COMPASS

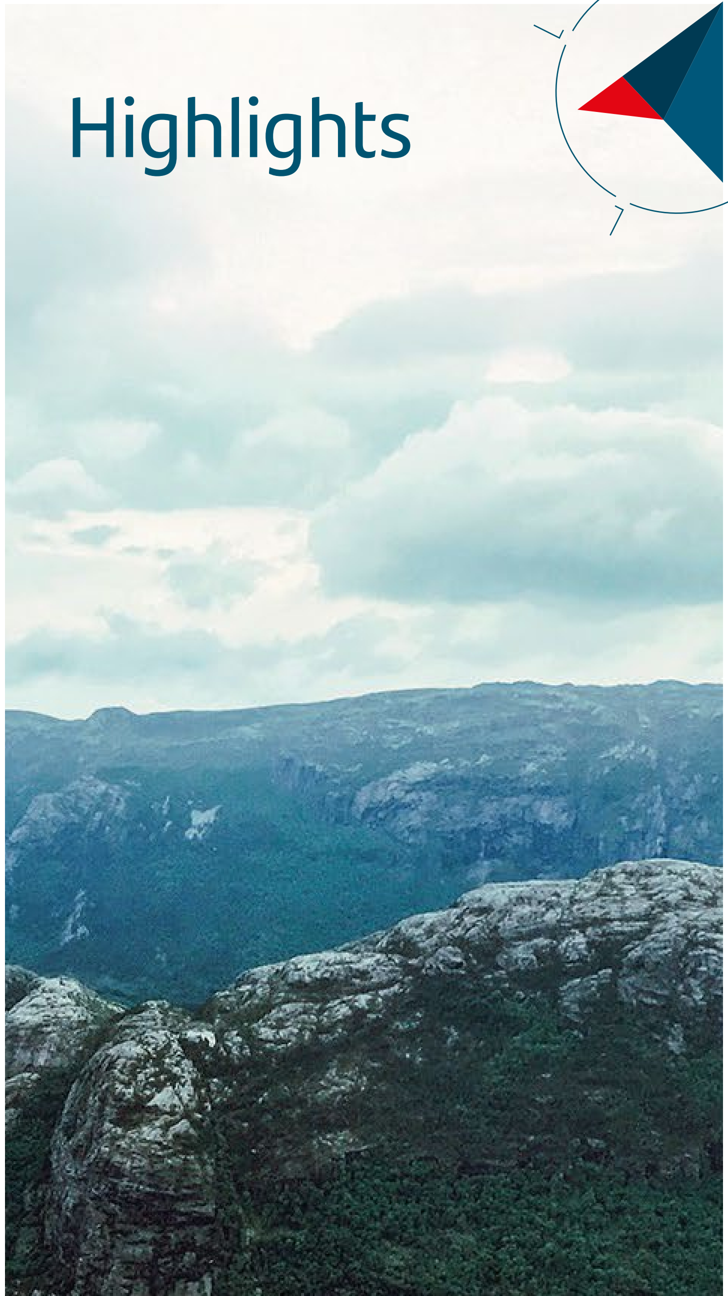
Santander Asset Management

GAAC - TAA Strategy

July 22nd, 2026

Marketing communication

Highlights



Uneven expansion and gradual disinflation

The base case remains an uneven expansion with gradual disinflation and increasingly broad-based earnings growth. The US continues to act as the main growth anchor, while Europe and the UK remain weaker and China stays fragile but avoids acute deterioration. The scenario distribution remains constructive overall, with 75% assigned to the Upside and Base cases and 25% to the Downside and Tail scenarios.

