

Outlook Overview - Summer

3rd Quarter 2026

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BANCO CARREGOSA

Editorial

By the Chief Investment Officer

The second quarter brought real, albeit partial, relief. The geopolitical situation in the Middle East gradually eased, causing sharp corrections in oil and gold prices and prompting a strong rebound in the markets. However, this relief coincided with a hawkish shift by central banks, which has brought interest rates back into the spotlight. As investors with a medium- to long-term outlook, we view this landscape with the necessary detachment. While we pay close attention to daily developments, our focus is on identifying genuine trend signals amidst the noise and fads that sweep through the markets.

Taking a neutral stance can provide stability in an unbalanced world

The reopening of the Strait of Hormuz, coupled with the memorandum of understanding between the US and Iran, has caused oil prices to plummet by over 40% from their crisis highs. Meanwhile, the equity and bond markets have experienced a strong rebound, with several regions approaching double-digit returns. However, this normalisation was neither definitive nor conclusive – the Strait remains under pressure, with high volatility in oil and bonds. It is this non-linear nature of geopolitical risk that justifies maintaining a conservative approach to portfolio risk management. In a climate of higher short-term rates, liquidity offers an attractive return with low volatility. These characteristics are advantageous for portfolios as they improve the risk-return ratio and allow positions to be strengthened when more favourable entry points arise in the market.

The most significant development of the quarter, the shift in monetary policy, should also be viewed from this longer-term perspective. The new leadership at the Federal Reserve (Fed) has adopted a more restrictive stance than expected, and the European Central Bank (ECB) has raised interest rates for the first time since 2023. This signals the return of interest rates as the main policy tool, which coincides with mounting fiscal fragility in the euro area, with France at the centre of attention. Looking ahead, this environment highlights the ongoing importance of bonds in a diversified portfolio. There is a preference for intermediate maturities and high-quality credit, as well as greater selectivity in high-yield bonds. These themes are explored in more detail in the bonds chapter.

In the equity markets, the recovery remained centred on artificial intelligence, albeit in an increasingly uneven manner within the sector itself. Gains were mainly concentrated among semiconductor suppliers, which benefited from memory volumes and prices that were much higher than expected. Meanwhile, the major hyperscalers were penalised due to concerns about their cash flow generation remaining under pressure during this period of significant investment. Additionally, the software sector was affected by a more negative view of competitive pressures. This discrepancy does not reflect a judgement on the quality of the businesses – the penalised hyperscalers are, for the most part, still high-quality companies – but rather a selective re-evaluation within the artificial intelligence cycle itself. The section on equities explores this distinction in greater depth. The structural investment cycle remains robust, with high-quality businesses in more traditional sectors continuing to offer stability and consistency to portfolios.

Against this backdrop, which is more balanced than it was three months ago but still faces unresolved geopolitical risks and leaves no room for monetary complacency, we have reset our asset allocation to a position that is broadly neutral relative to the benchmark across the major asset classes. The coming quarter is likely to continue testing the ability of the markets to reconcile the ongoing investment cycle in artificial intelligence with the less accommodative stance of central banks. This will require an increasing focus on selectivity rather than strong directional convictions. It is through this discipline and commitment to diversified, long-term management that Banco Carregosa will continue to support investors in building their wealth.



Mário Carvalho Fernandes

Position

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

Macroeconomic Analysis

In its latest World Economic Outlook, published on 8 July, the IMF stated that the global economy is expected to grow by 3% in 2026 and 3.4% in 2027, against a backdrop marked by the impact of the conflict in the Middle East and substantial investment in artificial intelligence.



Regarding Europe, the ECB revised its outlook for the euro area economy downwards in its June projections compared with March. The economic growth projection for 2026 was lowered from 0.9% to 0.8%, while that for 2027 was reduced from 1.3% to 1.2%. This reflects the impact of heightened geo-political uncertainty and rising energy prices, which are both driven by the conflict in the Middle East. Nevertheless, the ECB continues to anticipate a gradual recovery in economic activity, supported by a recovery in real household income, strengthened private consumption and increased investment driven by digitalisation, artificial intelligence, and public spending on infrastructure and defence.

