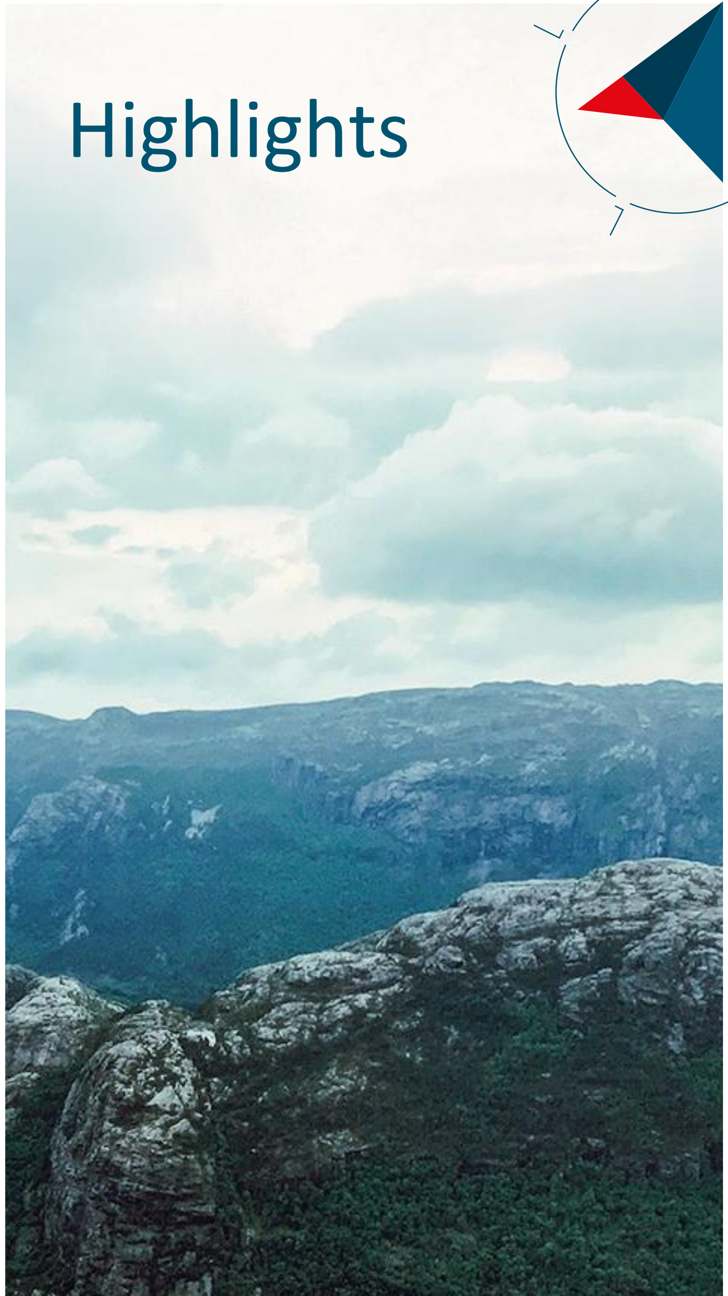
COMPASS

Santander Asset Management

GAAC - TAA Strategy

March 26th, 2026

Highlights



Expansion with temporary energy-driven inflation shock

While our base case remains an expansion, the persistence of the energy shock has increased the probability of less favorable outcomes. Markets have largely priced the inflation shock, but not the potential impact on growth.

Strategy: From a directional positioning to convex positioning

The market has largely priced the inflation shock, but not a potential delayed growth impact. As the conflict persists, the distribution of outcomes has widened, increasing asymmetry and downside risks. We are not changing our macro regime, but we are **evolving our positioning to incorporate convexity**, aiming to protect against downside scenarios while preserving flexibility to re-risk as visibility improves.

Risk Environment: Low visibility & Asymmetry

In low-visibility environments, the objective is not to maximize returns under the base case, but to ensure resilience across a wider distribution of outcomes.

OneTAA: Building Resilience in a Low-Visibility Environment

Given the lack of visibility our target is to ensure resilience across a wider distribution of outcomes. Thus:

- We increase Developed Markets equity vs Emerging Markets, given more resilient earnings profile in DM and lower sensitivity to external shocks
- We increase duration to neutral, to better balance between inflation risks and potential growth slowdown.
- We increase IG credit vs HY Credit, as way to reduce exposure to non-linear spread widening in adverse scenarios.
- FX exposure is tilted toward USD, as the dollar is an effective hedge in risk-off and tightening liquidity environments.
- Commodities remain OW, as a protection against persistent inflation and geopolitical risk.

