

The background of the slide is a scenic landscape photograph. In the foreground, two hikers are walking away from the viewer on a dirt path that runs along the edge of a calm lake. The hiker on the left is wearing a backpack and using a trekking pole. The hiker on the right is also using a trekking pole. The lake's surface is perfectly still, reflecting the surrounding mountains and the sky. The mountains are rugged and have a brownish, rocky appearance. The sky is a clear, pale blue. The overall mood is peaceful and adventurous.

COMPASS

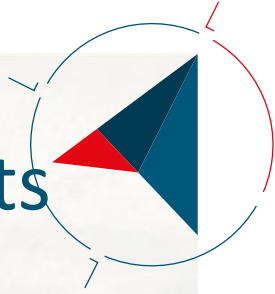


GAAC TAA Strategy | October 2026

September 30th, 2026

Marketing communication

Highlights



The energy shock is a brake, not yet a cycle breaker

Oil and geopolitical uncertainty are keeping headline inflation elevated and central banks restrictive for longer. However, the shock has not yet materially weakened consumption, earnings, investment or credit availability.

Financial conditions remain the key transmission channel

Higher policy rates alone do not imply a downturn. The base case remains intact while broader financial conditions, earnings expectations and effective credit availability remain supportive of the expansion.

We prefer equities to duration and lower-quality credit

Earnings remain resilient and valuations have improved, while sovereign bonds continue to face inflation and policy headwinds.

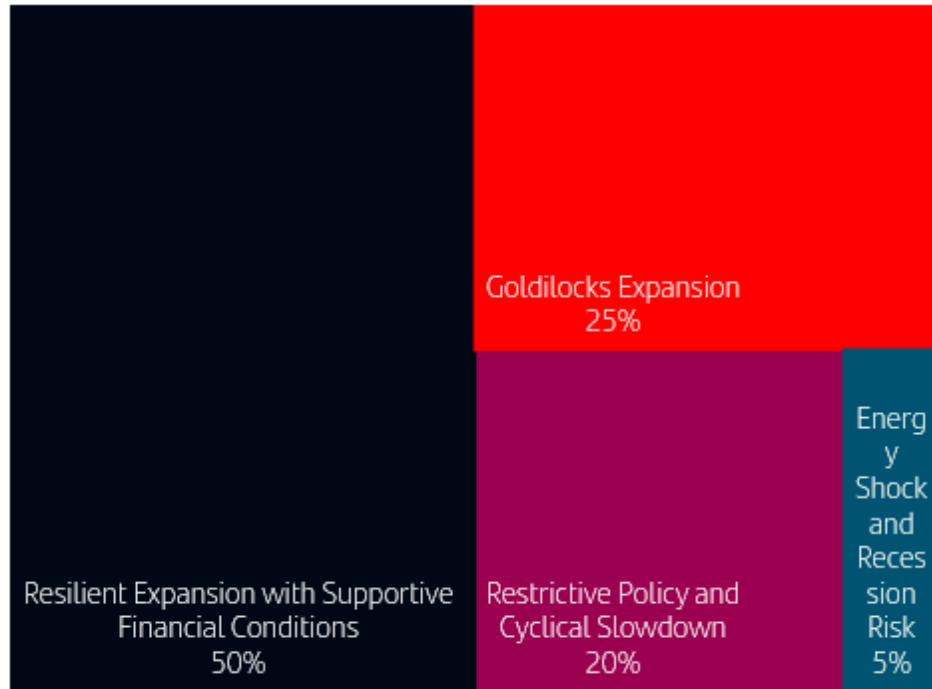
Credit offers less protection as yields and spreads have started to move in the same direction.

KEY TAKEAWAY

We deploy the portfolio's dry powder into developed-market equities, while maintaining a selective and inflation-aware risk allocation.



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 — Goldilocks Expansion | 25%

A partial de-escalation in the Middle East returns oil to a comfortable range. Headline inflation moderates without demand destruction, central banks stop tightening and the earnings recovery broadens beyond AI.

Base — Resilient Expansion with Supportive Financial Conditions | 50%

The economy stays in expansion around potential. The energy shock keeps headline inflation elevated and raises uncertainty, but without material second-round effects. Central banks remain restrictive for at least six months, while consumption holds near trend and financial conditions stay accommodative through tight credit spreads.

Downside — Restrictive Policy and Cyclical Slowdown | 20%

Oil stays high long enough to keep headline inflation uncomfortable, and central banks extend restrictive policy. With output gaps not materially positive, tightening works through weaker demand: confidence, consumption, non-AI investment and earnings revisions soften as financial conditions tighten progressively.

