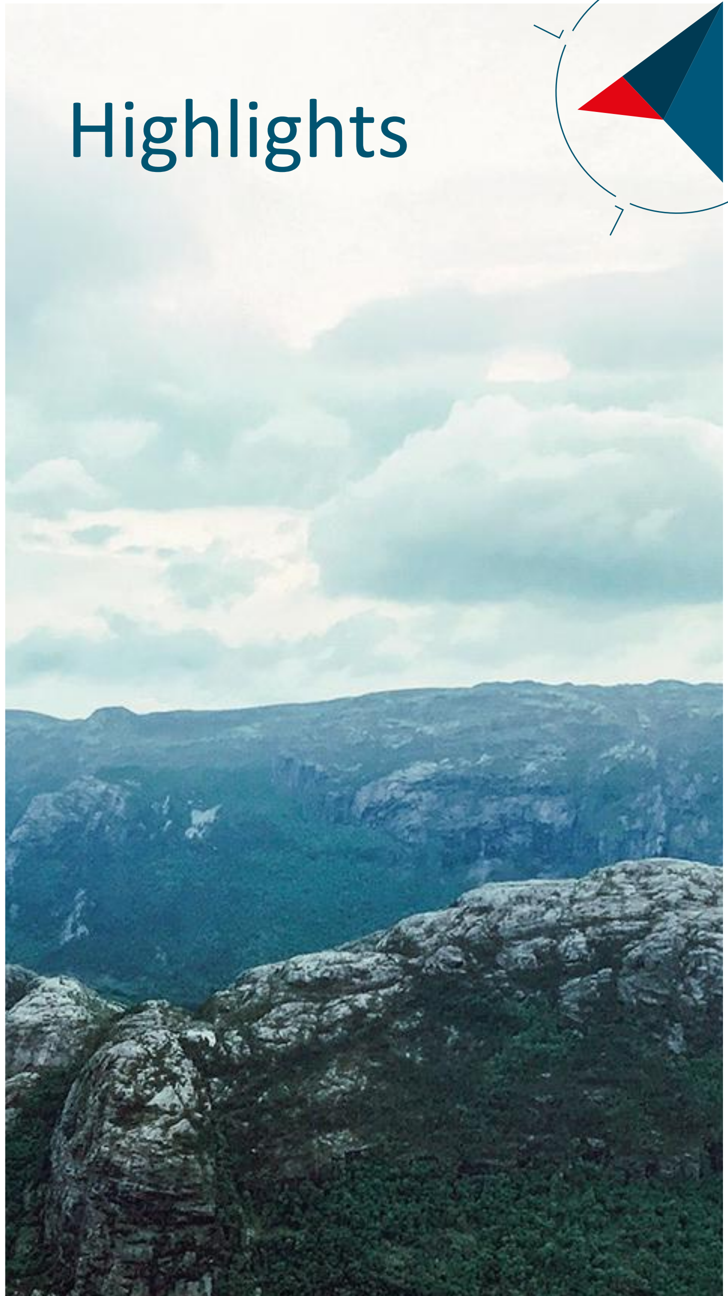
COMPASS

Santander Asset Management

Tactical Asset Allocation Strategy

February, 2026



Highlights

Macro & Scenarios: Cycle expansion gaining traction. Confidence in a soft-landing scenario continues to increase as global activity remains resilient and increasingly broad-based. Inflation continues to normalize gradually, although the path remains uneven due to services dynamics and tariff-related frictions. Overall, **the macro backdrop is increasingly consistent with a cycle-expansion phase**, characterized by resilient growth, contained disinflation and manageable policy uncertainty, supporting a gradual increase in cyclical risk exposure.

Investment Strategy: Gradual Shift Toward Pro-Cyclical Risk. The investment stance becomes more constructive, reflecting growing confidence in the expansionary phase of the cycle and the expected broadening of market performance. While maintaining a disciplined approach and close monitoring of short-term technical signals, the strategy now favors a gradual increase in risk exposure rather than keeping allocations stable. The adjustment is implemented selectively, with a clear pro-cyclical bias, as macro conditions remain supportive and volatility contained, allowing the portfolio to transition progressively from defensive positioning toward higher-beta assets.