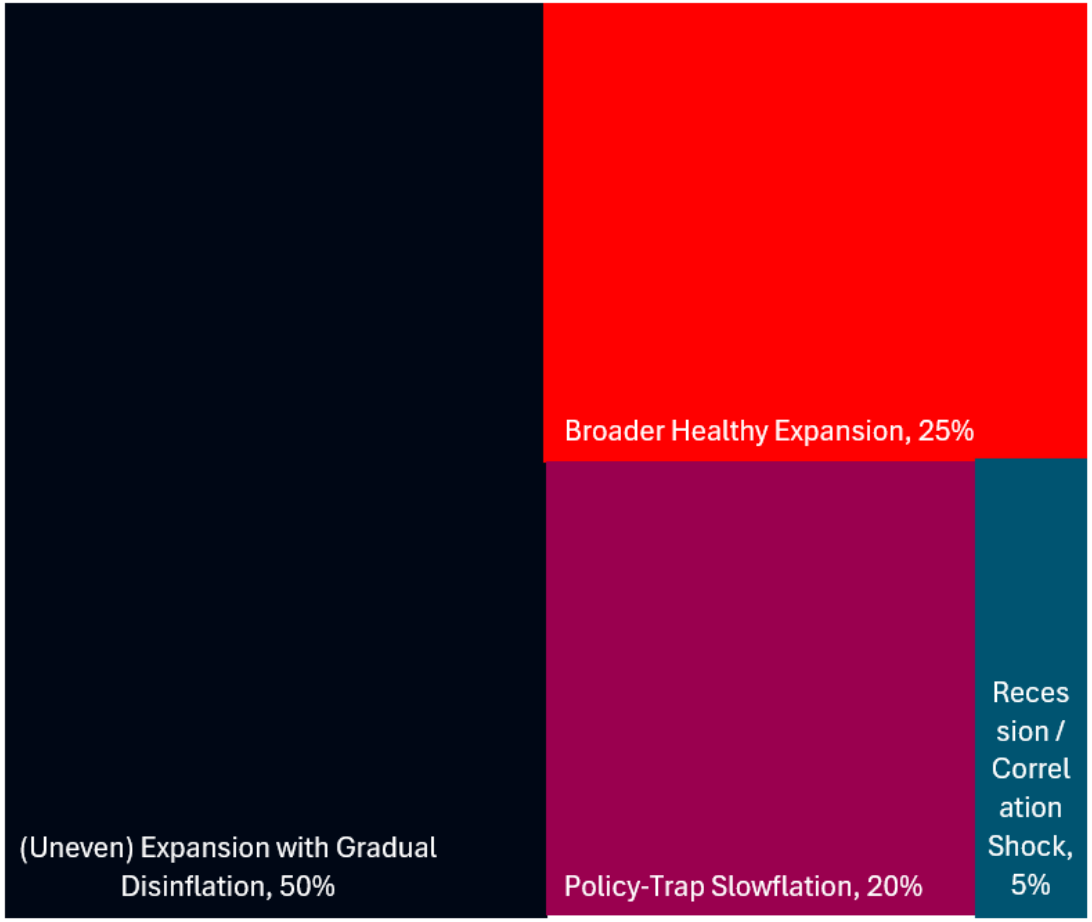
Strategy/Positioning: Balanced but actively selective

Maintain the overall OneTAA risk stance, while changing the source of resilience. Preserve selective equity participation, quality carry through Investment Grade credit, neutral Developed Market bonds, tactical Cash as dry powder and explicit commodity and USD hedges. Fund the stance through underweights in High Yield and Emerging Market Debt rather than by reducing broad equity exposure. **The portfolio aims to capture attractive quality carry and selective equity exposure while preserving resilience against downside scenarios.**

Risk Environment: Asymmetry

Energy risk, AI and earnings validation, and tight High Yield spreads do not yet justify reducing broad equity exposure. They do, however, reinforce the July preference for additional Cash, lower EMD exposure, quality credit and retained inflation hedges.

Investment Scenarios*: Base case remains constructive, but the adverse path is policy-trap slowflation



* Scenario probabilities are internal estimates as of 22 July 2026, based on qualitative and quantitative inputs. They are not forecasts, guarantees or investment recommendations and may change without notice.

Upside — Broader Healthy Expansion | 25% (Unchanged)
Growth remains resilient and broadens, inflation continues to moderate and policy pressure eases at the margin. Earnings participation improves beyond AI and mega-cap leadership, supporting cyclical assets and broader equity-market breadth.

Base — Uneven Expansion with Gradual Disinflation | 50% (Unchanged)
The global economy remains in a non-synchronized expansion. US growth and earnings remain resilient, Europe and the UK stay weak, and China remains structurally constrained but avoids acute stress. Inflation improves gradually, although Core PCE and services inflation still require confirmation.