Tail — Energy Shock and Recession Risk | 5%

A further Middle East escalation causes a prolonged physical energy-supply shock. Oil moves to extreme levels, inflation accelerates and central banks remain constrained while real incomes, margins and investment deteriorate. Financial conditions tighten sharply and cross-asset correlations become unstable.

KEY TAKEAWAY

Constructive scenarios account for 75% of the distribution, but the most plausible adverse path is policy overtightening rather than a conventional demand-led recession.



Persistence and transmission, not the initial shock, determine the scenario

Upside

Goldilocks Expansion

Energy normalisation → lower inflation pressure → reduced monetary-policy constraint → improving confidence → **broader earnings and investment**

Base

Resilient Expansion

Contained but persistent energy shock → restrictive-for-longer policy → slower momentum → resilient demand, earnings and credit → **continued expansion**

Downside

Restrictive Policy & Slowdown

Persistent inflation pressure → policy remains too restrictive → confidence and demand weaken → earnings, capex and hiring revised lower → **tighter financial conditions**

Tail

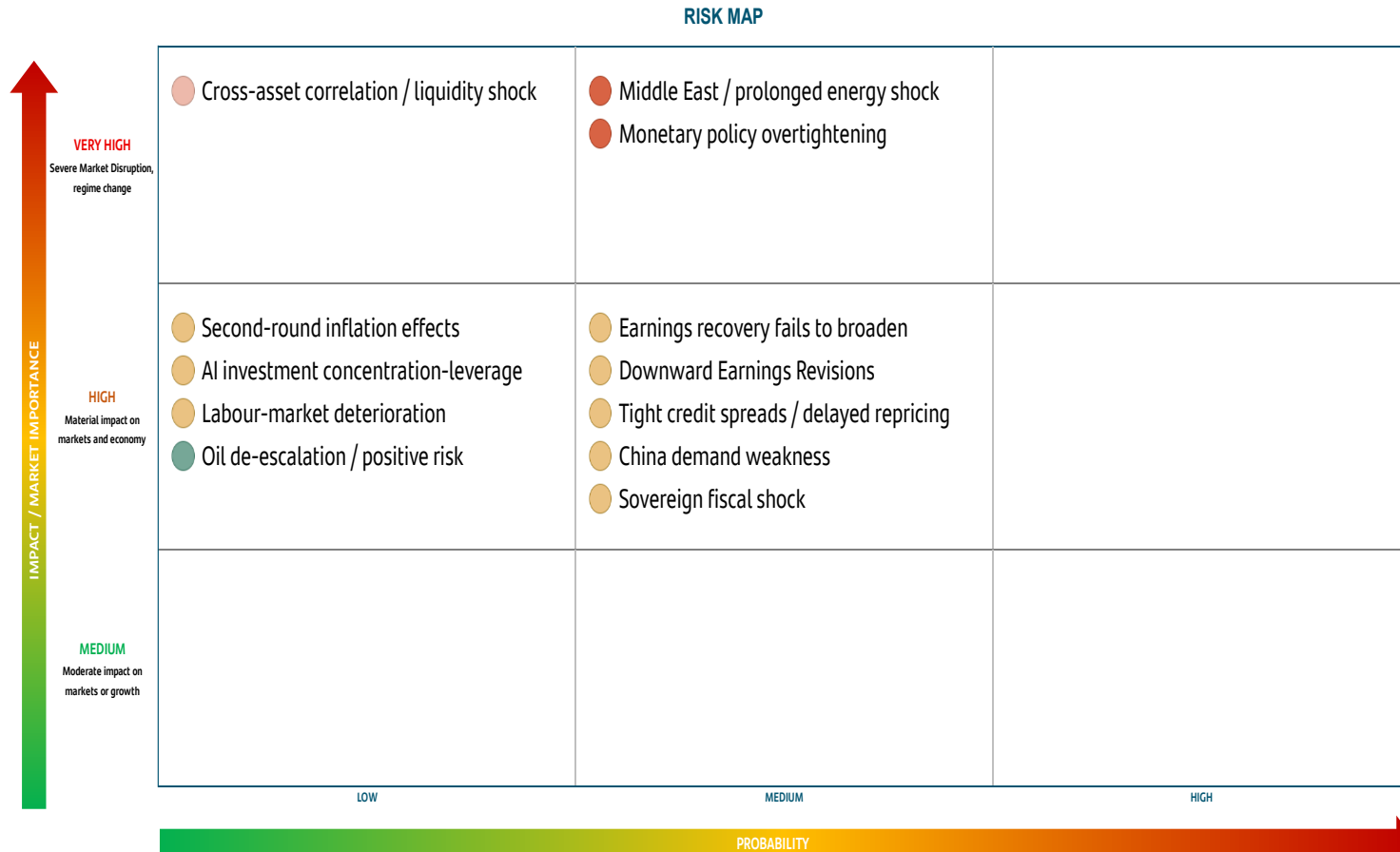
Energy Shock & Recession

Physical supply disruption → extreme energy prices → real-income and margin shock → sharp tightening in financial conditions → **severe slowdown and later disinflation**

KEY TAKEAWAY A scenario transition requires evidence that the shock is changing decisions, not just market prices.



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



Source: Santander Asset Management

Allocation Implication

Stay invested but paid for quality: Investment Grade over High Yield, carry rather than duration bets, selective developed equity and commodity/precious-metal hedges against the energy shock. Do not neutralise hedges or reach for lower-quality credit while spreads price little absorption capacity.

Risk environment

Risks are mechanisms, not forecasts: what matters is where each sits in the chain from the energy shock to policy, earnings and credit. The expansion is intact and balance sheets are healthy, but persistence – not the peak in oil – is what would turn a supply shock into a macro process. Tight spreads leave limited absorption capacity.

What changed

- Energy-shock persistence is now the primary tactical risk; the focus shifts from the level of oil to how long the premium lasts.
- Central banks have already tightened, so overtightening replaces under-reaction as the main macro downside risk. Fiscal and term-premium pressures keep building, but do not yet warrant a change in positioning.

Top 3 risks to monitor

- 1.Energy-shock persistence** – Duration matters more than the peak. A lasting supply premium feeds headline inflation and uncertainty, extends restrictive policy and erodes real income and margins.
- 2.Monetary-policy overtightening** – Policy aimed at preventing second-round effects may end up too restrictive for demand, hitting confidence, capex, hiring and credit before it delivers disinflation.