Asset Allocation Strategy: Carry as the Anchor, Cyclical Risk Increasing. Carry remains a key source of returns, supported by solid fundamentals and stable credit conditions. However, the asset allocation evolves toward a more pro-cyclical configuration, with a gradual increase in risk assets. Equity exposure is raised selectively, led by emerging markets, reflecting improving growth dynamics and a broader earnings backdrop. In fixed income, we reallocate from sovereign bonds toward emerging market debt, where carry and valuations remain attractive in a supportive global environment. Industrial commodities retain an overweight, consistent with the expansionary phase of the cycle and ongoing structural demand drivers.

Risks and Diversification: Stable Risk Map, Supportive for Re-Risking. The risk map remains broadly stable, with tariffs, uneven disinflation and policy uncertainty as key watchpoints. Credit carry and gold continue to anchor diversification, while FX exposure remains neutral. The stable risk environment supports a gradual increase in cyclical risk.

OneTAA: Gradually Increasing Pro-Cyclical Exposure

Our asset allocation stance remains moderately constructive, consistent with a policy-supported expansion and broadening earnings backdrop. The macro environment continues to favor carry and selective risk-taking, and we take a slightly more active step into risk this month. Funding is rebalanced away from DM bonds and cash, while maintaining a disciplined implementation within a still moderately pro-risk framework.

In fixed income, **we reinforce our preference for carry, increasing exposure to emerging market debt while reducing allocations to developed market bonds**. Credit remains supported by solid fundamentals, stable technicals and attractive carry, and continues to play a central role in portfolio construction. Sovereign exposure in developed markets is trimmed at the margin, consistent with stable yields and a reduced need for defensive duration. Overall, fixed income positioning remains focused on income generation rather than directional duration bets.

In equities, **we increase exposure to Emerging Markets**, reflecting improving relative momentum, more attractive valuations and a supportive global growth environment. Developed market equity exposure remains stable, preserving a pro-cyclical tilt aligned with the expansionary base case. The equity allocation remains a key driver of growth within the portfolio, complemented by carry-oriented exposures elsewhere.

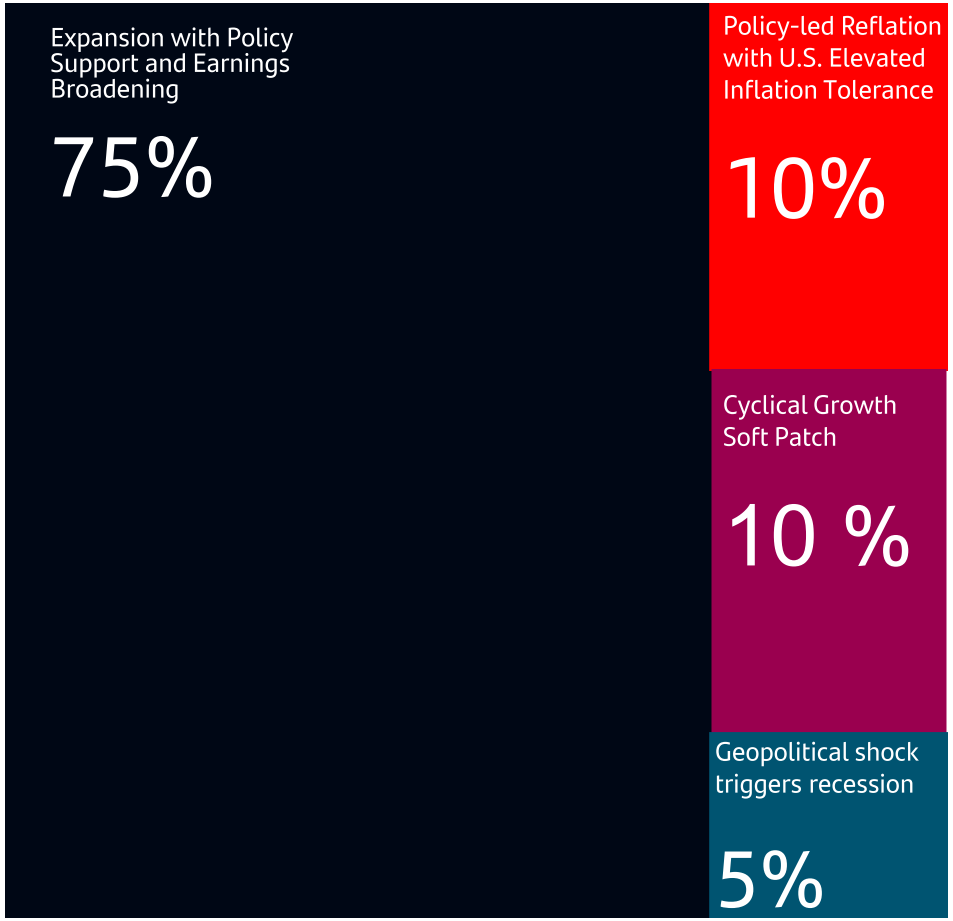
In FX, we make no changes this month, maintaining existing positions as relative value signals remain stable. In commodities, we maintain an overweight in precious metals and industrial commodities. Within precious metals, we partially reduce the overweight and take profits following the recent rally in gold and silver. In contrast, we increase exposure to industrial metals, reflecting our more pro-cyclical growth outlook and improving demand dynamics.

