GENERALI INVESTMENTS

Market Compass

JULY 2026

MARKET OUTLOOK

- The AI revolution is intensifying demand for both debt and equity capital just as governments face rising financing needs (ageing, defence, climate). This competition supports a regime of higher interest rates.
- While the Strait of Hormuz and Iran's nuclear programme issues remain unresolved, the recent deal and the sharp decline in energy prices have significantly reduced downside risks to global growth. We now see risks skewed to the upside, particularly in the US.
- US inflation remains a concern in an economy that continues to run hot. While our Fed and ECB forecasts are respectively in line and less hawkish than market pricing, we see limited scope for lower long–term rates, especially in the US. Softer Fed forward guidance and the return of a positive stock–bond correlation both point to higher term premia.
- We continue to prefer Credit over Govies, even at this tight level of spreads. Public finances are a bigger concern than corporate balance sheets. We maintain a small overweight in Equities, with a geographically diversified and cyclical bias. To monitor the risk of the AI tide peaking, we track Capex and Tech margins.

Edited by

MACRO & MARKET RESEARCH TEAM

A team of 11 analysts based in Paris, Cologne, Milan and Prague runs qualitative and quantitative analysis on macroeconomic and financial issues.

The team translates macro and quant views into investment ideas that feed into the investment process.

US

- (+) Hopes of conflict-end and resilient consumer put mild upside risk to our 2% growth forecast
- (−) Core inflation remains elevated at above 3%
- (+) Downside risks for labour market have decreased
- (−) The Fed turned more hawkish.We expect one rate hike versus market pricing of nearly two

EUROZONE

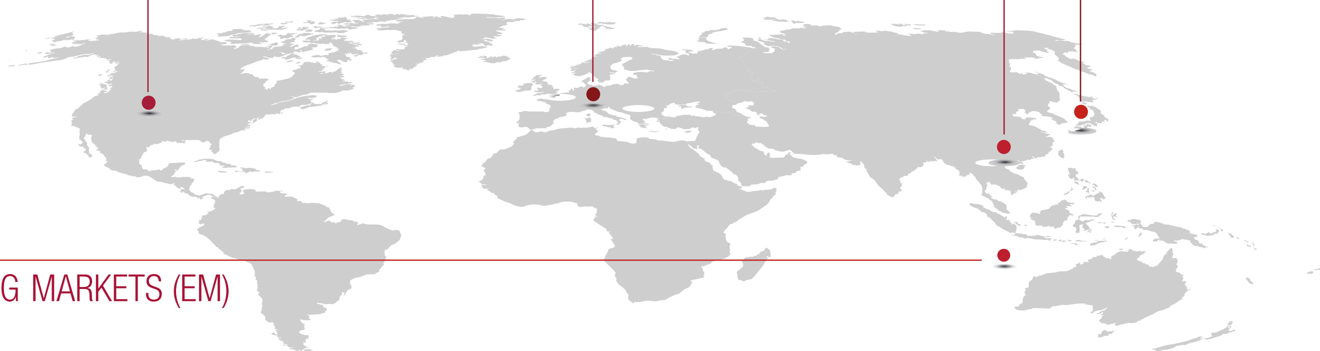
- (+) Sentiment indicators improved in June
- (+) Tailwind to activity from receding oil prices
- (+) Stable labour market
- (−) Risk that a hawkish ECB hikes again

CHINA

- (−) Further growth slowdown in domestic demand
- (+) Export boom driven by EVs and batteries
- (+) Currency appreciation trend to continue

JAPAN

- (+) Industrial production and retail sales resilient in Q2
- (−) Core inflation heading above 2%
- (+) BoJ raised the policy rate to 1%