- 3.Second-round inflation effects** – The boundary between a contained supply shock and a persistent inflation process. If expectations and wages follow, the policy constraint hardens and the base case migrates toward the tail.



OneTAA: Increasing risk while maintaining inflation protection

The OneTAA allocation remains positioned for a positive global expansion. Broader growth and resilient earnings continue to support a constructive backdrop for risk assets, although the path of disinflation has become less certain.

The portfolio has redeployed its cash position into risk assets as the opportunity cost of holding liquidity has increased. While inflation risks have risen, the balance of risks still favours participation in the expansion scenario.

- **Equities** allocation has increased through the deployment of cash. Improving growth expectations, resilient earnings and more attractive valuations strengthen the case for equities versus cash and fixed income, offering the most attractive upside in a constructive growth environment.
- **Fixed Income** keeps IG Credit as the preferred credit exposure, while HY Credit stays underweight given limited compensation for downside risks. The long end of the US Treasury curve remains a key area to monitor as fiscal dynamics and Treasury supply shape the yield environment.
- **Commodities** have been rebalanced by increasing Agricultural Commodities and moderating the overweight in Industrial Metals, reducing cyclical risk while strengthening resilience to supply-side, climate-related and geopolitical inflation shocks.
- **FX** positioning remains unchanged, with neutral exposures across major currencies. The risk-reward profile stays balanced, with no sufficiently strong conviction to justify active currency positioning at this stage.

OneTAA

■ 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 (02/09/2026)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Current (30/09/2026)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Change	↓	→	→	→	→	→	→	→	→	→	→	→	↑	→



Asset Allocation Strategy: deploying dry powder where the risk-reward has improved

We modestly increase risk through developed-market equities, where resilient earnings and improved valuations offer a more attractive upside than duration or lower-quality credit.

Macro: The expansion remains resilient and financial conditions are still broadly supportive, so the shock is not yet changing the underlying cycle.

- Earnings:** Earnings expectations remain solid, with no broad downgrade cycle currently visible across developed markets.
- Valuations:** Market consolidation alongside continued earnings growth has improved forward valuations, creating better entry points for equity risk.
- Relative opportunity:** A de-escalation would support several asset classes, but equities should capture more upside than bonds, as policy rates are unlikely to return fully to pre-shock levels.