One TAA

OW+ | OW | N | UW | UW-

		Fixed Income				Equities		FX			Commodities			
		Govt. Bonds	Credit		EMD									
	Cash	DM Bonds	IG	HY	EM Bonds	DM	EM	EUR	JPY	GBP	Energy	Precious	Agricultural	Industrials
Previous (17/12/2025)	UW-	N	OW	OW	OW	OW	OW	N	N	N	N	OW	N	OW
Current (20/01/2026)	UW-	UW	OW	OW	OW	OW	OW	N	N	N	N	OW	N	OW
Change	→	↓	→	→	→	→	→	→	→	→	→	→	→	→

Investment Scenarios: Expansion with Policy Support and Earnings Broadening



Our scenario framework remains anchored in a resilient global expansion, with growth converging toward potential and policy settings broadly supportive. We assign a 75% probability to the **Expansion with Policy Support and Earnings Broadening** scenario, our clear base case. The U.S. continues to lead global activity, supported by resilient consumption and a gradual broadening of investment beyond AI, while inflation keeps disinflating—particularly in services—without generating material labor market slack. Monetary policy transitions incrementally toward neutral, and growth in the Eurozone and the U.K. improves modestly as financial conditions ease. Earnings growth broadens into 2026, supporting a constructive but more balanced risk environment.

