Quarterly Updates
Overlapping shocks



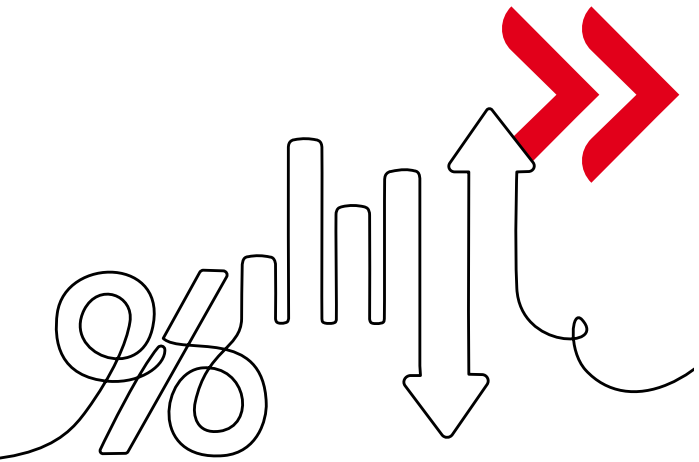
5 October 2026

The Investment Institute
by
UniCredit

Editors
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Overlapping shocks

Quarterly updates at a glance



MACRO

- **Iran conflict:** Although regional energy export flows have improved and diplomatic channels remain active, production, exports and shipping routes remain vulnerable to renewed disruptions.
- **Growth:** The global economy remains in good shape. We expect US growth to remain robust, while eurozone activity continues to expand at a moderate pace, with some acceleration next year.
- **Inflation:** The summer surge in energy prices is leading to rising inflation pressures, which will delay the return towards central banks' targets. Inflation expectations remain well-behaved.
- **Central banks:** We expect a further rate hike by both the ECB and the Fed, likely in December. Risks are tilted toward additional tightening if energy prices fail to decline.

STRATEGY

- **Treasuries:** We expect the 10Y UST yield to trade at around 5% until year-end. The long end already reflects Fed tightening but remains exposed to fiscal concerns and geopolitics.
- **Bunds and EGBs:** We expect the 10Y Bund yield to remain around 3.4% by the end of 2026. We remain cautious on OATs.
- **Credit:** After the recent spread widening, we expect credit risk premiums to normalise in the coming months.
- **Equities:** We remain constructive and anticipate returns of 10-20% by mid-next year, with the strongest upside in emerging markets and returns of roughly 10% across the other regions.
- **FX:** We still consider a mild rebound of EUR-USD above 1.15 over the medium term as a more likely scenario than a plunge below 1.10. Elsewhere, we still expect a firmer yen and a weaker sterling, while the Chinese yuan is likely to continue its steady appreciating trend.

CEE

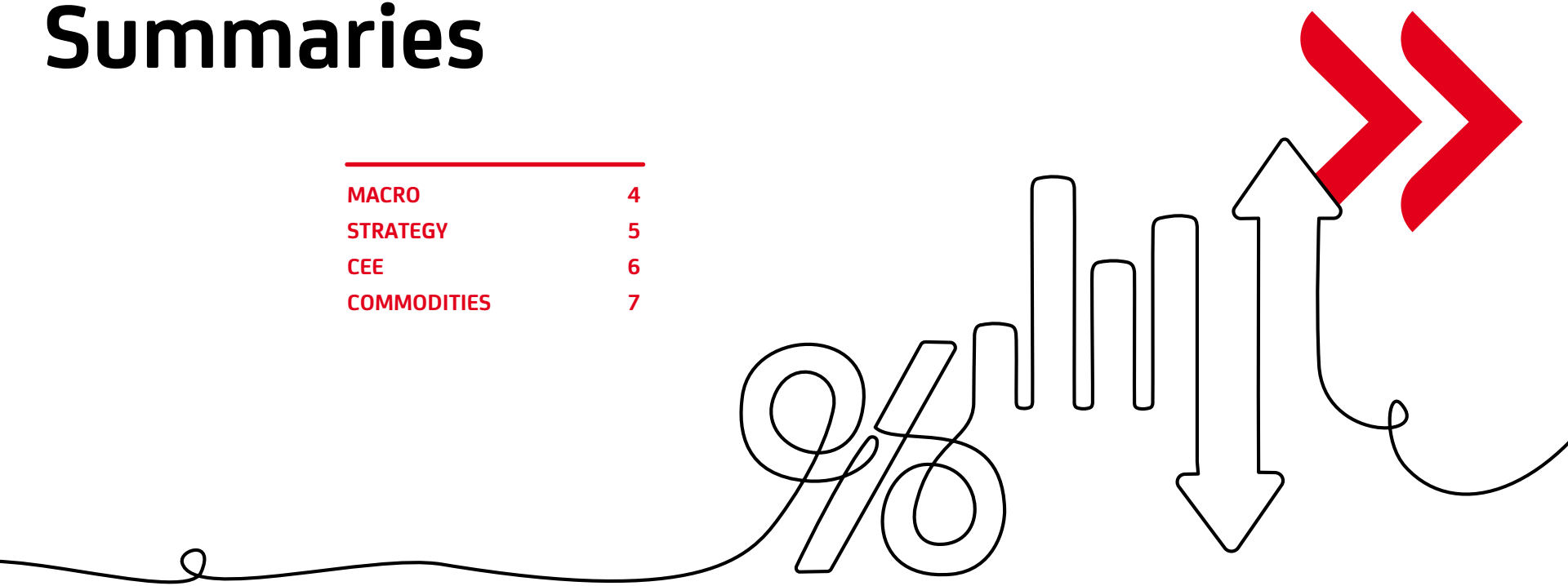
- **Growth:** GDP growth is likely to remain around 2-3% in most countries, with downside risks.
- **Local drivers:** Political risks slow fiscal adjustment in Romania, Poland and Slovakia.
- **Central banks:** The NBH may continue to cut rates, the CNB could deliver one more hike, while the NBP, the NBR and the NBS may remain on hold until 2H27, when we see room for small cuts.

COMMODITIES

- **Oil:** We expect Brent to average around USD 92/bbl in 4Q26.
- **Gas:** We expect TTF to ease toward EUR 60/MWh by year-end. Uncertainty remains high.
- **Gold:** The outlook remains moderately constructive.

Executive Summaries

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Macro

Growth remains resilient despite higher energy prices

WAR IN IRAN: The June US-Iran agreement has effectively collapsed, leaving the conflict unresolved. While Gulf export flows have improved from prior lows, they remain vulnerable to renewed disruptions. As a result, oil and gas markets are likely to retain a significant geopolitical risk premium in the near term.

GLOBAL: We remain constructive on both the US and the euro area, supported by fiscal policy and solid private-sector balance sheets. Inflation risks remain skewed to the upside, reflecting the possibility of a more persistent energy shock.

US: Growth is expected to remain solid at around 2% both this year and the next. Activity continues to be underpinned by AI-related investment, with positive spillovers to household spending through wealth effects. We see the Fed delivering another hike in December and then keeping rates unchanged throughout 2027.

EUROZONE: We forecast GDP growth of 0.9% this year (1.1% excluding Ireland) and 1.2% in 2027. Upside inflationary risks leave the ECB on track for a final hike in December, which might be reversed at the end of 2027 if the price shock subsides.

- **GERMANY:** We expect GDP growth of 0.9% in 2026 and 1.6% in 2027. The government has started to prepare structural reforms to the social-security system, the most ambitious in more than 20 years.
- **ITALY:** Domestic demand and exports continue to support the economy, with GDP growth expected at 0.8% in 2026 and 0.6% in 2027 amid an increasingly challenging environment. Under the government's new fiscal targets, the budget deficit is set to remain temporarily above 3% of GDP.

CHINA: We expect GDP growth of 4.6% in 2026 and 4.2% in 2027. The industrial sector remains the main growth engine, while the domestic economy continues to lose momentum.

Strategy

Solid earnings forecasts, sideways yields and weaker USD

RATES: The recent rise in yields, driven by real yields, reflects a robust economy. We expect UST and Bund yields to trade only modestly lower from current levels until year-end, reflecting less central-bank tightening than priced in by forwards. Risks to UST yields are tilted to the upside due to loose fiscal policy and geopolitics. We remain cautious on OATs.

CREDIT: We see IG NFI and Banks SEN spreads at 80bp and the HY NFI spread at 280bp by year-end. Nonetheless, the risk of wider spreads is elevated, primarily due to escalation risk in the Strait of Hormuz. However, still-solid credit quality reduces spread-widening risk. Carry remains the main source of total return.

EQUITIES: The positive equity outlook remains intact. Broadening earnings growth, resilient economic activity and continued strength in corporate fundamentals support our constructive medium-term view despite near-term headwinds from higher rates, bond yields and energy prices. Importantly, market leadership is becoming less concentrated as earnings momentum spreads across sectors and regions. Within equities, we remain particularly positive on Emerging Markets.

FX: We still see a mild rebound of EUR-USD above 1.15 over the medium term as a more likely scenario than a plunge below 1.10. The risk of more friction between the Fed and the US administration may still hurt the USD and favour de-dollarization again, while further rate hikes by the ECB and the Fed are largely priced in. More tightening in Japan should drag down USD-JPY, but not below 150. Sterling may not be helped by a prudent BoE on rates. The CNY's rising path is set to continue.

CEE

Resilient growth amid fiscal and structural challenges

GROWTH OUTLOOK: Broader recovery amid uncertainty

- Industry shows signs of a broader recovery, led by export orders.
- GDP growth has remained resilient despite energy price shocks and is expected to stay in the 2-3% range in most countries.
- In 2027, stronger external demand, Germany's fiscal stimulus and investment in AI, defence, electrification and the energy transition) should support growth. Consumption growth may moderate as wage growth has likely passed its peak.
- The key downside risk is persistently high energy prices.

FISCAL OUTLOOK: Fiscal adjustment needed with energy prices to remain a risk.

- Fiscal deficits remain high and are set to widen further in 2026 due to energy support measures and defence spending. Stabilisation in 2027.
- Political risks add to uncertainty about consolidation path in high-deficit countries (RO, SK, PL).
- High energy prices or weaker growth could bring rating downgrade risks back into focus in high-deficit countries.

INFLATION AND INTEREST-RATE OUTLOOK: Disinflationary impact of food prices fades, energy prices cause temporary spike.

- The CNB is likely to remain the only central bank in the region to hike rates, but by less than market expectations imply.
- The NBH may still have room for rate cuts on the back of fiscal tightening prospects if external risks subside.
- The NBP, the NBR and the NBS may stay on hold. We see room for rate cuts in Romania from mid-2027 if fiscal adjustment remains on track.

Commodities

Geopolitical tensions continue to distort energy markets

CRUDE OIL AND NATURAL GAS: Energy markets remain driven by geopolitical developments, with the Iran conflict sustaining a risk premium in oil prices. We expect Brent to average USD 92/bbl in 4Q26 before easing towards USD 78/bbl by mid-2027 as supply conditions gradually improve. In gas markets, we expect further price declines toward EUR 60/MWh in 2026 and EUR 45/MWh by mid-2027, as new supply continues to come online. However, there is significant uncertainty around the TTF trend, as war in Iran and weather trends are key near-term price drivers.

PRECIOUS METALS: Gold remains supported by central-bank purchases, ETF inflows and diversification demand, although higher yields continue to cap upside. We expect gold to trade broadly within the USD 3,900-4,500/oz range through end-2026, while silver should remain supported by persistent excess demand from photovoltaic and semiconductor industries, with prices expected to remain within the USD 60-70/oz range despite sensitivity to real yields and higher-for-longer rate risks.

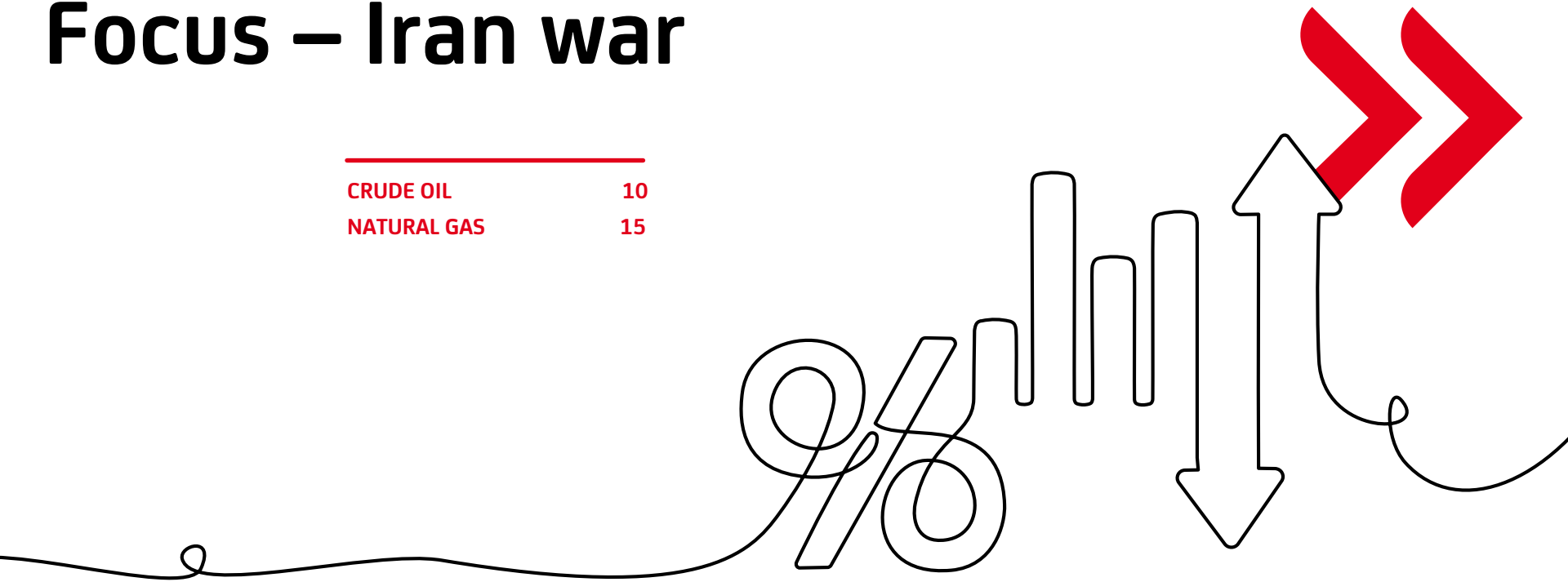
INDUSTRIAL METALS: Structural demand from data centres, electrification and infrastructure spending continues to support copper and aluminium, while supply constraints and low inventories provide an additional tailwind. Steel prices are expected to remain broadly rangebound amid a gradual recovery in European demand.

BATTERY METALS: Lithium shows the most constructive demand outlook among the battery metals, although ongoing supply growth is likely to limit near-term price upside. Nickel and cobalt have stabilised after previous oversupply concerns.

BITCOIN: Bitcoin gained around 9% in September, outperforming most major asset classes as continued inflows into ETFs highlighted strong institutional demand. While liquidity conditions and risk sentiment remain important drivers, post-halving supply dynamics and broader adoption continue to support the medium-term outlook.

Geoeconomic Focus – Iran war

CRUDE OIL 10
NATURAL GAS 15



Authors:
Tobias Keller, Jonathan Schroer

Energy backdrop scenario framework

Gulf supply disruptions and market dynamics

	Baseline scenario: supply recovery delayed	Adverse scenario: supply disruptions intensify
Diplomatic progress	Diplomatic contacts continue, but security incidents and distrust delay meaningful de-escalation	Diplomatic efforts stall, allowing the conflict to broaden and energy disruptions to intensify
Shipping conditions	Fragile normalisation as Hormuz transit remains constrained and Red Sea risks keep costs elevated	Persistent disruption across Hormuz and the Red Sea; alternative routes remain impaired
Energy flows	Gulf export flows recover unevenly, with recurring disruptions delaying normalisation into 2027	Attacks on shipping and infrastructure repeatedly disrupt recovery, keeping flows well below normal for an extended time
Market balance	Normalisation delayed by supply disruptions, transport constraints and security risks	Tighter market as recurring significant disruptions amplify regional and global imbalances
inventories	Disruptions constrain inventory rebuilding and keep commercial and strategic reserves under pressure	Persistent stock depletion leaves limited buffers, amplifying price risks and vulnerability to further disruptions
Energy prices	Brent: USD 92/bbl in 4Q26, easing to USD 78 by mid-2027 Gas: EUR 60/MWh by end 4Q26 and EUR 45/MWh by mid-2027	Brent: above USD 120 (or even higher) for an extended period Gas: above EUR 85/MWh for an extended period
Central banks	Fed and ECB deliver one more 25bp hike, probably in December	Growth slows, but we do not expect a recession. The Fed hikes to 5%, the ECB to 3.5%.
Rates	10Y UST at around 5% and 10Y Bund at around 3.40% in 4Q26, reflecting less central bank tightening compared to forwards	10Y UST above 5.50% and 10Y Bund around 3.80% during the tightening phase
EUR-USD	EUR-USD to remain in the 1.12-1.14 area.	EUR-USD to extend its slide well below 1.10.