Asset Allocation Strategy



Equity

Increase DM equity exposure, funded from cash, on resilient earnings and improved valuations.



Carry

Credit stays selective and FX neutral; limited spread protection argues against fragile beta.



Diversifiers

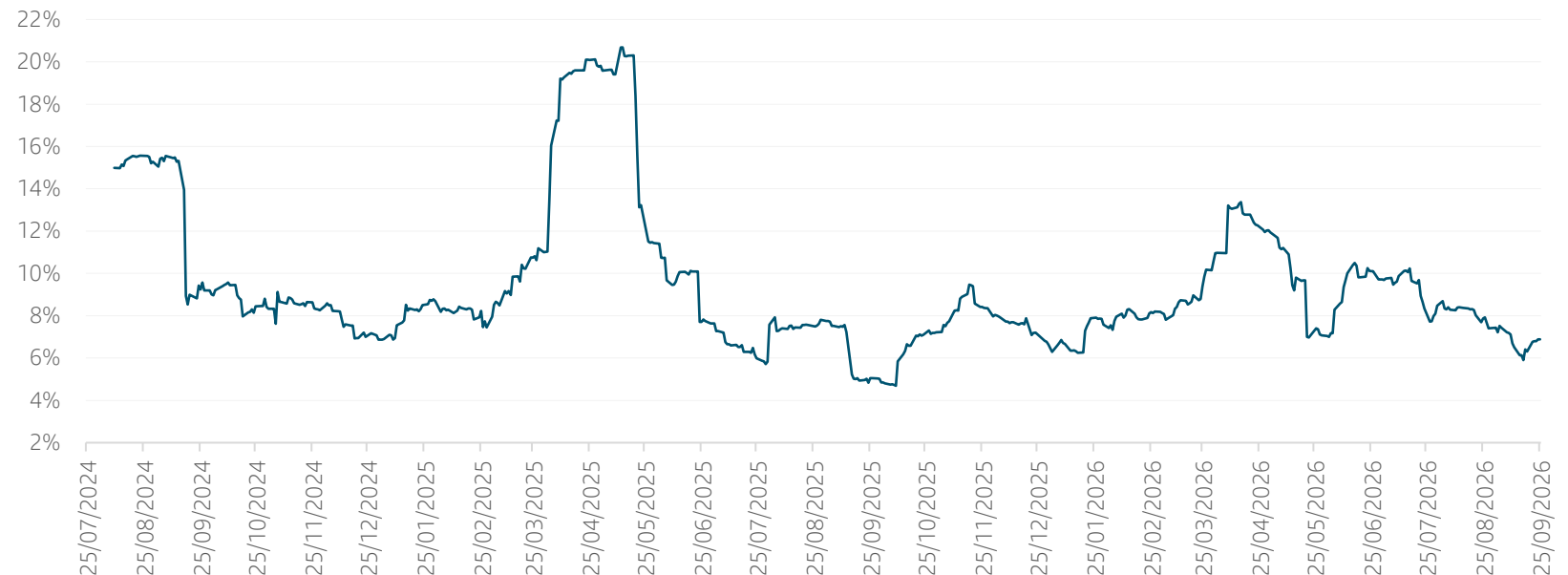
Commodities reshaped toward broader inflation protection; cash reduced as it is deployed.

More DM equity, selective credit, inflation-aware diversification

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





Financial conditions shape the investment scenario

Policy rates already higher

Central Banks have already started tightening their policy to prevent second-round effect in inflation. The Fed hiked in September and the ECB twice, consolidating policy rates and yields at higher levels.

Conditions remain accommodative

On a medium-term view financial conditions are still accommodative. Short-lived tightening episodes around oil spikes or data surprises have not changed the regime.

Transmission is what matters

What is relevant for risk assets is not how many hikes central banks deliver, but whether that tightening feeds through into financial conditions and confidence.

Balance sheets absorb higher rates

Corporate and household leverage is low, so higher policy rates could be absorbed without derailing investment or consumption, making the expansion more resilient than in past cycles.

What would break the regime

Persistent oil above \$100, second-round effects in wages and services, or a sustained widening in credit spreads would mark genuine tightening and a change of scenario.

KEY TAKEAWAY Central bank tightening is only a problem for risk assets when it tightens financial conditions; today it does not.



US-Iran War: The conflict shifts to energy infrastructure and shipping

Military tensions continue, neither side has achieved its objective, and the Strait of Hormuz remains the key transmission channel to markets.

