Santander
Asset Management

Market Outlook 2027

A year powered by earnings





All data and figures in texts and graphs are as of November 13th, 2026.

© Santander Asset Management



Carmen Alonso
CEO of SAM

Dear investor,

A year powered by earnings.

We are delighted to present our Market Outlook 2027, the work of our global team and local experts. The product of this collective effort combines strategic vision with in-depth analysis, balancing global and local trends to help you build a diversified, resilient portfolio in an increasingly interconnected and dynamic environment.

2026 tested the global economy — an unexpected conflict, an energy shock, central banks still in restrictive mode. It passed the test. Growth held, and the expansion now enters 2027 on foundations we believe are more durable than markets assumed a year ago.

Our conviction for 2027 is simple: earnings, not valuations, will drive returns. Two engines power them — the AI investment cycle, with record capital expenditure in computing power, energy and semiconductors; and a resilient traditional cycle, supported by employment, consumption and recovering business investment. Together, they push profit growth beyond U.S. technology into more sectors, more regions, more companies. That broadening is the heart of this report.

Three investment ideas follow:

- **Developed-market equities: powered by earnings.** We favour high-quality companies able to convert investment into profits, with earnings growth broadening well beyond technology — around 15% for global equities in our estimates.
- **Fixed income: carry at the core.** Higher yields have restored income, making carry the primary source of return, with duration adding opportunity as conditions become more supportive
- **Commodities: portfolio ballast.** A resource-intensive investment cycle supports demand, with diversification against inflation and geopolitical risks adding to the case.

This year we also take a step that puts your portfolio on the same analytical footing as the world's largest institutions: our Total Portfolio Approach (TPA). For the first time, public and private markets sit inside a single model of returns, risk and correlation — the basis for every strategic decision in these pages.

This approach is particularly relevant in private markets, which are no longer simply a complement but an essential component of a diversified portfolio. Within alternatives, opportunities emerge in areas where structural investment needs, limited access to financing and the potential to generate returns through disciplined selection and structuring come together.

The environment is constructive, not effortless. Geopolitics, fiscal strains and higher-for-longer rates can still alter the scenario. That is when our global knowledge and local analysis matter most: grounded in a long-term strategic vision, we actively manage your investments and stand with you every step of the way — so that every decision remains consistent with your personal goals and your portfolio can adapt before markets force it to.

We enter 2027 with conviction, and with a clear purpose: to turn an earnings-powered year into lasting progress toward your goals. You can count on an accessible and responsible approach — and on a team committed to helping you build a solid and secure financial future.

Thank you for your trust.

A year powered by earnings



José Mazoy, PhD
Global Chief Investment Officer at SAM

Two engines, a strong economy

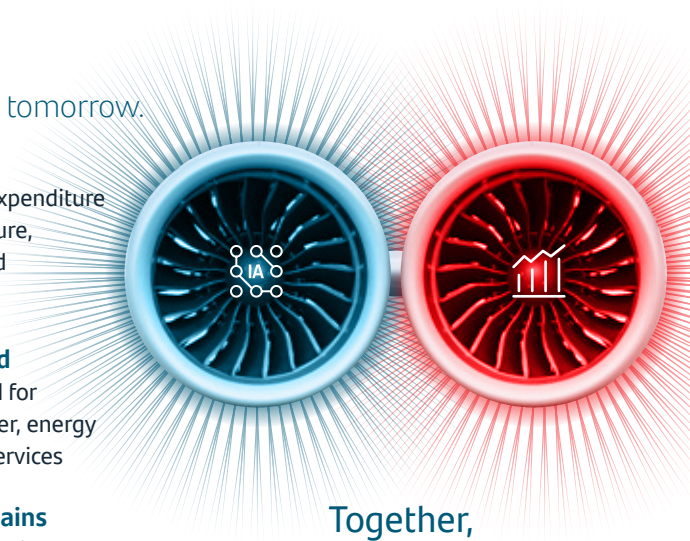
The **AI** cycle

Investment today.
A more productive tomorrow.

Capex
Higher capital expenditure in AI infrastructure, data centers and semiconductors

Rising demand
Greater demand for computing power, energy and advanced services

Productivity gains
Gradual but meaningful efficiency improvements across sectors



The **traditional** cycle

A resilient economy
that keeps delivering.

Consumers
Employment and income continue to support spending

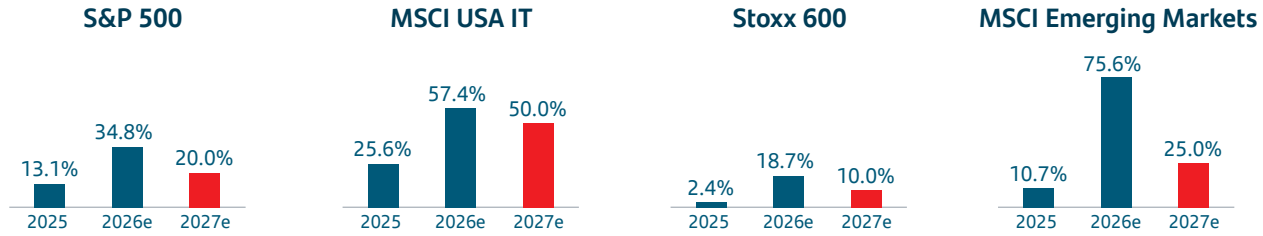
Business investment
Gains momentum across the economy

Earnings broadening
Broader and more diversified profit growth across sectors and regions

Together, they drive earnings

Earnings growth and estimates

Strong and broad profit growth across regions

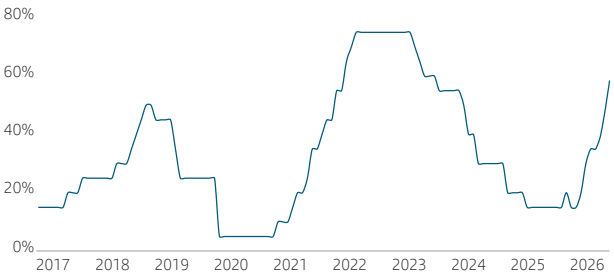


Source: I/B/E/S and Santander AM. e = estimates

Two headwinds

Central banks in restrictive mode

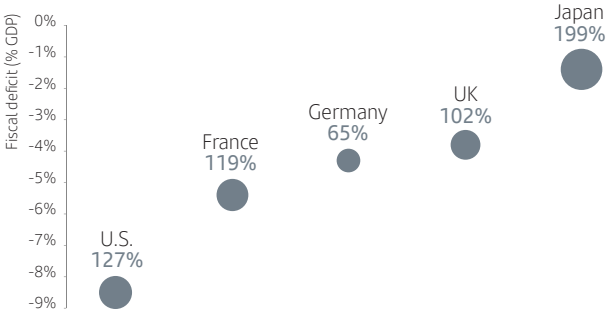
Share of central banks* hiking rates



* Australia, Brazil, Canada, Chile, China, Colombia, Czech Republic, Eurozone, India, Indonesia, Japan, New Zealand, Norway, Poland, South Africa, Sweden, Switzerland, Turkey, UK, U.S.

Rising fiscal concerns

Size of circles = Public debt (% GDP)



Source: IMF, World Economic Outlook October 2026

As 2026 draws to a close, we leave behind a year that began with the prospect of a particularly favourable environment for economies and financial markets, but was soon confronted with an unexpected conflict and an energy shock that continues to shape the global landscape. Once again, the global economy has been tested. And once again, it has demonstrated a remarkable capacity to absorb the shock and continue expanding.

This resilience provides the starting point for our 2027 outlook. The investment environment has undoubtedly become more complex: geopolitical fragmentation, fiscal concerns and higher long-term interest rates are no longer temporary disruptions, but increasingly structural features of the global landscape. Yet the foundations of the expansion remain in place, supported by two powerful and complementary engines: the AI investment cycle and a traditional economic cycle sustained by consumption and business investment.

This combination creates a constructive, but increasingly selective, environment for investors. Earnings remain at the heart of our investment thesis, while higher yields provide an attractive source of recurring income across fixed income markets. Against this backdrop, we identify three major investment ideas for 2027: developed-market equities supported by earnings growth, fixed income with carry at its core, and commodities as a source of portfolio diversification.

1. Developed-market equities: A year powered by earnings

Developed-market equities remain at the core of our strategy for 2027. Our conviction rests increasingly on earnings rather than on further multiple expansion. A resilient economic cycle continues to support revenues and margins, while the AI investment cycle provides an additional source of growth through capital expenditure, rising demand for computing power and, gradually, productivity gains. At the same time, the traditional cycle remains supportive, allowing earnings growth to broaden beyond technology and across sectors and regions.

Technology leads, but earnings growth broadens

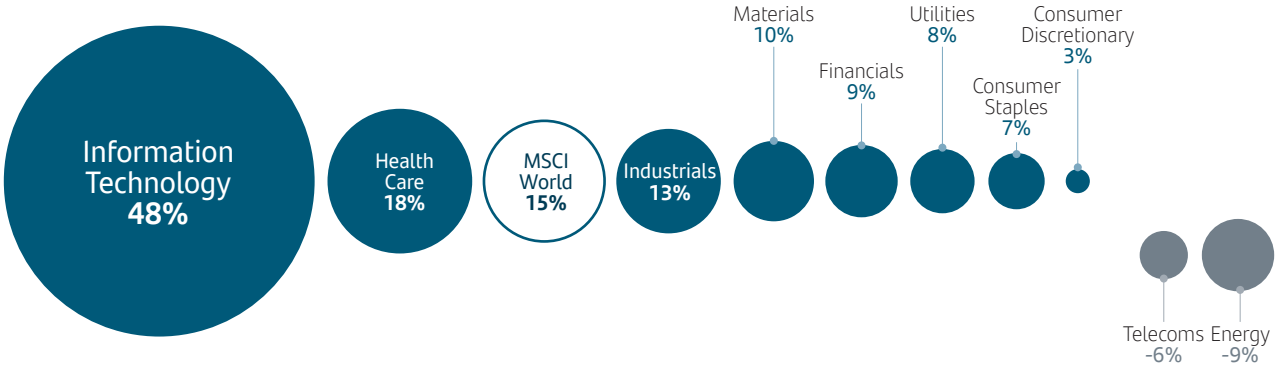
A more resilient economic cycle and ongoing investment are supporting solid earnings growth across most sectors in 2027

A resilient economy
Supports revenues and margins

Headwinds to navigate
Restrictive monetary policy and fiscal concerns

A more supportive backdrop
If, as we expect, energy pressures ease during the year

MSCI World, estimated 2027 EPS growth by sector



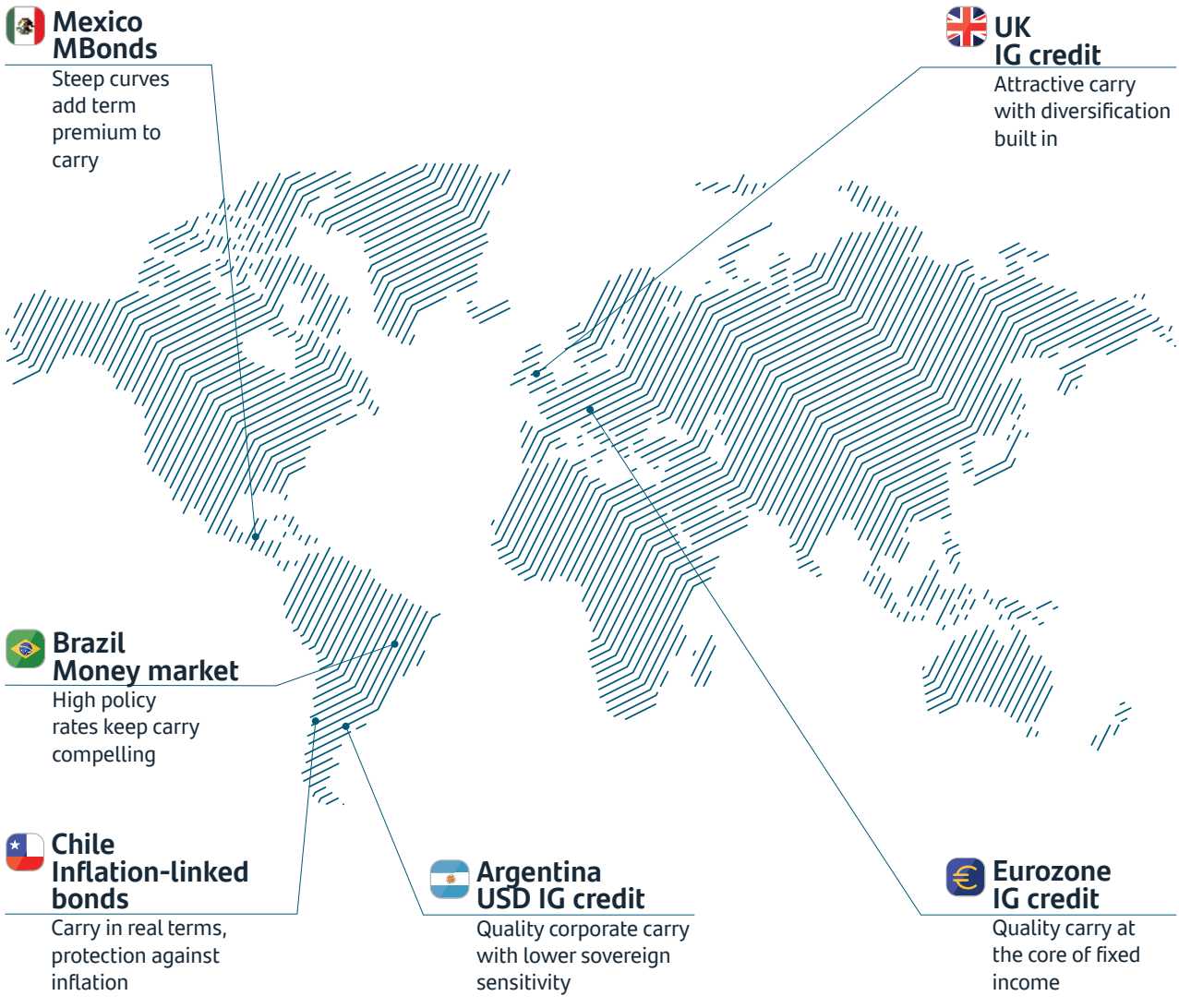
This broadening is central to our investment thesis. In the U.S., we expect strong corporate earnings to remain the key market driver, with earnings growth continuing to broaden beyond technology as the benefits of investment and economic resilience reach a wider set of companies. In the Eurozone, stronger domestic demand and fiscal stimulus —with Germany as an important catalyst— provide a more supportive backdrop for corporate profits. Across developed markets, we therefore favour high-

quality companies with solid balance sheets, strong cash generation and the ability to translate investment and nominal growth into sustainable earnings. This emphasis on quality is particularly important while markets continue to navigate persistent headwinds, from elevated energy prices to restrictive monetary conditions and fiscal uncertainty. Companies with stronger fundamentals should be better positioned to absorb these pressures until the backdrop becomes more supportive, particularly if, as we expect, energy pressures ease during the year.

2. Fixed income: Carry takes the lead

Higher interest rates have fundamentally changed the opportunity set in fixed income. In 2027, investors do not need to rely on aggressive monetary easing or large declines in bond yields to generate attractive returns: current yield levels already provide a meaningful source of recurring income. Our starting point for 2027 is clear: carry comes first. Resilient growth, persistent fiscal concerns and structurally higher term premia are likely to keep long-term rates elevated

Duration may become an additional source of return as the year progresses, particularly if inflationary pressures moderate and central banks gain room to adopt a less restrictive stance. Until then, the opportunity lies in identifying where carry is most attractive across fixed income markets. Depending on each economy's position in the economic and monetary cycle, the shape of its yield curve and the specific characteristics of its market, different segments of fixed income can offer particularly compelling opportunities —from money markets and sovereign bonds to high-quality corporate credit. This allows us to capture attractive carry across geographies while remaining selective on duration and credit risk, and retaining the flexibility to add duration when the macroeconomic environment becomes more supportive.



3. Commodities: Supported by the global investment cycle

Commodities are our third major investment theme for 2027, supported by a global investment cycle that is becoming increasingly resource-intensive. Infrastructure spending, electrification, AI-related investment and higher spending on defence and energy security should sustain demand for energy and raw materials, providing a structural source of support for the asset class. The investment cycle is also creating opportunities beyond commodities themselves: in Chile, attractive valuations and a renewed push to unlock investment projects, together with a recovery in economic activity and earnings, support our constructive view on the local equity market.

At the same time, commodities offer a valuable source of portfolio diversification. In a world characterised by greater geopolitical fragmentation, a stronger focus on security of supply and continued uncertainty around inflation, their distinct sensitivity to real-economy and supply-side developments can complement traditional equity and fixed income exposures. Together, these factors support a constructive view across commodities. However, opportunities are likely to vary across commodity segments, reinforcing the importance of selectivity, as we discuss in more detail later in this Outlook.

Our CMAs point to higher returns over the next seven years

These three key investment ideas reflect the combination of our global and local capabilities and are supported by our proprietary CMAs framework — an approach that allows us to integrate traditional and private markets in a single analytical model. This year's estimates point to higher expected returns across asset classes compared with a year ago, improving the opportunity set for investors over our seven-year investment horizon.

Under the CIO's lens

Completing the portfolio: the case for private assets

Our three investment themes for 2027 highlight the opportunities we see across public markets, from equities powered by earnings and fixed income led by carry to commodities supported by the global investment cycle. Yet a growing share of the economy — and of the returns it generates — now sits outside public exchanges.

Before Chapter 4 examines specific opportunities in alternative assets, this section explains why private markets deserve a structural place in client portfolios, and how approaches such as the Total Portfolio Approach (TPA) bring listed and private holdings together under a single framework.

Listed markets: still the core, no longer the whole

Public markets remain the backbone of client portfolios: liquid, transparent and efficient. But they no longer contain the whole economy. The number of listed companies has been falling for two decades in most developed markets — in the U.S. and Europe the count has roughly halved since the mid-1990s — while companies stay private for longer and reach exchanges, if at all, well after their fastest growth phase. Index concentration has risen in parallel, with a handful of mega-capitalisation names now driving a large share of public equity returns. Meanwhile, private credit has become an increasingly important source of financing for areas such as housing and mid-market businesses, while governments carrying historically high debt burdens are turning to private capital to fund the infrastructure investment that electrification, digitalisation and the energy transition demand. An investor confined to listed markets increasingly owns a narrower — and more correlated — slice of economic activity.

Three roles for private assets

We find it helpful to think of private assets as playing three complementary roles rather than one. First, completing the portfolio: private markets provide access to return drivers that listed indices simply do not reach — mid-market companies, real estate, infrastructure, trade finance and the broader financing of the real economy. In that sense, a private allocation is less an "alternative" than a completion of the opportunity set. Second, enhancing returns: investors able to commit capital for longer horizons can harvest the illiquidity and complexity premia embedded in private assets, which we estimate are worth roughly two to three percentage points a year over comparable public exposures, net of the higher fees these strategies charge. For money that is genuinely long-term, locking up capital is not a cost but a source of return. Third, balancing risk: private assets carry economic exposures — to credit cycles, real assets, contractual income streams and manager skill — that are only weakly represented in public markets, so they can dilute the dominance of the equity factor in growth-oriented portfolios, or of interest-rate risk in defensive ones. And because the dispersion between top- and bottom-quartile private managers is far wider than in listed markets, selection and access are decisive — it is where an active, global platform earns its keep.

One lens for the whole portfolio

The traditional way of adding alternatives — a fixed bucket bolted onto a 60/40 portfolio — treats the boundary between public and private markets as a fundamental division. We do not think it is. What matters is not the label on an asset but the risks and return streams it contributes to the whole. Our Total Portfolio Approach (TPA) therefore evaluates every holding, listed or private, through the same set of risk factors — growth, interest rates, inflation, credit, volatility, currencies and illiquidity. A government bond and an infrastructure debt fund may sit in different "asset classes",

yet both load on rates and inflation; listed equities and private equity share the growth factor but differ in how much illiquidity premium they pay.

This common lens does three things. First, it makes expected returns comparable: our capital market assumptions are built on a consistent basis across listed and private assets, with private-asset estimates derived explicitly from fund life-cycle dynamics — vintages and the J-curve, drawing on specialist data such as Preqin — and the illiquidity and complexity premia they embed priced and evaluated against current market conditions. Risk is likewise corrected for the smoothing that appraisal-based valuations introduce, so that private volatility is not understated. This consistency matters because the two worlds are connected: conditions in public markets shape the exit environment for private-equity-type deals, for instance, so neither side can be assessed in isolation. Second, it gives the manager a steering mechanism: because private markets exposure cannot be easily adjusted, the liquid sleeve is managed actively (with secondary markets and continuation vehicles providing a further, partial liquidity valve) to keep the total portfolio's factor balance at its desired level at any point in time — a balance to which the illiquid part itself contributes, rather than sitting outside it. Third, it aligns the mix with each investor's objectives: the size and composition of the private allocation is set by carefully matching the client's liabilities, goals and tolerance for lock-ups against the liquidity the portfolio must retain — the private sleeve that suits a capital-preservation or income mandate looks very different from the one built for a growth-oriented investor.

Risk factor	What it captures
Growth	Broad equity and economic-growth risk, adjusted for real-rate effects
Interest rates	Duration risk and sensitivity to monetary policy expectations
Inflation	Market-implied inflation expectations
Credit	Default and credit-cycle risk, isolated from equity effects
Volatility	Market uncertainty and tail-risk pricing
FX	Currency risk, dominated by the strength of the USD
Illiquidity	The premium demanded for tying capital up — strongest in private debt, real estate and infrastructure

The risk factors behind the Total Portfolio Approach — the same lens is applied to every holding, listed or private.

Built around client objectives

The point of this framework is not technical elegance but suitability. The decisive advantage of including private assets is the ability to take a solutions approach to each investor's situation. Some clients need the portfolio to generate a defined level of income each year; others must match specific cash flows in the future or fund commitments with very long horizons. Private assets — with their contractual income streams, illiquidity premia and diverse cash-flow profiles — expand what a portfolio can be asked to do, and the total-portfolio lens tells us how much of each ingredient a client's constraints allow. Access is broadening in parallel: evergreen structures and ELTIF-eligible vehicles now bring these exposures within reach of individual investors, while pacing commitments across vintages smooths the J-curve and avoids the liquidity mismatches that punished over-allocated portfolios after 2022. Our toolkit is built around the needs of each client, not the other way around.