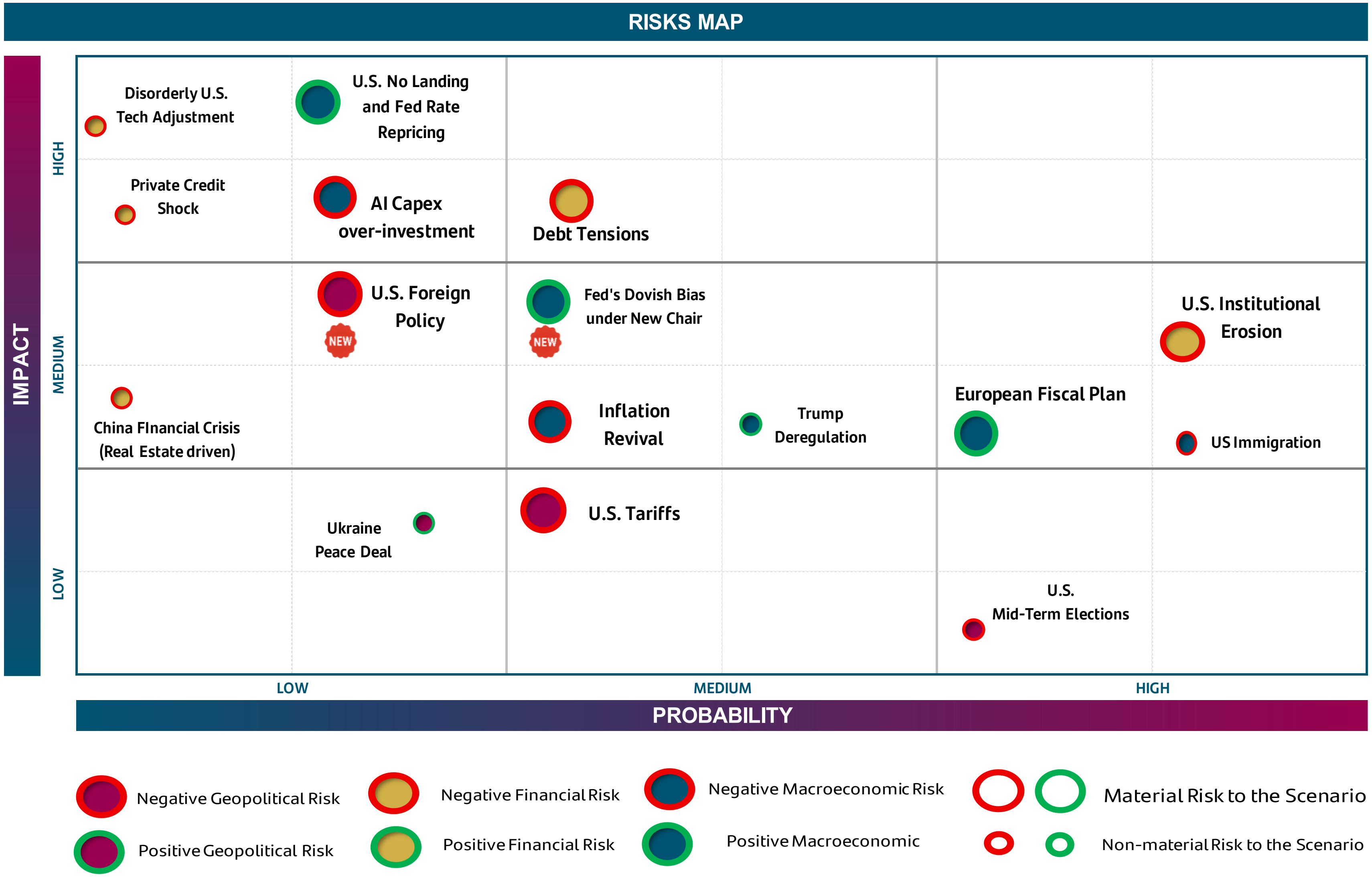
We assign a 10% probability to the **Policy-Led Reflation with U.S. Elevated Inflation Tolerance** scenario. In this upside case, the Fed becomes more tolerant of inflation overshoots to support growth and financial stability, allowing real rates to compress and financial conditions to loosen more aggressively. Risk assets perform strongly, driven increasingly by valuation expansion rather than fundamentals, improving near-term returns but raising medium-term risks linked to elevated valuations and capital misallocation.

The **Cyclical Growth Soft Patch** scenario is also assigned a 10% probability. Here, the AI-led investment impulse fades faster than expected while the recovery in non-AI and cyclical investment is delayed, leading to a temporary moderation in growth. U.S. activity slips below potential for several quarters due to timing effects rather than restrictive policy or financial stress. Markets experience a growth scare, with equity corrections driven by valuation compression, modest spread widening and higher volatility, but without a shift into a recessionary regime.

We assign a 5% probability to **the Geopolitical Shock–Induced Recession** scenario. This tail risk reflects the potential for a major geopolitical disruption to trade, energy supply and confidence, triggering a synchronized downturn. Growth contracts sharply, financial conditions tighten abruptly and risk assets reprice materially, while policy responses are constrained by elevated uncertainty and debt levels.

Overall, the scenario distribution remains skewed toward continued expansion, supported by policy normalization and a broadening of earnings. At the same time, the presence of reflationary upside and cyclical downside risks reinforces the need for disciplined risk management and close monitoring of policy, inflation dynamics and geopolitical developments as we move further into 2026.

Risk Map: Risks Remain Contained Despite New Watchpoints



Our risk map this month remains broadly balanced, with limited but relevant changes at the margin. The most notable addition is **U.S. Foreign Policy**, reflecting the risk that rising geopolitical frictions between the U.S. and other major regions—particularly Europe and China—could undermine market confidence and trigger episodes of risk aversion. While the probability remains moderate, the potential impact is meaningful given its implications for trade, capital flows and global financial conditions.