MILITARY

Tanker war intensifies

Both sides are targeting shipping and energy assets

DIPLOMACY

Alive but fragile

Negotiations remain difficult but active

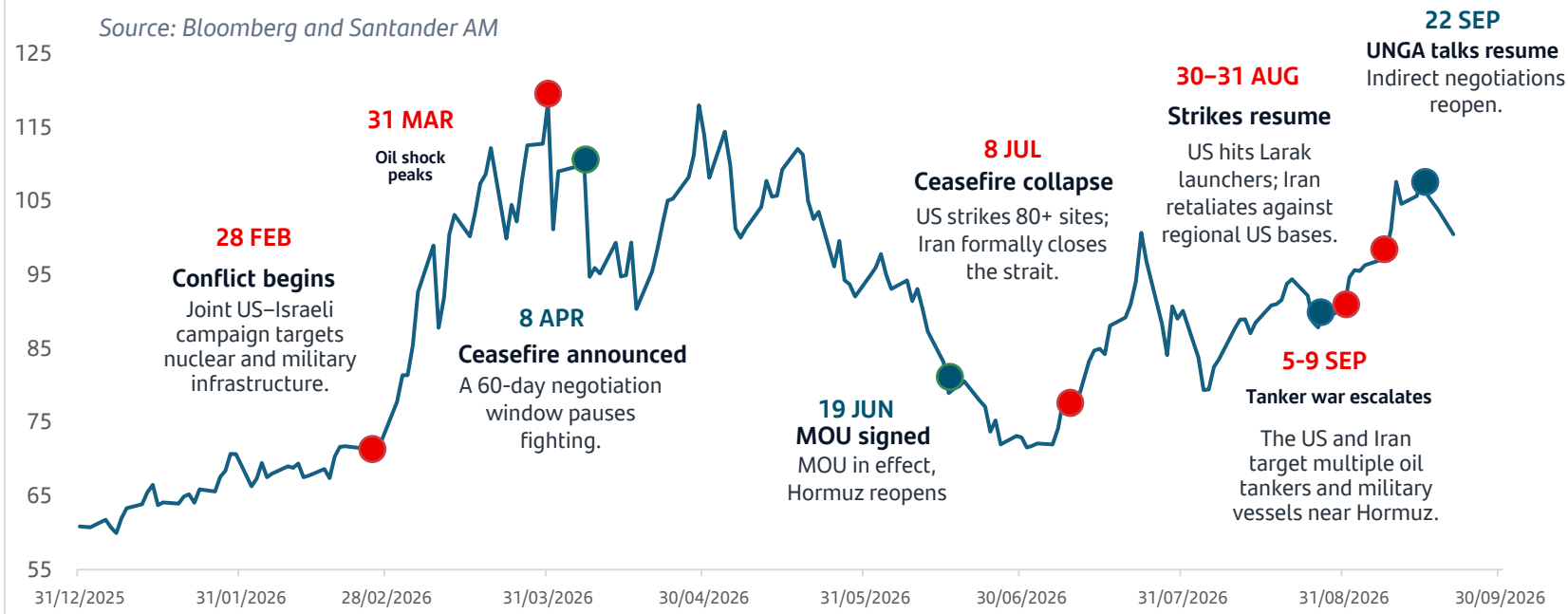
MARKETS

Energy shock deepens

Brent above \$100/bbl as supply disruption risk increases

CONFLICT CHRONOLOGY AND BRENT PRICE RESPONSE

Source: Bloomberg and Santander AM



CURRENT STATE

- The conflict has moved decisively to the sea**
Attacks on tankers and military vessels have made energy infrastructure a central battlefield.
- Hormuz remains severely constrained**
Reduced traffic, attacks and competing maritime restrictions continue to disrupt energy flows.
- Iran remains under pressure**
Brent has moved above \$100/bbl and European natural-gas markets are also under growing pressure.
- Diplomacy has not disappeared**
Talks continue through mediators, but shipping access, sanctions and the naval blockade remain unresolved.

KEY TAKEAWAY

The conflict has entered a more dangerous phase: attacks on shipping and energy assets have intensified the supply shock, while diplomacy has resumed without resolving the confrontation over Hormuz.



US midterms may increase volatility, but are unlikely to change the macro scenario

A tactical event risk, not a base-case regime driver.

The approaching US midterm elections may increase short-term uncertainty and market volatility. However, the principal outcomes are more likely to affect the administration's room for fiscal and legislative action than to alter the near-term growth, inflation or monetary-policy path.