Downside — Policy-Trap Slowflation | 20% (Increased from 15%)
Inflation remains sticky enough to constrain central banks just as growth, labor conditions or earnings breadth soften. This is the main adverse scenario: a policy-constrained regime that pressures equity multiples, High Yield credit, cyclical assets and long-duration growth.

Tail — Recession / Correlation Shock | 5% (Decreased from 10%)
A geopolitical, credit, liquidity or AI-concentration shock triggers synchronized de-risking. Duration may fail to hedge initially if the shock is inflationary, fiscal or supply-driven, reinforcing the value of liquidity, gold and convex protection.

Overall, constructive scenarios still dominate (~75%). The scenario distribution supports a constructive but selective stance. It argues for participation, quality carry and explicit hedges, while avoiding both a full defensive rotation and additional lower-quality credit exposure.

Risk Map: Risks are manageable, but asymmetry remains inflation- and credit-led

RISK MAP

Allocation Implication

Maintain Investment Grade over High Yield, tactical Cash, commodity hedges and selective equity exposure. Do not neutralize hedges or add lower-quality credit while downside asymmetry remains underpriced.

Risk Environment

The risk environment is not dominated by recession probability, but by the interaction of sticky inflation, restrictive policy and risk assets priced with limited room for disappointment. Cross-asset calm and tight credit spreads leave less protection if the base case fails to validate

What Changed

- The latest narrative update raises the monitoring priority of energy-driven inflation risk and AI validation risk.
- These developments do not justify reducing overall equity risk, but they reinforce the July preference for additional cash, lower EMD exposure, quality credit and retained inflation hedges.

- **Top 3 Risks to Monitor**

1. **Inflation persistence or renewed energy shock**– A durable energy or supply shock could re-accelerate inflation expectations, keep central banks restrictive and weaken the stock-bond diversification relationship.
2. **High Yield spread widening**– Tight spreads provide limited shock absorption. A meaningful widening in High Yield could transmit weaker earnings or macro conditions into broader financial tightening.
3. **AI concentration and earnings validation failure**– Weak semiconductor guidance, lower AI capex expectations or margin disappointment could turn a valuation reset into a broader earnings and market-breadth problem.

OneTAA: Selective participation with dry powder

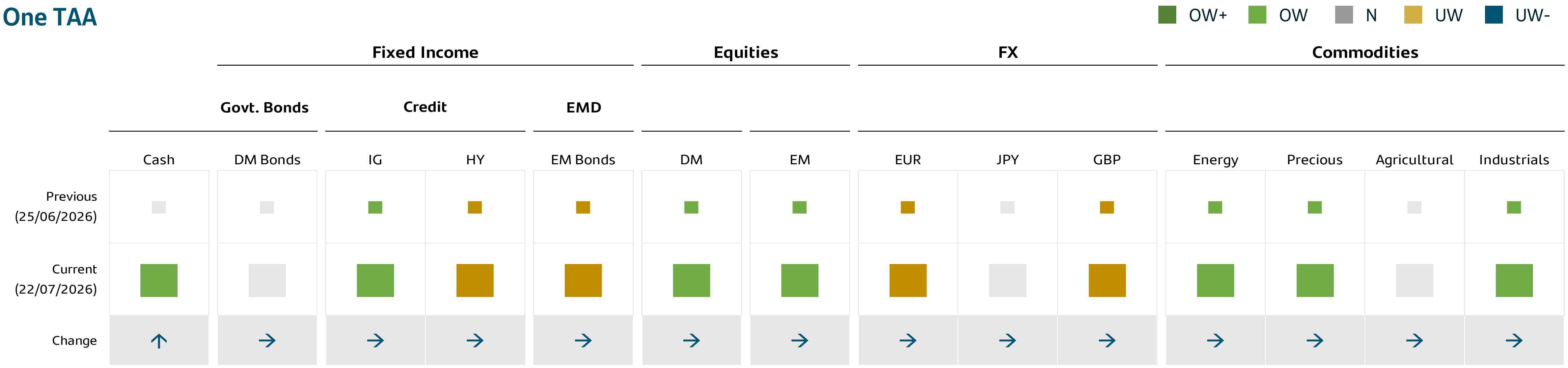
The portfolio maintains a selectively invested stance in an uneven expansion. The allocation continues to participate in areas with stronger earnings visibility, structural support and quality characteristics, while reinforcing resilience against inflation, credit and liquidity shocks.

