

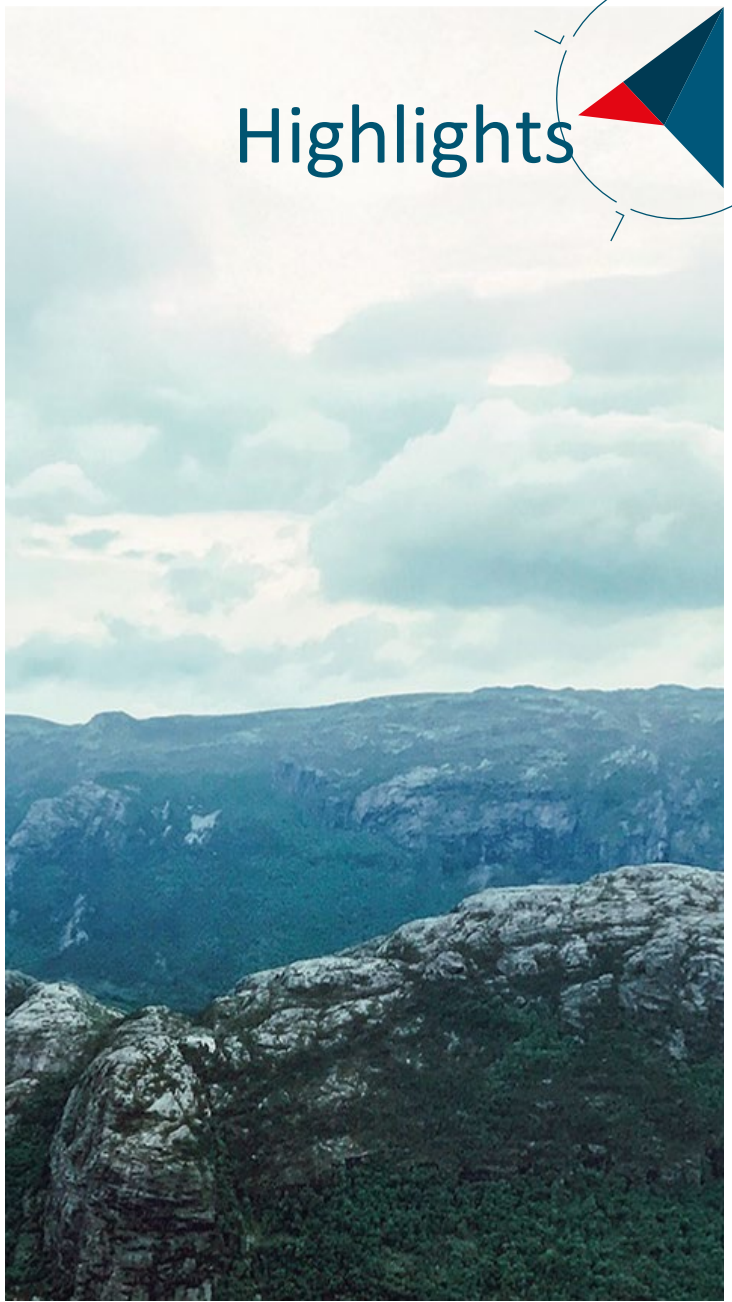
COMPASS

Santander Asset Management

# GAAC TAA Strategy | November 2026

29 October 2026

# Highlights



## Strong earnings contrast with weaker sentiment

Earnings remain strong and continue to surprise to the upside, despite this month's deterioration in sentiment. Expansion remains our base case, although the upside scenario carries less weight.

## Modest financial tightening warrants close monitoring

Financial conditions have tightened modestly without derailing expansion. The key is to monitor whether this persists and feeds through to demand, earnings and credit availability.

## Persistent inflation keeps monetary policy restrictive

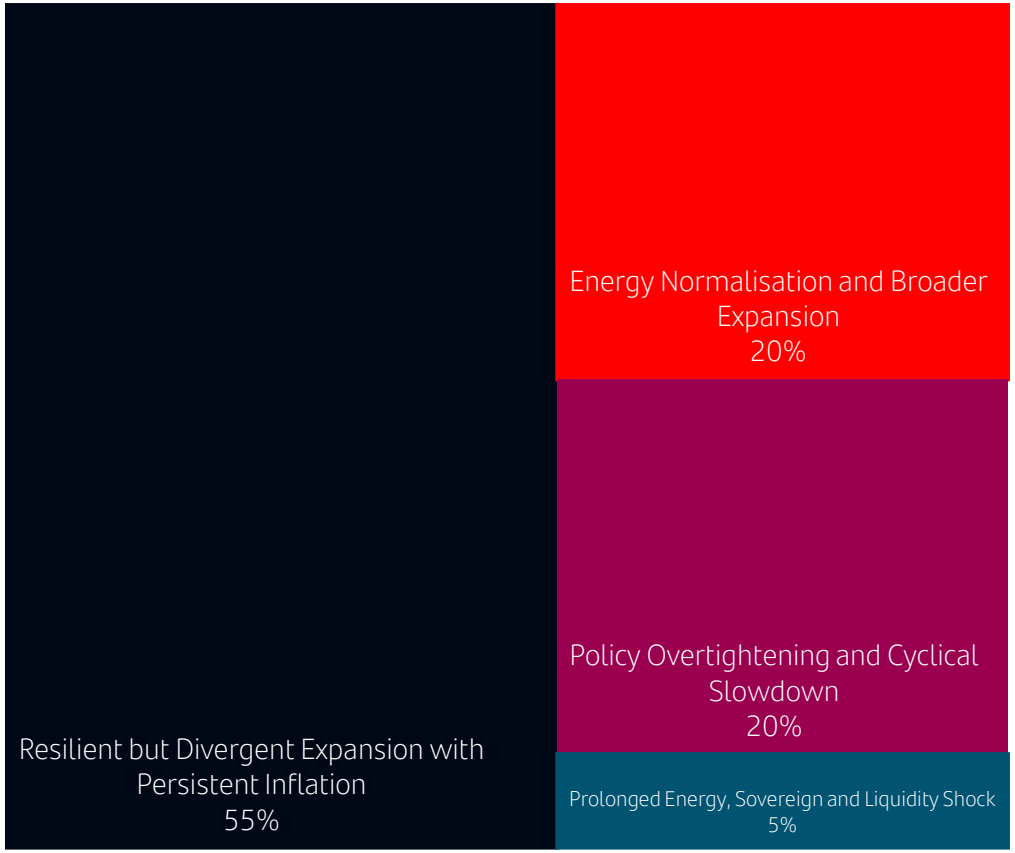
Energy pressures keep inflation elevated and central banks restrictive. Markets price fewer Fed and ECB hikes than in mid-September, without a comparable improvement in inflation.

Quality carry and inflation protection remain central to positioning.

**KEY TAKEAWAY**

**No major allocation changes. Strong fundamentals support selective risk exposure.**

# Expansion remains the base case as financial conditions tighten modestly




Risks to the scenario:

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

## Investment Scenarios*

**Upside — Energy Normalisation and Broader Expansion | 20% (Decreased from 25%)**
Middle East de-escalation brings oil back to a comfortable range. Inflation moderates, central banks stop tightening and the earnings recovery broadens beyond AI.

**Base — Resilient but Divergent Expansion with Persistent Inflation | 55% (Increased from 50%)**
Global growth remains positive but divergent, led by a resilient US economy. Inflation stays above target and additional tightening gives way to a restrictive pause, without broad credit stress or recession

**Downside — Policy Overtightening and Cyclical Slowdown | 20% (Unchanged)**
Persistently high oil and inflation extend restrictive policy. Tighter financial conditions weaken confidence, demand, non-AI investment and earnings, driving a cyclical slowdown.