Asset classes are labels; risk factors are the substance. The right question is not how much to allocate to alternatives, but which risks and return streams the portfolio is missing

A wider toolkit for a changing economy

Chapter 4 examines where private capital is meeting the real economy's financing needs — from Spanish residential development and asset-backed corporate lending to infrastructure and climate deep tech. Seen through the lens of the total portfolio, these are not exotic departures from the core allocation but complementary ways of obtaining exposure to emerging, though secular, economic trends — with the added feature that a long-term investment orientation is compensated. Private equity, the largest private asset class, is governed by the same factor lens wherever it enters a client mandate.

01

Capital Markets Assumptions (CMAs)



Source:

Return expectations for a long-term strategic horizon



Luiz Felix, PhD
Global Head of Asset Allocation SAM

Strategic Asset Allocation (SAA) remains the primary determinant of long-term portfolio outcomes, typically accounting for more than 80% of the variability of returns over time. Its calibration rests on a disciplined set of Capital Market Assumptions (CMAs) that translate the macroeconomic outlook into estimates of return and risk. This year's CMAs update reflects two structural developments of the past twelve months. First, the transition to a higher-for-longer interest-rate regime, prompted by an energy-led inflation shock, has raised the starting yield of fixed income by approximately one percentage point, and, with it, the medium-term return available from bonds. Second, resilient corporate sales and margins have underpinned a further advance in global equities, while lifting expected returns modestly in most regions and confirming earnings growth as the main driver of forward returns.

Nominal 7-year expected returns[1]

		Local	1-year Δ local	USD	EUR	GBP
Equities	Equities U.S.	8.9%	0.2%	9.0%	8.7%	9.0%
	Equities Eurozone	8.9%	0.4%	8.9%	8.6%	8.9%
	Equities UK	9.0%	0.3%	9.3%	9.0%	9.3%
	Equities Japan	8.6%	-0.5%	8.6%	8.3%	8.6%
	Equities World	9.8%	-0.4%	10.2%	10.0%	10.2%
	Equities Emerging	10.8%	0.6%	10.0%	9.8%	10.0%
Govies	Govies U.S.	5.6%	1.1%	5.6%	4.4%	5.5%
	Govies Eurozone	4.7%	1%	5.9%	4.7%	5.8%
	Govies UK	5.8%	0.7%	5.9%	4.7%	5.8%
	Govies +10Y U.S.	6.2%	1%	6.2%	5.0%	6.1%
	Govies +10Y Eurozone	5.2%	0.8%	6.4%	5.2%	6.3%
	Govies +10Y UK	6.3%	0.5%	6.4%	5.1%	6.3%
	ILBs U.S.	5.4%	1.3%	5.4%	3.9%	5.3%
	ILBs Europe	5.0%	0.6%	6.2%	4.7%	6.1%
Credits	Investment Grade U.S.	6.7%	1.2%	6.7%	5.5%	6.6%
	Investment Grade Eurozone	4.8%	1.1%	6.0%	4.8%	5.9%
	Investment Grade UK	6.3%	0.8%	6.4%	5.2%	6.3%
	High Yield U.S.	7.9%	1.3%	7.9%	6.6%	7.7%
	High Yield Eurozone	6.1%	1.3%	7.3%	6.1%	7.2%
	Emerging debt HC	7.6%	0.9%	7.6%	6.3%	7.4%
	Emerging debt LC	7.9%	0.6%	7.2%	7.0%	7.2%
	Commodities	5.7%	0.1%	5.7%	5.4%	5.7%
Private Assets[2]	Private Equity	11.0%		11.1%	10.8%	11.1%
	Venture Capital	15.6%		15.7%	15.4%	15.7%
	Real Estate	10.9%		11.0%	10.7%	11.0%
	Infrastructure	8.7%		8.8%	8.6%	8.8%
	Private Debt	7.6%		8.8%	7.6%	8.7%
	Trade Finance	4.5%		5.7%	4.5%	5.6%
	Asset Backed Lending	7.8%		9.1%	7.8%	9.0%

Source: Santander AM

[1] Returns across the three base currencies (EUR, USD, GBP) are FX un-hedged for equities, commodities, local-currency EM debt and private assets, and FX-hedged for the remaining fixed income. Private-asset returns are net of fees; public-asset returns are gross.

[2] We report private asset returns on a net basis to reflect the impact of management fees and carried interest on investor outcomes, while public asset returns are shown gross of fees to ensure comparability across liquid markets where costs vary by mandate and implementation. Returns for Private Debt, Trade Finance, and Asset-Backed Lending assume euro-based investments, while Private Equity, Venture Capital, Real Estate, and Infrastructure assume globally diversified portfolios.

Taken together, these forces produce a more balanced distribution of expected returns across the opportunity set and reinforce the case for holding duration alongside equities within a diversified strategic allocation.

A higher-for-longer rate regime has reset fixed income return expectations upward while advances in equities leaves prospective returns anchored in profits rather than in further re-rating

The most material change this year is in **fixed income.** The energy shock that unsettled markets from the spring onward, with oil sustained above $100 per barrel and sovereign yields drifting higher on both sides of the Atlantic into the autumn, has raised the starting point for every high-quality bond. For a **Euro investor,** core sovereigns now offer close to 4.7%, Investment Grade about 4.8% and High Yield around 6.1%, while emerging-market hard-currency debt sits near 6.3% notwithstanding a modest tightening in spreads over the year.

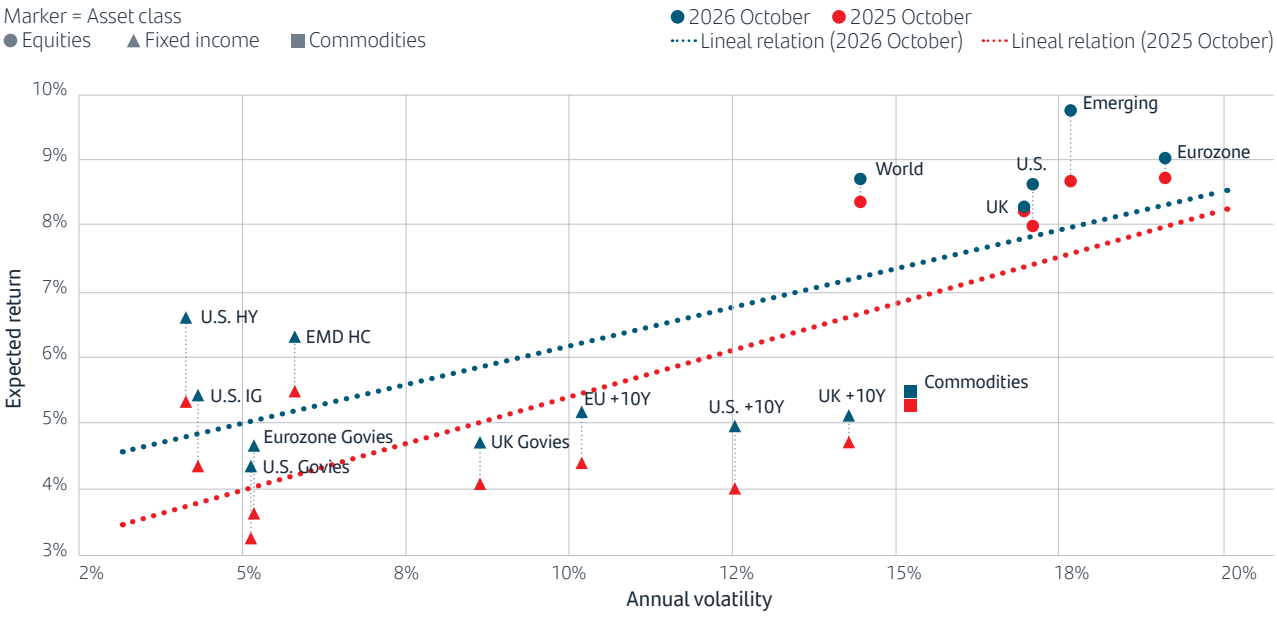
For a **Dollar investor** in fixed income the improvement is more marked still: U.S. Treasuries at approximately 5.6% per annum, rising to about 6.2% at the long end and 6.7% in Investment Grade, with U.S. High Yield -mostly B rated- around 7.9% where a higher risk-free base and a spread of roughly 300 bps more than offset expected defaults. Inflation-linked bonds -around 4.7% in Europe and 5.4% in the U.S.- and a diversified **commodity** basket -about 5.7%, little changed- complete a fixed-income and real-asset complex.

For a **Euro-based investor** the **equity** outlook is little changed, as shown in the chart below. Expected returns stand between roughly 8.3% and 10% in euro terms. Japan carries the highest headline figure at approximately 10.0%, edging down about a quarter of a point versus the previous year, while Emerging markets follow at roughly 9.8%, edging higher versus last year. The Eurozone itself stands near 9.0% and the World index close to 8.7%, up around three tenths each, the United States at about 8.6% is roughly half a point higher, and the United Kingdom is broadly unchanged at approximately 8.3%. In aggregate, equities remain attractive. Expected return levels remain healthy, supported by strong expected profits.

As yields have risen, the relationship between expected return and risk has flattened: investors are better compensated for high-quality duration relative to equity beta than a year ago

Private markets broaden the long-horizon opportunity set and span a wide return spectrum that rewards illiquidity and value creation. The equity-style strategies lead the pack. Buyout and growth **Private Equity** average approximately 11% net of fees as exit activity and deal flow gradually recover, while **Venture Capital** offers the highest nominal potential, close to 15.6%, albeit with a wide dispersion across vintages and managers.

Expected 7-year return and risk in Euro terms: current vs one-year ago



Source: Santander AM

Real Estate, combining income-generative core exposure with opportunistic value-add, averages close to 10.9%, with structural support from supply-constrained residential markets in many countries, such as in Spain. **Infrastructure,** balancing resilient, inflation-linked core and brownfield assets against higher-return greenfield projects, averages about 8.7%.

Private Debt is where the higher-rate regime is most directly expressed, and where structure determines reward. Our core measure, direct lending in the mid- and lower mid-market in Europe, averages approximately 7.6%, supported by elevated base rates. More specialized strategies add further spread pick-up often with short duration and lowly correlated carry: **Asset-Backed Lending** returns close to 7.8%, where financing structured around identifiable assets with measurable economic value adds asset-level protection to corporate underwriting. Further, **Trade Finance** opportunities offer around 4.5%, blended between senior global working-capital and high-quality receivables, providing short-dated, self-liquidating exposure to the recurring financing needs of the real economy. A new addition to the opportunity set is also infrastructure debt: combining senior through junior exposures across the credit spectrum, it is estimated to offer around 7.2%.

Private assets complete the long-horizon toolkit, with equity strategies leading on return and private credit and real asset sleeves contributing diversified, income-led resilience

In aggregate, our refreshed CMAs describe a more balanced environment than a year ago: fixed income is re-established as a return engine, equity returns are underwritten by earnings and private markets extend both the return and the diversification frontier. The central discipline is unchanged, in that it is the strategic allocation, rather than the tactical positioning, that will mostly determine how much returns investors are set capture over the mid-term horizon.



02
Global view

Global investment scenario



Delfina Pérez, CIIA
Head of Markets Strategy SAM

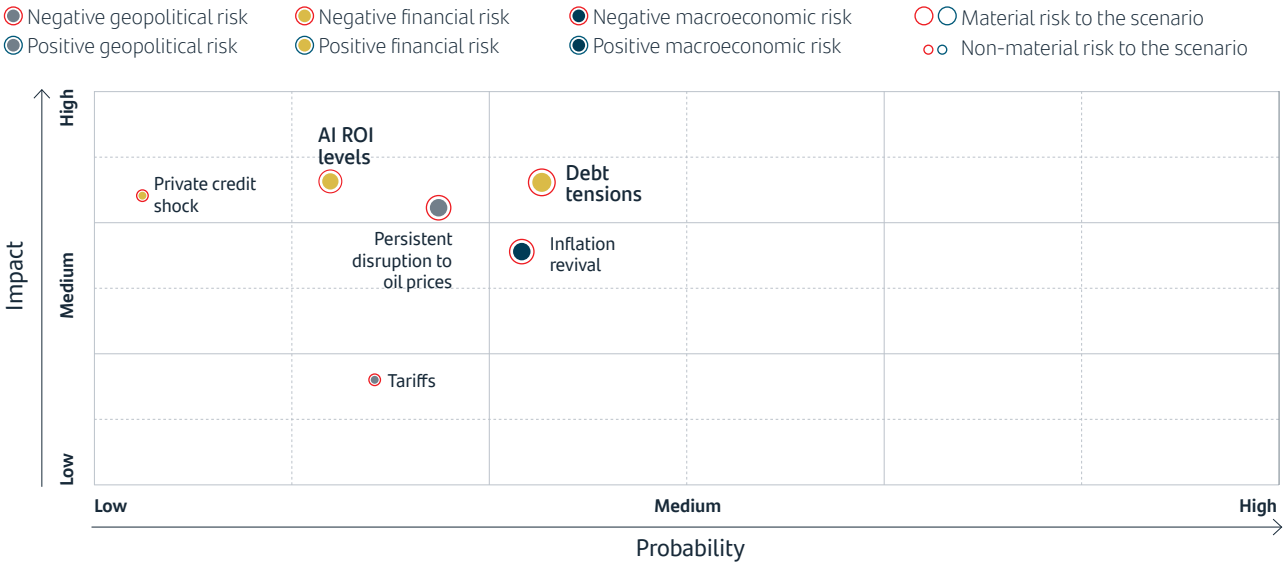


Luiz Felix, PhD
Global Head of Asset Allocation SAM

Variable	Alternative scenario Probability 20% Goldilocks expansion	Central scenario Probability 55% Resilient expansion	Alternative scenario Probability 20% Restrictive policy & Slowdown
Average Brent price ($/barrel)	USD 75	USD 82.5	USD 100
Inflation	Moderates	Stalls	Second-round effects
Traditional cycle	Accelerates and broadens	Moderate expansion	Sharp slowdown
AI cycle	Accelerates and expands	Solid and supportive	Positive, but slower
Role of AI in the traditional cycle	Amplifies	Reinforces and cushions	Partially offsets
Real growth	Accelerates and broadens	Resilient, around trend	Clearly below trend
Nominal growth	High and of better quality	Above 2010–2019 levels	Resilient due to inflation, but of lower quality
Earnings	Sales, volumes and margins improve	Positive growth, constrained by costs and interest rates	Nominal sales remain resilient; margins and volumes deteriorate
Central banks	Less restrictive	Restrictive	More restrictive, with less visibility
Fiscal concerns	Contained by stronger growth	Persistent, but manageable	Rising
Term premium	Stable or lower	Structurally elevated	Rises sharply
Long-term rates	Stable or declining	High, with limited downside	Elevated despite weaker growth

We also consider a 5% tail scenario linked to an energy shock caused by physical supply disruption, resulting in a recession followed by disinflation.

Risk Map



The defining feature of our central scenario is that the global expansion continues despite a much more challenging backdrop than investors have become accustomed to. Geopolitical fragmentation, fiscal pressures, elevated long-term interest rates and persistent inflation uncertainty are no longer temporary disturbances but structural features of the investment landscape. Yet the expansion remains supported by two powerful and complementary growth engines: resilient consumption and traditional investment on one side, and the AI investment cycle on the other. The key question is not whether growth accelerates, but whether the economy can continue to absorb repeated shocks without triggering a broader deterioration in demand, financial conditions or corporate profitability. Resilience, rather than reacceleration, remains the defining characteristic of the current cycle.

Resilience, rather than reacceleration, remains the defining characteristic of the cycle

This resilience has important implications for markets. Earnings expectations have remained relatively robust despite higher sovereign yields, geopolitical uncertainty and fiscal concerns. Importantly, many of these headwinds have been reflected more clearly in valuations than in earnings, creating a more attractive starting point for investors. The valuation adjustment experienced over the past year has been driven largely by higher discount rates and risk-premium repricing rather than by a deterioration in profit expectations. As a result, the opportunity in 2027 does not depend solely on a renewed expansion in valuation multiples. Instead, it rests on the ability to convert resilient nominal growth into earnings, cash flow and shareholder returns. In this environment, fundamentals matter more than multiple expansion, and earnings delivery remains the foundation of the investment case.

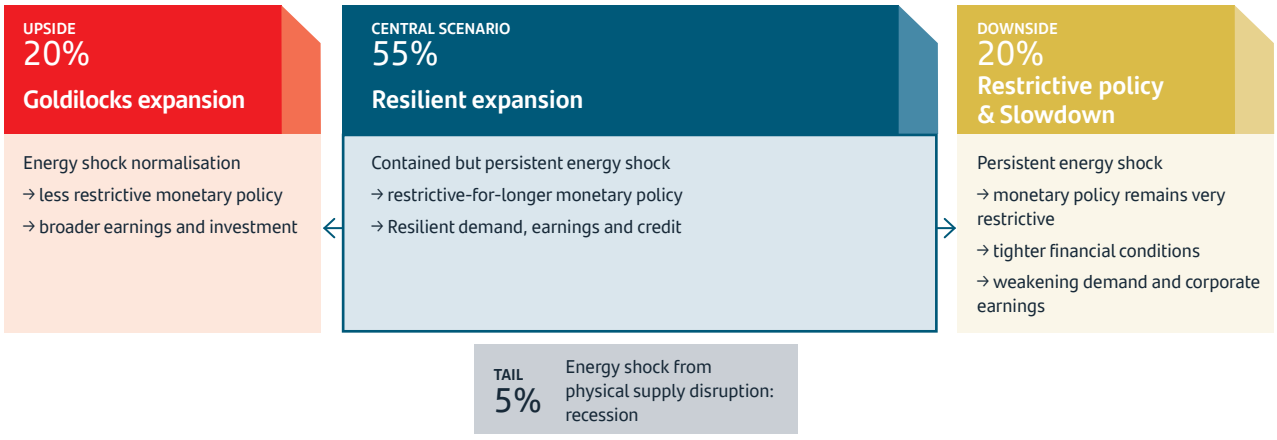
The investment opportunity increasingly depends on earnings delivery rather than broad multiple expansion

This combination of resilient earnings, more attractive valuations and elevated income opportunities shapes our investment strategy for 2027. With cycle expansion remaining the most likely path, we continue to favour assets exposed to profit growth and income generation, while becoming increasingly selective. In equities, we favour earnings-backed exposure, where profit growth is supported by nominal growth, pricing power, resilient margins and healthy fundamentals. Technology remains the leading earnings engine, underpinned by the AI investment cycle, although opportunities should continue to broaden across sectors and regions as growth becomes more widely distributed. The investment case is therefore not based on indiscriminate beta, but on participation in earnings growth from a more attractive valuation starting point.

Many of today's headwinds have weighed more heavily on valuations than on earnings expectations

Central scenario: the global expansion continues

We closely monitor energy prices and interest rates (monetary policy + fiscal deficits)



In fixed income, elevated yields offer an attractive source of carry, reducing the need to rely on aggressive monetary easing or a significant decline in interest rates to generate returns. The opportunity to add duration may improve later in the year as energy pressures ease and central banks become less restrictive. However, resilient growth, elevated term premia and limited fiscal discipline are likely to keep long-term rates above the levels investors became accustomed to in the previous cycle. In credit, we favour higher-quality segments and shorter-duration exposure, where carry remains attractive and sensitivity to higher rates is more limited. Current spreads leave relatively little room for further compression, while adverse scenarios could trigger a much larger widening. This asymmetry reinforces the case for selectivity. Our objective is simple: participate in earnings, harvest carry and remain protected against inflation and fiscal risk.

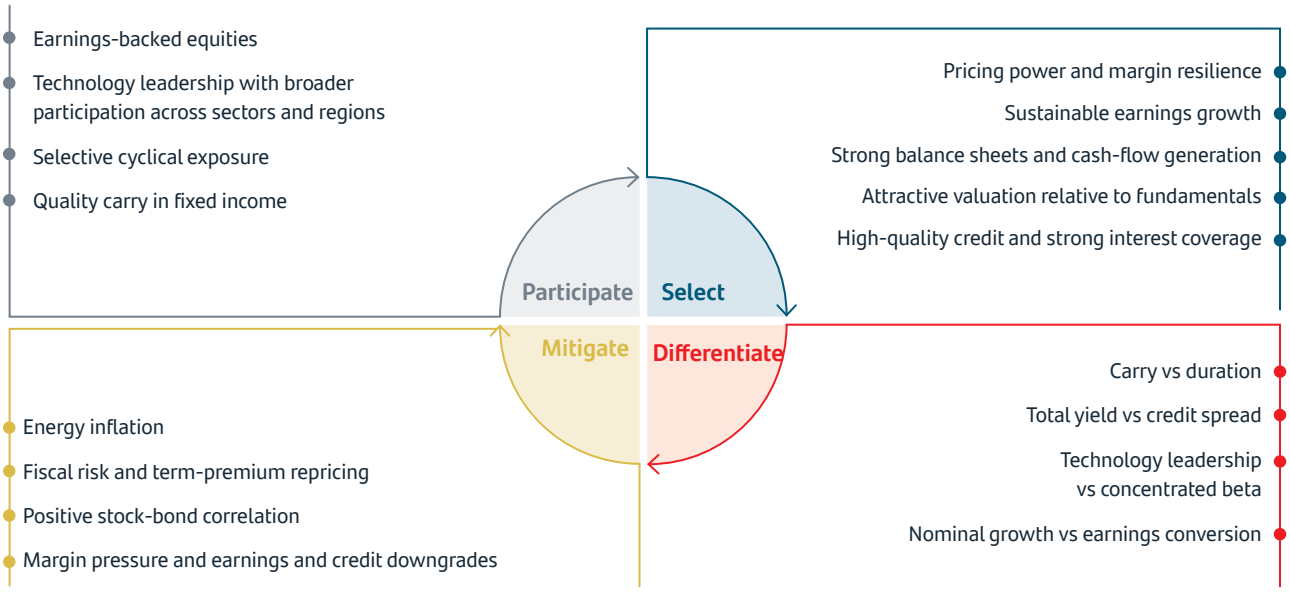
Carry is available today; duration may become more attractive as energy pressures ease and central banks become less restrictive

While the outlook remains constructive, the expansion is unlikely to be linear. The key question is not whether risks exist, but whether the economy and markets can continue to absorb these headwinds without a material deterioration in growth, earnings or financial conditions. In our view, the transmission of shocks matters as much as the shocks themselves. Energy prices, fiscal pressures and geopolitical uncertainty will remain important sources of volatility, but their ultimate impact will depend on how they affect inflation, corporate profitability and, most importantly, financial conditions.