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

- **Equities** remain selectively invested. The focus is on participation across the US, Europe, Japan and EM, this month we increase participation in earnings growth with attractive valuations after recent deratings.
- **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 fairly neutral, as there is limited visibility in rates directionality in the short term.
- **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.

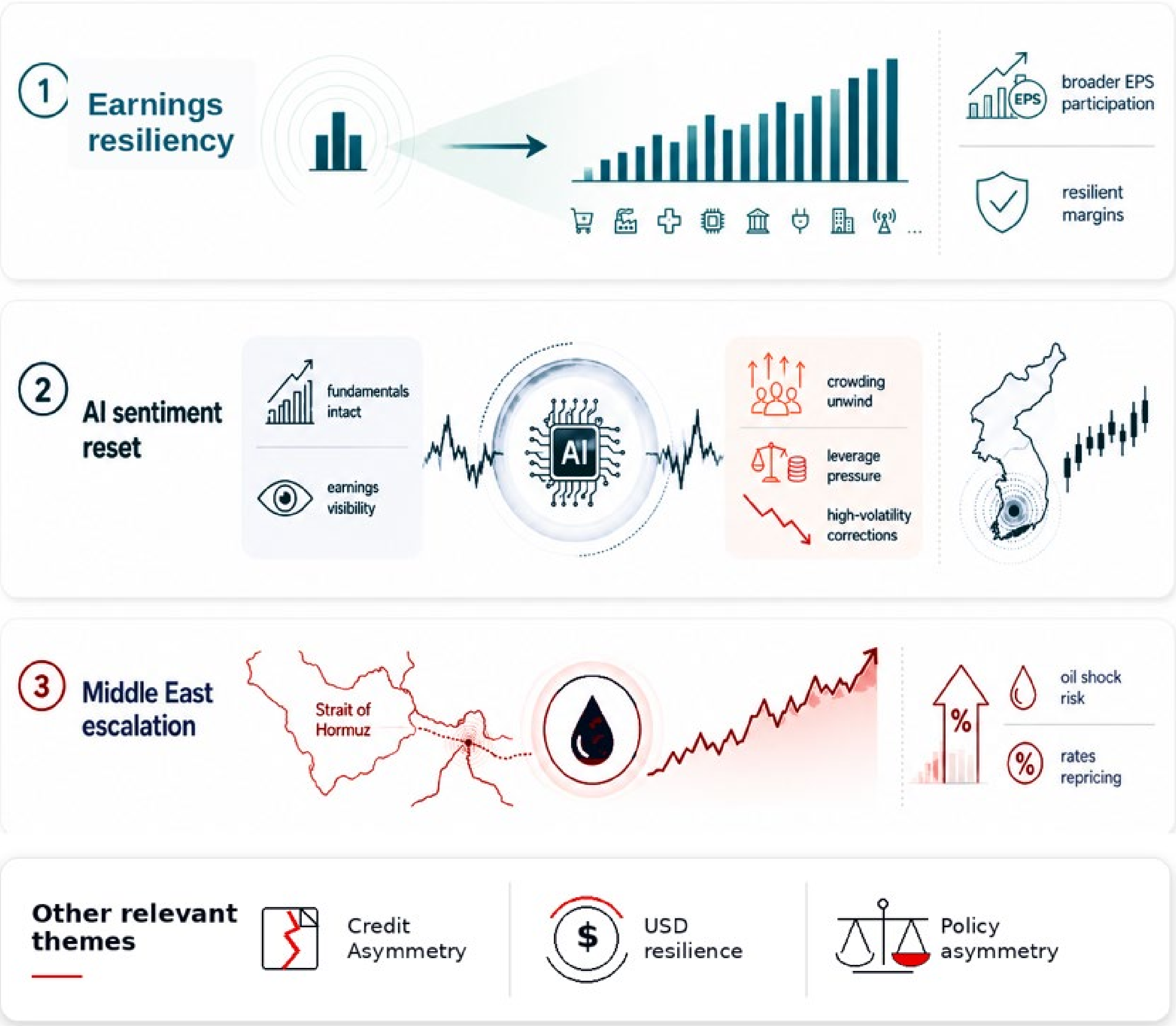
One TAA



The Month's Highlights

Market narratives at a glance

Three market narratives dominate



Asset Allocation Strategy

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

The asset allocation strategy is structured around three core principles:

1. **Selective Equity Participation:** Maintain modest Developed and Emerging Market equity exposure, supported by a still-constructive scenario mix and resilient earnings. Participation should remain selective, with emphasis on earnings visibility, improving breadth and targeted AI/capex beneficiaries rather than an increase in broad market beta.
2. **Quality carry as a core anchor:** Favor Investment Grade credit and resilient income-generating exposures, while maintaining a clear underweight to High Yield, where tight spreads offer limited shock absorption. Emerging Market Debt remains underweight given its sensitivity to US rates, the dollar and global liquidity.
3. **Diversification, flexibility, and hedging:** Preserve tactical Cash as dry powder, keep Developed Market duration neutral and retain Energy and Precious Metals as protection against inflation, geopolitical and correlation risks. The objective is to combine resilience and optionality without shifting into a fully defensive stance.

Asset Allocation Strategy

Carry
Strong fundamentals still support carry, but quality remains the priority.

Equity
Maintain selective Developed and Emerging Market equity exposure, supported by resilient earnings and a still-constructive scenario mix.

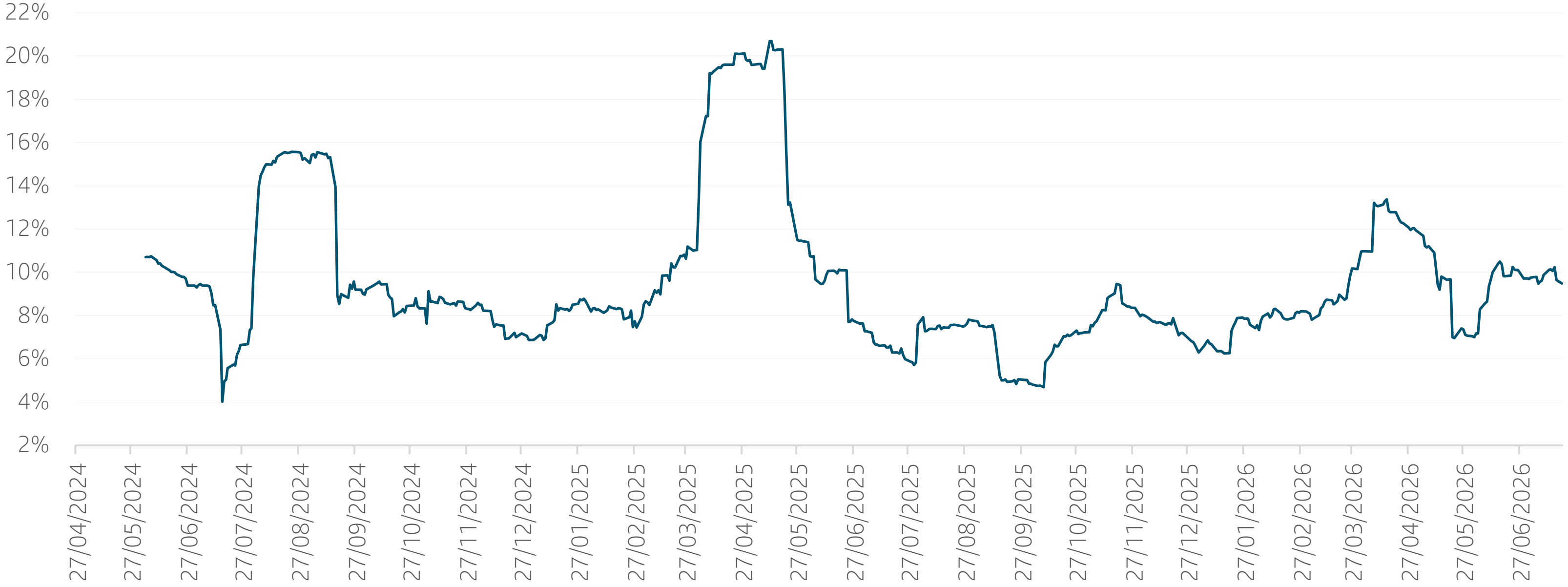
Diversifiers
Cash, Energy and Precious Metals provide optionality and protection.

