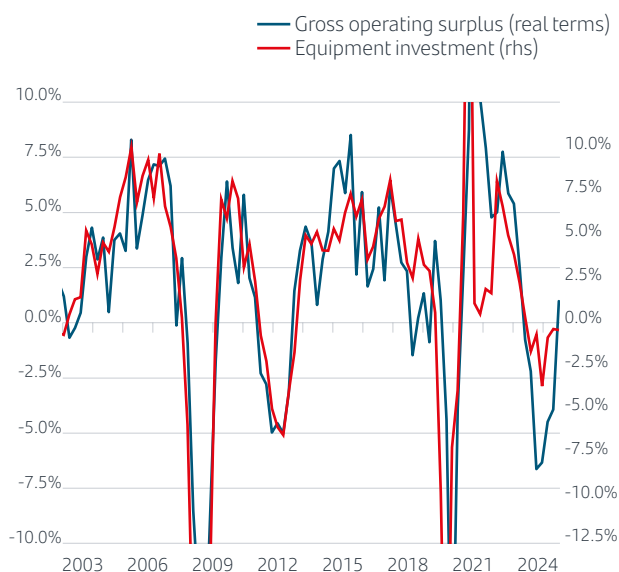
GDP growth in both UK and Eurozone decoupled from U.S. in 2022 and their phase of the cycle is an early recovery



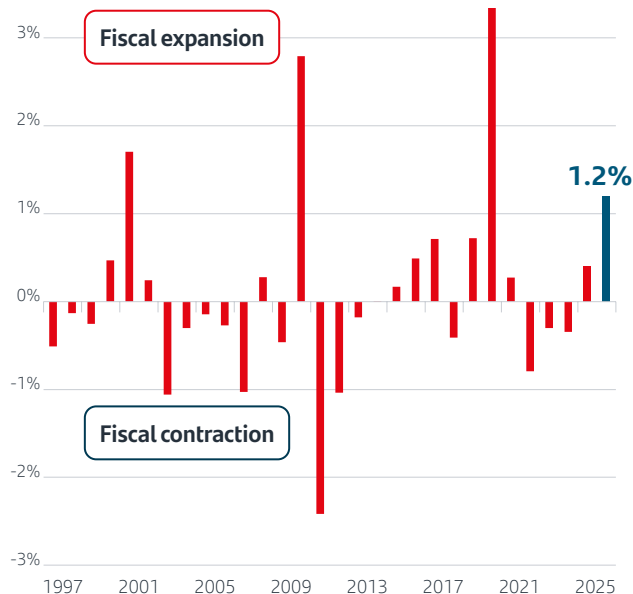
According to the ECB lending survey, credit conditions in Eurozone are giving support to GDP growth of around 1% YoY



After some years of strong slowdown, corporate profits are now pointing to an inflection point to equipment investment



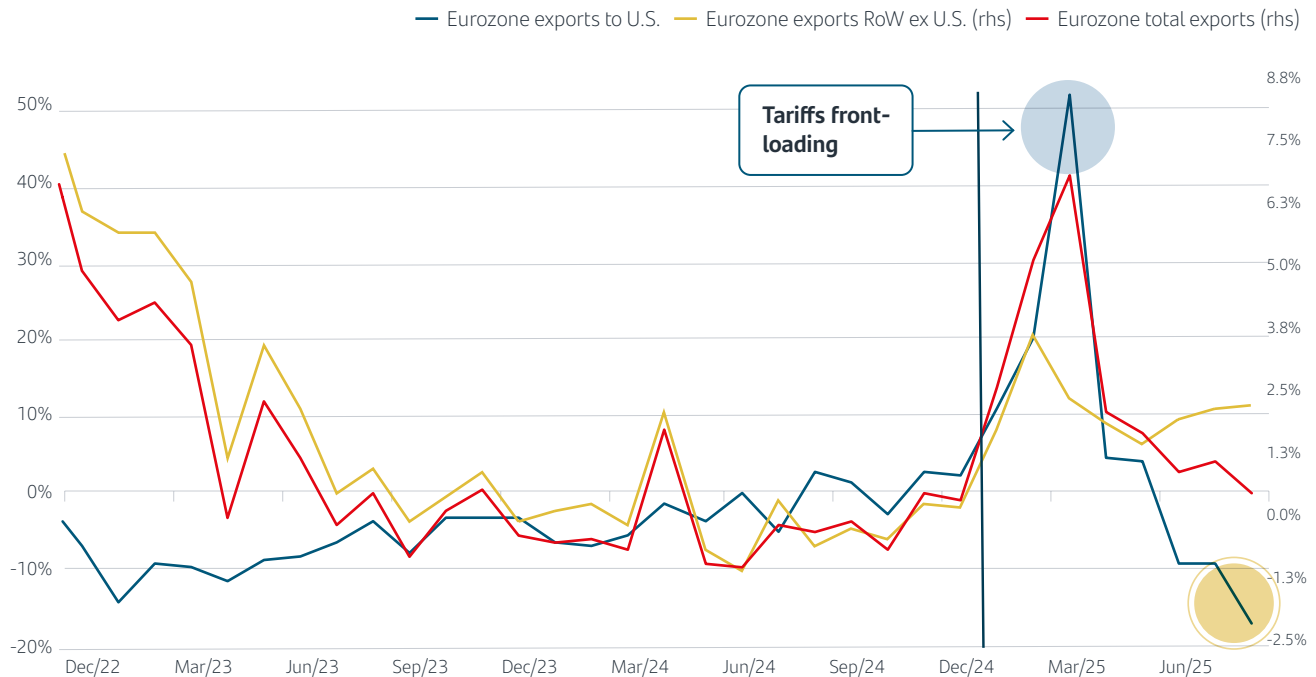
Germany's 2026 budget includes the largest fiscal stimulus in recent history outside a recession, equivalent to around 1.2% of GDP



Source of the remaining charts: Datastream and Santander AM

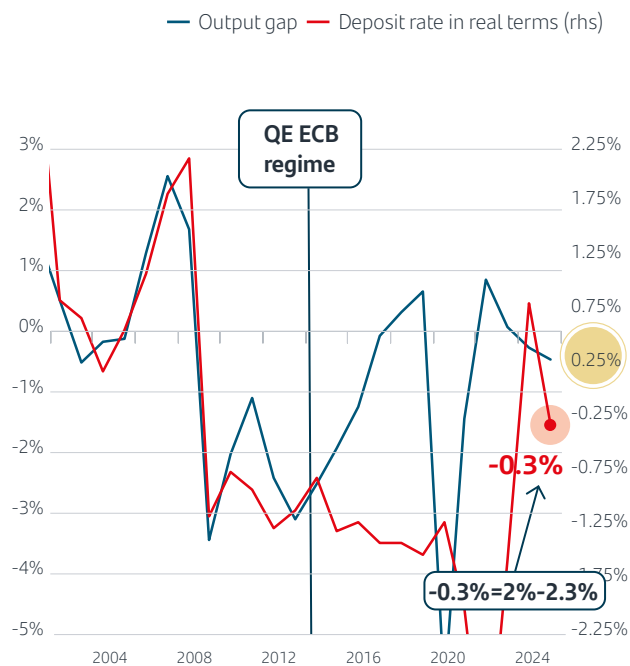
Source: German budget. Draft September 2025

Eurozone exports to U.S. soared right after the announcement of tariff rise, but has plunged since 2Q 25

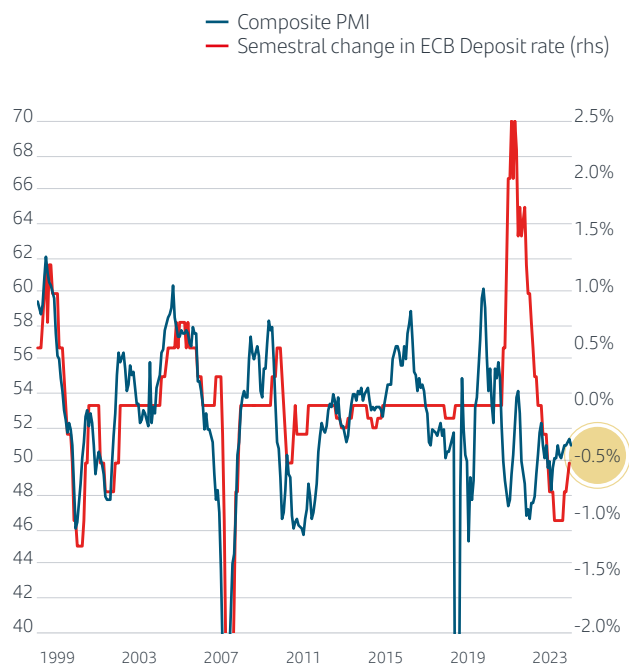


Unlike the Fed, the ECB has already significantly eased its monetary policy in 2025, bringing the Deposit rate down to 2%, a level close to what could be considered neutral; that is, a rate corresponding to the current scenario of growth and inflation, but which also takes into account that we are still under the regime of substantial monetary expansion that began in 2015. Nevertheless, we consider it likely that there will be a further rate cut to 1.75% in the first quarter of 2026 if business confidence does not recover somewhat from its current low level.

The ECB rate in real terms is now below what the output gap points to, suggesting that policy is no longer restrictive



If Eurozone composite PMI fails to recover in the coming months, the ECB could cut again in 1Q 26 with a further 25 bps



Source of all charts: Bloomberg, Datastream and Santander AM

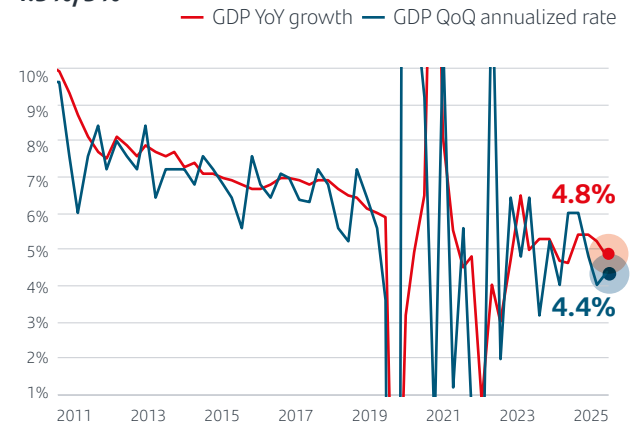
China

We estimate that China's economy will continue to show a tendency towards deceleration in 2026 (as it has done for the past 15 years), although this will remain gradual.

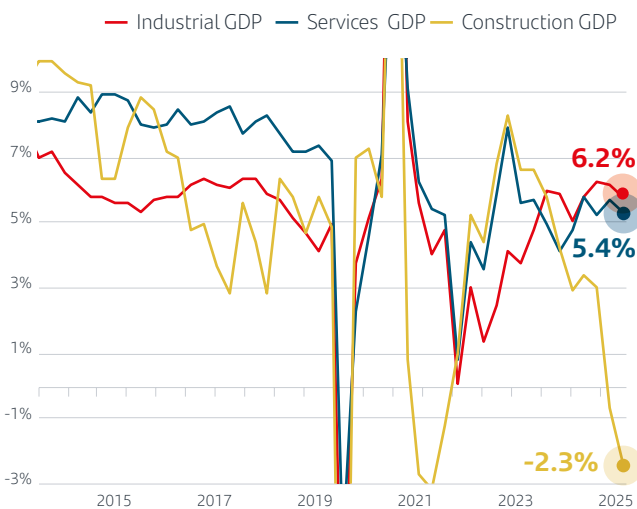
This moderation in growth is being led by a contraction in the construction sector (which has not yet corrected its supply imbalances), but it is being offset by the dynamism of the industrial and services sectors.

In any case, fiscal policy will continue to provide support to ensure that the slowdown in growth remains gradual. As a result, we forecast GDP growth of 4% in 2026 compared to 4.9% in 2025.

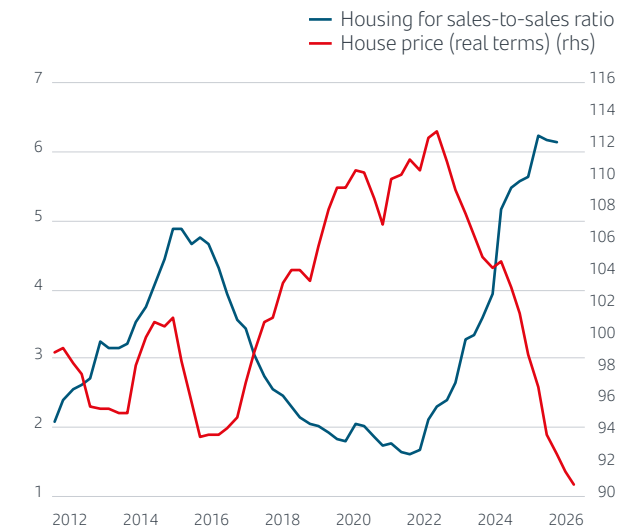
Chinese GDP continues to show a clear downtrend, but still quite gradual, with growth rates around 4.5%/5%



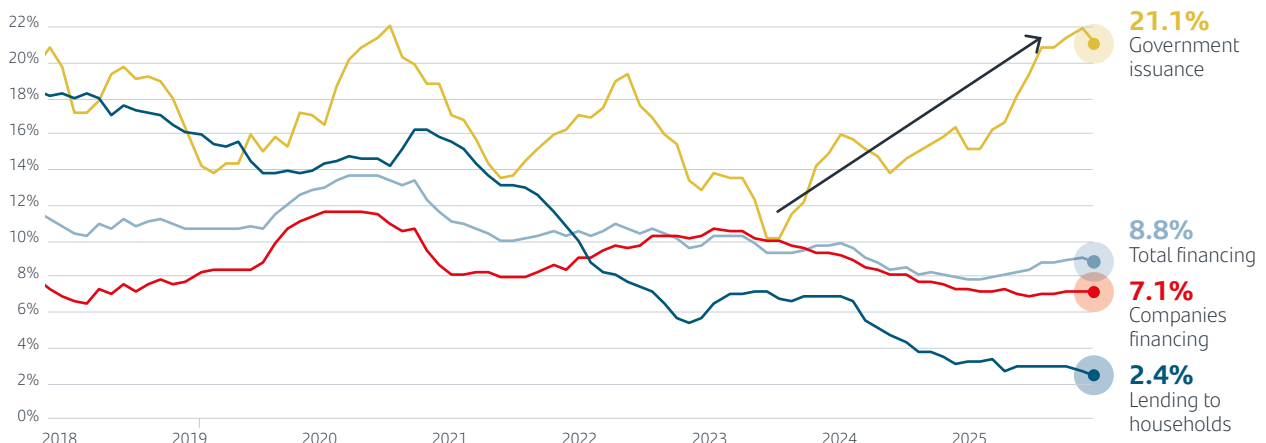
Both industrial and services GDP are growing at a solid pace, offsetting the recession in the construction sector