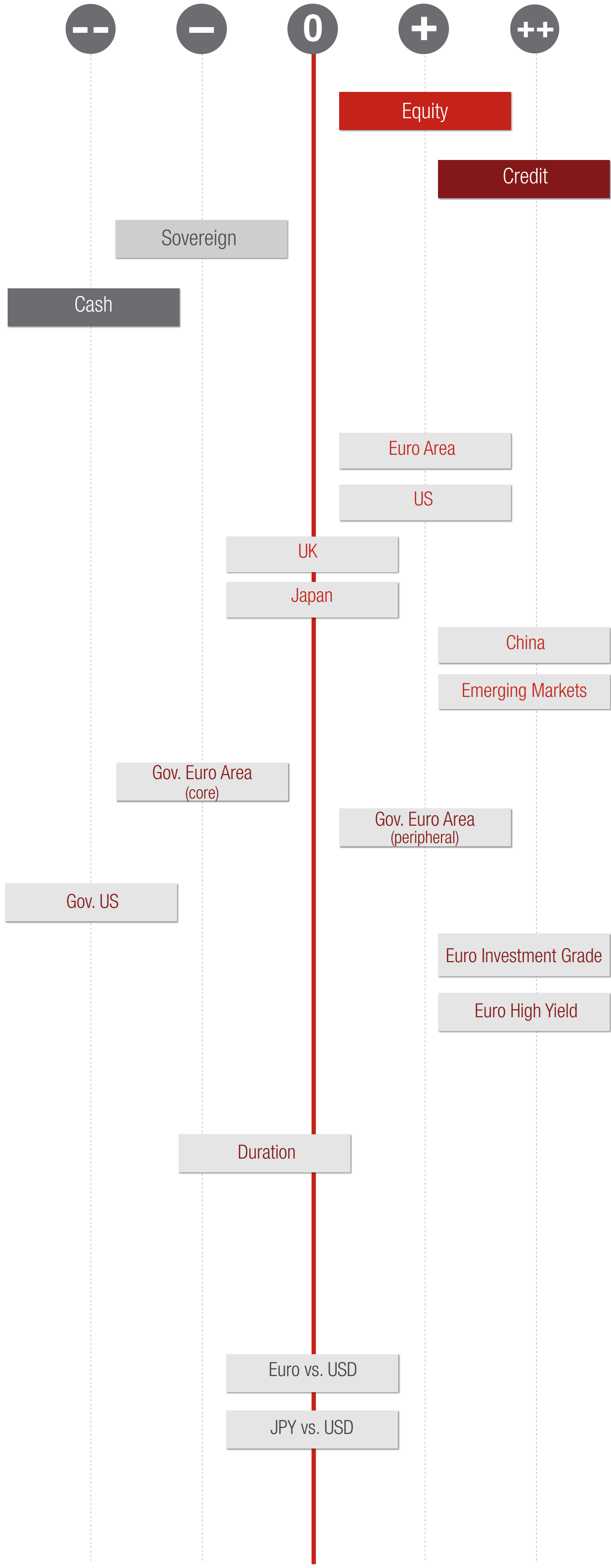
EMERGING MARKETS (EM)

- (+) Economic resilience with limited impacts of the Iran conflict
- (+) Central Banks' credibility is not a risk despite slight inflation rebound
- (−) FXs temporarily hit by stronger USD

(+) Positive
(−) Negative
(!) Topic to watch

DIRECTION OF TRAVEL

- Small overweight (OW) in Equity, with a balanced regional exposure
- Keep OW in Credit, both IG and HY, especially financials
- Maintain underweight (UW) in Cash and Government Bonds
- In EM we prefer local currency debt to USD denominated one



Equity

- Following the announced US-Iran deal, the backdrop for equities remains broadly constructive.
- Corporate fundamentals are solid: strong cash generation, low leverage, high profitability and productivity gains.

Bonds

- Moderate upside risk to long-end yields, especially in the US.
- Despite oil returning close to pre-war levels, inflation expectations have fallen too far.

Duration

- Neutral duration in Euro Area (EA), slightly negative in US.

Currencies

- USD strength now reflects US resilience, tighter Fed pricing and yield support, not oil; Warsh's hawkish signal lifts near-term forecasts.
- US strength unlikely to persist given already high valuation, diversification flows, lower energy prices. JPY relief is delayed.

TOPICS TO WATCH

Probability | Impact

- Two sided risk on the Gulf: new escalation into prolonged regional war but also chances of swifter deal/US withdrawal.
- AI downturn amid high valuations, earnings expectations and heavy market weights of large tech stocks.
- Synchronized sell-off in US Treasuries and USD on rising US policy risk, including Fed appointments.
- Cracks in Private Credit markets (leverage and concentration), especially in the US, trigger systemic fears.

Probability: High ⟷ Low

Impact: High ⟷ Low

GLOSSARY

DIVERSIFICATION FLOWS

Central banks, especially in emerging markets, have started diversifying their FX reserves, reducing holdings of USD-denominated assets in favour of other currencies or gold.

Find out more:
www.generali-investments.com

GENERALI INVESTMENTS