

COMPASS



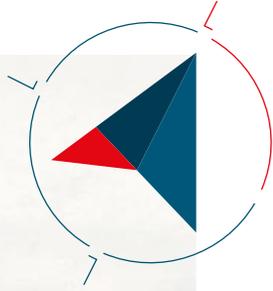
 **Santander**
Asset Management

GAAC - TAA Strategy

February 26th, 2026



Highlights



Expansion Broadens; Asymmetries Building

The global expansion remains intact and increasingly broad-based. Growth momentum is firm across regions, earnings are extending beyond narrow leadership, and financial conditions remain supportive. Disinflation continues, although upside inflation asymmetries are gradually building in a stronger growth environment.

Strategy: Pro-Cyclical Tilt, Carry Anchored

We maintain a constructive but disciplined pro-risk stance. Cyclical equities drive upside participation, while carry remains the primary source of stability within fixed income. Duration exposure is reduced following the recent rally, and diversification is preserved through gold and selective credit positioning.

Risk Environment: Contained but Shifting

Risk distribution remains consistent with expansion. However, macro asymmetries are rising — particularly around AI investment sustainability and inflation dynamics. No regime shift signal is evident, but active monitoring of earnings momentum and inflation risks is increasingly central to allocation decisions.



OneTAA: Broadening Pro-Cyclical Exposure

This month, we incrementally increase pro-cyclical exposure within a disciplined risk framework

- Developed Markets equity overweight is increased, reflecting stronger momentum and improving earnings breadth.
- Carry is reinforced in credit, while duration is reduced following the sovereign bond rally.
- FX exposure is tilted toward EUR and GBP versus USD.
- Industrial metals remain overweight in line with a broadening global cycle.

The tactical adjustment reflects rising confidence in the expansion, without moving into an aggressive pro-risk stance.

