COMPASS

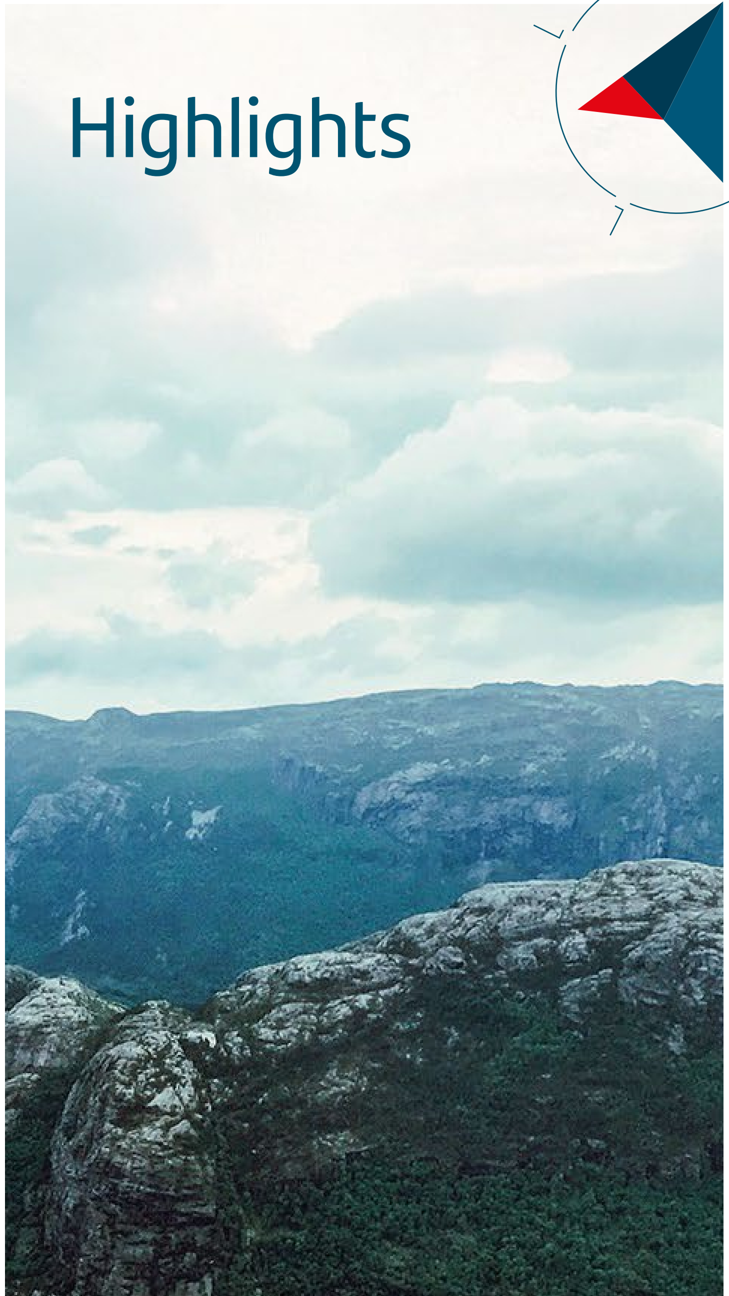
Santander Asset Management

GAAC - TAA Strategy

May 27th, 2026

Marketing communication

Highlights



Uneven expansion amid inflation persistence risk

The global economy remains in an uneven expansion. Growth is still positive, but leadership is narrow across regions, sectors and earnings drivers. Inflation risks have not fully normalized, particularly where energy and supply shocks can still influence expectations and central-bank reaction functions.