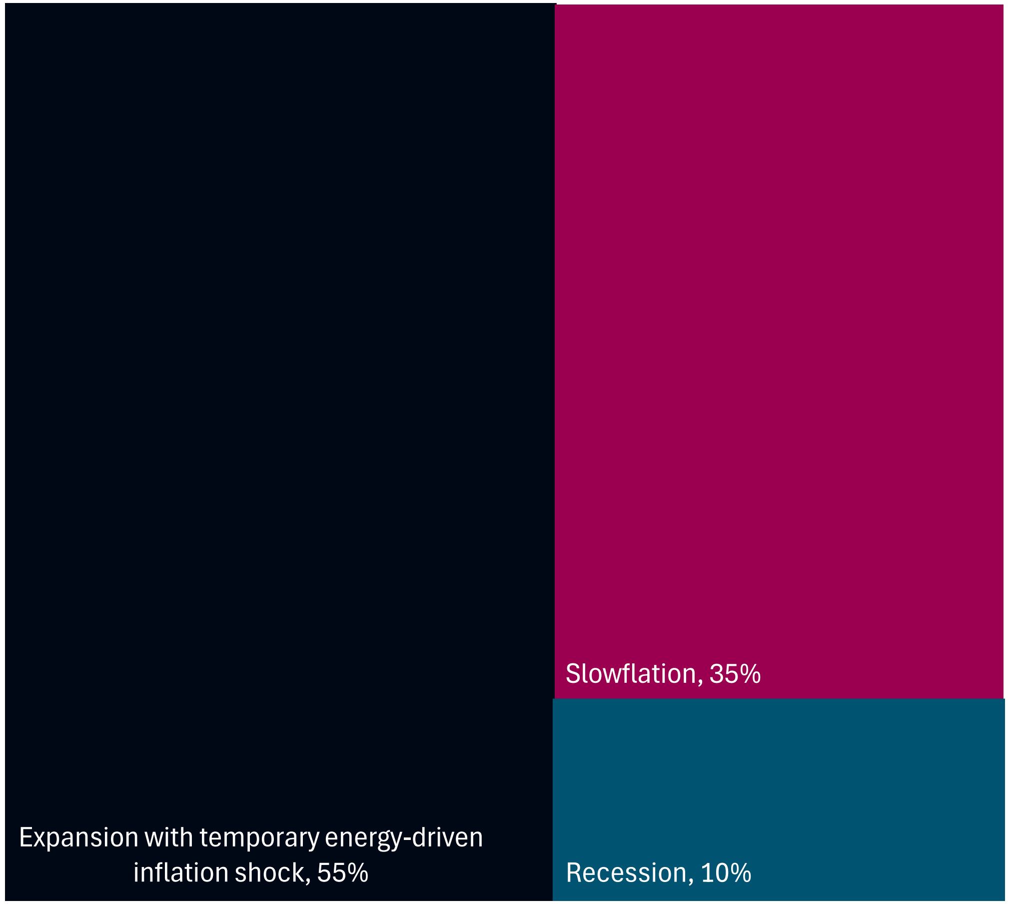
These adjustments aim to preserve optionality and improve portfolio robustness in an environment characterized by low visibility and asymmetric risks.

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 (17/03/2026)	OW	UW-	N	N	N	N	N	N	N	N	OW	OW	OW	OW
Current (26/03/2026)	N	N	OW	UW	UW	OW	UW	UW	N	UW	OW	OW	OW	OW
Change	↓	↑	↑	↓	↓	↑	↓	↓	→	↓	→	→	→	→