The key risk is not the shock itself, but how it transmits through financial conditions, earnings and demand

Monitoring financial conditions therefore remains a critical part of our framework, providing an early signal of whether shocks are being absorbed by the system or beginning to affect demand, credit creation and earnings. As long as financial conditions don't tighten materially, the expansion should prove resilient and earnings will continue to be delivered. Nevertheless, protection remains an important element of portfolio construction. Commodities and selected real assets continue to play a valuable role as hedges against inflation persistence, energy-related disruptions and a broader repricing of fiscal risk.

Commodities and selected real assets remain valuable hedges against inflation persistence and fiscal repricing



Global macro outlook

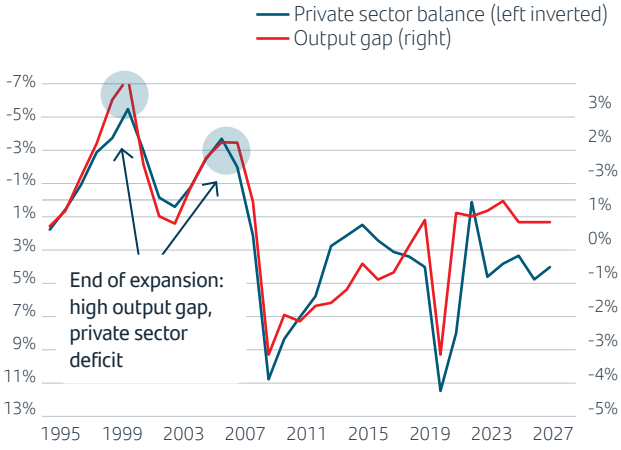


Agustín Carles, CFA
Head of Macroeconomics SAM

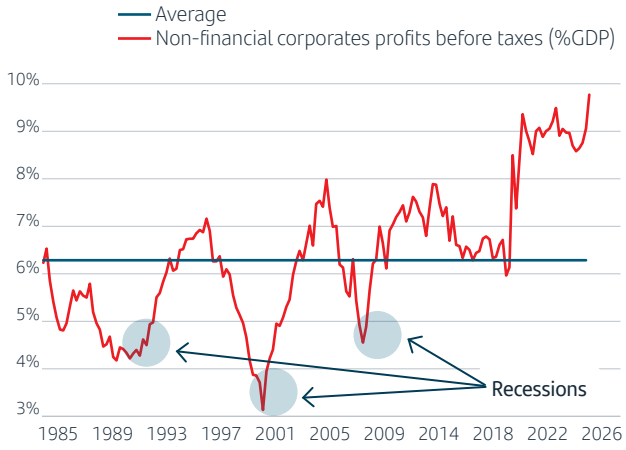
U.S.

We estimate U.S. GDP growth of 2.4% in both 2026 and 2027. Although, with the exception of the Covid year, GDP has already been growing for 16 years, we believe that the expansionary cycle, while mature, is not yet close to its end. On the contrary, we think that it will continue into 2027, primarily because neither the output gap -i.e. the gap between actual and potential GDP- nor the balance sheet of the private sector -households and companies- are close to the critical levels that in the past have triggered the end of the expansionary phase. In particular, within the private sector, we highlight above all the strength of the financial position of non-financial companies with profits as a percentage of GDP at record highs, due not only to high-tech companies but also to the rest -although it is worth noting that the former clearly lead current profits growth-. In these circumstances, we estimate that investment excluding AI will register growth in 2027 higher than the positive but very slight growth of 2026. On the other hand, the current plans of the so-called "hyperscalers" indicate that high-tech investment will remain very high in 2027 and 2028; in particular, higher than in 2026.

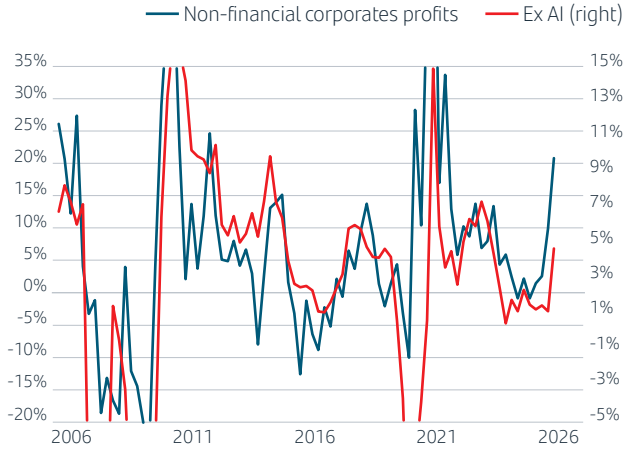
Both the output gap and the financial position of the private sector are far from the levels that in the past triggered the end of the expansion



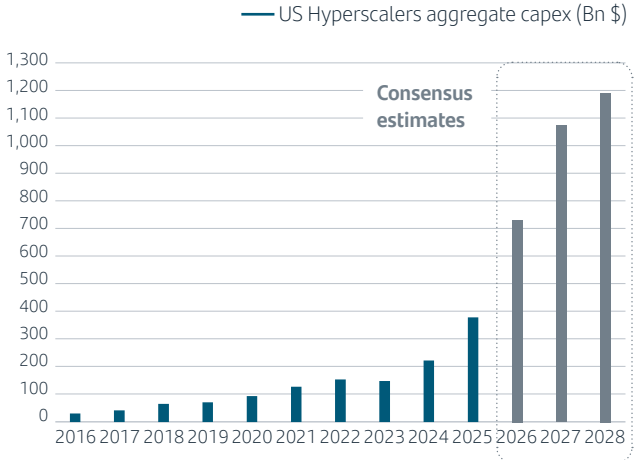
Within the balance sheet of the private sector, the healthy financial position of companies stands out, with profits as a share of GDP at record highs



On a year-on-year basis, corporate earnings growth supports growth in business investment excluding AI



The so-called "hyperscalers" (companies most exposed to AI) continue to forecast strong growth in AI investment in 2027 and 2028

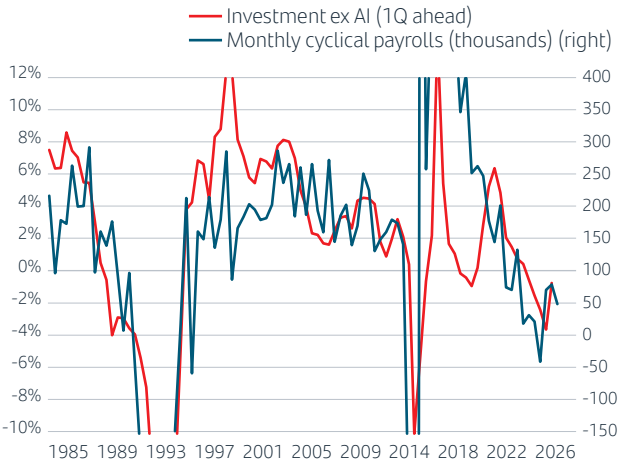


Source of all graphs: Bloomberg, Datastream and Santander AM

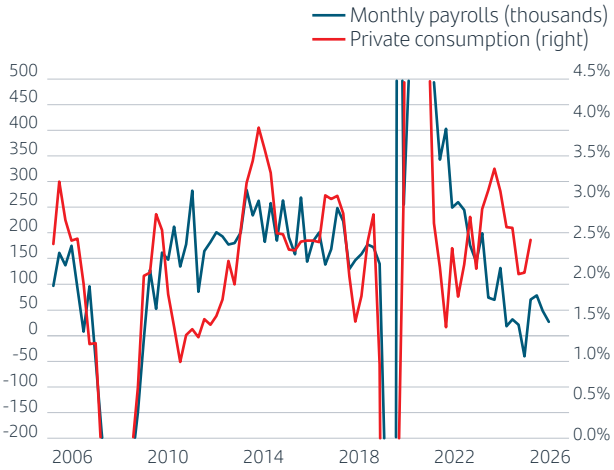
Given our forecasts for business investment -especially that excluding AI- and for residential investment -which we believe will improve somewhat compared to the decline of around 3% that will be recorded in 2026- we estimate that employment growth will stabilise in 2027 at around 100,000 per month, higher, therefore, than the average of 40,000 of the last 12 months. This outlook for payrolls should support private consumption -which accounts for nearly 70% of GDP- growth of around 2% in 2027. Anyway, the recent gains in household wealth provide some upside potential to this forecast.

Taken together, our investment, employment and consumption forecasts point to reasonable economic growth in 2027, barring unforeseen external shocks. This pace of expansion should allow the economy to absorb the mild monetary policy tightening we expect.

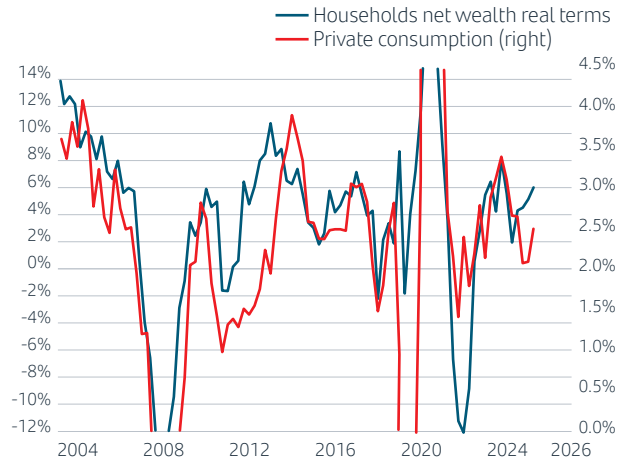
Our outlook for investment excluding AI points to a rate of payrolls of around 100,000 per month



Monthly payrolls of around 100,000 supports private consumption growth of around 2%



Consumption is additionally supported by the increase in household wealth

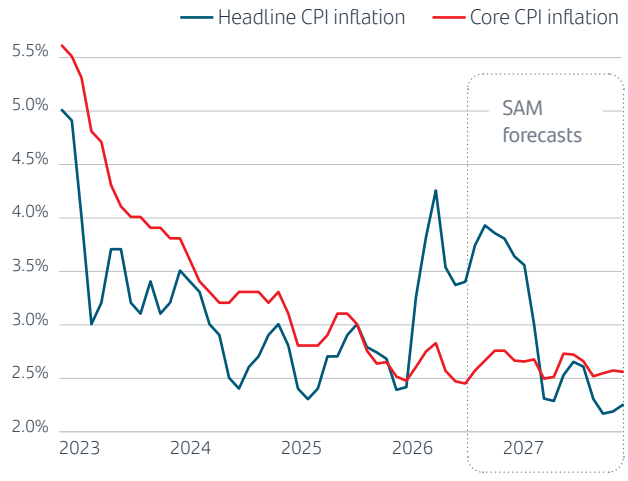


Although under our baseline scenario we believe that oil price will gradually normalize throughout 2027, headline inflation -due to the base effect compared to the previous year- will remain elevated until the first quarter of the year, after which we expect it to start to decline.

In any case, more than headline inflation, the key for the Fed will be core inflation. In this regard, we believe that core CPI will remain around its current level 2.5%- which is the average of the last 25 years and also -and this is the important thing- the rate normally consistent with 2% in core PCE, which is the Fed's explicit target.

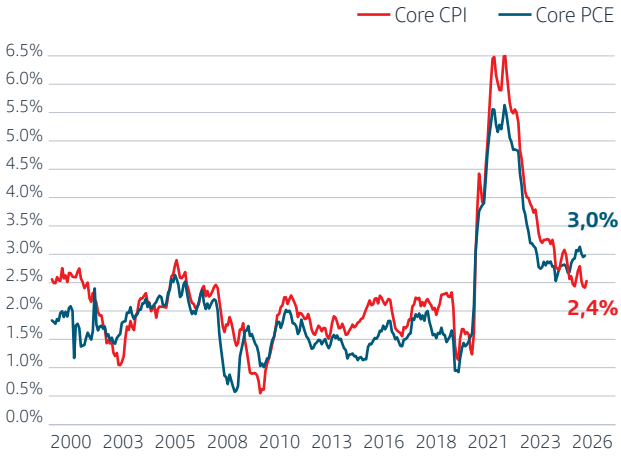
Having said that, the main uncertainty surrounding core inflation is the current high divergence between the two official measures: while core CPI is close to its average, core PCE remains clearly above its own (3% versus 2%).

Our inflation forecasts point to core CPI inflation close to 2.5% and a decline in headline inflation from 2Q27 onwards

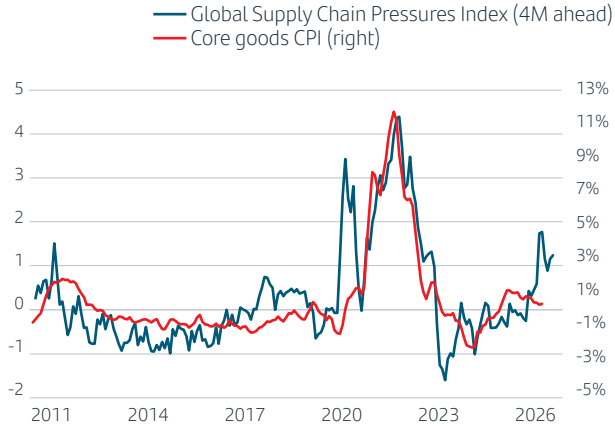


Source of all graphs: Bloomberg, Datastream and Santander AM

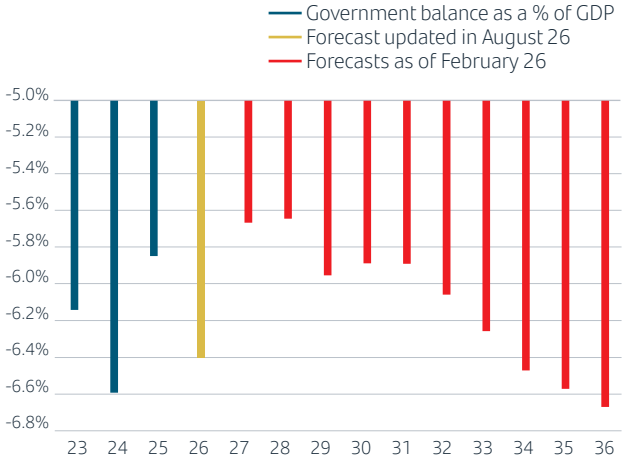
Core CPI is very close to its historical average, but core PCE is above its own and the Fed's target of 2%



While core CPI should stabilize near the Fed's target, there are upside risks from second-round energy effects



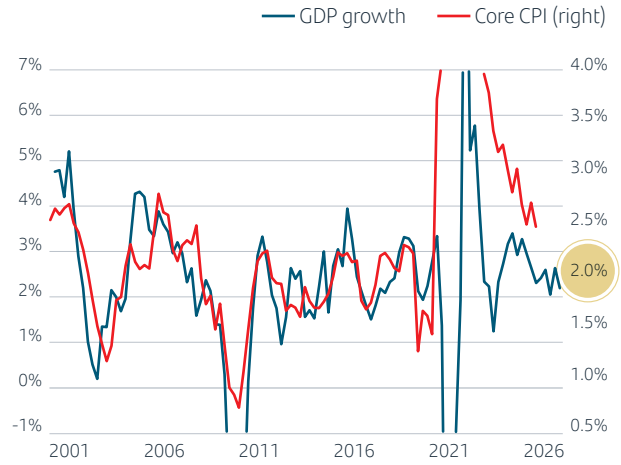
Forecasts up to 2036 point to a structural increase in the fiscal deficit, aggravated in 2026 by the invalidation of some of the 2025 tariffs



Source: US Congressional Budget Office

Source of all graphs: Bloomberg, Datastream and Santander AM

GDP growth suggests that core CPI inflation should not rise from the current level

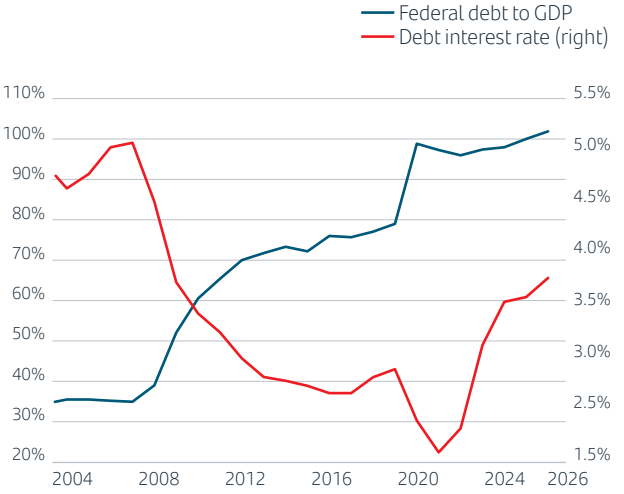


In this regard, we believe that the medium-term fundamentals of core inflation -including GDP growth itself- suggest that the PCE will end up moderating in order to gradually converge to the CPI. That said, our inflation forecasts present certain upside risks in the event that energy prices take longer to moderate than we think and end up generating second-round effects.

Under this scenario of growth and inflation, we foresee a 25 bps rate hike in 2026 and another in 2027.

In any case, due to its possible impact on both growth and rates -especially long-term rates- a risk to monitor in 2027 will be everything related to fiscal policy. This is because the high fiscal deficit -aggravated by the invalidation of some of the 2025 tariffs- and the rise in long-term rates in 2026 raise concerns about the public debt sustainability that is already at an all-time high.

The fiscal deficit, the recent rise in interest rates and the already high level of debt explain the current doubts about its sustainability

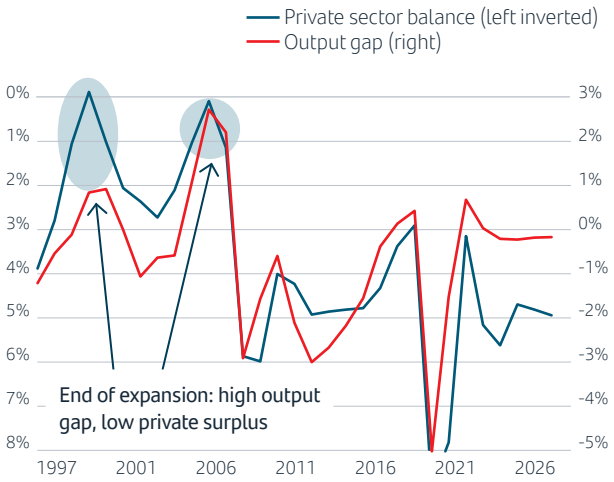


Eurozone

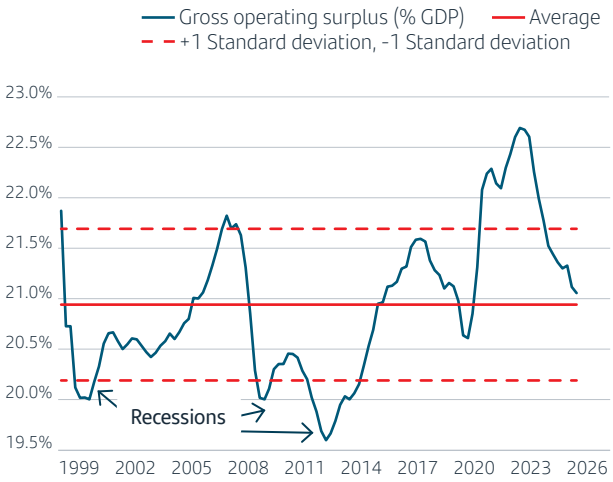
As in the United States, both the output gap and the Eurozone private sector financial balance remain far from the levels that have historically signalled the end of the expansionary phase of the business cycle. Regarding the private sector balance, the sound financial position of both non-financial corporations and households provides clear support for business investment and household private consumption, respectively. In particular, corporate gross operating profits -despite declining as a share of GDP in recent years- remain at reasonably healthy levels close to their historical average, although below those of the U.S. non-financial corporate sector. This healthy corporate financial position helps explain why commercial banks' lending conditions, while not expansionary, are not so restrictive as to act as a significant constraint on private business investment growth. Against this background, we expect business investment to consolidate the recovery that started to emerge during 2026, following two consecutive years in which investment growth was either very weak or, in some periods, negative.

Our forecast of moderate business investment growth should provide some support for employment, which we expect to record weak but positive growth of around 0.5%/1% in 2027. This, in turn, should allow household consumption to grow by close to 1%. A further tailwind for private consumption is the financial cushion provided by the high household saving rate over the past seven years, that averages 15.5%, 2.5% above its pre-Covid average. Taking all these factors into account, we forecast eurozone GDP growth of around 1.2% in 2027, slightly above the 0.9% growth that we currently expect for 2026.