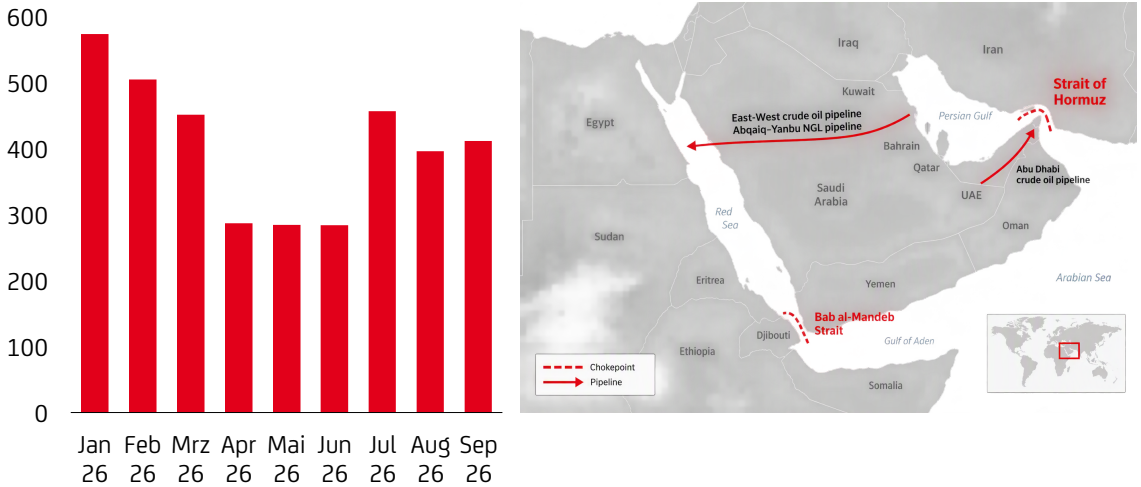
Source: Bloomberg, LSEG, The Investment Institute by UniCredit

Crude oil

Middle east crude flows show signs of recovery

GULF CRUDE FLOWS RISE DESPITE LIMITED VISIBLE TRAFFIC

CRUDE EXPORTS FROM MIDDLE EASTERN COUNTRIES (MILLION BARRELS)

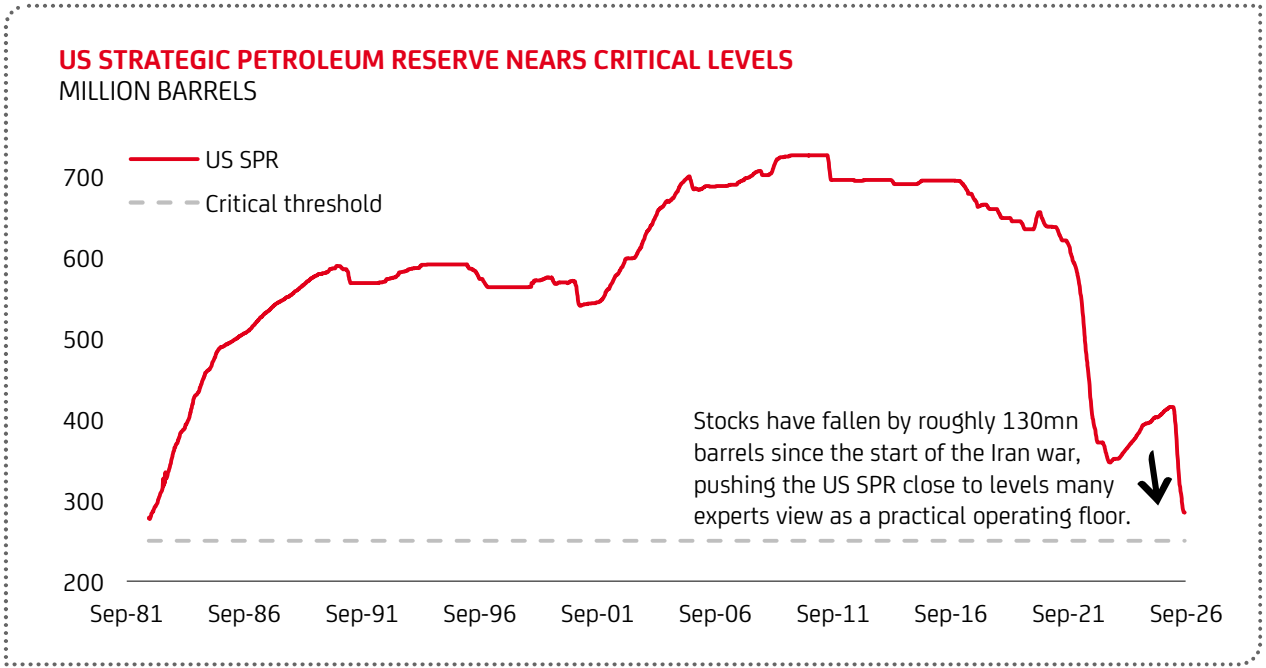


- Recent data suggests that crude oil export volumes have recovered from prior lows, partly through larger cargoes, ship-to-ship transfers and transponder-off voyages, even though Automatic Identification System (AIS)-visible traffic does not capture these flows.
- While Saudi loadings have resumed following the temporary shutdown of the East-West Pipeline, security concerns continue to complicate shipments from the Red Sea. The Houthi advance has strengthened the group's position around Bab al-Mandeb, raising the risk of disruption to Red Sea traffic.
- The outlook for Qatar's gas exports is more challenging, as there are no alternative export routes that bypass Hormuz. Despite reports of some LNG tanker transits in September, export volumes remain severely depressed.

Source: LSEG workspace, The Investment Institute by UniCredit
Footnote: Crude oil exports from Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (grouped by arrival date).

Crude oil

America's oil safety buffer continues to erode

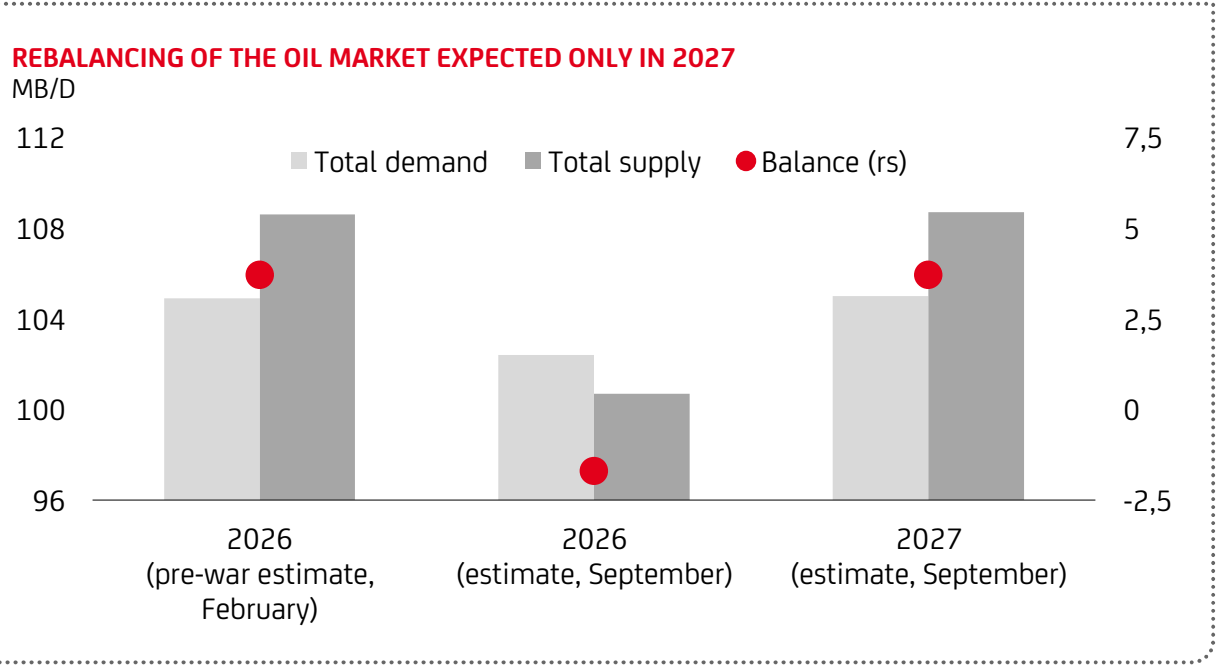


Source: Macrobond, The Investment Institute by UniCredit

- The Iran conflict and the resulting disruptions to Gulf production has brought the US Strategic Petroleum Reserve (SPR) back into focus, with its crude oil stocks now near a four-decade low.
- Recent emergency releases have further reduced the SPR's remaining cushion, leaving policymakers with limited flexibility should disruptions to Gulf energy supplies prove more persistent than currently anticipated.
- Against this backdrop, the Trump administration's plan to rebuild the reserve using Venezuelan oil underscores growing energy security concerns, although technical constraints, limited Venezuelan production capacity and the scale of replenishment required suggest that the reserve is unlikely to recover meaningfully in the near term.

Crude oil

Supply disruptions to keep the market tight in 2026

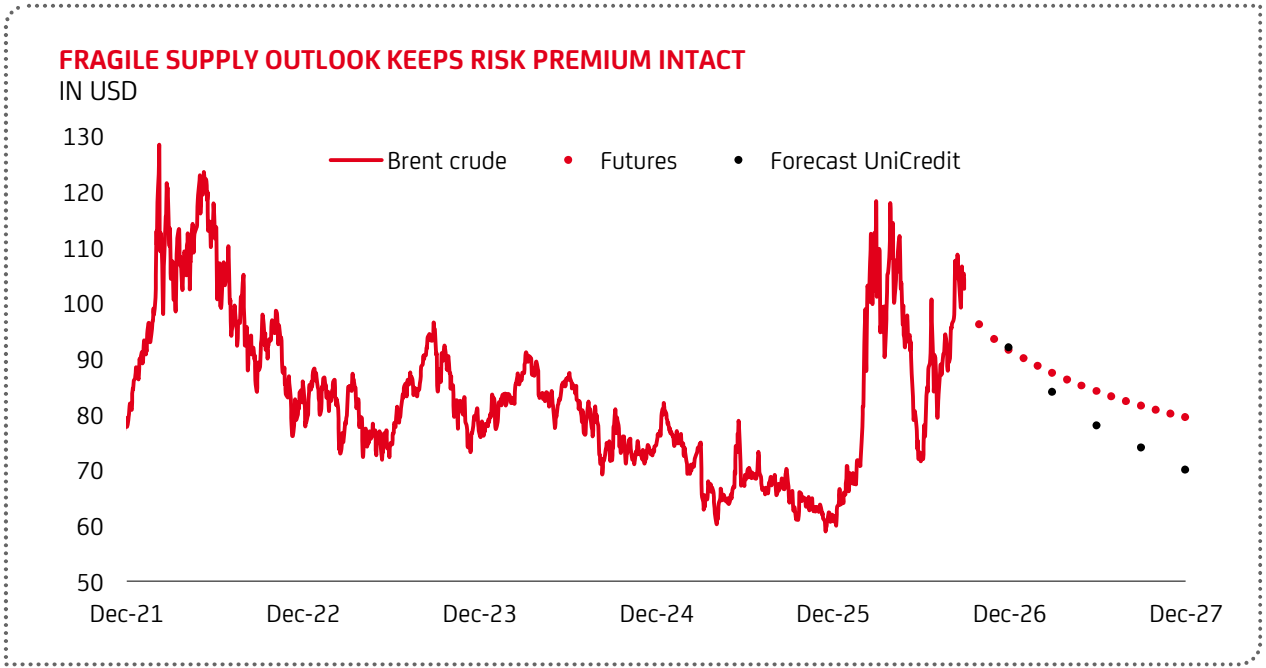


- The Iran conflict and its impact on Gulf oil production and export routes has delayed the expected recovery in supply, extending the period of tight market balances and prolonging reliance on inventories.
- Major stock draws have helped absorb disruptions so far, but inventory buffers are materially smaller than at the start of the conflict. This also means the market has less shock-absorption capacity than it did at the outset of the crisis.
- While the broader regional escalation may weigh on demand through higher energy costs and increased uncertainty, its most immediate impact has been on supply availability and the security of key energy transport corridors.
- Our base case is for supply conditions to gradually normalise in 2027.

Source: IEA, The Investment Institute by UniCredit

Crude oil

Higher-for-longer oil prices as rebalancing is pushed out

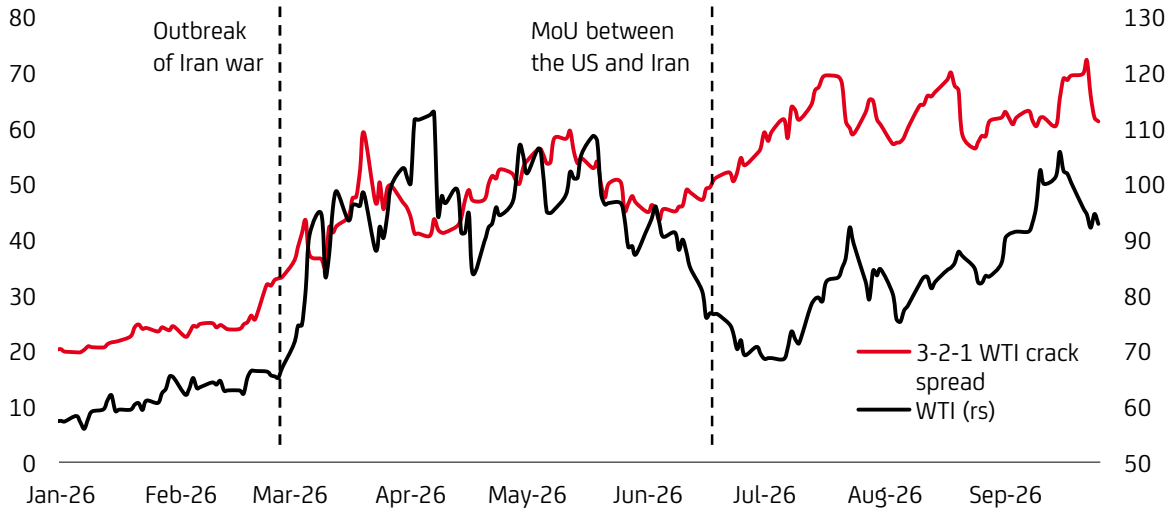


Source: LSEG Datastream, ICE, The Investment Institute by UniCredit

- Oil supply risks remain elevated despite some recovery in regional export flows. Key Saudi export infrastructure has been restored and diplomatic channels remain active, but the conflict remains unresolved and uncertainty around production, exports and shipping routes remains exceptionally high.
- Oil markets continue to incorporate a significant risk premium and the outlook for regional production, export flows and shipping routes remains highly uncertain, particularly given the potential for renewed disruptions.
- We expect Brent to average USD 92/bbl in 4Q26, but the range of plausible outcomes remains unusually wide. Assuming geopolitical tensions gradually ease and regional supply recovers further, Brent could moderate towards USD 78/bbl by mid-2027.

Crude oil

The refining bottleneck persists

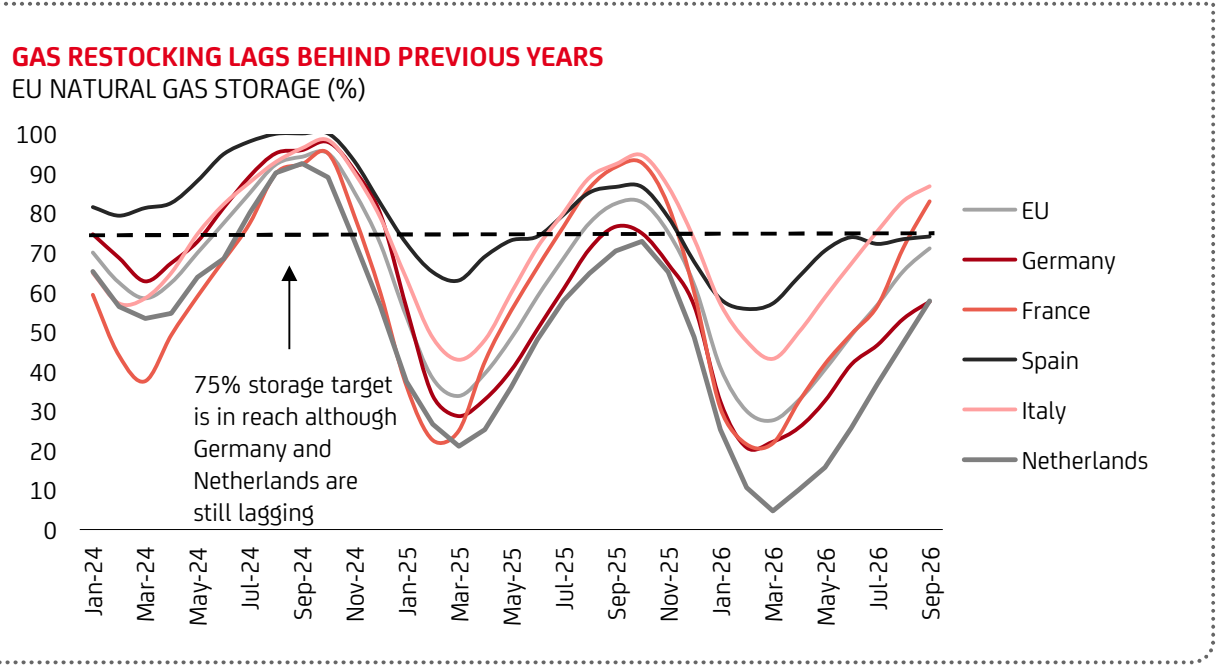


- Crack spreads remain elevated despite narrowing from their summer peaks, with refined-product prices still high relative to crude as Gulf export flows remain constrained and vulnerable to further disruption.
- The persistence of high refining margins reflects continued disruptions to refinery operations and product trade flows, with lower Middle Eastern and Russian supply leaving diesel markets notably tighter than crude markets.
- Diesel cracks remain particularly strong, highlighting continued tightness in middle distillates amid low inventories, limited spare refining capacity and a market increasingly focused on the availability of refined fuels beyond crude-oil supply.

