

COMPASS

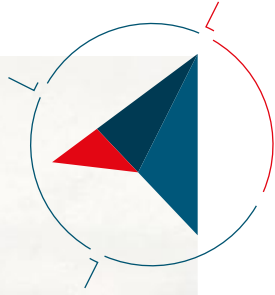


GAAC - TAA Strategy

June 25th, 2026



Highlights



Uneven expansion with improving participation, but inflation remains the key caveat

The global economy remains in an uneven expansion, but the macro distribution has improved. Growth is still positive, downside energy risks have eased, and market participation is starting to broaden across regions and sectors. Inflation risk has moderated, but has not disappeared, as the recent period of high energy prices may still feed through to core inflation and central-bank reaction functions.

Strategy/Positioning: From selective participation to broader participation.

Our allocation remains selectively invested, with a deliberate emphasis on quality carry, USD exposure, precious metals, commodity hedges and disciplined credit risk. 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: Better macro mix, but limited pricing asymmetry

Risks are now more balanced, but market pricing still leaves limited room for disappointment. The immediate energy shock has faded, yet uncertainty remains around second-round inflation effects, Fed repricing and the durability of market broadening. This keeps discipline essential, even as the portfolio shifts from protection to participation.



Investment Scenarios: Constructive Scenarios Support Broader Participation



Base case — Expansion with temporary energy-driven inflation shock | 50%
 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 | 25%
 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 | 15%
 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.

Base plus upside scenarios represent 75% of the distribution, but downside risks remain asymmetric. This supports broader but still selective participation. The strategy is rotating from protection toward selective participation, while preserving resilience through quality carry, USD, tactical duration, Energy and Precious Metals.



Risk Map: Inflation persistence and concentration



Risk Environment

The risk backdrop has improved at the margin, but downside asymmetry remains. Risks are now concentrated in three areas: underpriced slowflation, tight credit spreads with limited shock absorption, and still-fragile equity leadership as broadening improves only gradually. This argues for a portfolio that participates selectively in growth while preserving resilience through quality carry, tactical duration and Precious Metals, while avoiding fragile sources of return.

What Changed

- Geopolitical and energy tail risks have eased, reducing the need for pure protection, but they have not disappeared.
- Rates have already repriced materially; the more important asymmetry now sits in slowflation risk and credit fragility.
- Credit fragility has become more important: tight high yield spreads still offer limited shock absorption if growth disappoints or rates are repriced further.

Top 3 Risks to Monitor

1. **Slowflation / inflation persistence** – The pass-through from elevated energy prices to broader inflation could keep central banks cautious for longer, challenging both duration and equity multiples.
2. **Credit spread repricing** – High yield remains the clearest pricing vulnerability, with tight spreads offering limited protection against weaker growth or tighter funding conditions.
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.

Allocation Implication

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



OneTAA: From protection to selective participation

The macro distribution has improved, but pricing still leaves little room for disappointment

The portfolio remains selectively invested, rotating from protection toward participation amid uneven expansion. The allocation continues to participate in areas with earnings visibility, structural support and quality, while preserving resilience against slowflation, credit and liquidity shocks.

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

- **Equities** remain selectively invested. The focus is on participation across the US, Europe and Japan, while EM is upgraded selectively, with focus on Asia, as earnings breadth improves, particularly in AI-linked industrial and infrastructure 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.
- **Commodities** remain in the hedge framework, with Energy, Precious Metals and Industrial Metals providing protection against inflation and geopolitical shocks.
- **FX** reflects regional divergence, with EUR and GBP underweights and JPY kept neutral.

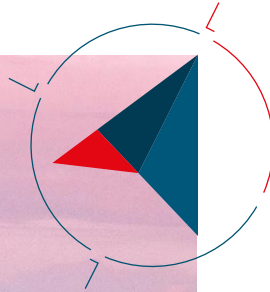
Overall, the portfolio aims to participate in uneven expansion while preserving resilience through quality, selective diversification and explicit hedges.

One TAA

■ OW+ ■ OW ■ N ■ UW ■ UW-




	Fixed Income			Equities		FX			Commodities				
	Govt. Bonds		Credit	EMD	DM	EM	EUR	JPY	GBP	Energy	Precious	Agricultural	Industrials
	Cash	DM Bonds	IG	HY	EM Bonds								
Previous (28/05/2026)	■	■	■	■	■	■	■	■	■	■	■	■	■
Current (25/06/2026)	■	■	■	■	■	■	■	■	■	■	■	■	■
Change	↓	→	→	→	→	↑	→	→	→	→	→	↓	→

The Month's Highlights



Market narratives at a glance

Dominant Narratives

-  **1 Middle East Risk Premium Unwinds**
De-escalation broadens scenarios and reduces geopolitical risk premium.
-  **2 Central Banks Normalize Carefully**
Policy shifts from easing bias to cautious normalization as inflation risks persist.
-  **3 AI Earnings Cycle Remains Intact**
AI-led capex and productivity tailwinds continue to support earnings power.