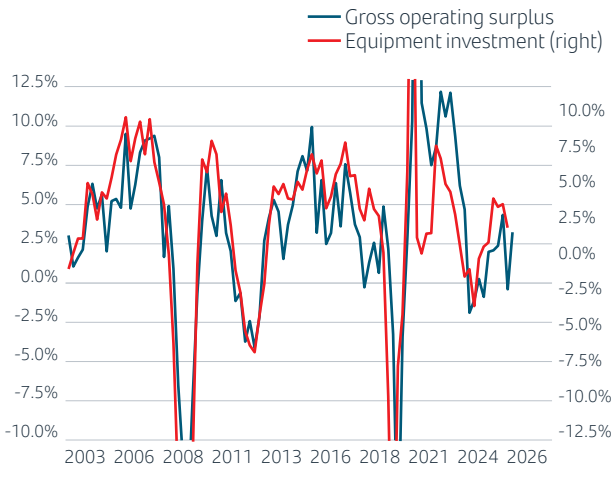
As in the U.S., the Eurozone output gap and private sector financial balance remain far from levels associated with the end of an expansion



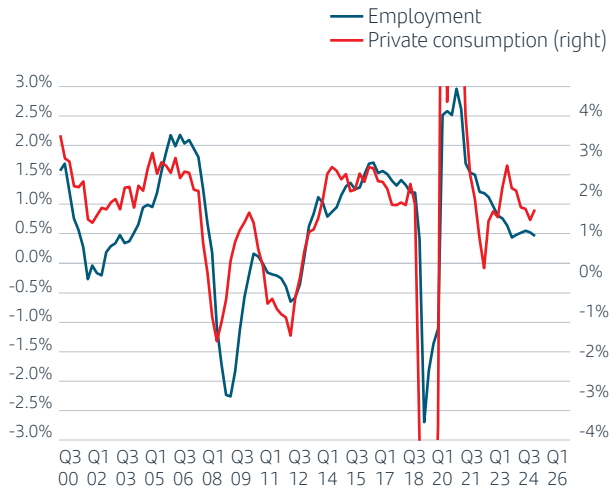
Although less robust than in the United States, the financial position of Eurozone companies remains reasonably healthy



Current growth in corporate operating profits provides some support for business investment across the Eurozone



Our baseline investment growth forecast supports employment gains consistent with consumption growth of around 1%

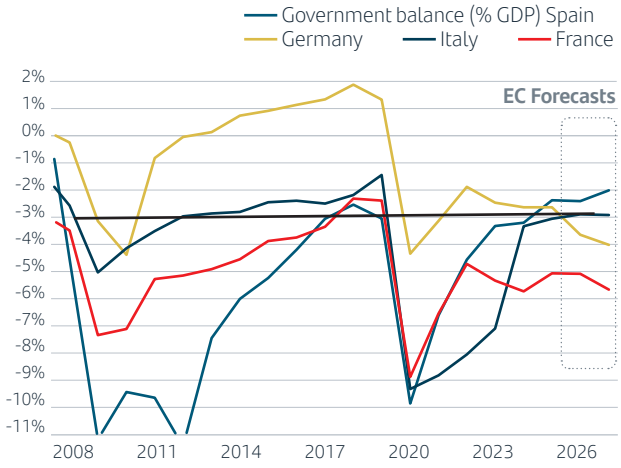


Source of all graphs: Bloomberg, Datastream and Santander AM

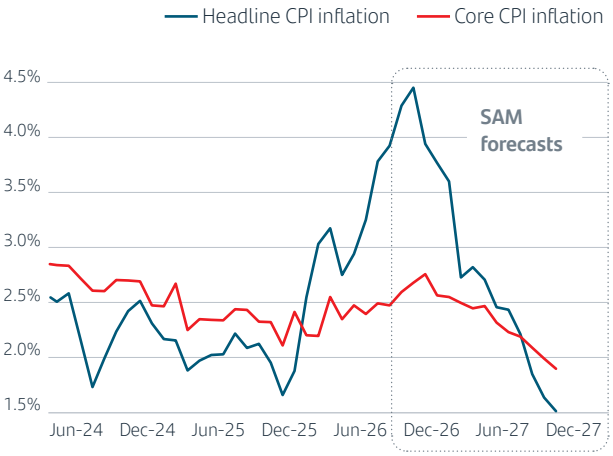
One factor to watch in the Eurozone in 2027 will be France's fragile public finances. Pending parliamentary approval of the 2027 budget, the fiscal deficit is around 5% of GDP over the last years and therefore, remains the highest in the Eurozone. Deficits of this magnitude are driving annual increases of 2–3 percentage points in the public debt-to-GDP ratio, from an already excessively high starting level of approximately 115% of GDP.

France's fiscal problem requires not only a very substantial fiscal tightening, already difficult to implement against a backdrop of weak GDP growth of less than 1%, but also that the adjustment relies on some structural items. Specifically, this should focus on current expenditures, whose share of GDP is the highest among Eurozone countries. Moreover, they have consistently been the highest over the past 30 years.

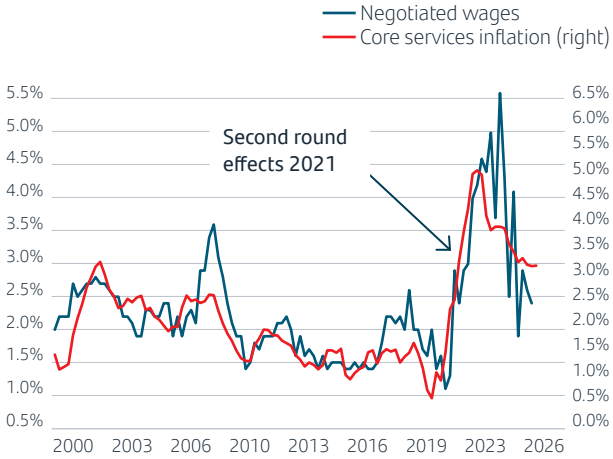
France's public finances, both in terms of the fiscal deficit and the sustainability of public debt, are clearly out of line with Eurozone metrics



We expect core CPI inflation to fall very gradually from 2.5%. Headline inflation should start to ease from Q2 2027



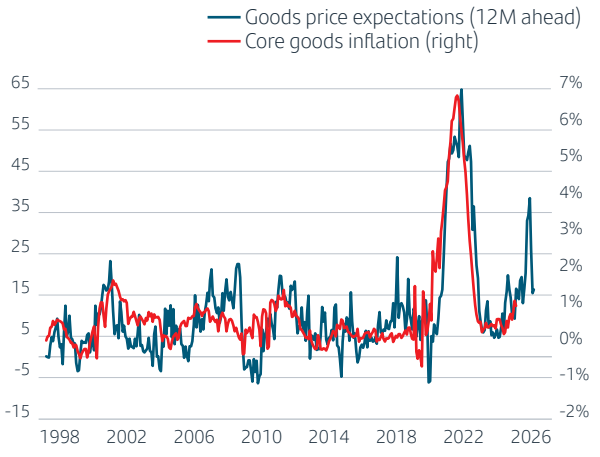
Within core inflation, neither Eurozone economic growth nor wage developments point to upside risks to services inflation



Under our baseline scenario of a gradual normalisation in energy prices, our inflation forecasts envisage a very high headline rate through the first months of 2027, followed by a marked decline from the second quarter onwards. For core inflation, we expect the rate to stabilise at around 2.5% during the first half of the year, before gradually declining towards 2% in the second half. Recent developments in GDP and wages do not suggest upward pressure from core services, although we do see some upside risks to core goods inflation stemming from energy prices and the recent increase in the cost of semiconductors used in AI applications.

Given our GDP growth and inflation outlook, we expect some monetary tightening by the ECB, with one 25 bps interest rate hike in 2026 and another in the first half of 2027.

Although still low, goods inflation faces some upward pressure coming mainly from rising prices for semiconductors used in AI applications



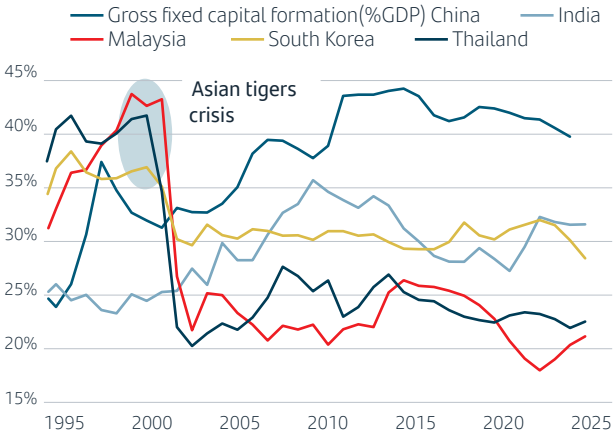
Source of all graphs: Bloomberg, Datastream and Santander AM

China

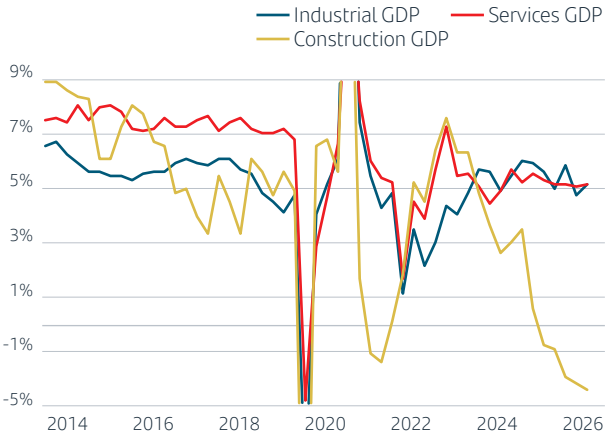
We expect China's GDP growth to slow further in 2027, extending the downward trend in the pace of economic expansion observed over the past 15 years. This structural slowdown reflects the continuing need to correct the economy's excess investment, whose share of GDP remains exceptionally high. In fact, it is worth noting that, over the past 50 years, the only comparable levels were those recorded by the Asian Tigers in the late 1990s.

The inevitable adjustment in investment will continue to weigh on construction activity, with the sector's output expected to contract further. However, as in 2026, we expect resilient output in both manufacturing and services to continue to offset the recession in construction. The contrast between the ongoing contraction in construction and the resilience of these other two sectors should therefore persist in 2027.

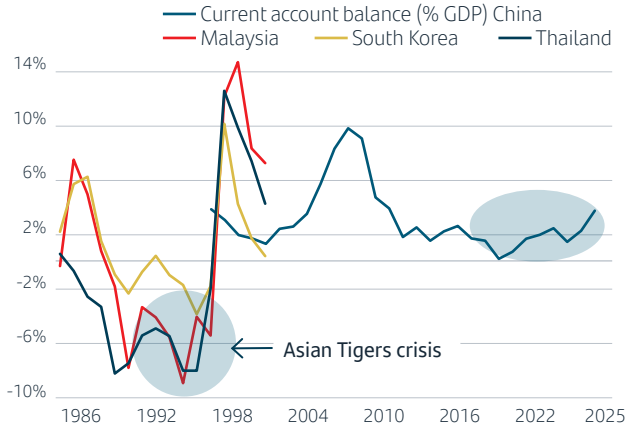
China's structural economic slowdown will persist in 2027, as the correction of excess investment remains far from complete



Excess investment explains the construction recession, while services and manufacturing keep the GDP slowdown gradual



Despite excess investment, China will avoid recession as domestic savings fund investment, unlike the Asian Tigers in the 1990s

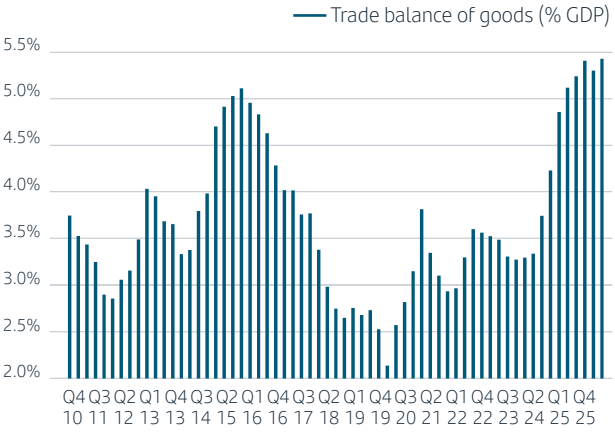


Despite deleveraging, we expect the economy's adjustment to remain gradual for two main reasons. First, the persistent current account surplus shows that domestic savings, rather than foreign capital, have consistently financed China's exceptionally high investment share of GDP.

Second, China has benefited over the past two years from strong growth in goods exports, with high-technology products and vehicles among the main drivers. This export strength has provided a tailwind for the Chinese economy throughout that period.

Against this backdrop, we forecast GDP growth of 4.7% in 2026 and 4.3% in 2027, compared with 5% in 2025.

Strong exports of high-technology products and vehicles have lifted the goods trade surplus to its highest level in 15 years



Source of all graphs: Bloomberg, Datastream and Santander AM



03
Local view



U.S.

Equities

Equities remain our preferred asset class for 2027. Our outlook is underpinned by strong corporate earnings, supported by a resilient economic cycle and AI investment as an additional growth driver. We also expect earnings growth to broaden beyond the technology sector, contributing to a more diversified and sustainable cycle. Against this backdrop, we favour high-quality companies with strong balance sheets, robust cash flow generation and the ability to translate investment into profitable growth.



Eurozone

Equities

We enter 2027 with a constructive view on Eurozone equities, supported by an improving growth backdrop driven by stronger domestic demand and fiscal stimulus, with Germany as the key catalyst. This more favourable macroeconomic environment underpins market expectations for double-digit earnings growth. Against this backdrop, we see attractive opportunities in companies with solid balance sheets, strong cash generation and exposure to the investment cycle supported by current secular trends.



UK

IG Credit

Credit spreads offer fair compensation for credit risk and, combined with still-elevated gilt yields, provide attractive all-in yields comfortably above expected inflation. The asset class also offers diversification benefits, given the sterling market's significant weighting to financials and utilities and limited exposure to technology issuers, reducing concentration in companies linked to the AI investment cycle.



Brazil

Money market

We expect the policy rate to remain elevated throughout 2027. Although weaker growth should support disinflation, commodity prices, a strong El Niño and fiscal uncertainty may keep monetary policy restrictive. Moreover, a higher equilibrium real interest rate and inflation expectations above target imply a higher nominal policy rate in the long-run, limiting the scope for substantial easing and supporting attractive carry from local-currency money-market instruments.



Mexico

Sovereigns

Mbonos (Mexican nominal government bonds) are our preferred asset in Mexico over the next twelve months, as we maintain our preference for nominal over real rates. The steep nominal yield curve offers an attractive term premium, with the spread between 2- and 10-year bonds at around 160 bps, elevated by historical standards. Against this backdrop, intermediate maturities offer, in our view, the best balance between yield and duration risk.



Chile

Equities

We maintain a positive outlook for Chilean equities in 2027. Valuations remain attractive and do not yet fully reflect a scenario of stronger growth, investment and earnings. The reform agenda aimed at unlocking investment projects and deepening capital markets could support higher demand, liquidity and valuation multiples in the local equity market, while the recovery in economic activity could drive upward earnings revisions, underpinning favourable returns.



Argentina

Local IG Credit in USD

US dollar corporate credit from high-quality issuers is our preferred asset class in Argentina for 2027. Companies with strong balance sheets, foreign currency generation and access to international markets offer attractive carry with lower volatility than sovereign debt and reduced sensitivity to country risk. In addition, the investment cycle in energy and mining should support new issuance and broaden the investable universe.

U.S.

The power of two engines



Francisco Simón, CFA
Head of Investment Strategy SAM

The U.S. enters 2027 supported by two powerful growth engines: a resilient economic cycle and the world's leading AI ecosystem. Together, they provide a strong foundation for earnings growth and investment opportunities across asset classes. While elevated energy prices and higher-for-longer interest rates may generate volatility, the outlook remains constructive.

Equities

Our positive view on U.S. equities is rooted in earnings. A resilient economic cycle continues to underpin corporate profits, while AI investment provides an additional and powerful source of growth. Earnings expectations remain supportive, with S&P 500 profits expected to increase by around 20% in 2027 and technology earnings by roughly 50%. As profit growth broadens beyond a narrow set of beneficiaries, the earnings cycle should become more balanced, diversified and durable.

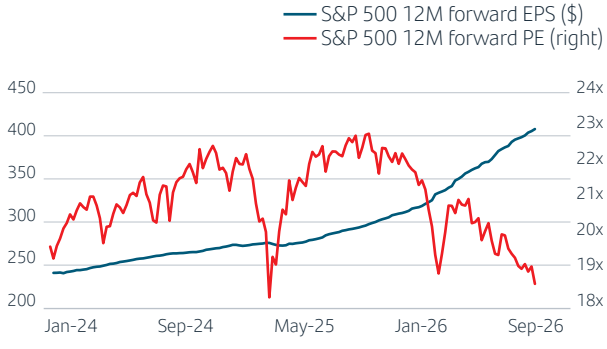
AI remains a key pillar of the investment case, but the focus is shifting. The sustainability of the cycle increasingly depends on the ability to convert investment into revenues, cash flows and productivity gains. Capex remains an important signal of demand, yet markets are becoming more selective, placing greater emphasis on monetisation and economic returns. Financing requirements and the growing interconnectedness of the ecosystem warrant attention, reinforcing the need to distinguish between investment, monetisation and productivity.

At the same time, the expansion of the traditional economy should continue broadening earnings participation beyond technology. We favour selective exposure to those areas benefiting from investment, productivity and domestic demand, while remaining focused on companies with resilient margins, pricing power and strong balance sheets.

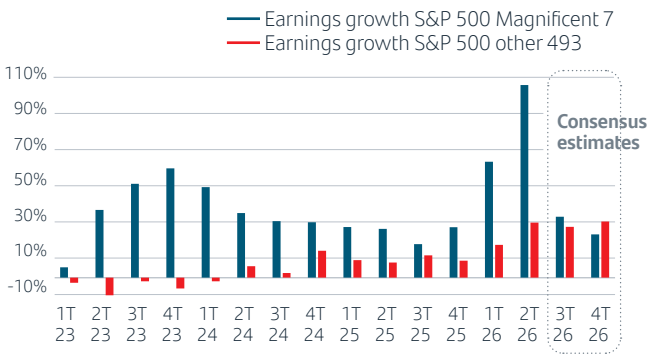
Valuations provide additional support. The recent derating has already incorporated higher discount rates, macroeconomic uncertainty and a more measured trajectory for AI-related earnings growth. The S&P 500 currently trades at around 19x forward earnings, while the S&P 500 Information Technology sector trades at 19.5x, with both measures standing close to the lower end of their valuation ranges observed since 2018. Our

Two engines, a broader earnings base. The next phase of the earnings cycle should become broader and more resilient, supported not only by technology leadership but also by increasing participation from the wider economy

Strong earnings, supportive valuations



A broader earnings base supports a more durable cycle



Source of all graphs: Bloomberg, FactSet and Santander AM

equity case rests on earnings delivery and a broader profit cycle rather than on multiple expansion. In a structurally higher-rate environment, quality becomes an increasingly important source of return.

Fixed income

Money market and Sovereigns

Higher yields have restored carry as the primary driver of fixed income returns. While disinflation could resume once energy prices stabilize, resilient growth limits the scope for a significant decline in yields.

Fiscal pressures should not be viewed as a source of systemic concern, but rather as a driver of higher equilibrium yields and recurring episodes of volatility. Against this backdrop, we prefer the short end of the curve, where investors can capture attractive income with less exposure to duration risk. We also favour real over nominal bonds, as current breakeven levels do not provide enough protection against renewed inflationary pressures.

Harvest carry, don't chase duration. Higher yields have shifted the opportunity in fixed income from forecasting lower rates to capturing attractive income with greater visibility

Credit

U.S. credit continues to benefit from resilient economic activity, solid corporate fundamentals and attractive all-in yields. Earnings growth and cash-flow generation should help companies absorb a higher cost of capital, keeping default and refinancing risks broadly contained.

Financing needs associated with sovereign issuance and the AI investment cycle are rising at a time when rates remain elevated and financial conditions may become less accommodative. We view these pressures as a technical challenge rather than a material source of risk. As access to capital becomes more selective, investors are likely to place a greater emphasis on balance-sheet strength, refinancing resilience and cash-flow visibility.

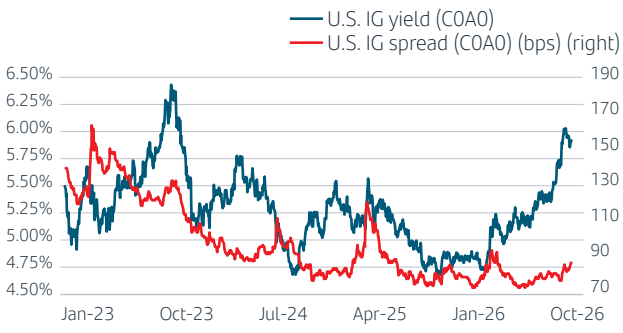
We favour high-quality, short-duration credit. The most attractive opportunities remain in income generation rather than spread compression. The potential for further compression appears limited relative to the widening that could accompany energy, inflation or fiscal shocks.

Income, not spread compression. Credit fundamentals remain constructive, yet future returns are more likely to come from income generation than from further spread tightening

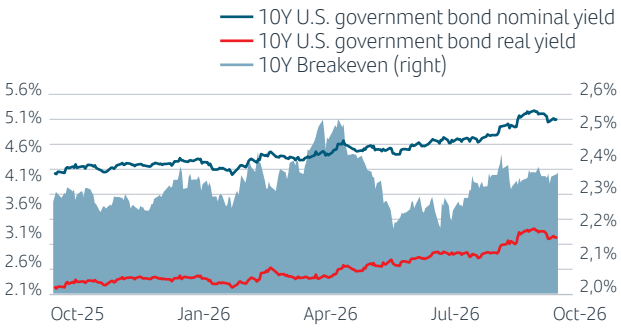
Currency (Dollar index)

The U.S. dollar should remain broadly range-bound, supported by resilient domestic growth, relatively restrictive monetary policy and its enduring role during periods of market stress, even as some of these tailwinds gradually fade. The dollar no longer requires additional appreciation to play a valuable portfolio role. Stability and diversification may prove equally important.

Attractive carry, limited room for spread compression



Contained breakevens leave value in real yields



Source of all graphs: Bloomberg, FactSet and Santander AM

Eurozone Germany Spain

2027: earnings, carry and active selection



Jacobo Ortega, CEFA
Chief Investment Officer SAM Europe

We enter 2027 with a constructive but selective outlook: improving growth, fiscal support and more attractive expected returns. We favour earnings visibility, quality carry and intermediate duration, with limited euro appreciation.

