COMPASS

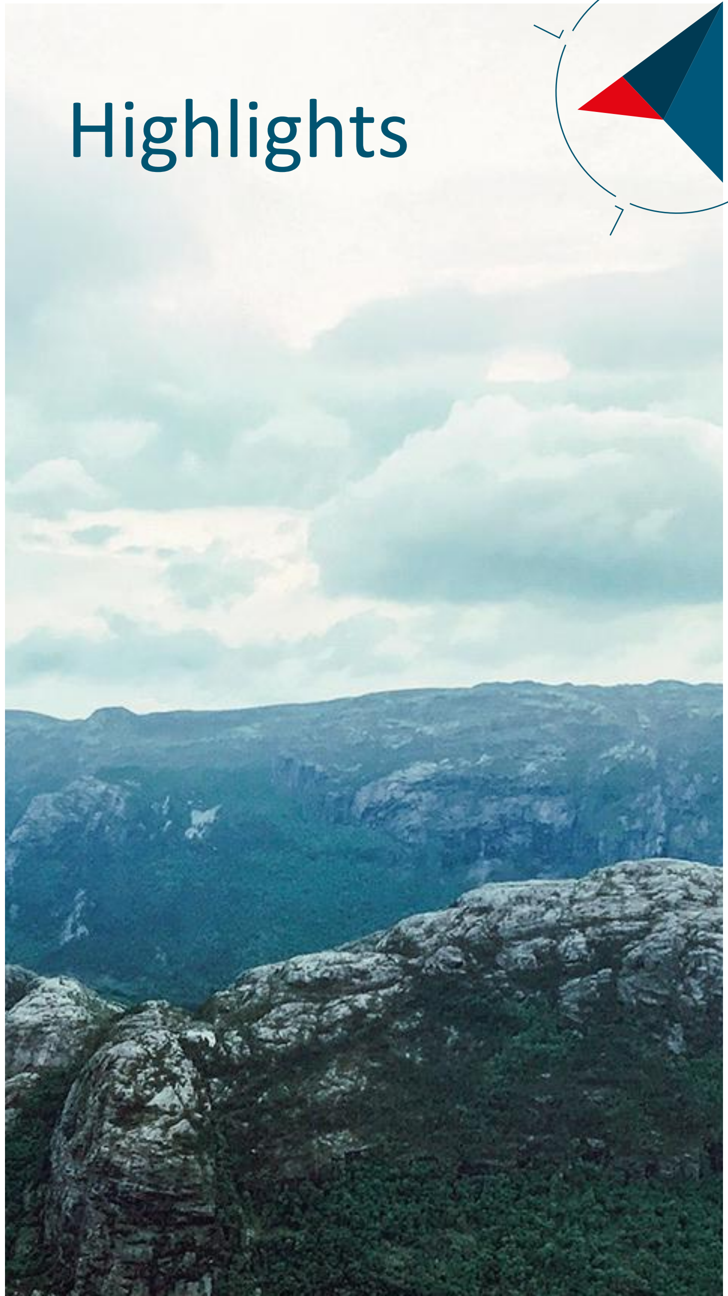
Santander Asset Management

GAAC - TAA Strategy

September 2nd, 2026

Marketing communication

Highlights



Expansion broadens

Global expansion remains intact. Growth is broadening, disinflation continues and earnings remain exceptionally strong. Recent data increase our confidence in the expansion scenario and reduce the likelihood of a Policy Trap outcome.

Strategy/Positioning: Stay invested, keep flexibility

Maintain the current risk stance. Favor equities, IG credit and commodities while preserving Cash as dry powder. The only meaningful portfolio change is moving to a neutral USD stance as its diversification benefits become less compelling.

Risk Environment: Monitor, don't overreact

The backdrop remains supportive for risk assets. Geopolitical risks and long-end US Treasury dynamics warrant attention, but not a defensive shift.