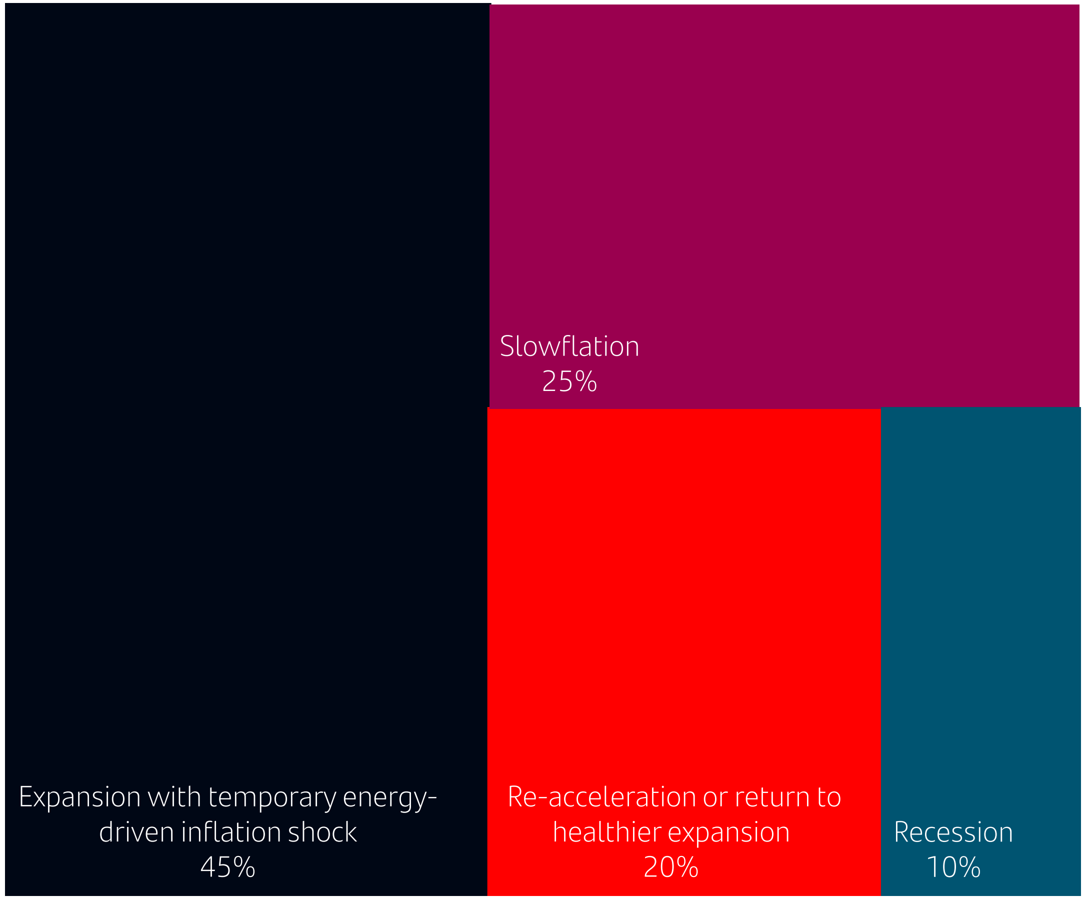
Strategy/Positioning: Selective participation with a mildly defensive barbell.

Our allocation remains selectively invested, with a deliberate emphasis on quality, liquidity and resilience. We continue to participate in areas where earnings visibility, balance-sheet strength and structural support remain strongest, including DM Equity and a more constructive stance on EM Equity, supported by earnings momentum and AI-related supply-chain bottlenecks. The portfolio aims to capture attractive quality carry while preserving resilience against downside scenarios.

Risk Environment: Low visibility & Asymmetry

Risks are asymmetric, with downside not fully priced. The persistence of the energy shock and potential policy missteps increase vulnerability, despite financial conditions remaining supportive overall.

Investment Scenarios: constructive outcomes still dominate, but the distribution is asymmetric



Source: Internal estimates as of May 27

Base case — Expansion with temporary energy-driven inflation shock | 45%
Growth remains positive but uneven across regions and sectors. Earnings leadership is concentrated in quality, scale, AI infrastructure and resilient cash flows. This supports selective participation rather than broad cyclical risk-taking.

Upside — Re-acceleration / healthier expansion | 20%
Lower shock pressure, resilient earnings and improved risk sentiment would support continued participation in equities and quality credit. Exposure is retained through DM Equity, US leadership, AI-linked themes, IG Credit and selected EM Asia exposure.

Downside — Slowflation | 25%
Inflation persistence, energy disruption, hawkish policy repricing, wider credit spreads or liquidity pressure would weigh on lower-quality and externally financed assets. This supports Cash, quality credit, commodity hedges and underweights in HY Credit and EMD.

Tail risk — Recession / correlation shock | 10%
A more severe growth, liquidity or correlation shock remains a meaningful risk if traditional equity-bond diversification becomes less reliable. The portfolio addresses this through liquidity, Precious Metals, inflation-sensitive hedges and disciplined risk exposure.

Constructive scenarios still represent around 65%, but downside risks are asymmetric. The strategy therefore remains selectively invested: participate where earnings visibility and quality are strongest, while preserving resilience through liquidity, quality carry, USD, Energy and Precious Metals.

Risk Map: Inflation persistence and concentration

Allocation Implication

The portfolio response is to keep risk exposure selective, prefer IG over HY, maintain liquidity, hold commodity hedges, and avoid assets that depend heavily on spread compression, external financing or a sustained decline in volatility.

Risk Environment

The main risks are not uniform across markets. They are concentrated in three areas: inflation shocks linked to energy and geopolitics, policy and term-premium repricing, and concentrated equity leadership. This combination requires a portfolio that can participate in resilient growth while reducing exposure to fragile sources of return.