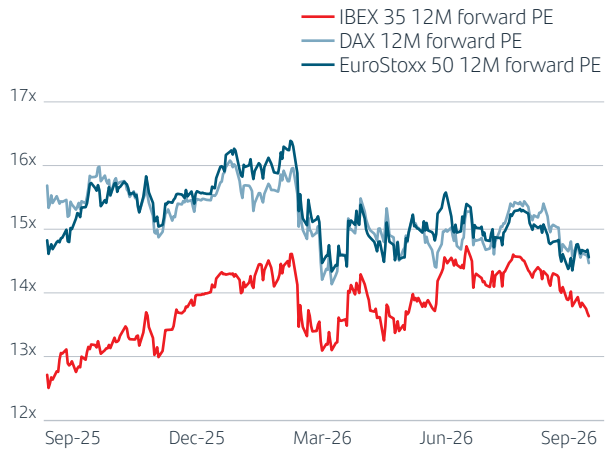
Equities

Eurozone

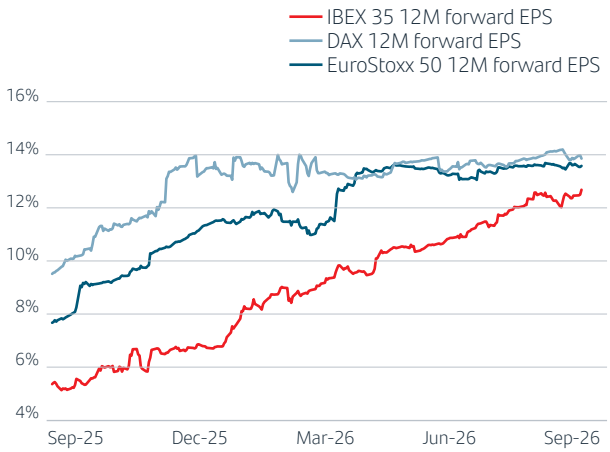
We enter 2027 with a constructive view on Eurozone equities, supported by firmer growth, resilient earnings and valuations that still allow for moderate upside. After weathering energy pressures and monetary tightening in 2026, we expect activity to improve gradually. Domestic demand will play a greater role: German defence and infrastructure spending will boost investment, while private consumption will continue to support activity. A smaller tariff impact would reinforce this outlook. Earnings underpin our investment case. Following a positive 2026, markets expect double-digit growth in 2027: normalisation, not a slowdown, with a more balanced mix, less reliance on energy and greater contributions from industrials, financials and technology. Recent positive surprises and upward revisions strengthen our confidence that estimates can be met. Eurozone valuations are slightly above historical averages, but retain a sizeable discount to the U.S. and attractive shareholder distributions, supported by buybacks. We do not expect substantial multiple expansion, but see scope for a modest re-rating if ECB tightening remains limited and energy pressures ease. Risks include another energy price spike, a more hawkish ECB than priced in, a disorderly rise in bond yields and political uncertainty. We prioritise balance sheets resilient to high rates, exposure to the investment cycle and strong cash generation.

Earnings take the lead. In 2027, broader-based EPS growth, less reliant on energy, should be the main driver of equity returns; we expect double-digit earnings growth, with limited support from multiple expansion

Valuation: room for moderate multiple expansion



Earnings growth remains the key support for 2027



Source of all graphs: Bloomberg, FactSet and Santander AM

Germany

Germany enters 2027 with a more expansionary fiscal stance and higher public investment in defence and infrastructure. Although activity remains uneven, stimulus is starting to feed through to defence-related spending and production. Its impact will depend on the pace of implementation. We remain constructive but selective: weak orders and exports highlight the challenges facing an industrial model exposed to global trade and growing Chinese competition. We favour companies exposed to domestic spending over the traditional export cycle. Opportunities span defence, construction, materials and capital goods for grid and transport upgrades. Converting visible order books into earnings will be key; the fiscal impulse should peak towards end-2027.

From fiscal pledges to delivery. German fiscal stimulus supports defence, infrastructure and capital goods; the key will be the pace of execution and the conversion of order books into earnings

Spain

Spain should outgrow the major Eurozone economies in 2027, albeit at a slower pace than in 2026. Employment will continue to support consumption, with services leading activity. The gradual withdrawal of EU funding, fiscal consolidation and a smaller contribution from new labour force to employment growth will constrain expansion. After two years of strong growth, we expect earnings to rise at close to double-digit rates. Banks retain high profitability and capital generation, supporting attractive shareholder distributions. Electric utilities offer earnings visibility and exposure to electrification. Despite recent gains, the market trades in line with its historical average and at some of the Eurozone's lowest multiples, despite stronger growth prospects. A contained risk premium and high dividend yield support moderate multiple expansion. Risks include elevated prices, slowing employment and tourism, widening risk premia and global uncertainty. We favour financials, electric utilities with visible revenues, infrastructure and domestically oriented companies.

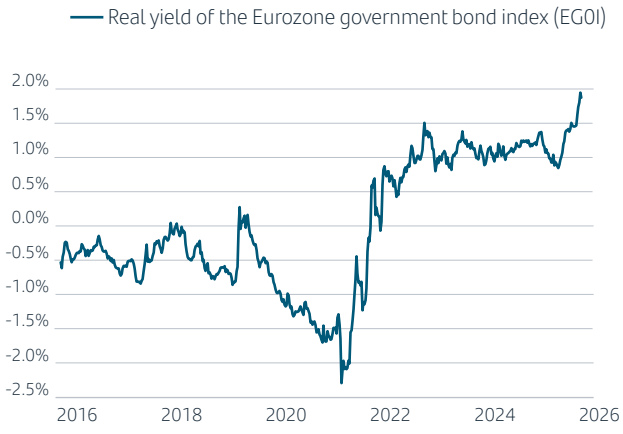
Spain, growth outperformance and shareholder returns. Stronger growth, valuations in line with historical averages and generous shareholder returns underpin a positive outlook, with a preference for financials, electric utilities and infrastructure

Fixed income

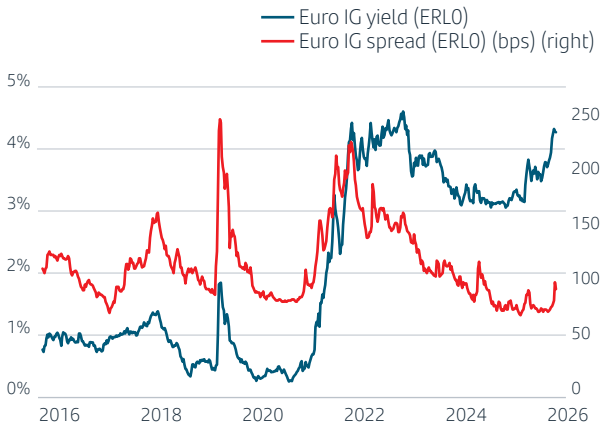
Money market

We expect short-term rates to remain relatively high in 2027, given inflation uncertainty and central bank caution. Money market strategies should continue to offer attractive carry, low volatility and limited duration risk, providing a stable income stream within fixed income portfolios.

The rise in real yields improves the entry point for duration



European IG offers attractive carry and a larger income cushion



Source of all graphs: Bloomberg, ICE BofA and Santander AM

Sovereigns

The recent repricing has restored the appeal of Eurozone sovereign bonds: higher real yields and term premia offer a better entry point for adding duration. Inflation, energy and fiscal conditions will continue to drive volatility, but current income provides a larger cushion and improves the risk-return profile. Sovereign bonds are regaining their diversification benefits in a slowdown. If growth disappoints, duration can deliver capital gains and offset weakness in risk assets. We advocate adding duration gradually, particularly at intermediate maturities, combining carry and capital appreciation potential, while remaining selective across countries and favouring sound fiscal fundamentals. We remain cautious on France given fiscal uncertainty.

Sovereigns yield repricing improves the risk-return profile: we favour intermediate duration and issuers with sound fiscal fundamentals; we remain cautious on France

Inflation-linked bonds

Eurozone inflation risks have shifted to the upside. Inflation-linked bonds hedge against renewed pressures, while high real yields offer carry and potential capital gains if real rates fall. Volatility in sovereign bonds and risk premia calls for selectivity.

Credit

We remain constructive on European credit in 2027, with a preference for investment grade. Euro investment grade credit offers yields well above inflation and historical averages, without a corresponding deterioration in fundamentals: leverage and interest coverage remain healthy, while default rates remain benign. Investment grade combines carry, quality and capital appreciation potential. Income cushions volatility, while stabilising rates or risk premia could add to returns. It is our core exposure in fixed income. We also see selective opportunities in short-duration high yield, particularly higher-quality BB issuers offering attractive carry and limited refinancing needs.

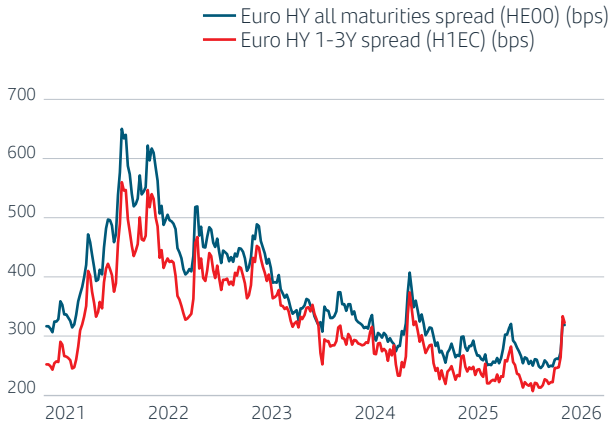
In fixed income, European IG is our preferred exposure: yields well above inflation and historical averages, sound fundamentals and carry that provides a cushion. In HY, we see selective value in short-duration BB bonds

Currency

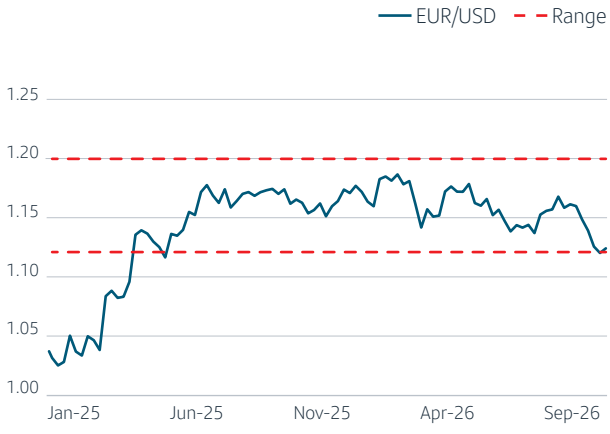
Our 2027 base case is for EUR/USD to have a modest upward bias within a 1.12-1.20 range, with no clear structural trend. European fiscal stimulus, particularly in Germany, and improving activity should support the euro. Upside will be capped by weaker growth than in the U.S., fiscal concerns and a demanding electoral calendar. High energy prices would favour the dollar. We expect moderate appreciation, consistent with global macroeconomic stability.

We see a modest upward bias in EUR/USD, capped within a 1.12-1.20 range: European fiscal support competes with growth differentials, politics and energy prices

European HY is becoming relatively more attractive, particularly short-duration BBs



EUR/USD: moderate upside bias within the 1.12–1.20 range



Source of all graphs: Bloomberg, ICE BofA and Santander AM

UK

Better than the mood music



James Ind, CFA
Chief Investment Officer SAM UK

Pessimism about Britain is one of the few domestic industries that never seems short of capital. Inflation is heading back above 4%, 10-year government bond yields reached around 5.4% in the third quarter, and the new Prime Minister, faces his first budget with much less money that he had reckoned with. Yet the gloom looks a little overdone. The UK's fiscal gap is roughly half that of the U.S. Its institutions have a habit of imposing a degree of discipline on government spending. The jobs market is stabilising rather than collapsing. Business investment, a perennial UK disappointment, is up around 11% from its 2023 low and supplied close to half of GDP growth in the first half of 2026. Above all, investors are being paid properly to wait. A downbeat consensus may offer opportunities for patient investors.

Pessimism about Britain is overdone. The UK's fiscal gap is roughly half that of the U.S., and investors are being well paid to wait

Equities

We are positive on UK equities in absolute terms. Valuations are undemanding, dividends are solid, and only around a quarter of the large-cap market is genuinely domestic, so investors can still buy global banks, miners, defence and pharma at a British discount. There is a pleasing reciprocity with the public finances too: higher share prices supplied around £9bn of the £12bn upgrade to forecast tax receipts in March. In relative terms we are more measured. Weak productivity, little investable exposure to technology and AI, and thin domestic demand for equity risk-taking keep the UK a core holding rather than a high-conviction overweight relative to global shares.

UK equities offer global banks, miners, defence and pharma at a British discount. Positive in absolute terms, measured in relative terms

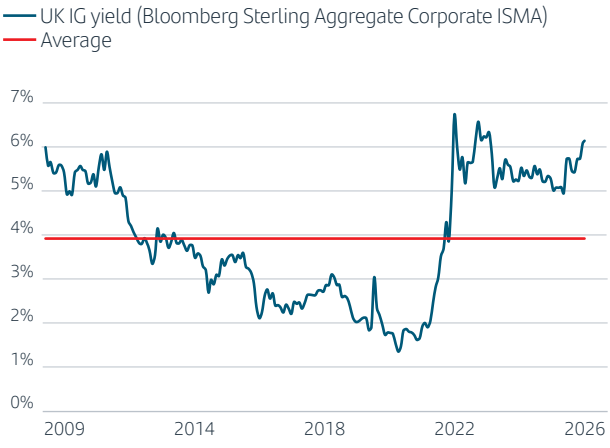
Fixed Income

Money market

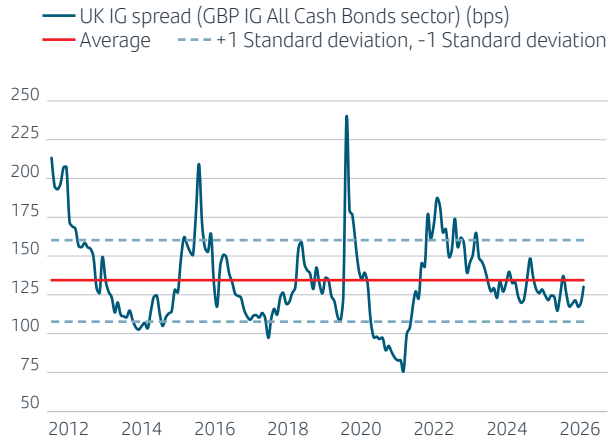
Markets price in four or more Bank Rate hikes in total, including the one already delivered. We expect just one further increase, bringing the total to two. The Bank of England is responding to an energy shock, it is not trying to start a new tightening cycle. That gap is a potential gift to savers, so yields out to two years look generous for a risk-free asset.

Markets price in four or more rate hikes in total; we expect just one more, bringing the total to two. Yields out to two years look generous for a risk-free asset

Sterling IG yields offer a starting point well above the post-2010 norm



Sterling credit spreads are not stretched: close to their 15-year average



Source of all graphs: Bloomberg and Santander AM

Sovereigns

UK gilts share the global sovereign problem of high debt, persistent deficits and sticky inflation, while borrowing continues to creep up. We are neutral. Still, Britain has been here before: public debt stood at 180% of GDP in 1950. Long-dated bond issuance is expected to shrink sharply, and the Bank of England has put the brakes on off-loading the bonds it accumulated during various crises. Ten-year index-linked gilts now offer a real (after inflation) yield of almost 2%, after more than a decade below zero. Much of the bad news is already in the price.

Local credit

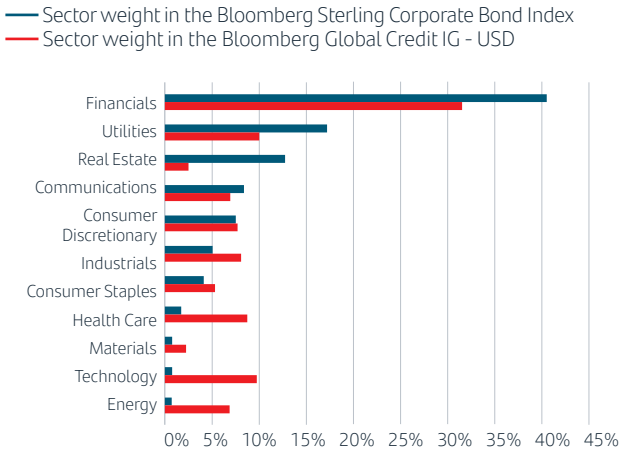
Sterling investment grade credit (IG) is our best idea for 2027. Spreads of around 130 bps sit close to their 15-year average and at the wide end of the past year's 115-138 bps range, so the entry point has improved. On top of elevated gilt yields they deliver all-in yields that comfortably beat expected inflation and deliver a healthy nominal return. Sterling IG yields of around 6.2% compare with an average of about 4% since 2009. That's more than the average annual return on the much riskier FTSE 100 since the start of the century. The market's make-up helps. Financials, utilities and real estate make up over 70% of sterling IG and technology under 1%, against almost 10% in global IG, where AI-related borrowing by a handful of very large issuers is concentrating risk. Sterling credit offers carry together with diversification away from that concentration.

We favour Sterling IG credit. Fair spreads on top of high gilt yields, with little exposure to the AI borrowing boom that is concentrating global credit risk

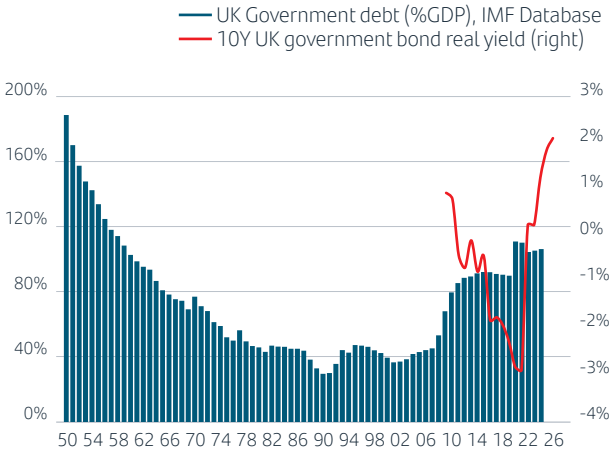
Currency

Neutral. Sterling has its troubles, but so do the dollar, euro and yen. Beauty contests between developed market currencies point to no clear winner or loser against sterling, and we do not expect sterling to drive returns for UK investors in 2027.

Sterling IG is banks, utilities and property; tech is under 1% vs almost 10% globally



UK debt near 100% of GDP is high, not unprecedented, and now earns a positive real yield



Source of all graphs: Bloomberg and Santander AM

Brazil

Near-term challenges, longer-term opportunities



Mário Felisberto
Chief Investment Officer SAM Brazil

In the 2026 elections, President Lula da Silva was re-elected. As the new term begins, markets will watch the government's priorities and the make-up of its economic team. Execution matters just as much: advancing the agenda will require negotiation with Congress, and investors will focus on turning priorities into legislation and delivery.

In this context, fiscal challenges remain significant. Both high public debt and interest payments call for a sustained improvement in the primary balance. With the tax burden already relatively high, a sustainable adjustment will need to address the growth of mandatory spending and improve the efficiency of public expenditure. Beyond consolidation, improvements in productivity, infrastructure, skills and the business environment are needed to raise potential growth, which remains low.

We expect GDP growth of around 1.0% in 2027, as tight financial conditions and a more limited fiscal impulse weigh on activity. Credit growth should also decelerate after a strong run, with household and corporate leverage and debt-service costs restraining demand, alongside tighter credit supply. Our base case assumes inflation near 4.5% at the end of 2027, down from 5.0% in 2026, due to the restrictive stance of monetary policy. As for the policy rate, after an adjustment that trimmed the Selic rate from 15.0% to 13.75%, we believe the BCB will keep rates on hold through the year of 2027, given the balance of risks around inflation.

Over the longer run, Brazil offers global investors differentiated exposures: competitive agribusiness and energy sectors, a large domestic market and deep, well-developed capital markets. Its natural resources and geopolitical position could allow the country to benefit from investment in AI-related infrastructure, the energy transition and the reshaping of global supply chains. Turning these advantages into solid sustained growth will depend on improvement on policy execution and the investment environment.

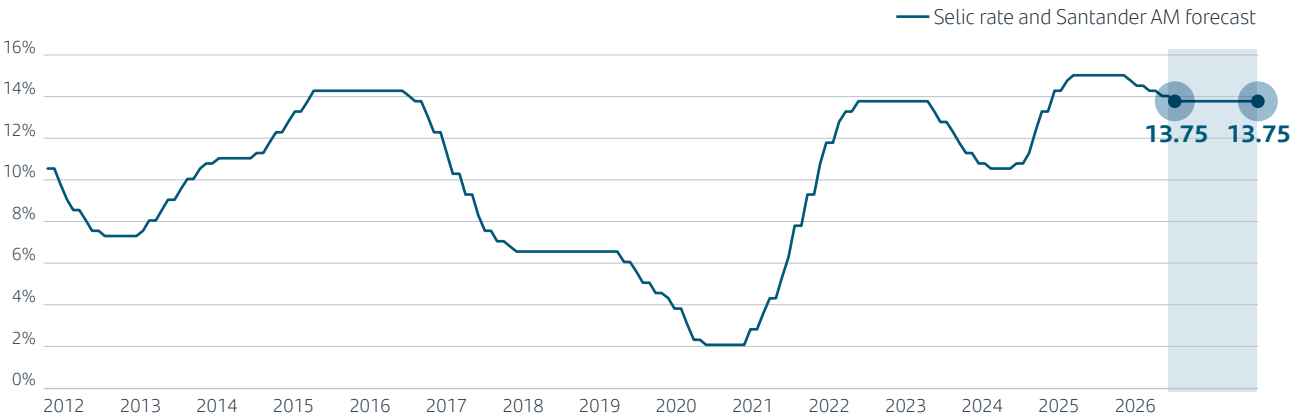
Addressing fiscal challenges will require continued coordination between the executive and legislative branches

Equities

We start 2027 with a cautious stance on Brazilian equities. High real rates, slower growth and fiscal uncertainty are likely to weigh on earnings and sentiment. Valuations look cheap on a historical basis, but a sustained re-rating will likely require greater conviction on the rate outlook and earnings delivery.

GDP growth expected to moderate to 1.0% in 2027, with inflation around 4.5%

Selic rate should be kept unchanged at 13.75%



Source: Brazilian Central Bank and Santander AM

We favour companies with strong balance sheets, resilient cash flows, pricing power and hard-currency revenues. Looking past the cycle, commodity producers, leading financial firms and infrastructure names offer opportunities that can complement tech-heavy global portfolios.

Fixed income

Money market

We expect the policy rate to remain elevated throughout 2027. Although weaker growth should support further disinflation, commodity-price pressures, a strong El Niño and persistent fiscal uncertainty may require monetary policy to remain restrictive. Moreover, the rise in the equilibrium real interest rate, combined with inflation expectations remaining above target, suggests a higher nominal policy rate in the long term. This structural backdrop limits the scope for substantial monetary easing. As a result, money-market instruments should continue to offer attractive carry in local currency.

Selic expected to remain at 13.75%, with no further rate cuts in our baseline scenario

Local fixed income, Sovereigns and Inflation-linked bonds

We remain neutral on local fixed income, with a preference for inflation-linked bonds over nominal government bonds. With no easing in our base case, carry should be a larger driver of returns than duration gains. Inflation and fiscal dynamics may limit the scope for a sustained rally in yields.