The sharp contraction of the construction sector is due to the excess of supply that the high stock-to-sales ratio shows



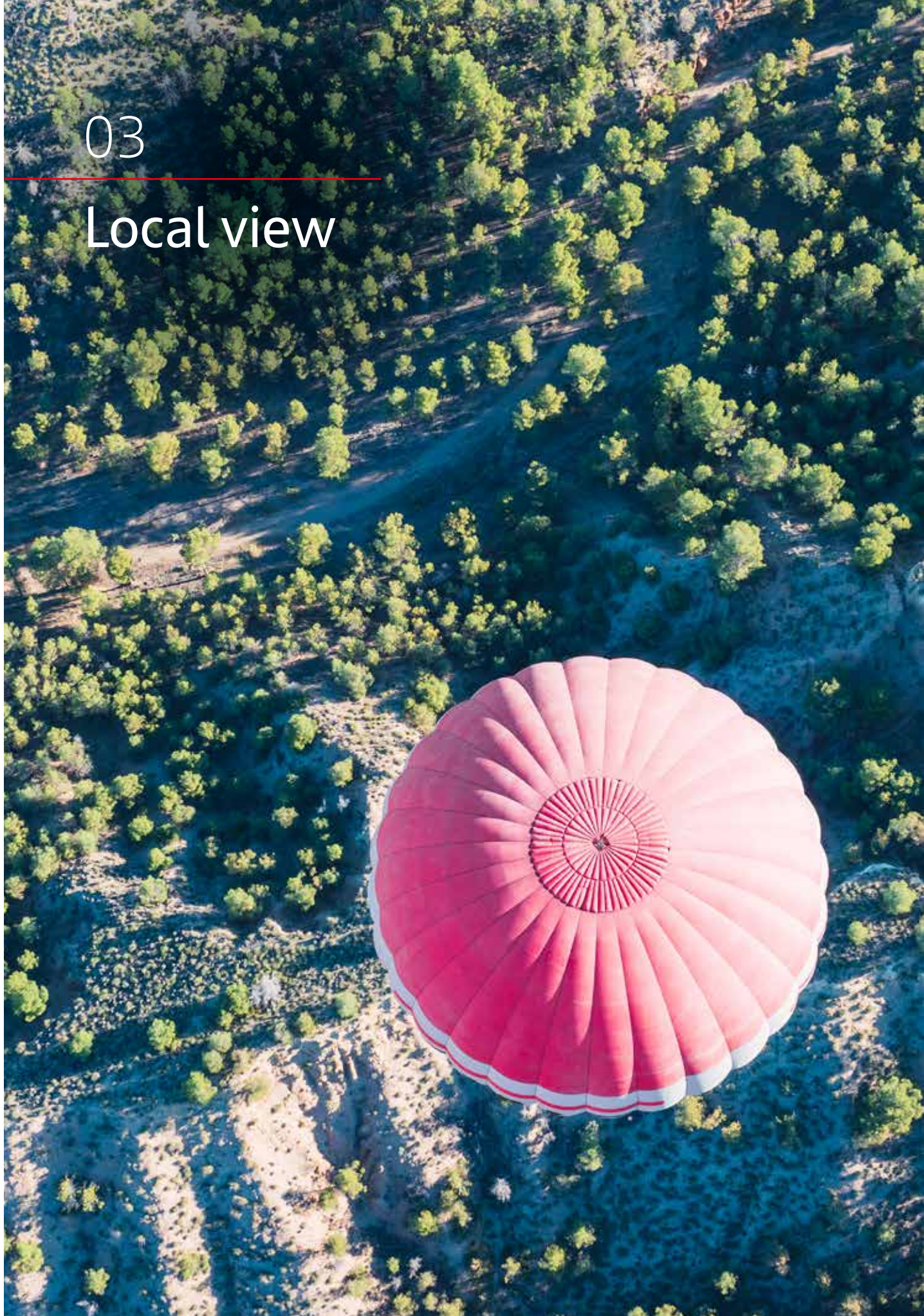
Despite the high public deficit, the fiscal policy continues to be a significant support to the economy



Source of all charts: Bloomberg, Datastream and Santander AM

03

Local view





U.S.

Equities

U.S. equities remain our top asset class for 2026. A combination of sustained earnings growth, pro-investment incentives, and a supportive policy mix underpins this constructive view. The current earnings cycle is broadening beyond technology, extending to a wider range of sectors and company sizes, creating a balance between resilience, diversification, and return potential.



Eurozone

Equities

Our constructive outlook for Eurozone equities in 2026 is underpinned by the ongoing economic recovery, contained inflation trending toward the ECB's target, and attractive valuations. In this supportive environment, we anticipate a significant rebound in corporate earnings, with growth approaching double-digit levels. We believe it remains essential to maintain a selective focus on high-quality companies with solid balance sheets and international exposure.



Poland

Equities - Small & Mid Caps

A selective approach in equities will be essential. We prefer small and mid-cap segments, which we believe better reflect the realities of domestic economic environment. Unlike large-cap companies in the WIG 20 index, smaller firms tend to be more agile and less affected by external pressures. This segment offers a more accurate lens into Poland's economic dynamics and presents attractive opportunities for discerning investors.



UK

Sovereigns

Yields remain high by historic standards, offering a genuine real premium over both U.S. Treasuries and Eurozone bonds. Cooling inflation, fiscal restraint, and an expected shift in gilt issuance all support further out performance.



Brazil

Local fixed income

The basic Selic rate is at very tight levels (15%) and the combination of moderate economic activity and declining inflation should allow the BCB to start an easing cycle early next year, with potential dovish surprises. The global scenario will also provide support to local fixed income, particularly with the expected cuts in U.S. rates.



Mexico

Equities

We consider that equities are well positioned to outperform in 2026. Mexico remains among the few markets trading below historic averages. We expect a positive outcome from the USMCA renegotiations and anticipate stronger investor demand from foreign investors with light positioning, after several years of outflows, and from local pension funds with a growing asset base. We expect economic and fiscal outlook improvement vs 2025.



Chile

Equities

With expected earnings growth above 5% and a dividend yield close to 4.5%, local equities could deliver returns near 10%. This potential is reinforced by the consolidation of valuation multiples, which have converged toward historical averages, and by a political environment leaning toward growth and investment — factors that could further support equity market performance.



Argentina

Equities

Argentine equities enter 2026 with attractive valuations and improving fundamentals. Fiscal continuity and progress on structural reforms could reignite growth and credit expansion. In addition, the ability to attract inflows in a more predictable environment provides further support. Banks, utilities, and energy are positioned to lead in a cycle of normalization and recovery.



U.S.

Climbing higher, broadening further



Francisco Simón, CFA
Head of Investment Strategy SAM

The investment outlook for the U.S. in 2026 remains constructive. Growth continues to show resilience despite the drag from tariffs, whose negative effect on activity is temporary. The Fed has started a rate-cutting cycle as employment softens, and monetary policy moves toward neutrality. Fiscal incentives, focus on productive investment and corporate profitability, and selective deregulation support corporate investment, creating a favorable backdrop for risk assets.

Equities

Corporate earnings remain the key driver of U.S. equity markets in 2026, with estimates strengthening and broadening beyond the mega-cap technology names. Earnings for the S&P 500 are expected to grow around 15% over the next twelve months, the equally weighted version should rise about 12% and U.S. small caps could accelerate to 22%, confirming a healthier distribution of profits across sectors and sizes.

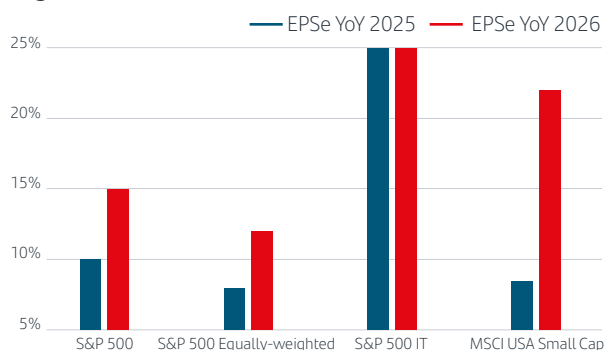
The technology and AI ecosystem remains the main engine of earnings growth, with the IT sector projected to deliver around 25%. However, the earnings growth is now broader: cyclical and capex-intensive sectors are catching up, supported by the rebound in investment and the normalization of monetary policy. This rotation signals a more balanced and sustainable phase of expansion rather than a change in leadership.

Valuations remain elevated overall but consistent with double-digit earnings growth and solid fundamentals. Within technology, multiples already sit near record highs—around the 98–99th percentile of the last fifteen years—leaving limited scope for further re-rating. In contrast, the broader market, and particularly U.S. small caps, trade closer to long-term averages, offering room for multiple expansion as earnings momentum broadens. We do not see signs of an AI bubble, but we continue to monitor potential imbalances or unsustainable price trajectories that deviate from fundamentals.

Strategically, we maintain a cyclical and quality bias, staying positive on technology and the broader AI value chain, financials benefiting from credit growth, lighter regulation, and still-low NPLs, and on industrials and capital goods tied to the investment cycle. Small-cap companies also stand out for their more attractive valuations and faster earnings recovery, offering additional upside and diversification in portfolios under our scenario.

Earnings growth is broadening beyond mega-cap technology, supporting a more sustainable expansion phase and favouring cyclical and quality segments

Broadening earnings growth across U.S. market segments



Valuations tight in tech, room to expand in small caps

	12 month forward PE	PE ratio Percentile	
		1Y	15Y
S&P 500	22.4x	0.82	0.98
S&P 500 Equally-weighted	17.5x	0.43	0.76
S&P 500 IT	29.8x	0.80	0.98
MSCI USA Small Cap	19.8x	0.66	0.53

Source of all charts: Bloomberg and Santander AM

Fixed income

Money market and Sovereigns

Fixed income remains appealing for income generation in 2026, but returns are expected to come primarily from carry rather than capital gains. With monetary policy moving toward neutrality, yields should stabilize rather than fall sharply, and a major repricing in sovereign bonds appears unlikely outside a recession scenario. In this environment, investors should favor an income-oriented strategy built on coupon accumulation, moderate duration, and limited credit exposure, balancing positions between high-quality corporate bonds and medium-term Treasuries. In rates, we expect the curve to steepen gradually, with short-term rates falling faster than long-term yields.

Inflation-linked bonds

We see value in inflation-linked bonds as a source of diversification and protection against a potential rise in structural inflation. Although not our base case, a more dovish Fed or fiscal dominance could lift inflation over time, supporting a slight preference for linkers over nominals.

Credit

In credit, spreads remain near historical lows, limiting the potential for further compression. However, all-in yields in both investment-grade and high-yield remain attractive, supported by solid fundamentals and low default rates. We expect spreads to trade in a narrow range unless the macro backdrop deteriorates—a low-probability outcome under our assumptions. Overall, carry remains the dominant theme for fixed income in 2026, favoring diversified exposure, active selection, and disciplined risk management over directional duration or spread bets.

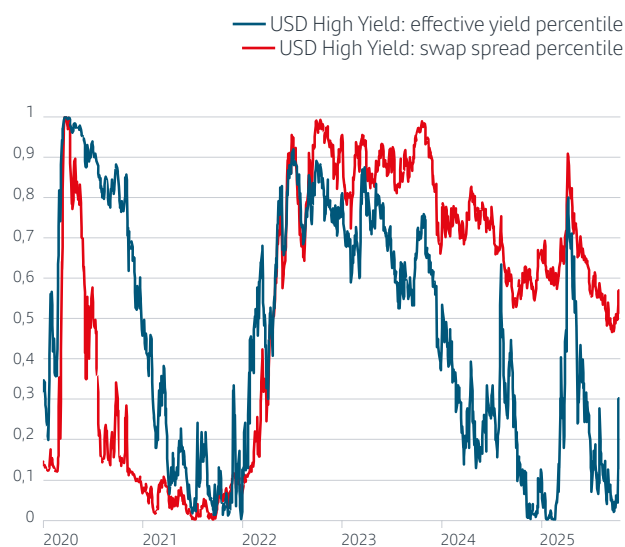
With monetary policy near neutrality, carry and active credit management remain the key drivers of fixed income returns in 2026

Currency (Dollar index)

The USD is expected to remain broadly stable in 2026. Fed easing and the move toward neutral policy reduce the carry premium that supported the currency, but resilient growth and higher structural yields should offset depreciation pressures. The Dollar index will likely stay range-bound, with modest downside as global policy rates converge. The main risk stems from a more tolerant Fed toward inflation, which could erode confidence in the policy mix and lead to gradual dollar weakness.

Constructive environment for U.S. risk assets, supported by moderate growth, gradual disinflation, and a broadly stable USD

Credit yields remain attractive despite tight spreads



The USD expected to remain range-bound in 2026



Source of all charts: Bloomberg and Santander AM



A constructive case for European equities in 2026



Jacobo Ortega, CEFA
Chief Investment Officer SAM Europe

Equities

Eurozone

Looking ahead to 2026, Eurozone equities enter the year with a positive bias that we believe has room to extend, supported by a gradual recovery in economic activity and inflation expectations consistent with the ECB's target. Relative valuations remain a key supporting factor: compared with U.S. markets, European equities continue to trade at a notable discount, reinforcing their appeal for diversification-driven inflows. In addition, corporate earnings in the region are expected to post a significant rebound in 2026, increasing close to double digits. Cyclical sectors, which lagged in 2025, could perform better if investment and demand gain traction. Both fiscal and monetary policies in the Eurozone should act as stabilizing forces. Higher public investment could cushion potential volatility in external demand. Combined with contained inflation, this environment would allow the ECB to maintain a neutral policy stance in the coming quarters. Key risks include trade uncertainty, geopolitical tensions, and potential euro appreciation against the dollar or other currencies, which could continue to weigh on the region's competitiveness. Our positioning favors a selective, quality-driven approach, focusing on companies with solid cash generation, strong balance sheets, and diversified international exposure.