What Changed

- Renewed yield increases on inflation persistence risk, policy repricing and fiscal concerns.
- Earnings resilience with AI leadership reinforced.
- Equity – Bonds Correlation

Top 3 Risks to Monitor

1. **Persistent energy shock** – An escalation in energy supply risk would reinforce inflation pressure and slowflation concerns.
2. **Policy and term-premium repricing**– Central banks remain sensitive to inflation persistence, while fiscal and term-premium risks can still pressure curves. A renewed inflation shock would challenge both duration exposure and parts of the quality-growth equity complex.
3. **AI, earnings breadth and leadership concentration**– AI infrastructure and supply-chain bottlenecks remain important sources of market strength, particularly for US leadership and selected EM Equity exposure. However, this also creates concentration risk.

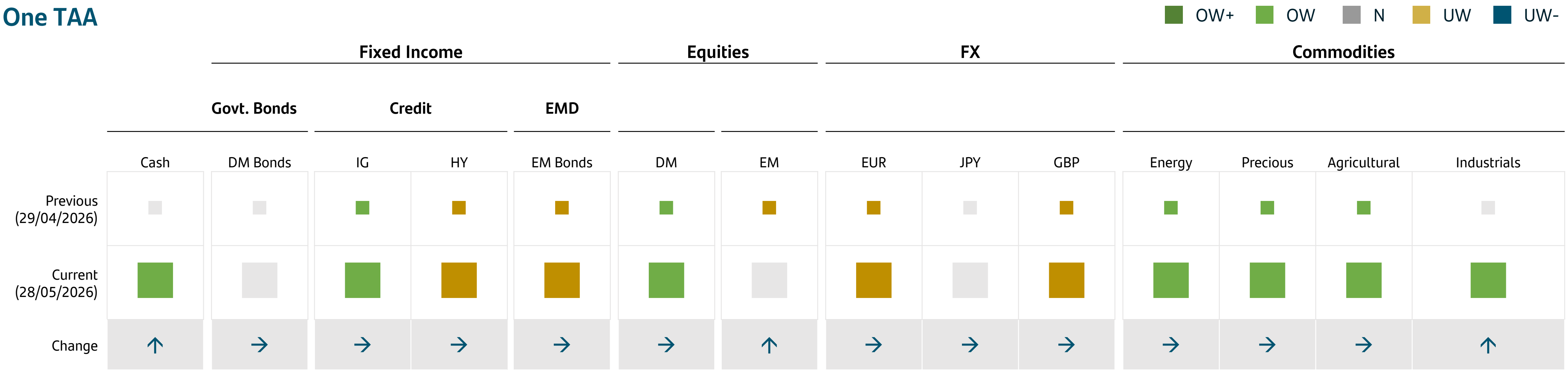
OneTAA: Selective participation with stronger portfolio resilience

The portfolio maintains a selectively invested stance in an uneven expansion. The allocation continues to participate in areas with stronger earnings visibility, structural support and quality characteristics, while reinforcing resilience against inflation, credit and liquidity shocks.

Positioning adjustments focus on maintaining participation where fundamentals remain strongest, while reducing exposure to more fragile sources of return:

- **Equities** remain selectively constructive. The focus is on quality earnings, US leadership and AI-related support, while EM equities move from underweight to neutral as earnings momentum improves, particularly in AI-linked Asian markets**.**
- **Fixed income** emphasizes quality carry and resilience. IG Credit remains preferred, while HY and EMD are avoided where compensation for downside risk remains limited. Duration is used tactically and selectively.
- **Commodities** remain part of the hedge framework, with Energy and Precious Metals providing protection against inflation, geopolitical and confidence shocks.
- **FX** reflects regional divergence, with EUR and GBP underweights maintained and JPY kept neutral.

Overall, the portfolio aims to participate in an uneven expansion while preserving resilience through quality, liquidity and explicit hedges.



Soruce: SAM calculations

The Month's Highlights

Market narratives at a glance

Two dominant market narratives, with secondary risks gaining relevance

01 Geopolitics & energy shock

- US/Iran escalation driving oil price shock
- Inflation persistence across DM
- Yields higher, term premia under pressure
- Central banks shift to a more hawkish bias
- Fiscal stress in DM raises fiscal dominance concerns

02 AI earnings upside

- AI-related results surprising strongly to the upside
- Capex momentum remains powerful
- Bottlenecks increasingly visible across the stack

Other relevant themes

European stagflation risk
Growth softness with sticky inflation risk

UK political stress
Fiscal credibility and policy uncertainty

EM differentiation
Winners and losers by external balances, energy exposure and policy credibility

Asset Allocation Strategy

Participate selectively, carry through quality, hedge the asymmetry

The asset allocation strategy is structured around three core principles:

1. **Selective Equity Exposure:** We maintain participation in equities, with a preference for more resilient developed markets with structural resilient earnings growth, while reducing exposure to more vulnerable segments in a higher uncertainty environment.
2. **Quality carry as a core anchor:** Favor Investment Grade credit and resilient income-generating exposures, while reducing exposure to segments with asymmetric downside such as High Yield and EM.
3. **Diversification and convexity:** Enhance portfolio resilience through commodities, selective FX positioning, and maintaining flexibility via neutral allocations, allowing adaptation as the shock evolves.