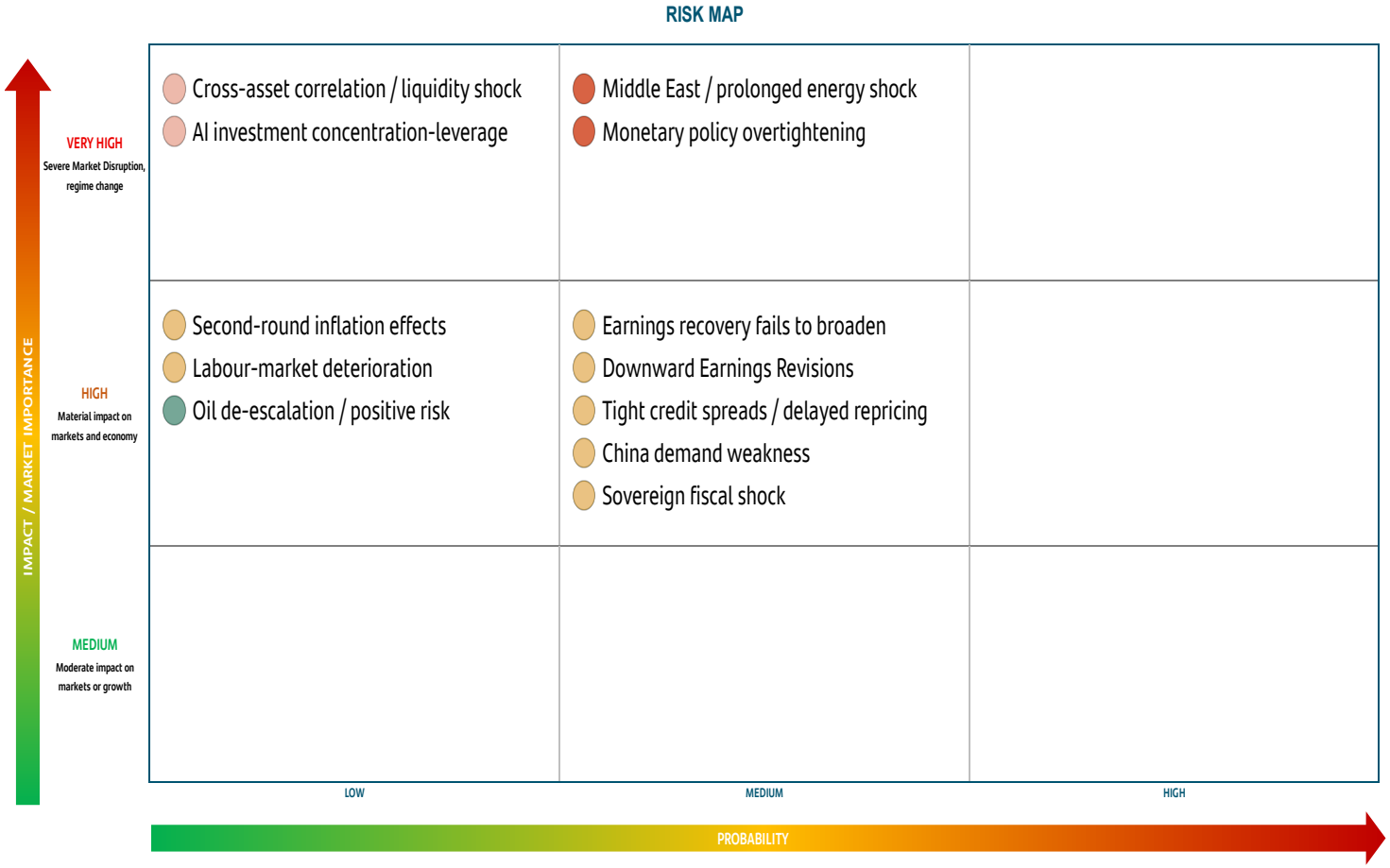
**Tail — Prolonged Energy, Sovereign and Liquidity Shock | 5% (Unchanged)**
A prolonged energy-supply shock drives oil and inflation sharply higher. Policy remains constrained as financial conditions tighten and sovereign, credit or funding stress amplifies the downturn.

**KEY TAKEAWAY**

**Base and upside scenarios still account for 75%. The shift from upside to base reflects persistent inflation and tighter financial conditions, rather than a weaker central growth outlook.**

* 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.

# Risks remain contained, the distribution is increasingly inflation and credit-led




**Primary: Inflation & Monetary Policy**

Persistent energy pressures could keep inflation elevated for longer, forcing central banks to maintain restrictive policy and increasing the risk of overtightening.

**Primary: Financial Conditions**

Further weakness in equities or wider credit spreads could tighten financial conditions beyond the recent moderate move, eventually weighing on demand, earnings and credit availability.

**Secondary: Growth & Earnings**

Activity and earnings remain resilient, but prolonged restrictive conditions could gradually weaken consumption, investment and corporate profitability.

**Event: Geopolitical & Energy**

Further Middle East escalation could prolong the energy shock, adding inflation pressure and reducing policy flexibility while weighing on real incomes and margins.

**Tail: Sovereign & Liquidity**

Sovereign or funding stress remains a tail risk rather than a central concern, but could amplify an existing macro shock through tighter financial conditions.

**KEY TAKEAWAY**

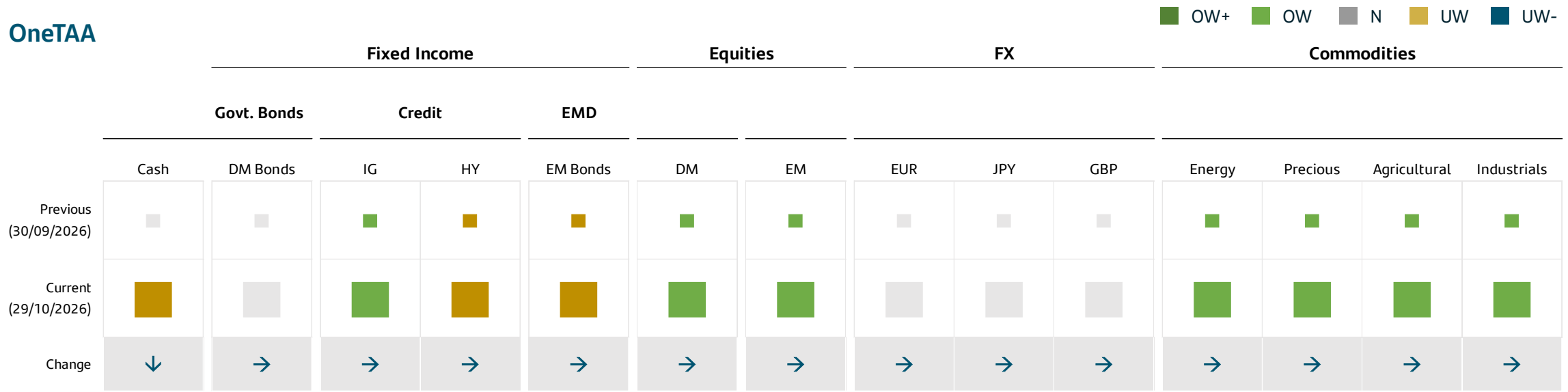
The main risk is not weaker sentiment itself, but its persistence and transmission through financial conditions to demand, earnings and credit.