Technicals – positioning, seasonality and sentiment – argue for patience rather than adding risk, keeping flexibility to deploy capital on market weakness.

KEY TAKEAWAY

The macro backdrop has improved, but but risks, technical factors and market pricing leave limited room for error. We therefore maintain risk exposure without increasing fragile beta.

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

Risks to the scenario:

- **Middle East / Oil shock**
- **Inflation persistence/re-acceleration**
- **CB policy mistake**
- **China growth / Financial stability**

Investment Scenarios

Upside — Broader healthy expansion | 30% (Increased from 25%)
Growth remains resilient and broadens, inflation continues to moderate, and policy becomes less restrictive at the margin. Earnings participation continues improving beyond AI/mega-cap leadership.

Base — Uneven expansion with gradual disinflation | 50% (Unchanged)
Global economy remains in a non-synchronized expansion. US continues to outperform while Europe and the UK remain weak. Inflation continues to ease gradually. Policy remains vigilant but not restrictive enough to derail the expansion. Earnings growth remains the key support for risk assets.

Downside — policy-trap slowflation | 15% (Decreased from 20%)
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% (Unchanged)
A severe geopolitical, policy, credit, liquidity or AI concentration shock triggers synchronized profound de-risking. The defining feature is not only recession risk, but a correlation shock in which equities, credit and duration fail to hedge each initially.

KEY TAKEAWAY

Constructive scenarios dominate (~80%). The scenario distribution and the balance of existing risks supports a constructive but selective stance. It argues for participation, quality carry and explicit hedges.

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

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

Risk environment

The risk environment is increasingly shaped by persistent inflation pressures, fiscal and bond market concerns, and a higher-for-longer policy backdrop. Geopolitical risks add to inflation uncertainty, while tight credit spreads and compressed risk premia leave limited buffers against adverse surprises.

What changed

- The latest narrative update raises the monitoring priority of energy-driven inflation risk and sovereign risk.
- Fiscal and term-premium risks have gained momentum, but they do not yet warrant a change in portfolio positioning.

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. **Term premium repricing** – Persistent fiscal deficits, rising sovereign funding needs and weaker fiscal credibility can push the term premium higher. A sustained rise in long-end yields may tighten financial conditions, undermine duration's hedging role and reprice risk premia across asset classes.
3. **Restrictive policy repricing** – Central banks remain vigilant and biased toward inflation control. A renewed repricing toward additional tightening, rather than merely higher-for-longer rates, could trigger a broad sell-off across duration-sensitive assets.

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.

OneTAA: Selective participation with dry powder

The portfolio remains positioned for a continued expansion, but one that is becoming broader, healthier and less dependent on a narrow set of drivers. Strong earnings growth, improving market breadth and ongoing disinflation support a constructive stance on risk assets.

At the same time, we remain mindful of geopolitical and fiscal risks that could tighten financial conditions. As a result, the portfolio continues to favour selective participation rather than a more aggressive increase in overall risk.