We have also redefined the **Fed Dovish Bias under the New Chair** risk. This risk now captures the possibility of the Fed pushing policy rates toward 2.5% or below, largely independent of the inflation outlook and without a material deterioration in growth. Such an outcome would increase the risk of policy misalignment, asset-price distortions and a more inflation-tolerant regime, with medium-term implications for rates and risk premia.

Beyond these changes, the overall distribution of risks is broadly unchanged. **Inflation persistence, policy credibility and geopolitical tensions remain key watchpoints**, but are currently assessed as contained. Overall, the map reflects a macro environment where downside and policy-related risks remain present but manageable, consistent with a base case of continued expansion supported by policy normalization as we move into 2026.

Fixed Income: Stable Yields Favor Carry & Roll-down Strategies

Harvesting Carry with Limited Duration Risk.

The carry profile in EUR credit remains compelling, with short-dated segments offering attractive income and favorable roll-down in an environment of stable yields and relatively unchanged curve slopes. Investors are well compensated for remaining in the front end, where interest-rate sensitivity is limited and both carry and roll-down contribute meaningfully to returns. The macro backdrop—cycle expansion, solid corporate balance sheets and stable demand for credit—remains supportive, reinforcing our preference for carry and roll-down over directional duration exposure within credit. In this environment, maintaining a low-duration stance while efficiently harvesting carry and roll-down remains the most robust approach.

Carry Strategy

Cycle
Expansion with stable neutral monetary policy.

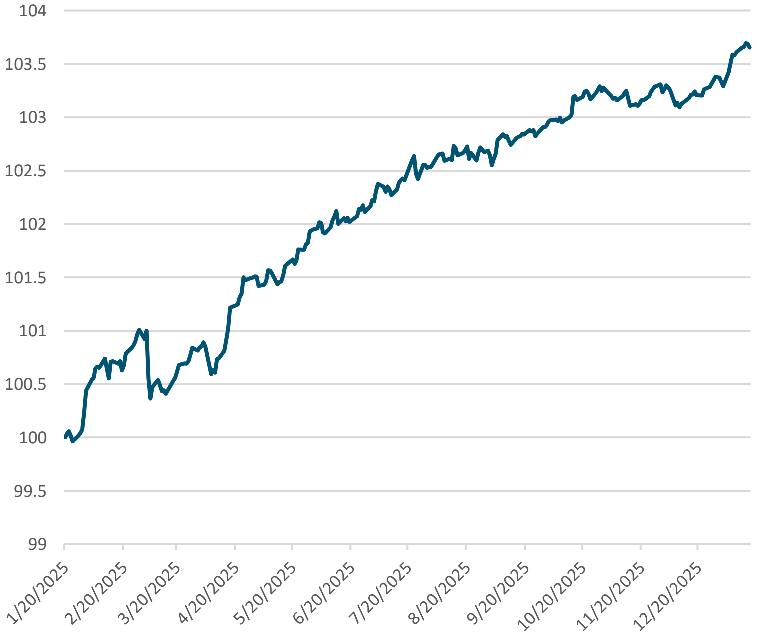
Fundamentals
Strong corporate balance sheets provide resilience, keeping spreads contained even at low levels.

Technicals
Robust investor demand sustains credit, with any widening seen as an opportunity to add exposure.

Carry & Roll-down is the preferred strategy: cycle, fundamentals and technicals all aligned, while valuations limit further tightening.