Investment Scenarios: Expansion with Increasing Downside Risks



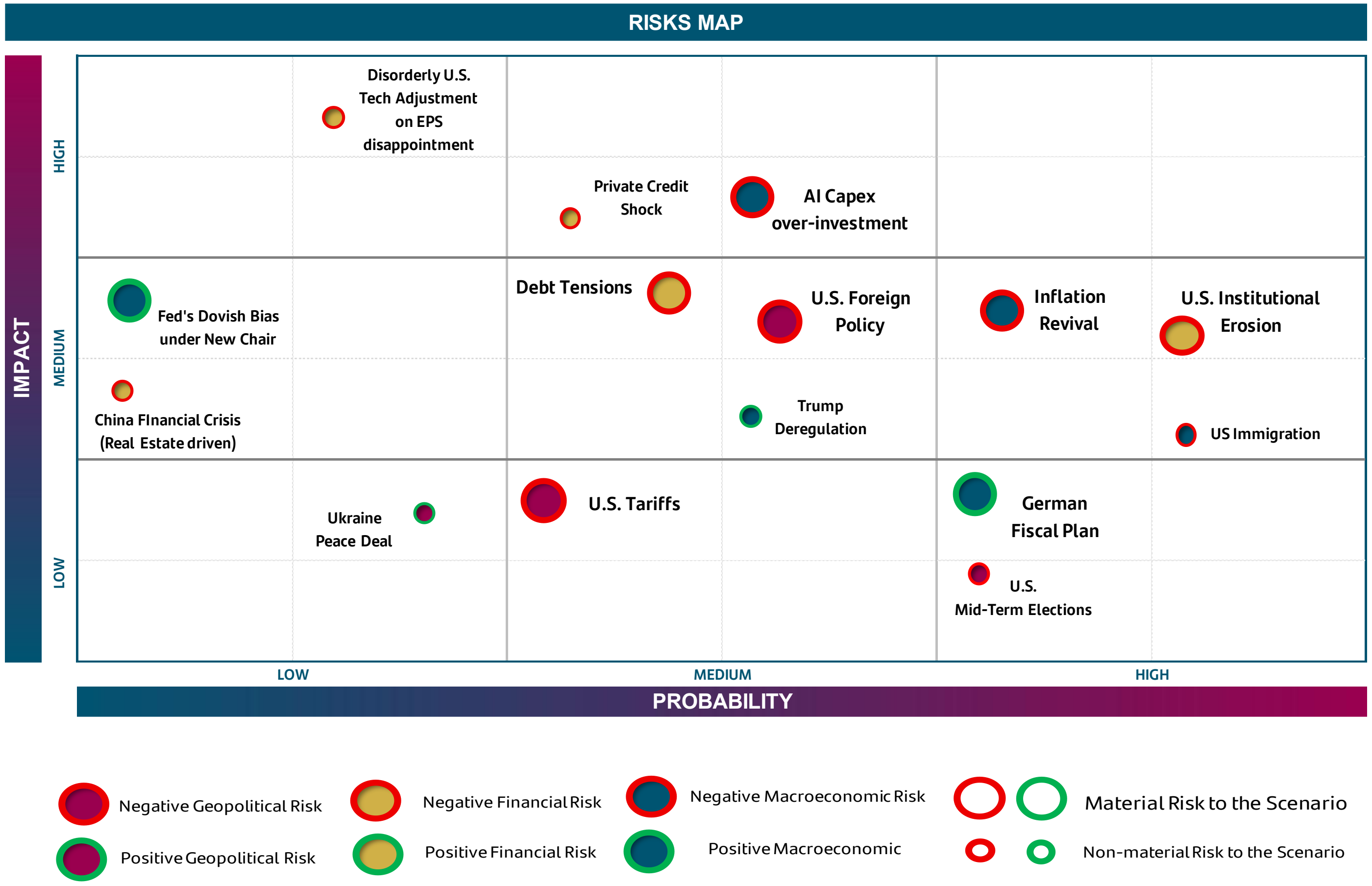
Our scenario framework remains anchored in a resilient global expansion, but the persistence of the energy-driven shock has increased uncertainty and widened the distribution of outcomes. We assign a 55% probability to **Expansion with a temporary energy-driven inflation shock** as our central scenario. Growth remains broadly resilient, although moderating at the margin, while the inflation impulse is driven primarily by higher energy prices and is expected to remain contained without triggering significant second-round effects. Policy remains broadly data-dependent, balancing inflation risks with the need to preserve growth, and financial conditions tighten only modestly.

We increase the probability of **a Slowflation** scenario to 35%, reflecting the risk that the energy shock proves more persistent and starts to weigh on growth. In this scenario, elevated input costs gradually compress margins and erode real incomes, leading to below-trend growth without a sharp contraction. Inflation remains higher for longer, limiting the ability of central banks to ease policy and resulting in a more challenging environment for risk assets, with lower returns and higher volatility.

We maintain a 10% probability of a **recession**, which would require a more prolonged or severe disruption to energy supply or a broader tightening in financial conditions. In this scenario, the combined impact of sustained high energy prices and weaker demand leads to a contraction in activity, a deterioration in earnings, and a significant repricing of risk assets. While current data does not justify a higher probability, we believe this downside risk is not fully reflected in market pricing.

Overall, the **distribution remains skewed toward continued expansion**, **but with a materially higher probability of suboptimal outcomes driven by the persistence of the shock**. While markets have largely priced the initial inflation impact, they have yet to fully incorporate the potential consequences for growth, resulting in increased asymmetry and reinforcing the need for a more balanced and resilient positioning.