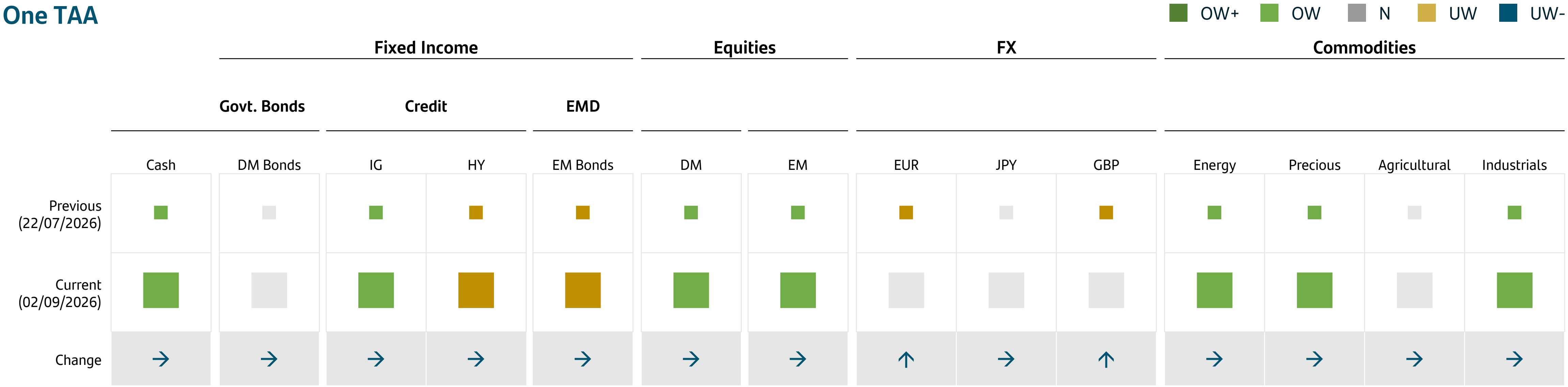
• **Equities** remain the preferred expression of the constructive macro view. Regional positioning reflects broadening growth outside the US, with Europe now scoring similarly to America.

• **Fixed Income** continues to emphasise quality carry and diversification. While disinflation remains supportive, uncertainty around fiscal sustainability and long-end yields argues for a balanced duration stance.

• **Commodities** remain part of the hedge framework. Gold provides protection against confidence and debasement risks, while Energy is maintained primarily as a geopolitical hedge, supported by favourable carry from a strongly backwardated futures curve.

• **FX** has moved towards a more neutral position. Improving signals in Europe and the UK, together with reduced conviction in the dollar, justify removing previous EUR and GBP underweights while maintaining flexibility should macro conditions change.

One TAA



Asset Allocation Strategy

Selective participation through quality carry and strong earnings growth.

The asset allocation strategy is structured around three core principles:

1. **Selective equity exposure:** Maintain selective DM and EM equity exposure, supported by strong and resilient earnings growth, improving growth momentum and still-supportive financial conditions. Focus on quality earnings and AI beneficiaries rather than broad beta expansion.
2. **Quality carry remains the core anchor in fixed income:** Investment Grade remains the preferred carry exposure. Tight credit spreads and supportive financial conditions continue to support carry, while High Yield and EMD offer limited shock absorption against macro or rates volatility.
3. **Diversification against rates and fiscal risks:** Maintain diversification through cash, precious metals and commodities. Rising term premia, fiscal concerns and higher rates volatility reinforce the need for portfolio resilience despite constructive risk sentiment.

Asset Allocation Strategy

Equity
Maintain selective equity participation, supported by earnings resilience and stronger growth momentum.

Carry
Quality carry remains attractive, supported by resilient credit markets and still-accommodative financial conditions.