Inflation-linked bonds offer attractive real yields and inflation protection, although mark-to-market remains sensitive to rate moves.

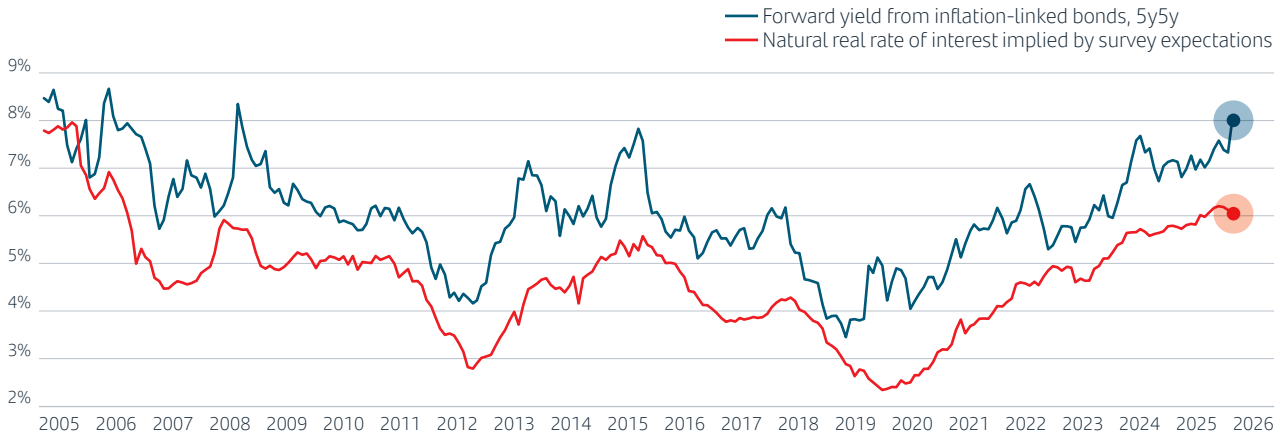
Local credit

We remain neutral on local credit. Slower growth and tight financial conditions may pressure credit quality, particularly among leveraged issuers. However, wider spreads offer better compensation for risk and carry remains attractive. Issuer selection is key, favouring solid balance sheets, ample liquidity and manageable refinancing needs.

Currency

We expect the Brazilian real to remain undervalued, with fiscal uncertainty limiting a sustained appreciation. However, attractive valuations, a sizeable trade surplus and high real rates should provide support, while further disinflation would strengthen the outlook.

Fiscal concerns keep long-term real rates elevated



Source: Anbima, Brazilian Central Bank and Santander AM

Mexico

From autos to AI: transforming Mexico's exports



Rafael Buerba, CFA
Chief Investment Officer SAM Asset Management*

Mexico's economy is expected to grow by 1.6% in 2026, recovering from 0.6% in 2025, but still below potential and from what a booming U.S. economy could imply. Private consumption remains weak and the World Cup provided a minor boost only. By contrast, public investment and AI-related exports have emerged as the main engines of growth.

Total investment fell by 3.2% in 2025 but is recovering. The rebound reflects the government's decision to restore public investment. While private-sector projects remain sluggish, the government's Plan México could be the wildcard for a renewed interest in power and energy infrastructure investments from local and foreign capital.

Mexico's exports have surprised to the upside in 2026, as the global AI boom has reinforced the country's role in North American manufacturing. Mexico's export platform is now increasingly dominated by equipment for U.S. data centers.

We should mention however, that to translate the export momentum into stronger GDP gains for 2027 and beyond, Mexico needs significant investments to increase domestic value added. A comprehensive USMCA review and effective implementation of Plan México will be critical to the growth outlook. Even so, the country is emerging as a key North American manufacturing hub for AI data-center infrastructure. We expect GDP growth to approach 2% in 2027.

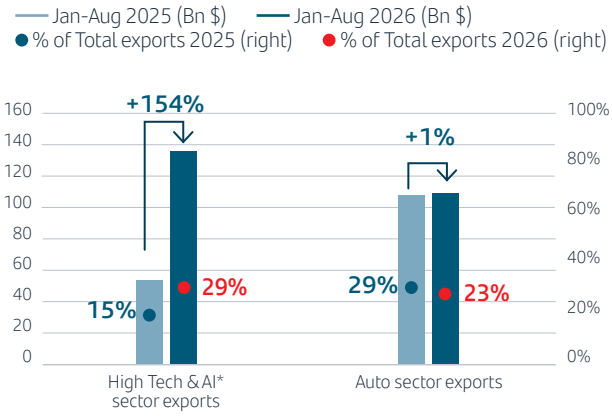
Hi-Tech & AI exports reached 37% of total exports in August 26, offsetting a slowdown in the auto sector, the former export engine. Mexico is attracting cloud and AI-related infrastructure capex

Equities

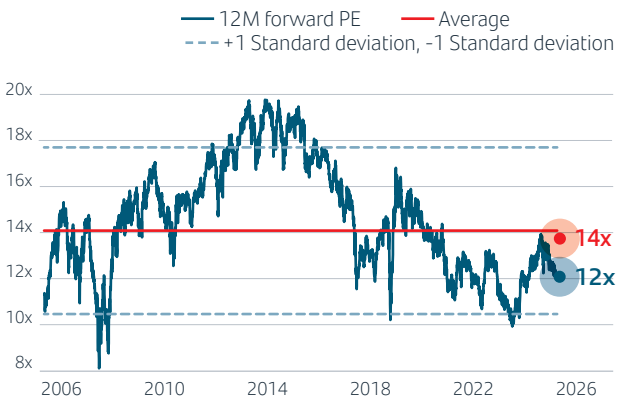
Following a strong 2025 rally, Mexican equities reached all-time highs in early 2026 and traded in a narrow range for the next several months. Sluggish economic growth, uncertainty surrounding the USMCA review and the end of the easing cycle drove the consolidation. More recently, as 2026 comes to an end the market resumed its upward trend. Valuation remains below its historical average, although the discount is no longer as pronounced as it was before the 2025 rally. Earnings should remain resilient, although they will no longer benefit from the materials-related -mostly mining- boost observed in 2026. At the same time, the recovery is likely to be uneven, increasing dispersion across sectors and companies and creating attractive stock-picking opportunities.

There is space for multiple expansion in Mexican equities as economic growth improves, uncertainty surrounding the USMCA review recedes, and the government rolls out the Plan México infrastructure program

Mexico's Tech & AI exports now larger than autos



Mexican equities trade at a discount vs historical average



** High Tech & AI includes computers, servers, computer components, network & telecom equipment, chips, semiconductors, storage and chip manufacturing equipment.*

Source of all graphs: Bloomberg, Banxico, Inegi and Santander AM

Fixed income

Money market

The central bank has reached a policy rate of 6.5% and we expect it to reach 7.25% by December 2027. Current inflation is not far from the 3% target, but upside risks persist from agricultural prices and services prices. Short-term instruments will benefit from reinvesting at higher rates while maintaining an attractive positive real return. Our strategy focuses on floating-rate instruments that allow us to capture carry without increasing duration.

The policy rate stands at 6.50% and we expect a mild hiking path towards 7.25% by 2027, at most. Different economic conditions explain the divergent monetary policy path between Banxico and the Federal Reserve

Sovereigns

The slope of the nominal curve offers an opportunity to capture an attractive term premium. With the 2-10 year spread hovering 160 bps -wide relative to its history-, we believe intermediate maturities offer the best balance between yield and duration risk. We maintain our preference for nominal rates over real rates and highlight Mexican M-Bonds as the most attractive asset in Mexico for the coming year.

Inflation-linked bonds

Unlike the nominal curve, the real rate curve shows a different term premium structure, with the 10- to 30-year nodes practically flat. Since there is no meaningful compensation for extending duration, our preference is concentrated in the 10-year node, which currently offers a real yield of 4.80%. While we maintain a relative preference for nominal rates, this level offers an attractive real return /and protection against inflation surprises.

We strongly believe Mexico will maintain its investment grade rating. Hence, fixed income offers the best risk-return profile among local assets

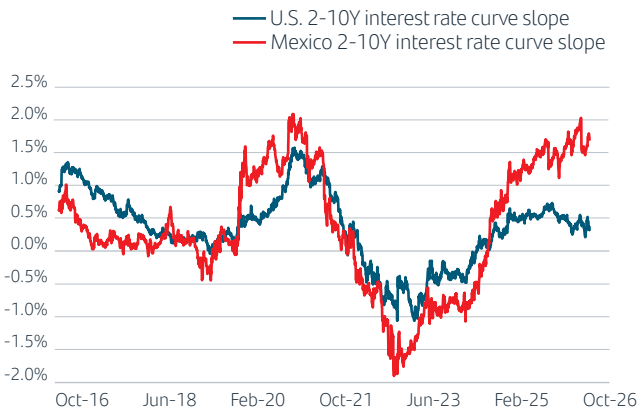
Local credit

We favor floating-rate corporate credit, which continues to enhance portfolio carry in an environment where the door remains open to potential increases in the policy rate, while also offering better liquidity in the secondary market vs fixed rate issuances. Our issuer selection is based on fundamental analysis and relative value of the bond, where we are selective on solid credit profiles.

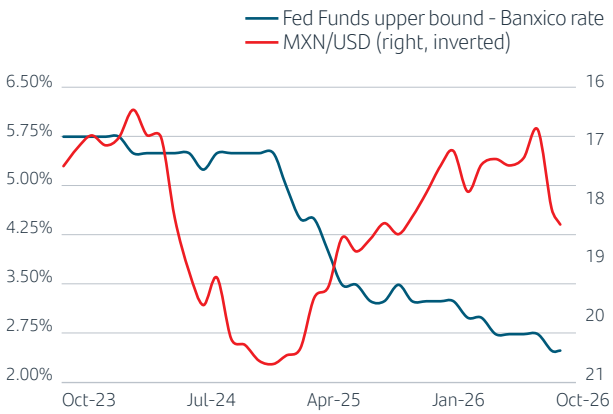
Currency

We hold a constructive but measured view on the Mexican peso (MXN). After last year´s strong appreciation, we see limited room for further gains and expect a range-bound currency. The main support is renewed economic momentum. Working against the Peso, the interest rate differential, historically the currency´s main anchor through carry-trade demand, has narrowed significantly. Furthermore, a weaker currency would support tourism, restore purchasing power of remittances and improve export competitiveness. On the other hand, if global financial conditions stay accommodative, firmer economic growth and still attractive real yields could support a moderate upside.

Term Premium Structure, an opportunity to capture



Exchange rate: a narrower rate spread weights on MXN



Source of all graphs: Bloomberg, Banxico, Inegi and Santander AM

Chile

Reforms drive growth and local market appeal



Diego Ceballos
Chief Investment Officer SAM Chile

For 2027 we expect growth of close to 3%, with inflation moderating and reaching the central bank's target by the middle of the second half of the year.

This growth is explained by the entry into force of the Reconstruction Law, which will have positive effects on the economy. In addition, the capital markets reform could also provide further stimulus to activity. Keeping the monetary policy rate at around 4.50% will allow inflation to converge to the target, with the oil shock fully absorbed.

We continue to see demand for copper and lithium remaining strong amid current technological changes, so the prices of both commodities should act as a tailwind for the economy and the currency.

Equities

After a 2026 shaped by the conflict in the Middle East, higher rates and fiscal constraints, we expect a more favorable environment, supported by better terms of trade, easing inflationary pressures and a recovery in investment.

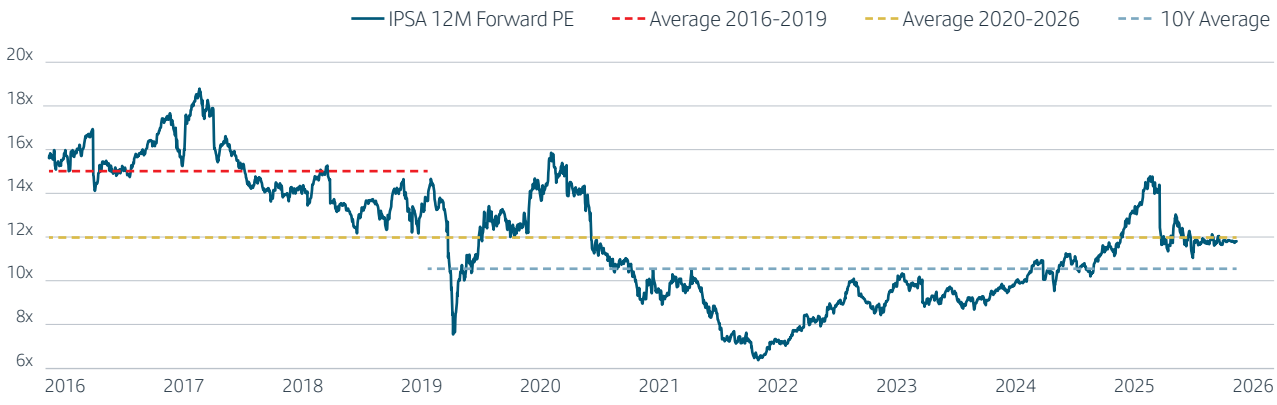
Our scenario assumes copper above USD 6/lb, which would ease fiscal constraints and strengthen investment. Added to this are a potential geopolitical normalization and the Reconstruction Law, which would boost mining and energy projects, particularly in the north. The capital markets bill could be an additional catalyst through investment incentives, housing access measures and greater financial depth and liquidity. A real estate recovery would reinforce this scenario, given its relevance for investment and employment.

The market is currently trading at around 12x price/earnings, the average of the last ten years, a period of low growth and investment. A more dynamic scenario could justify a multiple expansion toward levels above 15x, seen between 2015 and 2019, which we consider fair value for Chile. We expect earnings per share growth of 6% in 2027, with room for upward earnings revisions as activity, investment and inflation figures improve.

Improved terms of trade, lower inflation and pro-investment reforms set the stage for a favorable 2027 for Chilean assets

We expect 6% earnings growth, with room for upward revisions

Valuations remain at attractive levels



Source: Bloomberg and Santander AM

Fixed Income

Money market

In 2027 we expect the Monetary Policy rate (MPR) to remain around 4.50%, a level we consider close to neutral, with economic growth of close to 3% and inflation converging to the target after the oil shock is absorbed. Locally, it will be important to gauge the real impact of the massive investment expected in the country on variables such as growth, unemployment and consumption. The money market should continue to offer attractive carry and a stable source of return for more conservative profiles.

Carry will be the main source of return in fixed income, favoring tenor and issuer selection over duration bets

Sovereigns

With the MPR at neutral levels, carry should gain prominence as a source of return. The short and middle segments of the curve would remain anchored by monetary policy, while the long end would be more influenced by the 10-year U.S. Treasury and global financial conditions. The degree of steepening will depend on the supply of Chilean government bonds and on evidence of the impact of investment on activity and employment. With less room for gains from further rate declines, current levels still offer attractive returns, favoring tenor selection and relative value over directional duration bets.

Inflation-linked bonds

UF-denominated instruments should continue to play a relevant role for investors, both because of their real yields and their protection against inflation surprises. The pension reform also adds structural support: the new benchmarks against which the generational funds will be measured include UF sovereign and corporate references across different duration segments, favoring institutional demand for these instruments, most strongly at the long end.

Local credit

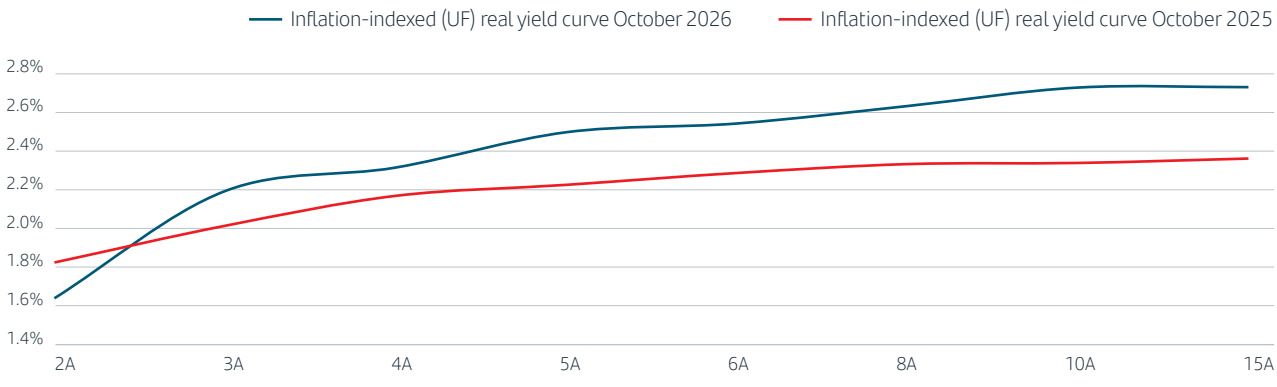
We maintain a neutral view on corporate credit. AAA spreads are at historically low levels, supported by issuers with solid balance sheets and strong demand for high-quality assets, so carry and issuer selection should be the main sources of return. The pension reform should reinforce this dynamic by favoring UF corporate credit and long duration, in a market that is less deep than the sovereign one.

Currency

The outlook for the Chilean peso (CLP) in 2027 is favorable. In a context where countries in the region show some weakness and Chile is stronger than in 2026, we could see investors unwind carry trade positions currently funded in CLP. In turn, the strength of Chile's main export commodities, copper and lithium, should drive greater dollar inflows into the local economy, strengthening the Chilean peso.

Pension reform is boosting demand for long-term UF-denominated instruments, while copper, lithium and Chile's relative strength support the Chilean peso in 2027

The UF curve (inflation-indexed bonds) offers attractive levels and an inflation hedge



Source: RiskAmerica and Santander AM

Argentina

2027, the test of continuity



Cristian Brau, CFA
Chief Investment Officer SAM Argentina

After three years of stabilisation, 2027 will be a key year to assess the consolidation of the path set in late 2023. With the electoral calendar in the background, the economic debate will focus on the programme's pillars: fiscal balance, a stronger external position and an economy more open to competition. Argentina arrives with robust fundamentals: a fiscal surplus, a current account close to balance and an increasingly diversified export base, with energy and mining gradually joining agriculture as structural sources of foreign currency. The challenge is that the recovery remains two-speed: export sectors are leading, while labour-intensive activities such as construction and manufacturing continue to lag. We expect a year of greater uncertainty, with attention on the reform agenda. In Argentina, such episodes tend to be reflected in the exchange rate and the sovereign spread, with a cross-cutting impact on bonds and equities. We favour credit quality, USD assets and active management to capture the tactical windows that volatility may open.

Argentina enters 2027 with a fiscal surplus, a balanced current account and a more diversified export base

Equities

Argentine equities will remain closely tied to the country risk premium. For 2027, we see more room for tactical opportunities than for a sustained multiple expansion. Progress on the economic agenda could drive a re-rating, especially given current valuations, although capturing it will require good entry points. We prefer companies with USD cash generation, such as energy and exporters, which are less exposed to the domestic cycle. Banks, more sensitive to rates and non-performing loans, will depend more on activity and financial conditions. Our view is neutral, with a tactical bias.

The uncertainty premium will be cross-cutting: we see no clear strategic winner between bonds and equities, but rather tactical windows that will require active management

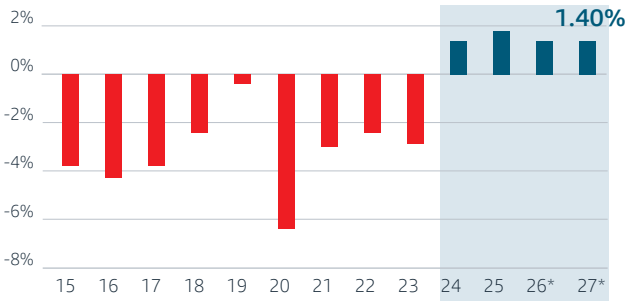
Fixed income

Sovereigns in USD

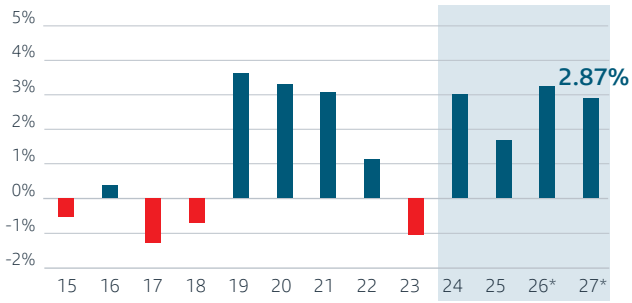
Sovereign bonds begin 2027 with a spread that already reflects some caution, amid high long-term global rates. Fiscal solvency, reserve accumulation and access to financing support repayment capacity, although the direction of economic policy could continue to influence expectations throughout the year. We expect volatile country risk, with

Fiscal and external surplus: central to the 2027 debate agenda

Primary balance of the National Public Sector (% GDP)



Trade balance of goods (% GDP)



** Santander AM estimates*

Source of all graphs: Bloomberg, INDEC, J.P.Morgan and Santander AM

opportunities when the spread moves away from fundamentals. Fiscal consolidation and progress on structural reforms could support significant compression and convergence with similarly rated issuers. Our view is neutral, with a positive tactical bias, favouring the long end for its convexity and price.

Money market and Local debt

The peso curve will continue to reflect caution, with a preference for short maturities and higher premia at the long end. We see tactical value in real rates, with inflation-linked bonds offering positive real yields and protection against a potential pass-through of currency volatility to prices. We remain cautious on positions pricing in rapid disinflation: the process will not be linear and the global backdrop is pushing nominal rates higher. Demand for money and credit continues to recover, although it could moderate in periods of greater uncertainty and favour portfolio dollarisation. Our view is neutral on duration and positive on short- and medium-term real carry, with a central bank that we expect will use its tools to ease currency pressures.

