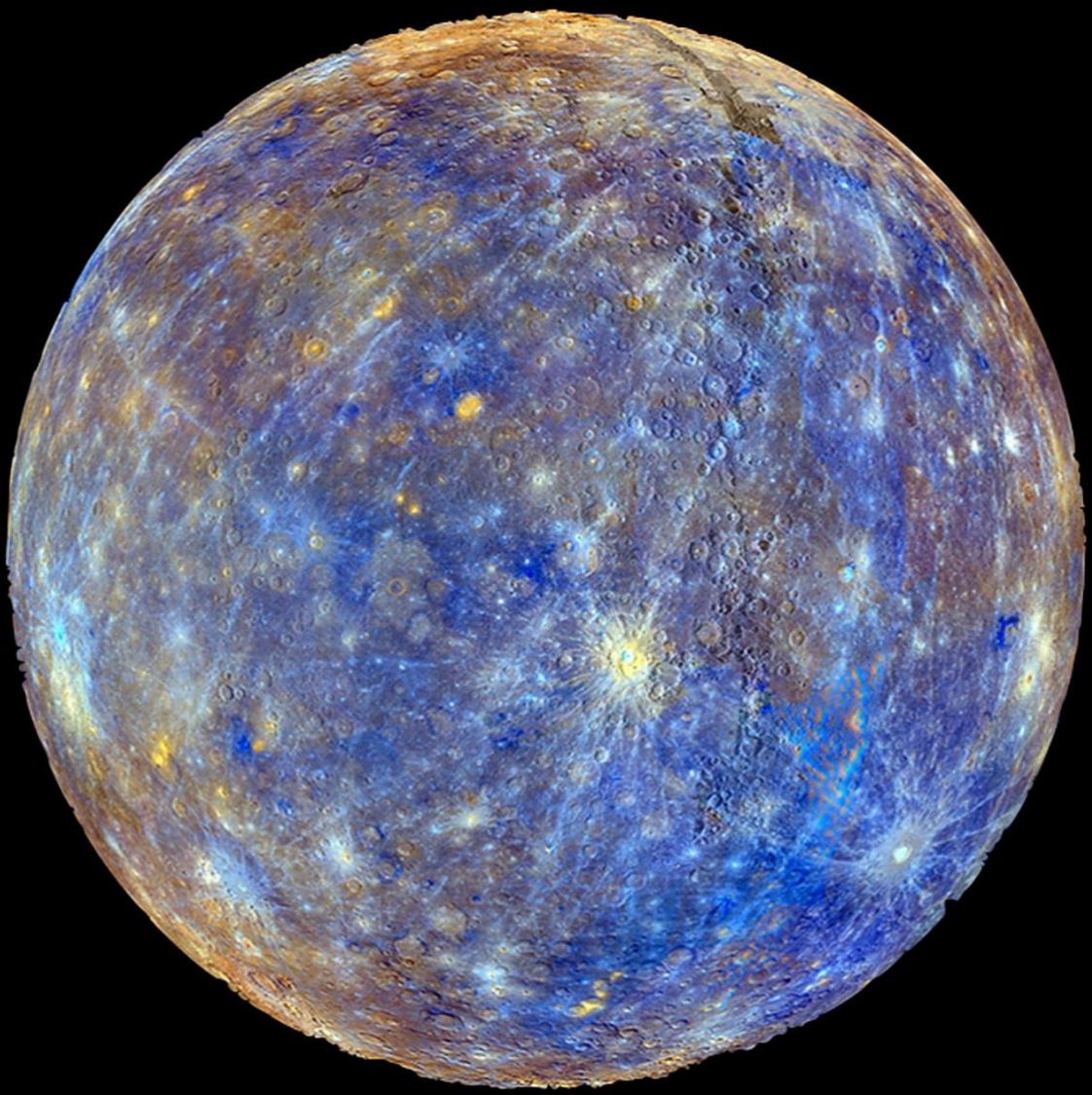
Investment Research

Global Outlook

November 2026



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Investment Research Division

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Global Outlook

United States

The US economy is expanding robustly, though persistent inflation is eroding real household incomes. Q3 GDP grew 3.4% annualised, up from 2.2% in Q2, driven by consumer spending (+3.8%) and an AI-led capex boom, with business investment up 12.7%. Housing remains weak, with residential investment down 3.3% on high mortgage rates. Strong demand is itself inflationary, limiting the Fed's room to look through the energy shock.

Inflation is the binding constraint. The Hormuz energy shock lifted headline CPI to 3.7% YoY in September, with energy up 20.4%, and October added 0.4% MoM. Pressure is also broadening: core CPI rose 0.3% for a third consecutive month, a ~3.7% annualised pace, while core PCE stands at 3.1%, over 1pp above target. Shelter drove over 30% of October's increase, showing price pressure now extends beyond energy.

The labour market has re-accelerated. October payrolls rose 165k against a 65k consensus, with 84k of upward revisions, and unemployment fell to 4.1%. Yet wage growth of 3.1% trails 3.6% PCE inflation, so households are losing purchasing power: real disposable income fell 0.3% in September and the saving rate dropped to 3.8%. Spending is increasingly funded by savings rather than income, leaving consumption, the engine of Q3 growth, on a narrower footing.

The Warsh-led Fed hiked to 3.75–4.00% in September and markets price a further move in December. Structural risks remain: a $1.99tn FY2026 deficit, a newly divided government after the midterms, and an unresolved Hormuz situation despite resumed US–Iran talks.

Euro Area

Euro area growth is slowing as the energy shock bites. Q3 GDP rose 0.4% QoQ (1.3% YoY), down from 0.6% in Q2, and the headline flatters underlying momentum: Ireland's 5.5% surge masked stagnation across the core economies, with Germany at 0.2%, Italy flat and France contracting 0.1%. Surveys confirm the loss of momentum, with the October flash composite PMI falling to 51.9 from 53.1 and France slipping below 50.

Inflation remains overwhelmingly an energy story. October flash HICP rose to 4.0% from 3.8%, with energy up 20.8%, while core held at 2.5% and services at 3.3%. This reflects the euro area's structural reliance on imported energy: gas prices have climbed back above €90/MWh, with EU storage below 72% against a five-year seasonal average of 89%, leaving the bloc exposed heading into winter. Higher energy costs act as a tax on households: consumer confidence fell to -17.9 in October, a five-month low, as households grew more pessimistic about their finances.

Unemployment has edged up to 6.5% from a record low of 6.2% in May, but the labour market remains tight enough for higher energy costs to risk feeding into wage demands, which explains why the ECB has hiked rather than looking through the shock. The Governing Council raised rates in June and September, taking the deposit rate to 2.50%, before holding unanimously in October, with Lagarde stating that the "direction of travel is quite clear". Markets price two to three further hikes over the next year, while Lagarde's early departure in February 2027 adds uncertainty to the policy path.

United Kingdom

Andy Burnham moves into Downing Street as the UK's fifth prime minister in 4 years - growth is weak and inflation is sticky. GDP grew 1.3% in 2025, with Q4 stuck at 0.1% QoQ, and the OBR projects about 1.1% for 2026. CPI re-accelerated from 3.0% to 3.3% in March as the energy shock lifted fuel and utility prices. The MPC is holding Bank Rate at 3.75% after six cuts, and markets have priced out further easing, with 10-year gilt yields near 5%. Underneath, the labour market has moved from overheating to slack: payrolled employment is down about 74,000 over the year to February, vacancies are at their lowest since early 2021 and regular pay growth has slowed to 4.2%. In short, there is little room to cut and little growth to lean on.

Japan

The Japanese normalization cycle moved faster than was expected, as the Bank of Japan raised its rate to 1% in June and then to 1.25% in September which represents a 31-year high, while also signaling that further increases remain possible. Inflation has also broadened over the past months as CPI without fresh food returned to 2.1% and CPI without fresh food and energy increased to 2.4%. The latter suggests that even without these 2 volatile industries there is broad price pressure while government subsidies continued to hold down the overall inflation.

This pressure is partially sustained by wage growth. Final shunto settlements have averaged 5.01% in 2026, meaning 5% is topped for the third consecutive year, while real wages rose by 1.5% in August. On the other hand, private consumption remained flat in Q2 while real household

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spending went down by 3.1% year on year. GDP growth also remained modest with Q2 annualized being revised to 1.4%. Exports rose by 16.7% in September but this was offset by an 18.9% increase in imports, which widened the trade deficit due to higher energy costs lifting the imports bill.

Our baseline is for gradual further tightening with the next move being dependent on whether wage growth will feed through to prices and whether energy costs stay elevated. We believe the risk to be two sided as a weaker yen and higher oil prices could push inflation above the target again but would also weigh on household spending and growth.

Canada

Growth has slowed further under the continued US trade tensions and the energy shock. GDP grew 1.7% in 2025 but contracted 0.6% in Q4, and 2026 growth is projected at 1-1.4%, mainly from household spending on higher wages. Inflation is close to the 2% target (1.8% in February) but is expected to rise on energy prices. The labour market has stabilised but is weak, with unemployment at 6.7% (down from the 7.1% peak) and wage growth at 4.7%, partly flattered by the loss of over 100,000 low-paid jobs in early 2026. The Bank of Canada has held at 2.25% since late 2025 and faces a trade-off between slowing growth and rising energy inflation. A prolonged disruption could argue for cuts or for holding. As a net energy exporter, Canada gains slightly from higher oil prices, and de-escalation would give the economy momentum into late 2026.