Asset Allocation Strategy

Carry
Strong fundamentals still support carry, but we prioritize quality and resilience in a more uncertain environment.

Equity
Selective exposure to developed markets with stronger earnings visibility and pricing power.

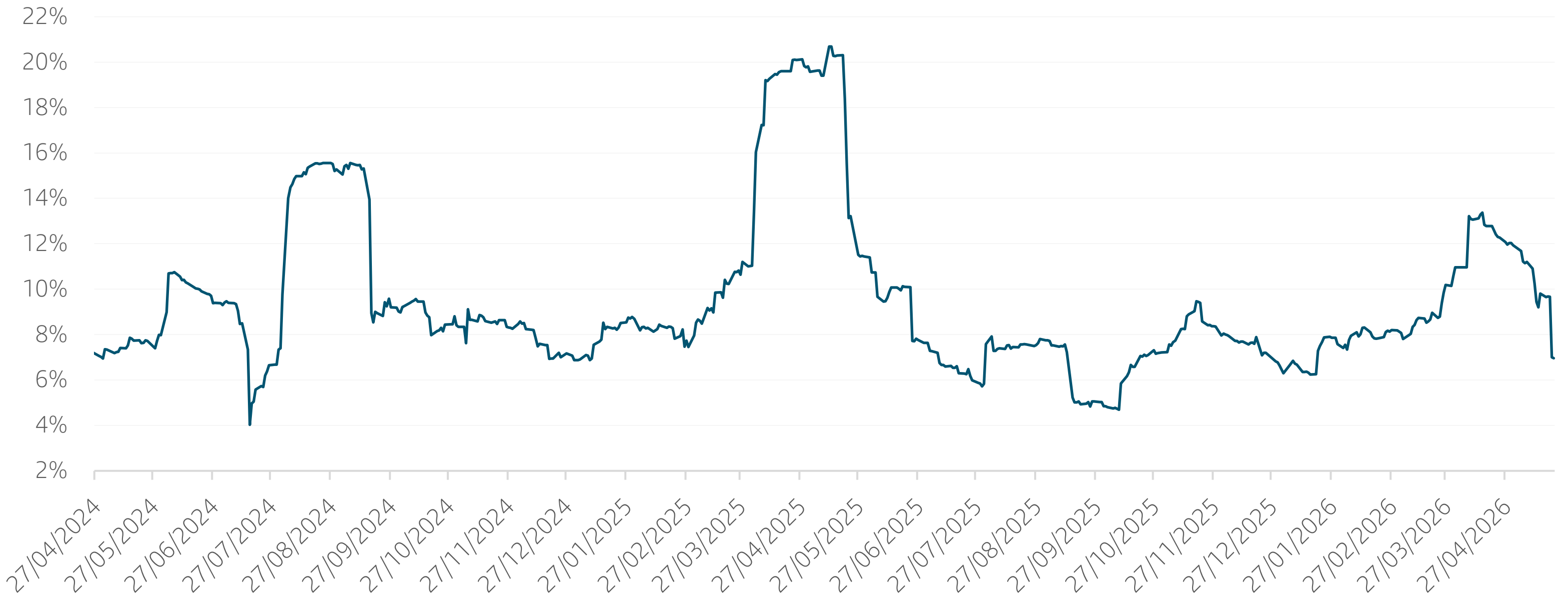
Diversifiers
Gold, USD and duration act as key hedges against inflation persistence and growth downside risks.

Barbell between carry and convexity

30D Rolling Volatility of a 60%/40% Portfolio

60% MSCI ACWI EUR - 40% EURO Aggregate

Source: Santander Asset Management, Bloomberg and ICE Indices



Asset Allocation Strategy

Diversification matters more when traditional hedges are less reliable

Higher cross-asset correlations reinforce the need for diversifiers beyond the equity–bond mix

Equity–bond diversification is less reliable
The recent correlation shock has reduced the diversification benefit of the traditional equity–bond mix. When inflation and rates shocks dominate, portfolios need additional sources of resilience beyond duration.