Selective participation with quality carry and optionality

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

60% MSCI ACWI EUR - 40% EURO Aggregate

Source: Santander Asset Management, Bloomberg and ICE Indices. Data as of 22 July 2026. 60/40 portfolio shown for illustrative purposes only, based on 60% MSCI ACWI EUR and 40% Euro Aggregate. Past volatility is not a reliable indicator of future risk or returns



Asset Allocation Strategy

Diversification matters more when traditional hedges are less reliable

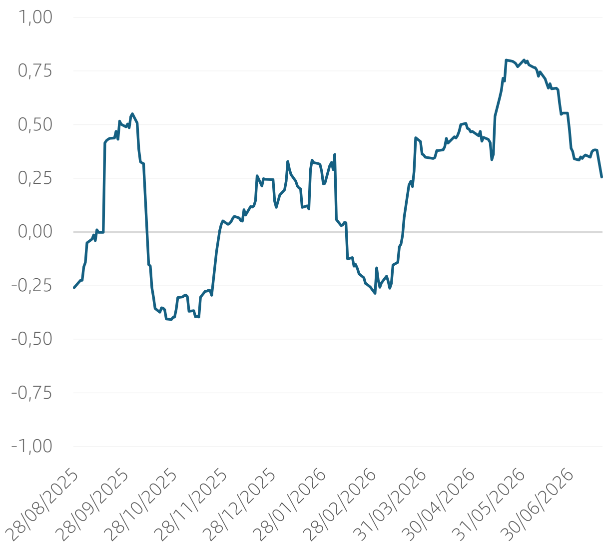
Positive cross-asset correlations reinforce the need for diversifiers beyond the equity–bond mix

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.

Equity – Bonds Correlation

30D Rolling Correlation: MSCI World & US Treasury Index

Source: Santander Asset Management, Bloomberg Barclays Indices

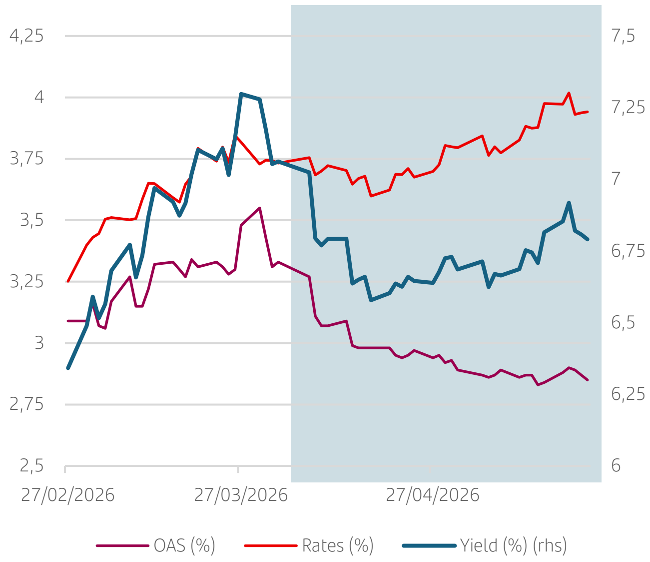


HY risk/reward remains asymmetric
HY yields initially rose as both rates and spreads moved higher but have since stabilized as tighter spreads offset higher rates. If rates fall because growth weakens, spread widening could absorb much of the duration benefit. Current spread levels leave limited cushion.

All-in Yield: Rates & Spreads

Global High Yield

Source: Santander Asset Management, ICE Indices

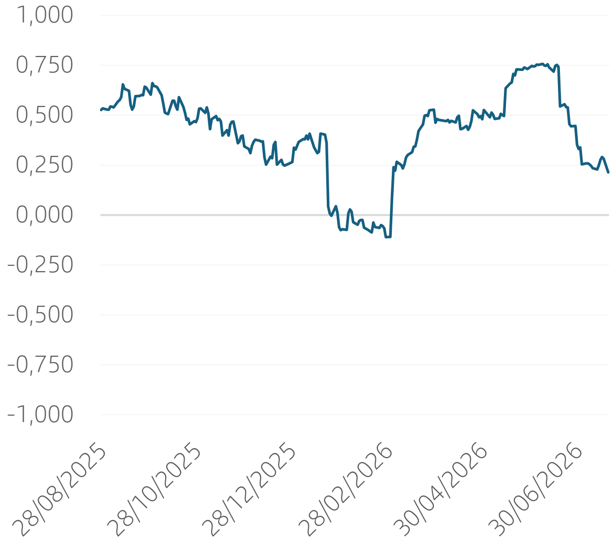


FX and commodities remain key diversifiers
The positive correlation between the US dollar and rates reinforces the role of USD exposure as a diversifier when yields remain high and inflation risks persist. Commodities also remain relevant as inflation and geopolitical hedges.