Risk Map: Focus on energy-driven inflation shock



Risk Environment

Risk distribution remains broadly consistent with an expansionary regime, but uncertainty has increased and the balance of risks has shifted. The persistence of the geopolitical shock is widening macro asymmetries, with inflation risks already reflected in markets while downside growth risks remain underpriced. No regime shift signal yet, but higher dispersion of outcomes.

What Changed

↑ **Inflation Revival Risk**: Persistent energy shock increases upside inflation asymmetry. Market pricing reflects the initial impact but may underestimate second-round effects.

↑ **U.S. Foreign Policy Risk**: Broader geopolitical tensions beyond the Middle East (Europe, Greenland, China) increase uncertainty around trade, energy and global stability, with potential spillovers into financial conditions.

↑ **Private Credit Shock Risk:** Higher uncertainty and tighter liquidity conditions increase vulnerability in private credit markets, particularly under alternative scenarios where refinancing risks and asset quality deteriorate.

Top 3 Risks to Monitor

1. **Geopolitical Escalation / Energy Supply Disruption:** Prolonged disruption would increase inflation persistence and raise the probability of growth deterioration.
2. **Inflation Second-Round Effects:** Key for central banks and a critical driver of investment scenarios.
3. **Private Credit Stress:** Liquidity tightening and refinancing pressures could trigger spread widening and broader credit repricing.

Allocation Implication

Maintain a balanced and disciplined stance, shifting from directional positioning toward a more convex and resilient portfolio. Focus on managing asymmetry, protecting against downside risks, and preserving optionality in a low-visibility environment.

Fixed Income: Improved Pricing Supports Carry with Added Convexity

Carry with Better Pricing and Balanced Risks

The recent repricing in rates has improved the carry profile across fixed income, with front-end yields already reflecting a meaningful adjustment to the inflation shock. In this environment, carry remains attractive, particularly in short- and intermediate-maturity segments. However, fixed income allocation is no longer solely driven by income generation, as sovereign bonds regain relevance as a source of convexity and diversification across scenarios.

While credit fundamentals remain broadly supportive, spreads appear tight relative to the evolving macro backdrop. As a result, we maintain a preference for quality carry, emphasizing investment grade over high yield, and complementing income strategies with more balanced duration and curve positioning.

Carry Strategy

Cycle
Expansion with broadly stable growth momentum

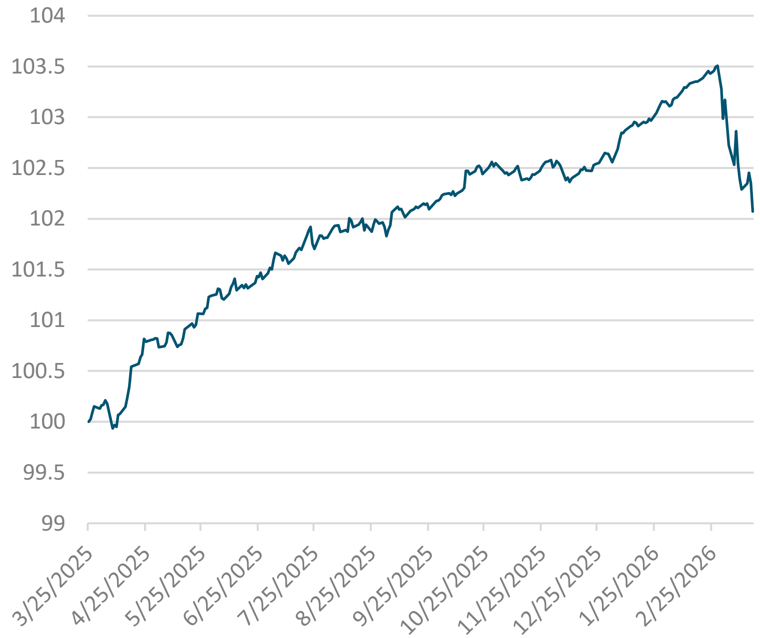
Fundamentals
Corporate balance sheets remain solid, but margin pressures are emerging as input costs rise and growth moderates.

Technicals
Investor demand remains supportive, but tight spreads limit further compression and increase sensitivity to macro uncertainty..