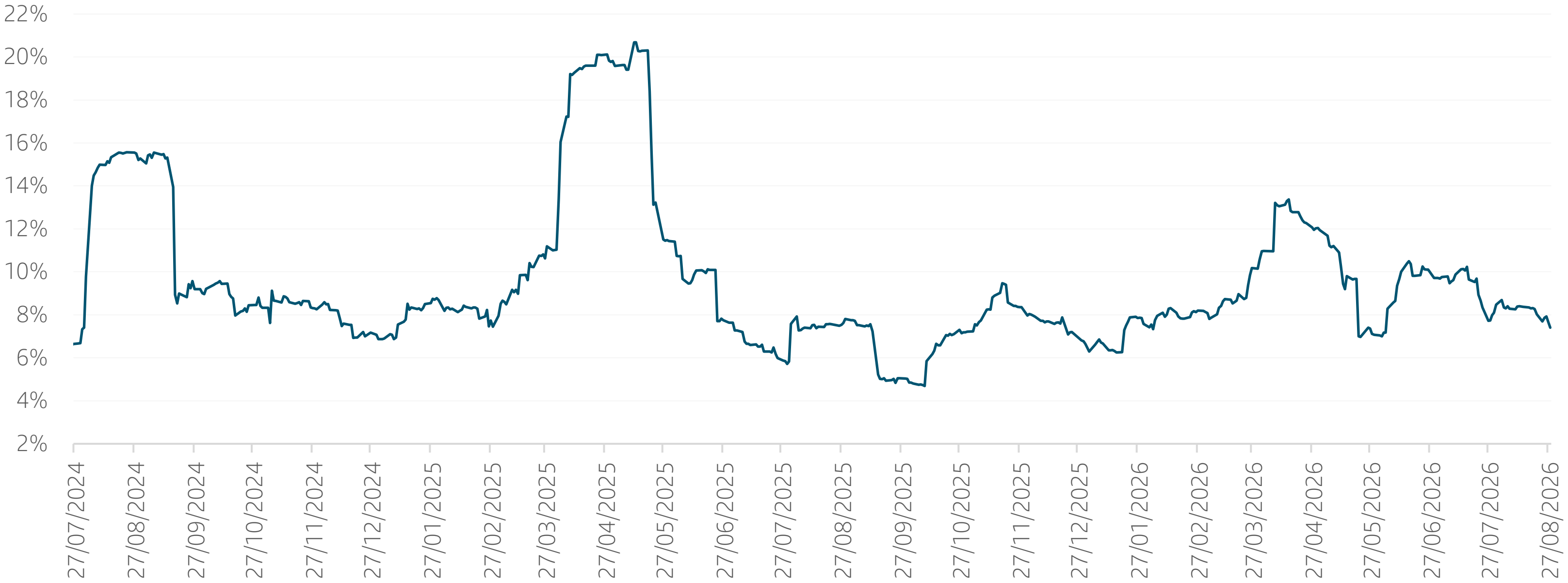
Diversifiers
Cash, precious metals and commodities provide resilience against rates, fiscal and geopolitical risks.

Equity participation, quality carry and resilience

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 28 August 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

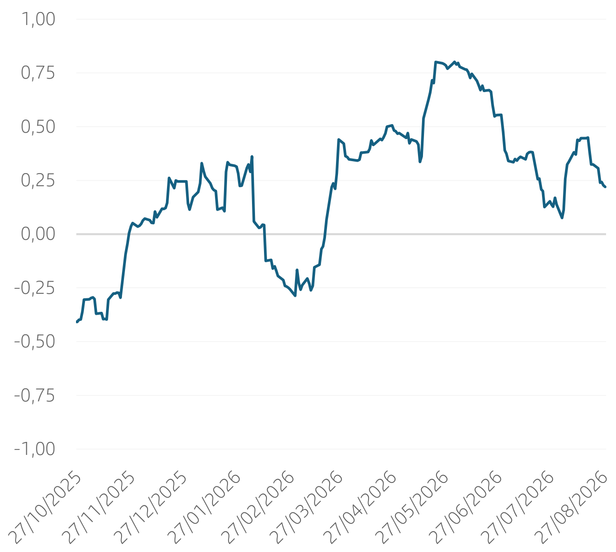
Equity–bond diversification is less reliable
The positive correlation between equity and bonds reduces the diversification benefit of the traditional equity–bond mix. When inflation and rates shocks dominate, portfolios need additional sources of resilience beyond duration.

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.

Fiscal risks weaken the USD hedge
The US Dollar has become a less effective portfolio diversifier as fiscal concerns increasingly drive market dynamics. Commodities continue key as inflation and geopolitical hedges.

