

Outlook Overview - Autumn

4th Quarter 2026

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BANCO CARREGOSA

Editorial

By the Chief Investment Officer

Geopolitical risks are likely to continue materialising and energy-driven inflation is set to resurge in the autumn, which means high volatility is likely to remain the norm. Investor sentiment will fluctuate between enthusiasm for new opportunities and apprehension about potentially extreme risks. The global economy continues to grow, Artificial Intelligence remains one of the biggest investment cycles of recent generations, and central banks have also reminded us that the cost of capital is important. In this context, it is more important to be disciplined and selective than to relentlessly search for the next market trend.

Value in a changing world

In 2026, investors, businesses and policymakers were confronted with a number of simultaneous structural changes.

The conflict in the Middle East showed that geopolitics can quickly disrupt economic expectations. The resulting energy shock disrupted the established disinflationary process and forced central banks to adopt a more cautious approach. Unlike in 2022, however, the global economy entered this shock with interest rates already normalised and corporate balance sheets generally stronger. The economic impact has been less severe than initially feared.

Despite rising financing costs, higher energy prices, and a more complex geopolitical landscape, positive global growth has been maintained, driven by a combination of public investment, defence spending, the energy transition, and technological development. So far, the global economy has avoided the recessionary scenarios that were considered likely in the first half of the year.

It is important to recognise that much of the economic resilience seen in recent years has been funded by the public sector. The response to the pandemic, the energy crisis, growing defence needs, and various strategic investment programmes has enabled growth to be sustained in challenging circumstances. However, this has resulted in deficit and debt levels that require attention. The ability to use fiscal policy as the main driver of economic stabilisation is now more limited in many geographical areas. Restoring greater fiscal balance through consolidation may become one of the main challenges in the coming years. This would have a significant impact on the factors that have contributed to robust economic activity since 2020.

Artificial Intelligence is another key driver of growth. Investment in digital infrastructure, data centres, semiconductors, electricity grids, and software is expanding rapidly. Perhaps more importantly, markets have been trying to distinguish between companies that can turn investments into cash flows and tangible results, and those whose valuations are still based mainly on expectations. While this discipline may make the next phase more volatile, it should also make it healthier.

At the same time, a factor that had been absent for much of the previous decade has reappeared: the true cost of capital. Positive real interest rates have once again made cash and high-quality bonds an attractive option for investors, providing a credible alternative to equities and reintroducing discipline to the valuation of assets. While this process may contribute to greater volatility, it helps to ensure more efficient resource allocation.

In this context, the primary challenge that investors will face is not the anticipation of the next geopolitical event or central bank decision. Rather, it lies in identifying which assets can thrive in a world of accelerating technological innovation, significant financial costs and high macroeconomic risks.

This is why we continue to prioritise a diversified approach, focused on the quality of the underlying assets. Market sentiment is likely to fluctuate between periods of both enthusiasm and concern. However, the value generated by robust, well-financed businesses that can adapt to economic change is much more stable than short-term share price behaviour.



Mário Carvalho Fernandes

Position

Classes	Sub-classes	— —	—	Neutral	+	+ +
Liquidity	Sight deposits, Term deposits				+	
Bonds	Investment Grade Europe			Neutral		
	Investment Grade USA (EURHdg)			Neutral		
	High Yield Global (EURHdg)		—			
	Global Emerging (EURHdg)		—			
Shares	Europe ex-UK			Neutral		
	USA (EURHdg)			Neutral		
	United Kingdom (EUR)		—			
	Emerging (EUR)		—			
Other	Gold, REITS, Infrastructure, etc.				+	

Macroeconomic Analysis



Despite persistently high fuel prices, the outlook for economic growth has improved in both the eurozone and the US over the past three months. Although growth forecasts in China have been revised slightly downwards, the latest economic data has exceeded expectations.

In the eurozone, the European Central Bank (ECB) revised its economic growth forecast for 2026 upwards from 0.8% to 0.9% in its September projections, while maintaining its inflation forecast at 3%, and slightly reducing the unemployment rate from 6.3% to 6.2%. For 2027, the ECB has revised its GDP growth forecast from 1.2% to 1.4%, and its inflation forecast from 2.3% to 2.5%. For 2028, the ECB kept its economic growth forecast at 1.5%, but increased its inflation forecast from 2% to 2.1%.