Carry remains attractive, but improved sovereign pricing and curve opportunities allow for a more balanced and convex fixed income allocation

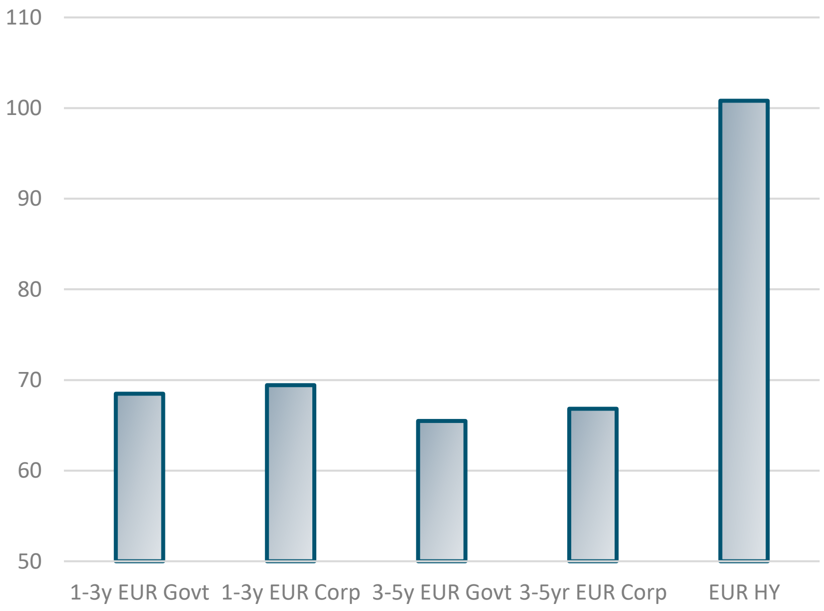
Evolution of a diversified 2.5-year duration portfolio

Source: Santander Asset Management, Bloomberg and ICE Indices



Yield Change since Oil price spike

Source: Santander Asset Management, Bloomberg and ICE Indices
Period: Feb. 27th, to March 24th, 2026



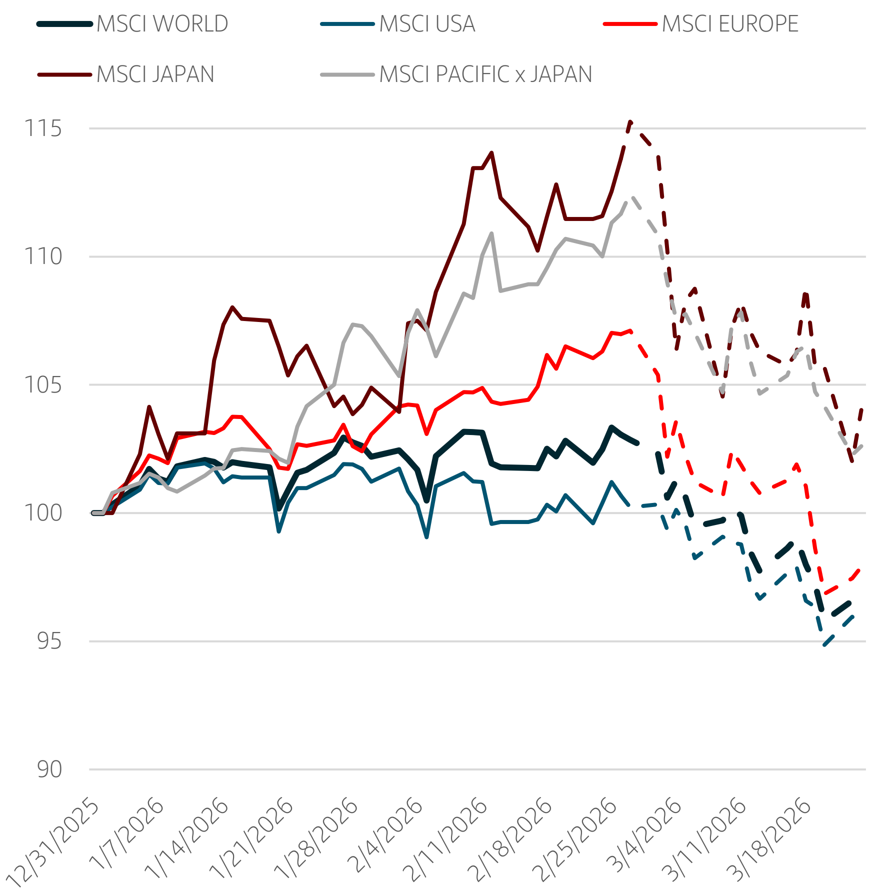
Equity Performance: Regions Vulnerability

Asian regions have been the weakest performers since the start of the conflict and remain the most vulnerable in the current environment. Their higher exposure to global trade, energy imports, and external demand makes them particularly sensitive to both the energy shock and a potential slowdown in growth.

This reinforces a clear asymmetry across regions: **energy-importing economies, particularly in Emerging Markets and Asia, face greater downside risks**, while energy producers are relatively more resilient. As a result, the risk/reward profile in Emerging Markets appears less attractive, with higher sensitivity to adverse scenarios and limited protection if conditions deteriorate further.