China

China's post Q1 momentum softened but remained steady over the summer as GDP growth slowed to 4.3% in Q2 before creeping back up to 4.5% in Q3 leaving growth at 4.6% for the first 9 months. September saw a 5.5% higher industrial production compared to 2025 especially driven by high-tech manufacturing which is up 14.3% over January – September, while retail sales grew just 1.1% year. This was offset by exports, which surged 36.3% in USD terms. This however leaves growth vulnerable to a reversal in external demand.

Domestic demand and investment remain the weak points of the Chinese economy as fixed-asset investment fell by 7.2% over the first 9 months, private investment dropped 10.4%, and home sales were down by 13.2%. Inflation is still weak at consumer level as September CPI rose only 0.9% year on year. On the other hand, producer prices climbed by 5%, reflecting a sharper cost shock that could complicate further monetary easing. The Chinese government has leaned on targeted support including i.e. an interest subsidy for first time home buyers. Our baseline is for full year growth between 4.5% and 4.7% where we view the main downside risk being that export strength may fail to compensate for weak household demand and the unresolved property downturn.

Emerging Markets

By the end of October, emerging market equities remained ahead of developed markets despite a sharp pullback. The MSCI EM Index has returned 13.78% year to date, even though it fell by 8.04% in October, while MSCI World only has a year-to-date return of 11.25%. The economic outlook remains uneven between emerging markets: The IMF's October forecasts have estimated emerging market and developing-economy growth at 3.7%. However, if we delve deeper into these statistics, we can see that emerging Asian economies are expected to grow by 5.1% while emerging Latin American and European economies are only expected to grow by 2.3% and 1.7% respectively. India remains the strongest driver of this growth, with FY2026/27 growth projected at 7%, while the biggest risks lie in the higher energy costs for energy importing countries.

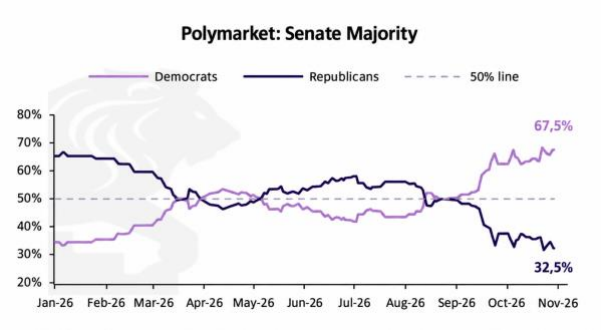
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Current State and Significance of the Midterm Elections

On November 3rd, Americans vote to shape the United States' legislative branch, with the entire House of Representatives and a third of the Senate on the ballot. The result will have a major impact on the second half of President Trump's term, as Republicans currently control both branches.

The sitting President's party lost House seats in 18 of the past 20 midterms, and this election is widely expected to follow the pattern. With President Trump's approval below 40% in major polls, prediction markets give Democrats around a 90% chance of winning the House and close to 2/3 odds in the Senate, where they need a net gain of four seats.



Congress shapes both the form and the delivery of the president's agenda: it must approve laws, budgets, government funding and any increase in the debt ceiling. If the opposition wins either chamber, each of these requires bipartisan support, raising the risk of standoffs and government shutdowns that tend to rattle bond markets.

Senate control carries the power to confirm cabinet nominees, regulators and Federal Reserve governors, directly influencing Fed leadership and regulatory policy, while a House majority brings subpoena power and possible investigations into entire sectors. What Congress cannot easily do is reverse executive action: any bill rescinding President Trump's 288 executive orders would face a presidential veto, which only a ⅔ majority in both chambers can override.

Volatility often picks up before Election Day, but Fidelity's data show the S&P 500 has been higher twelve months later after 95% of midterms since 1950. According to Morgan Stanley, markets tend to react positively when each party controls one chamber, as gridlock lowers the likelihood of significant changes to regulation and tax policy.

Democrats and Republicans: Headwinds and Tailwinds

The Democrats enter the midterms with strong economic tailwinds. Dissatisfaction with living costs weighs on the governing Republicans, letting Democrats frame the election as a referendum on Trump's economic policies. An Ipsos poll published on 20 October shows Democrats leading by 14 points on trust over the cost of living, yet only 38% trusted Democrats more on the issue, suggesting that dissatisfaction with Republicans does not automatically become confidence in the alternative.

Third-quarter GDP growth of 3.4% annualised gives Republicans positive talking points, but gas, food, housing and healthcare costs still give Democratic candidates tangible issues through which to channel frustration into votes.

Within the party, progressives link affordability to higher taxes on the wealthy and expanded public services, while moderates worry that a broader left-wing platform could dilute the economic message and feed Republican efforts to portray the party as socialist.

Structural headwinds, such as the limited number of competitive House districts, could restrict Democratic gains, while winning the Senate requires victories in strongly Republican states, where Republicans' financial advantage lets them outspend Democrats on advertising.

Conclusion: Implications of a Divided and Full-Democrat Congress

Historically, both a divided and a full-Democrat Congress under a Republican President have restrained unconstrained fiscal spending and aggressive tax policies. A split Congress adds a greater risk of shutdowns and unresolved fiscal tensions, while a fully blue Congress imposes the same restraint without suspending day-to-day operations.

A Democratic Congress, or at least a Democratic House, slows radical agenda-driven policies, which supports corporate continuity and protects margins during the current pro-growth momentum. Policy predictability lets management maintain investment plans, particularly in sectors riding the AI infrastructure capex cycle at forward P/E multiples above 20x, although new regulation of AI could slow scaling. Energy and Financials also benefit from policy friction that shields them from potentially punitive legislation. Stable federal spending under either scenario limits demand-pull inflation (currently 3.7%) that would otherwise force the Fed to tighten, and lower new debt issuance eases pressure on bond prices.

The primary headwind of a divided Congress is the risk of government shutdowns, which EY-Parthenon estimates cost $7 billion per week and could cut fourth-quarter GDP growth by up to two percentage points. With agencies like the Bureau of Labor Statistics suspending employment, CPI and production data, markets and the Fed are left effectively blind ahead of rate decisions, adding volatility to asset prices. Greater polarisation can also turn routine decisions into prolonged political battles, limiting Congress's ability to respond to economic shocks.

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Postscript: What to expect from the Democrats' victory

With approval ratings below 40% and voters anxious about prices despite solid 3.4% third-quarter growth, the Trump administration suffered a full Democratic sweep of the House and the Senate, driven largely by dissatisfaction over affordability and US involvement in the Middle East. Unified Democratic control shields against aggressive executive decisions on tax and fiscal policy and lowers the risk of severe shutdowns and short-term volatility. However, it should increase friction between the White House and Congress, hampering long-term policymaking on the budget and legislation.

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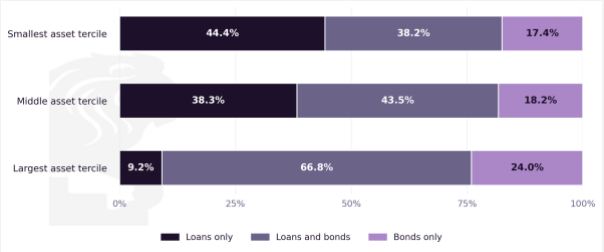
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Small cap vulnerabilities

Smaller indebted U.S. nonfinancial firms rely more often on loans than on bonds alone, consistent with more limited access to public bond markets. Among firms with public financial information over 2004–2018, 44.4% of indebted firm-year observations in the smallest total-assets tercile had loans but no bonds, against 9.2% in the largest tercile (Bochner, Wei and Yang, 2020; Figure 1). This points to a potential vulnerability among smaller borrowers rather than uniform debt exposure across Russell 2000 constituents.

This financing structure can amplify interest-rate exposure. Bank loans and many private loans carry floating rates linked to short-term benchmarks, whereas existing fixed-rate bonds protect issuers from immediate increases in interest payments until they refinance. Ippolito, Ozdagli and Pérez-Orive (2018) find that financially constrained firms with more unhedged bank debt show greater sensitivity of equity prices and investment to monetary-policy shocks. As of 13 October 2026, floating-rate debt represented 40.07% of rate-classified Russell 2000 debt, versus 8.50% for the S&P 500 (Wells Fargo Investment Institute, 2026). Higher short-term rates can therefore rapidly increase debt service, constrain investment and pressure small-cap valuations.

Figure 1. Loan versus bond financing across U.S. firm-size groups



Shares of indebted firm-year observations by total-assets tercile, 2004–2018; zero-debt observations excluded. Shares of observations, not debt amounts or index weights.

Macro and economic conditions

The US economy was still growing in Q3 2026, with real GDP up 3.4% annualised in the preliminary estimate. Inflation remained a concern: consumer prices were 3.7% higher in September than a year earlier, and core inflation was 2.6%. Growth can support sales, but companies still face pressure if costs rise faster than the prices they can charge.