Pre-election volatility

Short-term uncertainty may temporarily pressure valuations, with noise concentrated around the electoral calendar.



Divided government

A divided Congress would constrain major fiscal and legislative initiatives, while trade and foreign policy continue via executive action.



Correction as opportunity

The result alone is unlikely to invalidate the investment scenario; a technical correction would be assessed as an opportunity to add risk.

MARKET INTERPRETATION

What it means

- Pre-election volatility may temporarily pressure valuations.
- A divided government would constrain major fiscal and legislative initiatives.
- Any technically driven correction would be assessed as a potential opportunity to add risk.

KEY TAKEAWAY We monitor the event but would not reposition the portfolio solely around the election calendar.



Limited directional conviction, with risks tilted toward higher yields

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

BASE CASE

01

Range-bound rates

No strong directional conviction on duration
Oil price is the short-term catalyst

CENTRAL VIEW

Policy rates and sovereign yields fluctuate setting new (broad) ranges.

ASYMMETRIC RISK MAP

02

Higher-yield risks dominate

Macro, fiscal and growth dynamics

01

Sticky inflation

Disinflation may proceed more slowly than expected

02

Fiscal concerns

Supply pressure and debt dynamics sustain term premia

03

Resilient growth

Firm activity keeps policy restrictive; a sharp slowdown is the main two-way risk

CENTRAL BANK PULSE

BoJ Normalization & further tightening

ECB Hawkish amid renewed inflation

Fed Vigilant & ready if disinflation stalls

BoE Hawkish vigilance

STRATEGY IMPLICATIONS

03

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



Earnings growth continues to support equities

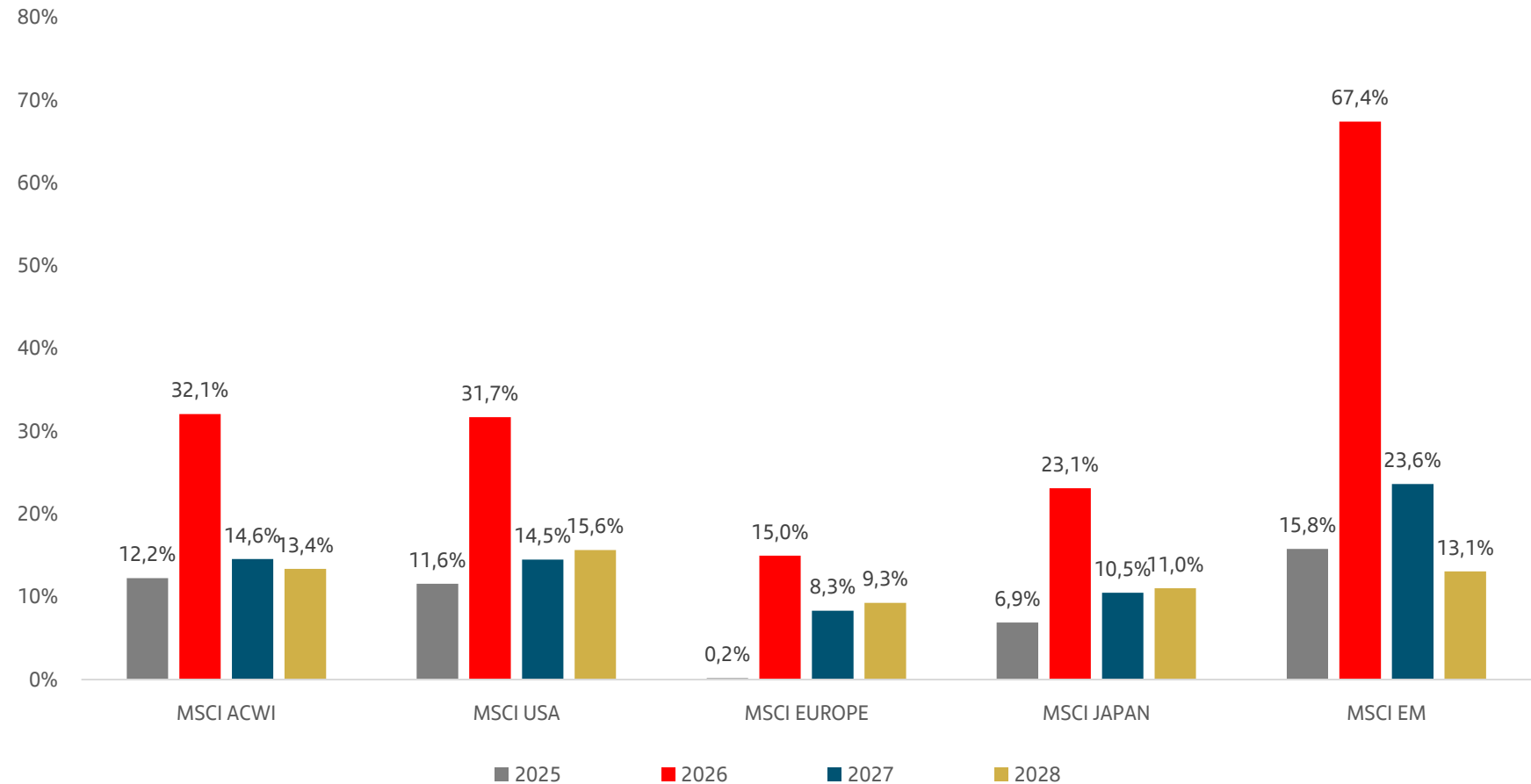
Earnings remain the **strongest support for equities**, with analysts projecting a **sustained expansion in profits through 2026, 2027 and 2028**.