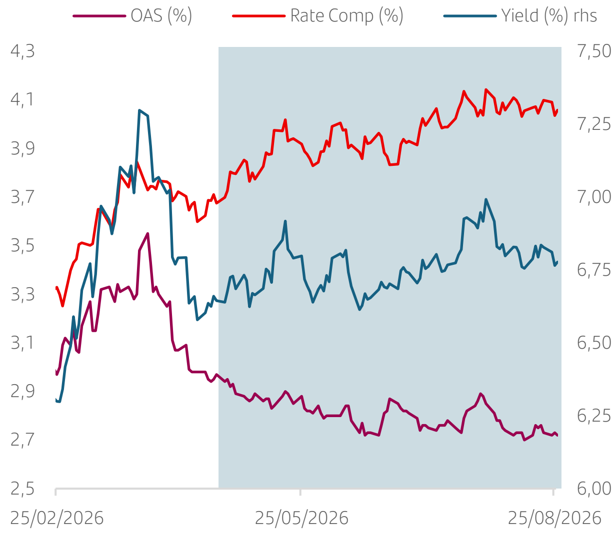
Equity – bonds correlation

30D Rolling Correlation: MSCI World & US Treasury Index
Source: Santander Asset Management, Bloomberg Barclays Indices



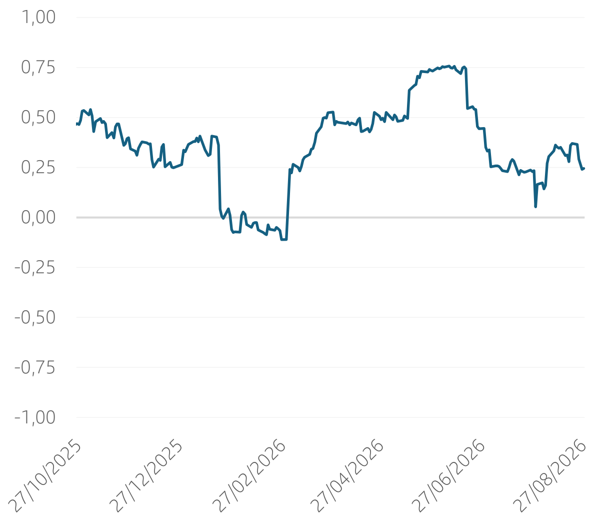
All-in Yield: Rates & spreads

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



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, liquid commodity hedges and precious metals, rather than relying on HY spread compression or traditional equity-bond diversification alone.

Market narratives at a glance

Five themes shaping investor focus and portfolio positioning.

GEOPOLITICS

1 **US–Iran conflict**

Escalation risk remains elevated, keeping oil and regional spillovers in focus.

MONETARY POLICY

2 **Fed Policy and Jackson Hole focus**

Inflation credibility and a higher-for-longer bias reinforce rate and duration sensitivity.

FISCAL RISK

3 **Fiscal risk**

Persistent deficits, Treasury supply and investor demand continue to reprice the long end.

EARNINGS

4 **Earnings broaden, AI leadership endures**

Profit growth is widening beyond mega-cap technology, with AI supporting margins and quality.

CHINA

5 **China's two-speed economy**

Technology and exports remain resilient, while property and consumption constrain momentum.

Limited directional conviction, with risks tilted toward higher yields

Rates are expected to remain range-bound, but the balance of risks is asymmetric.