For floating-rate borrowers, higher short-term rates feed directly into interest payments, while fixed-rate borrowers are protected until they refinance. Firms with limited access to other funding have less room to absorb the extra cost, and higher living costs can also squeeze customers' spending.

Fed policy and general market sentiment

On 28 October, the Fed kept its target range at 3.75–4.00%, citing strong activity and elevated inflation. Its September projections placed the median policy rate for end-2027 at 4.1%, up from 3.6% in June, suggesting officials see less scope for lower rates over that period.

The 10-year Treasury yield also rose 78bp, from 4.21% in January to 4.99% in September, giving investors a stronger alternative to equities. For small caps, the reason for any eventual rate cuts will matter: cuts enabled by lower inflation could ease financing costs while demand holds up, whereas cuts in response to a recession would come with weaker sales and profits.

Implications for equity capital markets

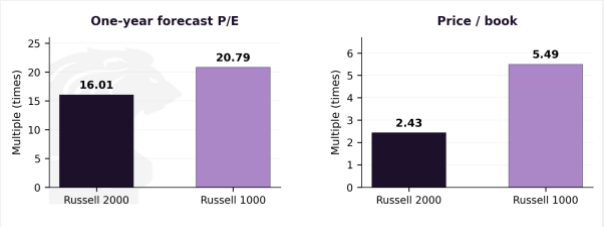
The US IPO market shows that a rise in the amount raised does not mean a similar rise in the number of deals. In Q2 2026, 109 IPOs raised $115.7 billion, against 99 IPOs and $22.2 billion in Q1: proceeds were more than five times higher, while the deal count rose about 10% (SEC data, including SPACs and funds).

For a smaller issuer, market-wide proceeds say little about whether its own offering will succeed: if demand at an acceptable valuation falls short, it may have to cut the price, delay the IPO or seek private funding. Strong headline issuance can therefore coexist with difficult financing decisions for smaller companies.

Valuation and possible opportunities

A valuation discount provides a starting point for identifying opportunities. At 30 June 2026, FTSE Russell reported a one-year forecast price-to-earnings ratio of 16.01 for the Russell 2000, compared with 20.79 for the Russell 1000. Price-to-book ratios were 2.43 and 5.49, respectively (FTSE Russell, 2026, p. 22, Exhibit 12a).

Figure 2. Valuation multiples for US small-cap and large-cap indices



Data as of 30 June 2026. Forward P/E uses I/B/E/S one-year forecast earnings; each panel has its own scale.

Fundamental differences can justify part of the discount. The same dataset reports a lower five-year average return on assets and higher return volatility for the Russell 2000, and lower profitability and greater risk can warrant lower multiples.

Taken together, the evidence supports selective investment analysis rather than a conclusion that small caps are broadly undervalued. Opportunities require firm-level evidence that prices are attractive relative to conservatively estimated cash flows, after accounting for profitability, risk, liquidity, floating-rate exposure, hedging and debt maturities under scenarios where financing costs stay elevated.

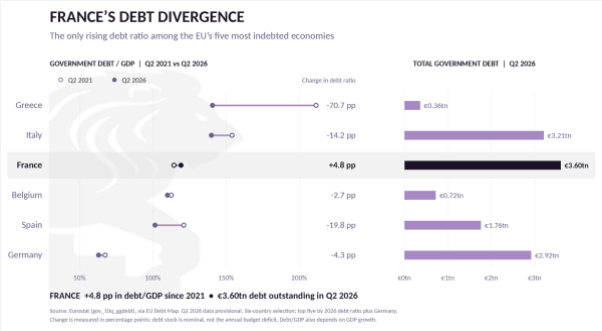
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Introduction: social unrest meets fiscal constraints

On October 17th, France underwent a nationwide protest attracting between 550,000 and 800,000 demonstrators, reflecting growing dissatisfaction with living costs and public services. Since 2021, French households have faced substantial price increases, with food prices rising 21% between 2021 and 2024, while renewed energy inflation linked to the Middle East conflict has further pressured purchasing power in 2026. Although real household incomes have not consistently declined, the recovery has been uneven and INSEE expects purchasing power to contract slightly this year.

Simultaneously, France faces increasingly constrained public finances, with government debt rising from 112.8% of GDP in 2021 to 119.0% in Q2 2026, while the government projects a public deficit of 5.4% of GDP for 2026, which is only expected to worsen.

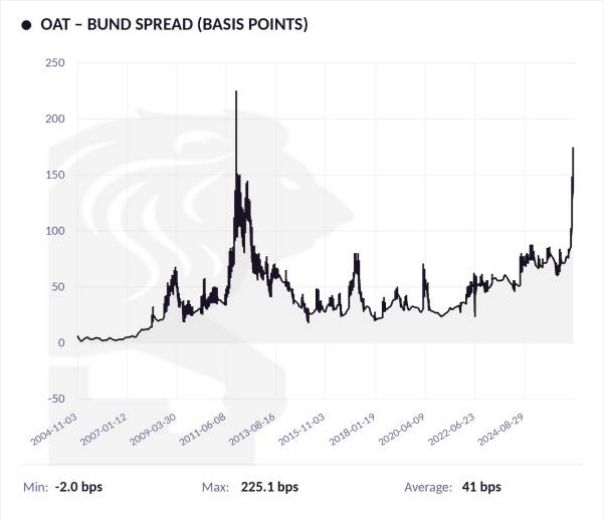


Rassemblement National (far right): fiscal consolidation through spending restraint

With Marine Le Pen polling at around a third of first-round voting intentions, Rassemblement National (RN)'s economic programme combines fiscal consolidation with measures to restore purchasing power and improve business competitiveness. The party aims to achieve a primary budget balance within 18 months of taking office, reduce the public deficit below 3% of GDP by 2030 and bring the debt-to-GDP ratio down to approximately 112% by 2032. The proposed savings would primarily come from administrative restructuring, social expenditure, immigration-related measures and reduced EU contributions.

The programme's feasibility has however largely been under question. Institut de l'Entreprise (IDEP), a French think tank, published an analysis of the budgetary plan in the wake of its release and repeatedly found holes regarding entries that lacked credible detailing, did not contribute to the public deficit, were largely overestimated or were legally baseless. By their calculations, RN's plan is only able to credibly put forth €7.5bn of the originally €140bn claimed.

Against three consecutive quarters of stagnant or contracting growth, France's 10-year OAT-Bund spread reached 174bp on October 22, its highest since the 2011 eurozone sovereign debt crisis, while OAT yields climbed to 5.13%. Fitch maintained its A+ rating but revised its outlook to negative.



This course of action leaves further doubt in RN's plans. Amidst an assumed 4% average refinancing rate, IDEP has estimated that at 5%, their projected annual interest bill would increase by €14bn in 2031 and €19bn in 2032. Moreover, RN has deemed that by 2 years' time, the OAT-Bund spread would fall back to the likes of 40-50bp on the basis of the restored fiscal credibility it would have achieved. Since it presented its programme, the spread rose by 57bp in less than a month, and Goldman Sachs has estimated that historically, a widening of 10bp in the OAT-Bund has been associated with a fall of ~3% in the CAC 40 and ~4% in its "France Domestique" basket. With seemingly unrealistic expectations and no clear plan on how to tackle the bonds issue, large companies will find little solace in RN's €21bn corporate tax cut package: it is essentially offset by the €18.4bn of new levies on large groups and €3.7bn of additional corporate tax that effectively shifts the fiscal burden from production and small firms towards larger groups.

La France Insoumise (far left): redistribution as a financing strategy

La France Insoumise proposes an alternative economic strategy centred on redistribution, increased public investment and stronger household purchasing power, financed primarily through higher taxation of wealth, capital income and large corporations. Its October 2026 counter-budget projects €106.4bn in additional annual revenues against €81.7bn in new expenditure from 2027, implying a €24.7bn improvement in the annual fiscal balance if these estimates are achieved.

The plan does not come without criticisms of its own. For example, LFI's proposal to cancel or freeze ECB-held French debt, estimated by Mélenchon at 18% of total debt, has attracted sharp criticism. ECB President Christine Lagarde considers such cancellation a violation of Article 123 of the EU treaties, while Banque de France officials have similarly rejected the proposal.

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Looking elsewhere, an ING economist has stated that the plan is not detailed enough, with no budget trajectory, and ignores effects on inflation and activity. OFCE (Observatoire français des conjonctures économiques)'s Mathieu Plane believes that the package treats France as a closed economy and, with a very large fiscal shock on the most mobile taxpayers, ignores their open freedom of movement of capital within the EU. LFI's case is that the money exists. Éric Coquerel, an LFI MP and chair of the National Assembly's Finance Committee, calls the revenue "reasonable", and has argued that amidst the fall in fiscal income during Macron's presidency, if the state's revenue had stayed level since 2017, the deficit would today be at 2.9% instead of 5.1%. A principal issue is that the plan runs on a thin margin: if revenue collection stays the course, LFI would track at a ~€25bn yearly surplus; at ~77% it would breakeven; any lower than that, and it would be running a deficit that, tied in with a seemingly precarious ECB-debt strategy, could push the spread toward the 200bp and stress rows above. For the moment, LFI plans on releasing its finalised budget in early 2027; we will have to wait and see how they might offer a more concrete way forward.