Regarding inflation, the new projections suggest an increase in the short term, primarily due to rising energy and food prices. The ECB is forecasting inflation of 3% in 2026, which is an increase on the 2.6% projected in March. This will then ease to 2.3% in 2027, with inflation converging towards the 2% target in 2028. Core inflation, which excludes energy and food, is expected to remain at 2.5% throughout 2026 and 2027, reflecting the ongoing impact of the initial energy price shock on the cost of goods and services.

Regarding the labour market, the ECB continues to believe that it will remain resilient despite the slowdown in economic growth. Although job creation is expected to slow compared with previous years, firms are expected to retain jobs to a large extent given the temporary nature of the economic shock. The unemployment rate is expected to be 6.3% in 2026, falling gradually to 6.2% in 2027 and 6% in 2028, remaining close to historic lows.

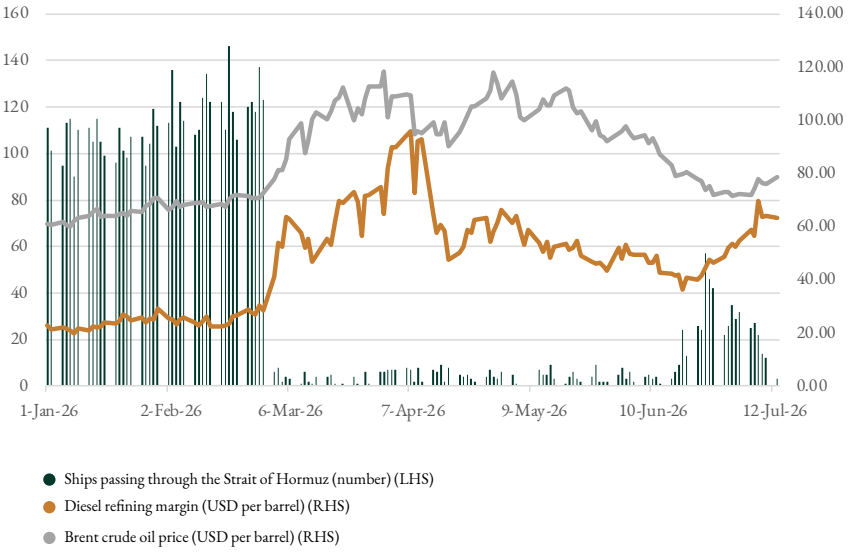
Regarding the US, the Fed's projections suggest an economic slowdown, though the economy remains resilient. In its June 2026 Summary of Economic Projections, the Fed revised its GDP growth forecast downwards to 2.2% for 2026, reflecting a less favourable outlook for the US economy and down from the 2.4% projected in March. Nevertheless, growth is expected to remain relatively robust compared to other advanced economies.

The unemployment rate in the labour market is expected to be 4.3% in the fourth quarter of 2026, which is slightly below the 4.4% forecast in March and highlights the labour market's relative resilience.

As for inflation, as measured by the Personal Consumption Expenditure (PCE) index, the Federal Reserve has significantly revised its forecast upwards to 3.6% in 2026, compared with an estimated 2.7% in March. Meanwhile, core PCE inflation has also been revised upwards to 3.3%, reflecting ongoing inflationary pressures. Against this backdrop, the Fed continues to adopt a cautious approach to monetary policy. It is projecting a path for the federal funds rate that is higher than was previously forecast, in line with the need to ensure that inflation returns to the 2% target in a sustained way.

The IMF has revised its economic growth forecast for China in 2026 upwards from 4.4% to 4.6%. Nevertheless, the institution warns that the Chinese economy is likely to continue to be affected by rising energy prices, a slowdown in external demand and ongoing geopolitical tensions in the coming quarters. By contrast, the Chinese authorities are more optimistic, reiterating their commitment to an accommodative monetary policy and measures to support consumption, investment in technology and innovation, and infrastructure development. This is intended to ensure stable economic growth in line with this year's targets.

Ships in the Strait of Hormuz vs. the price of Brent crude oil and the diesel refining margin



Source: Bloomberg; Banco Carregosa

Prior to the conflict between the US, Israel and Iran beginning on 28 February, around 120 ships passed through the Strait of Hormuz in both directions each day, and the diesel crack spread equalled one-third of the Brent price. Over the following three months, traffic through the Strait of Hormuz, one of the world's most important energy routes, dropped to almost zero. However, since mid-June, there has been a gradual recovery in traffic, reflecting optimism surrounding the negotiations for a lasting peace agreement between the US and Iran.