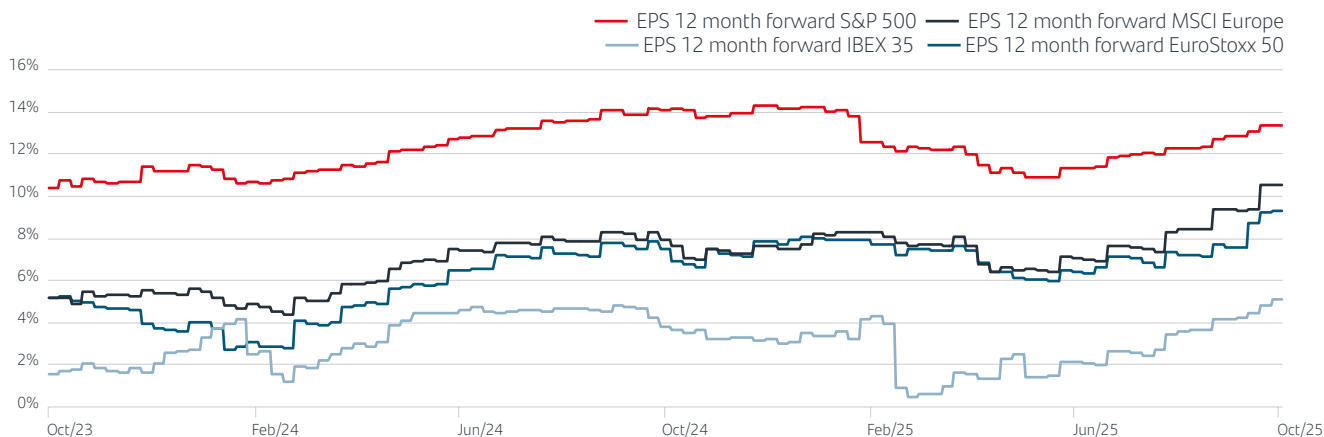
We hold a positive view on Eurozone equities for 2026, supported by economic recovery, contained inflation, and attractive valuations. Maintaining a selective focus on quality companies with strong cash generation and international exposure remains key

Germany

German equities approach 2026 with meaningful recovery potential after several quarters of industrial weakness and competitiveness loss. Traditionally the Eurozone's growth engine, Germany is undergoing a structural realignment aimed at laying the foundation for a more balanced and less trade-dependent cycle. Recent indicators suggest that the contraction phase is likely to have bottomed out, with GDP growth expected to accelerate in 2026, supported by private consumption and stronger fiscal stimulus linked to defense and infrastructure spending.

Germany enters 2026 with recovery potential following recent industrial weakness. Attractive valuations and fiscal stimulus further enhance its appeal. We maintain a preference for high-quality, mid-cap companies

Earnings growth rebounds strongly



Source: Bloomberg, Datastream and Santander AM



In relative terms, the German market continues to trade at attractive multiples compared with other developed regions, reinforcing its capacity to attract value-oriented investors. However, some risks persist, such as exposure to global trade, tensions with China, and weakness in the real estate sector. Overall, Germany offers an appealing prospect based on corporate quality and gradual recovery potential. We maintain a preference for high-quality mid-cap companies.



Spain

Spain stands out as one of the Eurozone's most consistent growth stories for 2026, with solid macro fundamentals supporting a constructive view on its equity market despite the strong gains of recent years. The main driver remains resilient domestic growth, supported by a firm labor market, robust consumption, and increasing investment. Spanish equities trade at attractive multiples, while recent credit rating upgrades enhance resilience and international appeal. We see value in sectors such as tourism, services, renewables, construction, and financials. Risks include the sensitivity of tourism, potential reversal of fiscal stimulus, and global uncertainty. Overall, Spain retains a competitive and attractive opportunity, with the potential for sustainable revaluation and relatively lower risk within Europe.

Spain is set to stand out in 2026 for its solid growth, strong consumption, and rising investment. Attractive valuations and credit upgrades remain tailwinds. Key sectors: tourism, renewables, and banking. We continue to see relatively lower risk

Fixed income

Money market

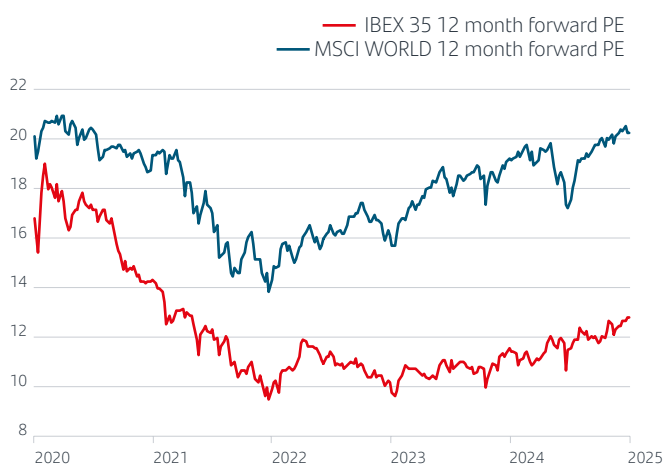
Barring a negative surprise in Eurozone growth in 2026, the policy rate appears to have reached its neutral level, which we expect to be maintained. In this stable environment, we foresee money market rates remaining around current levels, providing predictability and stability for short-term euro funds.

Sovereigns

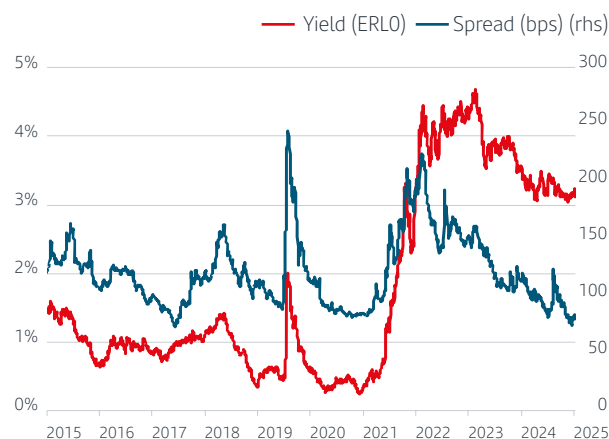
The ECB is expected to keep the Deposit rate around 2%, favoring a neutral duration stance in European government bonds. Risk premia in non-core countries have remained notably stable, suggesting limited room for further spread compression. In Germany, high issuance volumes will continue to exert some pressure, while in France, political uncertainty and weaker fundamentals could keep spreads elevated, with the risk of additional widening. We remain positive on issuers with solid fundamentals and fiscal discipline, such as Spain. The recent rate cuts have come with a steepening of yield curves, leading us to see value in intermediate maturities —particularly between five and ten years— while maintaining

Stable rates around 2% support a neutral duration stance. We see value in the 5–10 year segment and remain cautious on longer maturities due to technical factors. We are positive on issuers with solid fundamentals such as Spain; more cautious on Germany and France

Attractive PE ratio in the Spanish equity market



Credit spreads remain tight, supported by strong demand



Source of all charts: Bloomberg, Datastream and Santander AM



caution on longer tenors.

Inflation-linked bonds

In the Eurozone, inflation appears well anchored around the ECB's target and is not currently a source of concern. Real yields remain historically high, and inflation-linked bonds provide protection against a potential inflation rebound while preserving the benefit of capital gains from rate declines.

Credit

We maintain a positive outlook for the European investment grade credit market heading into 2026. Although spreads are currently around 81 bps —near the 2017 lows (73 bps)—yields remain attractive, with an average return of 3.1%, clearly above the 10 years and 20 years averages (1.8% and 2.7%, respectively), and still offering an additional premium over deposit rates. The asset class continues to enjoy strong demand, particularly from retail investors, and we do not anticipate major shifts in the short to medium term, given ECB's pause, gradual rate cuts by the Fed, and fiscal stimulus programs in countries such as Germany. Lower uncertainty surrounding tariffs and global growth also supports this favorable backdrop. Default expectations for the next 12 months remain contained, ranging between 2.6% in the base case and 4.5% under a moderately adverse scenario.

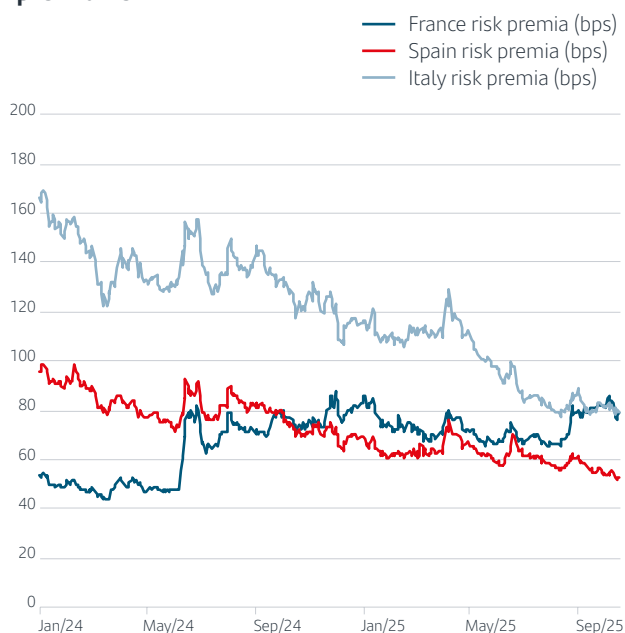
Currency

We expect the EUR/USD exchange rate to remain within a 1.12-1.20 range in 2026, reflecting a mixed environment for the European currency. While the euro could benefit marginally from a somewhat weaker dollar amid a more accommodative Fed and lingering institutional uncertainty in the U.S., the Eurozone's structural fundamentals remain mixed. Moderate growth, fiscal constraints, and limited political visibility in some countries will continue to cap the euro's relative appeal, while rate and growth differentials still favor the dollar. Overall, we anticipate a stable performance of the pair within a context of greater monetary stability.

Positive outlook for European investment grade credit in 2026: attractive yields (>3%), strong demand, and monetary stability. Spreads are near their lows but still have some room to tighten given solid corporate balance sheets. Default risk remains low

We expect EUR/USD to stay within the 1.12–1.20 range in 2026. The euro's support from fundamentals is limited, while the dollar remains favored by rate and growth differentials. Monetary stability should help prevent sharp moves

The French budget and German spending set risk premiums



We expect a stable range between \$1.12/€ and \$1.20/€



Source of all charts: Bloomberg, Datastream and Santander AM



Poland

On track for another solid year



Szymon Borawski-Reks, CFA
Chief Investment Officer Santander TFI

2025 proved to be a good year for Polish assets. Returns in both equities and fixed income are solid. Provided that international markets remain stable, we expect positive trends to continue also in 2026. However, most probably, they will not be as strong or straightforward as they have been until now.

In equities we focus our attention on small and mid-caps which are less prone to issues such as regulatory pressures than blue chips. In fixed income we still see potential in most of the segments of the local market thanks to limited inflationary pressure and further rate cuts.

Equities

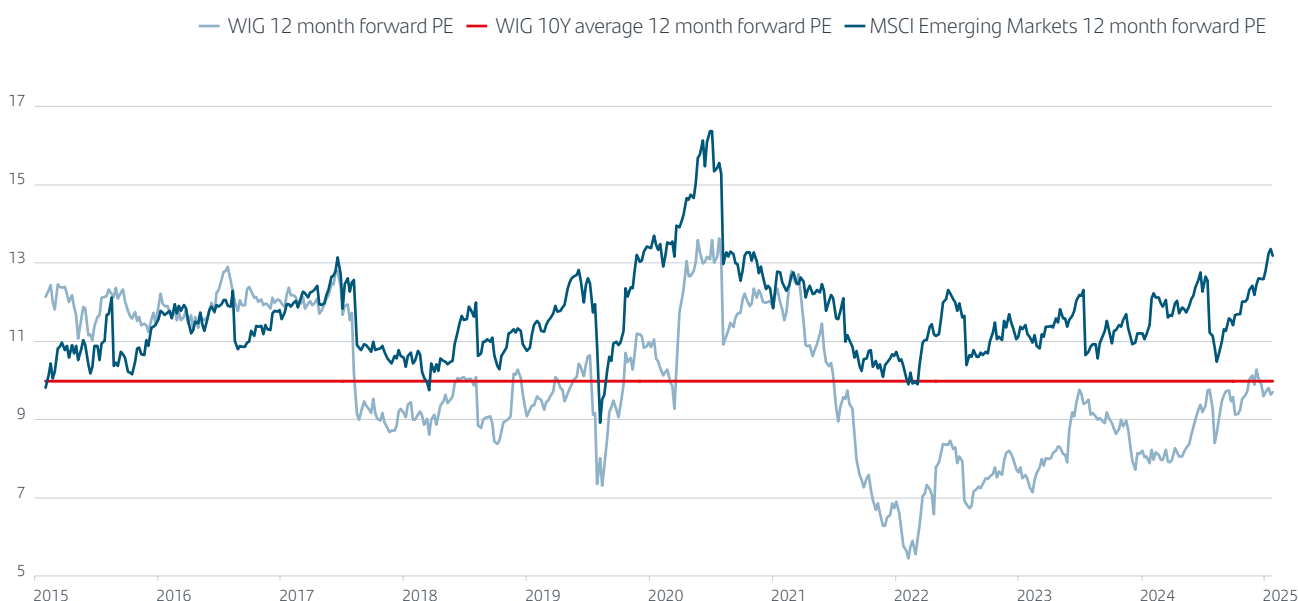
We remain constructive on Polish equities heading into 2026, supported by several favorable macro and market-specific factors. Valuations remain compelling on a historical basis, with the WIG index trading slightly below its long-term average PE ratio. The WIG index valuation multiples also remain at a discount compared to broader emerging markets. The loose fiscal policy across the Eurozone, particularly the historic shift in Germany, should support regional economic growth, creating a more favorable backdrop for Polish companies. In addition, Poland is entering an accelerated phase of disbursement of EU Recovery Fund resources, which is expected to further boost economic momentum and therefore companies' earnings.