Selected DM Equity Performance

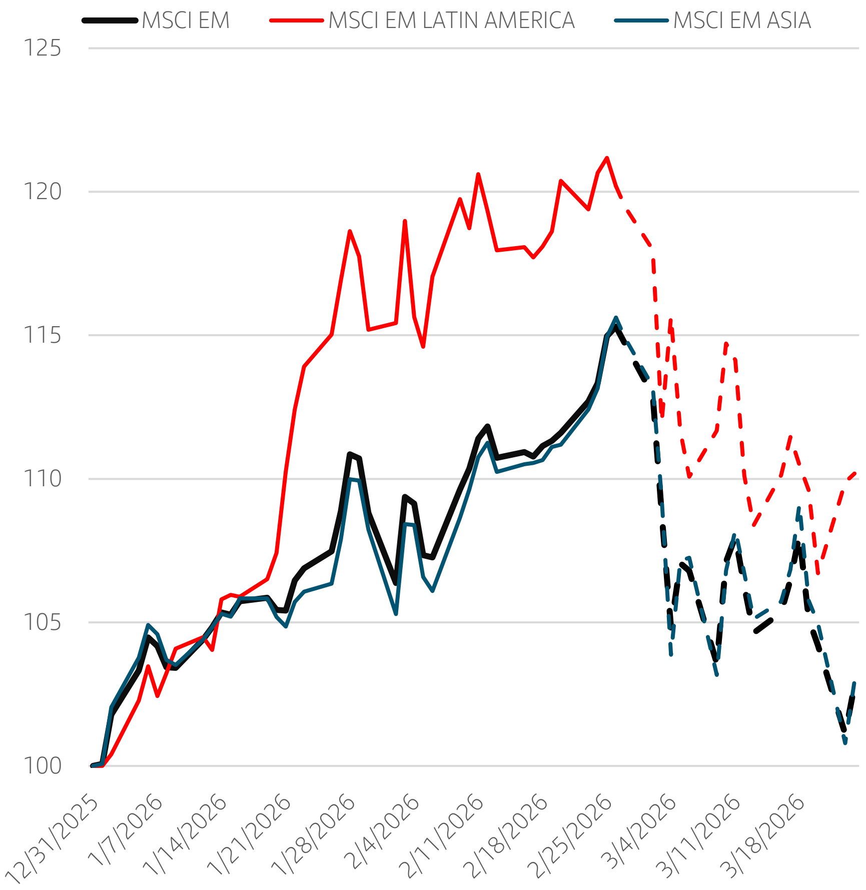
Source: Santander Asset Management & Bloomberg



31/12/2025 = 100

Selected EM Equity Performance

Source: Santander Asset Management & Bloomberg



31/12/2025 = 100

FX Strategy: USD Asymmetric Upside Risk

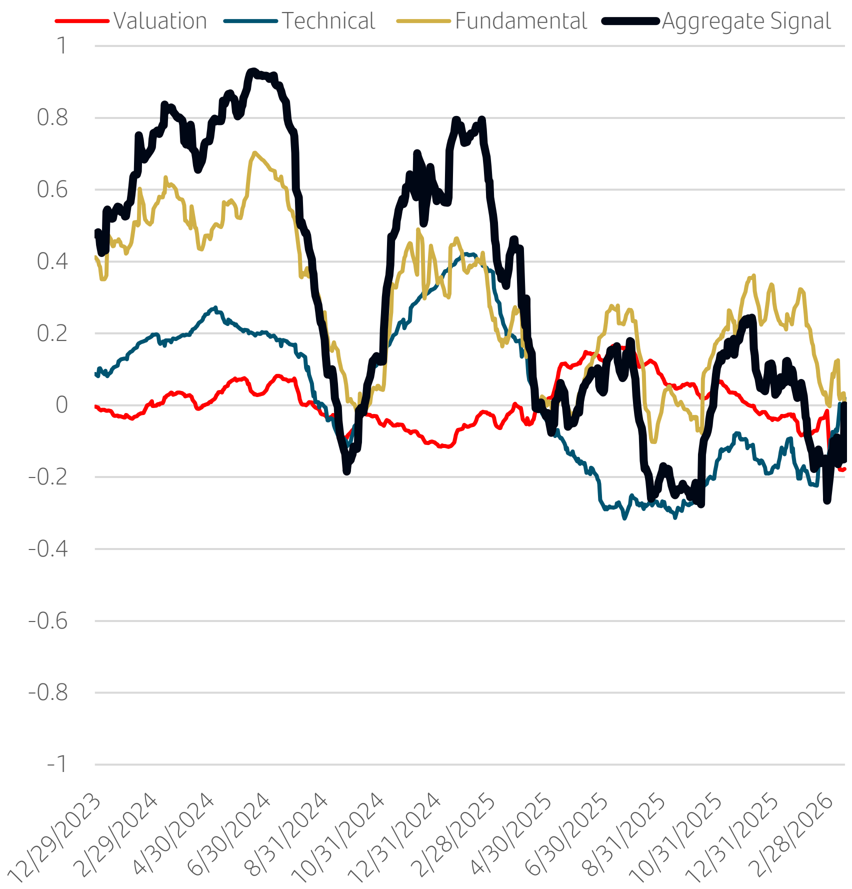
Our signals have generally indicated a neutral positioning for the USD, suggesting no strong directional conviction based on fundamental drivers alone. However, **the current macro environment introduces a clear asymmetry tilted toward USD appreciation.**