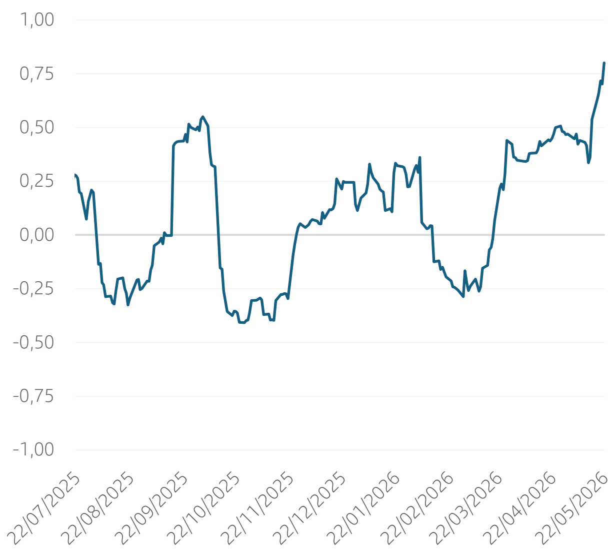
HY risk/reward remains asymmetric
HY yields initially rose as both rates and spreads moved higher, but have since stabilized as tighter spreads offset higher rates. If rates fall because growth weakens, spread widening could absorb much of the duration benefit. Current spread levels leave limited cushion.

FX and commodities remain key diversifiers
The positive correlation between the US dollar and rates reinforces the role of USD exposure as a diversifier when yields remain high and inflation risks persist. Commodities also remain relevant as inflation and geopolitical hedges.

Equity – Bonds Correlation

30D Rolling Correlation: MSCI Wolrd & US Treasury Index

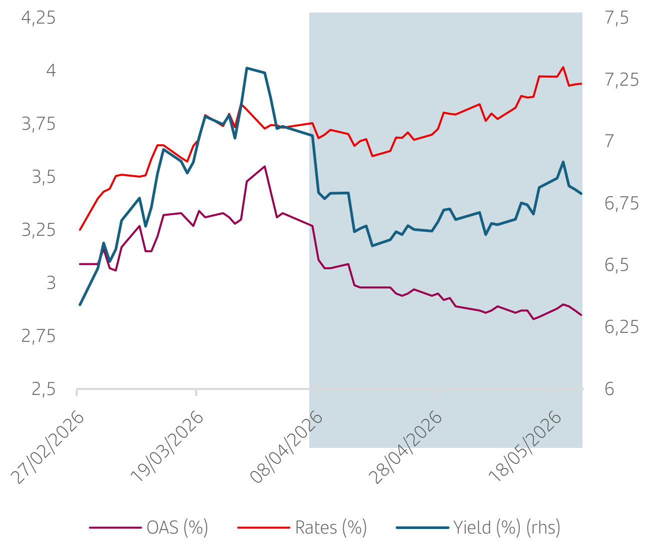
Source: Santander Asset Management, Bloomberg Barclays Indices



All-in Yield: Rates & Spreads

Global High Yield

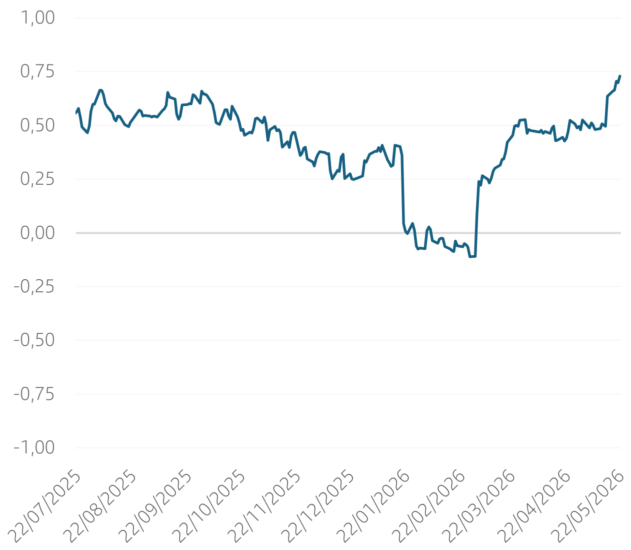
Source: Santander Asset Management, ICE Indices



Dollar & Rates Correlation

30D Rolling Correlation: DXY Index & 10Yr U.S. Treasury Yield

Source: Santander Asset Management & Bloomberg



Allocation implication
This supports a preference for quality credit over HY, and for equity participation where earnings momentum remains stronger. Portfolio resilience should come from liquidity, high-quality carry, FX and commodity diversification rather than relying on HY spread compression or traditional equity–bond diversification alone.

AI Leadership Remains the Key Driver of Equity Markets, Not Valuation Expansion

Artificial intelligence remains a key driver of equity market performance, especially in markets and sectors with stronger exposure to technology, semiconductors and AI-related capex. This leadership has helped push headline equity markets close to recent highs.