01

BASE CASE

Range-bound rates

No strong directional conviction on duration

CENTRAL VIEW

Policy rates and sovereign yields fluctuate within broad ranges

02

ASYMMETRIC RISK MAP

Higher-yield risks dominate

Macro and fiscal dynamics

01 **Sticky inflation**

Disinflation may proceed more slowly than expected

02 **Fiscal concerns**

Supply pressure and debt dynamics sustain term premia

03 **Hawkish central banks**

Policy remains restrictive and responsive to inflation risk

CENTRAL BANK PULSE

BoJ Normalization &further tightening

ECB Hawkish amid renewed inflation

Fed Vigilant & ready if disinflation stalls

BoE Hawkish vigilance

03

STRATEGY IMPLICATIONS

Position for carry and asymmetry

Long-end risk remains elevated as term premia reprice

Neutral duration

Avoid directional bets

Prefer steepeners

Express long-end asymmetry

Real over nominal

Where breakevens underprice risk

Quality bias

Prioritise resilience and carry quality

Selective local-currency EMD

Carry plus potential USD weakness

Broadening earnings growth continues to support equities

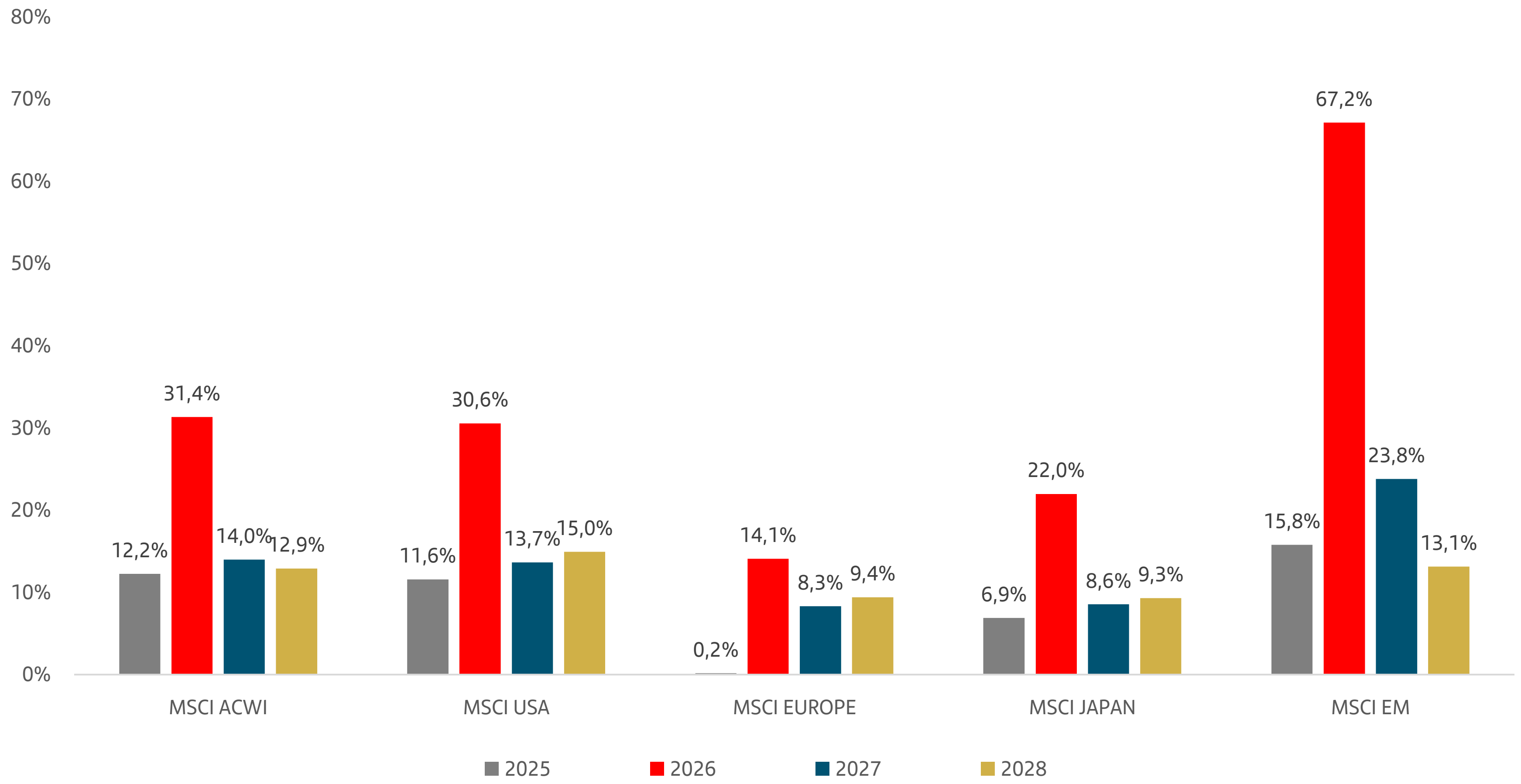
Earnings remain the **strongest support for equities**, with analysts projecting a **sustained expansion in profits through 2026, 2027 and 2028.**