The easy gains of 2025 are unlikely to be repeated, though. A selective and quality-focused approach will be essential. We will direct our attention towards small and mid-cap segments, which we believe better reflect the realities of the domestic economic environment. Unlike large-cap companies in the WIG 20 index, smaller firms tend to be more agile and less affected by external pressures. This segment offers a more accurate lens into Poland's economic dynamics and presents attractive opportunities for discerning investors.

We expect positive trends to continue into 2026 in both equities and fixed income

Valuations remain attractive with the WIG index still trading at a discount to emerging markets. We prefer small and mid-cap segment, which better reflects the domestic economic environment

Valuation of Polish equities remains attractive



Source: Bloomberg and Santander AM

Fixed income

Money market

Despite 125 bps of rate cuts delivered so far in 2025, Polish money market still offers value. Constant over liquidity in Polish banks results in very low deposit rates for households. This structural mismatch combined with low volatility attracts most of the inflows to mutual funds in Poland. On the run floating rate bonds with higher than recent average discount margin additionally sweetens this pick.

Sovereigns

We see continuation of rate cuts in 2026 due to limited inflationary pressure. The terminal rate is still vague but higher sensitivity to the outcome is at the short-end of the bond curve. Meanwhile fiscal risk aversion enabled a limited decline in long-term bond yields (appreciation of its price). The current steepness of the curve prompts us to exploit the wide difference between long and short bonds. The contained size of planned net issuance in 2026 and balanced approach of National Bank of Poland to rate cuts should limit the scope of further yield increases. Even though fiscal consolidation is far from present we perceive current risk premiums as adequately remunerating.

We see rate cuts to continue in 2026 due to limited inflationary pressure

Inflation-linked bonds

Inflation linkers remain a niche in Poland as they constitute not more than 2.5% of the outstanding Polish government bonds. Their poor liquidity creates however an opportunity through cheaper valuations. After several rate cuts they still offer over 3% real yield. Moreover, while the inflation outlook is indeed improving, the current pricing of CPI in this instrument is lower than the target set by the NBP.

Local credit

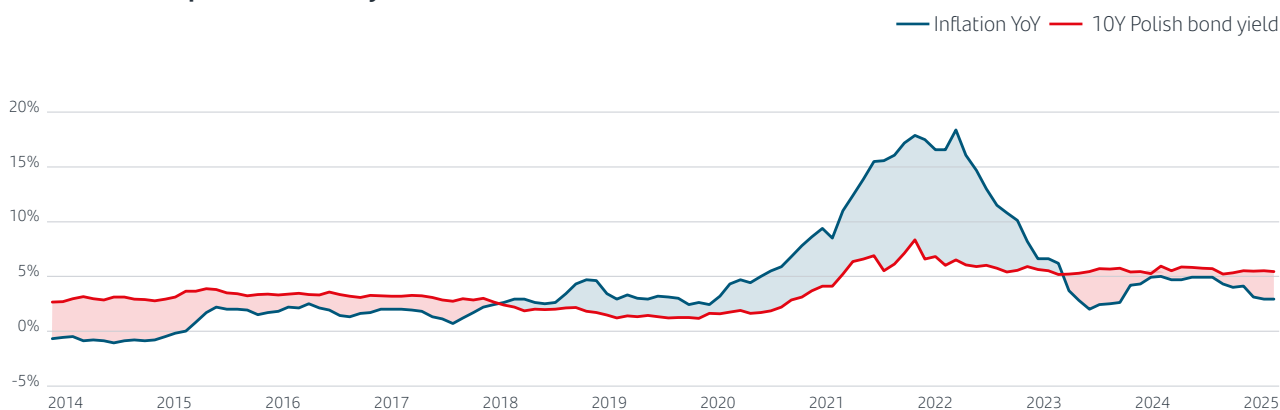
We expect further growth in the size of the local credit market. Banks will remain the largest issuers, but we see a growing number of issues from other large entities from various sectors that have not been present on the Polish market in previous years. We anticipate continued strong inflows into local corporate bond funds and money market funds, which should help stabilize credit spreads at low levels.

Credit spreads should stabilize at low levels thanks to strong inflows into local corporate bond and money market funds

Currency

In recent months the zloty exchange rate has been very stable, hovering within a narrow range of 4.23-4.29 against the euro despite interest rate cuts, current account balance deterioration, loose fiscal policy and negative revisions of Poland's credit outlook by rating agencies. In 2026, the high budget deficit and falling real interest rates will remain a risk for the zloty, but these negative factors should be offset by relatively strong economic growth and the inflow of EU funds. Therefore, unless the geopolitical situation deteriorates significantly, we expect the zloty to remain stable.

Lower inflation points to lower yields



Source: Bloomberg and Santander AM



UK

Reasons to be cheerful



James Ind, CFA

Chief Investment Officer SAM UK

This time last year, we suggested the relative cheapness of UK assets could pave the way for positive surprises in 2025 - and so it proved. Despite sticky inflation, fiscal pressures, and certain political tension, UK equities are on track to deliver their strongest returns in three decades. There are good reasons to believe this dissonance can continue through 2026.

The local mood has been decidedly pessimistic this year. With record tax hikes, stuttering growth, and inflation stuck in a 3.5-4% range, there was plenty to complain about. The deterioration in public finances has fed intense angst about a further round of tax increases.

The relative picture, however, is less negative. After 0.9% GDP gains in the first half, the UK is now projected to deliver the strongest growth in the G7 after U.S. The level of national debt is no worse than most major advanced economies, the primary deficit is on track to turn to surplus, and the UK was treated leniently in the application of U.S. trade tariffs.

The government will have three objectives: to maintain fiscal discipline, improve growth, and temper inflation. It may prove too difficult to successfully achieve all three, but we can expect government policies specifically targeted at soothing the Gilt market, even if they come at the expense of short-term political pain.

There is room for gains as investors start to consider fiscal sustainability a non-issue, and that inflation may have peaked, releasing the Bank of England to cut rates.

Another long running UK theme is the under-ownership of UK equities by local investors, both pension funds and individuals. We can expect measures that specifically target this issue, in particular by tax incentivising savers to invest into UK markets.

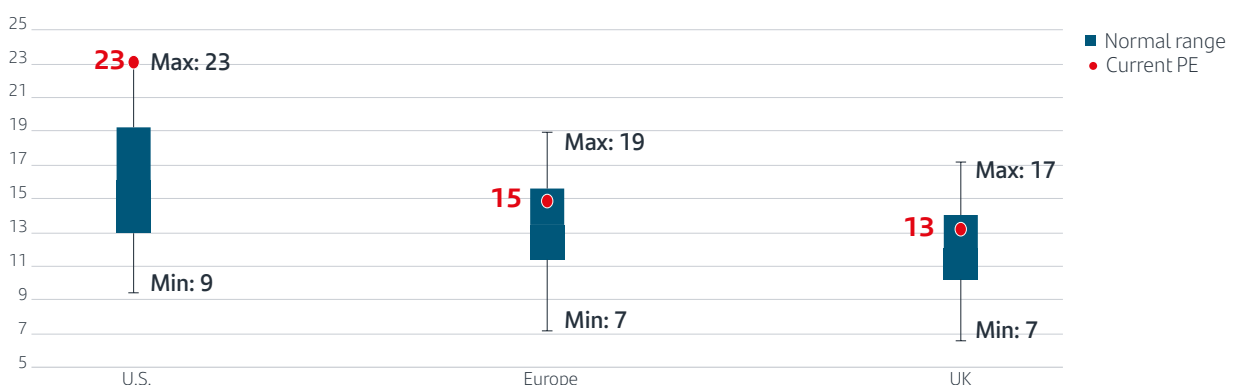
Risks, of course, remain: from politics to inflation persistence to global volatility. But if 2025 was the year UK markets surprised on the upside, 2026 may well be the year they consolidate those gains.

Equities

After years in the doldrums, UK equities have enjoyed a renaissance. Following a roughly 25% rally from last year, 2025 has so far been one of the most profitable periods for UK investors in three decades.

Despite sticky inflation, fiscal pressures, and political discontent, UK equities are on track to deliver their strongest returns in three decades.

UK equities: still reasonably valued (20-year historical range by region)



Source: Bloomberg and Santander AM

Valuations are no longer at the extreme discounts of 2023, yet they remain undemanding compared with global peers. By some measures UK equities still trade near a 50% discount to U.S. markets, and also below Eurozone indices. The UK provides exposure to many high-quality companies that trade at valuations well below their international peers.

The global market rally has been led yet again by global tech giants, notably absent from the UK stock market. But the local sector composition, with heavyweights in energy, mining, defence, and financials, has still been well suited to the macro environment of solid nominal growth and persistent geopolitical tension.

Meanwhile, domestic investors remain conspicuously under-allocated: UK pension funds hold less than 10% of their equity exposure in domestic companies, a figure many argue should rise to 20%-25%. Should the November budget take steps in that direction, the structural re-rating of UK equities could have further to run, particularly given the huge potential pool of domestic savings. Moreover, this could be the catalyst for the long overdue recovery of smaller UK companies.

Fixed Income

Sovereigns

From being the problem child of global fixed income in 2022, UK government bonds have become one of Europe's best performing sovereign markets this year. Yields remain high by historic standards, offering a genuine real premium over both U.S. Treasuries and Eurozone bonds. Cooling inflation, fiscal restraint, and an expected shift in gilt issuance all support further outperformance. Inflation-linked bonds offer attractive risk/reward trade-offs at these levels.

Credit

Credit was our top pick last year, with strong risk-adjusted gains so far in 2025. There is further potential should inflation decline over 2026, though any additional boost from credit spread narrowing is likely to be more limited.

Currency

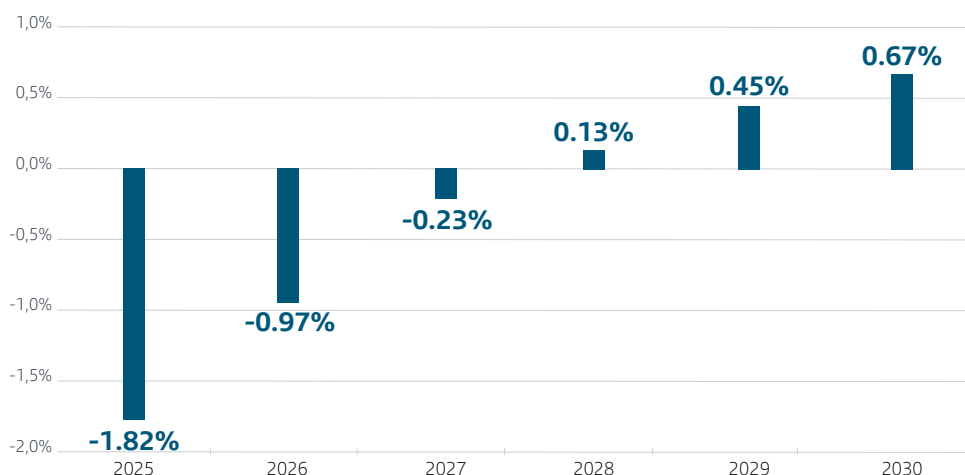
The pound has traded in a relatively narrow range against both the dollar and the euro, reflecting a balance of offsetting forces: stronger growth on one side, and the prospect of a more dovish Bank of England on the other. Whilst there could be vulnerability from political volatility, sterling looks unlikely to be a key driver of returns in 2026.

We can expect government policies specifically targeted at soothing the Gilt market, even if they come at the expense of short-term political pain

Pension funds hold less than 10% of their equity exposure in domestic companies, a figure many argue should rise to 20%-25%. Should the November budget take steps in that direction, the structural re-rating of UK equities could have further to run

Cooling inflation, fiscal restraint, and an expected shift in gilt issuance all support further out performance

UK Debt sustainability within reach



UK Primary fiscal balance (deficit/surplus before interest payments) % GDP

Source: IMF, Fiscal Monitor October 25



Brazil

**Mário Felisberto**

Chief Investment Officer SAM Brazil

We expect the Brazilian economy to remain on its gradual rebalancing path next year. After an extended period of restrictive monetary conditions, the Brazilian Central Bank (BCB) is expected to start an easing cycle in early 2026, with the policy rate (Selic), currently at 15.0%, declining to around 12.5% by the end of next year. If confirmed, this will be a smooth transition, with the BCB recognizing both softer activity and more moderate inflation, while keeping the prudence required to achieve more sustainable disinflation and clearer convergence towards the inflation target. In this context, we believe real rates will still remain on restrictive territory for some time.

On the activity side, evidence is pointing to moderation, with GDP expected to grow 1.5% in 2026. Credit growth has slowed in line with tighter financial conditions, while the labor market shows incipient signs of softening. As a result, we expect the currently heated demand to normalize going forward. This scenario considers a gradual deceleration toward a more balanced economy, not involving a recession.

In terms of inflation, we have also seen improvement throughout 2025. Industrial goods have gone through clearer disinflation on the back of currency appreciation. Service inflation, while still running at high levels, has eased. Weaker activity and accommodation in inflation expectations are expected to support further deceleration. We forecast a CPI between 4.0% and 4.5% in 2026.

We expect the Brazilian economy to remain on its gradual rebalancing path next year

As the year unfolds, the focus will increasingly shift to the elections, that will take place in the last quarter of 2026. Given the structural challenges of the economy - particularly increasing public debt, already high by emerging markets standards -, it will be important to monitor the economic discussions. In this context, proposals regarding public accounts and structural reforms are key. Favorable signs can potentially lead to appreciation of local assets, especially considering current valuations. Of course, the opposite is true, as postponing the necessary adjustments can have an impact on risk perception.

Equities

We are starting 2026 with a positive, yet cautious, view for Brazilian equities. Our framework consists of a supportive global environment for emerging markets, combined locally with attractive valuations, healthy earnings prospects, and expectations of a monetary easing cycle.