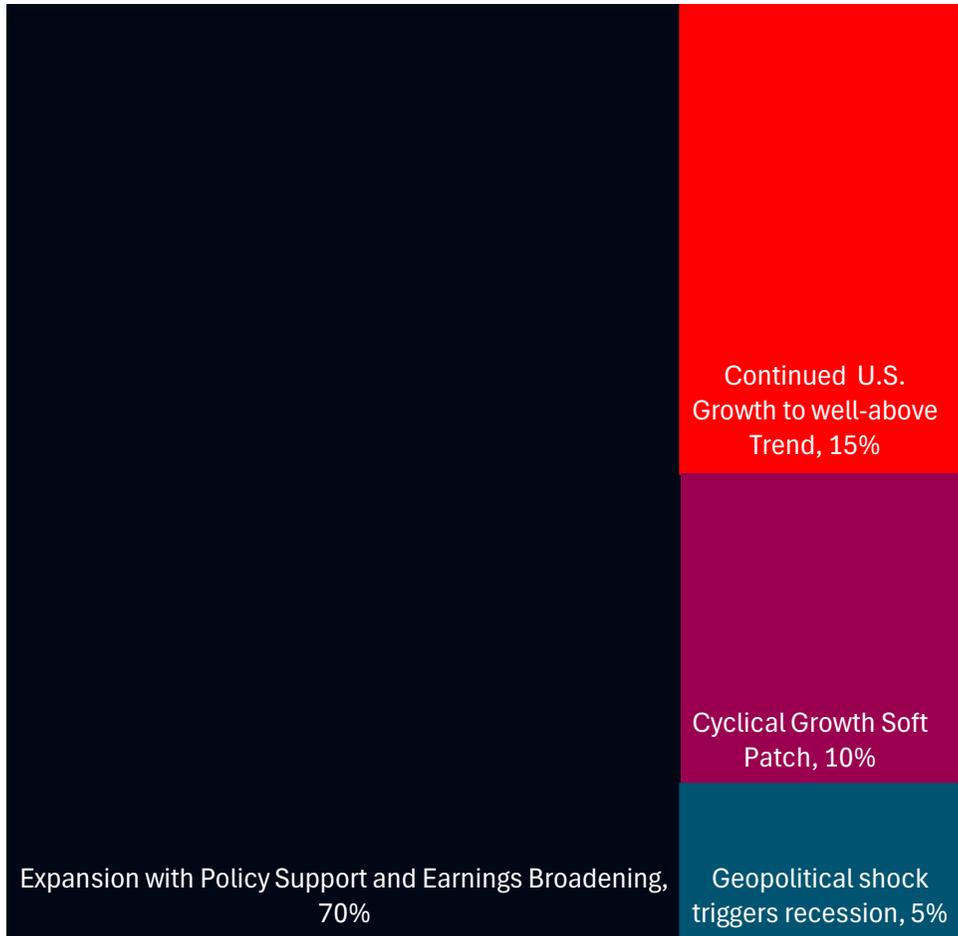
One TAA

■ 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 (20/01/2026)	UW-	UW	OW	OW	OW	OW	OW	N	N	N	N	OW	N	OW
Current (26/02/2026)	UW+	UW+	OW+	OW+	OW+	OW+	OW+	OW+	N	OW+	N	OW+	N	OW+
Change	→	→	→	→	→	→	→	↑	→	↑	→	→	→	→



Investment Scenarios: Expansion Broadens, Upside Risk Increases



Our scenario framework remains anchored in a resilient global expansion, with growth converging toward potential and policy settings broadly supportive. We assign a 70% probability to continued **Expansion with Policy Support and Earnings Broadening**, our central scenario. Global growth remains resilient and increasingly broad-based, while inflation continues to normalize without destabilizing financial conditions. Policy settings are gradually moving toward neutral, and earnings momentum extends beyond narrow leadership, supporting a constructive but more balanced risk environment.

We increase the probability of the upside scenario, **Continued U.S. Growth to well-above Trend** to 15%. In this configuration, policy becomes more tolerant of inflation overshoots, allowing financial conditions to loosen further. Growth accelerates above potential, asset valuations expand and cyclical sectors broadly outperform. Near-term returns improve, but medium-term imbalances and overheating risks rise.