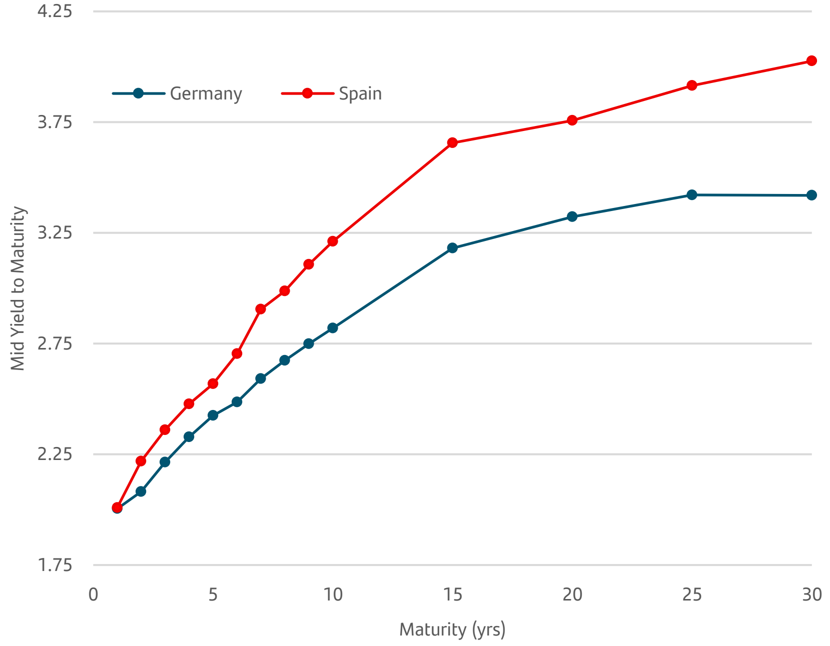
Evolution of a diversified 2.5-year duration portfolio

Source: Santander Asset Management, Bloomberg and ICE Indices



Roll-down: an additional source of return

Source: Santander Asset Management, Bloomberg and ICE Indices



Equity: Pro-Cyclical Sector Stance

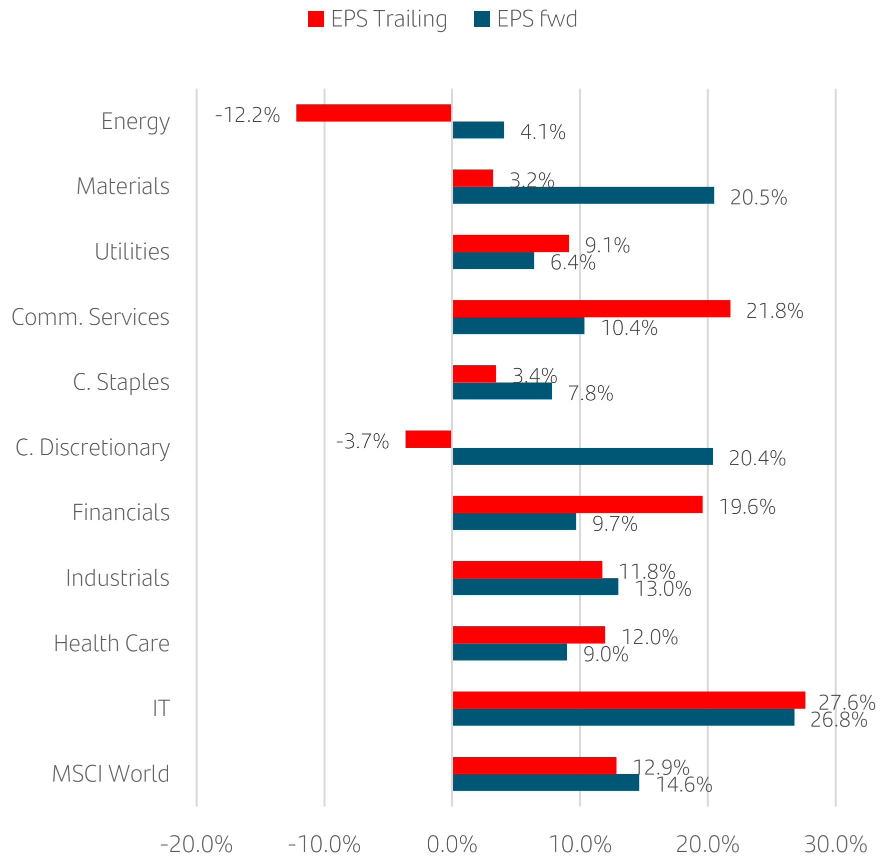
Our sector allocation reflects a **cycle extension view**, supported by a combination of earnings trends, momentum, relative performance and flows.

We remain Overweight IT, Industrials, Financials and Materials, with Materials increased in line with the cycle. Consumer Discretionary stays tactically Neutral, as signals remain mixed.