Dollar & Rates Correlation

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

Source: Santander Asset Management & Bloomberg



Source: Santander Asset Management, Bloomberg, Bloomberg Barclays Indices and ICE Indices. Data as of 22 July 2026. Correlations are 30-day rolling correlations. Indices are shown for illustrative purposes only.

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.

What Would Make Us Deploy Cash?

1

Middle East dislocation

Market fall without structural outlook and/or earnings deterioration.

2

Post-earnings correction

Lower prices while guidance and revisions stay solid.

3

Technical / headline sell-off

Selling by positioning or flows, not by fundamentals.

Confirmation signals

Oil and inflation expectations stabilize · price weakness exceeds fundamental deterioration · earnings revisions and margins remain acceptable ·sentiment, breadth and liquidity stabilize

Cash is an option to act, not a destination.

FX: Maintaining preference for the US Dollar

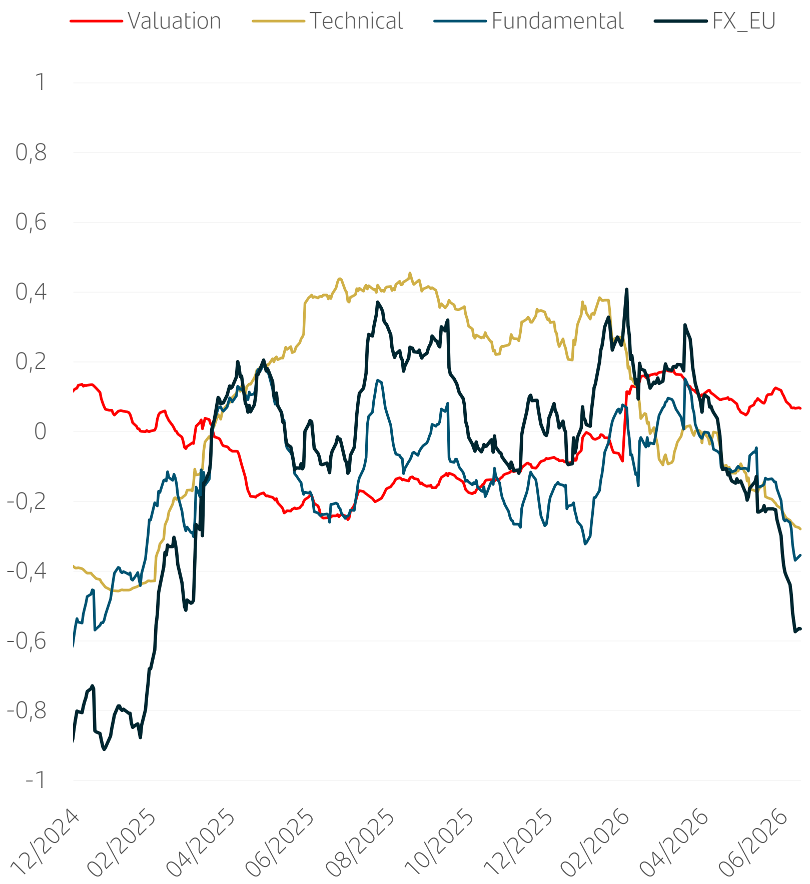
The USD has remained resilient, supported by its safe-haven appeal, the repricing of interest rate expectations and improving US fundamentals relative to other major economies.

Against this backdrop, we continue to favour the USD over both the EUR and GBP as the balance of risks remains tilted towards further USD strength.

Although the dollar is trading near the lower end of its recent range, we believe risks remain marginally skewed towards further appreciation, as the factors underpinning its strength continue to provide support.