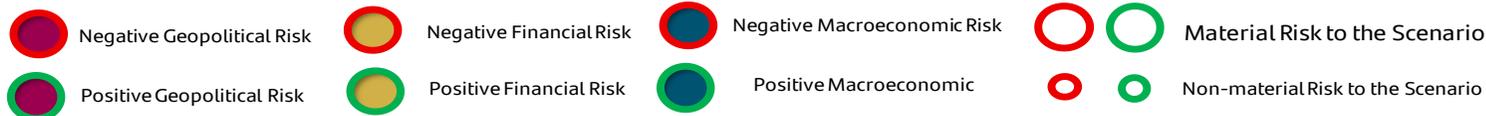
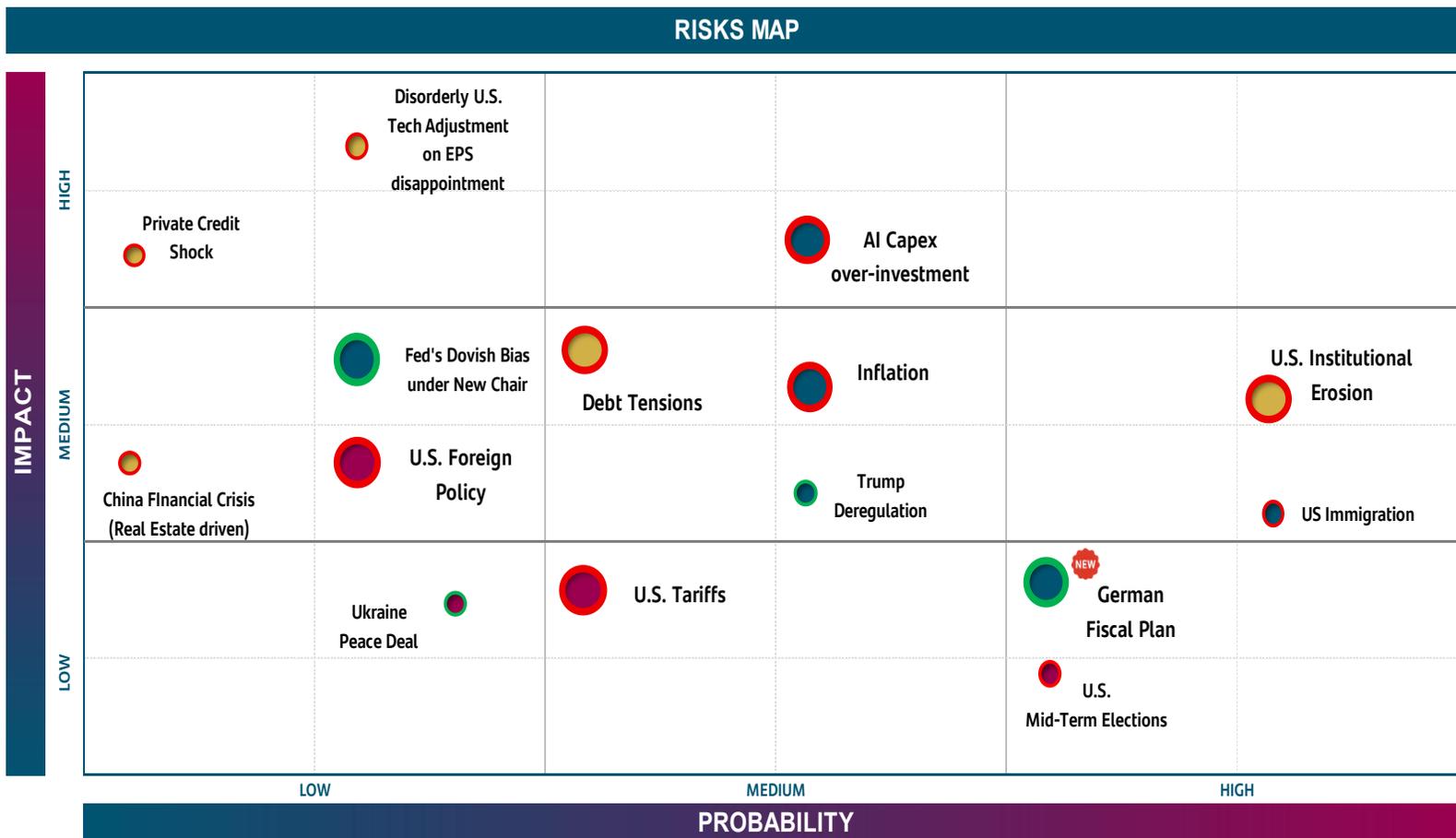
We maintain a 10% probability for a temporary **Cyclical Growth Soft Patch**. Here, investment momentum fades faster than expected and earnings expectations soften. Growth moderates below potential for several quarters, triggering equity consolidation and moderate spread widening. However, the adjustment remains cyclical rather than recessionary.

We assign a 5% probability to a recession triggered by a major geopolitical disruption. A shock to trade, energy supply or confidence would tighten financial conditions abruptly and reprice risk assets sharply. While not our base case, this tail risk remains monitored given elevated global uncertainty.

Overall, the distribution remains skewed toward continued expansion, but with a higher probability of upside reflation dynamics. This reinforces a constructive allocation stance while acknowledging growing late-cycle asymmetries.



Risk Map: Contained but Shifting Toward Macro Watchpoints



Risk Environment

Risk distribution remains consistent with expansion. Macro asymmetries are building, but no regime shift signal.

What Changed

- ↑ **AI CapEx Over-Investment:** Rising hyperscaler spending increases risk of overcapacity. Key transmission channel: EPS revisions.
- ↑ **Inflation Revival Risk:** Stronger growth raises upside inflation asymmetry. Market pricing remains benign.
- ↓ **Fed Dovish Bias Risk:** Warsh nomination reduces probability of extreme easing.
- ↓ **Japan Debt Tensions:** Volatility absorbed; systemic spillover risk reduced.

Top 3 Risks to Monitor

- AI Earnings Disappointment:** Forward EPS revisions drive valuation risk.
- Inflation Surprise:** Would reprice long-end yields and compress multiples.
- Policy Error (Over-Easing):** raising probabilities of late-cycle overheating.

Allocation Implication

Maintain constructive stance but disciplined stance. Monitor inflation dynamics and AI earnings momentum closely.