In periods of heightened uncertainty, geopolitical risk, and tightening financial conditions, the dollar tends to act as a key safe-haven asset. This implies that while downside may be limited in benign scenarios, upside can be more pronounced if risks materialize or volatility increases.

As a result, even from a neutral starting point, the USD offers attractive hedging properties within a more uncertain and fragile macro backdrop.

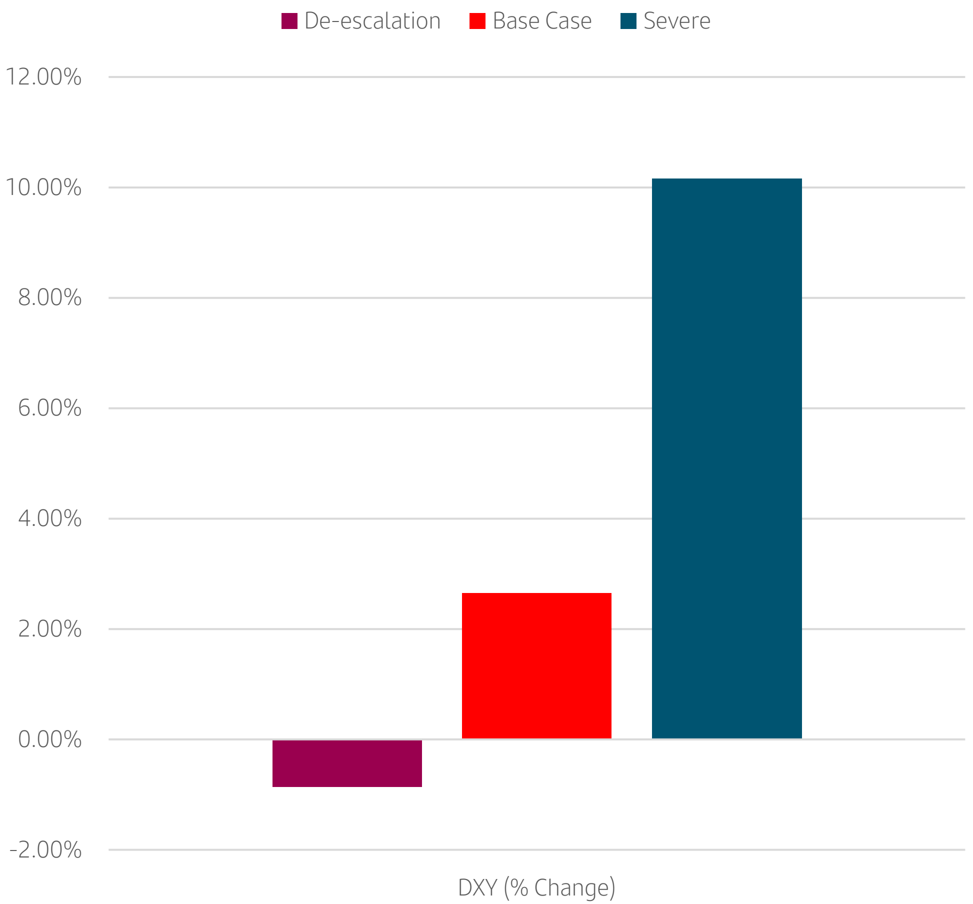
USD: Weighted Quant Signals vs USD

Source: Santander Asset Management



USD: Assymetric Risk

Source: Santander Asset Management



We have defined target levels for each of the scenarios we have modeled. The implied changes are calculated as of March 24, 2026, relative to the target prices assigned to each scenario.