Source: Bloomberg, The Investment Institute by UniCredit
Note: Bloomberg's NYMEX WTI Cushing Crude Oil First Month 3-2-1 Crack Spread approximates the gross margin earned by refiners from processing three barrels of WTI crude into two barrels of petrol and one barrel of distillate fuel.

Natural gas

EU gas inventories will start winter at low levels

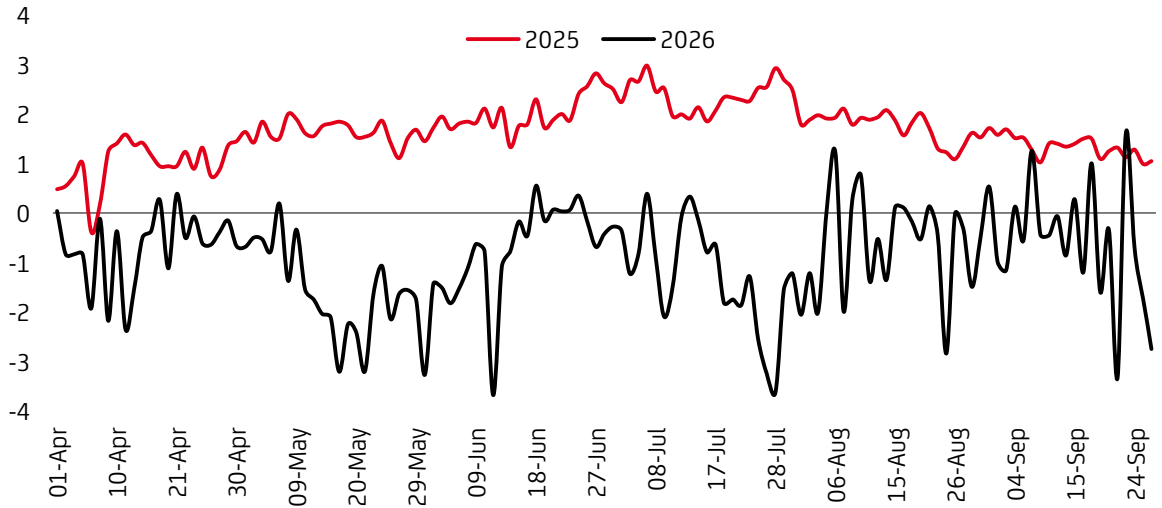


- Gas stocks in the EU are still 11pp lower than they were last year with one month to go before the official start of the winter heating season.
  We expect the 80% refilling target to be revised down to 75%, which is possible in times of market stress. However, low inventories mean that cold weather could drive higher imports and potentially a price spike.
- The level of restocking among EU countries is uneven, with Germany and the Netherlands lagging behind targets. These countries rely on seasonal market pricing, which has been unattractive since the start of the war in Iran. National regulators are looking at ways to improve incentives for importers that would not require their intervention in the market and could lead to much higher prices.

Source: Gas Infrastructure Europe, LSEG, The Investment Institute by UniCredit

Restocking has been delayed by unattractive pricing

SEASONAL SPREADS IN 2026 ARE MORE VOLATILE AND LESS ATTRACTIVE THAN IN 2025
PRICE DIFFERENCE RELATIVE TO JANUARY TTF CONTRACT IN EUR

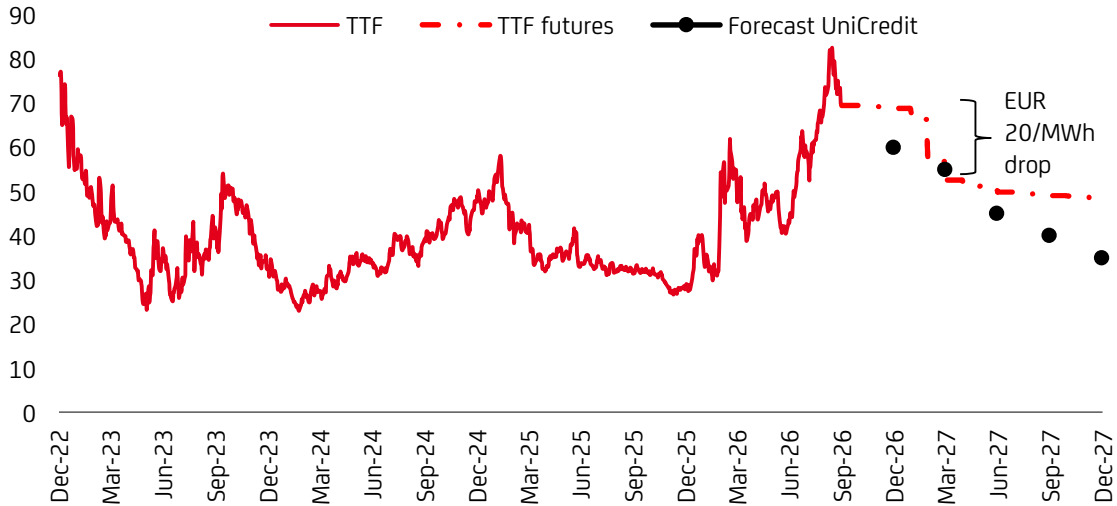


Source: LSEG, The Investment Institute by UniCredit

- In 2026 seasonal spreads, which give utilities a margin for purchasing gas in summer and storing it for winter use, have made gas restocking uneconomical for buyers. This compares to 2025 when margins were thin but consistently positive, giving private companies enough margin to refill storage.
- Seasonal spreads have also been exceptionally volatile this year, reflecting the uncertainty of pricing futures. European buyers have preferred to wait to refill stocks while gas prices are high in the hope that a geopolitical breakthrough would lower prices, as occurred during the brief ceasefire between the US and Iran in summer. Speculation on geopolitical events has been another factor that has delayed restocking.

Natural gas

TTF factors in a longer war, easing in 2027



- The TTF price has been highly volatile throughout 2026 and spiked to its highest levels of the year after the ceasefire between the US and Iran broke down on 8 July. The current price appears to factor in the expectation of a protracted war.
- With a significant geopolitical premium factored into TTF, there is potential for a rapid price decline if tensions ease. The drop in futures of EUR 20/MWh between the winter and the summer contract is especially high and appears to factor in forthcoming relief.
- Our forecasts assume a stalemate in 4Q26 rather than active military confrontation with an easing in tension in 2027. They call for TTF of EUR 60MWh by the end of 2026 and EUR 35MWh by the end of 2027.

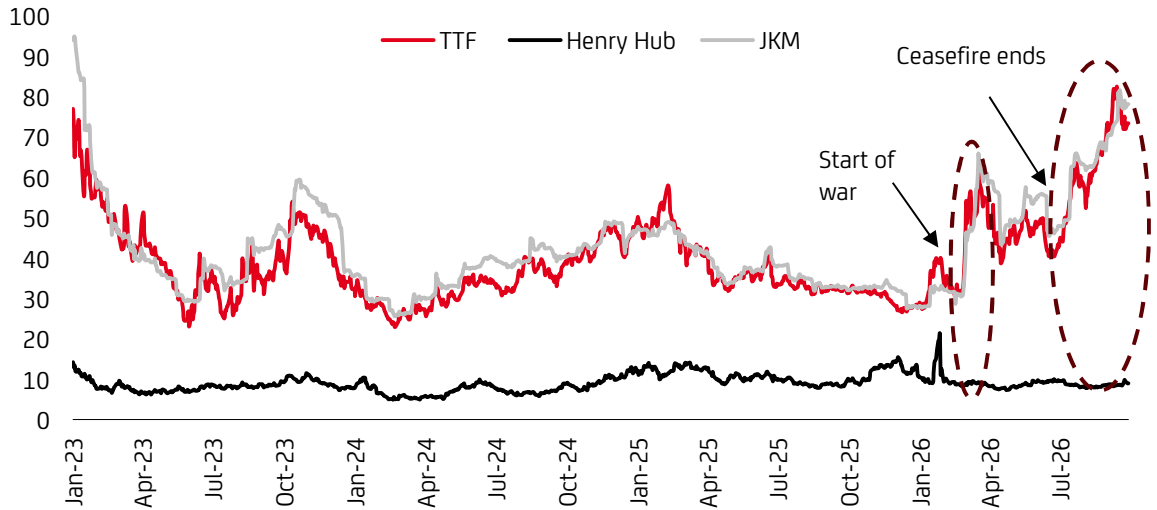
Source: LSEG, The Investment Institute by UniCredit

Natural gas

Disrupted Qatari supply means more competition for LNG

ASIA AND EUROPE COMPETE FOR SPOT LNG, WHILE US PRICES ARE MOSTLY STABLE

EUR/MWH

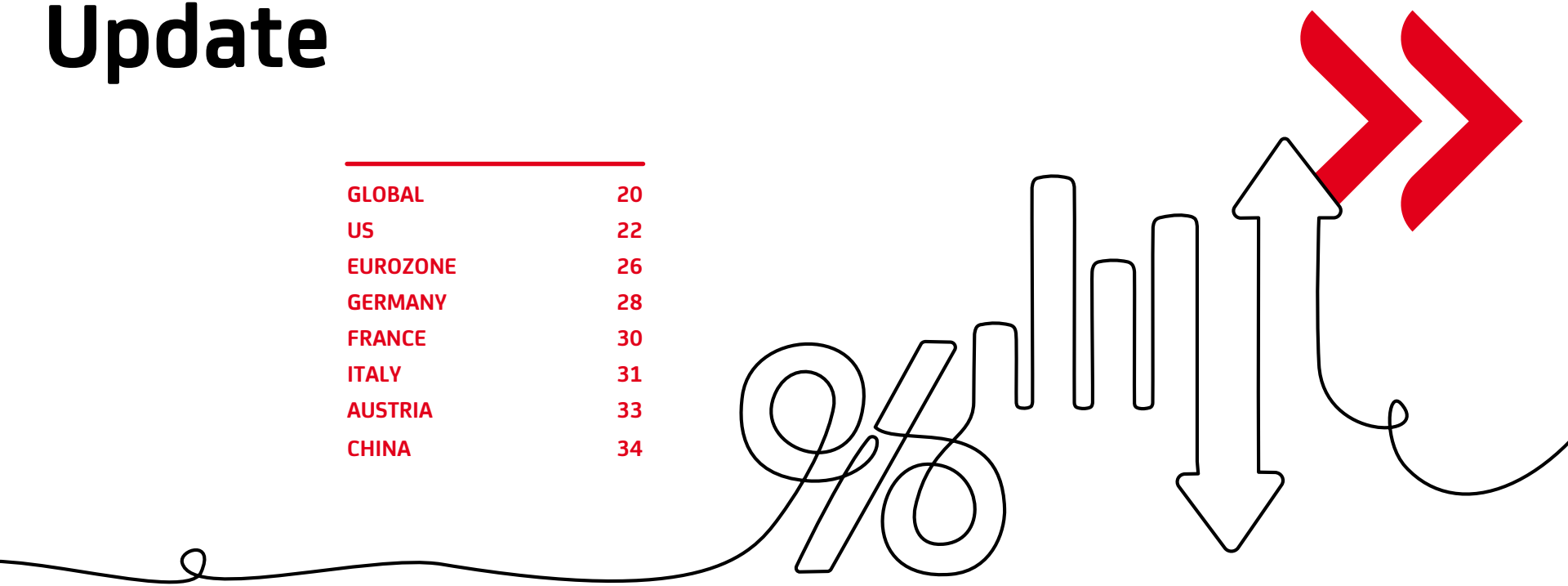


Source: LSEG, The Investment Institute by UniCredit

- The European (TTF) and Asian (JKM) benchmark gas prices are closely aligned, with one outcompeting the other on price terms from time to time depending on seasonal demand trends.
- Since the start of the war in Iran, Asian prices have tended to be higher than European prices as Asian buyers needed to replace Qatari LNG flows with more spot cargo. If Qatari exports remain unavailable, competition between Asia and Europe is likely to remain intense this winter.
- The US (Henry Hub) benefits from large domestic gas production. Prices there have been mostly unaffected by the war, giving the US a further economic advantage relative to European and Asian economies.

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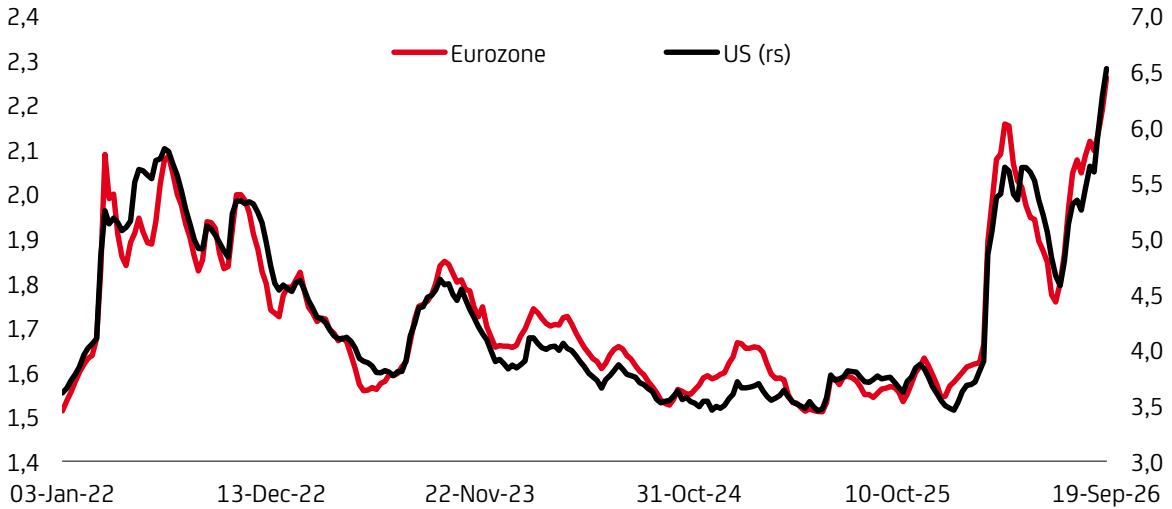


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Prices of refined products at record highs

REDUCED REFINING CAPACITY WEIGHS ON THE PRICES OF REFINED PRODUCTS

RETAIL DIESEL PRICES (EURO PER LITRE AND USD PER GALLON)

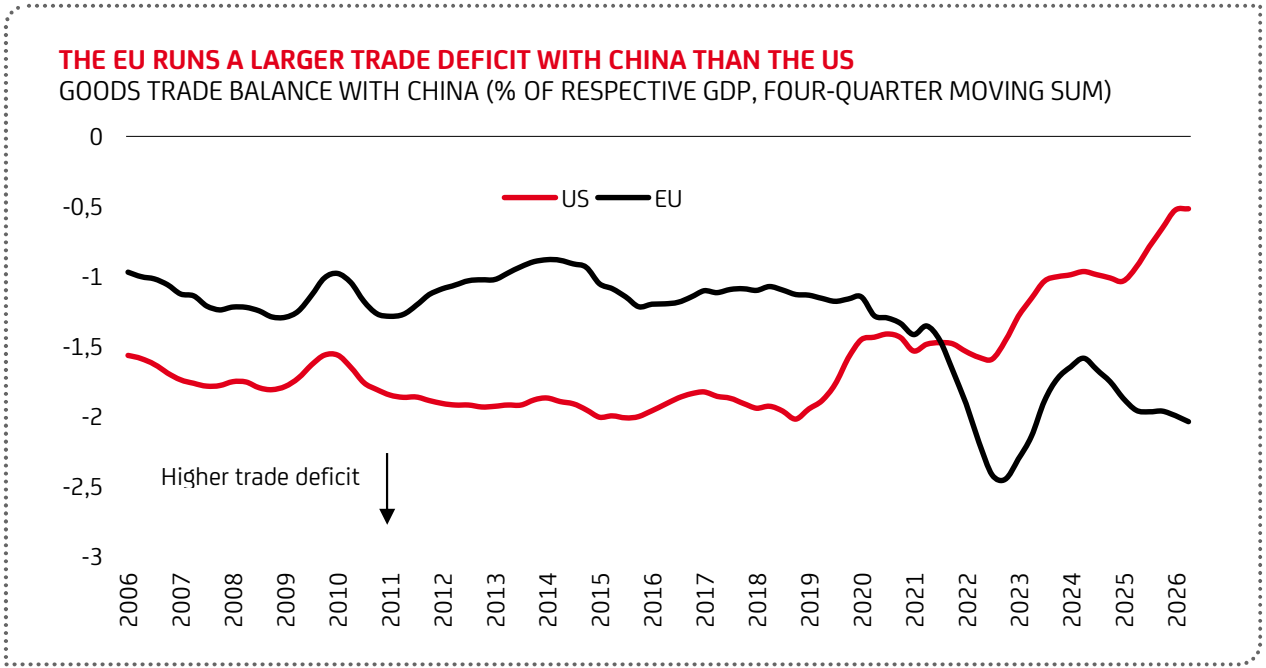


Source: EC, EIA, The Investment Institute by UniCredit

- Rising refining margins are adding to upward pressure on prices of motor fuels. Diesel prices have reached all-time highs, both in the US and the eurozone.
- Higher prices for diesel raise transportation and operating costs, fuelling inflation risks in food, transportation services, manufactured goods and building materials. This is likely to keep central banks on high alert.
- However, we remain convinced that this inflation shock is fundamentally different from that of 2022-23, when pent-up demand was strong and labour markets tight after the post-pandemic reopenings. This time around, we have not pencilled in meaningful and broad second-round effects through wages, also because AI tends to reduce the bargaining power of workers.