Other Relevant Themes

-  **1 Private AI Champions Command Scarcity Premium**
Scarcity of compute, data and talent sustains pricing power and premium valuations.
-  **2 Tight Credit Spreads**
Spreads leave limited compensation for risk, keeping selectivity and quality essential.



Asset Allocation Strategy

Participate more broadly, carry through quality, hedge the asymmetry.

The asset allocation strategy is structured around three core principles:

- 1. Broader Equity Participation:** We are increasing participation in equities as the macro distribution improves and the probability of positive outcomes rises. While developed markets remain an important anchor, we are expanding exposure toward areas with greater cyclical and breadth leverage, including Emerging Markets, Europe, and Industrials, as the opportunity set broadens beyond last month's more selective stance.
- 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. We are becoming more constructive on Emerging Markets as macro and geopolitical conditions improve.
- 3. Diversification, flexibility, and hedging:** The portfolio still values diversification and convexity, but the emphasis has shifted from protection toward participation. Commodities, selective FX positioning, and neutral allocations continue to provide resilience and flexibility, while precious metals and other hedging tools remain important against inflation persistence and policy uncertainty.

Asset Allocation Strategy



Carry

Strong fundamentals still support carry, but we prioritize quality while avoiding areas where spread compensation remains insufficient.



Equity

Expanding beyond last month's selective stance through higher exposure to Europe, Emerging Markets and Industrials.



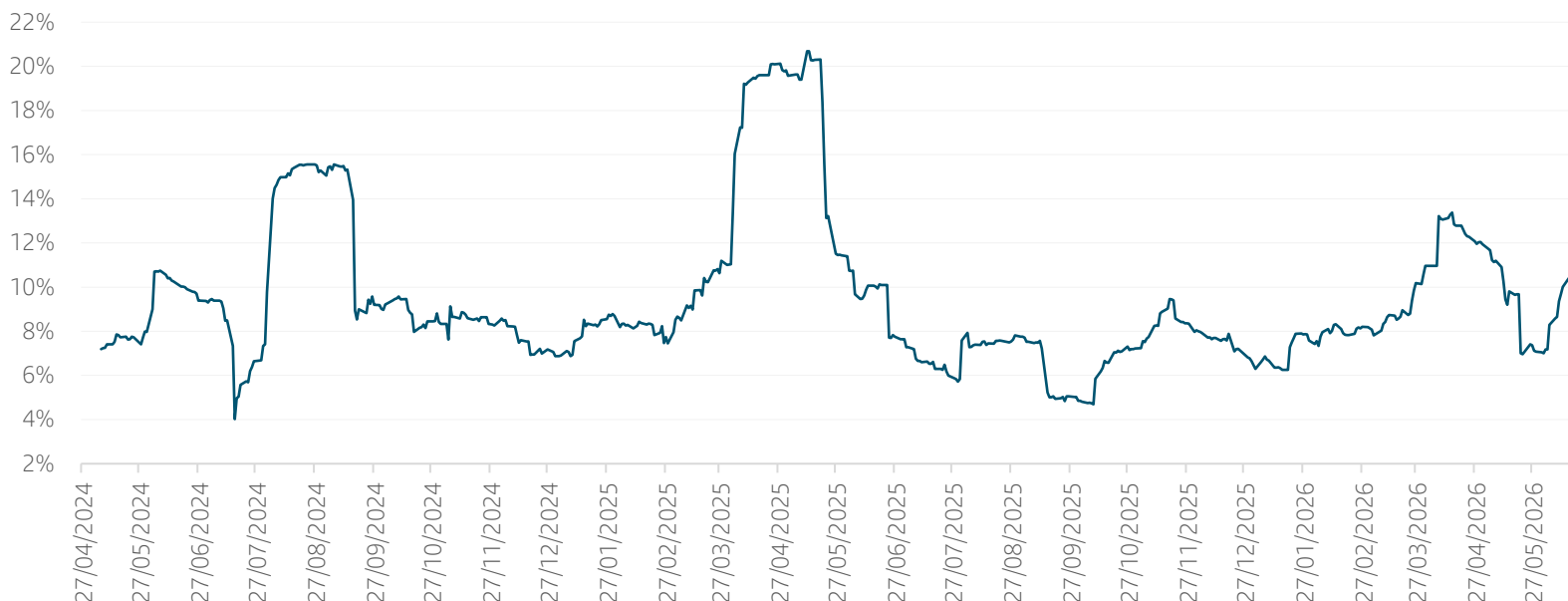
Diversifiers

Gold, commodities and selective FX exposures continue to provide diversification and protection against inflation and policy risks.