A likely easing cycle in the beginning of 2026

Selic rate (%) and SAM forecast



Source: BCB and Santander AM

Importantly, policy discussions involving the election next year will be key, with relevant potential impact in both directions.

Fixed income

Money market

The Brazilian economy will remain on a rebalancing path in 2026, although at a more advanced stage. Expected deceleration in activity and inflation will likely allow the BCB to reduce the policy rate (Selic). However, fiscal challenges and inflation still running above the target recommend a gradual approach. We expect the policy rate to decline to 12.5% by 2026 year-end from the current level of 15.0%. As a result, cash positions remain appealing and an attractive source of return for investors.

Local fixed income, Sovereigns and Inflation-linked bonds

We have a constructive view on local fixed income, considering both nominal and inflation-linked curves. The macro scenario looks positive, as the BCB should start an easing cycle at the beginning of 2026, and there is some asymmetry towards a more dovish path than our baseline forecast. In terms of valuation, current yields point to an above-average term premium in general.

On the other hand, policy guidelines and domestic structural debates still recommend some caution as they could still weigh on expectations and risk perception in general. The election cycle could also lead to relevant movements across the curves.

As the year unfolds, the focus will increasingly shift to the elections, that will take place in the last quarter of 2026

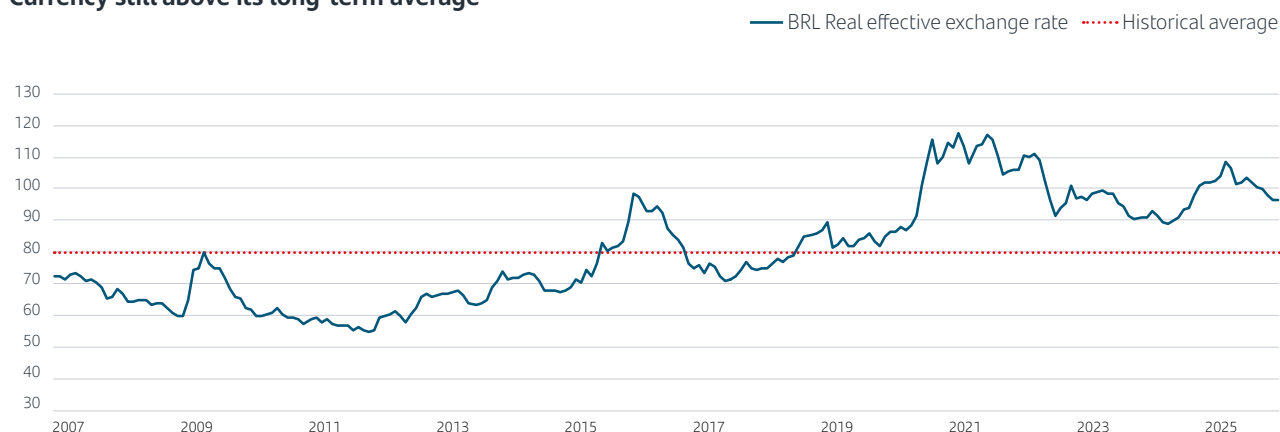
Local credit

We see credit as an attractive opportunity for 2026, although not as strong as it has been in 2025. The Selic rate should still be high -from the current 15% dropping to 12.5% throughout the year- and fundamentals of the companies remain sound, with moderate growth. On the other hand, credit spreads declined substantially in the last two years and are now at relatively tight levels.

Currency

We still see most of the fundamentals regarding the Brazilian real (BRL) as positive. Valuation looks cheap from a long-term perspective, while carry tends to remain high despite the expected easing cycle by the BCB. A possible favorable global background for emerging markets could also support BRL. On the other hand, current account is running with higher deficits amid heated domestic demand and lower commodity prices. Given the election cycle, policy guidelines will also be relevant to determine the currency trend throughout the year, and it is reasonable to expect some volatility.

Currency still above its long-term average



Source: BCB, Bloomberg and Santander AM



Mexico

There is life after tariffs



Rafael Buerba, CFA

Chief Investment Officer SAM Asset Management*

Mexico has weathered through 2025 with a lower tariff vs the rest of the world, including its main trading competitors. Worst-case scenario fears have vanished, although investor attention now turns to the USMCA review process. We expect the trade agreement to be renewed by mid-2026, but the final handshake could be preceded by a long and complex negotiation process. Mexico economic forecasts have been revised upwards due to a clearer trading scenario, a looser than expected fiscal policy and for next year, higher private and public investment forecasts. Notwithstanding this, GDP growth estimates remain below potential. Finally, the rate-cutting cycle is close to its end, the central bank has substantially reduced the restrictive stance and points to brighter low-interest rate conditions in 2026.

Equities

Valuations remain below historic averages and corporate results have beaten consensus expectations in 2025. As previously mentioned, Mexico's trading landscape has improved vs the beginning of 2025 and boosted Mexican equities to be the best local asset class in the year and among the best stock markets across the globe. For 2026, we expect the rally to extend and market multiples to narrow the gap vs historic levels. The latter would be driven by the more benign macroeconomic environment if a USMCA positive resolution is achieved and further interest rate cuts are implemented during the first half of the year. Furthermore, we expect an earnings acceleration coming from higher consumer confidence, a private investment recovery and a potential nearshoring renaissance.

Local assets had a very good performance in 2025. Relative positioning in trade tariffs vs other countries seems favorable and the macro outlook has improved

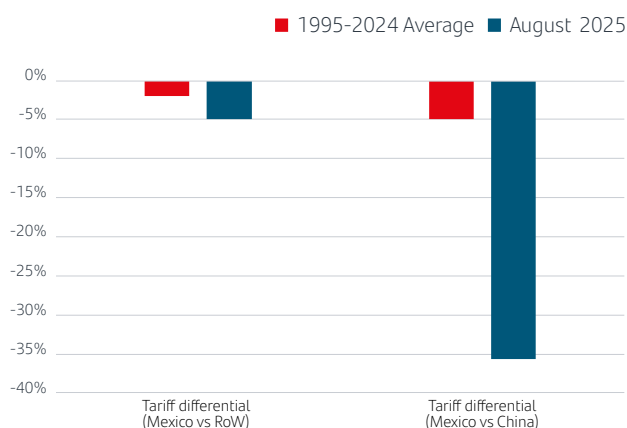
Mexican equities have gained close to 40% in USD terms during 2025; yet current valuation remains below historic averages. Interest rates have dropped from 11.25% to 7.5% and there is still space for further cuts

Fixed income

Money market

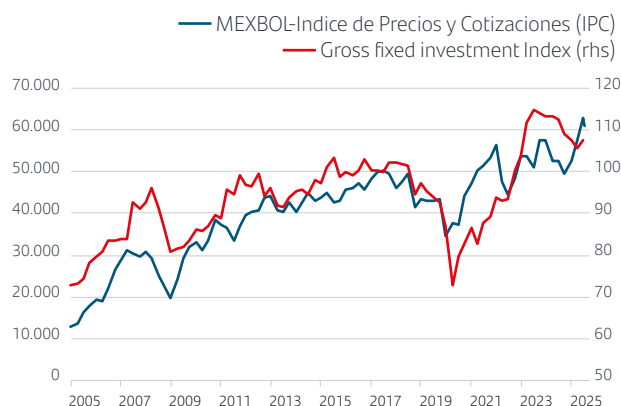
The policy rate is close to 400 bps below its 2024 peak, but space remains for further cuts. We forecast a terminal rate of 6.50-6.75% to be reached by mid-2026. Our investment strategy will be positioned in floaters (both sovereign and corporate) and will likely imply a gradual duration trim as we approach the last part of the expansionary cycle.

México's tariff advantage is widening



Source: Secretaría de Hacienda with information from U.S. Census Bureau and Federal Register

Mexican equities have anticipated investment turnarounds



Source: Bloomberg and INEGI

* SAM Asset Management, S.A. de C.V., S.O.F.I.

Sovereigns

As the easing cycle reaches its final phase in 2026, we believe that the relevance of the term premium's magnitude will increase. In 2025 we have already witnessed some yield curve normalization (positive slope), but the steepening trend shall continue for 2026. In this scenario, gains coming from further rate cuts will be more palpable in short and medium-term maturities (2-5 years) vs the longer end of the curve (10-30 years). Therefore, our 2026 strategy will involve cutting duration towards the mid-part of the yield curve; put in different words, our focus will transition from a duration focus to a tactical cherry picking of maturities.

Inflation-linked bonds

Short-term inflation linkers' valuation implies inflation levels below or at most near consensus expectations. However, longer-dated instruments have been boosted by what appears to be structural domestic institutional holder demand. This has led to a flat yield curve in Mexican long-term real rate instruments, far from the curve normalization seen in nominal MXN or USD rates. Hence, for 2026 our strategy will overweight intermediate durations (7-10 years) and underweight the long-end of the curve.

Local credit

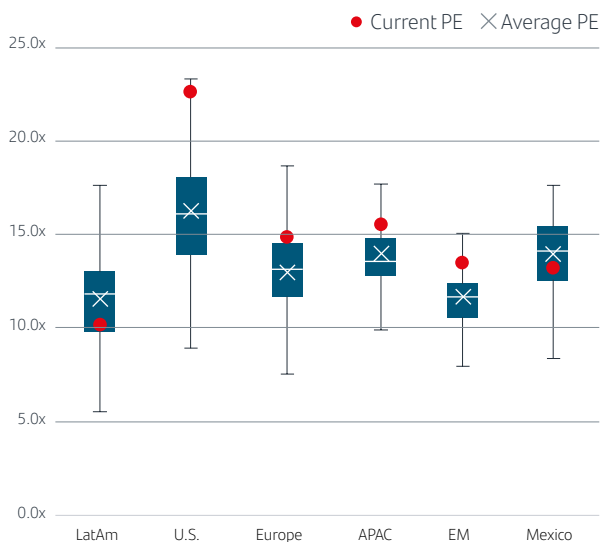
We maintain an overweight position in credit, mainly in money market portfolios, whose strategy relies mostly on generating an attractive carry and held to maturity instruments. Issuer selection is based on fundamental analysis and bond relative valuation. As duration will likely contribute to lower added value vs 2025, higher yielding bonds with an attractive credit profile will be key in 2026 to obtain a favorable performance.

Currency

The MXN should continue its appreciating trend in the short-term sustained by positive GDP surprises, a weak USD global environment and the fiscal consolidation executed by the Mexican government. However, it is important to realize that real effective exchange rate models point to a peso currently trading at over-valued levels vs the dollar. As the interest rate differential between Mexico and the U.S. narrows and the USMCA re-negotiation enters heated conversations before its final resolution, short term headwinds may affect the currency performance in early 2026.

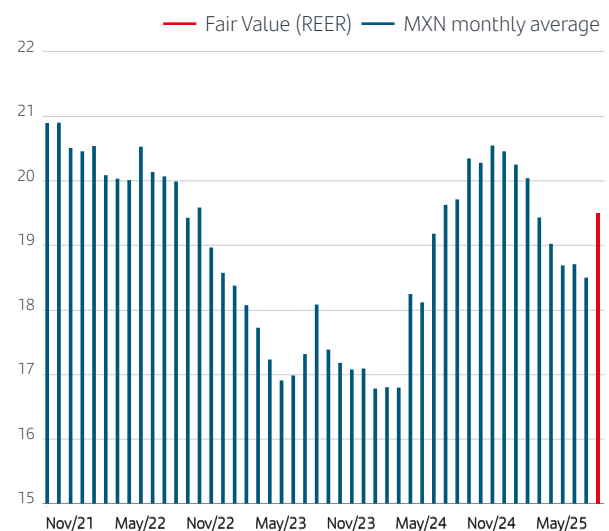
Easing monetary policy shall enter its final phase in 2026. The yield curve slope should continue normalizing and tactical bond maturity selection will be key. We will likely reduce duration towards the medium part of the curve

Mexican equities: Among the few markets trading below historic levels vs 20-year historical averages



Source: Bloomberg and Santander AM

MXN: Short term appreciating trend, but fundamentals suggest an overvalued currency



Source: Banxico and Santander AM



Chile

2026: Challenges that unlock new opportunities



Diego Ceballos
Chief Investment Officer SAM Chile

An expected growth slightly below 2%, together with inflation that continues to moderate and approach the central bank's target range, would set the stage for additional monetary policy rate cuts, contributing to a more favorable domestic macroeconomic balance. On the external front, positive factors stand out — such as the continuation of the expansionary phase of the global economy and a copper price remaining above USD 4.5/lb — both of which would support a positive outlook for the Chilean peso.

Domestically, 2026 will mark the first year of implementation for the new government and Congress, elected at the end of 2025. Although the electoral outcome remains uncertain, current polls give the opposition and right-wing sectors a slight advantage. In this context, fiscal deficit reduction, economic growth stimulus, and job creation will represent significant challenges, but also relevant opportunities to strengthen the country's outlook during 2026

Equities

After a very positive 2025 for Chilean equities — with returns exceeding 35% in USD, largely in line with what was observed across emerging markets in general and Latin America in particular — we expect 2026 to be a year of consolidation. In a neutral scenario, without incorporating potential changes in economic or investment policies, we forecast earnings growth of around 5% for the Chilean stock market, with strong dependence on the evolution of commodity prices such as pulp and lithium.

Current valuations — around 12x price-to-earnings — suggest that much of the market discount relative to historical averages has already corrected over the past five years. However, the recent rally still leaves room for upside when considering longer horizons, such as 10 years.

We estimate that a fair value multiple for Chile under current conditions is close to 14x. For a more substantial revaluation, the country will need to strengthen its trend growth, consolidate fiscal accounts, and continue deepening the capital markets.

Solid growth, converging inflation, global expansion, and high copper prices support local assets

We forecast earnings growth of around 5%

Valuations remain at attractive levels



Source: Bloomberg, Riskamerica and Santander AM

Fixed Income

Money market

Inflation is expected to converge to the central bank's 3% target during the first half of 2026, allowing the Monetary Policy rate to reach its neutral level (4.0%–4.25%) within the same period — effectively concluding the rate-cutting cycle that began in 2023. Given this context, we expect average returns for money market instruments, supported by stable carry and inflation anchored at the 3% target.