Conclusion

Beyond RN and LFI, other potential candidates propose alternative approaches. Édouard Philippe advocates €50bn in production-tax reductions offset by cuts to corporate subsidies, alongside pension reform and a deficit target of 2% of GDP. Gabriel Attal proposes €150bn in savings over five years, largely through social expenditure, while Bruno Retailleau targets €197bn in savings by 2032, allocating €146bn towards deficit reduction. Raphaël Glucksmann instead favours shifting taxation from labour towards wealth and inheritance, alongside greater public investment.

Despite their differing approaches, all programmes share a fundamental execution problem. ING notes that few candidates have presented "sufficiently detailed plans" and almost none tackle pensions, currently France's largest public spending factor. Credibility and implementation, not headline totals, may therefore be the principal driver of borrowing costs. For equities, the spread is the transmission channel. The 2027 budget outcome, upcoming S&P rerating, the ECB's December meeting, LFI's full programme release and Lagarde's February exit are the near-term catalysts.

For any programme, France's future will have to come down to the following: restoring household purchasing power while managing France's growing debt burden. Their economic implications will depend not only on projected revenues and expenditure reductions, but also on their effects on consumption, investment and long-term growth. Ultimately, the credibility and implementation of these fiscal strategies will be central to determining France's sovereign borrowing costs, investor confidence and the outlook for French equities ahead of the 2027 presidential election.

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Ukraine war: the economic front

Technology and leadership

Technology has helped Ukraine compensate for Russia's larger military. Former Defence Minister Mykhailo Fedorov played a central role in securing SpaceX's Starlink network, which transformed battlefield communications and drone operations. Cooperation with Palantir and investments by former Google CEO Eric Schmidt further supported Ukraine's development of AI-powered military technology.

However, Fedorov's push for reform brought him into conflict with military commanders. His dismissal in July triggered mass protests and a leadership reshuffle. He later moved into the private defence sector, launching a venture backed by Palantir CEO Alex Karp to commercialise Ukrainian military innovations.

Striking the economy

Meanwhile, Ukraine expanded its attacks on Russia's economic infrastructure. Alongside oil refineries, drones began targeting warehouses belonging to Wildberries and Ozon, the country's largest online marketplaces. These platforms form the backbone of Russian small and medium-sized businesses, providing merchants with access to customers, warehousing and nationwide distribution. Disrupting their logistics networks therefore affected thousands of independent sellers, increased financial pressure on borrowers and contributed to an almost 30% fall in Ozon's shares in August.

Russia responded with intensified strikes on Ukrainian businesses, including major retailers, logistics operators and steel producers. Repeated attacks forced ArcelorMittal to suspend operations at its Ukrainian plant, resulting in approximately $1 billion in asset impairments.

Winter is coming

In October, US-directed restrictions on SpaceX's military satellite services disrupted Ukrainian drone missions, although Ukraine continued reporting territorial gains. As winter approaches, Russian attacks on electricity, heating and water infrastructure threaten industrial output, municipal services and already strained public finances.

Both sides are increasingly targeting the economic capacity needed to sustain a prolonged war.

Geopolitics: Europe's last veto and Washington's diesel diplomacy

Russia's central bank: the 2027 succession

Nabiullina, Russia's Central Bank Governor since 2013, has defended tight monetary policy to control inflation, even at the cost of slower growth, helping Russia withstand sanctions and wartime pressures but drawing criticism from businesses seeking cheaper credit. Her unexpected sick leave in June fuelled succession speculation, as her final term expires in June 2027. A more compliant successor could cut rates to support military production, risking higher inflation and rouble depreciation, which could weaken Russia's capacity to finance a prolonged war.

Ramstein: the arithmetic behind the pledges

Ahead of the 17 November Ukraine Defence Contact Group ('Ramstein') meeting, gaps between pledges and actual commitments are becoming apparent. Kyiv has flagged an €8bn shortfall against the €70bn promised for 2026, and the Commission sees a c.€70bn funding gap for 2027, with this year's weapons budget from the EU's €90bn Ukraine loan fully committed. Air-defence interceptors are the tightest constraint: the US approved a $2.1bn sale of 500 Patriot missiles on 30 October, but deliveries may come too late for this winter. As a result, a large share of European aid ends up with US manufacturers (more than $10bn in the past year), and pressure to lend Ukraine the c.€210bn of frozen Russian central bank assets will rebuild as 2027 approaches.

Serbia and Slovakia: the last pro-Kremlin governments

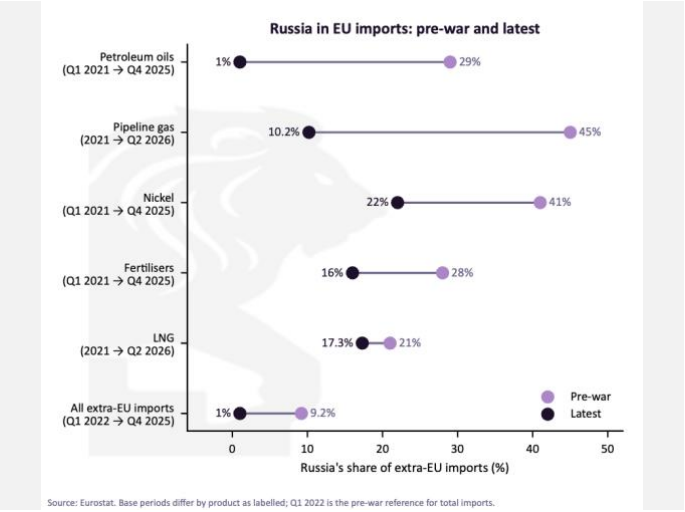
Serbia's 25 October vote ended fourteen years of SNS rule, with the Student List taking 52.7% and 140 of 250 seats on preliminary counts, but regime change does not imply realignment: Serbia remains tied to below-market Gazprom gas and US waivers for NIS. Inside the EU, Robert Fico now heads the only Moscow-aligned government, and Slovakia votes in September 2027, with Progressive Slovakia ahead of Smer in the polls, weeks before the 1 November 2027 ban on Russian gas that Bratislava is challenging at the CJEU.

Hungary suggests that losing a pro-Kremlin government changes less than headlines imply: since Magyar took office, sanctions have passed more smoothly, but Brussels had already learned to work around vetoes. A new government in Slovakia would mainly remove a source of blockage, such as the twice-yearly sanctions renewal, rather than create a consensus on arming Ukraine.

Commercially, decoupling is largely done: Russia's share of extra-EU imports fell from 9.2% in Q1 2022 to 1.0% in Q4 2025, concentrated in gas, fertilisers and nickel. The risk is timing: Russian LNG still supplied 17.3% of EU LNG in Q2 2026 while Qatar's share fell to 0.3%, making the January 2027 LNG ban the likeliest candidate for slippage.

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Washington's diesel diplomacy

On 9 October Trump announced that Russia would resume diesel exports to the US, and Treasury issued a licence authorising imports until April 2027; a week later he imposed and simultaneously waived the Graham Act's secondary tariffs on buyers of Russian oil, despite having signed the legislation into law on 18 September, two months after Lindsey Graham's death.

A plausible explanation for the move is the upcoming midterm elections on 3 November, as gas prices have been a major driver of the US political debate since the closure of the strait of Hormuz, and have seen Trump go back on his campaign agenda of cheap oil.

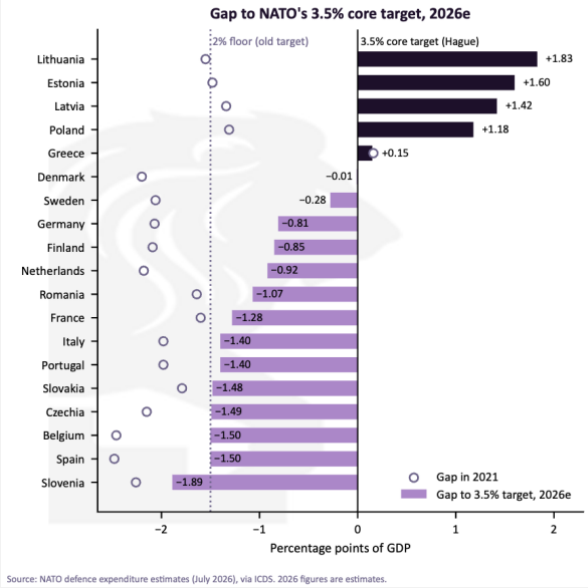
Meaningfully executing the deal is proving harder than expected due to several hurdles: a 2022 statutory import ban raises questions over the legal basis for the Treasury's waiver, customs penalties can be pursued for five years, and 12 senators, half of them Republicans, want the licence rescinded. UK and EU sanctions keep their banks and insurers out, and the first Russian diesel tanker has dropped New York as its destination, now listed only as 'for orders'.

Even the full volume discussed covers about ten days of US demand, worth $1–2/bbl according to Goldman Sachs. In this case, the signal sent matters more than the potential marginal increase in supply. Using sanctions waivers as a pre-election price tool widens the transatlantic gap on Russia just as Europe legislates a permanent exit, raises compliance risk for counterparties, and undermines the credibility of the Graham Act's tariff threat, a key external lever on Russian oil revenues.