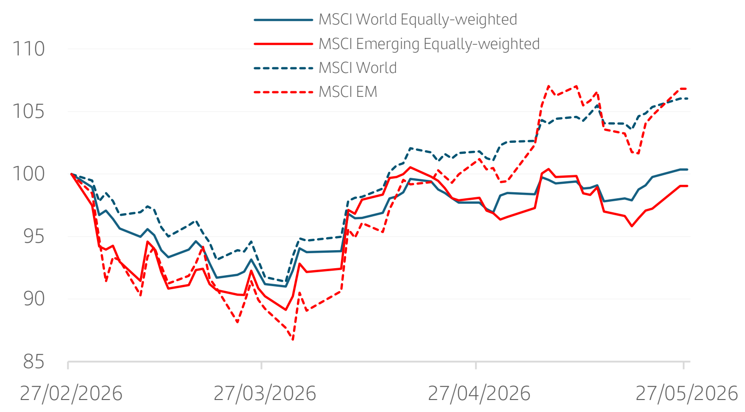
However, the rally has not been purely valuation-driven. The evolution of 12M forward PE ratios, rebased to 100, shows that markets have generally cheapened despite positive price performance. This suggests that earnings growth has been the main driver of equity returns.

The equal-weighted view provides a more nuanced message. Market gains are less broad-based once the impact of the largest AI-related companies is reduced, confirming that leadership remains selective and highly dependent on earnings delivery.

From an asset allocation perspective, AI should be read alongside the macro and geopolitical backdrop.

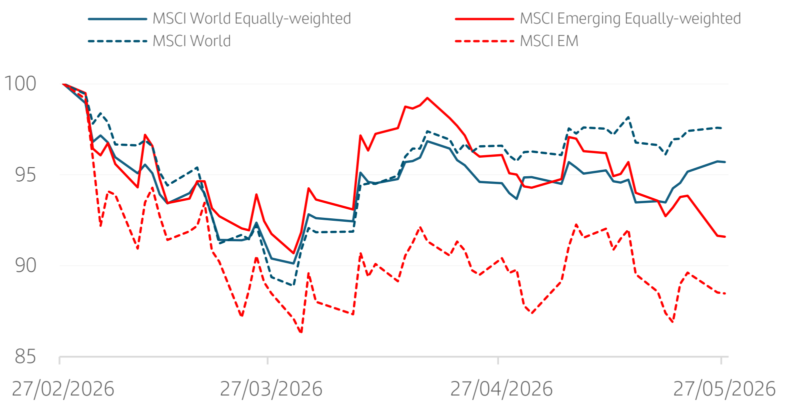
AI-related leadership drives equity gains

Source: Santander Asset Management & Bloomberg



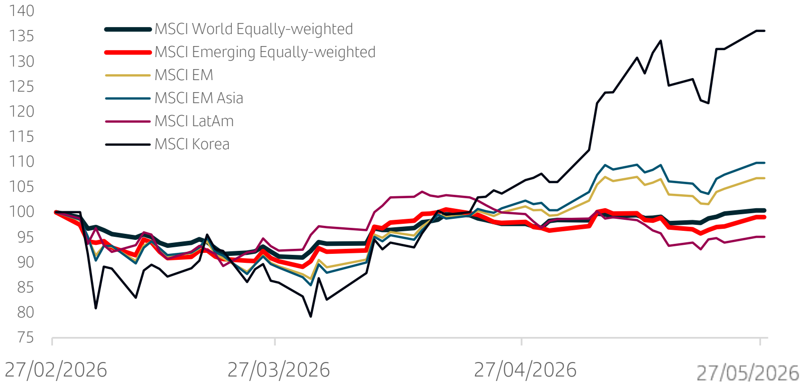
Markets have cheapened despite positive performance

Source: Santander Asset Management & Bloomberg



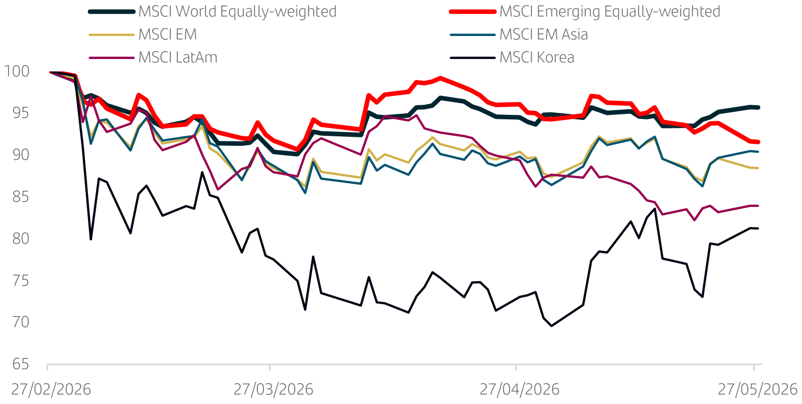
AI exposure remains a key differentiator