In local currency we prefer short and medium-term real rates over aggressive disinflation bets, as the process will not be linear even in the favourable scenario

Local credit

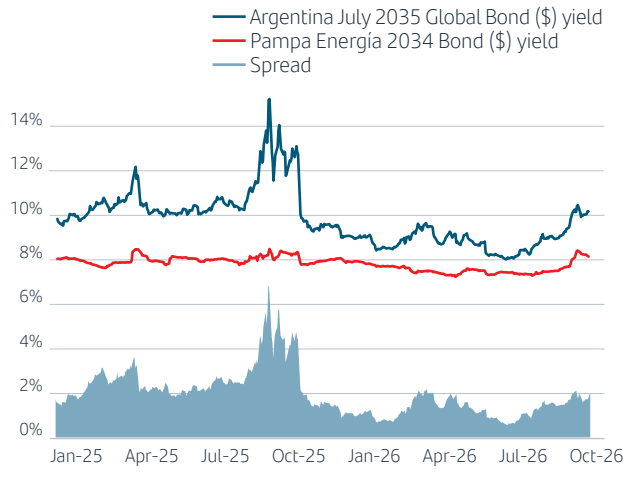
High-grade USD corporate credit is our preferred asset for 2027. Companies with solid balance sheets, foreign currency generation and access to international markets offer attractive carry with significantly lower volatility than the sovereign. In more demanding environments, this debt acts as a safe haven: it preserves USD value, reduces sensitivity to country risk and maintains exposure to Argentina's potential. The investment cycle in energy and mining will keep generating new issues and broadening the investable universe.

High-grade USD corporate credit is our favourite asset: attractive carry and lower relative volatility

Currency

The exchange rate tends to act as an adjustment variable in periods of greater volatility. The currency band scheme, reserve accumulation and the external surplus limit the scope for abrupt moves. Even so, we expect greater demand for hedging throughout the year, so episodes of volatility cannot be ruled out. With the real exchange rate appreciated in historical terms, we see no room for further appreciation. Our view is cautious, with a preference for partial hedging through USD assets and currency-linked instruments.

High-quality corporate credit cushions portfolio volatility



EMBI Argentina: in uncertain times, timing matters as much as carry



Source of all graphs: Bloomberg, INDEC, J.P.Morgan and Santander AM

Japan

Reflation, earnings and corporate discipline



Tomás García-Purriños, CFA, CAIA
Investment Strategy Senior Strategist SAM

Japan enters 2027 from a structurally stronger position than in previous cycles. The economy has successfully consolidated inflation close to the Bank of Japan's (BoJ) target, a more dynamic labour market and wage growth that is increasingly supporting household purchasing power. Monetary normalisation should be viewed as a consequence of this improvement rather than a threat to economic expansion. As wages, consumption and investment continue to gain traction, the virtuous cycle between income, demand and corporate profits becomes more deeply entrenched. The combination of stable inflation, nominal growth and investment-oriented policies provides a supportive backdrop for economic activity and corporate earnings. The main constraint remains the demographic challenge, although this is being partially offset by higher labour force participation, automation, digitalisation and technological advances that help sustain the economy's long-term growth potential. Corporate governance reforms also remain a supportive tailwind for equities and investment.

Markets

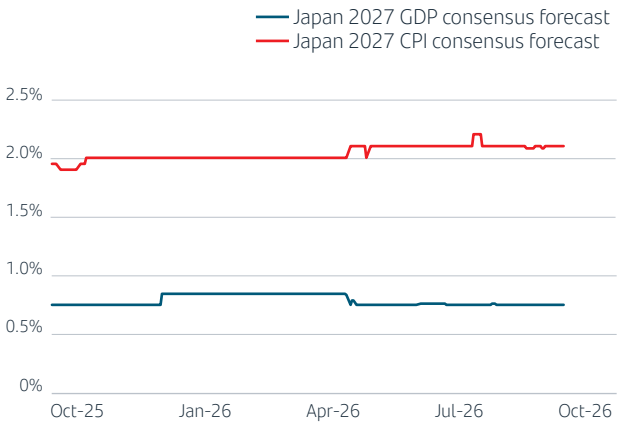
The investment case for Japan fits within our global scenario of resilient nominal growth, solid earnings and greater selectivity. A combination of sustainable inflation, resilient corporate earnings and structural reforms, supports a constructive view on risk assets. The expected nominal growth backdrop provides a favourable environment for corporate profits, while stronger consumption, rising wages and improving domestic investment help offset external weakness. At the same time, the BoJ's gradual policy normalisation enhances the credibility of monetary policy without creating significant disruptions.

From a structural perspective, Japan benefits from a compelling combination of corporate governance reforms, strong corporate balance sheets and a market that remains historically underowned by international investors. Measures aimed at improving market efficiency, increasing pressure from activist shareholders and a rising pace of share buybacks all support further multiple expansion, particularly if the "virtuous reflation" cycle that Japan has sought for decades continues to gain traction.

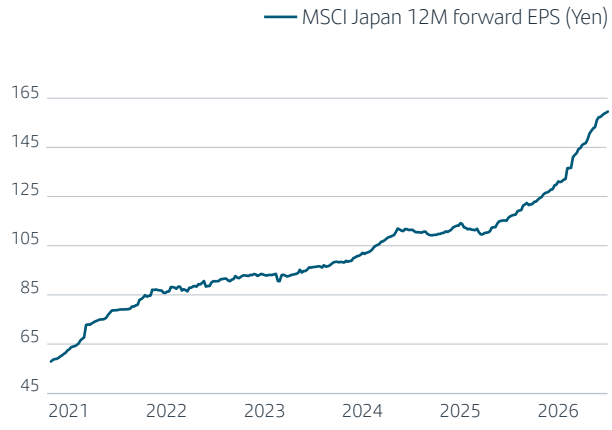
Japan's emergence from deflation, improving wage growth and resilient earnings make it one of the clearest expressions of economic resilience across developed markets

Monetary normalisation, corporate reforms and Japan's exposure to the global AI value chain provide powerful tailwinds for returns in 2027

The consensus outlook continues to favor nominal growth



The outlook for corporate earnings remains highly favorable



Source of all graphs: Bloomberg, MSCI and Santander AM

These dynamics could be reinforced by a stronger fiscal impulse under the new government. Greater public spending directed towards innovation, automation and energy resilience would not only support short-term growth but, by enhancing productivity, could also help mitigate the adverse effects of demographic trends.

A constructive view on Japanese equities does not imply a negative outlook for the yen. While divergences between the currency and the equity market may persist in the near term, the combination of anchored inflation and gradual monetary normalisation is not unfavourable for the yen. As interest-rate differentials narrow and domestic assets attract renewed capital inflows, the Japanese currency could appreciate moderately in 2027.

Asian Emerging Markets

Constructive, but selective

We maintain a constructive view on emerging Asia, albeit with a selective approach. The region remains one of the main beneficiaries of the two growth engines underpinning our scenario: resilient economic activity and, above all, the investment cycle associated with AI.

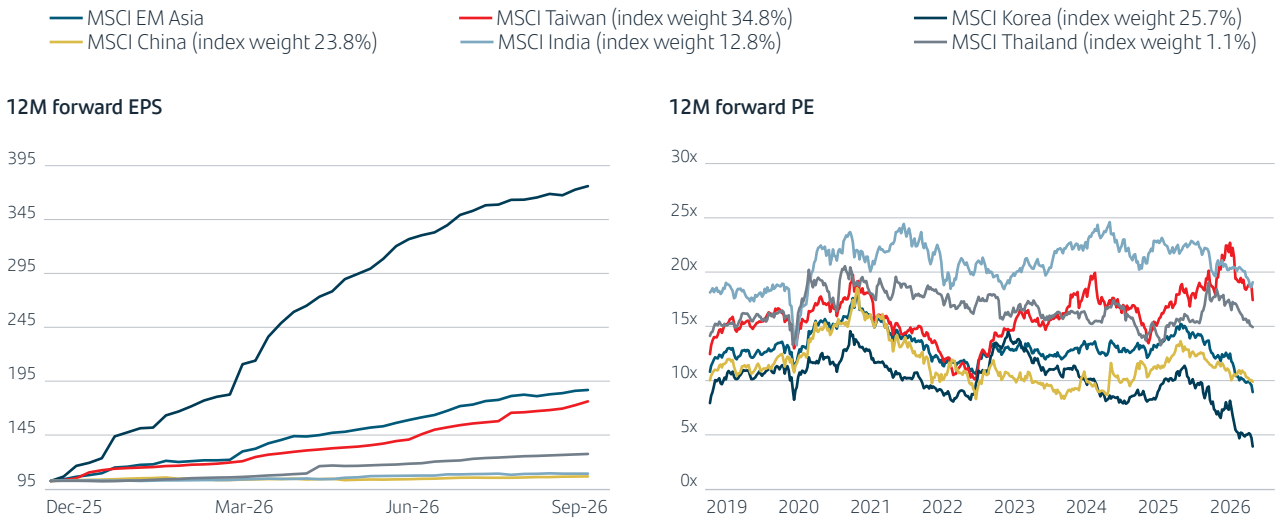
Emerging Asia continues to offer an attractive combination of earnings growth and reasonable valuations, although China's structural challenges make stock and country selection increasingly important

The most important characteristic of the region continues to be the dominant role of the technology sector. Emerging Asia is increasingly an earnings-driven technology story, supported by strong positioning across semiconductors and other key segments of the global AI value chain, with valuations that remain reasonable relative to developed markets.

That said, the backdrop remains challenging due to China's structural slowdown, persistent geopolitical tensions and greater market sensitivity to earnings expectations. While policymakers continue to implement supportive measures and selected segments still offer attractive opportunities, weak consumption, ongoing property-sector difficulties and deflationary pressures limit China's ability to act as the primary engine of regional growth.

The combination of structural technology demand, attractive earnings prospects and still-reasonable valuations supports a positive medium-term outlook for the region despite an increasingly complex macroeconomic environment.

Earnings momentum remains very strong and valuations are attractive



Source of all graphs: Bloomberg, MSCI and Santander AM

Commodities

Protection against higher global uncertainty

Our positive view does not rest on any single commodity, but rather on a combination of structural factors that, taken together, continue to create a supportive backdrop for the asset class. Supply constraints, structural demand and diversification benefits reinforce the role of commodities as an asset class capable of providing both return potential and portfolio resilience. Moreover, their differentiated behaviour relative to traditional financial assets becomes particularly relevant in an environment of persistent inflation, potential upside surprises in prices and geopolitical tensions.

The investment case for gold continues to be supported by safe-haven demand, central bank purchases and the need to protect portfolios against geopolitical and fiscal risks. Silver complements this exposure, combining its role as a precious metal with growing industrial demand linked to electrification and new technologies.

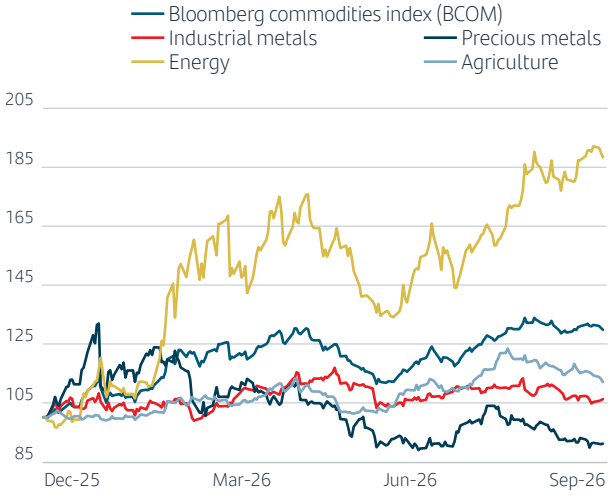
Industrial metals, meanwhile, remain supported by long-term trends related to electrification, the expansion of energy infrastructure and the build-out of AI-related capacity, all of which are highly commodity-intensive. The need to expand power grids, data centres and energy generation capacity should provide particularly strong support for demand for metals such as copper, against a backdrop in which bringing new supply online requires significant investment and long lead times.

In energy, while abundant global supply limits some of the upside potential, exposure to geopolitical disruptions means that prices remain sensitive to potential shocks. In a more fragmented international environment, the geopolitical risk premium could remain elevated. In Europe, natural gas remains particularly vulnerable to supply disruptions against a backdrop of low inventory levels, keeping the risk of renewed price spikes elevated.

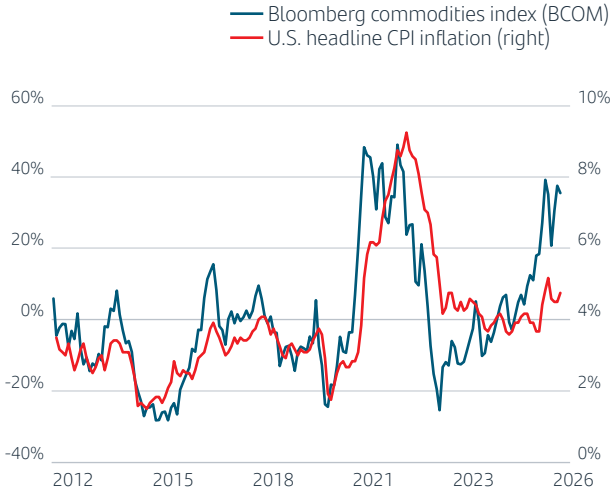
Agriculture provides an additional source of diversification in an environment characterised by a higher incidence of extreme weather events and the potential for supply-chain disruptions.

Commodities continue to play an important role as a hedge against inflation, geopolitical risks and fiscaldeterioration, providing diversification amid heightened macroeconomic uncertainty

Commodities provided protection in 2026



Commodities provide a hedge against inflation



Source of all graphs: Bloomberg, MSCI and Santander AM

04

Private markets



Alternative assets: Private capital for a changing economy



Borja Díaz-Llanos
Global CIO at Santander Alternative Investments

Private capital is playing an increasingly important role in meeting the real economy's financing needs, from housing and working capital to infrastructure and technological innovation. We see opportunities where structural demand meets constrained capital supply, with specialist expertise, disciplined underwriting and detailed investment selection central to delivering attractive long-term returns.

1. Spanish Housing: Strong Demand, Limited Supply

The Spanish residential market continues to benefit from one of the strongest structural supply-demand imbalances in Europe. Robust population growth, rising household formation and a chronic shortage of new housing have created a compelling long-term backdrop.

Since 2020, household formation has materially exceeded housing completions. Population growth, driven primarily by migration, remains a key demand driver. Current forecasts indicate that more than 1.3 million additional households could be formed over the next five years, reinforcing demand across both ownership and rental markets.

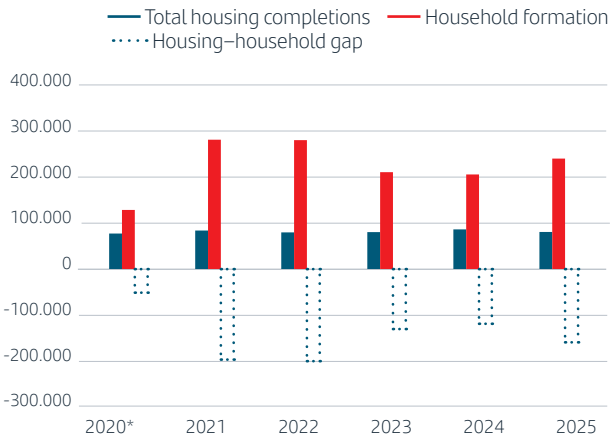
On the supply side, a meaningful acceleration in housing delivery remains unlikely. Limited availability of serviced land, lengthy planning and permitting processes, and constraints across the construction sector continue to restrict new development. Estimates suggest annual housing production requirements exceed 250,000 units to restore market balance; however, current delivery remains at ~40% of this level. As a result, the structural housing shortage is expected to persist for the foreseeable future.

The market fundamentals remain robust, with residential values continuing to appreciate across most major markets alongside rental growth, reinforcing the sector's defensive characteristics.

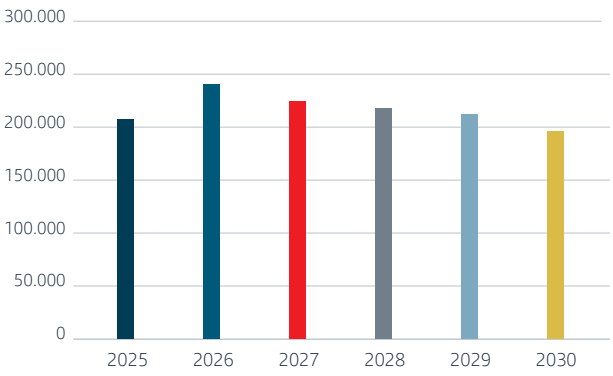
Looking ahead, we expect these fundamentals to continue driving growth. Although changes in government could influence housing policy and priorities, the scale of Spain's housing deficit suggests that market fundamentals will continue to be driven principally

Chronic supply constraints and favourable demographic trends continue to support the medium-term investment case for Spanish residential real estate

Cumulative Housing Deficit (2020–2025)



Estimated Household Growth Rate – Year-on-Year Change and Household Projections



**2020 is not directly comparable with subsequent years due to a methodological change introduced by INE.*

Source of all graphs: Bloomberg, MSCI and Santander AM

by demographic growth and constrained supply rather than short-term political cycles. While affordability, construction costs and regulatory developments warrant close monitoring, the investment case remains driven primarily by structural rather than cyclical factors, providing a durable foundation for long-term rental growth, capital appreciation and attractive risk-adjusted returns.

2. Short term credit: empowering the global economy

Continued growth in global trade provides a supportive backdrop for short-term credit. As companies deliver goods, manage inventories and pay suppliers, trade finance and working capital solutions bridge the gap between commercial activity and cash collection, releasing liquidity to support the next business cycle.

For investors, the appeal lies in financing identifiable economic activity through short-dated assets. Repayments are linked to the collection of underlying receivables, creating a regular cycle of capital deployment and repayment. This combination offers recurring income potential and flexibility to adjust portfolio exposures as opportunities evolve.

The interest rate outlook brings these characteristics into focus. With expectations pointing towards gradual moderation through 2027, the investment proposition extends beyond the base rate. Credit spreads, disciplined asset selection and regular reinvestment at prevailing conditions are central to the appeal of short-term credit.

Our solutions span corporate trade finance, supplier financing and diversified working capital portfolios. They connect the liquidity needs of businesses with investors seeking income from commercial transactions. Careful selection of counterparties and originators, tailored financing structures and active monitoring of collections underpin this approach.

Looking ahead, we see opportunities in combining the recurring financing needs of the real economy with the flexibility of short-term assets. The focus is on putting capital to productive use: supporting commercial flows, financing receivables and building diversified portfolios with a clear link between the assets financed and their repayment.

Corporate financing conditions improved significantly from late-2023 levels. More recently, the moderate increase in the financing gap points to renewed corporate financing needs, reinforcing the structural importance of short-term credit in supporting working capital activities.

Trade finance and working capital connect investors with the everyday funding needs of the real economy, combining short-term assets with disciplined credit selection and active risk management

Global commerce and Economic Growth



Source: WTO, Global Trade Outlook and Statistics, Oct 2026

Evolution of Corporate Financing Needs



Source: ECB Survey of Monetary Analysts (SMA), Sep 2026

3. Asset Backed Corporate Lending: Europe´s real economy financing opportunity

Europe is entering a new investment cycle shaped less by a single technology theme than by the need to strengthen its economic and strategic resilience. Growth remains moderate and exposed to geopolitical and energy risks, but investment needs are substantial. The European Commission expects EU GDP growth of 1.1% in 2026, while higher energy and defence expenditure are adding pressure to public finances.

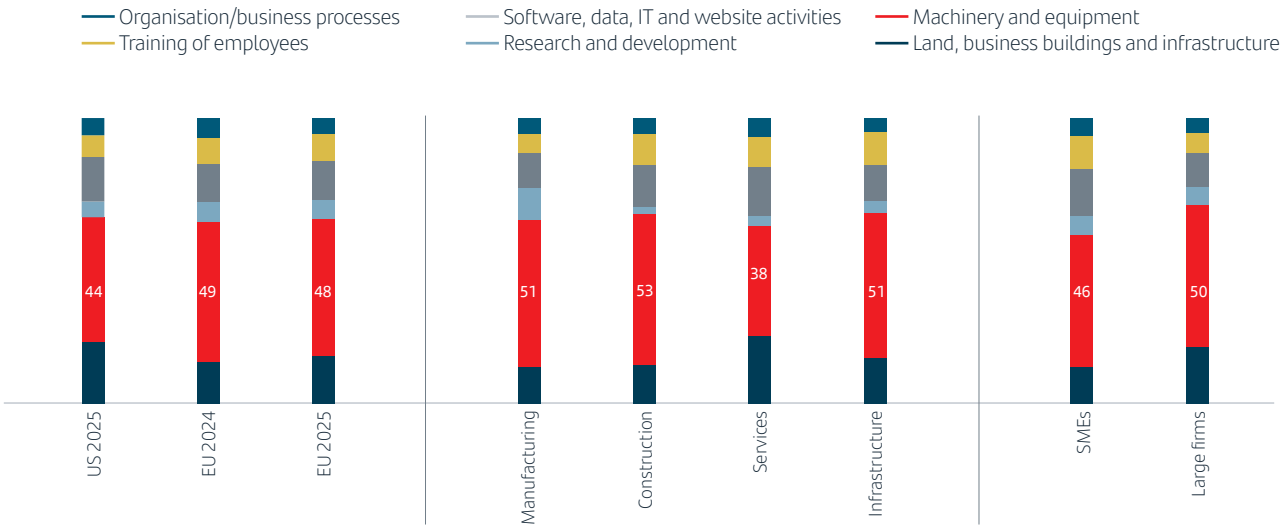
At the same time, powerful sectoral tailwinds are emerging across defence, energy, industrial onshoring and supply-chain resilience. Together with digital infrastructure, communications and cybersecurity, these trends form a broader "European essential needs" theme: investment increasingly aimed at making Europe more autonomous and resilient. The opportunity is therefore broader than technology alone and extends deep into Europe's industrial economy.

Financing this transformation cannot rely on public budgets alone. Companies need substantial capital to modernise equipment, improve energy efficiency, automate production and strengthen supply chains. Companies are therefore increasingly considering alternative financial solutions, such as asset-based finance and bespoke financing structures, which can unlock capital and support long-term investment without requiring asset sales. Meanwhile, bank balance-sheet optimisation is helping private credit expand beyond traditional direct lending, reinforcing the opportunity for specialised alternative lenders.

Against this backdrop, asset-backed corporate lending can provide an attractive risk-adjusted source of private credit returns. Financing is structured around identifiable assets essential to the borrower with measurable economic value, adding asset-level protection to traditional corporate underwriting. Transactions can be tailored to asset cash flows and useful lives, while security over tangible collateral can enhance recovery prospects in downside scenarios.