Regarding interest rates, the ECB's deposit rate is currently 2.50%, which is 25 basis points higher than at the beginning of summer. Interest rates in the money market have also risen compared with June. The three-month Euribor is forecast to reach 3% in 2027 and 2028, up from 2.8% and 2.7%, respectively. The markets are now anticipating a further increase in the deposit rate, potentially reaching 2.75% as early as December. At the start of the summer, such an increase was not expected until 2027.

In its September projections, the Federal Reserve (Fed) revised its economic growth forecast for 2026 upwards from 2.2% to 2.3%, and its inflation forecast from 3.6% to 3.7%, while

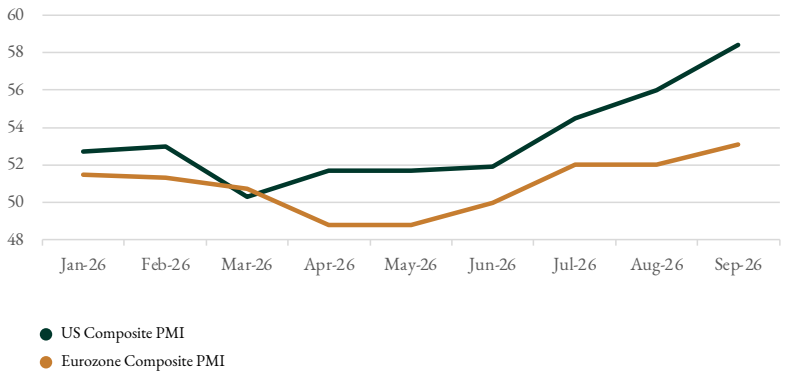
lowering the unemployment rate from 4.3% to 4.1%. The Fed also revised GDP growth upwards for 2027, from 2.3% to 2.4%, kept the inflation forecast at 2.3%, and lowered the unemployment rate from 4.3% to 4.1% The forecast for 2028 predicted that economic growth would be maintained at 2.2%, while the expected inflation rate would increase from 2% to 2.1% and the unemployment rate would decrease from 4.2% to 4.1%. Meanwhile, the GDPNow model from the Atlanta Fed currently forecasts GDP growth of 3.6% in Q3 2026.

Regarding interest rates, the Fed increased its key rate by 25 basis points in September, bringing it to a range of 3.75% to 4%. In its September projections, the expected interest rate was revised upwards for the end of 2026 (from 3.8% to 4.1%), 2027 (from 3.6% to 4.1%) and 2028 (from 3.4% to 3.9%) In the bond market, the yield on 10-year US Treasury bonds increased from 4.44% at the end of June to 5.34% in early October – the highest it has been since 2002.

The International Monetary Fund (IMF) slightly lowered its economic growth forecast for China in its October projections, revising it from 4.6% to 4.5% for 2026. It is forecasting growth of 4% for 2027. Regarding inflation, the IMF also lowered its forecasts compared to April: from 1.2% to 1% in 2026, and from 1.5% to 1.4% in 2027. Meanwhile, the Chinese economy grew by 4.5% in the third quarter, up from 4.3% in the previous quarter and exceeding the expected figure of 4.4%. This growth was mainly driven by strong performance in exports and industrial production, despite weakness in domestic demand and the property sector.



Trends in the S&P Global Composite PMI in the US and the Eurozone in 2026



Source: Bloomberg; Banco Carregosa

Fears that rising fossil fuel prices would stifle economic activity led to a decline in the US and Eurozone composite PMIs due to the war in the Middle East. However, they began to recover from June onwards, particularly in the US, exceeding pre-conflict levels. This improvement was aided by a temporary fall in oil prices and geopolitical tensions, as well as by resilient domestic demand and investment in Artificial Intelligence and defence. Initially, the recovery was more evident in the manufacturing sector, but during the summer it gave way to a stronger performance in the services sector, particularly in the US.