EU defence spending: the delivery gap

From target to cash

NATO's July estimates put European allies and Canada at 2.53% of GDP in 2026, or $634bn, against the Hague commitment of 3.5% core spending by 2035. Only five allies already clear that bar: four frontline states (Lithuania, Estonia, Latvia, Poland and Greece). The four largest euro area economies sit 0.8–1.5pp short, with Germany at 2.69%, France at 2.22%, Italy at 2.10% and Spain at 2.00%, the latter still rejecting the new target. On 2025 nominal GDP, we estimate that closing their gap alone requires c.€130bn a year of additional outlays. Momentum is also fading, as this year's rise in Europe's share of alliance spending is less than half last year's.



Fiscal space sets the pace

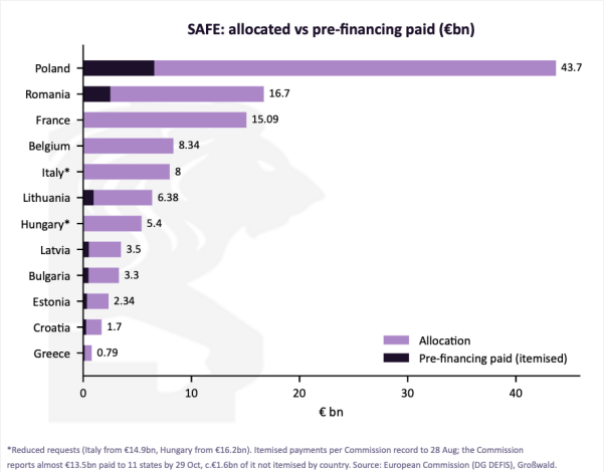
Europe's defence build-up is limited by how much governments can borrow, not by how much they want to spend. Germany, whose debt brake now exempts defence above 1% of GDP, lifts core defence to €109bn in 2027 from €82.2bn and earmarks €783.8bn over 2026–30, funded by federal net borrowing rising from €98bn in 2026 to €167bn by 2030. Elsewhere, 14 euro area countries rely on the national escape clause, worth at most 1.5% of GDP and expiring after 2028, precisely when spending must keep rising. The countries with the largest gaps are those with the least room.

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EU instruments currently do not bridge this gap: SAFE, the EU's defence loan programme, has disbursed over €13bn in pre-financing to 11 countries out of its €150bn envelope, while reduced requests from Italy and Hungary have left €21.3bn available for a second round open to all 27.

In negotiations for the 2028–34 budget, the current draft cuts the total to €1,622bn, and the money set aside for defence and space is reportedly reduced from €130bn to €113bn, about €16bn a year. Meanwhile, northern member states' opposition to joint EU borrowing exclude dedicated defence Eurobonds for now.



*Reduced requests (Italy from €14.9bn, Hungary from €16.2bn). Itemised payments per Commission record to 28 Aug; the Commission reports almost €13.5bn paid to 11 states by 29 Oct, c.€1.6bn of it not itemised by country. Source: European Commission (DG DEFIS), Großwald.

Growth now, inflation later

ECB staff estimate that additional euro area defence spending since 2025 (1.5% of GDP cumulatively over 2025–28 and over 70% German) adds 0.4pp to GDP growth with a 2026 peak, and under 0.1pp to HICP. On prices, the ECB's own panel evidence finds historical effects of up to 1.3pp after an increase in defence spending of 1% of GDP, and the spending shifts from procurement to personnel over time, making the inflation impact backloaded. With HICP at 3.8% on the energy shock and the deposit rate already lifted to 2.50%, defence becomes a second source of supply-constrained demand that the ECB cannot easily ignore.

Market implications

In rates, the outcome is mostly determined by fiscal capacity. The 10y Bund at 3.33% is 69bp higher year on year, but the sharper move is in credibility: the OAT-Bund spread reached 176bp on 23 October, its widest since 2011, and French 10y yields now trade above Italy's. As escape-clause flexibility expires in 2028, the countries furthest from target will have to choose between missing NATO commitments and widening deficits. In equities, SAFE procurement is favouring domestic champions and major European defence contractors: Poland has contracted over PLN 120bn, 94% with domestic industry, while Romania awarded Rheinmetall a €5.7bn package, with more than half of production expected to take place locally.

Predictions

Equities

We expect the gap between winners and losers in European defence to widen as money flows to domestic champions and urgent segments. SAFE procurement is favouring national industry and contractors willing to produce locally: Poland has contracted over PLN 120bn, 94% with domestic industry, while Romania awarded Rheinmetall a €5.7bn package, with more than half of production expected to take place locally. Germany's €783.8bn 2026–30 defence budget is backed by low debt and a constitutional exemption for defence borrowing introduced in 2025, rendering suppliers to the Bundeswehr less exposed to budget slippage than those relying on fiscally constrained governments. Rheinmetall (about −35% YTD) has de-rated due to weak cash flow and a guidance cut after the F126 frigate cancellation. Its Q3 results on 5 November will test management's guidance for positive operating free cash flow this year, and the Bundestag's 9 December debate on a c.€25bn Boxer order (€12.4bn for Rheinmetall) follows. European rearmament is also not a purely European equity story, as allies have channelled over $10bn into US weapons for Ukraine in the past year, and around half the suppliers of the largest euro area defence firms sit outside the EU. We favour listed air-defence and drone exposure, where demand is most urgent.

Commodities

The Russian diesel deal is not significant for crude prices, and Brent remains driven by the US-Iran conflict. In gas, an EU January 2027 Russian LNG ban coinciding with Qatari outages due to the closure of the Strait of Hormuz skews TTF (Title Transfer Facility) risk higher into winter. Wheat has unexpectedly erased its Black Sea premium, even though Russia and Ukraine have largely shut each other's Black Sea grain ports since August. Record Russian shipments through the Baltic and larger global stocks than in 2022 explain the calm, but with Moscow ruling out a new grain deal and winter limiting catch-up shipments, we see risks skewed upward should those buffers prove insufficient.

Sovereign bonds and common debt

Heavy Bund supply and an ECB that has not ruled out further hikes argue for steeper curves. We expect EU-bond supply to grow through the SAFE second round and the €90bn loan rather than through a new defence instrument. The swing factor for Ukraine's 2027 funding, albeit unlikely to materialise, remains a potential reparations loan backed by immobilised Russian assets, which could reduce the need for additional market issuance.

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Slovakia and the EU-24

On current polling, a change of government in Bratislava in September 2027 is the more likely outcome. A new government could remove a key source of resistance to EU sanctions and potentially lead Bratislava to reconsider its CJEU challenge, smoothing sanctions rollovers and the implementation of the Russian gas ban.

R&D hypothesis

The idea that rearmament lifts productivity holds in theory. The ECB estimates that closing the EU–US defence R&D gap (0.03% against 0.3% of GDP) could add 0.5% to EU GDP in the long run, with each €1 of public R&D eventually generating almost €2.5 of output. With EDIP at €1.5bn and the MFF defence window shrinking, we see little sign it materialises this cycle: the growth impulse stays demand-driven and fades once the escape-clause window closes in 2028.

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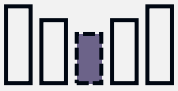
Asset Class Preferences

Investment Research Division

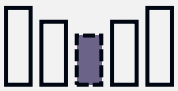
November 2026

Overview

Underweight Neutral Overweight Previous weight

Strategic View	Tactical View	Fixed Income
		Global fixed income remains strategically and tactically neutral over a six-month horizon, with a continued preference for the front end over the long end. The Middle East energy shock has pushed both the Fed and the ECB back into tightening, but higher starting yields offer meaningful carry, and a de-escalation in the Strait of Hormuz would benefit short maturities most. Tactically, we stay overweight U.S. and euro-area short-duration bonds, where further hikes are largely priced. We remain neutral on U.S. long duration, as safe-haven demand is offset by heavy issuance and the Fed's push for a smaller balance sheet, and underweight euro long duration given persistent term-premium pressure and renewed fiscal stress in France. In credit, investment grade remains neutral, as all-in yields are attractive but AI-related supply weighs on spreads, while high yield stays underweight as stress builds among lower-rated issuers. Emerging market debt remains neutral, with a preference for LatAm local-currency bonds outside Brazil.

Strategic View	Tactical View	Equities
		We maintain an overweight stance on global equities over our six-month horizon, supported by continued earnings growth and investment in AI and infrastructure. The recent US market correction has reduced valuations and priced in some concerns over AI spending and financing costs, potentially offering more attractive entry points. Regionally, we favour the US, Japan and emerging markets, and remain cautious on Europe, the UK and China. Our sector preferences are healthcare and industrials, supported by innovation, infrastructure investment and defence spending, while information technology is worth following as chip and AI demand grows, although lower share prices do not remove the risk of weaker investment or profits. Persistent inflation in regions such as the UK, financing costs and political uncertainty lead us to a relatively cautious overweight. Over a longer, strategic horizon we are neutral, as elevated valuations, higher real rates and energy-driven inflation are likely to cap long-run returns.