Source: Santander Asset Management & Bloomberg



Cheaper valuations despite market gains

Source: Santander Asset Management & Bloomberg



FX: USD convexity still a protection in an asymmetric world

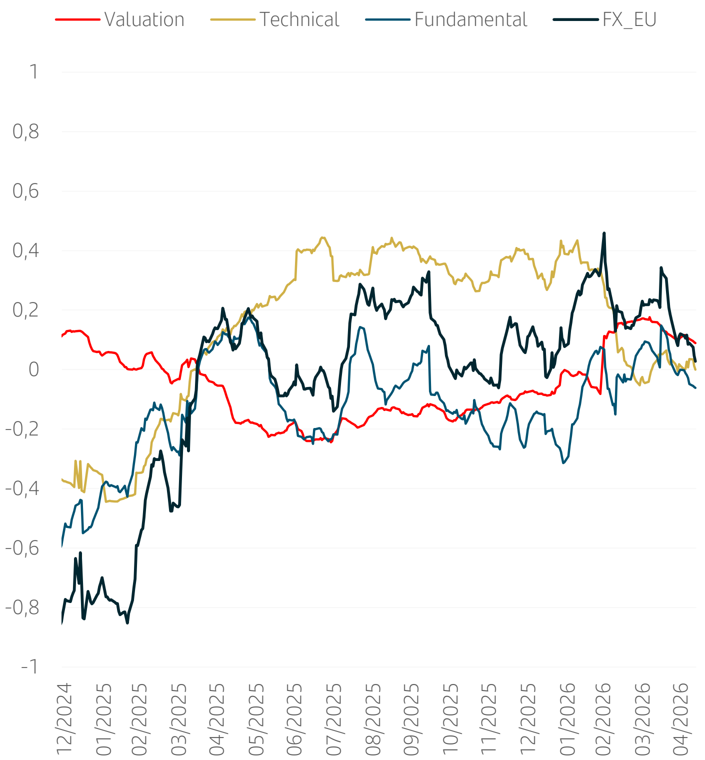
Against both **EURUSD** and **GBPUSD**, the recent deterioration has been driven mainly by the fundamental side, where signals have weakened over the past weeks.

While broader indicators still remain broadly neutral, the underlying momentum is no longer constructive and appears increasingly sustained by technical factors rather than improving macro dynamics.

In both cases, valuation signals have not changed enough to offset the softer backdrop. As a result, **we continue to favor the USD as a hedge, given the asymmetric risk profile and the protection it could offer should more adverse macro or risk-off scenarios materialize.**

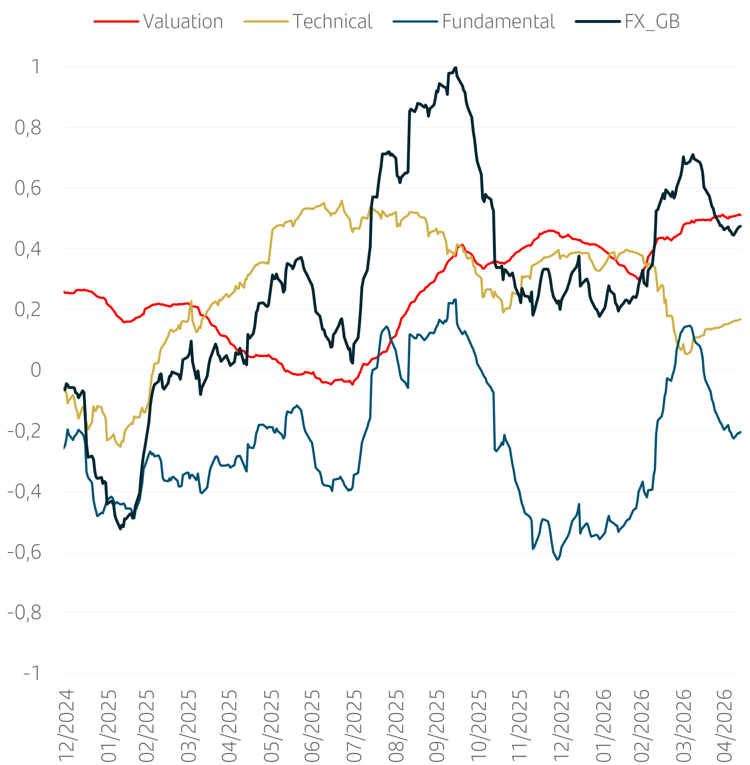
EURUSD: Selected Quant Signals

Source: Santander Asset Management



GBPUSD: Selected Quant Signals

Source: Santander Asset Management



Commodities Strategy: Oil as protection when the curve is in backwardation

Backwardation provides positive roll yield that can absorb a meaningful decline in oil prices.

Oil futures are in backwardation across the curve. Each roll implies selling the front-month contract at a higher price and buying the next one cheaper, generating positive carry.