Rates near historical averages support local fixed income

Sovereigns

Chilean local-currency sovereign bonds currently offer attractive yields relative to their historical averages, particularly in the 2- to 5-year segment. Based on this, we expect solid returns for fixed income, albeit somewhat more moderate than those seen in 2025. This reflects the fact that the Monetary Policy rate is nearing its neutral level and much of the adjustment path is already priced in. Additionally, the fiscal deficit is expected to converge toward a structural 1.1% in 2026, with the debt-to-GDP ratio stabilizing around 40%. This would be positive news, implying reduced sovereign debt issuance.

Inflation-linked bonds

Inflation-indexed (UF-denominated) bonds offer effective protection against unexpected inflationary spikes over the medium term. While their performance should mirror that of nominal sovereign bonds — given that inflation expectations remain anchored at the central bank's 3% target — these instruments enhance the risk-return profile by providing inflation hedging. This makes them an attractive option for investors seeking protection against unforeseen price fluctuations.

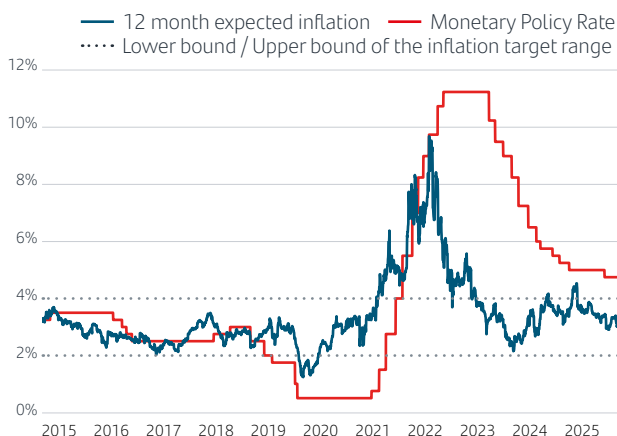
Local credit

Chilean corporate bonds traded with spreads below historical averages in 2025, driven by strong demand for local fixed income. Additionally, maturities exceeded new issuance during the year. This combination of higher demand and lower supply has led to spread compression, although not yet to historical lows. For 2026, we expect this trend to persist, with the differential versus sovereign bonds narrowing further. However, this segment presents higher relative risk, as it often serves as a release valve during episodes of market stress.

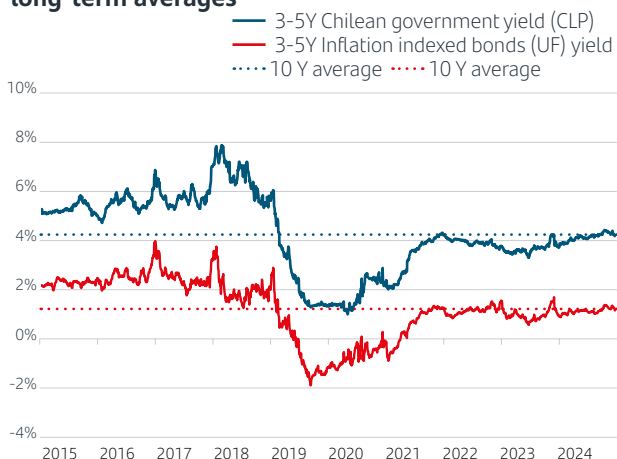
Currency

The outlook for the Chilean peso (CLP) in 2026 remains favorable. In a context of global U.S. dollar depreciation, a wider interest rate differential versus the U.S., along with supportive local dynamics and a copper price around USD 4.5–5.0/lb, should help maintain the appreciation trend observed in 2025.

Converging inflation expectations create room for additional cuts in the Monetary Policy Rate (TPM)



Mid-curve rates are broadly aligned with their long-term averages



Source of all charts: Bloomberg, Riskamerica and Santander AM



From adjustment to building forward



Cristian Brau, CFA
Chief Investment Officer SAM Argentina

After two years focused almost exclusively on macroeconomic stabilization — centered on fiscal consolidation, disinflation, and monetary normalization — 2026 is shaping up to be the year when Argentina must broaden its political base to consolidate and deepen structural reforms.

The key challenge will be transforming the achieved stability into sustainable growth, supported by a new governance pact that allows for the first major reforms in labor and tax policy. These changes are essential to revive investment, rebuild productivity, and reactivate formal employment, opening a new expansionary cycle after the adjustment phase.

In this context, the main determinant for 2026 will be the preservation of the fiscal anchor without stifling activity, and combining macroeconomic predictability with clear signals of institutional normalization. If this balance holds, the Argentine economy could move beyond the defensive logic of stabilization and re-enter a stage of asset revaluation and real growth.

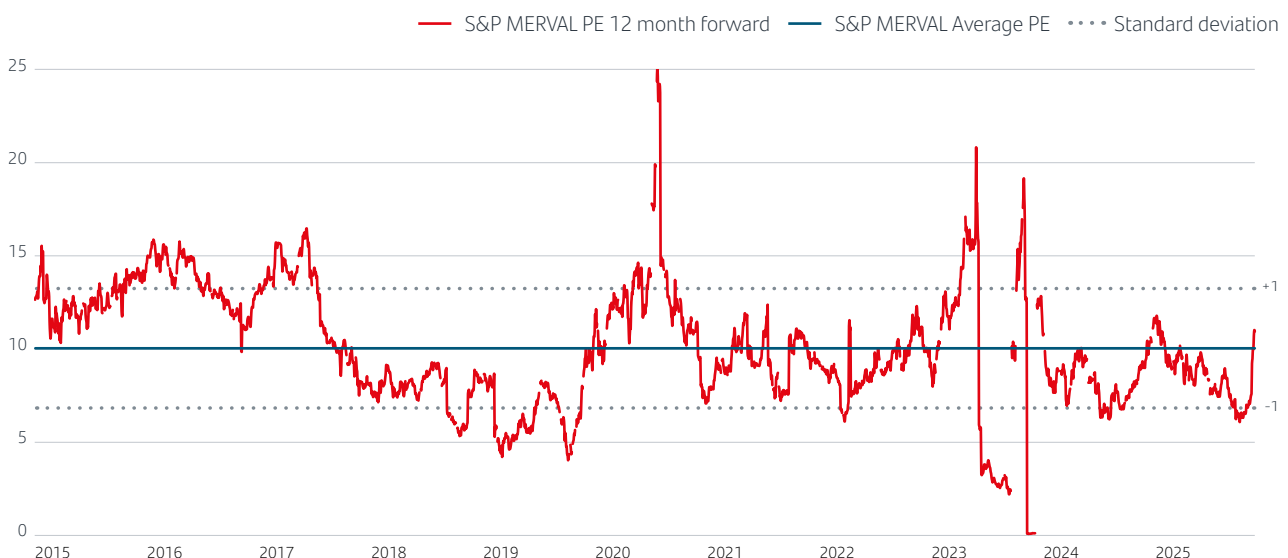
The Argentine economy could move beyond the defensive phase of stabilization and enter a new cycle of real growth and asset revaluation

Equities

After a 2025 marked by profit-taking, volatility and valuation corrections following the strong rally of 2024, the Argentine equity market enters 2026 with more reasonable multiples and an attractive starting point. In a constructive scenario — with stronger political backing, progress on labor and tax reforms, and continued fiscal discipline — a gradual recovery in valuations and renewed inflows into local equities are expected. Banks could lead the rebound amid credit normalization, while consumption and energy sectors stand to benefit from real wage growth and improved regulatory predictability. Argentine equities thus offer a compelling entry point, with a favorable risk-reward profile within local assets.

Argentine equities stand as our preferred asset class for 2026, offering the best balance between attractive valuations, recovery potential, and exposure to real economic growth

Argentine equities offer a compelling entry point, with a favorable risk-reward profile within local assets



Source: Bloomberg and Santander AM

Fixed income

Sovereigns in USD

In a constructive 2026 scenario, we expect a gradual compression of sovereign risk and a closer convergence with emerging market and global high yield debt. With domestic noise subsiding, the performance of Argentine bonds could re-align with regional and global spread movements, increasingly driven by Fed policy and global liquidity conditions. This environment would offer moderate price appreciation potential and improved relative value, as Argentine debt transitions from an isolated risk profile toward a more integrated position within the high yield universe.

Money market and Local debt

In 2025, the peso market was defined by a sharp rise in real rates and unusually high intraday volatility, reflecting the limited depth of the financial system and frequent interventions to sustain monetary stability. Money markets operated defensively, with abrupt moves in overnight rates, while local bonds experienced pronounced price swings with each shift in inflation or policy expectations. In 2026, a constructive scenario should bring a normalization of the peso yield curve, with real rates converging to more sustainable levels and lower daily volatility. As inflation expectations stabilize and monetary policy becomes more predictable, investors could gradually extend duration, shifting from short-term liquidity toward medium and long-term instruments. This environment should allow for an orderly recovery of the local debt market, restoring the carry trade as a relevant source of real returns.

The main challenge for the local debt and overnight rate markets in 2026 will be to leave behind extreme volatility and achieve sustainable real rates consistent with an expanding economy

Local credit

In 2025, corporate bonds outperformed sovereigns in volatility-adjusted return metrics, supported by solid balance sheets and limited exposure to political risk. For 2026, within a more stable and reform-oriented context, they should offer an attractive yield pickup versus sovereign and regional debt, supported by high credit quality and limited potential for capital gains but a competitive carry for institutional portfolios.

Currency

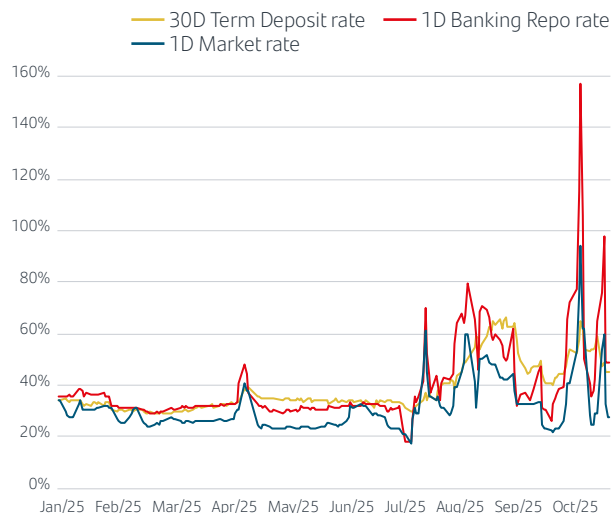
After a challenging 2025 for the exchange rate, the Argentine peso will face opposing forces in 2026. On one hand, fiscal discipline, structural reforms, and greater access to external financing — from both private markets and U.S. Treasury support — should exert pressure toward a real appreciation. On the other, the need to rebuild international reserves will act as a counterbalance. As remaining capital controls are eased and market depth and liquidity increase, volatility should decline and the peso should trade in a more orderly manner, though the underlying trend remains uncertain. We maintain a neutral stance on the currency.

Argentine risk converging toward emerging market high yield levels



Source of all charts: Bloomberg, Banco Central de Argentina and Santander AM

The challenge in the peso market is to reduce both the level and volatility of interest rates





Japan

Towards a more balanced phase



Tomás García-Purriños, CFA, CAIA
Investment Strategy Senior Strategist SAM

Since the pandemic, Japan has transitioned from decades of semi-deflation to a phase of persistently rising prices above 2%. After years of ultra-expansionary policy and yield curve control, the Bank of Japan began a gradual normalization in 2024, although its stance remains accommodative. The economy is in a phase of moderate expansion, with real GDP growth expected to reach around 1.1% in 2025, supported by private consumption, domestic investment, and a tight labor market. In 2026, growth is expected to moderate slightly, aligning with potential. The tight labor market, underpinned by the largest wage increases in decades, confirms a structural shift in the inflation regime. At the same time, inflation is expected to slow gradually towards the BoJ's 2% target, supporting a very gradual path of policy normalization. This backdrop of still-loose monetary conditions and nominal growth around 3% could lay the foundations for a more balanced economic phase, providing support to risk assets.

Markets

Overall, Japan approaches 2026 with a combination of sustainable inflation, resilient corporate earnings, and structural reforms that underpin a constructive view on risk assets. The projected pace of nominal growth provides a favorable setting for corporate profits. Strong consumption, rising wages, and improving domestic investment are offsetting external weakness, while the BoJ's gradual normalization enhances policy credibility without causing disruptions.

Structurally, Japan benefits from a compelling combination: ongoing corporate reforms, solid balance sheets, and a market historically underweighted by international investors. Measures to improve market efficiency, pressure from activist shareholders, and the rise in share buybacks justify further multiple expansion, as long as the "virtuous reflation" Japan has sought for decades continues to take hold.

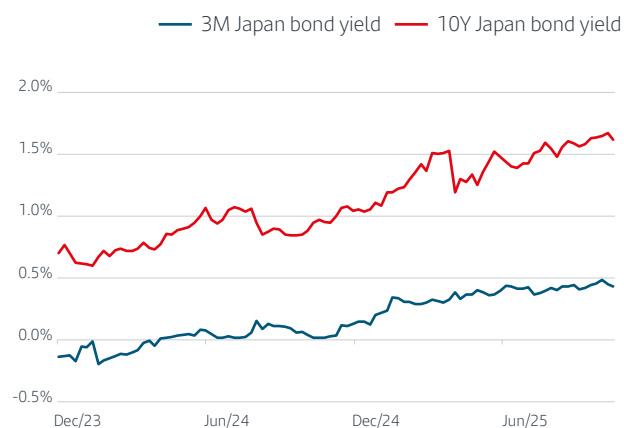
This positive outlook could be further reinforced by stronger fiscal momentum under the new government, which has expressed willingness to introduce additional stimulus targeting strategic sectors such as defense, digitalization, and advanced technology. Public spending focused on innovation, automation, and energy resilience would not only support short-term growth but also enhance productivity, helping to offset demographic headwinds.