The stronger US recovery can also be explained by the country's energy self-sufficiency, whereas the eurozone remains heavily dependent on oil and gas imports – a situation that has been further exacerbated by Russia's invasion of Ukraine. Furthermore, due to the war in the Middle East, several Asian countries that rely heavily on oil and gas from the Gulf have started looking for suppliers in other regions, thereby increasing competition with Europe. The competition for these energy resources is putting pressure on import prices in Europe, reducing purchasing power and undermining the competitiveness of businesses. This helps to explain why the recovery in European economic activity has been more moderate. Nevertheless, the ECB has stated that the European economy has weathered the energy shock better than initially feared.

Outlook for bonds

We anticipate that the final quarter will be characterised by resilient economic activity and tighter financial conditions. Despite growing geopolitical fragmentation, the major economies have absorbed higher energy prices and tariffs better than expected. This has been supported by a strong investment cycle in Artificial Intelligence and consumers' ability to adapt. However, these factors are closely interlinked. A slowdown in AI investment, an exacerbation of the energy crisis, or a deterioration in financial conditions could significantly alter this outlook at a time when asset valuations may not fully reflect these risks.

Expectations regarding interest rates have undergone a significant shift since July. Expectations of further rises by the ECB and the Fed have replaced the outlook for stabilisation, or even potential cuts. At present, markets are pricing in a high probability of further interest rate hikes at the central banks' December meetings. This shift in outlook is likely to continue influencing the behaviour of sovereign yields, especially if future inflation and economic activity indicators confirm the need for a tight monetary policy.

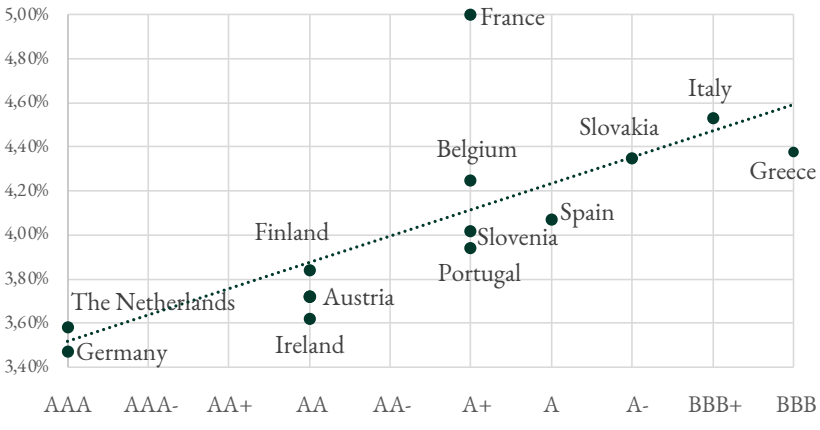
Changes in interest rates in the eurozone may also lead to greater differentiation among sovereign issuers. Given its high budget deficits, rising public debt and difficulty in reaching political consensus on fiscal consolidation, France is likely to remain under scrutiny.

This is likely to put pressure on the spread between French and German government bonds, which is currently at its highest level since 2011.

Fundamentals in the corporate debt market remain broadly sound, as evidenced by the prevalence of rating upgrades, particularly within the investment-grade segment. Nevertheless, we expect to see issuers becoming increasingly differentiated. Companies with strong liquidity and cash flow generation capabilities should be better equipped to handle higher financing costs. In contrast, highly indebted issuers with lower credit ratings will be more vulnerable to refinancing challenges. We see the greatest likelihood of default risk and debt restructuring in the high-yield segment, particularly amongst CCC-rated issuers.

The increase in real interest rates has had a particularly significant impact on longer maturities, highlighting the importance of effective duration management. Conversely, the current level of yields has made income more attractive and improved the potential for medium-term returns. For the next quarter, we favour high-quality bonds with short-to-intermediate maturities, carefully selecting issuers and managing duration prudently. We will look for opportunities to take advantage of changes in the market without unnecessarily increasing our exposure to interest rate or credit risk.

10-year yields vs. credit ratings (21 October 2026)



Source: Bloomberg/Fitch Ratings/Banco Carregosa

France is becoming increasingly notable in the eurozone sovereign debt market, but for all the wrong reasons. Despite having the same A+ rating as Portugal, French 10-year government bonds are offering a yield of 5%, the highest since July 2002, compared with 3.95% for Portuguese debt. France pays more than Italy and Greece, even though these economies have lower credit ratings. We cannot explain the discrepancy by looking only at public debt levels, but rather by looking at their trajectory. Against a backdrop of budget deficits exceeding 5% and weak economic growth, France's debt-to-GDP ratio rose from 115.7% in 2025 to 119% in Q2 of 2026. Portugal is heading in the opposite direction, with a falling debt-to-GDP ratio and more balanced public finances, which explains why its yield is lower than its rating suggests.