Global

China trade: tentative US détente, EU pressure

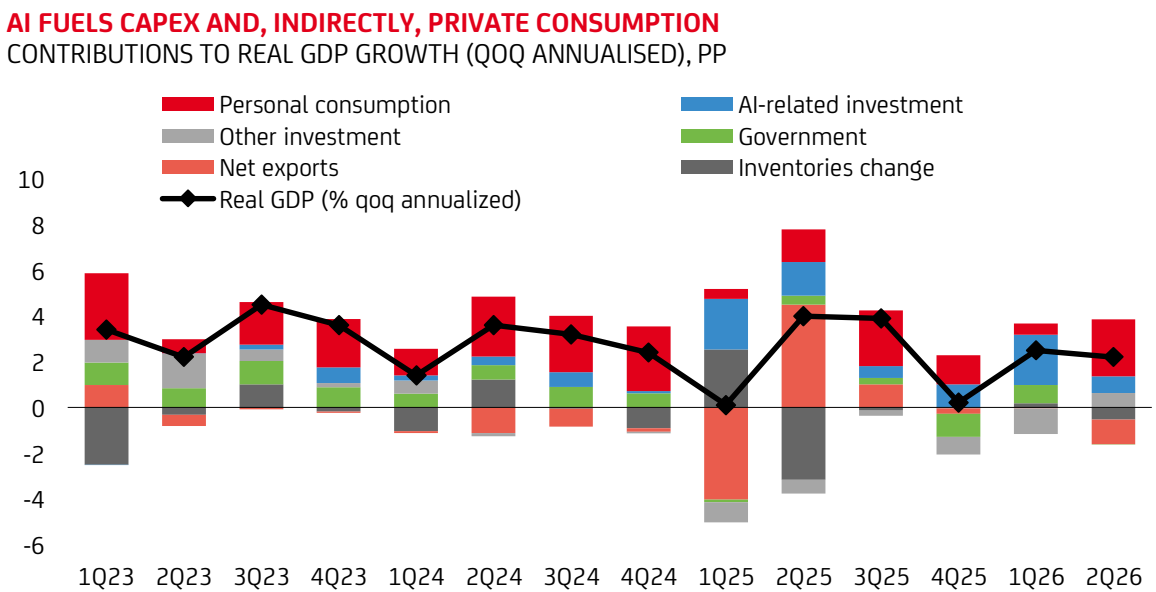


Source: Eurostat, BEA, The Investment Institute by UniCredit

- US-China trade tensions have been easing somewhat, while the EU enters talks with China facing a much larger trade deficit.
- In September, the US and China extended their trade truce by two months, to 10 January. Both sides also agreed to lower tariffs on USD 60bn of non-strategic goods.
- On 8-9 October, EU and Chinese policymakers meet in Beijing for trade negotiations. Brussels wants China to curb surging exports of EVs, plug-in hybrids, batteries, chemicals, plastics and textiles.
- The EU also wants more predictable access to rare earths and related products, while China objects to tighter EU measures on local content, investment and trade defence.

US

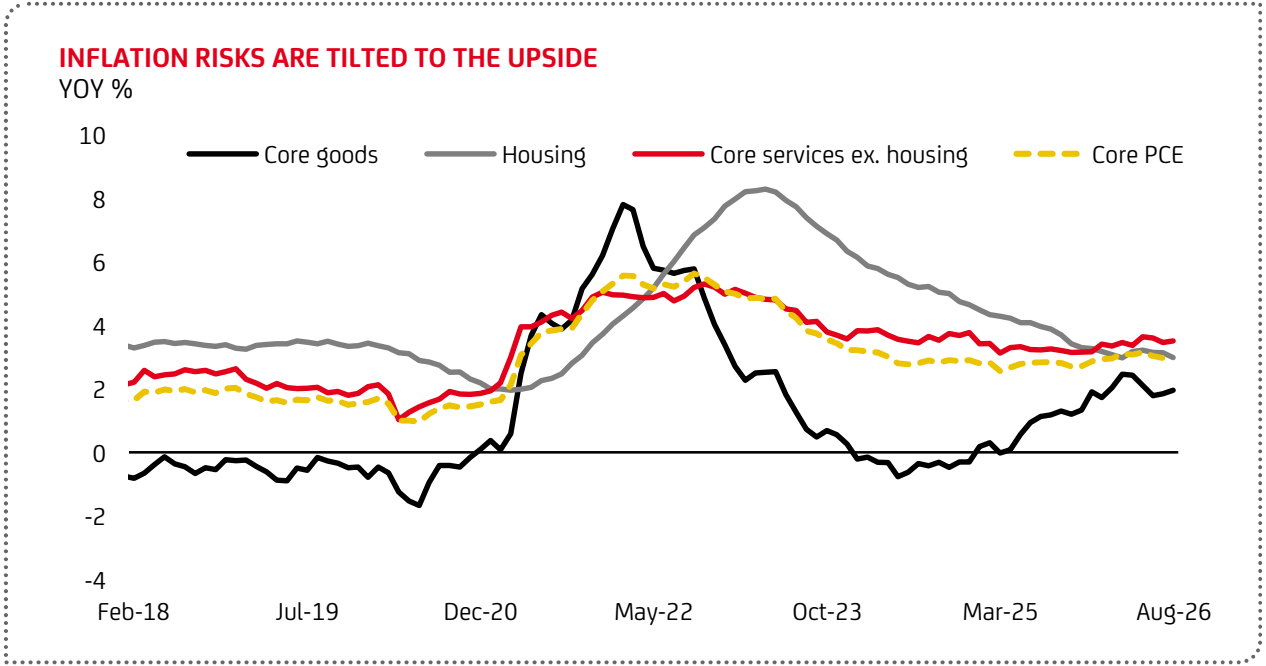
AI remains in the driver's seat



Source: BEA, The Investment Institute by UniCredit

- The outlook for the US economy remains positive. We forecast 2.3% GDP growth for this year and 2.0% for 2027. The main growth driver is AI, which fuels investment and, indirectly, household consumption through wealth effects.
- Consumer spending likely continued to expand at a brisk pace in 3Q26, but we expect a slowdown over the coming quarters due to the unwinding of the boost from a big round of individual income tax refunds, relatively weak employment growth, high energy prices and a very low savings rate.
- Non-AI-related investment will probably remain weak, particularly residential real estate, which continues to be dampened by high mortgage rates.

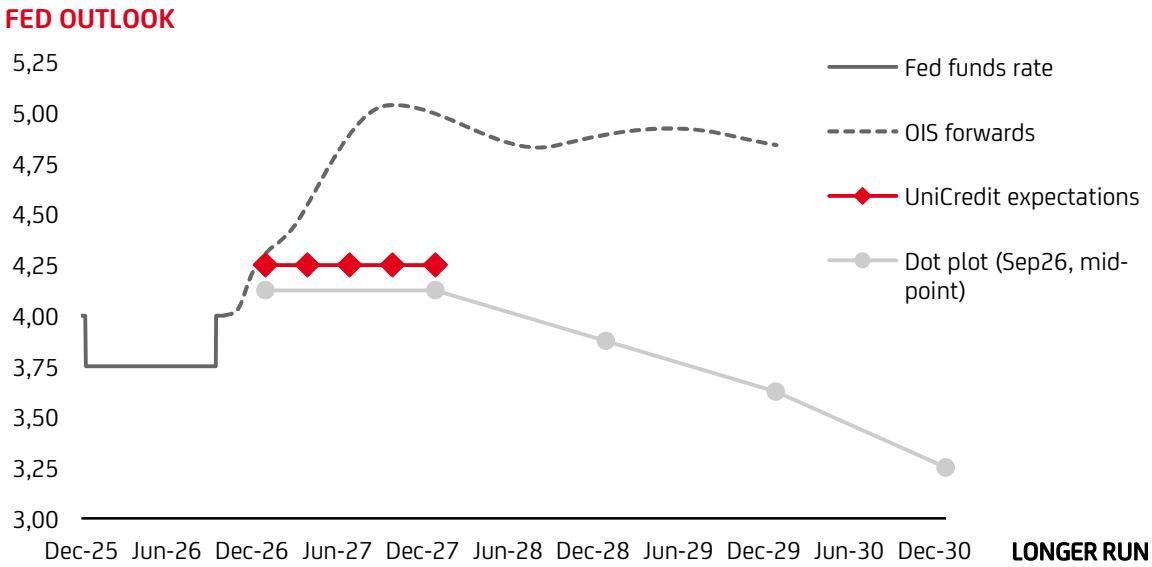
Inflation persistence worries the Fed



Source: BEA, The Investment Institute by UniCredit

- Fed Chair Kevin Warsh has clarified that the PCE price index remains the Fed's reference price gauge.
- The big picture remains one of inflation persistence. Core goods inflation has likely peaked, but the fading of the effect of tariffs risks being offset by AI-related bottlenecks and higher fuel prices. Housing services inflation is on a downward trajectory. The main source of concern for the Fed is likely to be core services excluding housing ("supercore"), which has remained sticky for a long time.
- We expect inflation to slow in 2027, but after more than five years above target and with upside risks caused by energy, this deceleration might not come soon enough for a Fed that wants to be regarded as a credible inflation fighter.

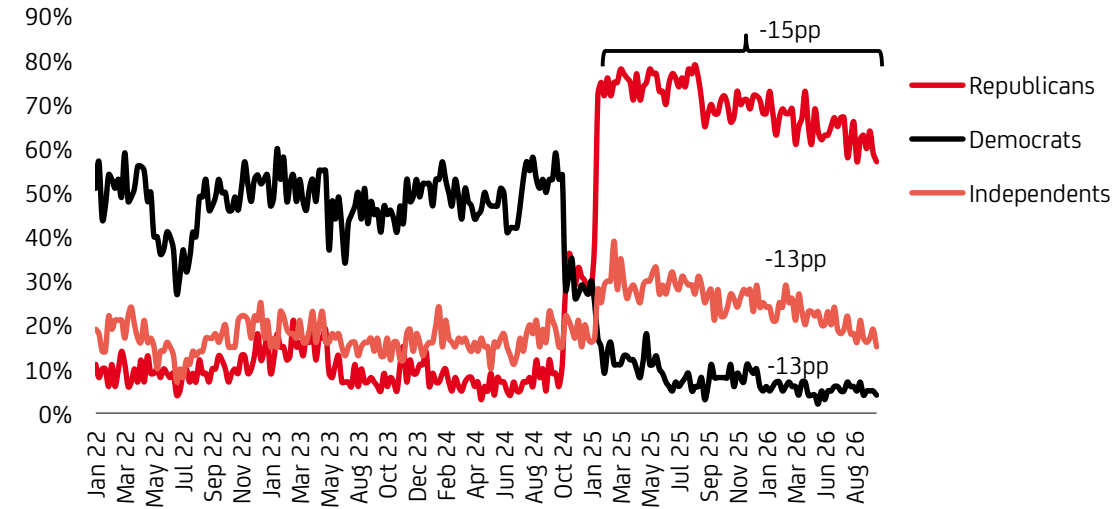
Fed: a hawkish hike to restore credibility



Source: Bloomberg, Fed, The Investment Institute by UniCredit

- On 16 September, the Fed raised rates by 25bp in a unanimous decision and delivered a hawkish message. Another hike by year-end appears very likely, probably in December.
- We expect monetary policy to remain on hold next year, although risks are tilted toward further tightening if energy price pressure fails to moderate.
- After markets gave Kevin Warsh the thumbs down in July, the Fed is back on track. We have become more confident that Warsh's Jackson Hole speech and the rate hike marked important steps towards reestablishing policy credibility and making the Fed's reaction function more transparent.

Midterm elections likely to raise market volatility

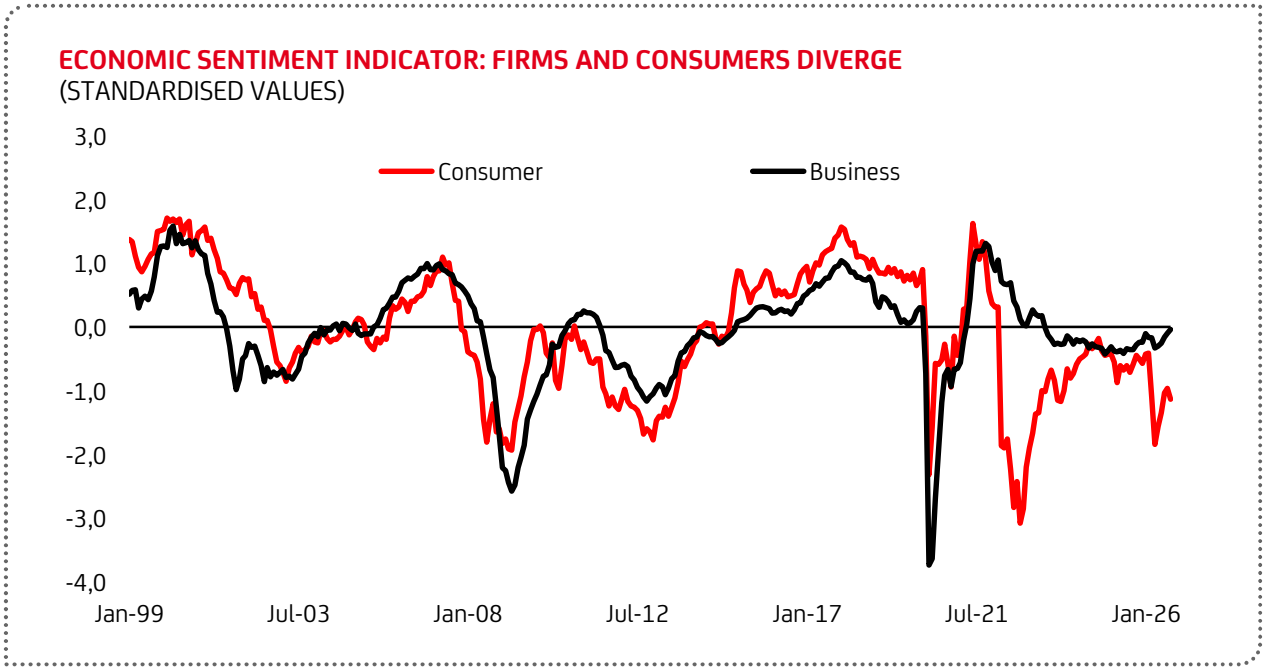


Source: YouGov, The Investment Institute by UniCredit

- Politics in the US remains highly polarised, as political affiliation tends to colour sentiment about the direction of domestic politics and economics. However, there has been a significant erosion of support for Republican policies since Trump's second term, even among Republicans, whose support has declined 15pp since the start of Trump's second term.
- We do not expect the midterms to drive market performance, but uncertainty about the outcome could raise market volatility at least until the elections on 3 November. If widespread disapproval of Republican policies leads to major losses in the House and Senate, there is potential for Trump's behaviour to become more erratic out of frustration with rising political constraints from a hostile Congress.

Eurozone

Business sentiment shows resilience to the energy shock

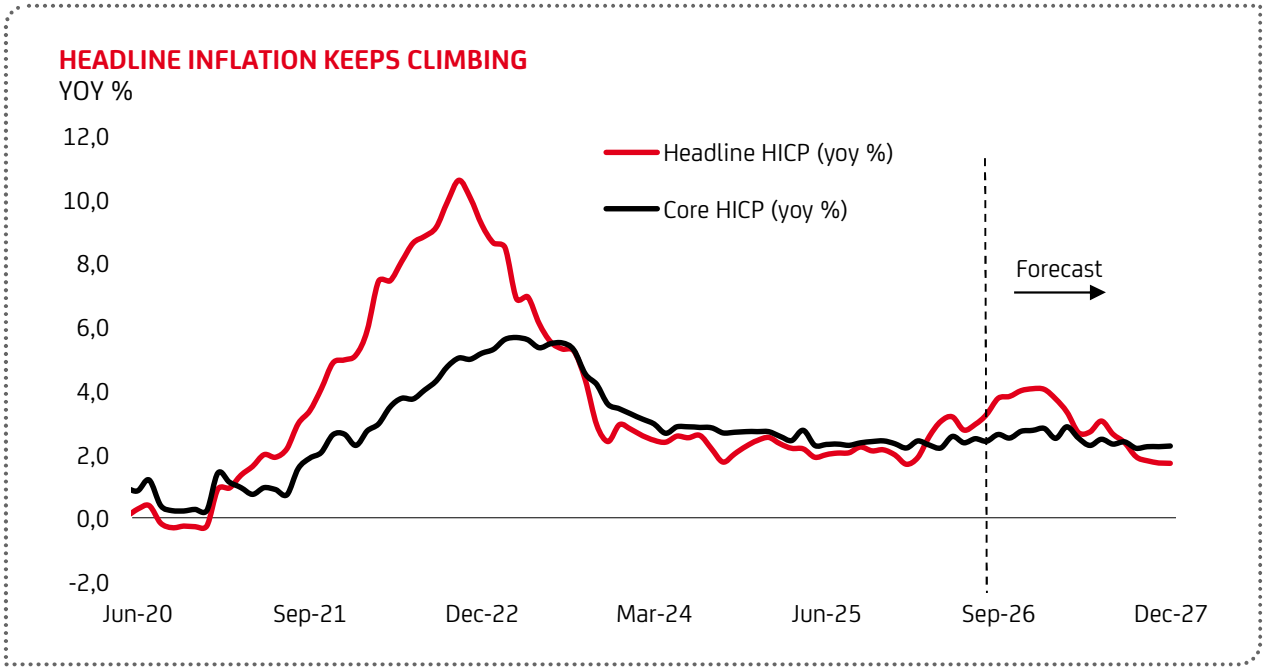


- Eurozone firms appear to be coping remarkably well with higher energy prices. By contrast, consumers have become more pessimistic.
- We think this pattern mainly reflects a strengthening of firms' pricing power in a world where supply-side shocks tend to occur more often. Recent bullish earnings revisions support this view, although the picture is heterogeneous. Industries more exposed to AI, defence infrastructure and electrification themes are in good shape, while consumer-facing sectors are doing less well.
- The eurozone corporate sector is also well equipped to cope with higher interest rates, following years of deleveraging and given ample liquidity buffers.