While the exceptional pace expected for 2026 is unlikely to be repeated, consensus forecasts still point to healthy double-digit EPS growth across most regions, suggesting that the earnings cycle retains meaningful momentum. Importantly, growth is becoming broader across geographies, with the US, Emerging Markets and Japan expected to deliver particularly strong profit expansion, while Europe also returns to a more constructive trajectory.

This combination of resilient earnings growth, improving breadth and supportive long-term expectations continues to provide a solid fundamental foundation for equity markets.

Earnings Growth (%)

Source: Santander Asset Management & Bloomberg



FX: A more balanced outlook for the US Dollar

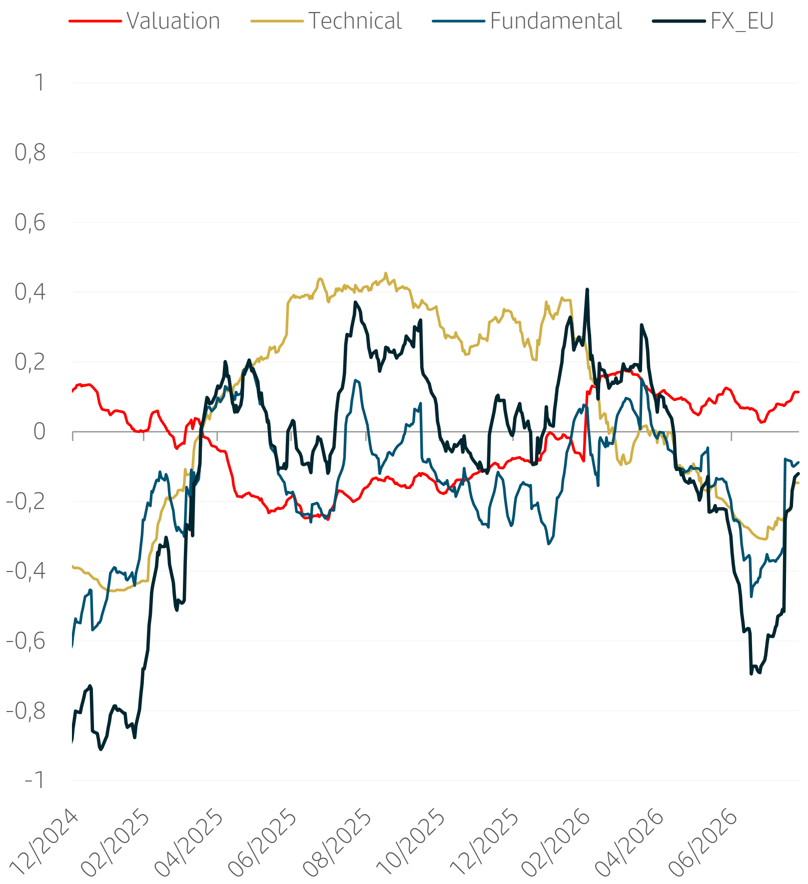
We have moved both **EUR/USD and GBP/USD from underweight to neutral**, reflecting a broad improvement in foreign-exchange signals and a reduced conviction in the previously constructive dollar view.

The combination of broadening global growth and improving momentum in Europe and the UK argues for a more balanced assessment of relative currency prospects. At the same time, concerns around sovereign fiscal sustainability in the United States, have increased the probability of greater volatility in the dollar over the medium term.

As a result, we prefer to neutralise the previous dollar bias rather than maintain a directional position.