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

Harvesting Carry with Limited Duration Risk.

The carry profile in EUR credit remains compelling, particularly in short- and intermediate-maturity segments where income and roll-down dynamics remain attractive. In a range-bound yield environment with limited directional conviction, interest-rate sensitivity is better expressed through carry-efficient strategies rather than duration beta.

The macro backdrop—continued expansion, resilient corporate balance sheets and contained default risk—supports a stable credit environment. Investor demand remains robust, reinforcing our preference for harvesting carry per unit of duration rather than extending maturity risk.

Carry Strategy



Cycle

Expansion with broadly stable growth momentum



Fundamentals

Solid corporate balance sheets and contained leverage dynamics support spread stability.



Technicals

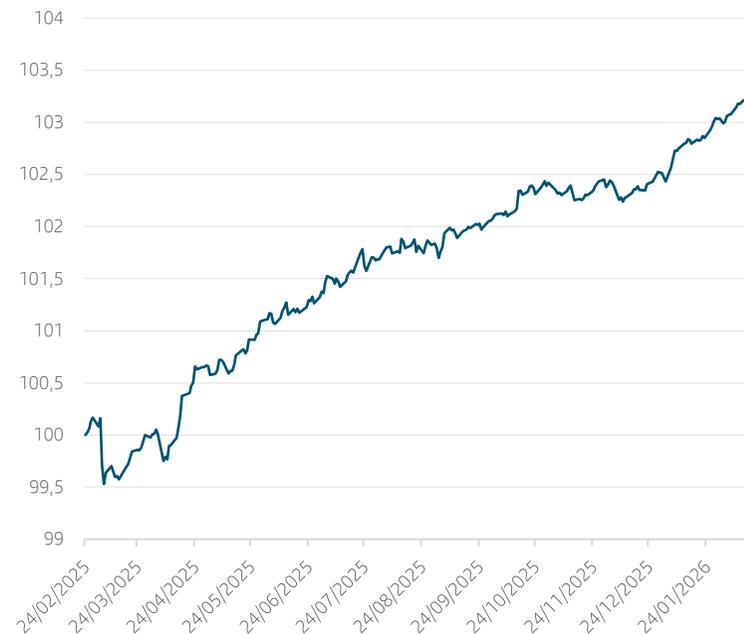
Robust investor demand sustains credit, with any widening seen as an opportunity to add exposure.



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

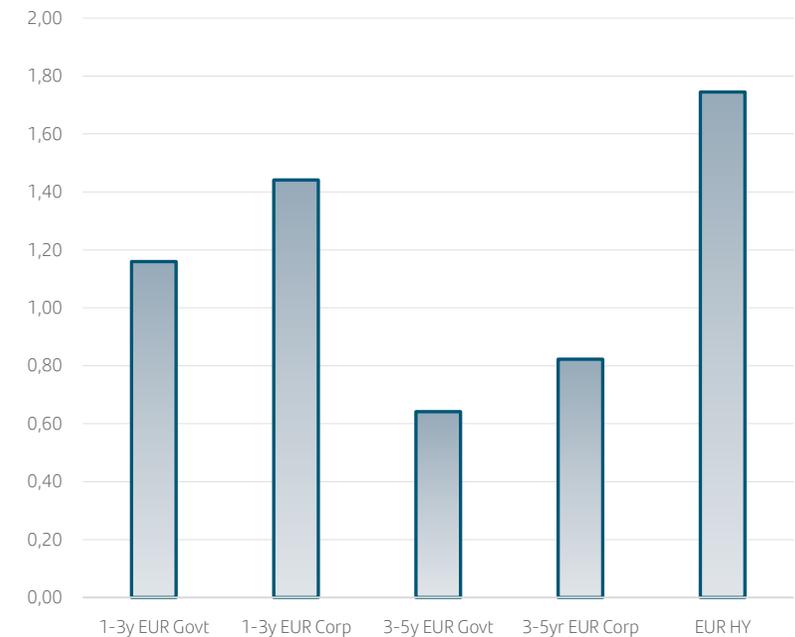
Evolution of a diversified 2.5-year duration portfolio