Source: EC, The Investment Institute by UniCredit

Eurozone

Intensifying inflation pressure keeps the ECB in tightening mode

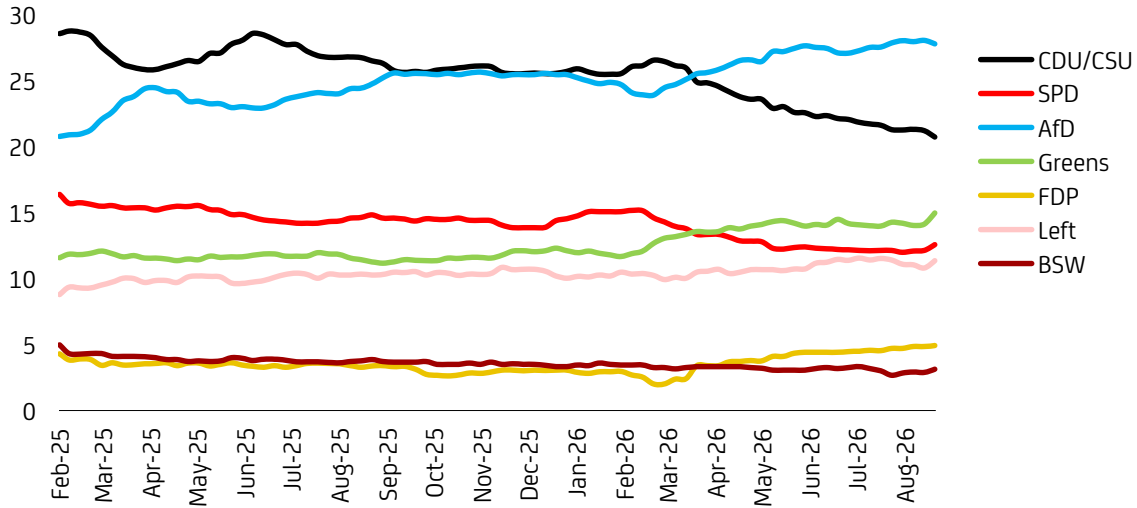


Source: Eurostat, The Investment Institute by UniCredit

- Higher oil and particularly gas prices have led to a deterioration in the inflation outlook.
- Headline inflation is likely to peak at around 4% at the turn of the year, before gradually converging back to the ECB's 2% target, but not until 4Q27.
  We remain confident that meaningful second-round effects will be avoided.
- The ECB is likely to push rates into mildly restrictive territory to counter the risk of inflation remaining above target for an extended period. We expect a 25bp hike in December. Similarly to the Fed, risks are tilted toward additional tightening if energy price do not start easing soon.
- We still expect a rate cut in the final months of 2027 as inflation returns to the ECB's target level.

Germany

Political centre takes a hit



Source: wahlrecht.de, The Investment Institute by UniCredit

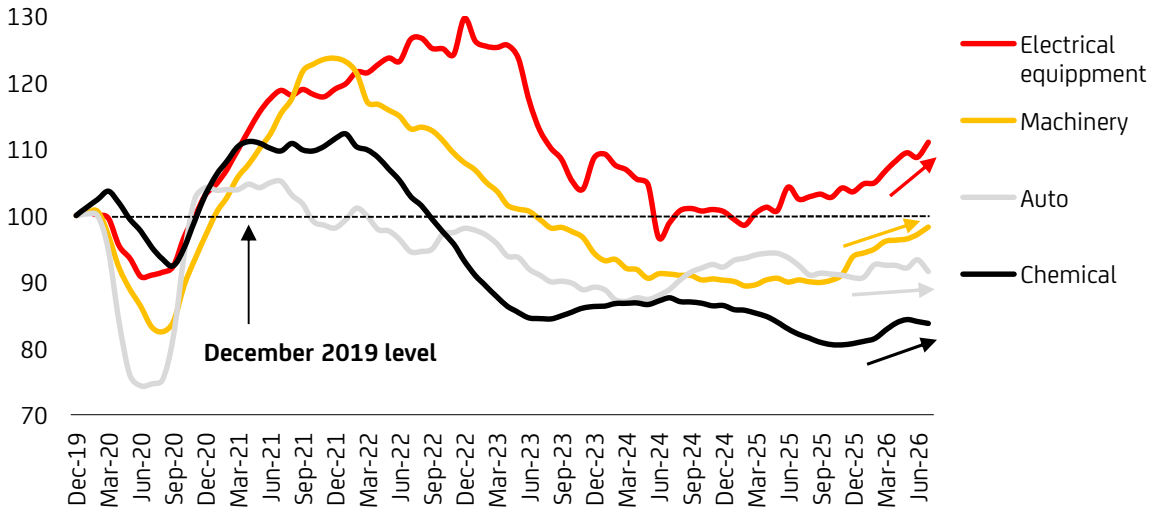
- In the state elections in September, the political centre took a hit, while the right-wing AfD performed strongly. In the latest nationwide opinion polls, the AfD came in at about 28% compared to 21% for the CDU/CSU .
- Despite the latest election setbacks, we believe that the structural reform agenda of the federal government remains (largely) intact. The CDU/CSU and the SPD agreed on a reform package spanning pensions, labour-market rules, competitiveness, taxation and bureaucracy reduction, with key measures intended to pass the Bundestag by the end of this year.
- The next state elections are scheduled for spring: Saarland and Schleswig Holstein will both vote on 18 April, followed by North-Rhine Westphalia on 25 April.

Germany

Comeback kid?

SIGNS OF LIFE IN INDUSTRY

NEW ORDERS BY SECTOR (INDEX DECEMBER 2019=100; 6-MONTH MOVING AVERAGE)

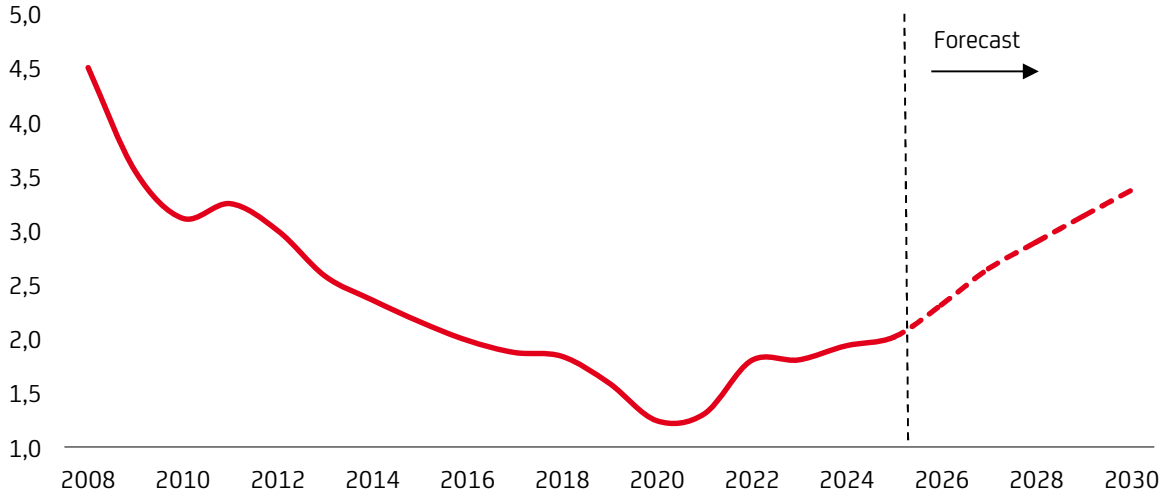


Source: destatis, The Investment Institute by UniCredit

- New orders have risen recently, albeit from varying levels. However, there is no universal driver behind the comeback of German industry but rather sector-specific drivers.
- For instance, in the machinery sector, companies have benefitted from large-scale plant projects outside the eurozone, but not from a broad capex recovery. In the chemical industry, the improvement has largely been triggered by fears of supply shortages, which have prompted precautionary restocking.
- German industry has finally bottomed out. More (moderate) growth momentum is expected next year when the implementation of the fiscal bazooka gains traction and energy prices (hopefully) ease.

France

Higher yields add to fiscal headwinds



- The sharp rise in OAT yields since the summer has exceeded that of global bond markets, highlighting mounting investor concerns regarding France's public finances. The move reflects doubts about the political feasibility of the fiscal consolidation needed to place public debt on a more-sustainable path.
- Ahead of next year's presidential election, the prospects for a stable parliamentary majority capable of delivering sizeable cuts in public spending remain constrained given France's fragmented political landscape. The possibility of a far-right presidency further adds to the uncertainty regarding the country's fiscal trajectory.
- Higher yields, in turn, increase debt-servicing costs, thereby making fiscal consolidation more challenging.

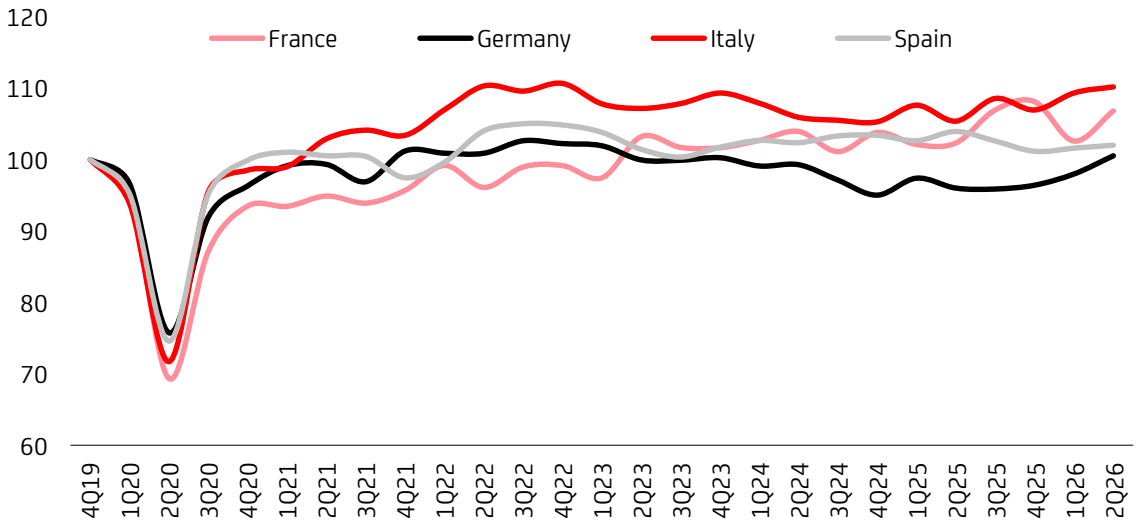
Source: Eurostat, The Investment Institute by UniCredit
Note: The implicit interest rate on debt is defined as the ratio between total interest payment at time t and the debt stock at t-1. Our calculations are based on the forward curve of French sovereign yields to date and should therefore be interpreted with the likely outlook for the interest rate on debt given the uncertainty surrounding the trajectory for interest rates.

Italy

Growth is holding up amid rising headwinds

ITALIAN EXPORTS SHOW RELATIVE STRENGTH

EXPORTS OF GOODS, IN VOLUME (INDEX 4Q19=100)



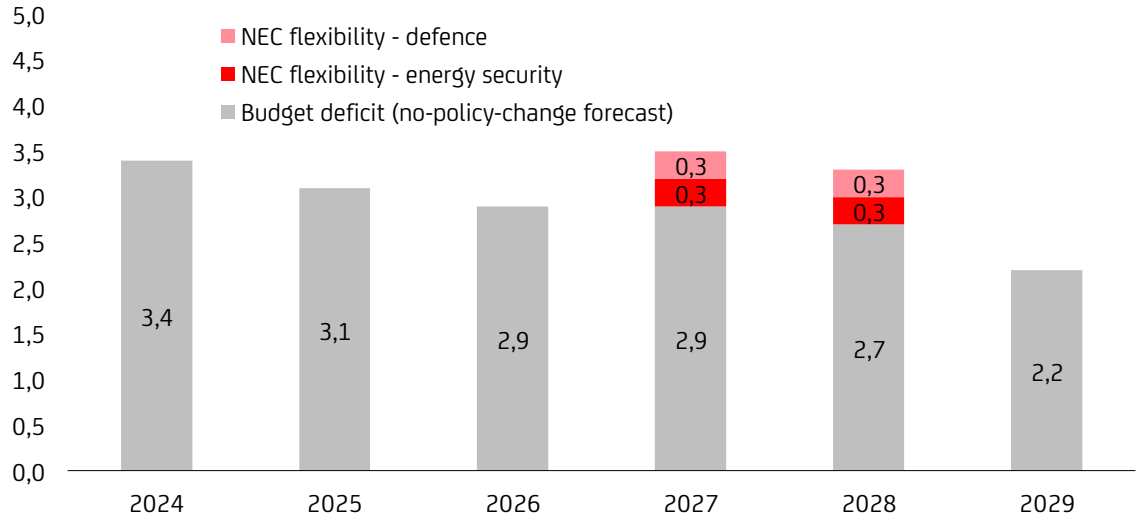
Source: Eurostat, The Investment Institute by UniCredit

- Italy's economy continues to outperform expectations despite the energy-price shock and higher inflation (4.2% in September), supported by growth in both private consumption and fixed investment. We now forecast GDP growth of 0.8% in 2026 and 0.6% in 2027.
- Exports have continued to perform relatively well compared with those of other major euro area peers. Goods exports increased by 3% in volume terms and 4.5% in value terms in 1H26, supported broadly equally by EU and non-EU markets, despite a slowdown in export growth to the US.
- Higher inflation and tighter financing conditions remain key headwinds for domestic demand, while potential disruptions in the Red Sea could further complicate firms' trade diversification efforts.

NEC fiscal flexibility temporarily lifts Italy's budget deficit

THE BUDGET DEFICIT IS SET TO REMAIN TEMPORARILY ABOVE 3% OF GDP

ITALIAN BUDGET DEFICIT TARGETS UNDER THE NEW FISCAL FRAMEWORK (% OF GDP)



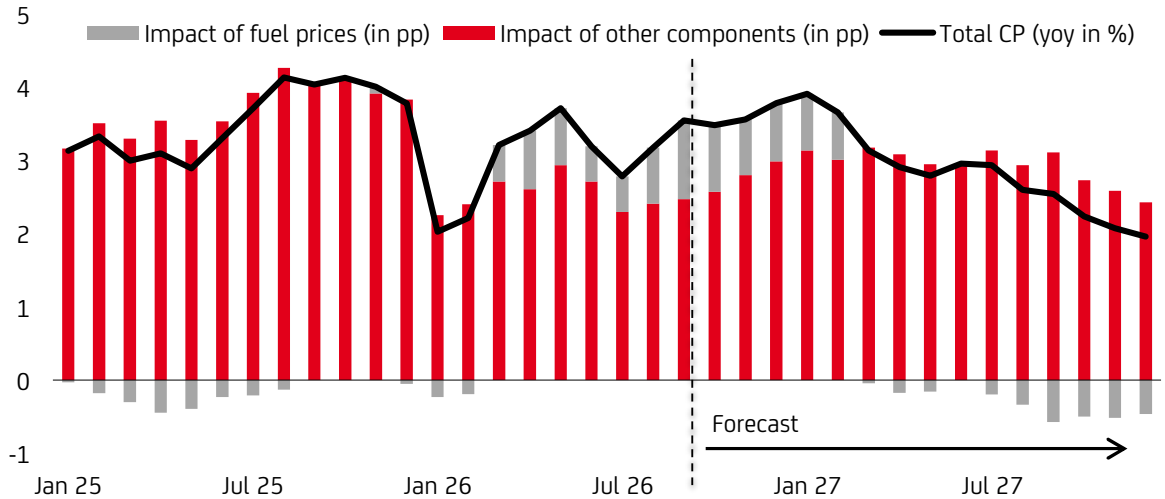
Source: Italy's government, The Investment Institute by UniCredit

- The government kicked off the 2027 budget process by presenting its new fiscal targets and confirming the activation of the National Escape Clause (NEC), which provides fiscal flexibility for energy security and defence worth around 0.6% of GDP per year in both 2027 and 2028, with less flexibility for defence spending than initially envisaged.
- NEC flexibility temporarily lifts the budget deficit above 3% of GDP in 2027-28, while supporting investment and growth. New budget deficit targets also reflect higher interest expenditure following the rise in government bond yields.
- After rising to 138.5% of GDP in 2027, the public debt ratio is expected to resume a downward path from 2028 onwards, with fiscal consolidation and improving primary surpluses helping to accelerate the decline in 2029.

Fuel prices will account for around a fifth of total inflation in 2026

FUEL PRICE BRAKE DELIVERS LIMITED RELIEF

INFLATION SPLIT INTO FUEL-RELATED AND OTHER COMPONENTS



- With the “fuel price brake”, the government is trying to cushion the upward pressure on prices. Since April, the mineral oil tax has been adjusted monthly in line with changes in crude oil prices. The measure is supplemented by a cap on trading margins.
- Despite a weight of only 2.9% in the CPI basket, fuel prices are expected to contribute 0.6 pp to the projected inflation rate of 3.2% in 2026.
- The fuel price brake will provide only limited relief, reducing annual inflation in 2026 by around 0.1 pp at a fiscal cost of approximately EUR 250mn.