A constructive view on equities does not imply a negative stance on the yen. Although short-term divergences between the currency and the equity market may persist, the environment

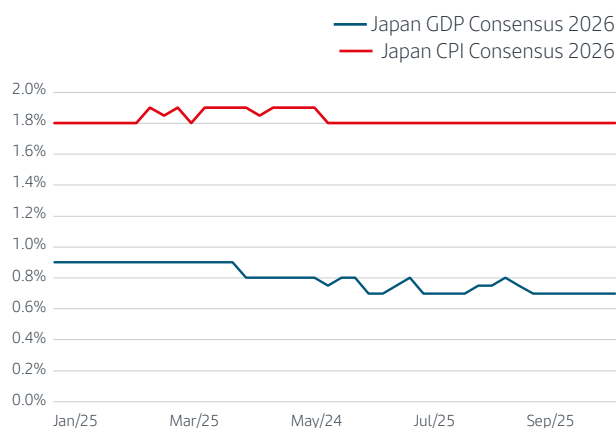
The labor market remains tight, accompanied by the strongest wage increases in decades, consolidating a structural shift in the inflation regime

Japan benefits from a compelling combination of corporate reforms, solid balance sheets, and a market historically underweighted by international investors

Interest rates in Japan are normalizing gradually



Return to nominal growth above 2.5%



Source of all charts: Bloomberg and Santander AM

of anchored inflation and gradual normalization is not unfavorable for the yen. As rate differentials narrow and domestic investment flows return, the Japanese currency could appreciate moderately in 2026.



Asian Emerging Markets

Constructive outlook amid demanding valuations

We maintain a relatively positive view on risk assets across Emerging Asia. China may offer tactical opportunities supported by policy shifts, while India remains the structural driver of regional growth.

China heads into 2026 with moderate growth and persistent imbalances in the real estate sector, but also with a clearly expansionary policy stance. Authorities have strengthened fiscal support—focused on technology, defense, and green infrastructure—while keeping monetary conditions accommodative. This combination could enable tactical rebounds in Chinese equities.

Although valuations are relatively demanding, we favor a selective exposure to capture potential rebounds by combining the Hang Seng —where financials and technology could benefit from a gradual improvement in investor sentiment— with the CSI 300, which reflects domestic economic trends and shows lower correlation with global equities.

India continues to display structural strength, with robust growth, contained inflation, and a reform agenda that keeps attracting capital inflows. Indian equities have lagged China's in relative terms, but we believe this divergence creates additional upside potential for 2026, as external risks—such as tariff uncertainty—diminish and multiple expansion resumes, supported by solid fundamentals.

China may offer tactical opportunities supported by policy shifts, while India stands as the main pillar of regional growth

Indian equities could close the gap with China in 2026



Source: Bloomberg and Santander AM

Commodities

We remain positive on gold

Gold remains on an upward trend, driven by sustained central banks purchases and renewed investor interest after years of outflows. In addition to its role in reserve diversification, the perception that monetary authorities are adopting a more balanced approach between growth and inflation enhances gold's appeal as a long-term asset. Both official and financial flows suggest that the current bullish cycle could extend further.

Our outlook for industrial metals is mixed. Demand linked to the energy transition and infrastructure investment should remain supportive, but rising supply and slower growth in China will likely cap the recovery potential. Overall, we expect a stable price environment, with profit margins constrained by excess capacity.

In oil, we anticipate an oversupplied market in 2026, given increased production from both OPEC members and other producers. In this context, we estimate Brent prices in the 55–60 USD per barrel range—levels consistent with sustaining expected production and absorbing potential demand-side surprises without triggering abrupt adjustments. Risks remain primarily geopolitical. Overall, we continue to favor gold as the preferred hedge against these risks.

In addition to structural drivers of reserve diversification, there is a growing perception that monetary authorities are maintaining a more balanced approach between growth and inflation

Investors are clearly increasing their demand for gold



Source: ICE Benchmark Administration, Metals Focus, Refinitiv GFMS, World Gold Council



04

Alternative assets

Private Credit 2026: A Strategic Reflection on Scale, Geography, and Purpose



Borja Díaz-Llanos

Global CIO at Santander Alternative Investments

The alternatives industry has continued to mature and is now a widely discussed feature of institutional portfolios, driving diversification and enhancing long-term returns. Within the alternative space, private credit has become somewhat of a focal point - a scalable, income-generating sub-asset class focused on the real-economy financing, continuing to evolve from a niche alternative into a core pillar of modern portfolio allocation.

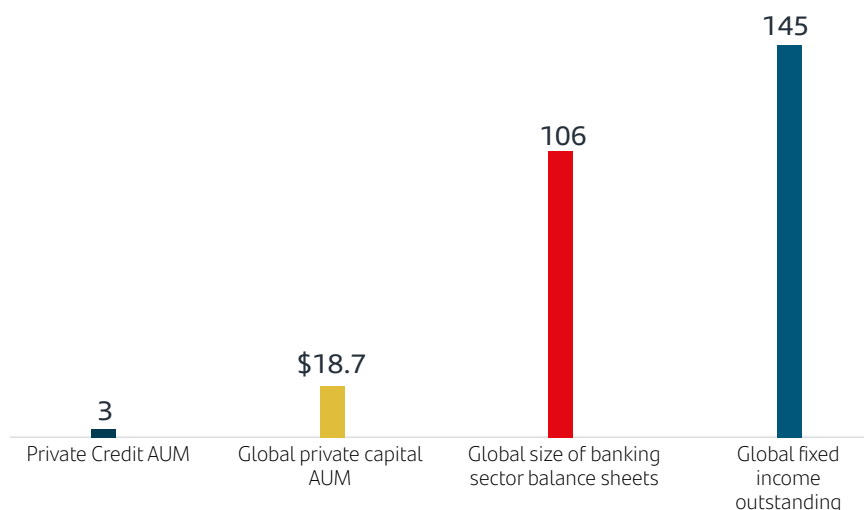
1. A Market Still in Its Infancy

Despite the intense attention from institutional investors, the world of alternatives and especially private credit remains small when viewed in the context of the broader financial system. With roughly \$3.3trillion in private credit AUM, the asset class is merely a fraction of the total private markets \$18.7 trillion and microscopic compared with global fixed income and banks' balance sheets that exceed \$250 trillion combined.

In other words, private credit is still a rounding error in global finance, especially in Europe where banks continue to provide over three-quarters (76%) of sources of funding (see chart 2). This relative smallness should not be mistaken for weakness - it represents headroom. The addressable universe of private assets - real economy lending, real estate, infrastructure, and specialty finance - exceeds \$50 trillion, implying that private markets could multiply severalfold over the next decade without approaching systemic scale. Yet, because of its modest share, private credit still benefits from asymmetric information, less crowded trades, and - importantly - a regulatory regime that rewards alternative channels for financing the real economy.

Despite its exponential growth in recent years, private credit assets under management (\$3.3 trillion) remain a small fraction compared to traditional sources of financing — such as the fixed income markets (\$145 trillion) or the balance sheets of the world's largest banks (\$105 trillion)

Public vs Private Markets



Fuente: Apollo October 2025, S&P Cap IQ, Pitchbook, MSCI, FactSet, SIFMA, BIS. "Private debt" excludes insurance permanent capital AUM.

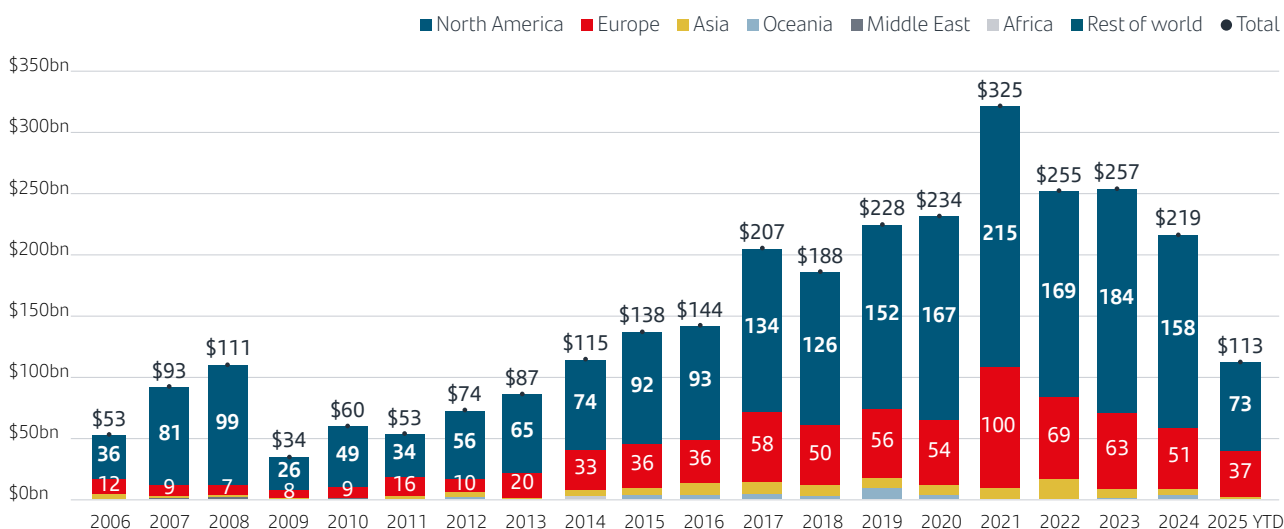
2. Where Alpha Lives: Europe vs. the U.S.

We believe that Europe currently offers a more fertile ground for generating alpha in private credit than the U.S., for several structural and cyclical reasons.

Dry Powder and Competition

U.S. private credit managers collectively sit on record levels of undeployed capital. The North American market has attracted the bulk of global inflows over the past few years, with dry powder exceeding \$400 billion. This abundance of capital has driven yields down and competition up, compressing spreads and eroding underwriting discipline in the upper middle market. In contrast, Europe remains somewhat underpenetrated, with deal flow still intermediated by banks and far fewer alternative lenders per transaction.

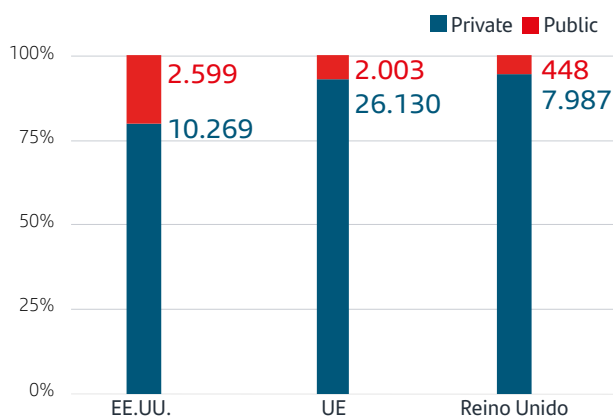
North America has far outpaced Europe in private debt capital raised in the past 20 years



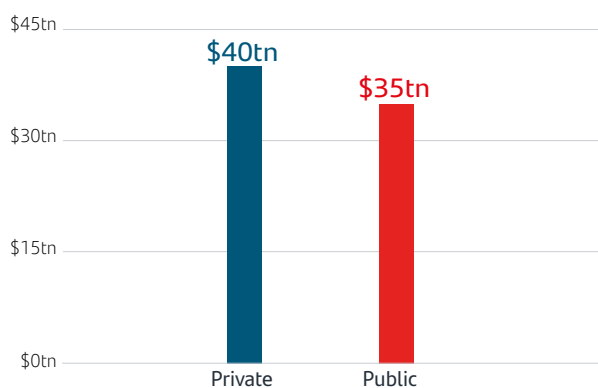
Market Fragmentation and Bank Intermediation

Europe's financing structure is unique. Around 76% of corporate and SME financing still comes from banks, compared to 21% in the U.S. The opportunity for non-bank direct lenders is therefore not merely cyclical – it is structural. The European credit ecosystem is fragmented across jurisdictions, legal regimes, and languages, producing inefficiencies that can be exploited by managers capable of sourcing, underwriting, and structuring at the local level.

Businesses With Revenues of \$100m+



Aggregated Revenue from Businesses with Revenues of \$100m+



Source: S&P Capital IQ, BlackRock. As of August 19, 2025. Company count shown as data labels; bars represent percentage of total businesses with above \$100 million (or equivalent) in last twelve months revenues.

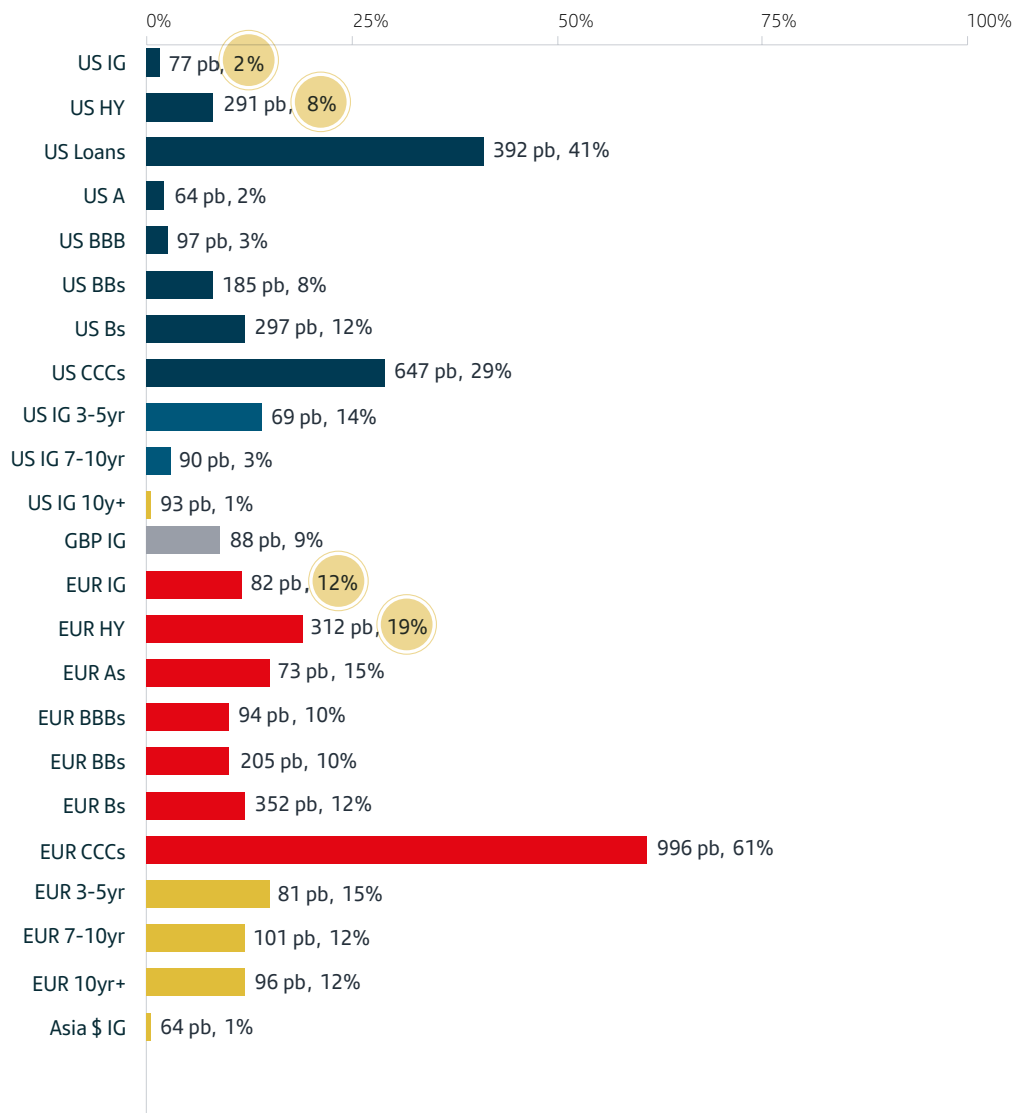
The scale of the European private corporate base underscores this potential: more than 26,000 private companies generate over €100 million in annual revenue, yet most remain unlisted with limited options of financing. This hidden middle market – often family-owned, resilient, and export-oriented – forms the backbone of Europe's industrial competitiveness and a natural habitat for private lenders.