# 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 cyclicality 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.



# From risk to portfolio: three chains that would change our positioning

Each risk represents a transmission mechanism rather than a forecast. We monitor where it sits in the chain and which signals would justify a portfolio response.

PRIMARY TACTICAL RISK · 1-3M

## Energy-shock persistence

Duration of the shock matters more than the peak in oil.

CHAIN

Energy cost → headline inflation → longer restrictive policy → real income and margins → demand

MIGRATION Base → Downside

WHAT WE DO

Keep commodity and precious-metal hedges; fixed income stays carry-led with neutral duration.

MACRO DOWNSIDE RISK · 3-18M

## Policy overtightening

Guarding against second-round effects can leave policy too tight for demand.

CHAIN

Restrictive real rates → confidence and capex → earnings and hiring → credit → slowdown

MIGRATION Base → Downside

WHAT WE DO

Quality bias in equity and credit. Consider adding duration only if weaker activity coincides with easing inflation pressures.

BOUNDARY RISK · 3-9M

## Second-round effects

The line between a contained supply shock and a persistent inflation process.

CHAIN

Expectations and indexation → wages and services → sticky core → harder policy constraint

MIGRATION Base to Downside. Tail risk if inflation and financial stress intensify.

WHAT WE DO

Inflation protection via real assets and reals over nominals in USD; no reach for lower-quality credit.

AMPLIFIERS Credit-spread repricing (1-6m) · Downward earnings revisions (3-9m) · AI investment concentration (3-18m) · Sovereign fiscal shock and term premium (3-18m)

**PORTFOLIO STANCE No major allocation changes. Maintain selective equity exposure, quality carry and IG over HY, with inflation and portfolio hedges while monitoring financial conditions.**

# Asset Allocation Strategy: Stable overall risk, selective changes within the portfolio

**No major allocation changes this month. We retain confidence in the expansion, with measured cash and credit adjustments and continued inflation protection.**

**Macro:** Resilient consumption and investment support expansion, despite regional divergence, persistent inflation and restrictive policy.

1. **Risk appetite:** Weaker sentiment has not changed our cyclical view. A lower cash score reflects confidence in fundamentals and equity upside.
2. **Credit:** IG remains preferred despite a slightly lower score. Higher HY and EMD scores reduce their underweights, while selectivity remains key.
3. **Diversification:** Commodity allocation is unchanged, with a somewhat higher gold stance. FX remains neutral across major currencies.

## Asset Allocation Strategy

**Equity**
Maintain a constructive view despite weaker sentiment. A lower cash score reflects confidence in the cycle.

**Carry**
IG remains preferred. Slightly lower IG and smaller HY and EMD underweights keep credit selective.

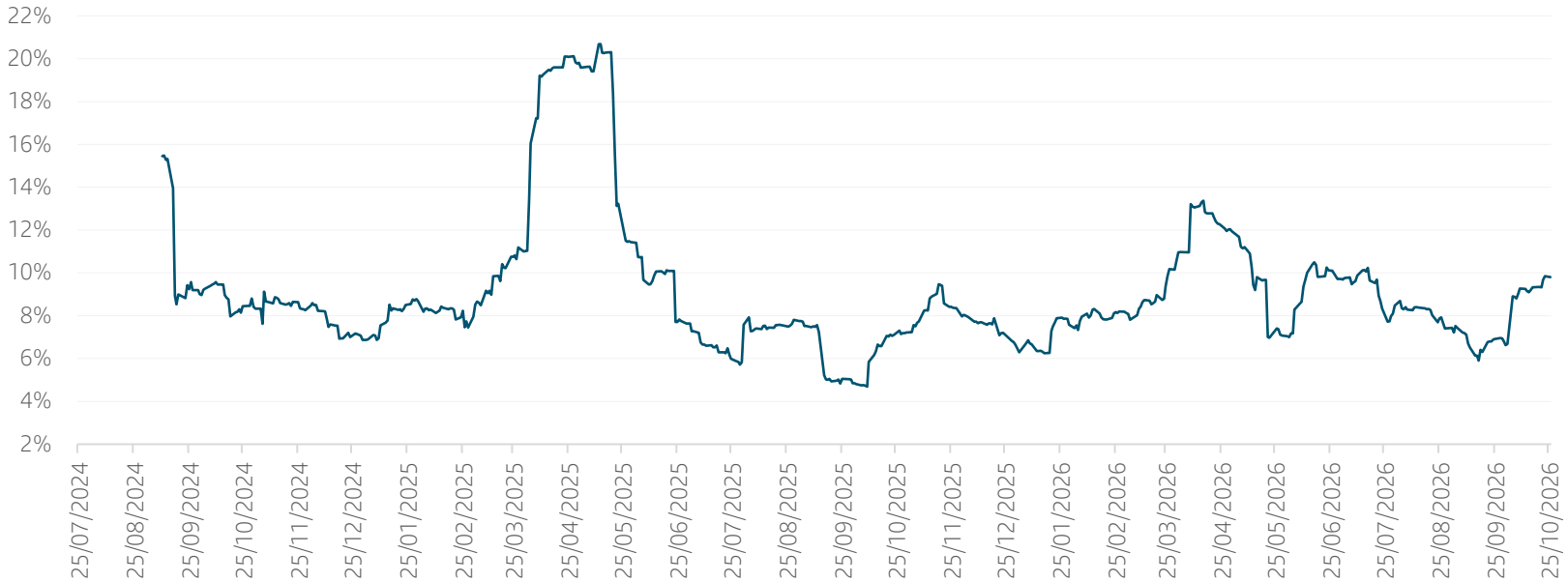
**Diversifiers**
Commodity allocation is unchanged, retaining inflation protection and a somewhat higher gold stance.

**Continuity in positioning, selective credit and inflation protection**

## 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: Recent tightening warrants close monitoring

**Financial conditions** have tightened modestly in recent weeks as weaker sentiment weighs on equities and credit spreads widen. Conditions are now more mixed, although the adjustment has not yet derailed the expansion. Its persistence and breadth matter more than any single market move.

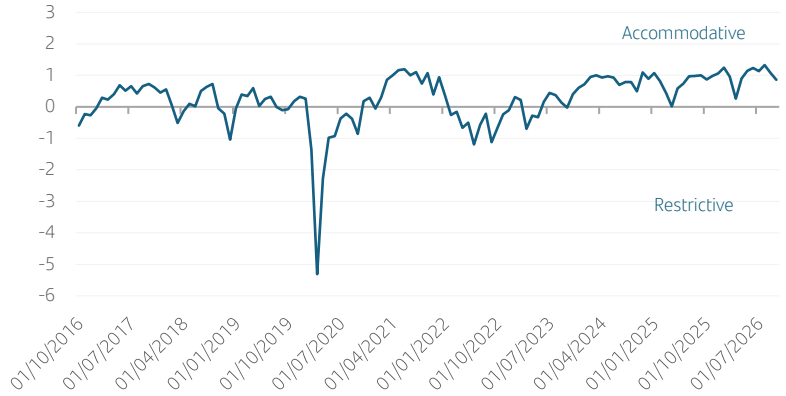
**Monitoring is key.** Track the financial conditions index alongside credit spreads, VIX and MOVE. Falling sovereign yields can cushion risk-off moves, but sustained spread widening or rising volatility would signal broader pressure on financing and confidence.

### Asset Allocation implication

The expansion remains our base case, but a persistent tightening that affects consumption, investment or earnings would challenge it. Maintain selective risk exposure, quality carry and inflation hedges. Reassess positioning if market stress begins to weaken the real economy.