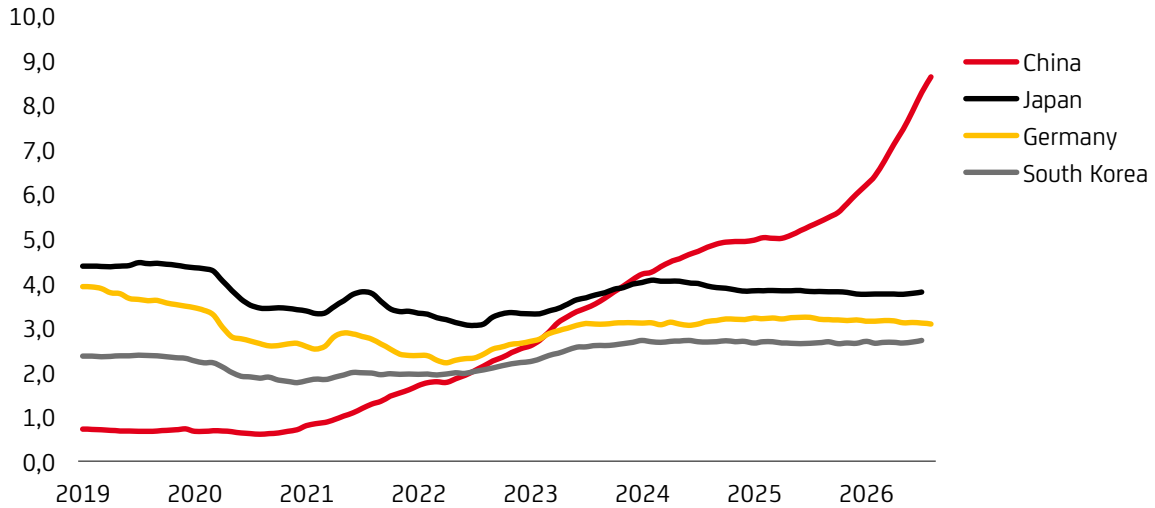
Source: Statistik Austria, The Investment Institute by UniCredit

China

Two-engine economy

CHINA'S AUTO SECTOR IS POWERING AHEAD

EXPORTS OF PASSENGER CAR SALES, IN MN UNITS (12-MONTH MOVING SUM)

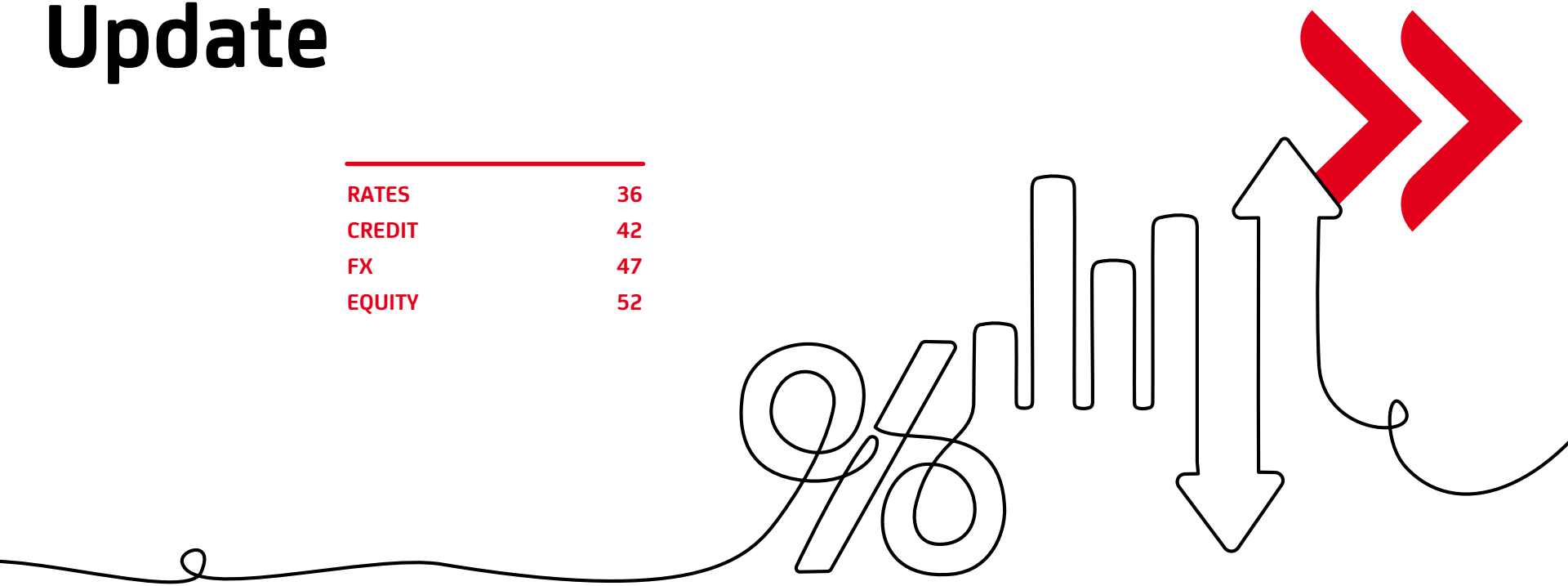


Source: China Association of Automobile Manufacturers, JAMA, Korea Automobile Manufacturers Association, VDA, The Investment Institute by UniCredit
Note: The data also include exports from foreign car manufacturers which produce in the country.

- China's export engine has been running at full speed, underlining its strength in advanced manufacturing. Passenger-car exports have surged further, especially shipments of hybrids and electric vehicles. Exports of (other) green technologies have also continued to rise strongly.
- In contrast, the domestic economy has remained much less dynamic, with residential property posing the main drag. The property downturn is likely to lead to further high precautionary savings, which, in turn, will hold back private consumer expenditures.
- We expect the PBoC to keep policy broadly accommodative, using liquidity support and targeted measures rather than rate cuts.

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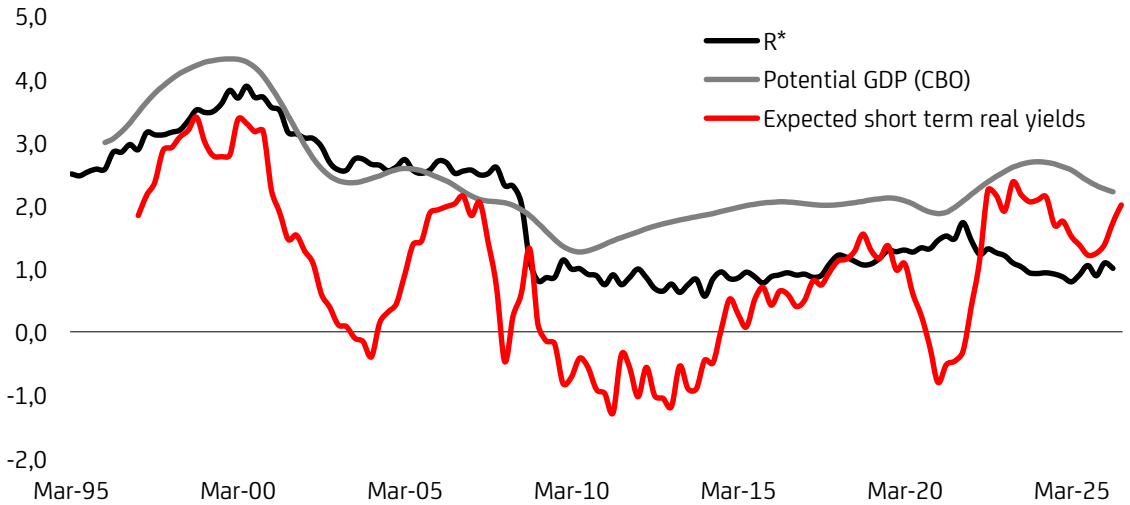


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Real US yields are consistent with a resilient economy

REAL YIELDS REFLECT A STRONG ECONOMY

EXPECTED SHORT-TERM REAL YIELD, R AND CBO POTENTIAL GROWTH (%)



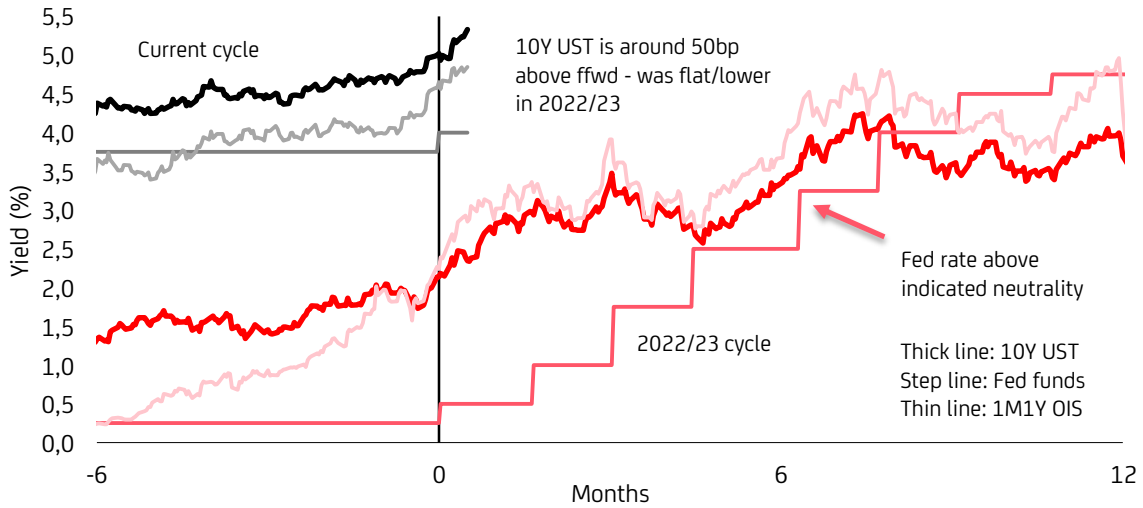
- Warsh highlighted **three drivers of higher UST yields**: a robust economy, competition for capital and geopolitics
- **Robust growth supports real yields**. Expected real US rates have risen materially since 2022 and remain consistent with a strong growth backdrop.
- **Structural forces could keep real rates elevated**. AI-related investment, productivity gains and deglobalization may increase the demand for capital.
- **Term premium remains the key upside risk**. The ACM estimate is around 80bp. It was on average 145bp in the period 1995-2007.

Source: Bloomberg, Fed, The Investment Institute by UniCredit
Note: Expected short term real yields are calculated as the nominal expected short term rates from the ACM model minus the breakeven inflation. They are intended to indicate the level of real yields net of the term premium

Long dated Treasuries offer a larger cushion to Fed than in 2022

10Y YIELDS NOW START ABOVE THE EXPECTED FED FUNDS RATE

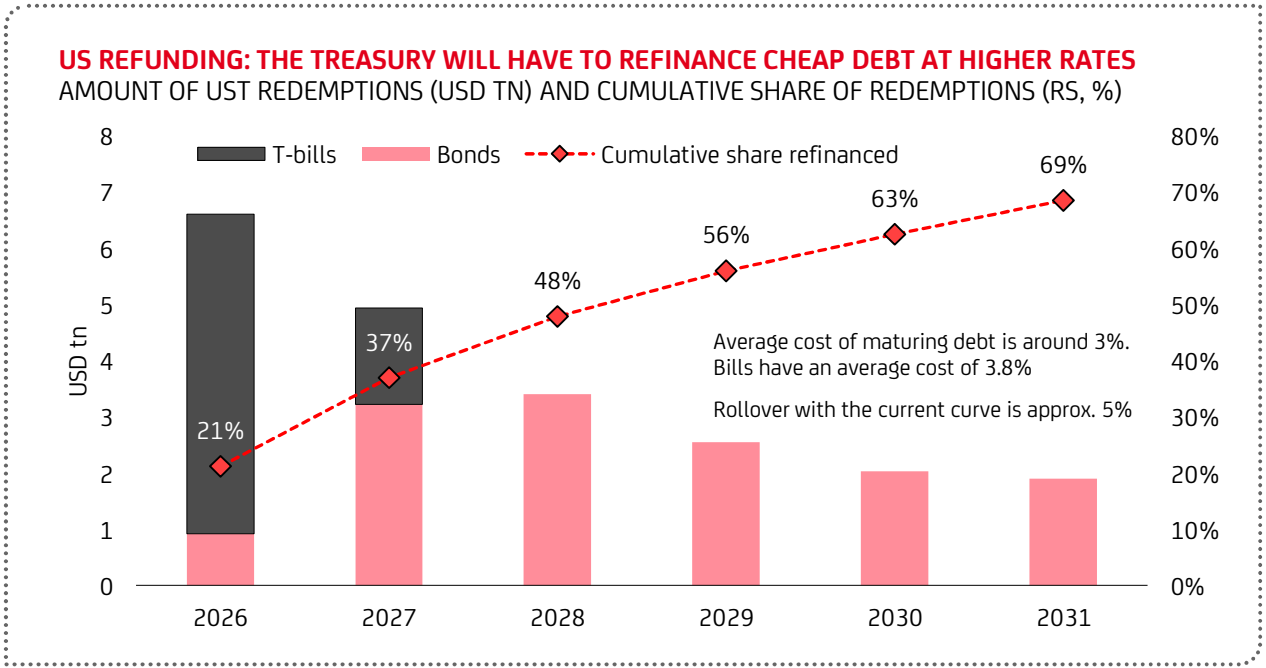
10Y UST YIELD, FED FUND AND 1M1Y OIS FORWARD



Source: Bloomberg, Investment Institute by UniCredit

- **A larger starting cushion**: the 10Y UST yield has repriced above 5%, above where it peaked in the previous tightening cycle. It also offers a higher spread relative to forwards.
- Fed rates are closer to neutrality and history shows that upward pressure from policy rates becomes limited once monetary policy enters restrictive territory. The **long end is less vulnerable to Fed tightening** than in 2022/23.
- While better protected against rate hikes than in 2022, **long-dated USTs remain exposed to other risks** (fiscal concerns, competition for capital, geopolitics).
- **Room to cut rates** in the medium-term **may be limited**, if a 4% policy rate is still accommodative, as suggested by Warsh. **We expect the 10Y UST yield to be around 5% until year end.**

Higher UST yields are a headache for Bessent, not Warsh



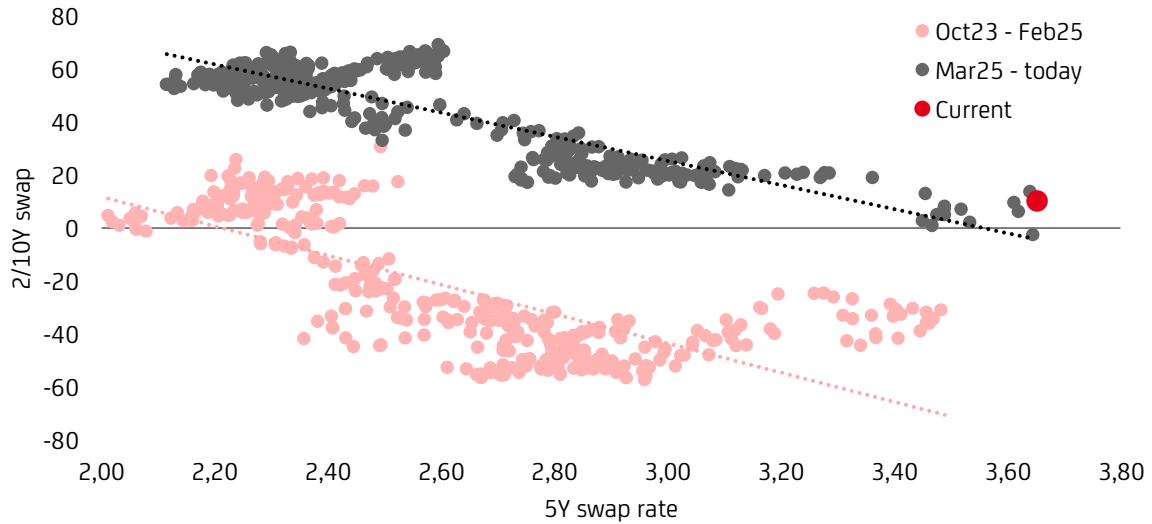
- **Large refinancing wall**: USD 6.5tn of bills, notes and bonds mature by year-end, keeping Treasury supply elevated.
- The reset extends well beyond 2026: nearly 50% of debt will have to be refinanced over the next two years and 69% by 2031.
- **Higher yields mean a higher interest bill**: maturing debt carries yields of roughly 3%, refinancing with today's curve is at around 5%.
- This environment can lead to **increasing tensions between the Treasury**, which aims at minimize the cost of debt, **and the Fed**, whose priority are price stability and full employment.

Note: numbers on the bars denote the average yield of USTs per each year
Source: Bloomberg, The Investment Institute by UniCredit

A new inversion in sight across eurozone curves?