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

60% MSCI ACWI EUR - 40% EURO Aggregate

Source: Santander Asset Management, Bloomberg and ICE Indices



Participation anchored in quality



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.

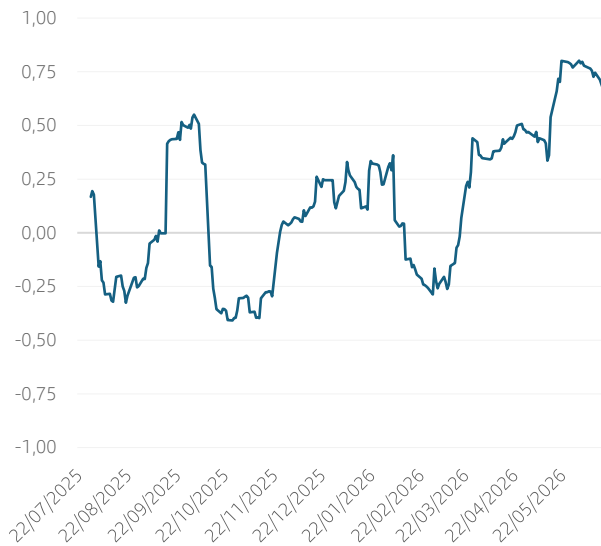
FX and commodities remain key diversifiers

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 Woldr & US Treasury Index

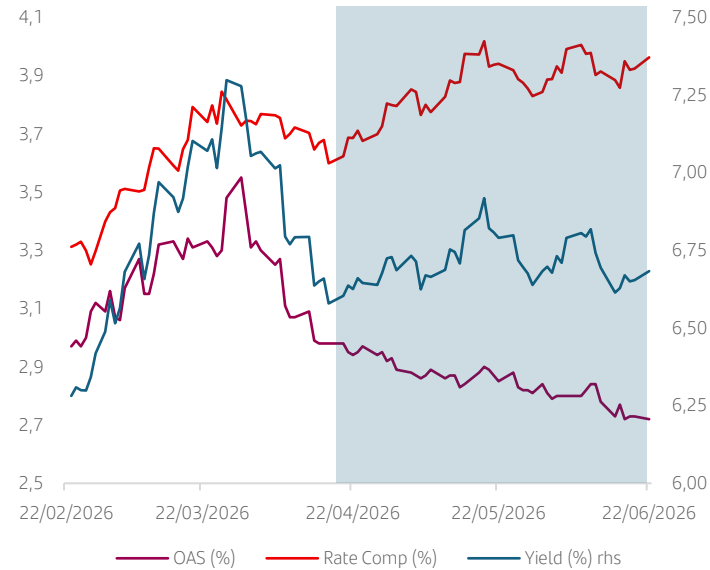
Source: Santander Asset Management, Bloomberg Barclays Indices



All-in Yield: Rates & Spreads

Global High Yield

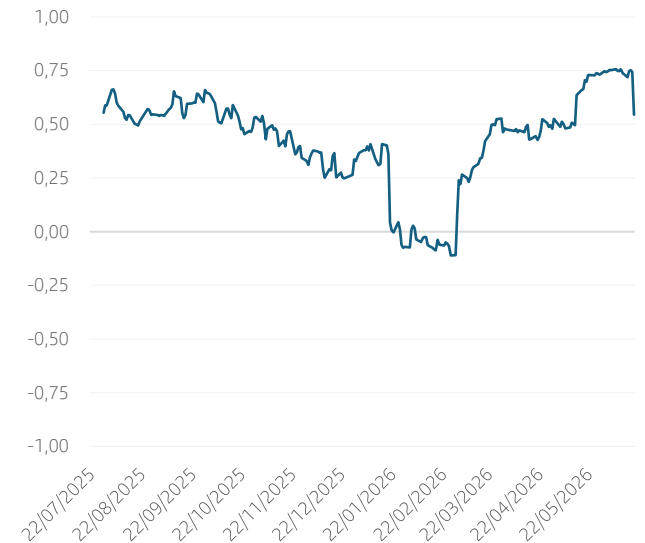
Source: Santander Asset Management, ICE Indices