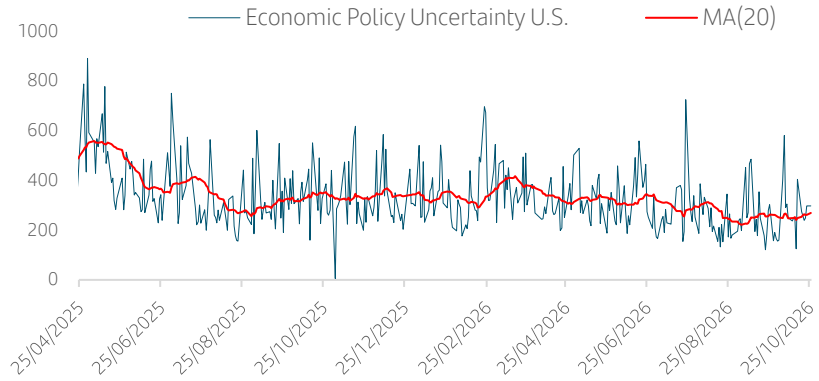
## Bloomberg U.S. Financial Conditions

Source: Santander Asset Management & Bloomberg



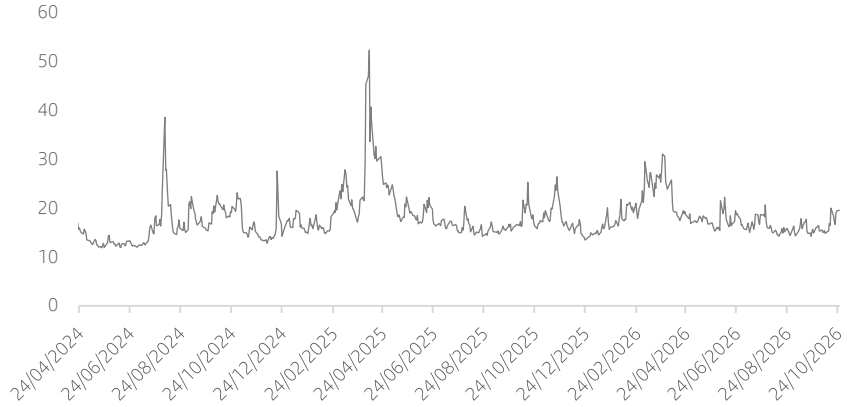

## U.S. Economic Policy Uncertainty

Source: Santander Asset Management & Bloomberg



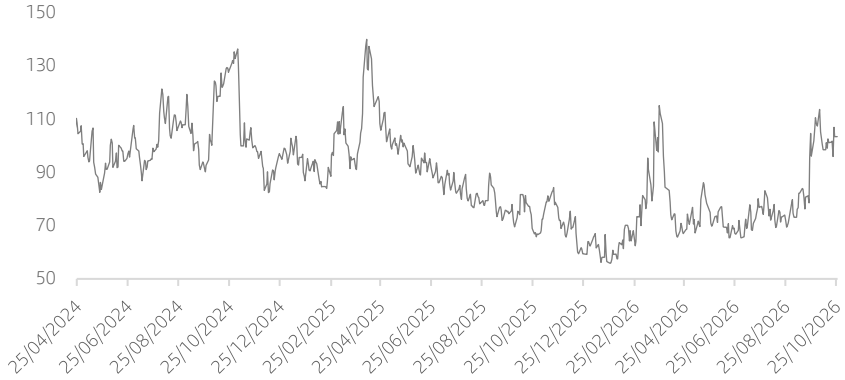

## VIX Index

Source: Santander Asset Management & Bloomberg




## Move Index

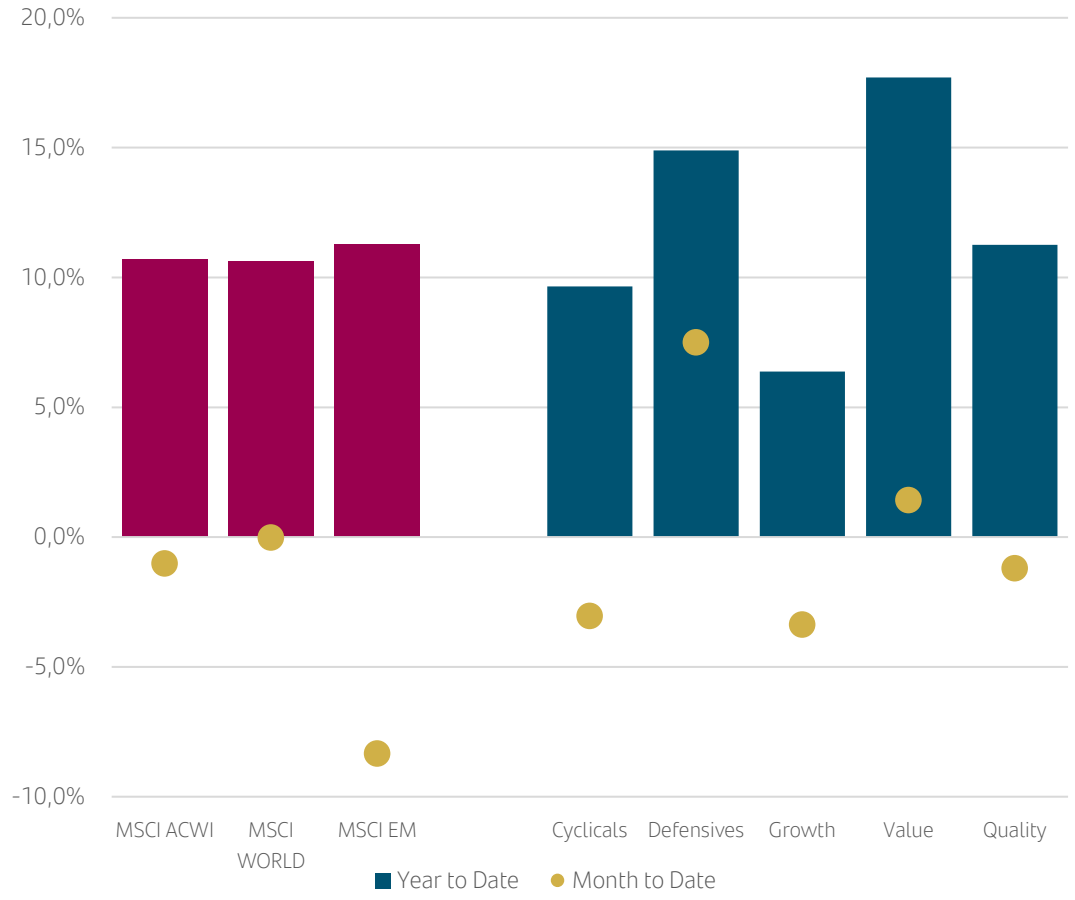
Source: Santander Asset Management & Bloomberg