AGGRESSIVE RATE HIKE EXPECTATIONS ARE WEIGHING ON THE SHORT END

THE 5Y SWAP AND THE 2/10Y SPREAD BEFORE AND AFTER THE LAUNCH OF THE FISCAL BAZOOKA



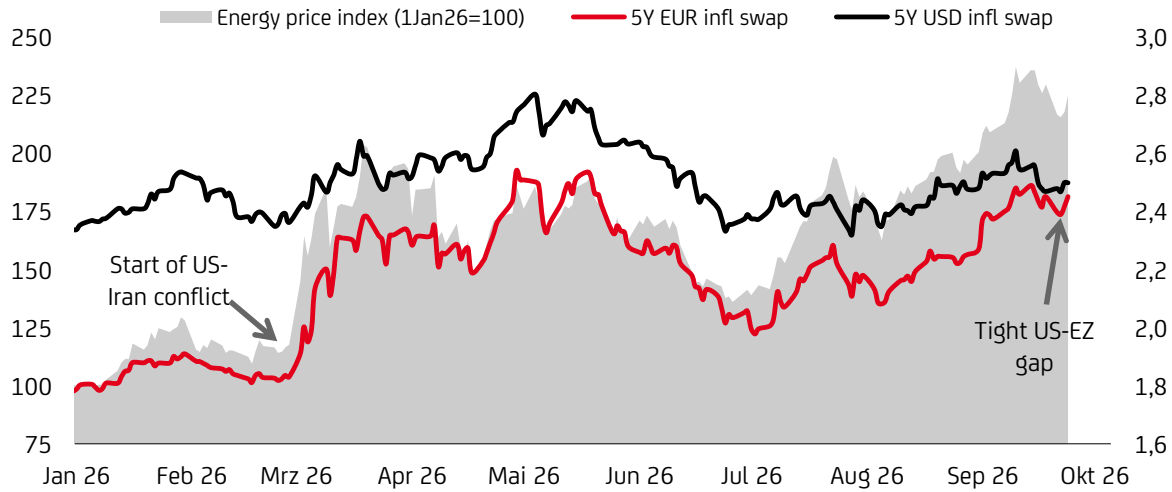
Source: Bloomberg, Investment Institute by UniCredit

- Aggressive rate hike expectations and rising implied volatility have led to a **strong bear-flattening** in the eurozone, with the 2/10Y spread on the swap curve now close to 0bp.
- **The swap and EGB curves have become structurally steeper** following the announcement of the fiscal bazooka in Germany (March 2025), which should prevent them from inverting significantly as in 2022-23. That said, more hawkish investor expectations could bring the 2/10Y spread into negative territory.
- The outlook for EUR rates markets remains fragile and **we expect the 10Y Bund yield to remain around 3.4%** by the end of 2026, with the curve bull-steepening in the second half of 2027.

Inflation expectations are high but under control

MARKET-BASED INFLATION EXPECTATIONS HAVE STABILISED IN THE EUROZONE AND THE US

ENERGY PRICE INDEX VS. 5Y EUR AND USD INFLATION SWAP RATES



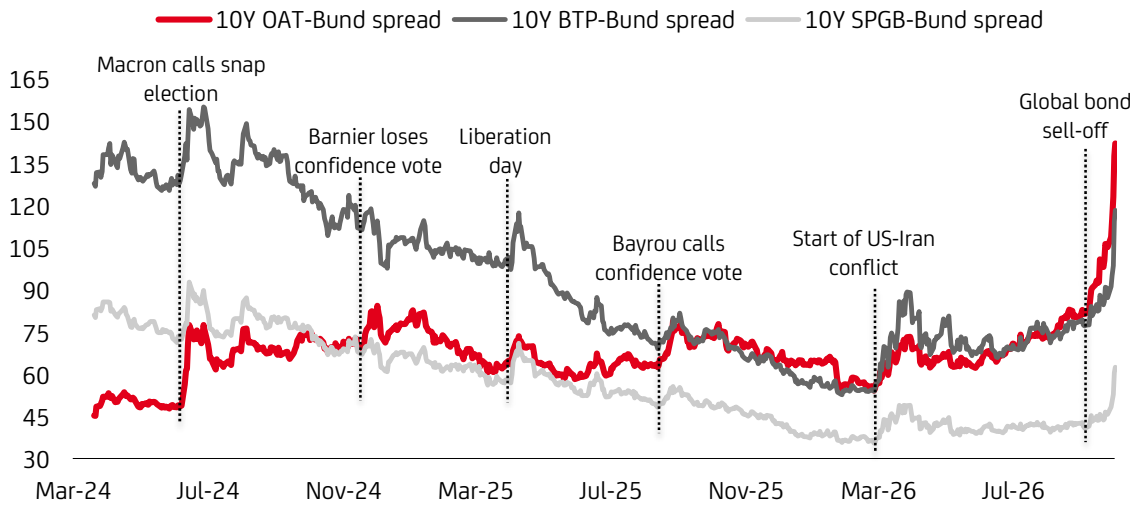
- The outbreak of the conflict in the Middle East and the consequent spike in oil and gas prices led to an increase in market-based inflation expectations, especially in the eurozone, which is more exposed to imported energy price.
- Although energy prices have further risen, **inflation swap rates have mostly stabilised** in the past few weeks, presumably reflecting ECB's and Fed's pledge to tighten monetary policy until inflation is back at the 2% target. **Risks to the inflation outlook appear to be contained**, despite the uncertain environment.
- We note that the EUR inflation swap rate is only slightly lower than its USD peer, although inflationary pressure has historically been higher in the US.

Source: Bloomberg, The Investment Institute by UniCredit
Note: the energy price index reflects equally weighted changes in Brent and TTF natural gas prices.

OATs: specific factors add to overall market weakness

OATS HAVE UNDERPERFORMED, WITH THE 10Y SPREAD TO BUNDS WIDENING ABOVE 100BP

10Y OAT, BTP AND SPGB YIELD SPREAD TO BUND



- Geopolitical tensions have interrupted the convergence trade observed last year, but they have had a different impact across EGBs.
- **Some differentials**, including the SPGB-Bund spread, **have remained resilient**, only widening moderately from the start of 2026.
- **BTPs** have underperformed as Italy is highly exposed to energy prices and due to the **elevated debt to refinance.**
- **French govies** have been the worst performers this year, with the 10Y spread to Bund widening to levels last seen in 2012, as political uncertainty due to the **2027 presidential election** has compounded to the effect of higher refinancing costs. We think substantial spread tightening is unlikely for now.

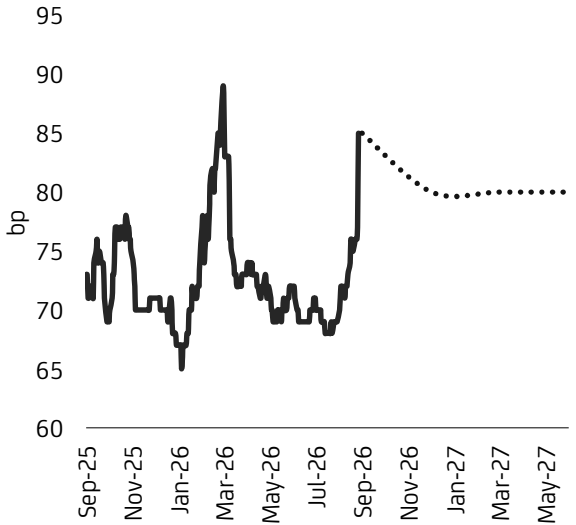
Source: Bloomberg, The Investment Institute by UniCredit
Note: 10Y OAT, BTP and SPGB yields are computed by interpolating bonds in the 10Y area of the curve.

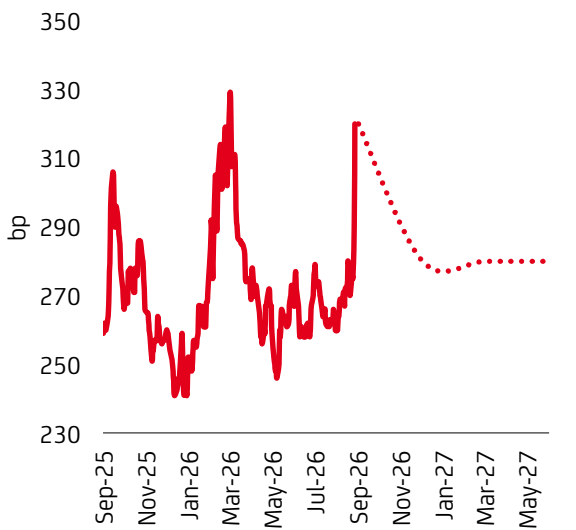
Credit

Spread normalisation after recent widening

WE EXPECT CORPORATE CREDIT SPREADS TO NORMALISE IN 4Q26

CORPORATE SPREAD FORECASTS IG NFI SEN (LEFT CHART) AND HY NFI (RIGHT CHART) (BASIS POINTS)





Source: Bloomberg, The Investment Institute by UniCredit

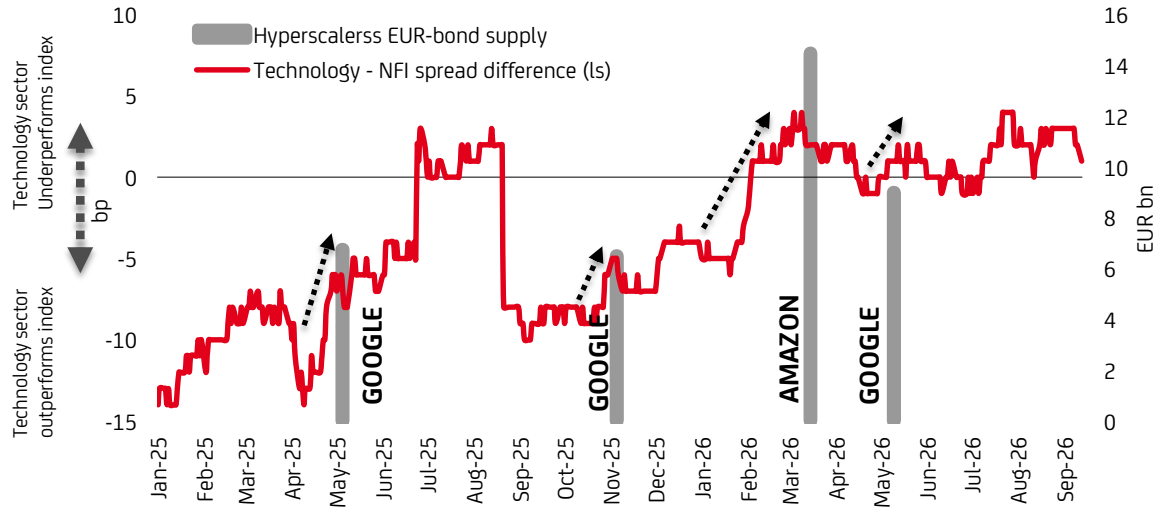
- After the recent spread widening, **we expect credit risk premiums to normalise in the coming months**. Still-solid credit fundamentals, high cash reserves and corporates' conservative financial policies argue in favour of a spread normalisation.
- While new bond issuance by hyperscalers remains an important credit-market theme, we see the related risks as being limited to the technology sector.
- **We stick to our base-case scenario for credit and see IG NFI and Banks SEN spreads at 80bp and HY NFI at 280bp by the end of the year.**
- The situation in the Strait of Hormuz and the Bab al-Mandab Strait is far from resolved and creates upside risks for oil and gas prices. This would be negative for credit spreads, particularly for the weakest market segments.

Credit

Technology continues to underperform, awaiting new bond issues

NEW BOND ISSUANCE BY HYPERSCALERS VS. RELATIVE PERFORMANCE OF TECHNOLOGY SECTOR

NEW BOND ISSUES (EUR BN, RS) VS. TECHNOLOGY/IG NFI SEN INDEX DIFFERENCE



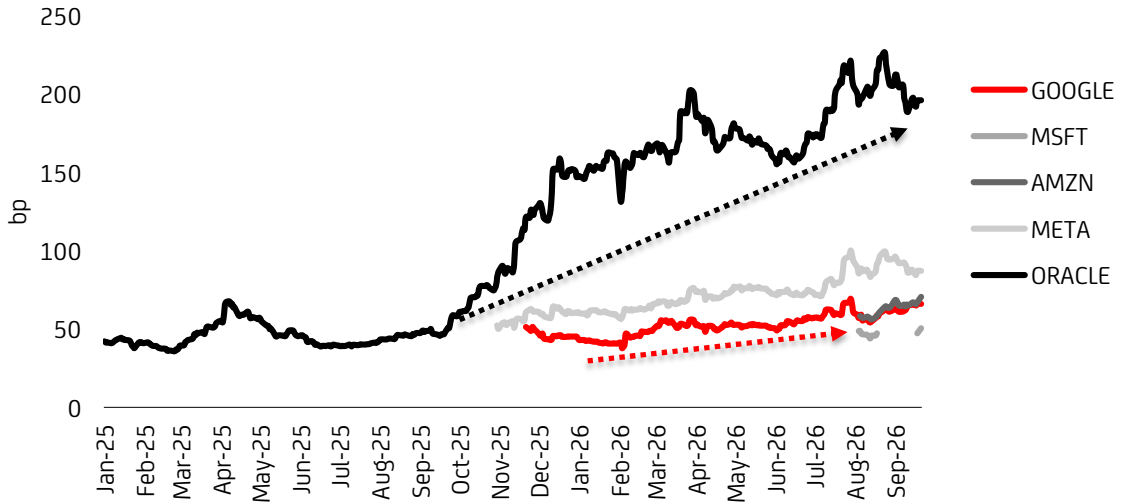
Source: Bloomberg, The Investment Institute by UniCredit

- New issuance by hyperscalers is likely to weigh on the technology sector going forward, however without having repercussions for the rest of the market.
- This is due to the fact that the new bond issues by hyperscalers are high relative to the average issue size in the technology sector, but comparable to multi-tranche issues in other sectors .
- Even though the size of hyperscaler issues are large relative to the usual issue size in the sector, compared to the market they imply only a limited crowding-out effect. We see new bond issuance by hyperscalers as having an idiosyncratic effect on the technology sector only. We expect some EUR 20bn in new issues by hyperscalers until the end of this year.

Hyperscalers' default insurance premiums surge

DEMAND FOR CREDIT RISK PROTECTION ON HYPERSCALERS' DEBT EXPOSURE HAS INCREASED

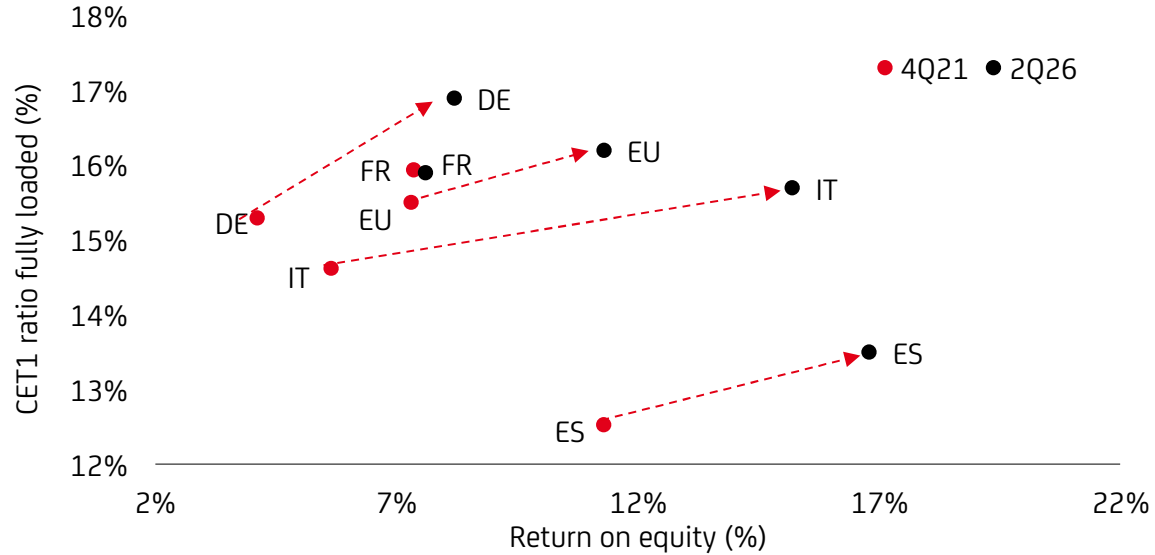
HYPERSCALERS 5Y CDS PREMIUMS



Source: Bloomberg, The Investment Institute by UniCredit

- The huge capex hyperscalers have invested in data centres will likely exceed their operating cash flows in the coming years, meaning that they need to rely heavily on external funding – besides (private) equity also on credit. Consequently, their leverage will likely increase, although gradually, and in most cases from low levels.
- As many data centres have one or only few tenants, concentration risk is high. Moreover, a number of operational risks – notably the high energy intensity of data centres – could affect their profitability.
- Investor perception of hyperscalers' credit risk has increased, as reflected in CDS premiums widening, e.g. with Oracle (Baa2n/BBB-s/BBBs) trading at levels consistent with BB rated corporates and META (Aa3s/AA-s/--) with those of BBB rated credit.