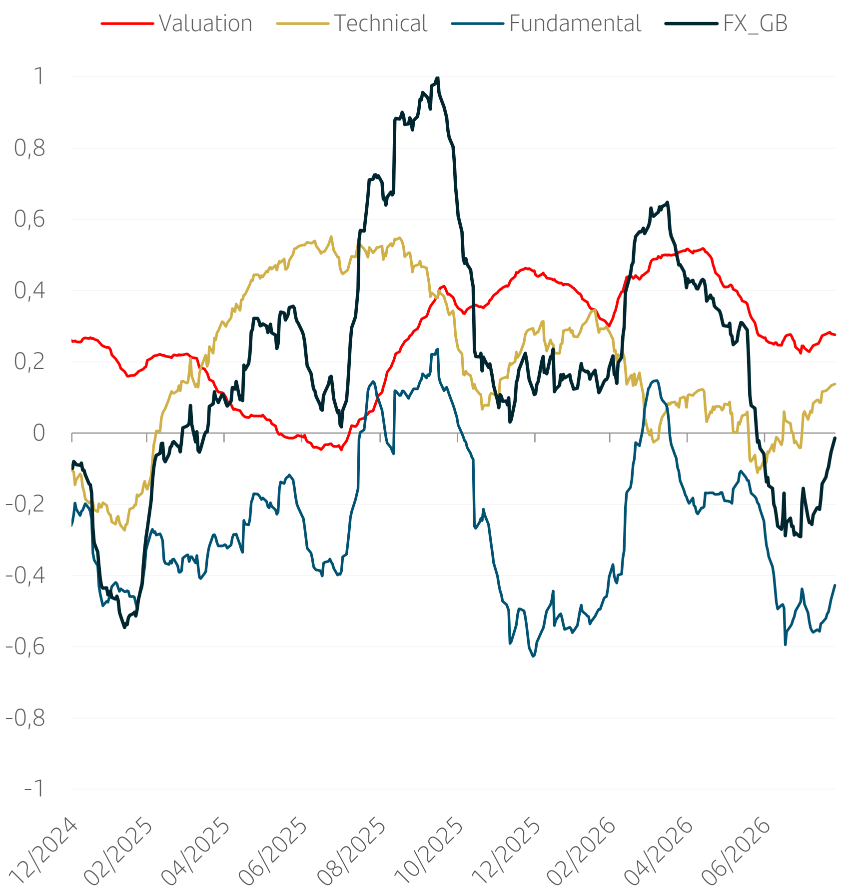
EURUSD: Selected quant signals

Source: Santander Asset Management



GBPUSD: Selected quant signals

Source: Santander Asset Management



One TAA Key Messages

Stay invested, favour quality, preserve flexibility

- **Earnings remain the foundation for risk assets**
  Broad-based earnings growth and resilient profit expectations continue to provide a solid foundation for equities, despite rising uncertainty around fiscal dynamics, long-term yields and geopolitics
- **Growth holds up, but higher yield risks are rising**
  The macro backdrop remains supportive, yet fiscal concerns and term premium repricing are pushing long-end yields higher and increasing tactical uncertainty.
- **Participate, but avoid chasing markets**
  Constructive fundamentals still support risk-taking, although tighter valuations and limited risk premia argue for a selective and balanced approach.
- **Quality carry remains the preferred fixed-income exposure**
  Investment Grade offers attractive risk-adjusted income, while High Yield and EMD provide limited downside
- **Diversification remains essential**
  Energy and precious metals continue to provide valuable protection against inflation, geopolitical shocks and higher-for-longer rate dynamics.
- **What would change our mind?**

More constructive if: earnings breadth broadens further, disinflation progresses and higher yields reflect stronger growth rather than fiscal concerns.

More defensive if: fiscal risks continue to lift term premia, inflation proves stickier than expected, or earnings expectations begin to deteriorate.

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.

Constructive regime → Broadening earnings growth continues to support equities → Geopolitical uncertainty and rate dynamics call for caution → broad beta stable → RV identifies where to take risk → Cash provides flexibility to exploit corrections.

September, 2026

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