Source: Santander Asset Management, Bloomberg and ICE Indices



Efficient Carry to Duration Strategies

Source: Santander Asset Management, Bloomberg and ICE Indices





Equity: Pro-Cyclical Bias with Selective Adjustments

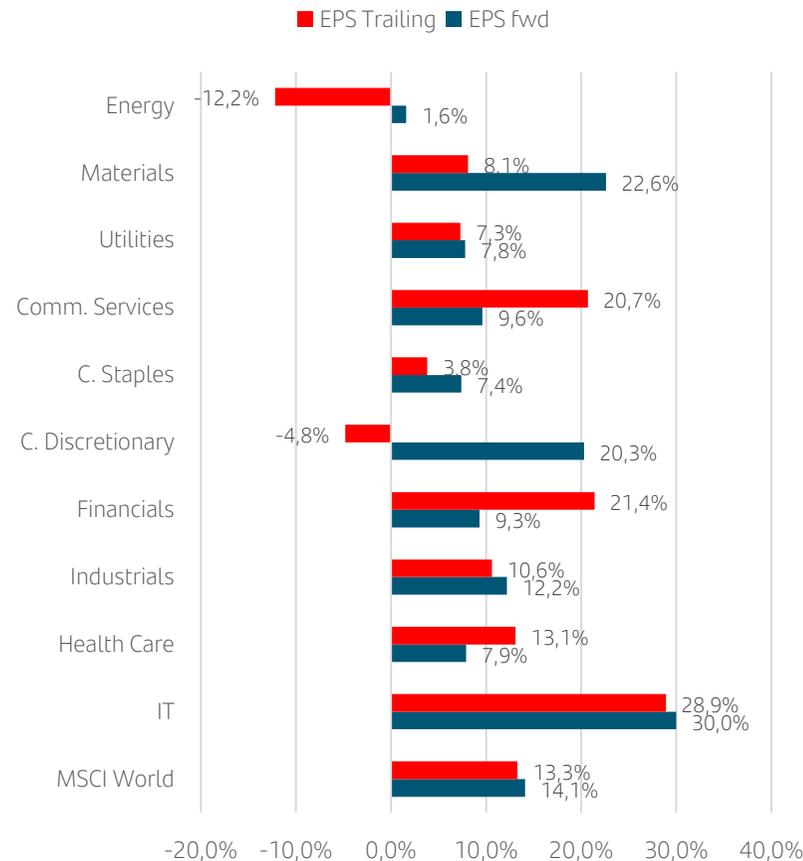
Our sector allocation continues to reflect a **cycle-extension view, supported by earnings resilience, constructive momentum, relative performance trends and supportive flows.**

We remain Overweight Materials, Industrials and Financials. We **reduce IT to Neutral** given ongoing uncertainty and limited visibility. **Energy moves to an Underweight** stance, as we believe current oil prices do not fully reflect underlying fundamentals.

Real State and Consumer Discretionary stays tactically Neutral as signals remain mixed. Staples, Utilities and Healthcare remain downgraded, consistent with our view on the cycle.