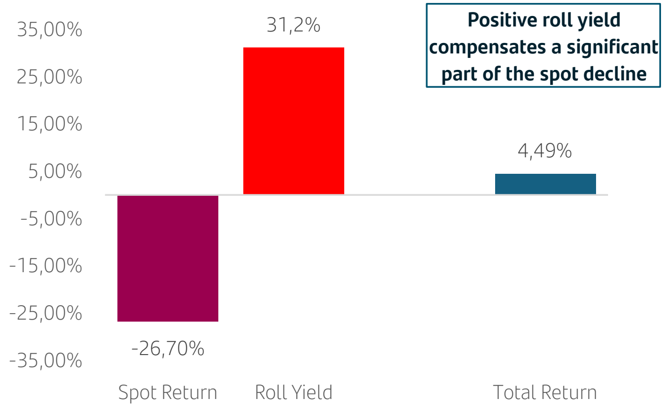
Even if Brent falls to 70 USD/bbl from current levels to December, the accumulated roll yield offsets a large part of the decline, reducing the total loss.

This structure makes oil a more efficient hedge versus contango periods, where negative roll yield amplifies spot losses.

Oil: P&L decomposition to Dec-26

Example assuming we maintain a position in front-month Brent futures until Dec-26, with the current front-end backwardation remaining in place and oil falling to USD 70 by December.

Source: Santander Asset Management

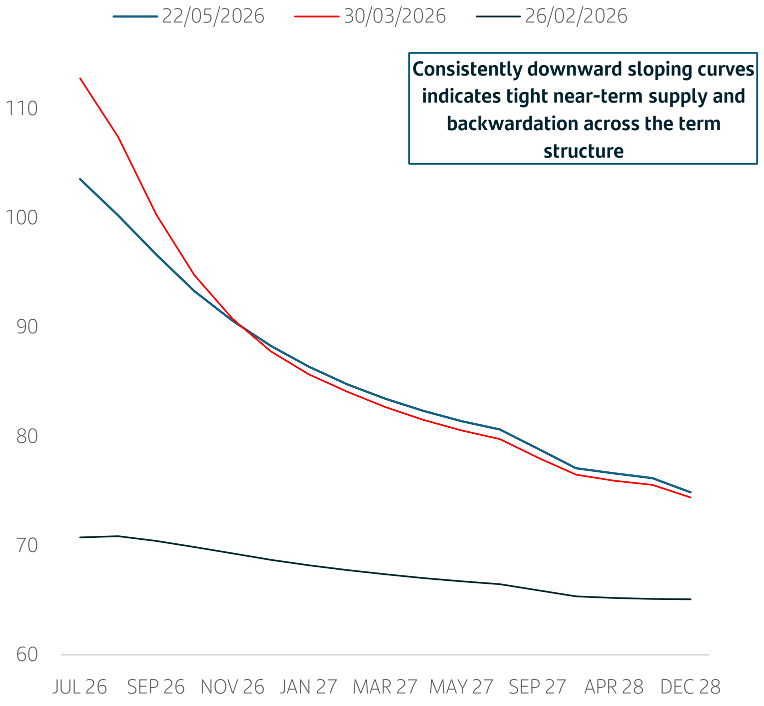


Ilustrative scenarios

Brent Spot Dec-26	Spot Change	Accumulated Roll Yield	Total Return (Spot + Roll)
100 USD/bbl	4,71%	36,80%	41,51%
90 USD/bbl	-5,75%	35,00%	29,25%
80 USD/bbl	-16,23%	33,10%	16,87%
70 USD/bbl	-26,70%	31,20%	4,50%
60 USD/bbl	-37,17%	29,30%	-7,87%

Oil Futures Curve: Backwardation

Source: Bloomberg & Santander Asset Management



Backwardation = positive carry for buyers

One TAA Key Messages

Selective participation, quality carry and stronger diversification in an uneven expansion

- **Expansion continues, but visibility remains uneven**
  Growth remains positive, but leadership is narrow and more dependent on energy, policy and earnings dynamics.

- **Markets still leave limited room for disappointment**
  Valuations and spreads leave limited room for disappointment, keeping discipline and selectivity essential.

- **Equities remain selective, with EM moving back to Neutral**
  DM equities remain supported by quality, US leadership and AI infrastructure; EM equities move from UW to Neutral on improving earnings momentum, mainly in EM Asia.

- **Carry remains the return anchor, complemented by convexity and hedges**
  IG Credit remains preferred, while HY and EMD offer limited compensation for downside, liquidity and funding risks.

- **Diversification beyond bonds**
  Cash, USD, Energy and Precious Metals remain key diversifiers as equity–bond correlation is less reliable.

- **What would change our mind?**

More constructive if: inflation pressure fades, earnings breadth improves, credit spreads compensate better for risk, and policy uncertainty declines.

More defensive if: energy shocks persist, fiscal concerns push term premia higher, HY/EMD spreads widen abruptly, or AI-led equity leadership deteriorates.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