# Sentiment-driven rotation to laggards: defensives and value lead, not a broad risk-off

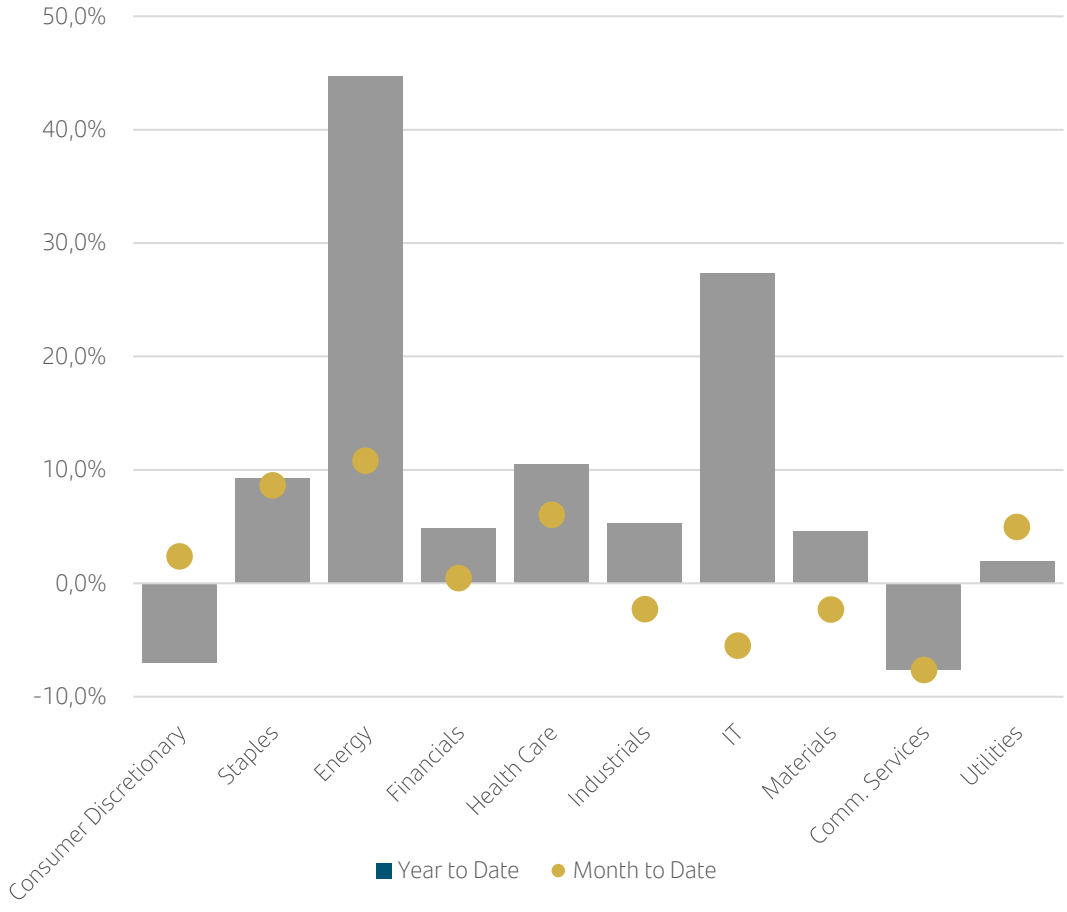
## MSCI Index

Source: Santander Asset Management & Bloomberg




## MSCI ACWI Sectors

Source: Santander Asset Management & Bloomberg

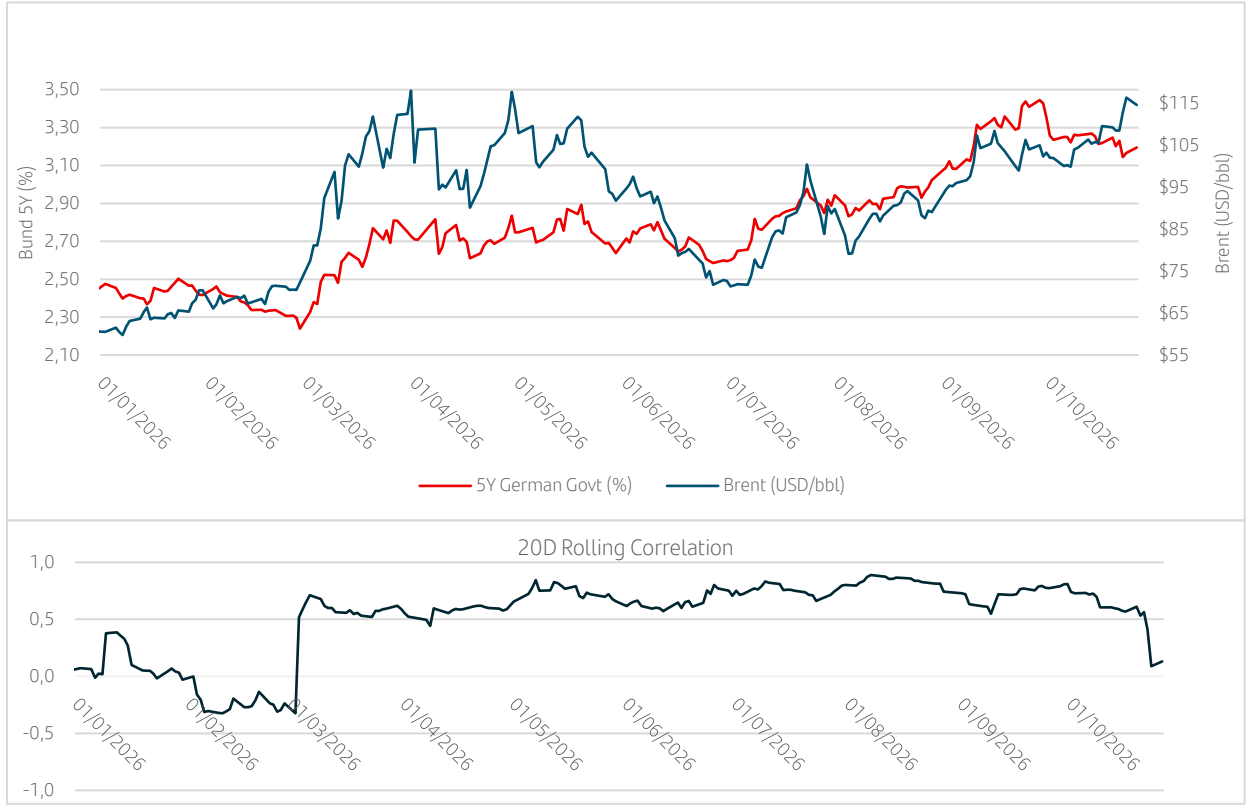


# Falling yields signal weaker sentiment

Markets appear to anticipate damage to growth, even though activity remains resilient.

## Bund and Brent

Source: Santander Asset Management & Bloomberg




## Growth remains resilient

Activity remains robust, with no evidence that the energy shock has affected growth.

## Inflation faces upward pressure

Higher energy prices are adding pressure to inflation and tightening the policy outlook.

## Sentiment has deteriorated

Investors are turning more cautious and appear to be pricing in a future hit to growth.