Brent anticipated this more favourable scenario, falling from $120 to almost $70 per barrel and approaching levels prior to 28 February. The diesel refining margin also decreased, reaching a low of $40 in mid-June. However, this margin began to rise gradually once again, acting as a leading indicator of what was to come: a further escalation of tensions in recent weeks.

Consequently, the diesel refining margin increased to $70 per barrel, fuelling inflation fears once more.

Outlook for Bonds

The beginning of Q3 2026 is characterised by permanently higher yields, an unprecedented combination of fiscal constraints and geopolitical disruptions, and significant strategic investment requirements. With the 10-year Treasury yield close to 4.5% and the 10-year euro area yield near 3%, bond yields remain attractive. However, these yields reflect more than just an opportunity; they also indicate more persistent global inflation, greater geopolitical uncertainty, and central banks that are less willing to quickly cut rates.

The prevailing message from the central banks of developed countries has become one of firmness. In the US, the Federal Reserve, now led by Kevin Warsh, has ruled out further interest rate cuts and is open to raising rates further should inflation remain above the target. The June projections point to one or two interest rate rises in 2026, which is a significant reversal from previous market expectations. In addition, there is an intention to reduce the balance sheet more actively, which could put pressure on long-term maturities. In the euro area, the ECB increased the deposit rate to 2.25% in June. Although the unexpected fall in inflation leaves scope for a pause in July, the market still anticipates at least one more increase within the next year. The message from Sintra was clear: it was time to return to basics, making interest rates the main instrument and bringing the era of quantitative easing and forward guidance to an end.

This new paradigm has structural implications: monetary and fiscal policies are no longer separate forces. High levels of debt and rising financing costs are constraining governments' fiscal space, whilst defence, energy and strategic autonomy are emerging as priorities.

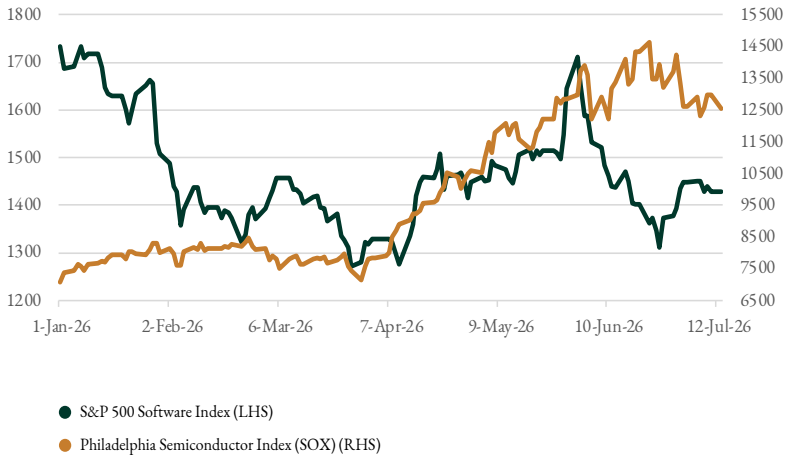
The increased demand for capital, both public and private, has pushed up real and nominal yields. This demand has been driven by companies investing in artificial intelligence and supply chains.

In this context, the carry trade is once again a key source of returns, but duration discipline is required. A large part of the risk is already reflected in the market, and at present there is no reason for a quick fall in long-term rates.

The key message is quality and selectivity. The outlook for US investment-grade assets remains slightly positive, supported by companies with relatively secure cash flows. The recent compression in high yield has been heavily influenced by the equity rally. However, the fundamentals are more challenging, so we prefer to be overweight in investment grade. Investment grade is more attractive in relative terms in Europe. In the case of European high-yield assets, however, sector selection will be crucial.

In short, the third quarter of 2026 presents a favourable opportunity to generate income. However, the portfolio should not be based on the expectation of a rapid fall in interest rates. The priority is to combine carrying capacity, quality and 'duration' discipline. This involves intermediate maturities, a preference for investment-grade and financial investment-grade assets, selective high-yield investments and flexible 'duration', which will only be increased if there is a confirmed downward trend in inflation and energy prices. The conclusion is both prudent and constructive: this is a quarter for generating yield, with quality and flexibility being essential conditions.