Sectors: EPS Rotation

Source: LSEG Datastream & Santander Asset Management



MSCI ACWI Cyclicals vs Defensive

Source: Bloomberg & Santander Asset Management





FX Strategy: USD Softening

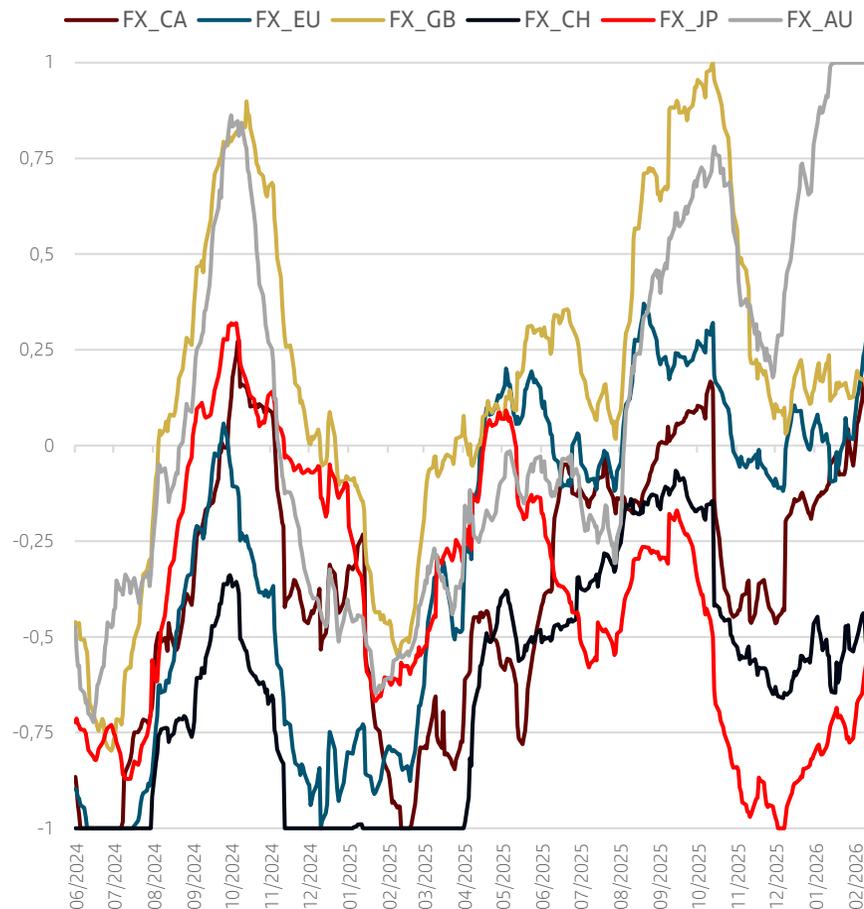
The USD has been gradually losing strength against most major and cyclical currencies, reflecting a shift in macro dynamics rather than a sharp deterioration in U.S. fundamentals. High-beta FX such as the AUD have outperformed, particularly following recent rate hikes that improved relative yield appeal.

Narrowing monetary policy differentials — as other central banks either tighten or delay easing — are reducing the USD’s carry advantage. At the same time, signs of broader global growth stabilization are supporting cyclical currencies.

That said, we do not expect a pronounced USD sell-off, but rather a controlled and gradual depreciation.

FX Signals

Source: Santander Asset Management



FX Positioning vs USD

Source: Santander Asset Management

	Short Term (1-3 m)	Med. Term (3-6 m)	Long Term (12-18 m)
EUR	↑	→	↑
GBP	↑	↓	→
JPY	↓	↑	→
CHF	↑	↓	↓
CAD	↑	↑	→
AUD	↑	↑	↑



FX Strategy: EUR and GBP

We expect both EUR and GBP to consolidate their recent ranges against the USD at somewhat higher levels.

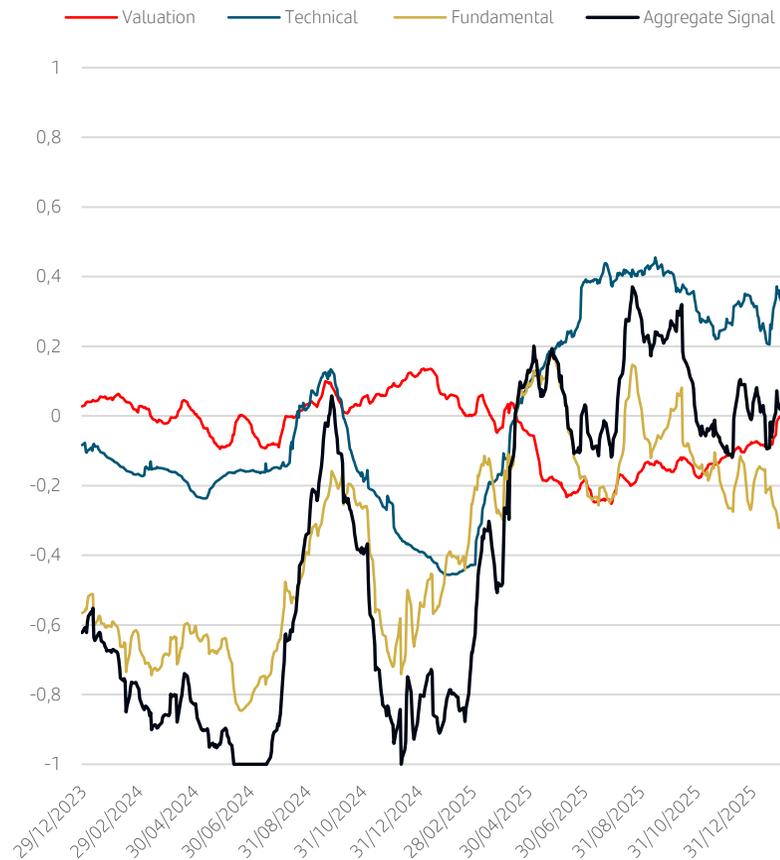
As global growth broadens modestly, the pressure that previously favored the dollar is easing. In this context, **we see scope for EUR and GBP currencies to move toward the upper end of their established trading ranges before stabilizing.**