Dollar & Rates Correlation

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

Source: Santander Asset Management & Bloomberg

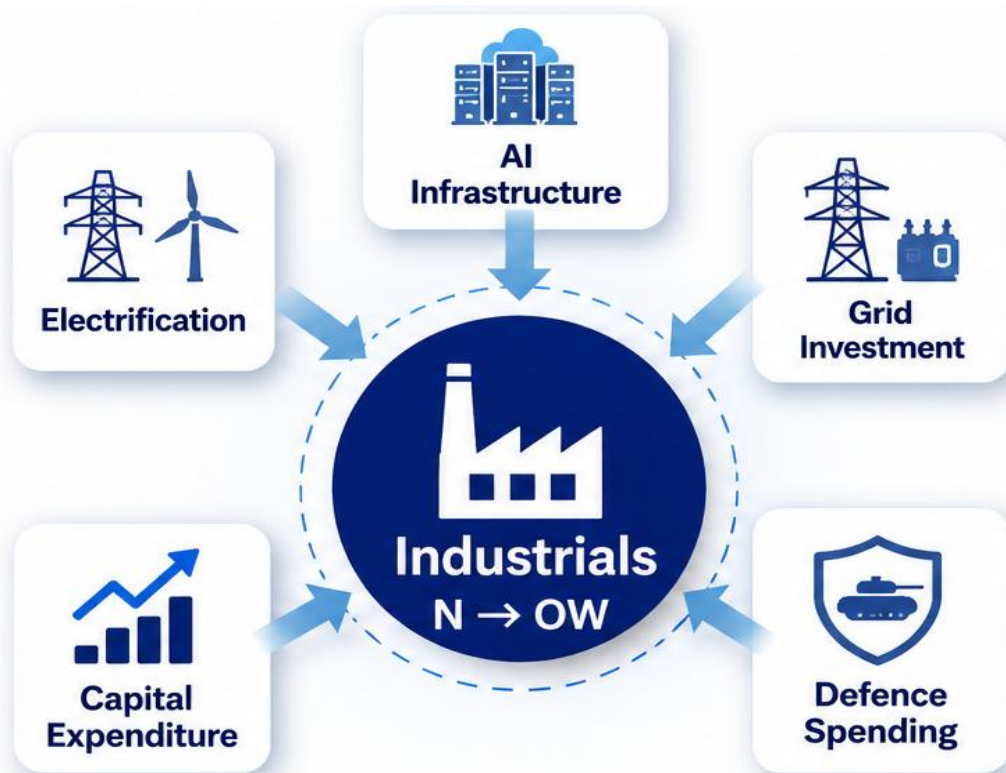


Allocation implication

This supports a preference for quality credit over HY, and for equity participation where earnings momentum remains stronger. Portfolio resilience should come from high-quality carry, USD exposure, liquid commodity hedges and precious metals, rather than relying on HY spread compression or traditional equity-bond diversification alone.



Equities: Industrials – A Clear Expression of Market Broadening



Why upgrade?

From N to OW

- Attractive short-term valuation.
- Exposure to multiple investment cycles.
- Broadening Participation beyond Technology
- Direct exposure to real economy investment

SUPPORTING SIGNALS

Aggregate Score	Cycle	Internals	Externals (Macro)
+0,1	+0,3	+0	+0,1



Industrials provide one of the clearest ways to express the broadening of market leadership beyond US Technology. Signal strength is positive but moderate.