Energy moves to Neutral, while Consumer Staples, Utilities and Healthcare are downgraded, reflecting weakening relative momentum and a continued rotation away from defensives.

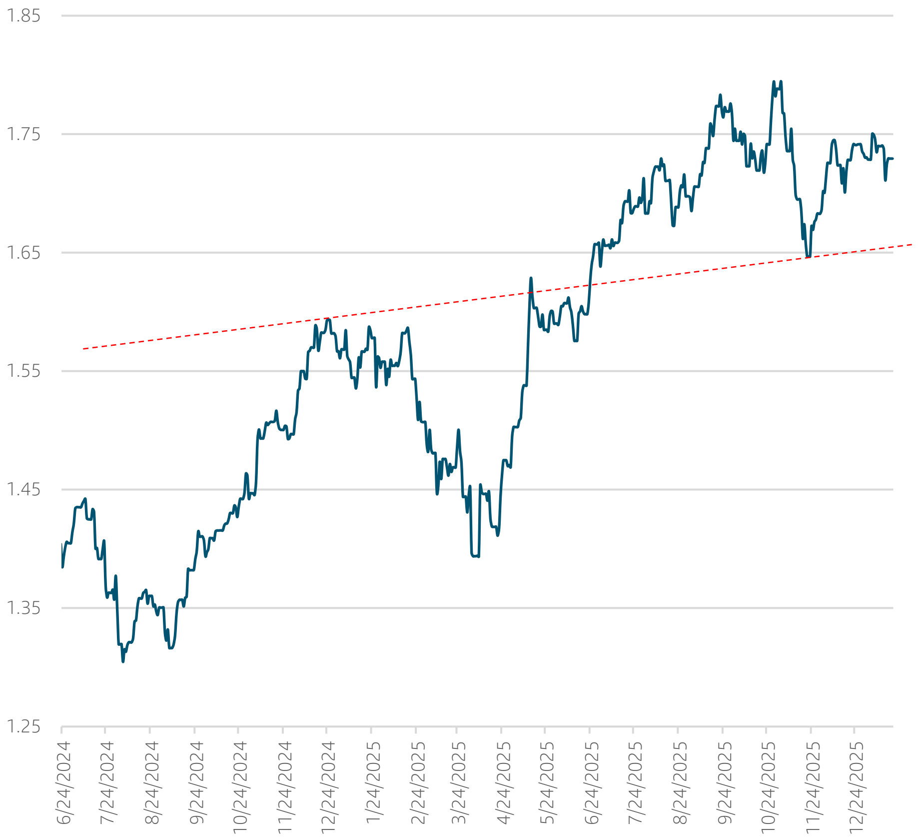
Sectors: EPS Rotation

Source: Bloomberg & Santander Asset Management



MSCI ACWI Cyclicals vs Defensive

Source: Bloomberg & Santander Asset Management



FX Strategy: Maintaining a Neutral and Balanced FX Stance

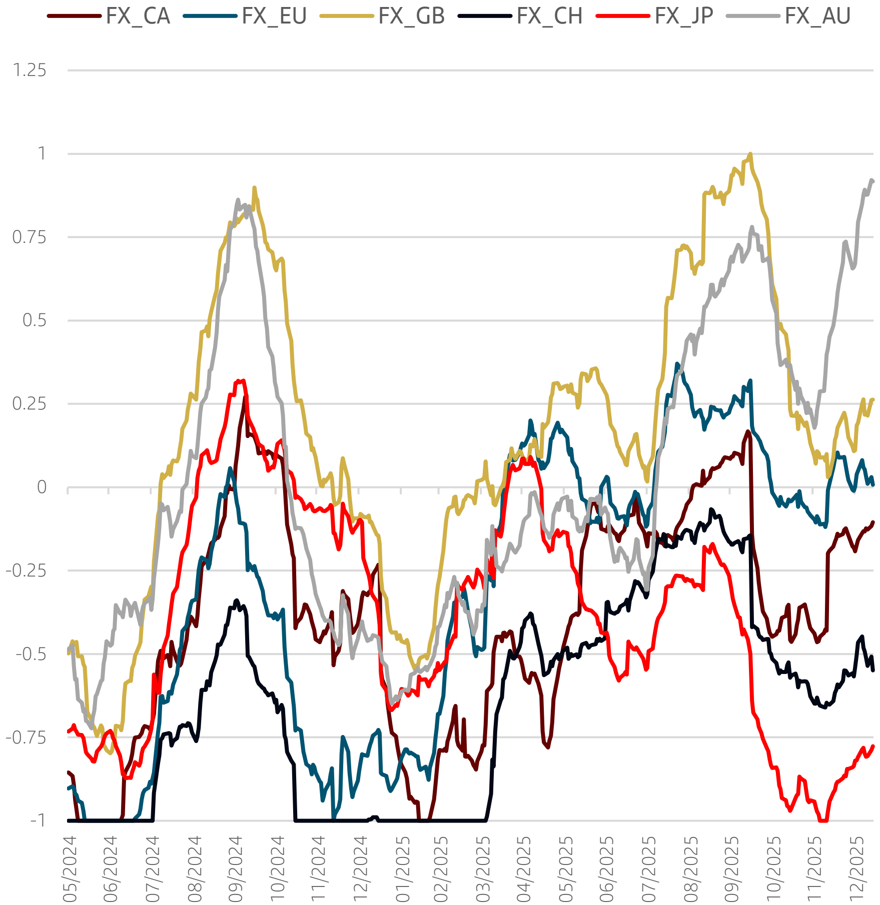
Although the USD appears to have lost some momentum—consistent with our signals and the expected evolution of interest-rate differentials—we still see **no evidence of a clear and sustained turning point.**