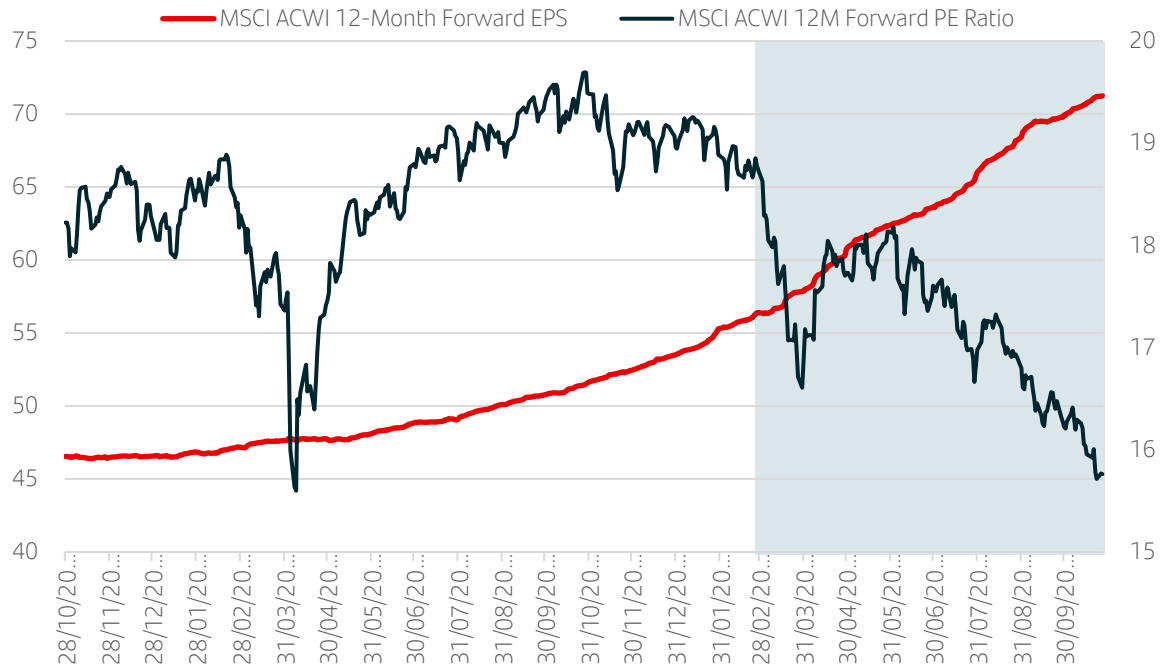
**KEY TAKEAWAY** **Falling yields suggest a classic risk-off move as sentiment weakens.**

# Valuations fall as earnings strength broadens

The Middle East conflict has sustained high energy costs and prompted global rate hikes, while geopolitical uncertainty weighs on sentiment. Recent weakness in AI sentiment has added pressure on equity markets, particularly valuations.

## MSCI ACWI: Earnings vs Valuation

Source: Santander Asset Management & Bloomberg




## Sentiment drives the derating

Valuations have compressed since the conflict began. Renewed weakness in AI sentiment in recent weeks has pushed multiples to year-to-date lows, widening the gap with resilient fundamentals.

## Earnings strength is broadening

Growth remains resilient and earnings keep beating expectations, expanding far faster than in prior years. The traditional cycle now complements AI, with more countries and sectors contributing.

## Guidance is the next test

Results so far this quarter remain strong, with no signs of fading earnings momentum. Company guidance will be key to assessing whether that strength can persist despite the headwinds.

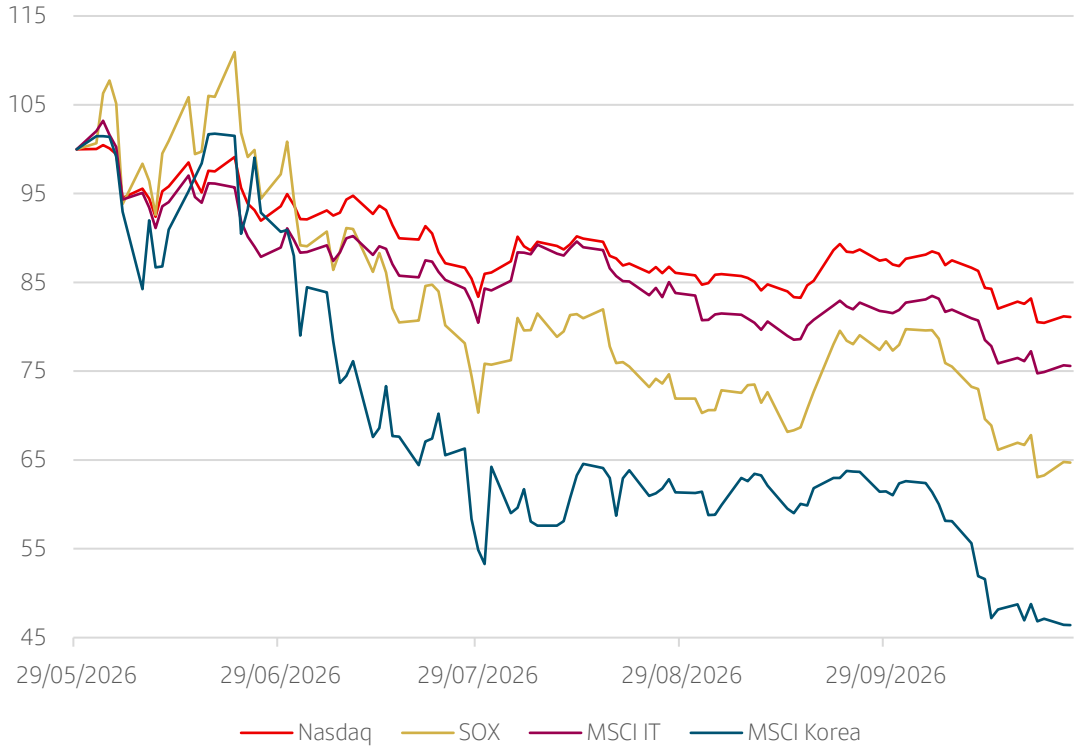
**KEY TAKEAWAY** **Despite weaker sentiment, earnings remain resilient, keep surprising to the upside and show broader participation. Forward guidance is the key test of that resilience.**

# IT correction is P/E compression, not earnings downgrades: EPS keeps rising

IT correction is a repricing of sentiment and risk appetite, with multiple compression driving equity weakness. Forward EPS continues to rise across the markets shown, so the sell-off has not coincided with an earnings downgrade cycle. This divergence supports our view that the profit backdrop remains intact, while lower valuations improve entry points for selective equity exposure.