FX: Maintaining a Mild Preference for the Dollar

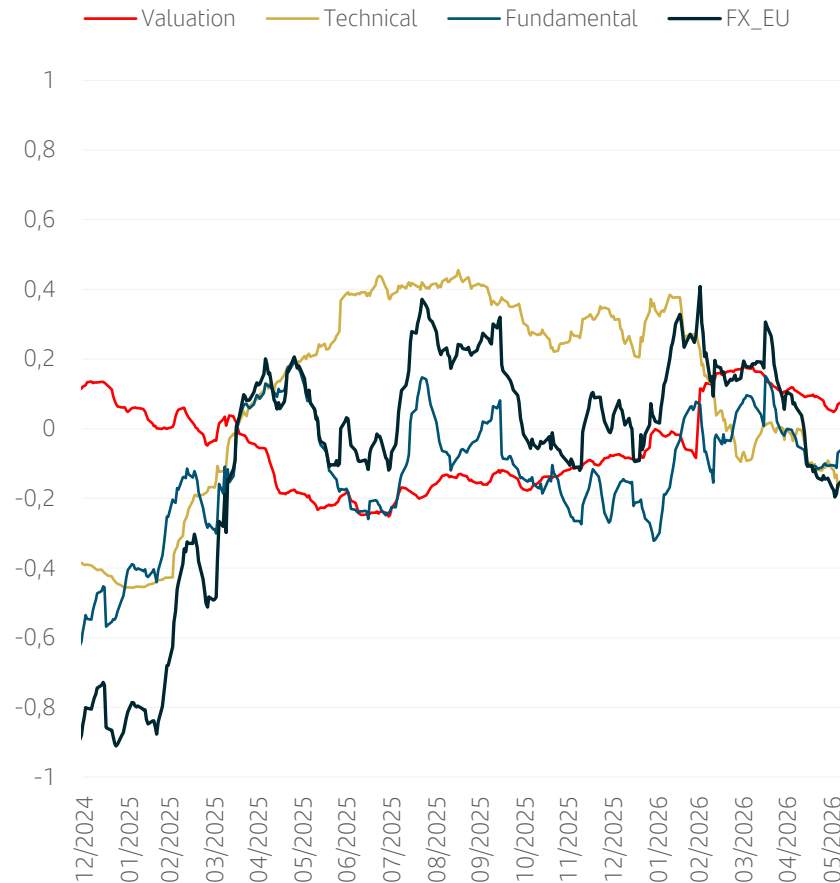
The **USD** has strengthened over recent weeks, supported both by its safe-haven characteristics and by the repricing of U.S. interest rates. Markets are increasingly discounting a less accommodative monetary policy path in the U.S., while expectations for the Eurozone point to a somewhat more supportive policy stance.

Looking ahead, we continue to expect EURUSD and GBPUSD to trade within relatively narrow ranges. That said, **risks appear marginally skewed in favor of further USD strength**. GBP remains underweight, but less aggressively than last month.

Importantly, the **dollar retains its asymmetric hedging properties**, offering potential downside protection should a more adverse macroeconomic or market scenario materialize.