The chart shows that, above all, investors look at the trend in public finances rather than the agencies' ratings. Although markets are a leading indicator of anticipated risks, rating agencies are a lagging indicator and typically conduct reviews every six months. As France has the second-largest economy in the eurozone, the continued deterioration of its public finances poses an increasingly significant risk to the entire European Union.

Equity Outlook

Q3 saw only minor changes in the closing levels of the main share indices in Europe and the US. However, this does not mean that shifts in market expectations regarding key economic indicators did not occur during this period Two key issues dominated the Spotlight. Firstly, although corporate earnings growth remained heavily concentrated in a few sectors, notably Technology and Energy, it continued to reach very healthy levels – indeed, levels that are somewhat unusual in historical terms. On the other hand, soaring fuel prices fuelled fears of accelerating inflation, whilst the subsequent sharp rise in sovereign bond yields across major countries threatened to increase companies' financing costs and reduce the present value of their future cash flows.

Once again, market trends in Q4 appear to depend heavily on the trajectory of inflation and interest rates, and consequently on developments in the Strait of Hormuz. Without progress in Middle East negotiations, cost pressures and disruption to distribution channels will continue to affect most sectors of the economy. During periods of heightened geopolitical stress, the market turned to the theme of Artificial Intelligence in the first half of the year as an investment alternative, as it is seen as a structural trend. However, it is uncertain whether this will continue in the future. In fact, taking into account factors such as production capacity constraints within the value chain, the level of debt accumulated by several players in the sector, and a potential slowdown in the pace of licensing for

Performance in the last 3 months

	30-jun	31-jul	31-aug	30-sep	Last 3 months	Last month (sep)
Shares						
S&P 500	7 499.36	7 489.72	7 686.14	7 651.54	2.03%	-0.45%
Nasdaq 100	30 276.35	28 274.20	29 456.97	30 408.50	0.44%	3.23%
DAX 40	24 995.81	25 629.24	26 258.11	25 199.19	0.81%	-4.03%
Stoxx 600	641.73	649.19	651.10	634.89	-1.07%	-2.49%
Nikkei 225	70 062.32	64 362.02	66 311.93	66 753.72	-4.72%	0.67%
Shanghai Composite	4 094.40	3 832.26	3 986.30	3 842.20	-6.16%	-3.61%
MSCI World	4 825.50	4 847.88	4 967.92	4 902.65	1.60%	-1.31%
MSCI Emerging	1 722.89	1 665.89	1 719.31	1 704.87	-1.05%	-0.84%
Long-term interest rates						
10-year Treasury Yield	4.47%	4.73%	4.75%	5.28%	82.0 pb	53.5 pb
10-year Bund Yield	2.86%	3.21%	3.32%	3.59%	72.6 pb	26.2 pb
10-year OT Portugal Yield	3.24%	3.55%	3.67%	4.01%	76.6 pb	33.5 pb
Short-term interest rates						
3-month SOFR	3.73%	3.75%	3.80%	4.08%	35.0 pb	28.2 pb
3-month Euribor	2.32%	2.48%	2.59%	2.62%	29.3 pb	2.4 pb
Exchange						
EUR/USD	1.1422	1.1527	1.1618	1.1330	-0.81%	-2.48%
EUR/GBP	0.8613	0.8552	0.8574	0.8541	-0.84%	-0.38%
Commodities						
Brent (USD barrel)	72.74	82.23	88.37	98.03	34.77%	10.93%
WTI (USD barrel)	68.35	76.44	82.07	88.42	29.36%	7.74%
Gold (USD/troy ounce)	4008.02	4046.15	4437.38	4157.41	3.73%	-6.31%

Source: Bloomberg; Banco Carregosa

new data centres, the scope for upward revisions to estimates for this group of companies now appears more limited than at the start of the year.

Investors should be reassured by the fact that the market is now cheaper than it was at the beginning of the year. Although the rise in index prices has been notable, it has been more moderate than the average growth in earnings among the companies that make up the indices, meaning that valuation levels are approaching historical averages.