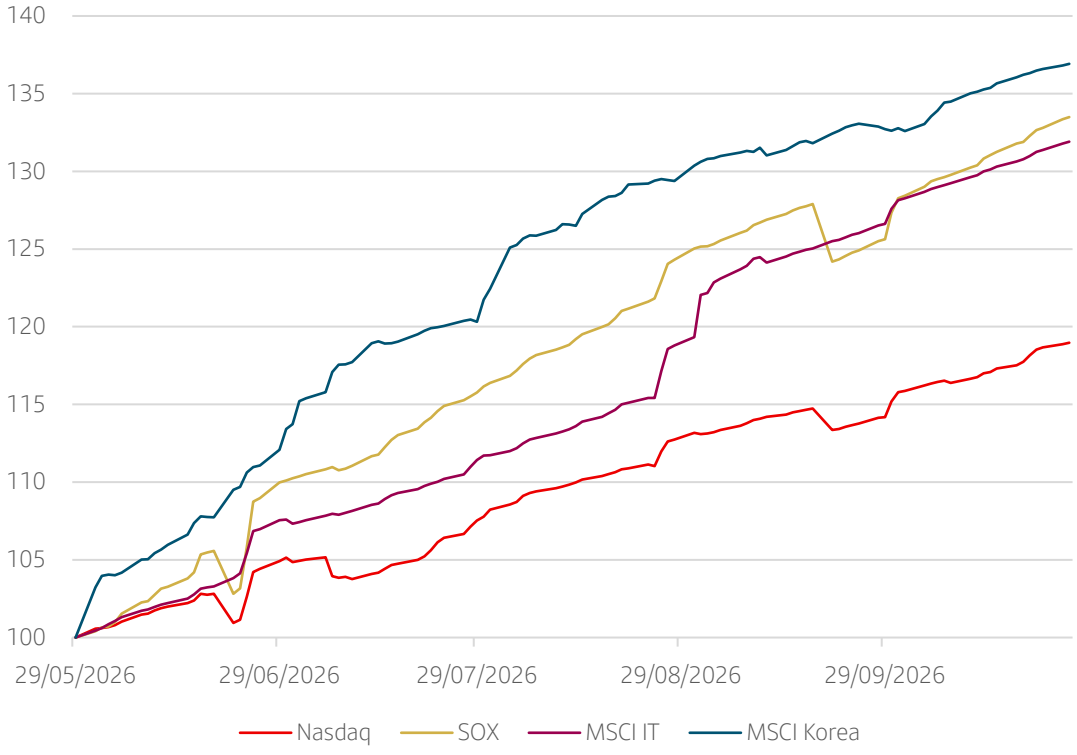
## 12 month fwd P/E

Source: Santander Asset Management & Bloomberg




## 12 months fwd EPS

Source: Santander Asset Management & Bloomberg



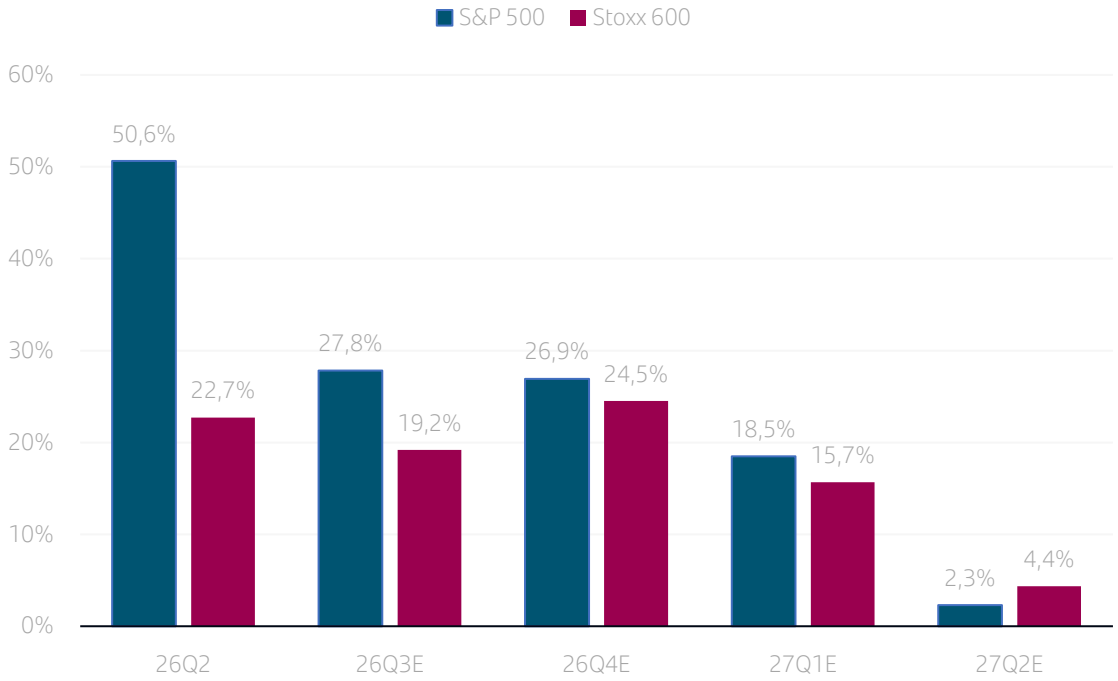

**KEY TAKEAWAY** **Recent equity weakness reflects P/E compression rather than earnings deterioration. With EPS still trending higher, lower multiples improve prospective entry points while preserving the fundamental support for equities.**

# Double-digit earnings growth and robust margins in both the US and Europe

Earnings estimates continue to rise, while profit margins remain robust. The third-quarter earnings season is once again underscoring the strength of corporate fundamentals, with improving earnings and revenues alongside robust margins.

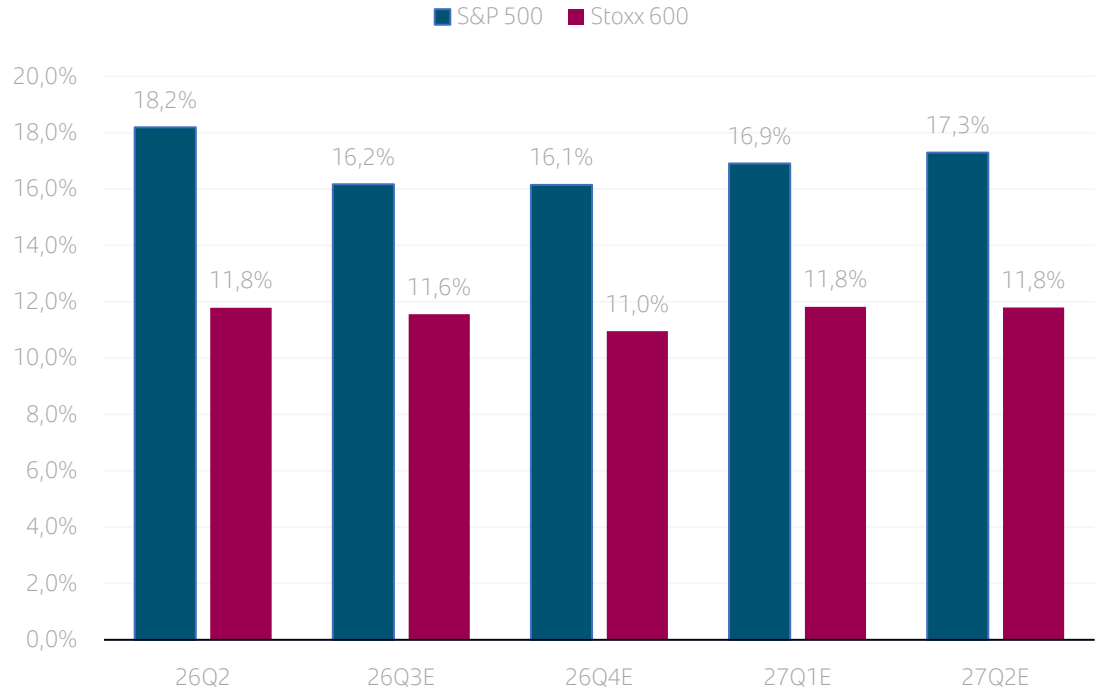
## S&P 500 and Stoxx 600: Earnings Growth

Source: Santander Asset Management & Bloomberg




## S&P 500 and Stoxx 600: Margins

Source: Santander Asset Management & Bloomberg




**KEY TAKEAWAY** **Strong earnings in both US and Europe, continued upward revisions and robust margins reinforce the fundamental support for equities.**

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

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

Regardless of the outcome, the midterms are unlikely to be a game changer for markets. Trade policy, foreign policy and the broader strategic agenda can largely continue through executive action, while the most likely result remains some form of divided government and legislative gridlock.