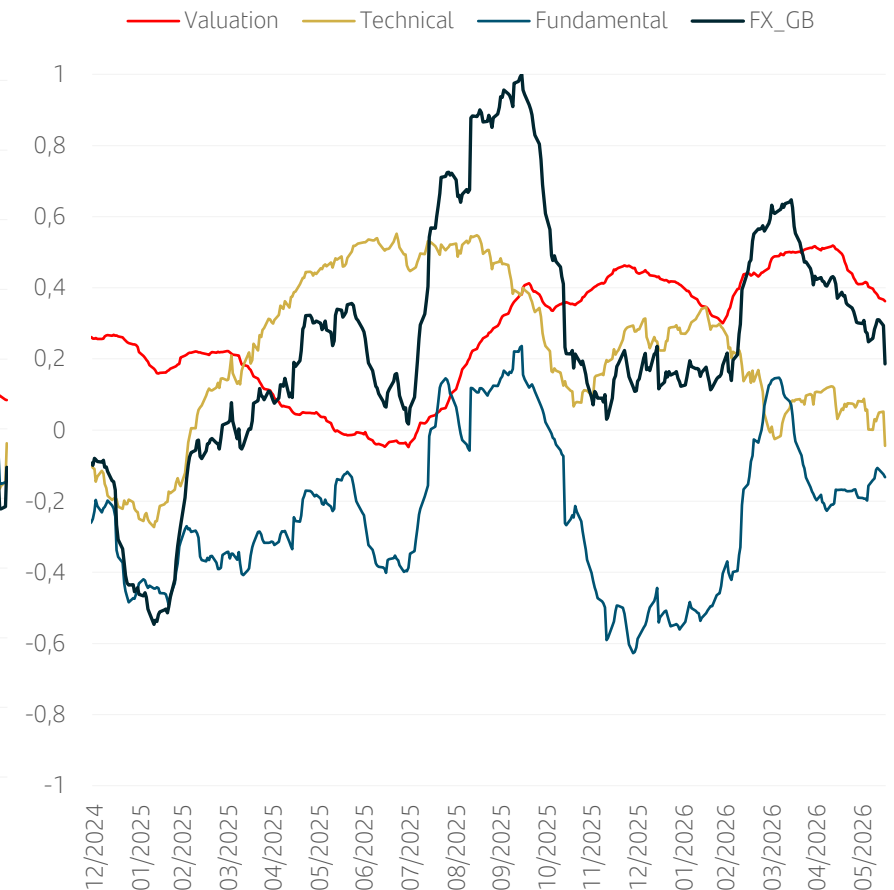
EURUSD: Selected Quant Signals

Source: Santander Asset Management



GBPUSD: Selected Quant Signals

Source: Santander Asset Management

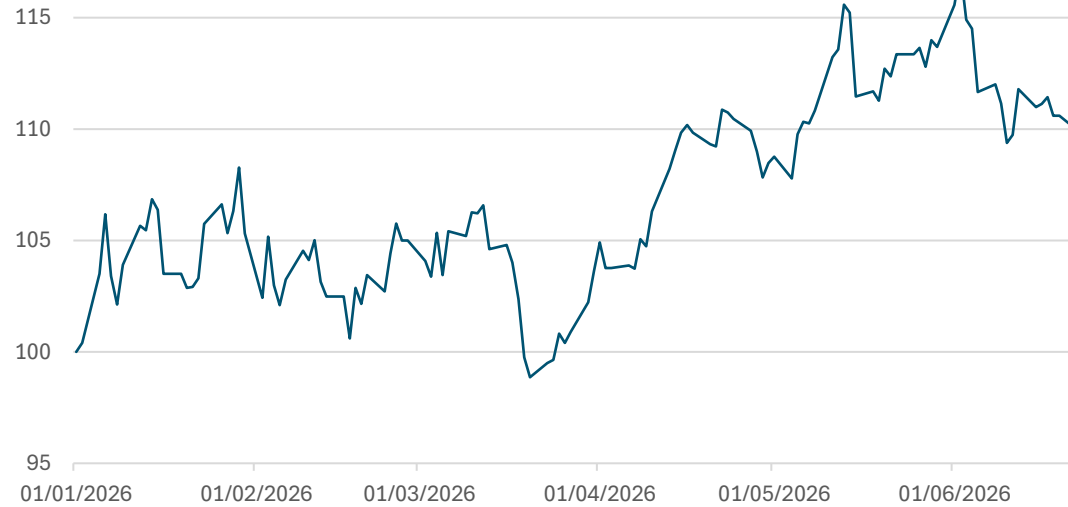




Commodities Strategy: Industrial Metals: Re-engaging with a Structural Theme

Bloomberg Industrial Metals Index

Source: Bloomberg, Santander Asset Management
Indexed to 100 = 31/12/2026



Recent easing of geopolitical and macroeconomic uncertainties improves the risk/reward backdrop for industrial metals.



Why now?

- Geopolitical uncertainty has eased, reducing downside risks to the global outlook.
- Improved visibility on growth and demand.
- More constructive risk sentiment and positioning.



Structural themes remain intact.

- Electrification and energy transition drive long-term demand for key metals.
- Significant investment in infrastructure and power grids.
- Supply constraints and limited new capacity.
- Strategic importance of critical and industrial metals.



Portfolio implication

- Increase exposure to industrial metals as part of our commitment to long-term, structurally supported themes.



The recent reduction in uncertainty allows us to re-engage with a structural theme whose long-term fundamentals remain firmly in place.

One TAA Key Messages

From protection to participation, anchored in quality and relative value

- **Expansion continues, and the macro distribution has improved**
Growth remains positive, downside inflation shock risk has eased, and Base plus Upside scenarios now dominate the distribution.
- **Markets have priced much of the improvement**
Valuations and spreads still leave limited room for disappointment, so the portfolio is not expressing an indiscriminate risk-on view.
- **Participation is broadening beyond last month's selective stance**
The portfolio is increasing participation through EM, Europe and Industrials, reflecting broader earnings and cyclical breadth rather than narrow leadership alone.
- **Quality carry remains the anchor, but duration conviction is low**
IG Credit remains preferred, while HY still offers poor compensation for downside risk. In rates, conviction is stronger in EUR relative-value trades and steepeners than in broad directional duration.
- **Diversification remains important, but protection is being redeployed**
Gold and selective commodities remain relevant hedges, while the portfolio reduces pure shock protection and reallocates toward participation assets.
- **What would change our mind?**
More constructive if: inflation fades without second-round effects, earnings breadth continues to improve, and policy visibility rises.
More defensive if: core inflation proves sticky, Fed repricing intensifies, broadening fails, or credit spreads widen abruptly.

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