Although the extraordinary earnings growth projected for 2026 is unlikely to be matched in subsequent years, consensus estimates still anticipate robust double-digit EPS growth across most major regions, indicating that the profit cycle remains firmly intact. Encouragingly, earnings momentum is becoming increasingly broad-based, with the US, Emerging Markets and Japan expected to lead profit growth, while Europe is also moving back onto a more positive earnings path.

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

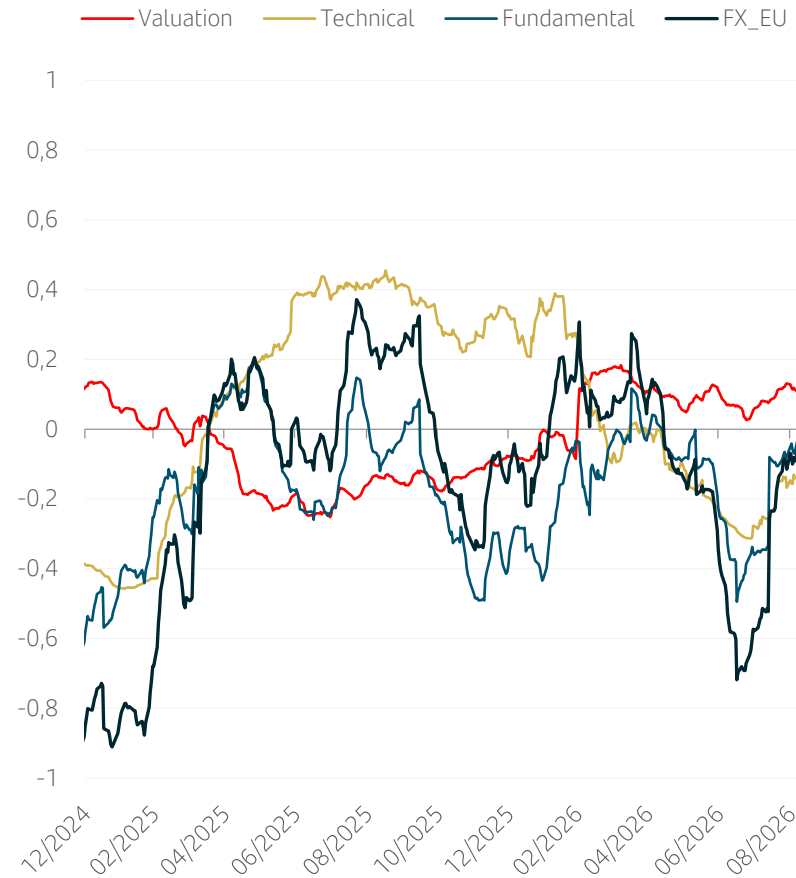
FX positioning remains broadly unchanged. **Currency markets continue to trade in relatively narrow ranges, with low volatility and no strong directional trends across major pairs.** Valuation signals remain mildly supportive for some non-USD currencies, but technical and fundamental indicators provide only limited confirmation.

Against this backdrop, we maintain a **neutral stance across the main currencies (EUR, GBP and JPY)**, as current market conditions do not justify a strong active bias.

We continue to monitor relative growth expectations, central-bank policy signals and shifts in global risk sentiment as the most likely catalysts for a more decisive move in FX markets.