Strategic View	Tactical View	Commodities
		We are neutral on commodities, as the geopolitical backdrop pushes the complex in opposite directions. Gold is supported by persistent uncertainty and central-bank buying that provides a floor. Oil and LNG have priced in a large supply disruption, with steeply backwardated curves and Gulf output expected to recover. These views offset each other, so we hold neutral at the aggregate level. The key catalysts are US-Iran negotiations and the OPEC+ meeting on 29th November.

Strategic View	Tactical View	Currencies
		We are overweight currencies. Higher energy prices have lifted inflation across the major economies, and the central banks are responding at different speeds. This creates clear rate gaps to trade on, and our strongest views sit where those gaps are widest. The risk is de-escalation in the Middle East, which would lower energy prices, narrow rate gaps and favour the energy importers.

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Fixed Income Breakdown

Investment Research Division

November 2026

Fixed Income

Underweight | Neutral | Overweight | Previous weight

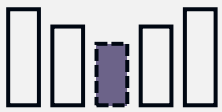
Tactical View



U.S. Short Duration

The Fed hiked 25bps to 3.75–4.00% in September, then held in October in a 10–2 vote. The driver is energy: Iran's renewed closure of Hormuz pushed Brent above $110, lifting September CPI to 3.7% YoY (+0.6% MoM) with gasoline up 34.2%. Warsh treats the policy rate as the "predominant tool" against inflation, rejects forward guidance and declined to call financial conditions tight. October's strong payrolls lifted December hike odds to 78%. At 4.52% (+115bps YTD), the 2-year already discounts this. Underlying pressure, however, is contained: core CPI is 2.6% and core PCE 3.1%, and while payrolls rebounded to 165k in October with unemployment at 4.1%, wage growth of 3.1% still trails headline inflation, limiting second-round effects. The risk-reward is asymmetric. Because the market has already priced a December hike, delivering it would mean only a small loss for 2-year holders; if a Hormuz settlement took the hike off the table, yields would fall sharply and the gain would be substantial. Brent's fall to $94.83 as US–Iran talks resumed shows how quickly this can happen. Escalation is the key risk, as higher oil prices could extend tightening into 2027. We maintain our overweight on US short duration.

Tactical View



U.S. Long Duration

The 10-year closed at 5.31% on 5 October, a multi-decade high, before retracing to 4.87%; the 30-year sits at 5.27%. Hormuz drove the first leg: oil lifted inflation expectations and pushed the expected Fed path higher, which feeds directly into long rates. The rise beyond that reflects term premium: the FY2026 deficit reached $1.99tn, Q3 GDP grew 3.4% annualised, and Warsh's push for a smaller, shorter-duration Fed balance sheet removes a structural buyer of long-dated paper. October's rally was a flight to quality on an AI-led equity sell-off, not a reassessment of inflation. On 22 October the 10-year fell 17bps but the 30-year only 13bps, suggesting investors still demand compensation for long-dated supply risk. A Hormuz deal would compress breakevens but leave supply intact, favouring the 10-year over the 30-year. A prolonged stalemate keeps the long end range-bound between safe-haven demand and inflation risk; escalation threatens a stagflationary bear move. Treasury held auction sizes unchanged at the 4 November refunding, and the Democratic midterm sweep points to divided government, limiting new stimulus; October's strong payrolls added only 3bps to the 10-year. We remain neutral on US long duration.

Tactical View



EUR Short Duration

Over the past six months, euro-area rates have faced renewed inflation pressure. The ECB raised its deposit rate by 25 basis points in both June and September, reaching 2.50%, before holding rates unchanged in October. Headline inflation increased from 3.2% in May to an estimated 4.0% in October, largely reflecting higher energy prices, while core inflation stood at 2.5%.

Short-term sovereign yields remain particularly sensitive to expectations for ECB policy. Persistent inflation makes rapid easing less likely, supporting a preference for short maturities that offer income with relatively limited interest-rate sensitivity.

Tactical View



EUR Long Duration

Long-term yields also reflect expected growth, longer-run inflation and the compensation investors demand for holding duration risk. Continued reductions in ECB bond holdings leave private investors absorbing more debt, while inflation uncertainty could keep this compensation elevated. However, weaker growth could support long-dated bond prices.

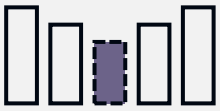
We therefore propose overweighting short-term euro-area sovereign bonds and underweighting long-term bonds, favouring stronger sovereign credit quality. An illustrative allocation is 60% to 1–

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3-year maturities and 40% to maturities of ten years or more, relative to a neutral 50/50 split within this allocation. The main risk is faster disinflation or a sharper slowdown, which would favour longer duration.

Tactical View

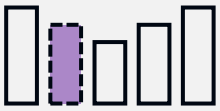


Investment-Grade Credit

Since May, global investment-grade credit has stayed resilient, with performance varying across different regions. Spreads tightened in May and remained steady through the summer, supported by good corporate fundamentals and demand for quality. Over the past few months, euro investment-grade spreads widened by 25 bps in September, peaking at 100 bps at month-end before narrowing to around 93 bps in early October, while U.S. spreads remained within a narrower 75–85 bps range in this period before widening to 93 bps over the past month.

Since May, government yields have risen, reflecting the higher energy prices and a larger target premium, although Treasury yields saw a drop of 5-8 bps following the midterm elections. This has increased the potential income from corporate bonds, even though the tight spreads give low compensation for the credit risk. However, heavy issuance, especially to fund AI investment, has led to increased supply and more selectivity among investors, with U.S. investment-grade issuance reaching $1.88 trillion through November 4, 18.7% higher than a year earlier, and hyperscalers accounting for about 20% of the total. To conclude, we maintain our neutral view on investment-grade credit, as we believe spread moves to be driven by rate volatility and changing risk appetite rather than weakened corporate fundamentals, while we favor more established companies over hyperscalers.

Tactical View



High-Yield Credit

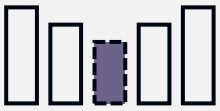
From May to October 2026, gains supported by income in the high-yield market were reversed as Treasury yields and credit spreads rose. In September, the ECB raised its deposit rate to 2.50% and the Federal Reserve its target range to 3.75–4.00%, increasing refinancing pressure.

By October, US high-yield option-adjusted spreads reached 340 basis points, but the compensation is relatively modest for the additional credit risk if inflation persisted or corporate earnings weakened. Despite falling Treasury yields, high yield returned just 0.3% in October, versus 2.2% for investment-grade bonds, although the latter also benefited from longer duration.

Credit stress was concentrated among weaker borrowers. CCC spreads widened by 237 bps in Q3, while BB spreads widened by only 31 bps. Indeed, lower-rated issuers are especially exposed to higher borrowing costs because of their thinner interest-coverage cushions and greater refinancing needs. Defaults remain moderate, but tighter lending and refinancing conditions could increase future distress before defaults follow.

CoreWeave highlighted AI-financing risks as its bond yields approached 15% in October amid concerns about cash generation. Despite the US high-yield index yield reaching 8.31% at October-end, we recommend underweighting high yield relative to investment-grade credit over the next six months, favoring higher-quality issues.

Tactical View



Emerging Markets Sovereign Bonds

Despite global bond sell-offs and rising US yields since May, most local EM bonds have held up surprisingly well. Chinese 10y yields fell by 16bps to 1.59%, thanks in part to shifting capital flows from its recent AI bubble burst and a strengthening yuan. India's 10y yield increased by 11bps to 7.17%, moving with a close correlation (0.81ρ) to Brent price changes as a major energy importer. The USD sell-off from the RBI, on and off since March's oil shock, has on one hand stabilised the rupee, while liquidity drain and October's rate hike have increased bond yields. Increased demand for US treasuries from the US tech sell-off has lowered the benchmark for riskier sovereign bonds, while producing mixed effects on Taiwan and South Korea's yields, as equity outflows weakened their currencies but increased bond demand. Indonesian 10y bond yields increased by 87bps to 7.7% as the risk of a downward reclassification from MSCI heightened, fiscal risks rose and the rupiah neared an all-time low against the dollar. LatAm local-currency bonds have outperformed, as their low foreign ownership share helps shield yields from global market dynamics. A notable exception is Brazil, where Lula's unexpected win has fuelled uncertainty over fiscal credibility and public spending.

Tactical weight: neutral, with an overweight on LatAm excluding Brazil.

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Equities Breakdown

Investment Research Division

November 2026

Equities: Regions

Underweight Neutral Overweight Previous weight

Tactical View



Europe

Europe's economy remains resilient, with euro-area GDP expanding by 0.4% in the third quarter, although growth slowed from the previous quarter. October inflation rose to 4.0%, driven largely by energy, putting renewed pressure on household purchasing power and industrial margins while limiting the scope for ECB rate cuts. Christine Lagarde's departure in February 2027 introduces a leadership transition within our six-month horizon, with the choice of successor potentially influencing interest-rate expectations and equity valuations. Similarly, upcoming elections in major European countries such as France spark uncertainty in a context already troubled by demonstrations all across Europe. Meanwhile, Germany's proposed 2027 budget includes higher defense spending and continued infrastructure investment, supporting the outlook for European suppliers, although the benefits depend on parliamentary approval and timely implementation. Expected earnings growth of around 12% over the next twelve months provides support, but valuations near 15 times forward earnings are already close to historical levels. Improving profits therefore offer opportunities, but energy costs, monetary policy uncertainty and political questions raise concerns about the next 6 months.