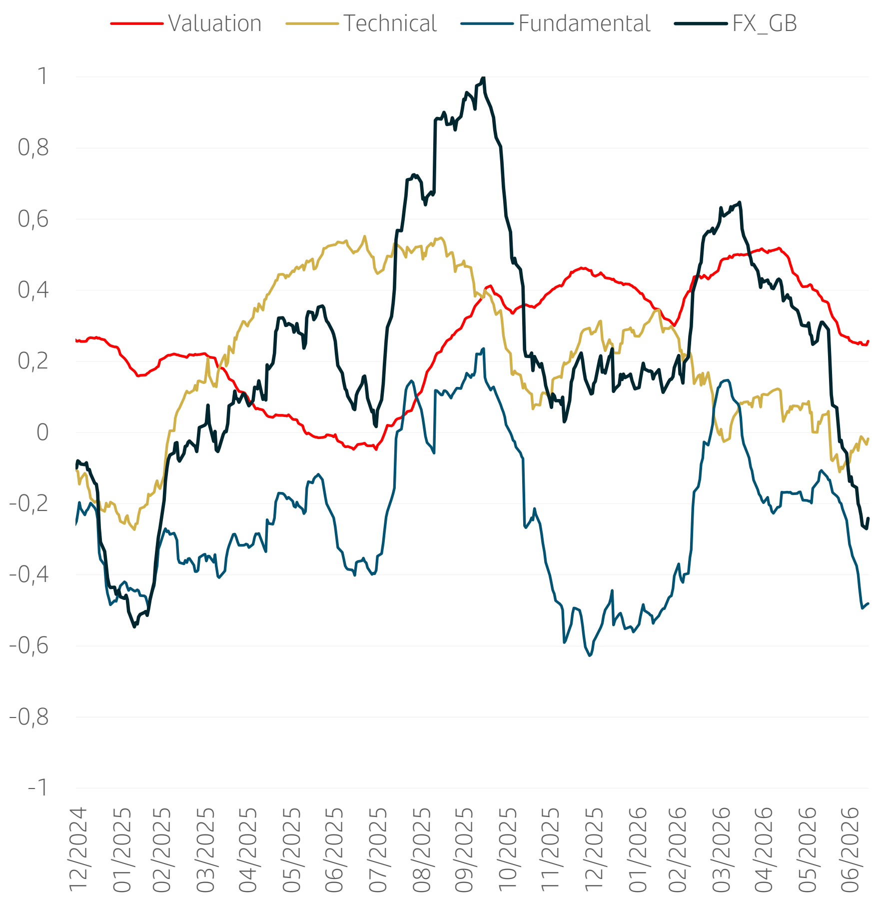
EURUSD: Selected Quant Signals

Source: Santander Asset Management



GBPUSD: Selected Quant Signals

Source: Santander Asset Management



One TAA Key Messages

Participate selectively, keep dry powder, favour quality

- **Earnings remain the anchor for risk assets**
  Growth remains uneven, but earnings resilience and broader participation beyond narrow leadership continue to support the constructive scenario.
- **The market still deserves participation, not complacency**
  The macro backdrop remains supportive, but tight credit spreads and elevated valuations in certain market pockets leave limited room for disappointment.
- **Dry powder creates optionality**
  Additional Cash provides flexibility to redeploy into market dislocations linked to Middle East developments, earnings-related volatility or technical sell-offs.
- **Quality carry remains the preferred source of return**
  Investment Grade remains attractive, while High Yield and EMD continue to offer limited compensation for downside risks.
- **Diversification matters when inflation risk persists**
  Energy, precious metals and USD exposure remain important portfolio diversifiers while stock-bond diversification remains less reliable.
- **What would change our mind?**

More constructive if: earnings breadth continues to improve, inflation pressures fade, policy momentum becomes more accommodative and any market correction occurs without fundamental deterioration.

More defensive if: energy-driven inflation becomes persistent, earnings validation disappoints or credit spreads widen materially.

Santander
Asset Management

Stay invested, preserve flexibility

The allocation remains constructive, but deliberately selective. Earnings still support market participation, and the scenario mix does not call for a defensive rotation. However, tight credit spreads, elevated pockets of valuation, AI monetisation risk and oil/inflation uncertainty argue against adding fragile beta. The right stance is to participate through quality, relative value and hedges, while keeping cash as dry powder to add risk if fundamentals remain intact and markets offer better entry points.

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Thank you

Santander Asset Management

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