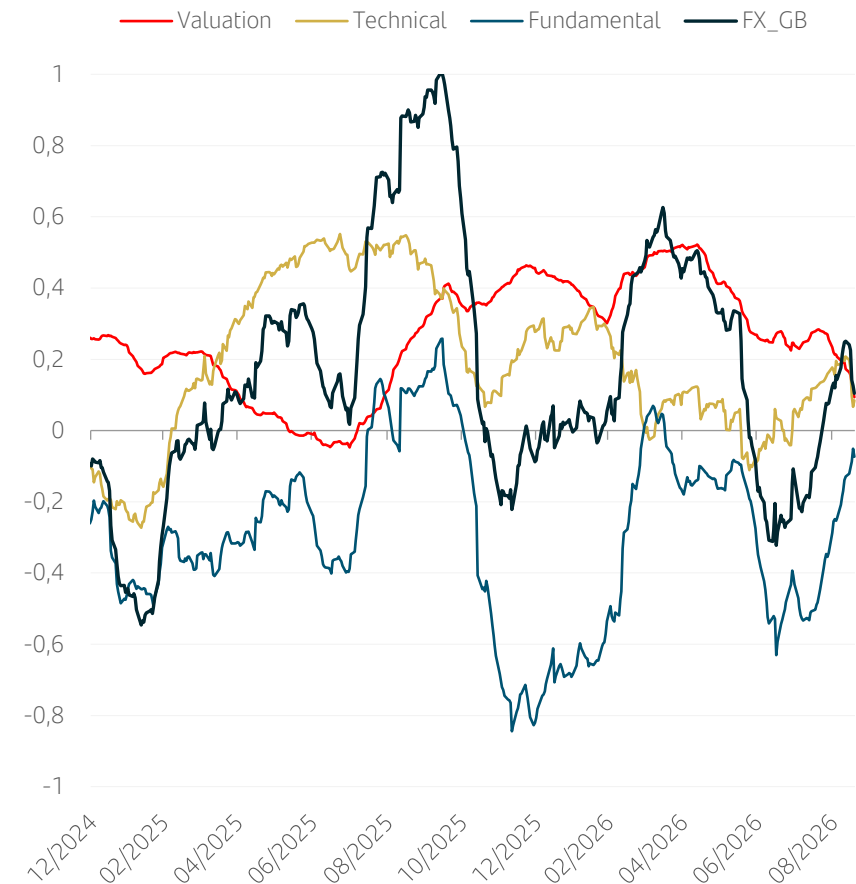
EURUSD: Selected quant signals

Source: Santander Asset Management



GBPUSD: Selected quant signals

Source: Santander Asset Management



OneTAA Key Messages

Stay invested, favour quality, deploy dry powder selectively

- **The energy shock is a brake, not a cycle breaker**
Higher energy prices keep headline inflation elevated and central banks restrictive for longer, but consumption, earnings, investment and credit availability have not yet weakened materially.
- **Financial conditions are the key transmission channel**
Higher policy rates alone do not imply a downturn. As in 2015-2018, hikes can coexist with easier conditions: what matters is the cycle and access to credit, and both remain supportive.
- **We deploy dry powder into developed-market equities**
Resilient earnings and improved valuations after the consolidation offer more upside than duration or lower-quality credit, funded from cash while keeping the overall stance selective.
- **Fixed income is a carry strategy, not a duration call**
Elevated yields are captured with neutral duration in short and intermediate maturities and a quality bias, Investment Grade over High Yield, with value in curve steepeners and relative value.
- **Diversification and inflation protection remain essential**
Commodities and precious metals continue to hedge energy persistence, geopolitical shocks and higher-for-longer rates, while FX stays neutral.
- **What would change our mind?**
More constructive if: the energy shock fades, disinflation resumes and earnings breadth broadens further.
More defensive if: the shock persists into wages and services, policy stays too restrictive for too long, or earnings revisions and credit conditions deteriorate.

Uncertain Headlines, Resilient Fundamentals

The recent energy shock has raised inflation concerns and reinforced the higher-for-longer policy backdrop. Yet its transmission into earnings, credit markets and financial conditions remains limited. As long as those fundamentals hold, the expansion stays intact. We continue to deploy cash into developed-market equities, favour carry over duration and maintain inflation protection against risks that remain difficult to price.

*Energy shock → Higher-for-longer rates → Conditions still supportive → Expansion intact
Stay invested. Stay selective. Stay hedged.*



COMPASS



 **Santander**
Asset Management

Thank you

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