Tactical View



U.S.

The US continues to benefit from strong investment in AI and its global leadership in AI development. Significant investments in AI infrastructure, including data centers, semiconductors, and energy infrastructure, are expected to further support economic growth and corporate profitability. Furthermore, Goldman Sachs predicts continued strong corporate earnings growth to push stock prices higher, forecasting earnings per share growth of approximately 11% in 2027. This earnings growth forecast is also supported by expected AI productivity gains, which could improve corporate efficiency and reduce operating costs across various industries. In addition, resilient economic growth and strong corporate balance sheets provide further support for a positive US equity outlook. At the same time, it should be noted that the Democratic majority in Congress following the 2026 midterm elections may lead to increased political friction with President Donald Trump and could hamper government support for AI development and investment. Nonetheless, the US continues to be in a strong position compared to most other regions in the world and has shown time and again that its economy is resilient to a wide range of shocks.

Tactical View

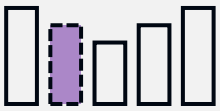


Japan

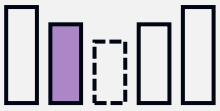
Japan continues to benefit from structural reforms and monetary normalisation, with stronger bank profitability, corporate consolidation and increased shareholder returns supporting improvements in capital efficiency. However, government bond yields near 3% have increased competition for equity investment, while household spending contracted 3.1% YoY in August despite improving wages. The recent post-election selloff also highlights Japan's exposure to AI-related investment, as concerns over slower data-center expansion weigh on semiconductor and technology companies. Yen appreciation presents an additional risk to exporters' competitiveness and overseas earnings when translated into yen. Conversely, the recent decline in oil prices, if sustained, could ease corporate costs and support household purchasing power, particularly given Japan's dependence on the Middle East for 94% of crude imports. Overall, ongoing restructuring and improving corporate returns continue to support an overweight position, although AI exposure and currency movements warrant greater caution.

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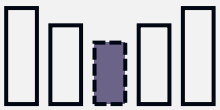
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Tactical View	UK
	Weak domestic growth and persistent inflation leave the UK with limited room for policy support. Elevated energy prices weigh on household purchasing power and business margins, while making it harder for the Bank of England to lower interest rates. Fiscal constraints also limit the government's ability to stimulate demand, leaving consumption and investment in a difficult situation. However, the equity market benefits from overseas revenues, while exposure to energy and defensive sectors (healthcare, consumer staples,…) provides some protection. Valuations are attractive at around 12 times forward earnings, but expected earnings growth of 8% over the next twelve months lags behind the global estimate of 20%. Without a clear catalyst to attract new investor interest, the UK risks remaining cheap while stronger earnings growth elsewhere draws capital towards other markets.

Tactical View	Emerging Markets
	Taiwan and South Korea remain dominant growth pillars, with sustained investment in the semiconductor industry continuing to capture solid margins and demand. India, too, driven by government-backed Capex expenditure across infrastructure and logistics, retains its strong earnings momentum, with the IMF projecting growth at 7%. Together with the MSCI EM index trading at 13.5x forward earnings, a discount relative to the S&P 500, all three markets provide cheap exposure to compelling tech and growth opportunities. They may benefit further from the U.S. Midterms, as a Split Government can more easily block abrupt policy changes, like trade overhauls. Conversely, EM giant Brazil remains constrained, notably by the election results. With the Ibovespa down 13.7% in 2 weeks, capital flight should continue to rise amidst high real interest rates and Real depreciation, dragging Latin American equities down the same path, though Brazilian oil exporters may benefit from surging energy prices.

Tactical View	China
	China's economic growth remains heavily dependent on manufacturing and exports, concealing persistent weakness in domestic consumption and property investment. Q3 GDP growth accelerated to 4.5% YoY from 4.3%, supported by AI-related manufacturing and external demand, while September retail sales grew only 1.1% and property investment declined 20.6% over the first nine months. Falling housing wealth, elevated debt and precautionary household savings raise concerns over prolonged stagnation, with similarities to Japan's post-bubble slowdown. Higher oil prices linked to the Middle East conflict have also increased industrial costs, limiting the benefits of stronger factory-gate prices. Although technological investment and overseas expansion by Chinese manufacturers provide opportunities, weak domestic demand, persistent property-sector deterioration and growing trade barriers continue to undermine the prospects of a sustained, broad-based equity recovery.

Equities: Sectors

Tactical View	Telecom
	Telecom continues to offer stable revenues and solid margins, although growth prospects remain limited. The Nokia–NVIDIA partnership announced in October 2025 reached an important point in October 2026, when T-Mobile completed an AI-enabled radio network call on its commercial network. The technology aims to improve network capacity and allow operators to run AI services closer to customers, potentially creating additional revenues alongside cost savings. However, commercial adoption remains at an early stage, and the scale of any earnings contribution is uncertain. Competition continues to constrain pricing, while network upgrades require substantial investment. Over our six-month horizon, we expect these developments to improve efficiency gradually, with limited evidence of broader improvement in earnings.

Tactical View	Healthcare
	With rising global health expenditure due to increasing wellness consciousness and accelerating innovation in personalized medicine, healthcare equities are shifting from a 'defensive' sector toward a 'growth' profile. In fact, the global Digital Health market is projected to expand at a CAGR above 25% through AI-enhanced diagnostics, which should also shorten R&D timelines. Simultaneously, as 8 of the 13 largest global pharmaceutical giants will lose patent exclusivity by 2030, M&A transactions are increasing rapidly to combat expiring profits since upwards of 30% of

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their profits are jeopardized. Thus, Big Pharma leaders with strong consolidation execution, innovative positioning, and multiples below the broader equity market (18.5x vs. 22x Forward P/E) continue to show considerable upside potential in the healthcare sector across the six-month horizon.

Tactical View



Information Technology

Recent earnings show that AI spending continues to generate strong demand across the IT sector. On 3 November, AMD reported a 97% annual increase in data-centre revenues, supported by sales of processors used to run AI models and other computing tasks. Microsoft's October results also showed 48% growth in Azure, its platform through which businesses rent computing power and storage, alongside increased adoption of its Copilot AI assistants. These results suggest that growth is extending from buying chips towards using AI services. However, Microsoft expects infrastructure spending to rise further, illustrating the substantial costs required to meet demand. This benefits chip suppliers but increases pressure on service providers to generate enough revenue to cover equipment, electricity and depreciation expenses. Over our six-month horizon, we expect continued investment and growing revenues from AI services to outweigh these cost pressures, allowing earnings growth to support further increase in share prices.

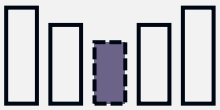
Tactical View



Industrials

Global industrials continue to benefit from a strong recovery in manufacturing activity and increasing capital expenditure. According to S&P Global, worldwide manufacturing output expanded at one of its fastest rates in five years in October 2026, supported by rising orders and growing industrial demand. Furthermore, substantial investments in AI infrastructure, particularly data centers, power grids and electrical equipment, provide additional growth opportunities for industrial companies. Rising defense spending and demand for aerospace equipment also support order backlogs and future earnings growth. Nevertheless, elevated energy and input costs, supply chain disruptions and higher interest rates pose risks to profitability. We believe that the ongoing manufacturing upcycle and sustained infrastructure investment outweigh these risks, justifying a strongly overweight allocation to global industrials.

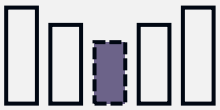
Tactical View



Financials

Global financials continue to benefit from solid profitability, relatively attractive valuations and strong bank balance sheets. Higher interest rates can support lending margins, while continued capital markets activity provides additional revenue opportunities. However, in line with Pictet's November 2026 outlook, we maintain a neutral position on global financials. Despite relatively cheap valuations, the earnings outlook has weakened, reducing the potential for further share price appreciation. Furthermore, Pictet argues that markets are overestimating the extent of future interest rate hikes in major developed economies, limiting the potential for additional improvements in banks' lending margins. Rising concerns about government debt levels and risk premium in Europe and the US also present risks, given banks' significant holdings of sovereign bonds, which could lose value if government bond yields rise further. Overall, while the sector remains fundamentally stable, but these risks limit its potential justifying a neutral allocation.

Tactical View



Consumer Discretionary

Consumer discretionary remains characterised by widening performance gaps, as scaled platforms benefit from operational efficiencies while broader demand faces pressure from elevated living costs. Amazon's Q2 operating income increased 43% YoY, supported by retail operations and cloud services, whereas LVMH's Fashion and Leather Goods sales declined 5% organically in Q3, highlighting uneven demand across businesses and regions. Analysts raised full-year 2026 earnings estimate for the U.S. sector by 18.1% between June and September, although this does not establish a broad global recovery. As of 30 October, the MSCI World Consumer Discretionary Index traded at 20.77 times forward earnings, compared with 17.38 times for MSCI World, leaving a premium that requires sustained earnings delivery. Continued operating resilience supports a neutral position, while uneven consumption and uncertainty around AI-related investment temper optimism. Sustained post-election declines in oil prices could nevertheless support household purchasing power and ease distribution costs.