### 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.

### Potential Impact Under Different US Congressional Outcomes

Source: Santander Asset Management
Qualitative assessment for illustrative purposes only. Actual outcomes may differ based on political dynamics and implementation.

| Policy Area | GOP Senate / Dem House | Dem House + Senate |
|---|---|---|
| Legislative Capacity | Low | Very Low |
| New Fiscal Packages / Stimulus | Limited or Blocked | Virtually Impossible |
| Trade Policy (Tariffs) | High | High |
| Immigration Control | High (via Executive Action) | High (via Executive Action) |
| Foreign Policy | Very High | Very High |
| Economic Sanctions | Very High | Very High |
| Use of Executive Orders | High | Very High |
| Risk of Congressional Investigations | High | Very High |
| Risk of Impeachment | Medium-High | High |
| Regulatory Stability | Medium | Low |
| Probability of Institutional Gridlock | High | Very High |
| Political Volatility for Markets | Medium-High | High |

**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.

01

BASE CASE

## 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.**

02

ASYMMETRIC RISK MAP

## 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** Hiking and vigilant

**Fed** Hiking and vigilant

**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

# FX: Maintain neutral allocation

**Currency allocation**

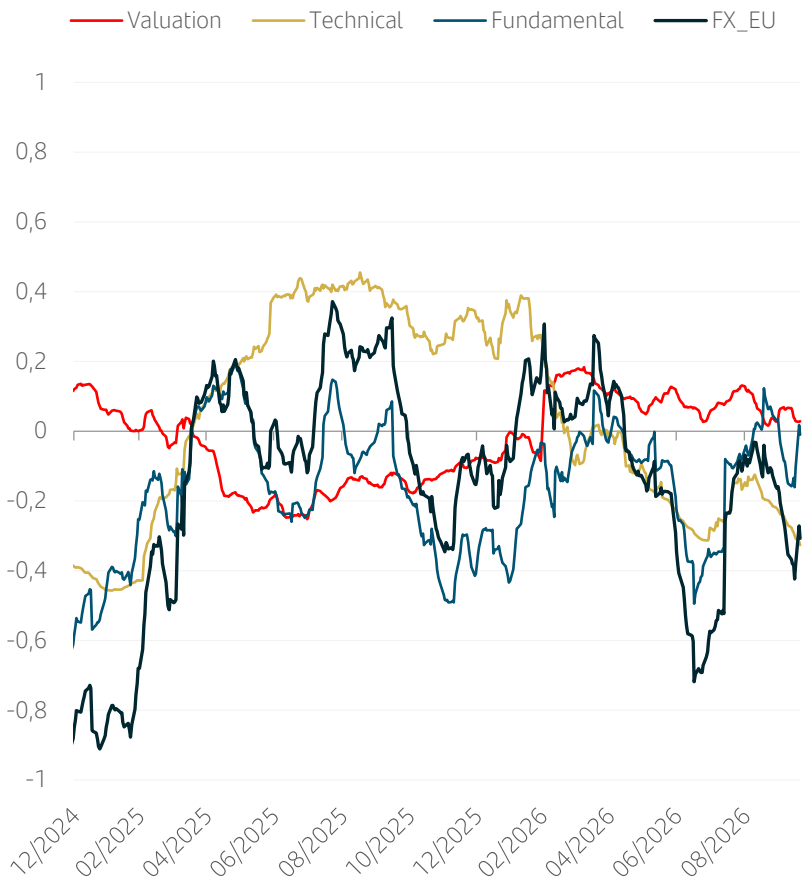
Unchanged, neutral stance. EUR/USD stays neutral near its range low: France uncertainty limits conviction.

Overall, despite some improvement in the fundamentals of non-EUR currencies, the USD continues to be driven primarily by technical factors and its safe-haven role.

In this context, although we are currently at the lower end of the recent range and see limited reasons for a downside break unless negative scenarios materialize, we also believe that the upside potential in other currencies is not sufficient to justify increasing exposure to them.

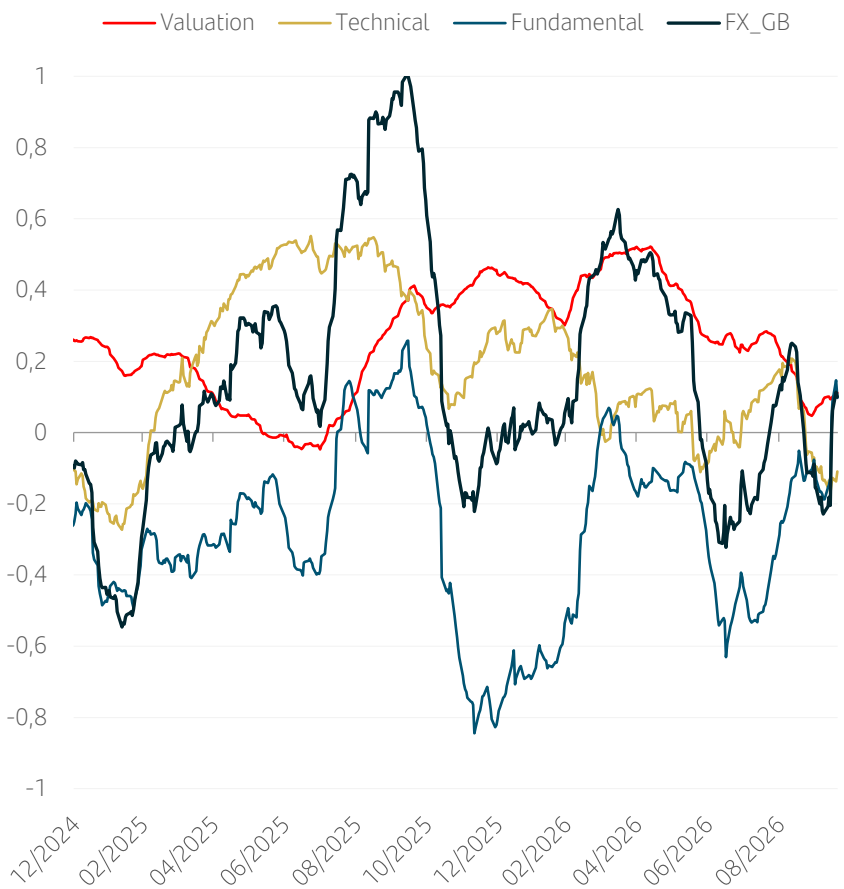
## EURUSD: Selected quant signals

Source: Santander Asset Management




## GBPUSD: Selected quant signals

Source: Santander Asset Management



# OneTAA Key Messages

## Resilient expansion, closer monitoring: strategy broadly unchanged, with minor adjustments to capture opportunities

- **Earnings remain strong, even as sentiment weakens**
  Earnings keep surprising to the upside despite this month's deterioration in sentiment. Expansion remains the base case (55%, from 50%), although the upside scenario carries less weight (20%, from 25%).
- **Persistent inflation keeps policy restrictive; financial conditions need close monitoring**
  Markets price fewer Fed and ECB hikes than in mid-September without a comparable improvement in inflation. Conditions have tightened modestly without derailing growth: what matters is whether this persists and reaches demand, earnings and credit.
- **Strategy broadly unchanged: minor adjustments to capture opportunities in equities**
  We keep confidence in the cycle and limit changes to marginal moves where we see opportunities: a lower cash score, Japan raised to overweight, Europe and the UK moved to neutral, and IT and cyclical overweights increased slightly.
- **Fixed income remains a quality carry strategy**
  Neutral overall duration in short and intermediate maturities; we use the sentiment-driven Treasury rally to reduce U.S. duration, keep 2–10Y steepeners and prefer Investment Grade over High Yield.
- **Diversification and inflation protection remain essential**
  Commodity allocation is unchanged with a somewhat higher gold stance, as the structural thesis holds despite near-term headwinds. FX stays neutral, with France uncertainty limiting conviction.
- **What would change our mind?**

*More constructive if:* financial conditions ease, the energy shock fades and earnings breadth broadens further.

*More defensive if:* tightening persists and reaches demand, earnings and credit, or energy persistence, policy overtightening, second-round inflation or broad earnings downgrades take hold.


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