S&P 500 Software vs. Semiconductor Index (SOX)



Source: Bloomberg; Banco Carregosa

In recent months, the artificial intelligence revolution has favoured semiconductor manufacturers over software companies. Although chips provide the essential infrastructure for training and running AI models, enabling companies to capitalise on the current strong demand for computing power, many software companies are still under pressure to generate a return on their substantial investments in this technology. There are also fears that AI could render some products obsolete, lower the barriers to entry in software development and make production cheaper, thereby intensifying competition in the sector. This explains the recent shift, with the SOX semiconductor index outperforming the S&P 500 software sector in recent months.

Since the beginning of this year, the Philadelphia Semiconductor Index has increased by almost 80%, while the S&P 500 Software Index has decreased by around 20%. Much like during the US gold rush in the 19th century, investors have recently favoured 'picks and shovels' companies – semiconductor manufacturers who provide the essential infrastructure for developing this technology – in the race for artificial intelligence.

Equity Outlook

Contrary to fears about the potential global impact of the conflict in Iran, the second quarter of 2026 saw a sharp rise in the world's major stock market indices, reaching new all-time highs. As in the same quarter last year, which coincided with Liberation Day, the subsequent drawdown following an unexpected geopolitical risk factor ultimately proved an excellent opportunity for buyers with a long-term investment horizon.

Early in the quarter, the Technology sector led the way in terms of gains, acting collectively as a safe haven given that developments in AI are seen as independent of the current stage of the economic cycle.

However, performance within the sector was mixed. The major hyperscalers were held back by concerns about their cash flow generation during this prolonged period of heavy investment. Meanwhile, the software sector continued to face competitive pressures, while gains were concentrated in the semiconductor segment, particularly in response to sharp rises in memory prices.

Progress was subsequently made in negotiations between the US and Iran towards reopening the Strait of Hormuz, leading to a substantial correction in the oil price. This reduced the risk of a surge in global inflation, enabling the recovery of the market to spread to other sectors of the economy.

Performance in the last 3 months

	31-Mar	30-Apr	31-May	30-Jun	Last 3 months	Last month (Jun)
Shares						
S&P 500	6 528.52	7 209.01	7 580.06	7 499.36	14.87%	-1.06%
Nasdaq 100	23 740.19	27 452.12	30 333.18	30 276.35	27.53%	-0.19%
DAX 40	24 490.41	24 292.38	25 104.70	24 995.81	2.06%	-0.43%
Stoxx 600	583.14	611.28	626.00	641.73	10.05%	2.51%
Nikkei 225	50 339.48	59 284.92	66 329.50	70 062.32	39.18%	5.63%
Shanghai Composite	3 891.86	3 279.03	4 068.57	4 094.40	5.20%	0.63%
MSCI World	4 258.31	4 660.70	4 864.59	4 825.50	13.32%	-0.80%
MSCI Emerging	1 397.20	1 600.21	1 752.15	1 722.89	23.31%	-1.67%
Long-term interest rates						
10-year Treasury Yield	4.32%	4.37%	4.44%	4.47%	14.9 b.p	3.0 b.p
10-year Bund Yield	3.00%	3.04%	2.94%	2.86%	-14.4 b.p	-7.8 b.p
10-year OT Portugal Yield	3.45%	3.44%	3.30%	3.24%	-20.7 b.p	-5.5 b.p
Short-term interest rates						
3-month SOFR	3.68%	3.66%	3.66%	3.73%	5.1 b.p	7.6 b.p
3-month Euribor	2.08%	2.20%	2.27%	2.32%	24.5 b.p	5.6 b.p
Exchange						
EUR/USD	1.1553	1.1731	1.1659	1.1422	-1.13%	-2.03%
EUR/GBP	0.8735	0.8625	0.8665	0.8613	-1.39%	-0.60%
Commodities						
Brent (USD barrel)	85.91	97.93	89.11	72.95	-15.09%	-18.13%
WTI (USD barrel)	81.63	93.47	85.30	69.50	-14.86%	-18.52%
Gold (USD/troy ounce)	4668.06	4617.85	4540.26	4008.02	-14.14%	-11.72%

Source: Bloomberg; Banco Carregosa

Against this more optimistic backdrop, a healthy pace of earnings growth is expected in the coming years, led by the technology sector and supported by most other sectors. The recent increase in index valuations is consistent with this trend, indicating that market multiples have not become more expensive in recent months. The main risk is the concentration of the indices.