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Tactical View	Consumer Staples
	Consumer staples continue to benefit from resilient demand for essential goods, although energy, freight and commodity costs have pressured profitability. P&G raised its estimated fiscal 2027 cost headwind to $1.4bn, while U.S. sector Q3 earnings estimates declined 4.0% between June and September. As of 30 October, the MSCI World Consumer Staples Index traded at 20.48 times forward earnings, compared with 17.38 times for MSCI World, indicating a valuation premium across developed markets despite pressure on profitability. Nestlé's Q3 organic sales growth of 4.0%, including 2.8% real internal growth, illustrates improving demand among selected branded producers. Nevertheless, uneven earnings momentum and the sector's valuation premium continue to support an underweight position, although the recent post-election decline in oil prices, if sustained, could ease input-cost pressures and improve margins.

Tactical View	Energy
	Until the Midterms, Brent Crude had remained elevated above $100 per barrel due to the ongoing geopolitical tensions and constrained output across the Middle East, supporting profitability for major oil producers like Chevron and Exxon that are less sensitive to sudden global shocks and compressing margins for smaller producers. The ongoing AI infrastructure investment cycle has driven persistent demand for power, sustaining investment in natural gas, power generation, and grid-infrastructure suppliers. This expansion is negatively impacting renewable and solar equities globally, as they are unable to deliver 24/7 continuous power to match the AI surge in energy consumption and simultaneously face changing tariff and subsidy policies. Following the Democratic victory in the US Congress, non-renewable energy may face a similar drop in demand as green alternatives due to potential new regulations over AI infrastructure and data centers.

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Commodities Breakdown

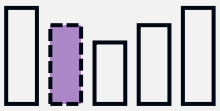
Investment Research Division

November 2026

Commodities

Underweight Neutral Overweight Previous weight

Tactical View



Oil

As oil continues to be steeply backwardated, the first driver to discuss is Hormuz. Following a midterms Democrat win that VP Vance blamed directly on the Iran War, market sentiment toward Washington's possibly newfound incentive for peace spurred Brent to drop 8.7% on November 4th. The fundamentals indicate the decline could continue. The EIA estimates shut-ins fell from peak levels of 10.9 mb/d in May to 4.8 mb/d in September, expecting most Middle Eastern output back by late 2Q27 and for prices to consolidate with current futures pricing. The IEA projects 2027 supply up 7.7 mb/d, and estimates that a partial demand recovery of 2 mb/d would leave 2027 supplies only 0.6% below 2025 levels.

Nonetheless, the outlook remains precarious. Rystad has Gulf exports currently near 12 mb/d against 18 mb/d pre-war, and consider it unlikely that all "points of contention can be resolved within the coming year". As it stands, reports state Tehran won't reopen the strait before Washington agrees to previously outlined conditions, and US officials have reportedly indicated "finishing preparations for a possible resumption of major combat operations in Iran".

Looking forward, OPEC+ output remains ~5 mb/d below pre-war levels with ~2 mb/d of cuts still in place. Their next meeting will be on November 29th, where analysts expect they will announce their 2027 production framework. As we maintain an underweight view, that meeting, alongside US-Iran negotiations, will be our key catalysts looking forward.

Tactical View



LNG

After the TTF reached ~€104/MWh on October 26th - a level not seen since the 2022 energy crisis - the forward curve remains nuanced. By Goldman's figures, the Q1 2027 forward is €92 against spot ~€89.7, staying mildly contango by ~3% into peak winter, as the summer 2027 forward drops to €69, about 23% below spot and finding the curve steeply backwardated after the winter. According to Goldman, the Q1 forward implies a 47% market-perceived chance of the very tight scenario, close to their own 45%, reflecting a winter risk the market has priced in as they expect a Q1 average of €74 and a 2027 average of €51.

Nonetheless, we believe it will be followed by a fade that supply and demand supports. The IEA expects 2026 LNG supply down 3%, the steepest decline on record, but 2026 gas demand is down ~1.5% and non-Gulf supply is up 14% YoY as US exports are also expected to rise year-on-year in H1. However, with EU storage at ~74% against a five-year average near 86%, the IEA warns refill needs could keep markets tight through summer 2027, and if Gulf exports stay restricted through winter, Goldman warns 2027 TTF would need to average €70, and €104 if they stay below 35% of normal through 2027. We maintain a mild underweight, keeping an eye on the possibilities of a particularly cold winter or failed talks over Iran, and their possible ramifications.

Tactical View



Gold

Gold trades around $4000/oz, near record highs, after a rally driven by persistent geopolitical risk, strong central bank demand and expectations that the global tightening cycle is nearing its peak. The traditional inverse relationship with real yields has become more nuanced: gold has stayed resilient despite relatively high nominal rates because structural, non-rate-sensitive demand has partly replaced traditional macro drivers. Central bank purchases, led by emerging markets, have at times exceeded 20-25% of total demand, while a Fed near peak rates and a weaker dollar remove traditional headwinds. The external backdrop remains mixed: de-escalation would reduce safe-haven demand, and persistent inflation with higher-for-longer rates could cap upside. With the structural bid providing a floor, we are overweight.

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Currencies Breakdown

Investment Research Division

November 2026

Currencies

Underweight Neutral Overweight Previous weight

Tactical View



U.S. Dollar

The US dollar continues to benefit from the most favorable interest-rate configuration among the major currencies. The Fed resumed tightening in September, raising the target range to 3.75-4.00% for the first time since 2023, and kept it unchanged on October 28. Futures pricing implies a probability of around 80% of an additional 25bp hike in December. This stance reflects renewed inflationary pressure, with CPI at 3.7% in September and core at 2.6%, alongside robust growth of 3.4% in Q3.

Over a longer horizon, the dollar's advantage should fade gradually as US rate increases peak and other central banks respond to domestic inflation, leaving the outlook moderately positive in the near term and closer to neutral over the medium term. A weak employment report that calls the December hike into question, or a fiscally driven rise in Treasury yields, would warrant a move to neutral.

After the recent midterm results, we expect the Democratic majority to ease Treasury yields by limiting further fiscal expansion. This would weigh on the dollar in the near term but lower fiscal risk premia and support its medium-term stability.

Tactical View



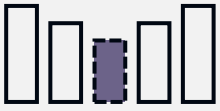
Euro

The euro remains supported by expectations of tighter ECB policy and a positive external balance. The ECB held its deposit rate at 2.50% on October 29, while inflation accelerated from 3.8% in September to an estimated 4.0% in October, reinforcing expectations of prolonged restraint. The €250bn current-account surplus adds support, despite narrowing from €290bn a year earlier, and lower US Treasury yields after the midterms could briefly lift EUR/USD, although the dollar's policy advantage limits the upside.

However, higher energy prices weaken the euro area's terms of trade, squeezing margins and household purchasing power. GDP growth slowed to 0.4% in Q3 from 0.6% in Q2, limiting the ECB's ability to tighten without further weakening demand, and the remaining rate disadvantage against a Fed at 3.75–4.00% constrains euro appreciation, keeping the outlook neutral.

Lower energy prices and narrower yield differentials would favor the euro, while persistent energy inflation, weaker growth or widening sovereign spreads would reinforce downside risks.

Tactical View



Sterling

The Bank of England raised Bank Rate by 25bp to 4% on 5 November, its first hike since 2023, in response to energy-driven inflation. CPI rose to 3.5% in September, and the Bank expects inflation to reach about 5% in Q2 2027. With the ECB at 2.50%, the rate gap in sterling's favour has widened to 150bp, which has pushed GBP/EUR to around 1.19-1.20, a 17-month high. The Fed is also hiking, so GBP/USD has stayed range-bound near 1.34-1.35.

The economy has held up better than expected: GDP grew 0.6% in Q1 and 0.5% in Q2, and unemployment fell to 4.7%. The risk is 2027, when the OBR expects growth to slow to 1.0% while inflation stays high. Fiscal strain also limits upside, as the Budget cut headroom to £15bn from £23.6bn and 30-year gilt yields hit 6.05% in early October, the highest since 1998.

Tactical View



Japanese Yen

The yen is still weak, with USD/JPY near 158, but further downside looks limited. After the yen fell to almost 164 per dollar in July, Japan and the US intervened together for the first time since 2011, and the pair has since failed to hold above 160. The Bank of Japan is also moving in the yen's favour:

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it has raised rates twice this year to 1.25%, core inflation is back above 2%, and another hike is expected in December.

The US midterms changed little: USD/JPY briefly dipped towards 157.6 as the dollar and Treasury yields fell after the Democratic win, but the yen gave the move back on strong US data. With an 80% chance of another Fed hike in December still priced in, the rate gap keeps the carry trade attractive, and oil remains a drag for Japan as an energy importer.

Overall, we expect USD/JPY to stay roughly between 153 and 160 in the near term, with risks tilted towards a stronger yen, so we keep a mild overweight. A Fed pause or faster BoJ hikes would strengthen this view; a sustained break above 160 would weaken it.

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