The move is unlikely to be explosive, but the bias appears constructive in the near term.

Reflecting this tactical view, **we have increased our exposure to both EUR and GBP**, positioning for further upside within the range rather than a structural breakout.

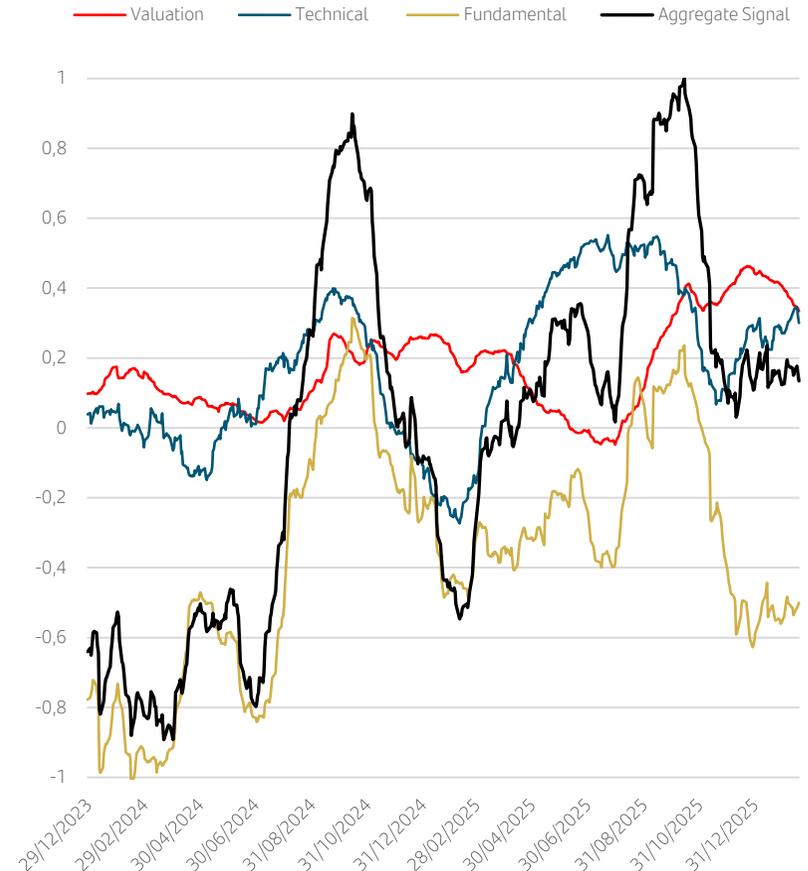
FX Signals: EURUSD

Source: Santander Asset Management



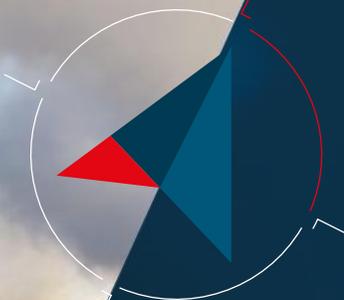
FX Signals: GBPUSD

Source: Santander Asset Management





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Asset Management

Thank you

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