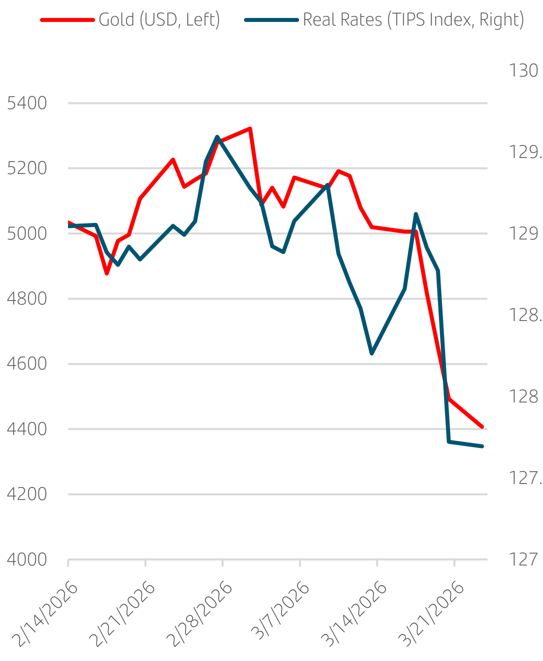
Gold Dynamics: Stress-Driven Repricing

Gold in Stress Regimes: Initial Weakness Explained

Recent weakness in gold can be explained by a combination of factors typically observed in stress episodes. First, gold tends to re-establish its correlation with real rates during extreme events, as seen in 2008, 2020, and 2022. In these phases, the initial move in real yields is often higher, creating short-term pressure on gold. Second, gold is frequently used as a source of liquidity after a strong prior rally, as investors reduce momentum exposure to raise cash and redeploy into dislocations. Finally, elevated speculative positioning can amplify these moves, accelerating the downside as positions are unwound in a more volatile environment.

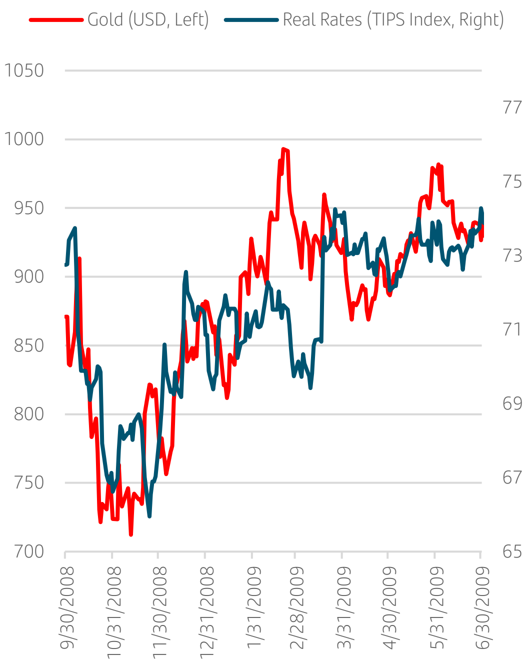
Gold and Real Rates – Feb26

Source: Santander Asset Management, Bloomberg



Gold and Real Rates – 2008

Source: Santander Asset Management, Bloomberg

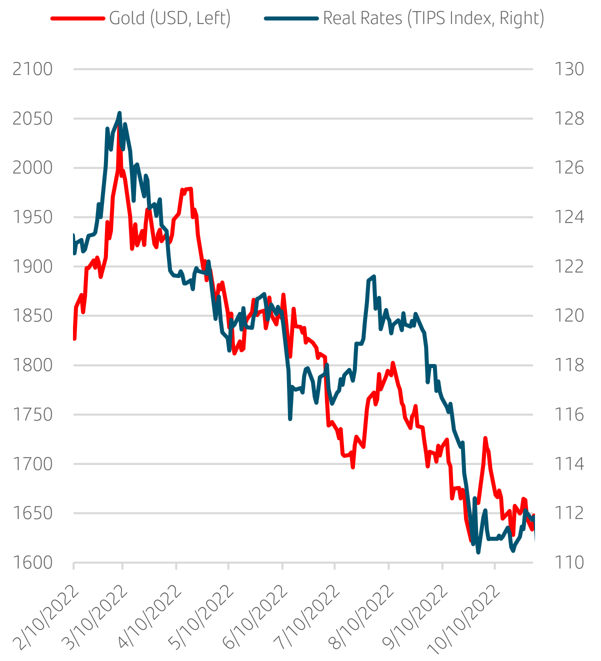


Gold and Real Rates 2020

Source: Santander Asset Management, Bloomberg

Gold and Real Rates 2022

Source: Santander Asset Management, Bloomberg

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Asset Management

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