This reflects not only the aforementioned rise in yields, but also the realisation that the recent pace of earnings growth is unsustainable.

In this context, we maintain a 'barbell' exposure to both secular growth themes and more defensive sectors when building our portfolio. Investment in companies with lower potential earnings volatility, robust balance sheets, and robust cash flow generation is likely to remain favoured.

Outlook for Alternatives

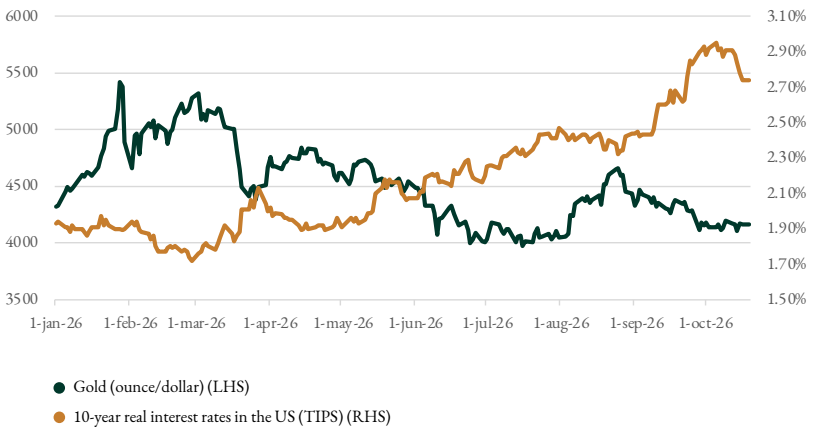
Amongst alternative assets, energy stood out in the third quarter: disruptions in the Strait of Hormuz and a shortage of refined products caused the price of Brent crude to rise by around 40%. The value of gold increased over the summer, but some of these gains were lost at the end of the period due to rising real interest rates. The price of copper reached record highs in London before losing momentum. The value of listed properties fell under pressure from interest rates. Divestments remained slow in the private markets. Some research firms in the private credit sector are highlighting weaknesses among software borrowers, although they do not anticipate systemic risk. The difference in share prices has reached unusual levels, creating more opportunities for relative value strategies. Although it remains down for the year, Bitcoin rose by more than 40%.

Until the end of the year, the energy sector will be dependent on the outcome in the Strait of Hormuz. Research firms' forecasts for the price of Brent crude range from $80 to $100 per barrel. The most optimistic estimates for gold assume that real interest rates will stabilise.

In terms of agricultural commodities, the risk to supply posed by an El Niño that could be the strongest since 1950 is significant. In the world of cryptocurrencies, the regulatory framework in the US has yet to be finalised.

The common factor regarding infrastructure, copper and private markets is the investment cycle in Artificial Intelligence. The demand for electricity from data centres is expected to almost triple by 2030. This is driven by an estimated 3.3 trillion dollars' worth of investment from hyperscalers between 2026 and 2028. At a time when mining output is declining, this investment is absorbing a growing share of private credit and underpinning demand for copper. A gradual recovery in deal activity is anticipated in private equity, although exits depend partly on a technology-focused initial public offering (IPO) market. Therefore, a slowdown in this cycle or an increase in the cost of capital could affect seemingly unrelated assets at the same time.

Gold and 10-year real interest rates in the US in 2026



Source: Bloomberg; Banco Carregosa

Since the war in the Middle East began on 28 February, US real interest rates have once again become the main factor influencing gold prices. Although real interest rates have always influenced gold prices, the Russian invasion of Ukraine in February 2022 and the subsequent freezing of Russian assets have ushered in a new paradigm. Countries such as China have increased the diversification of their reserves in order to reduce their dependence on the dollar and boost their gold holdings. However, this shift was not immediate.

As is currently the case, between February and October 2022, gold fell in value under pressure from rising interest rates and a strengthening US dollar. It was not until October of that year, when the energy crisis and inflation eased, that this new paradigm began to have a significant impact on gold prices. The price of gold has more than doubled since 2024, reaching an all-time high of $5,595 on 29 January 2026. As gold does not generate any yield, the increase in real interest rates has raised the opportunity cost of holding it. This helps to explain why its price fell in 2026, despite demand from central banks.

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