We therefore **remain neutral on EUR, GBP and JPY.** That said, we acknowledge some improvement in underlying signals, particularly among more cyclical currencies. In the case of JPY, performance has remained weak and the risk of intervention by Japanese authorities continues to be elevated, limiting upside asymmetry.

Overall, our currency positioning remains balanced as we await clearer macroeconomic and policy signals.

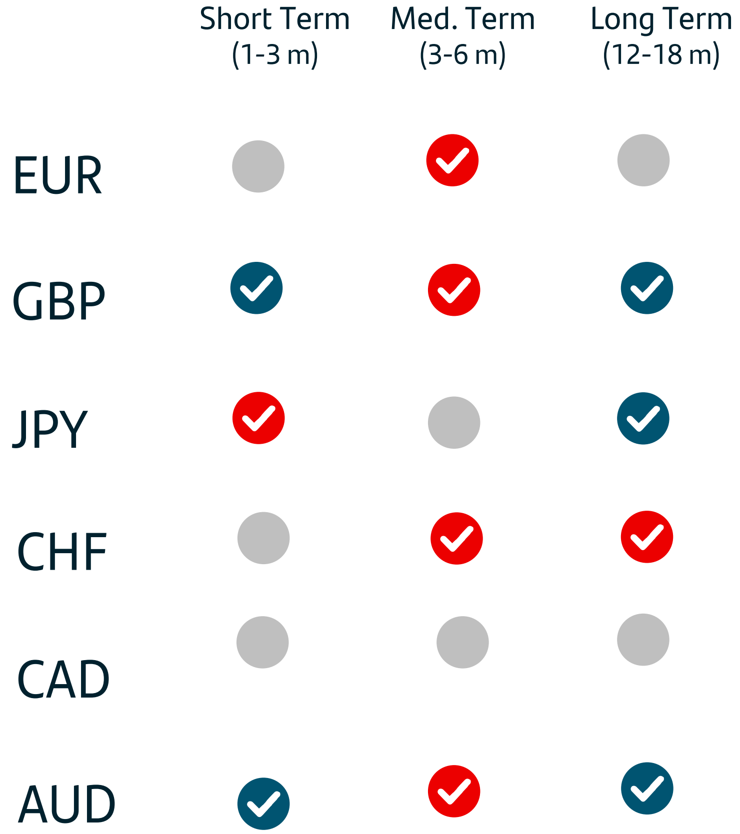
FX Signals

Source: Santander Asset Management



FX Positioning vs USD

Source: Santander Asset Management

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Thank you

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