Europe's strategic investment cycle requires private capital, creating opportunities to finance the tangible assets supporting defence, energy security, industrial resilience and essential infrastructure

EU firms' investment by asset type (% of total investment)



Source: EIB Investment Survey 2025

4. Infrastructure High Yield: Sign of the times

Capital allocators continue to value the defensive characteristics of infrastructure. However, AI, digitisation and geopolitical uncertainty are increasing risk. Recent equity market highs may mask a two-speed economy, while credit market concerns over the long-term sustainability of data centre financing illustrate growing doubts around valuations. Although infrastructure can provide inflation linkage, higher interest rates also pressure valuations, requiring investments to generate meaningful alpha simply to offset this impact and return capital.

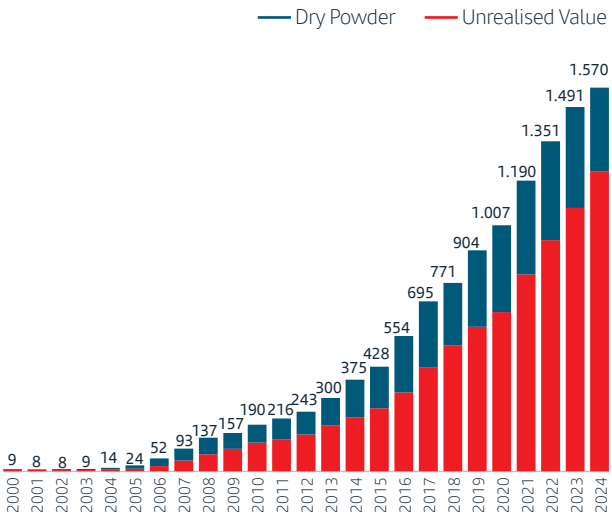
Investors are therefore reassessing entry points into infrastructure. High-yield credit offers contractual coupons and repayment alongside potentially equity-like total returns. In an environment of political and technological uncertainty, this can help mitigate risk, provide portfolio income and generate alpha relative to liquid alternatives.

The 2024-2026 period has also been characterised by significant infrastructure equity dry powder, while fundraising volumes and achievable equity valuations remain challenged. As in other private markets, this has contributed to growth in secondary and continuation strategies. Continued rotation of the same assets between infrastructure funds risks further valuation pressure. However, active managers seeking to extend ownership while pursuing value-adding capital programmes can increasingly access high-yield markets to finance these business plans, avoiding forced exits associated with fund maturities.

As with any private strategy, rigorous due diligence is critical. Allocators must assess observable evidence of manager skill, whether through an equity strategy's value-creation track record or through deep underwriting and disciplined processes designed to protect capital and identify attractive risk-adjusted opportunities.

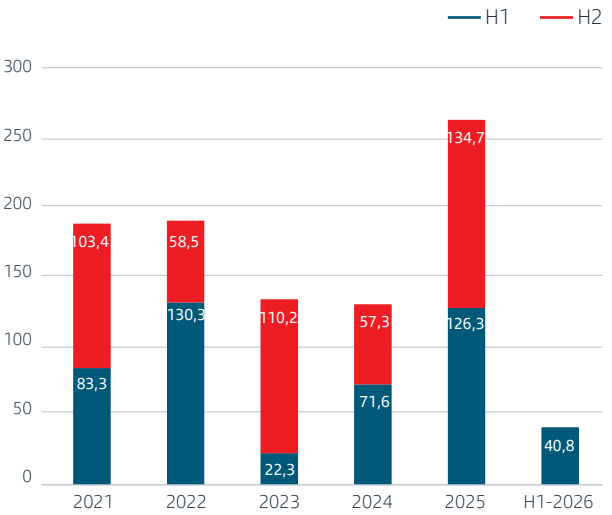
Investors are reassessing entry points into infrastructure amid political and technological uncertainty

Global Infrastructure AUM and Dry Powder (in $bn)



Source: Preqin as of March 2026

Private Infrastructure Capital Raised ($bn)



Source: Infrastructure Investor (PEI) Fundraising Report H1 2026

5. Climate DeepTech VC: An important inflection point

Europe contributes approximately a fifth of global scientific papers and technological patents, second only to China. Yet it continues to face a significant funding gap in commercialising and scaling these advances, with VC investment as a share of GDP remaining a fraction of US levels. The 2024 Draghi report highlighted this mismatch between capital supply and demand, alongside the need to digitise industry, modernise energy systems and transform traditional sectors to capture the associated economic benefits.

Europe's innovation leadership contrasts with a persistent funding gap in commercialising and scaling DeepTech

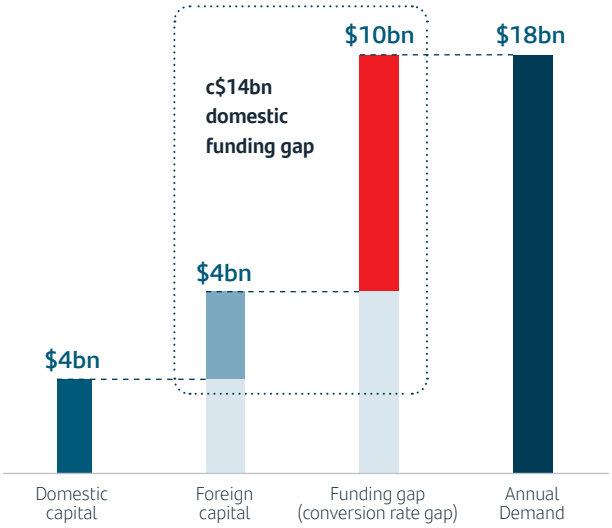
This opportunity has driven significant growth in specialist ClimateTech and DeepTech funds. However, the market remains fragmented and concentrated at earlier stages, creating an opportunity for specialist Series A and B capital.

The industry is changing rapidly. Space is becoming a key economic battleground across defence, communications and climate mapping, while reducing Europe's dependence on countries such as the US. Low Earth and geostationary orbit technologies offer distinct risk-return profiles and potential sources of alpha across Series A and B.

Meanwhile, traditional industries are adopting AI-powered robotics in applications ranging from packaging and assembly to housebuilding. Europe must also redesign its energy generation and distribution infrastructure to reduce reliance on Russia and imported LNG, creating opportunities for VC-backed DeepTech solutions that make grids smarter, more resilient and stable.

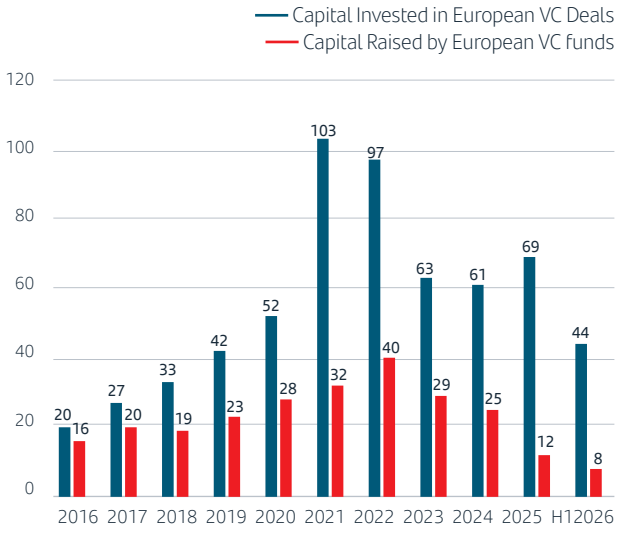
Climate DeepTech VC funds can facilitate the commercialisation of technologies underpinning these structural shifts, but selectivity is critical to generating resilient alpha. Even highly hyped themes can offer differentiated entry points: quantum technology, for example, may provide attractive opportunities upstream or downstream of where most capital is currently concentrated.

European Deep Tech funding gap (excluding AI)[1]



Source: SAI analysis based on The European Deep Tech Report 2026, Lakestar, Walden Catalyst Ventures & Dealroom.co, March 2026. Funding gap estimates apply the report's funding and stage-conversion assumptions to European Deep Tech excluding AI x Deep Tech

European VC investment vs. fundraising mismatch[2]



Source: (2) Pitchbook Q2 2026 European Venture Report

[1] *SAI analysis based on The European Deep Tech Report 2026, Lakestar, Walden Catalyst Ventures & Dealroom.co, March 2026. Funding gap estimates apply the report's funding and stage-conversion assumptions to European Deep Tech excluding AI x Deep Tech. >$15m rounds.*
[2] *Pitchbook Q2 2026 European Venture Report.*

6.High-yield Performing Real Estate Credit

Private European real estate credit offers investors attractive predictable income with downside protection, as loans are backed by underlying assets and the owner's equity takes losses before the lender. European real estate transaction volumes and fundraising volumes remain at historic lows following interest-rate-driven repricing. The reset in values, and increased liquidity needs by real estate owners during a period where bank capital remains constrained, provides a more attractive entry basis for new private credit lending and greater potential equity cushions beneath newly originated debt.

Refinancing needs remain elevated: **higher financing costs and lower valuations are increasing refinancing requirements** at a time when traditional bank lending remains constrained to lower loan-to-value (LTV) limits, creating an attractive environment for well-capitalised alternative lenders.

- **Structural growth in private credit:** Continental Europe remains significantly underpenetrated by non-bank lenders, which account for only 16% of lending compared with approximately 59% in the UK and 60% in the US. This provides substantial room for continued expansion of private real estate credit. We expect non-bank lenders to increase market share, similar to what has occurred in the UK since 2013, where private credit now accounts for a meaningful percentage of domestic real estate finance.

- **Capital supply remains constrained:** European real estate fundraising is at historically low levels relative to recent years. Combined with refinancing demand, this capital scarcity supports gap financing opportunities and lender selectivity at attractive risk-adjusted loan pricing.

- **Sector fundamentals are increasingly differentiated:** Structural themes including constrained housing supply, student accommodation, leisure and wellness, distribution/logistics, technology infrastructure and selected oversold sectors continue to create opportunities where financing demand is supported by long-term underlying demand from the properties.

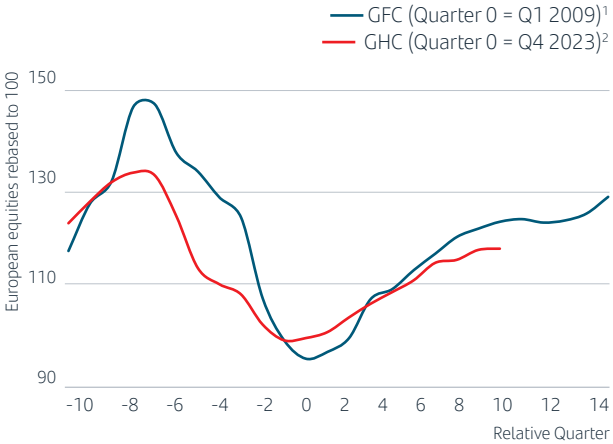
Overall outlook: We believe the combination of reset valuations, constrained traditional lending, significant refinancing requirements and limited new capital formation creates a particularly attractive vintage for European real estate performing credit.

Capital demand-supply imbalance creates generational opportunity

Resets in valuations and low capital formation resemble the post-Global Financial Crisis cycle, creating a range of attractive opportunities

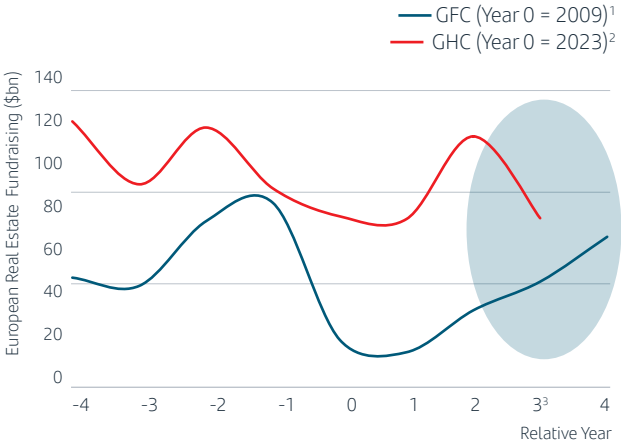
Attractive Entry Basis

European real estate valuation trends increasingly mirror the post-Global Financial Crisis recovery cycle, supporting a compelling entry point ahead of a broader market recovery



Increased Liquidity Gap

European real estate fundraising has decoupled from the post-GFC trajectory with fundraising in 2026 at a nine-year low



[1] GFC = Global Financial Crisis; [2] GHC = Global Hiking Cycle (structurally higher interest rate environment); [3] Fundraising data for 2026 has been annualized from June 2026
Note: Historical market comparisons are provided for illustrative purposes only. There can be no assurance that current market conditions will evolve in a similar manner or that comparable investment opportunities or outcomes will arise

Sources: CBRE, PERE

Glossary

AI: Artificial inteligence.

Banxico: Bank of Mexico.

BoJ: Bank of Japan.

Breakeven: Inflation level that equals the yield of a nominal bond with the yield of its equivalent real bond.

Carry: Expected return on an investment assuming that its price does not change.

CLP: Chilean peso.

Core CPI: consumer price index excluying food and energy.

CPI: consumer price index.

DAX: Is an index of 40 selected German blue chip stocks traded on the Frankfurt Stock Exchange.

DXY: Value of the USD in relation to a basket of currencies that includes major world currencies.

ECB: European Central Bank; it is the authority responsible for the monetary policy of the countries of the euro area.

EG01: Fixed income index that measures the performance of public debt issued by euro area governments with a residual maturity of between 1 and 3 years.

EMBI: Market index elaborated by JP Morgan that serves as a reference to estimate the evolution of the emerging debt market.

EMD: emerging debt.

EPS: Earnings per share. Figure obtained by dividing, in a given year, the net profit by the total number of shares in circulation.

ERL0: Fixed income index composed of the main bond issues by large-cap international corporations denominated in euros with investment grade credit quality.

EUR: Euro.

Fed: Federal Reserve; it is the institution responsible for supervising the U.S. banking system, and for defining and applying the country's monetary policy.

FTSE 100: Is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange.

High Yield: fixed-income securities issued by a company or country with a low credit rating and they tend to be rated below the investment grade.

Investment grade: Bonds issued by companies that, according to external rating agencies, are less likely than others to default on their debts.

IPSA: Chile's main stock market index.

MXN: Mexican peso.

PCE: Personal Consumption Expenditures, an economic measure of household spending on goods and services in the United States.

P/E: Price earnings ratio. Measures the relationship between the price of a share in the market and the benefits offered by the company. It is used to measure whether a stock is expensive or cheap at that moment and will give us information about the years it would take to recover the money invested in the company through its profits as long as these remain stable.

Real terms: Any variable from which the effect of inflation is eliminated.

ROI: return on investment.

Selic: Brazilian interest rate.

Total Porfolio Approach (TPA): Investment management philosophy and framework in which a fund or institutional investor manages its entire pool of assets as a single, integrated portfolio, rather than dividing it into separate, isolated compartments or silos based on traditional asset classes.

Treasury: U.S. government bond.

USD: U.S. dollar.

USMCA: United States – Mexico – Canada Agreement: Agreement between Mexico, USA and Canada. This is the agreement that emerged to replace the North American Free Trade Agreement, better known by its acronym NAFTA or NAFTA, whose objective was to facilitate foreign trade between Mexico, the U.S. and Canada.

UF: inflation-indexed bonds.

Yield: Is the difference between the value that will be returned to me at the maturity of a bond and its purchase price expressed as a percentage.

YTM: Yield to maturity.

Private markets

Brownfield: Term used in infrastructure to describe strategies focused on mature projects or assets with a high level of occupancy and recurring income generation.

Buyouts (LBOs): Investments made through the equity of private companies, typically structured with debt financing, with the objective of implementing transformation plans to maximize business value and drive EBITDA growth. At the same time, they pursue an exit strategy designed to achieve a higher valuation multiple upon realization.

Core: Investments in mature assets that generate stable and predictable cash flows, supported by long-term contracts.

Core+: Investments in mature assets that require some degree of transformation in order to improve efficiency or enhance asset value. These typically involve additional CapEx.

Greenfield: Term used in infrastructure to describe strategies focused on the development of projects or assets in an early stage that require construction and capital investment.

Growth: Investments in established private companies in a full growth phase, with business expansion plans and CapEx requirements to support that expansion.

Value Added: Investments involving the acquisition of assets in a development phase or those requiring significant transformation or repositioning. These are actively managed to enhance cash flows and generate capital appreciation at exit.

Important Legal Notice

This report has been prepared by Santander Asset Management (hereinafter "SAM"). SAM is the functional name of the asset management business conducted by the legal entity SAM Investment Holdings S.L. and its branches, subsidiaries and representative offices.

This document contains economic forecasts and information gathered from several sources. The information contained in this document may have also been gathered from third parties. All these sources are believed to be reliable, although the accuracy, completeness or update of this information is not guaranteed, either implicitly or explicitly, and is subject to change without notice. Any opinions included in this document may not be considered as irrefutable and could differ or be, in any way, inconsistent or contrary to opinions expressed, either verbally or in writing, advices, or investment decisions taken by other areas of SAM.

This report is not intended to be and should not be construed in relation to a specific investment objective. This report is published solely for informational purposes. This report does not constitute an investment advice, an offer or solicitation to purchase or sell assets, services, financial contracts or other type of contracts, or other investment products of any type (collectively, the "**Financial Assets**"), and should not be relied upon as the sole basis for evaluating or assessing Financial Assets. Likewise, the distribution of this report to a client, or to a third party, should not be regarded as a provision or an offer of investment advisory services.

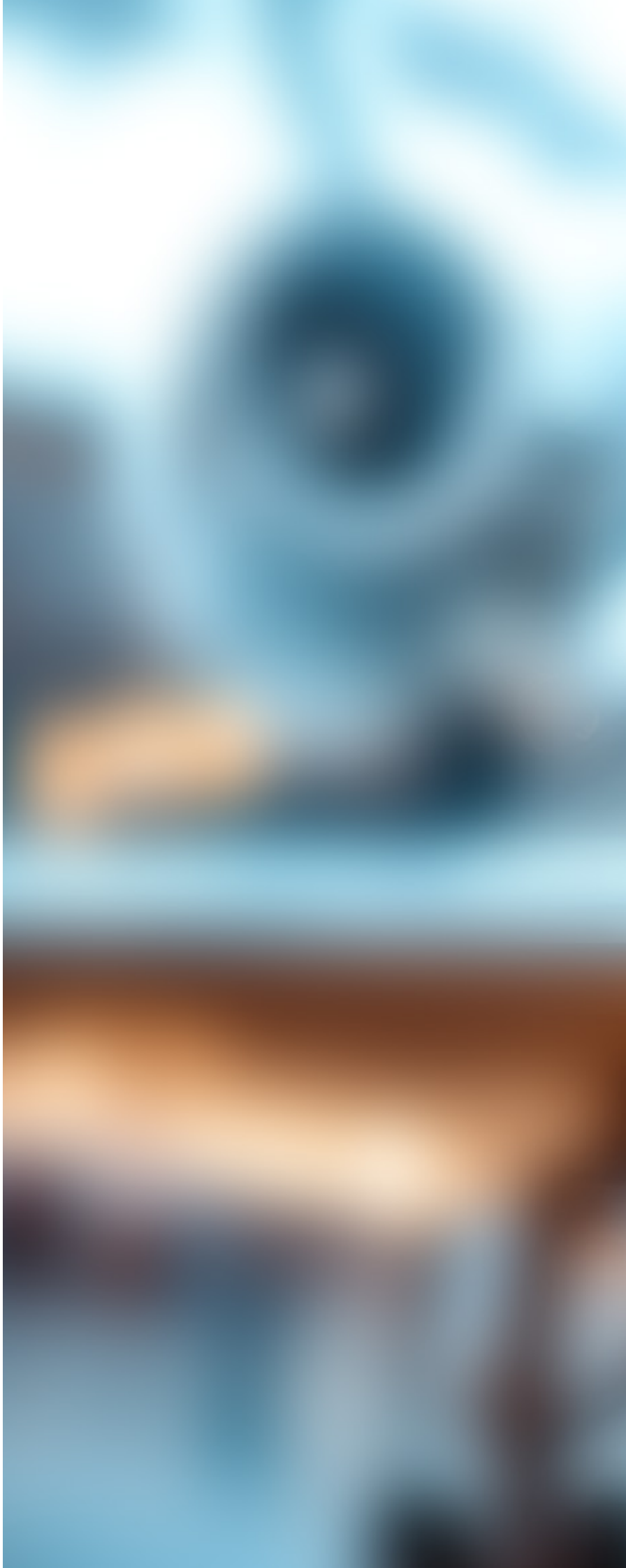
SAM makes no warranty in connection with any market forecasts or opinions, or with the Financial Assets mentioned in this report, including with regard to their current or future performance. The past or present performance of any markets or Financial Assets may not be an indicator of such markets or Financial Assets future performance. The Financial Assets described in this report may not be eligible for sale or distribution in certain jurisdictions or to certain categories or types of investors.

Except as otherwise expressly provided for in the legal documents of a specific Financial Assets, the Investment Products are not, and will not be, insured or guaranteed by any governmental entity, including the Federal Deposit Insurance Corporation. They are not an obligation of, or guaranteed by, Santander, and may be subject to investment risks including, but not limited to, market and currency exchange risks, credit risk, issuer and counterparty risk, liquidity risk, and possible loss of the principal invested. In connection with the Financial Advisors, investors are recommended to consult their financial, legal, tax and other advisers as such investors deem necessary to determine whether the Financial Assets are suitable based on such investors particular circumstances and financial situation. Santander, their respective directors, officers, attorneys, employees or agents assume no liability of any type for any loss or damage relating to or arising out of the use or reliance of all or any part of this report.

Past performance does not predict future returns. The returns may increase or decrease as a result of currency fluctuations relative to the respective investors' domestic currency. Any reference to taxation should be understood as depending on the personal circumstances of each investor and which may change in the future. Costs incurred for purchasing, holding or selling Financial Assets may reduce returns and are not reflected in this report.

This report may not be reproduced in whole or in part, or further distributed, published or referred to in any manner whatsoever to any person, nor may the information or opinions contained therein be referred to without, in each case, the prior written consent of SAM.

Any third-party material (including logos, and trademarks), whether literary (articles/ studies/ reports, etc. or excerpts thereof) or artistic (photos/graphs/drawings, etc.), included in this report is registered in the name of its respective owner and only reproduced in accordance with honest industry and commercial practices.



Santander
Asset Management