Relative Value Across Markets

Even when controlling for credit quality, European credit trades wider than U.S. credit – both in private and public markets. Spreads on European investment-grade (IG) and high-yield (HY) bonds remain 20–30 bps wider than U.S. equivalents, while direct lending spreads for senior secured loans in Europe are typically c. 50 bps higher than comparable U.S. deals. This differential is not simply risk compensation – it reflects structural inefficiencies (smaller deal sizes, fewer intermediaries, less capital) that enhance expected returns. In short, beta alone pays more in Europe, while alpha accrues to those who can navigate its complexity.

Compared to the United States, Europe has a more fragmented market, with greater dependence on the banking system, less developed capital markets, and a smaller pool of available private capital. This structural context contributes to European private credit offering an attractive additional premium for investors

Spread and Percentile on 20-year range



Source: PitchBook | LCD, J.P. Morgan Asset Management. Guide to Alternatives. *2025 data are as of August 2025.

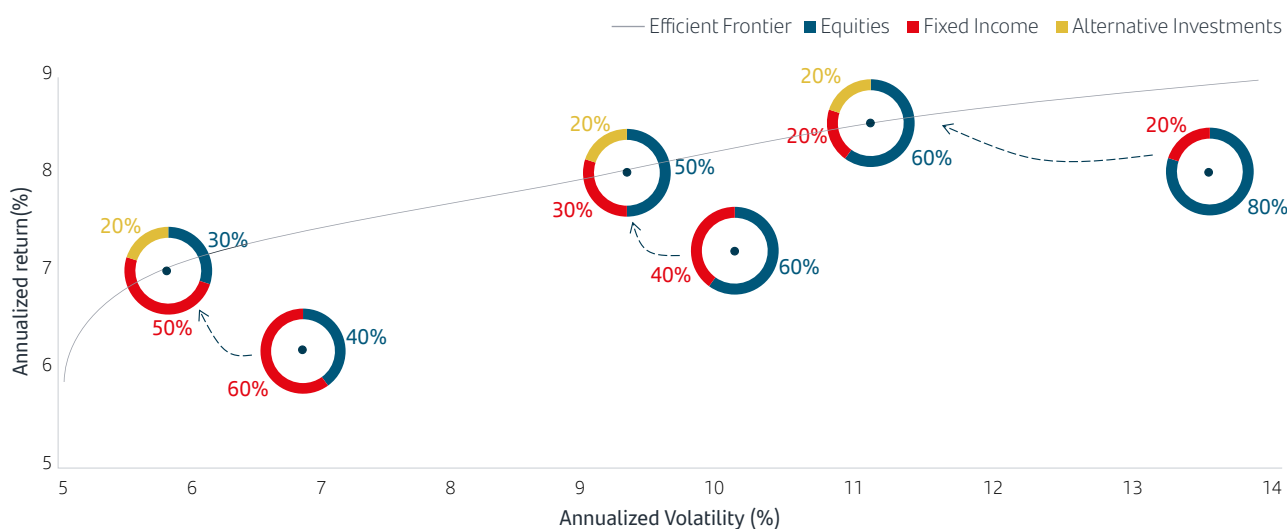
3. From Yield Strategy to Portfolio Core

Historically, private credit was viewed as an opportunistic asset class designed to deliver double-digit returns, suitable for high-yield alternatives sleeves. This perception is changing. In an environment of lower base rates and compression in traditional fixed income, investors increasingly see private credit as a core component of the portfolio's income allocation, not just as a high-return niche. We expect this evolution to accelerate over the next five years as institutions rebalance from listed bonds to private debt to improve risk-adjusted yield, duration control, and diversification.

Indeed, over the past 25 years, adding private assets – private equity, real estate, private debt – has shifted the efficient frontier outward: higher returns for any given level of volatility. Between 1998 and 2025, portfolios with 20–30% alternatives achieved annualized returns of 7-8% versus 6-7% for traditional 60/40 mixes, with substantial decrease in the volatility.

Over the past 30+ years, having an allocation to Alternative Investments has improved returns and reduced risk for investors across all portfolio models

Volatility and annualized returns, 1Q 1998-1Q 2025



4. Financing the Real Economy

At its core, private credit is meant to directly finance the real economy. Private lenders provide working capital, leasing, infrastructure debt, trade finance, and real estate loans that collectively underpin the everyday operations of businesses – from SME machinery leasing to energy transition projects and logistics platforms.

These assets, when properly structured, can exhibit investment-grade characteristics, yet offer 100–300 bps of excess spread relative to comparable more liquid securities. The reason is straightforward: these are complex, illiquid, and bespoke exposures that require underwriting skill but offer consistent collateral coverage and shorter duration than corporate bonds.

This segment – what we call real economy credit – has the potential to become the largest and most durable growth area within private markets. Its addressable market – across infrastructure, real assets, leasing, and trade finance – far exceeds that of traditional direct lending.

Source: Bloomberg, Burgiss, FactSet, NCREIF, Pivotal Path, Standard & Poor's, J.P. Morgan Asset Management. The alternatives allocation includes hedge funds, real estate and private equity, with each receiving an equal weight. Portfolios are rebalanced at the start of the year. Equities are represented by the S&P 500 Total Return Index. Bonds are represented by the Bloomberg U.S. Aggregate Total Return Index. Volatility is calculated as the annualized standard deviation of quarterly returns. Past performance is not a reliable indicator of current and future results. Guide to Alternatives. Data are based on availability as of August 31, 2025.

Banks, constrained by Basel III and the “Basel Endgame” capital rules, are reducing exposure to long dated or non-core assets. Yet, they retain origination capabilities, client relationships, and operational capabilities that alternative managers lack. This has led to a new era of collaboration, where banks originate, and asset managers fund or co-finance loans – via forward flow agreements, significant risk transfer (SRT) structures, or joint ventures. These partnerships allow banks to optimize capital while retaining client connectivity, and managers to access granular, diversified loan pools. This also gives managers enhanced data access, risk monitoring, and asset servicing, allowing scaling across granular exposures – something critical for structured finance and trade-related assets.

5. The Forward View: Three Strategic Convictions

1. Scale Has Not Yet Arrived

Private markets are still a small fraction of the global credit ecosystem. Even if the asset class doubles by 2030, it will remain less than 5% of the global debt universe. This limited size keeps the opportunity asymmetric – returns can still be driven by skill, not just capital.

2. Europe's Alpha Is Structural

The combination of Europe's relative dependence on the banking system, less developed capital markets, and the smaller amount of capital raised by private credit funds in Europe compared to the United States leads us to believe that the premiums achieved in European private credit will remain in place throughout 2026.

3. Private Credit Will Redefine Fixed Income

We expect private credit to evolve into a core income substitute rather than an opportunistic allocation. As investment –grade structured credit – infra debt, leasing, and trade finance – scales, private markets will increasingly anchor the liability – matching side of portfolios.

This evolution will blur the lines between “alternative” and “core”, with private credit taking its place beside traditional fixed income as a mainstream allocation.

6. Private Credit as the Convergence Point

The private credit market of 2025 stands at an inflection point. It is large enough to matter, but small enough to offer alpha; increasingly institutional, but still anchored in real –economy purpose.

Its next phase will be defined by its full integration into fixed income portfolios, and its evolution –particularly in Europe– will be driven by bank partnerships with private credit managers.

For us, that is not merely a strategy; it is a vision for the future of credit itself.

Glossary

€STR: Euro short-term rate.

AI: Artificial intelligence.

Backwardation: This situation occurs when the spot price of a commodity is higher than the projected future price for the same asset.

Banxico: Bank of Mexico.

BoJ: Bank of Japan.

Bottom-up: Analysis that considers the individual economic-financial situation of the company before assessing the effect of the sector's situation and subsequently the macroeconomic situation.

Breakeven: Inflation level that equals the yield of a nominal bond with the yield of its equivalent real bond.

BRL: Brazilian real.

CAGR: The compound annual growth rate is the rate of return that an investment would need to have each year to grow from its initial balance to its final balance, during a given time interval.

Carry: Expected return on an investment assuming that its price does not change.

CBO: U.S. Congressional Budget Office.

CLP: Chilean peso.

Credit Breadth Index (CBI): Credit market breadth indicator designed to measure how many segments of corporate credit are performing positively or negatively at a given point in time.

DAX: Is an index of 40 selected German blue chip stocks traded on the Frankfurt Stock Exchange.

DX: Value of the USD in relation to a basket of currencies that includes major world currencies.

ECB: European Central Bank; it is the authority responsible for the monetary policy of the countries of the euro area.

EMBI: Market index elaborated by JP Morgan that serves as a reference to estimate the evolution of the emerging debt market.

EPS: Earnings per share. Figure obtained by dividing, in a given year, the net profit by the total number of shares in circulation.

ERLO: Fixed income index composed of the main bond issues by large-cap international corporations denominated in euros with investment grade credit quality.

EUR: Euro.

Fed: Federal Reserve; it is the institution responsible for supervising the U.S. banking system, and for defining and applying the country's monetary policy.

FTSE 100: Is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange.

FTSE 250: Is a capitalization-weighted index of the 250 most highly capitalized companies, outside FTSE 100, traded on the London Stock Exchange.

Gilt: UK government bond.

GP: Manager making investment decisions in alternative funds.

Investment grade: Bonds issued by companies that, according to external rating agencies, are less likely than others to default on their debts.

LP: Investor in alternative investment funds.

MXN: Mexican peso.

NBP: National Bank of Poland. Authority in charge of controlling the minting and circulation of the Polish currency, zloty.

Nearshoring: The practice of transferring a business operation to a nearby country, especially in preference to a more distant one.

NPL: Non-performing loans.

OPEC+: Organization of the Petroleum Exporting Countries. It includes around thirty countries, led by Saudi Arabia among the members of the Organization of Petroleum Exporting Countries, and by Russia at the head of the external allies.

P/E: Price earnings ratio. Measures the relationship between the price of a share in the market and the benefits offered by the company. It is used to measure whether a stock is expensive or cheap at that moment and will give us information about the years it would take to recover the money invested in the company through its profits as long as these remain stable.

PLN: Zloty (Polish currency).

QE: Quantitative Easing. ECB's asset purchases, as tools used to support economic growth across the Eurozone and bring inflation to the 2% target.

Real terms: Any variable from which the effect of inflation is eliminated.

REER: Real effective exchange rate (a measure of the value of a currency against a weighted average of several foreign currencies) divided by a price deflator or cost index.

Reshoring: The process by which companies bring the production and manufacture of goods back to their original country.

Selic: Brazilian interest rate.

Small caps: Small and medium-sized companies, with low market capitalization. However, they constitute a segment of entities that are interesting for certain investors, given their potential for revaluation, and stock market indices are even created on this type of company.

Treasury: U.S. government bond.

USD: U.S. dollar.

USMCA: United States – Mexico – Canada Agreement: Agreement between Mexico, USA and Canada. This is the agreement that emerged to replace the North American Free Trade Agreement, better known by its acronym NAFTA or NAFTA, whose objective was to facilitate foreign trade between Mexico, the U.S. and Canada.

WIBOR: Warsaw interbank offered rate.

WIG: Warsaw Stock Exchange WIG index includes all companies listed on the main market, excluding companies and investment funds.

Yield: Is the difference between the value that will be returned to me at the maturity of a bond and its purchase price expressed as a percentage.

YTM: Yield to maturity.

Private markets

Brownfield: Term used in infrastructure to describe strategies focused on mature projects or assets with a high level of occupancy and recurring income generation.

Buyouts (LBOs): Investments made through the equity of private companies, typically structured with debt financing, with the objective of implementing transformation plans to maximize business value and drive EBITDA growth. At the same time, they pursue an exit strategy designed to achieve a higher valuation multiple upon realization.

Core: Investments in mature assets that generate stable and predictable cash flows, supported by long-term contracts.

Core+: Investments in mature assets that require some degree of transformation in order to improve efficiency or enhance asset value. These typically involve additional CapEx.

Greenfield: Term used in infrastructure to describe strategies focused on the development of projects or assets in an early stage that require construction and capital investment.

Growth: Investments in established private companies in a full growth phase, with business expansion plans and CapEx requirements to support that expansion.

Value Added: Investments involving the acquisition of assets in a development phase or those requiring significant transformation or repositioning. These are actively managed to enhance cash flows and generate capital appreciation at exit.

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