This means that any significant change in the future outlook for AI would have a significant impact on its future performance. When building our portfolio, we maintain barbell exposure to both secular growth themes and more defensive sectors. Investment in companies with lower potential earnings volatility, robust balance sheets, and robust cash flow generation is likely to remain popular.

Outlook for Alternatives

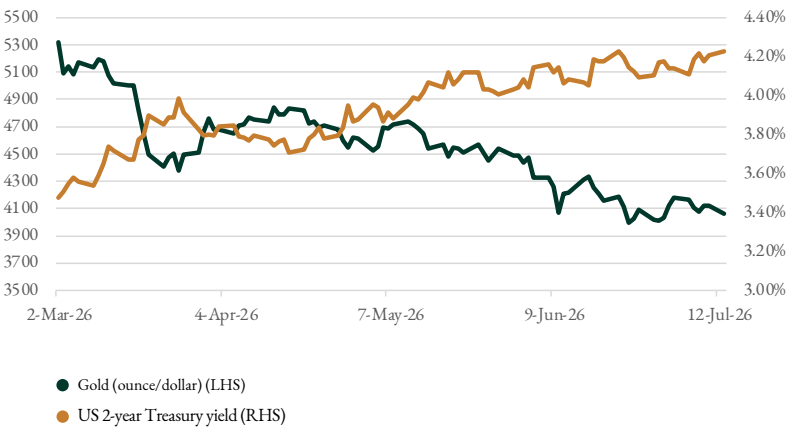
In the current climate, a polarised portfolio is required, consisting of a defensive core of real assets and infrastructure, balanced by liquid alpha. In an environment of resilient growth and persistent inflation (with the Fed on hold and the ECB implementing 'prudent' interest rate rises), real assets can provide a degree of protection. However, the rising cost of funding is reducing the margin for error, so it is advisable to favour income sources backed by collateral and seniority rather than long durations and indiscriminate beta.

Among commodities, oil is used primarily as a tactical geopolitical hedge, while gold is used as a portfolio diversifier. Copper, on the other hand, is used for structural exposure, preferably via low-cost producers. In the short term, however, the price of copper is above its fair value, while the price of oil reflects the renewed escalation of risk in the Strait of Hormuz. The closure of the Strait has once again driven up the geopolitical premium.

In the property market, price corrections have created selective entry points, particularly in logistics, affordable housing, healthcare, and senior mortgage lending. The infrastructure sector (energy and digital) appears to be the most promising, provided it is underpinned by sound regulation and a prudent capital structure. In private equity and private debt, the recovery is gradual and rewards underwriting quality over yield-seeking. Hedge funds, for their part, are benefiting from high dispersion and low correlations, which favour multi-strategy, relative value and risk-controlled long/short platforms.

In concrete terms, this means overweighting gold, core and transition infrastructure, and high-quality secondaries; maintaining a neutral stance on senior secured credit and liquid hedge funds; and underweighting copper, older office properties, and lower-quality credit, whilst first scrutinising the liquidity of evergreen vehicles.

Rising yields put pressure on gold



Source: Bloomberg; Banco Carregosa

The yield on 2-year US Treasury bonds is one of the best indicators of market expectations regarding the interest rate policy of the Federal Reserve. Since gold does not generate any yield, rising interest rates increase the opportunity cost of holding this asset, making alternatives, such as fixed-term deposits or short-term bonds, more attractive.

The recent fall in the price of gold has been driven by rising interest rates. This correction has also been prompted by the significant increase in price over the past year, leading to some investors taking profits.

However, the growing de-dollarisation of the global economy and the deterioration of public finances in the US and other Western countries may continue to boost the value of gold.

Since the outbreak of war in Ukraine in 2022 and the subsequent freezing of Russian assets in the West – primarily in dollars and euros – countries such as China have increased their gold reserves significantly. Not only is China the world's largest importer, but it is also the largest producer. The country is seeking to reduce its dependence on the dollar and strengthen its financial autonomy.

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