We see moderate spread-widening pressure for bank credit



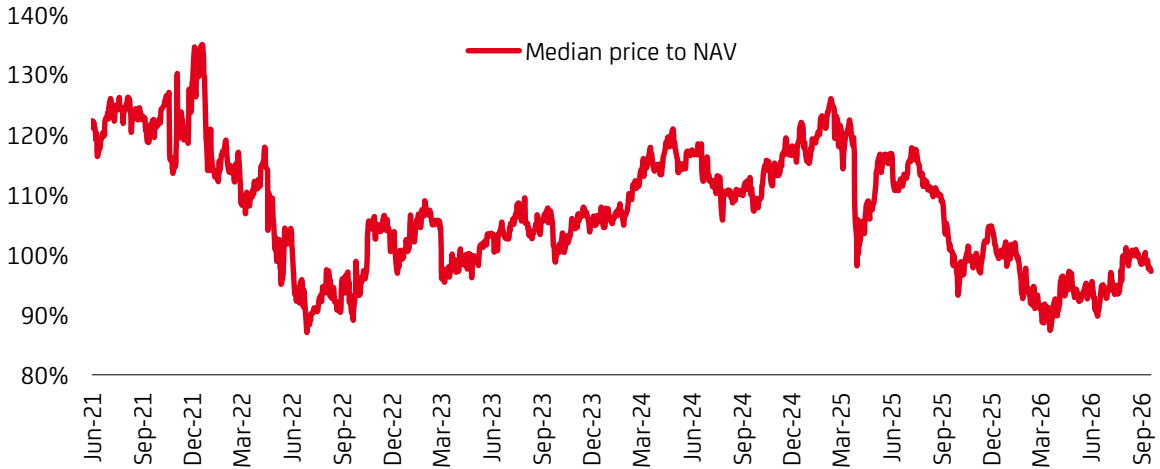
Source: European Banking Authority, The Investment Institute by UniCredit

- Strong fundamentals, such as good bank profitability and high capitalisation, leave banks less vulnerable to macro shocks.
- Higher yields are supporting banks' profitability outlook, while economic growth is still holding up well.
- A potential escalation of the Iran conflict represents a macroeconomic tail risk for banks. Banks from the US, the UK, Switzerland and the EU have an aggregate exposure to counterparts in the GCC region of above USD 500bn. Since the beginning of the Iran conflict, credit investors have taken a constructive view.
- Our spread forecast for senior bank bonds for end-2026 is 75bp (84bp currently).
- We have seen some spread-widening over the last few weeks, which poses upside risk to our spread forecast if the Middle East conflict continues.

Private credit: BDC discount narrowed, but high redemption requests

US BDCS ARE TRADING AT AN INCREASING DISCOUNT TO NAV

AVERAGE NET ASSET VALUE DISCOUNT OF THE TOP TEN US BDCs



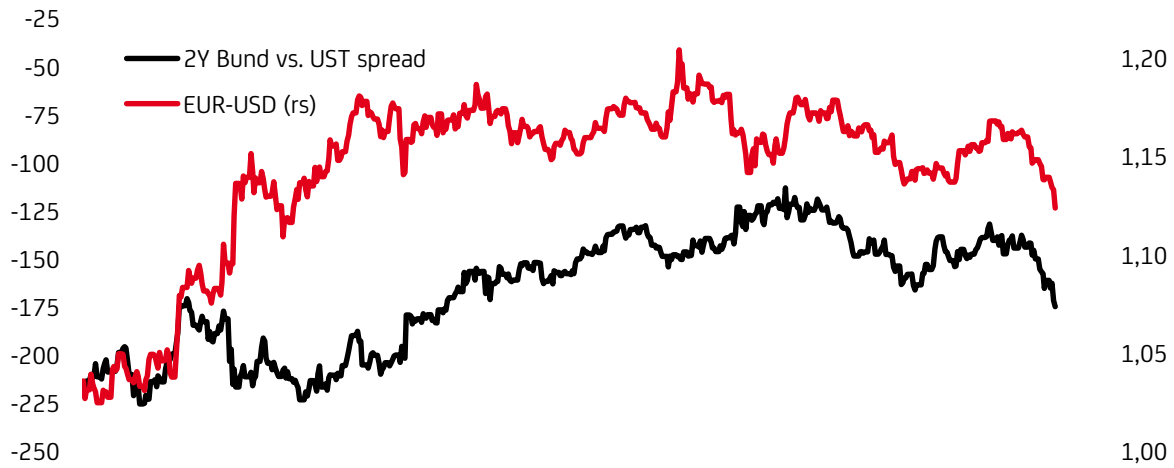
- Listed US business development companies (BDCs) are a good proxy for private-credit sentiment. After reaching a 10% discount to the net asset value (NAV) in early 2026, valuations have recovered, reflecting lower investor concern.
- However, liquidity pressure persists, as high redemption requests continued in 2Q26. Redemption limits help to prevent acute liquidity shocks.
- Furthermore, credit-quality indicators of underlying loans have weakened.
- Lower liquidity and weaker credit quality point to higher default risk, which could limit the return of private credit, while systemic risk remains low.

Source: Bloomberg, The Investment Institute by UniCredit

EUR: a return just above 1.15 still more likely than a dive below 1.10

YIELD DIFFERENTIALS REMAIN A KEY DRIVER FOR EUR-USD

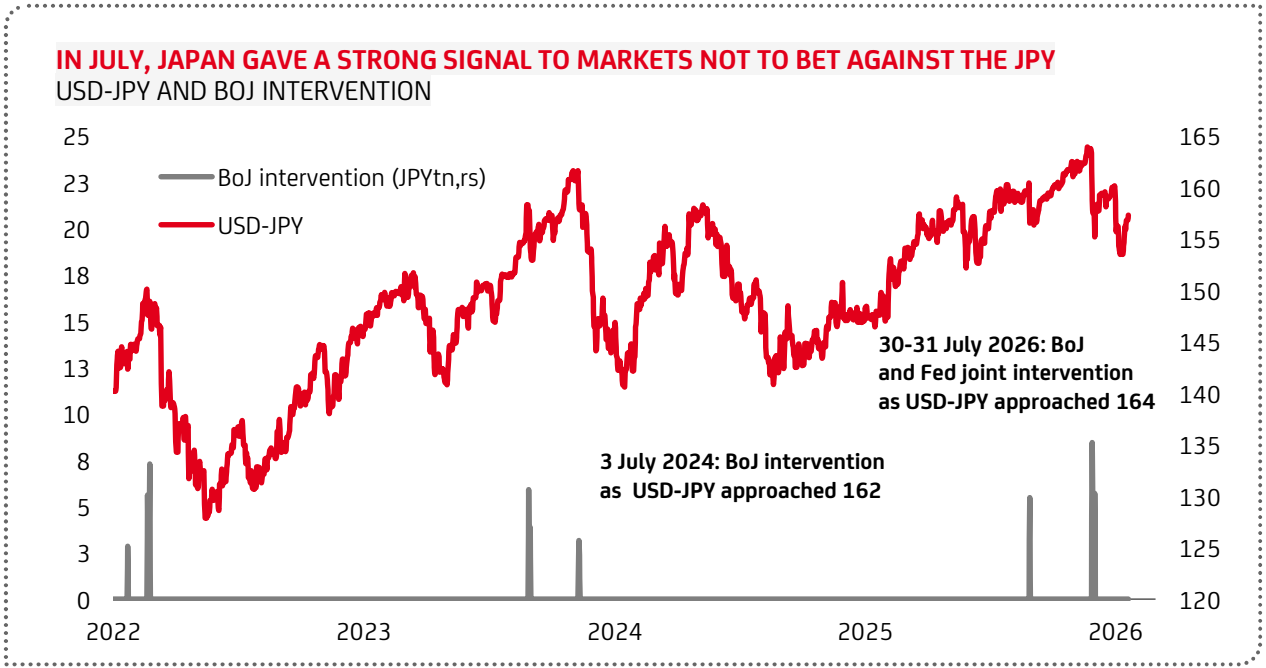
EUR-USD AND 2Y BUND UST SPREAD



Source: LSEG, The Investment Institute by UniCredit

- EUR-USD has fallen from its August highs above 1.17 to new YTD lows close to 1.12, amid widening of yield spreads in favour of the US unit.
- Concerns over public finances in France contributed to the euro's slide, but a rebound, albeit just above 1.15, remains a more likely medium-term scenario than a drop well below 1.10 in our view.
- The next ECB and Fed hikes are largely priced in; tensions between the US Treasury and the Fed may spark de-dollarisation again and President Trump may also favour a lower USD ahead of the midterm elections (3 November).
- The USD may rise further as a safe-haven unit if the crisis in the Middle East escalates again or in case of more tightening by the Fed. Otherwise, 1.14 for end-2026 and 1.18 for end-2027 remain the two targets.

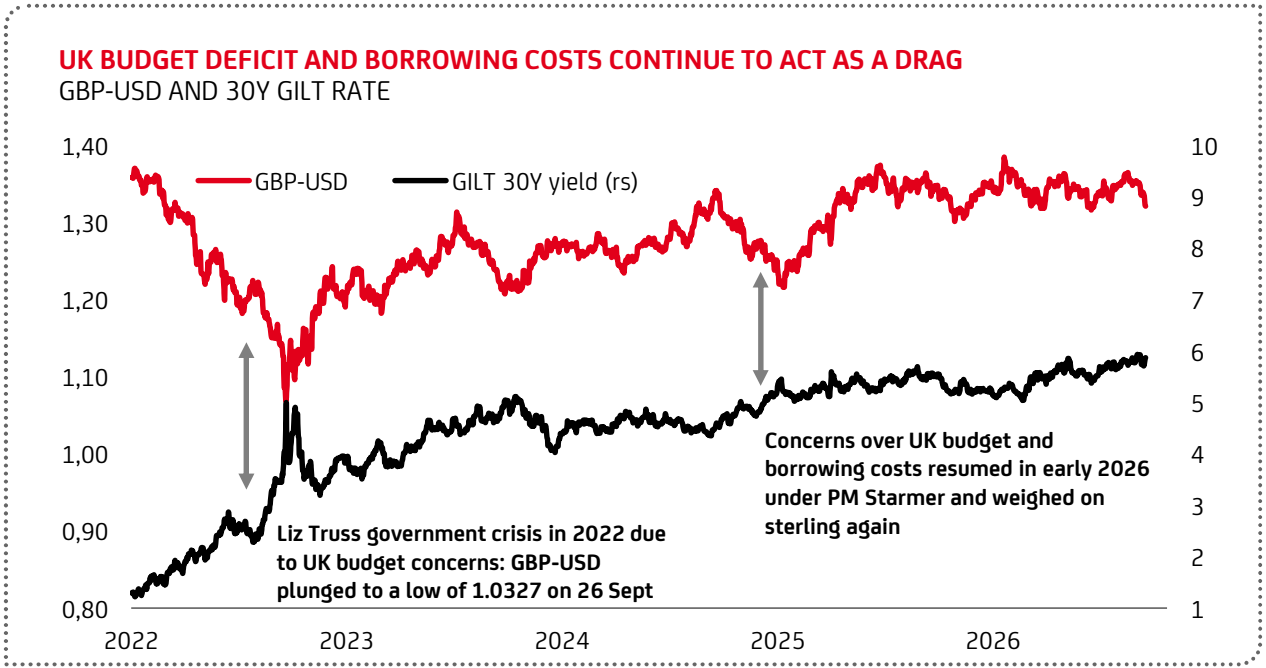
JPY: a tighter BoJ could help, but a break beyond 150 is challenging



Source: LSEG, The Investment Institute by UniCredit

- We still expect a lower USD-JPY ahead. The joint FX intervention by the BoJ and the US Treasury in late July, when USD-JPY rose close to 164, sent a strong message to markets not to bet against two major central banks.
- Beyond next Fed rate hikes, the pace of BoJ's monetary tightening will be a key driver for the USD-JPY picture.
- The BoJ is now faced with a dilemma: CPI in Japan has already approached the 2% target and may rise further, while more rate hikes should not crowd out the government's fiscal plan (JPY 370bn/USD 3.2tn) to help the economy.
- A BoJ policy rate increase up to 1.50% from 1.25% currently by end-2026 and to 2.00% by end-2027 is feasible, dragging USD-JPY down further. Still, a decline below 150 remains challenging. EUR-JPY should slide towards 175.

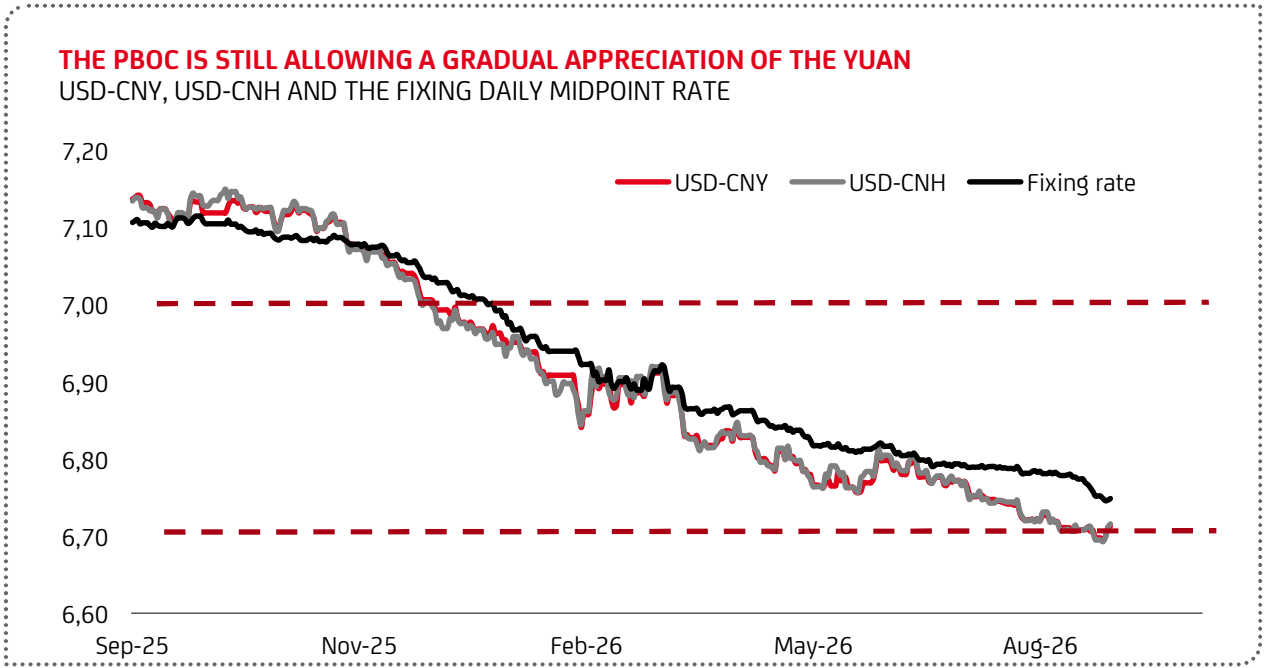
GBP: a prudent BoE on rates and UK public finances to weigh further



Source: LSEG, The Investment Institute by UniCredit

- We remain moderately bearish on the GBP. We expect the BoE to remain prudent on rates, in order not to weigh on the already battered UK economy.
- We expect two rate hikes, in November and February, while forward rates are now pencilling in a total of more than 110bp by the end of next year.
- Borrowing costs and the health of UK public finances would be another two possible drags on sterling, even though UK log-term Gilt yields remain high. The new UK Autum budget on 28 October will be the main test ahead.
- On balance, we thus expect GBP-USD to moderately decline towards 1.30 and EUR-GBP to reapproach 0.89-0.90.

CNY: steady appreciation against the USD to continue



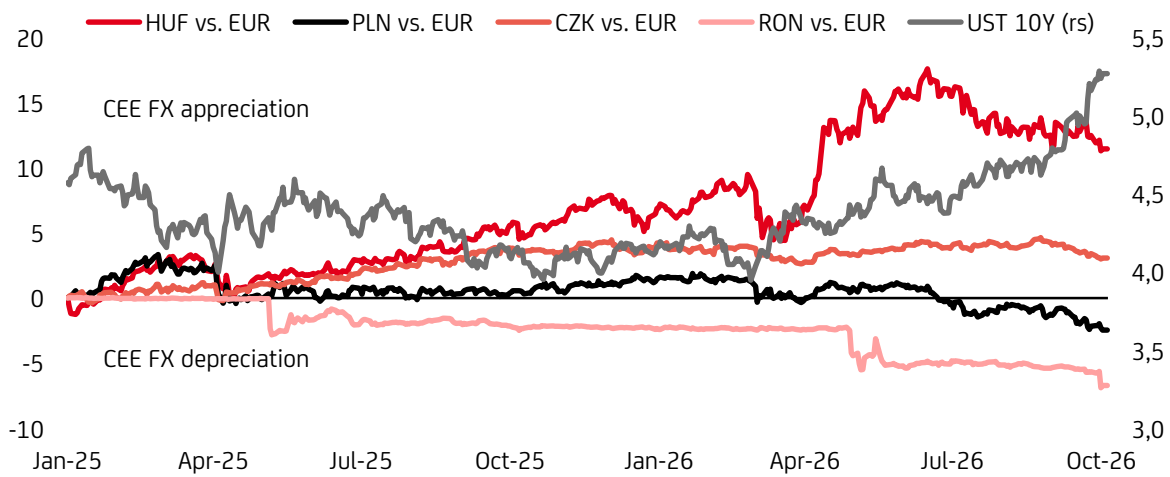
Source: LSEG, The Investment Institute by UniCredit

- Chinese policymakers have indicated their readiness to accept a further appreciation of the yuan.
- USD-CNY and USD-CNH have already tried to break below the 6.70 mark, with the yuan reaching its highest level in roughly three and a half years.
- While the internationalisation of the physical yuan has been modest, China can achieve greater results through the digital yuan (e-yuan), where Beijing is years ahead of the rest of the world.
- To do so, the physical yuan must be perceived as a stable, strong, low-volatile and reliable currency to make the digital yuan even more attractive.
- USD-CNY at 6.65 by end-2026 and 6.60 by end-2027 look like two reliable targets now.

CEE: Rising core market yields create headwinds for CEE currencies

THE RECENT RISE IN CORE MARKET YIELDS CHALLENGES THE STABILITY OF CEE CURRENCIES

% CHANGE IN CEE CURRENCIES VS. EUR SINCE END-2024 AND 10Y UST YIELDS (%)

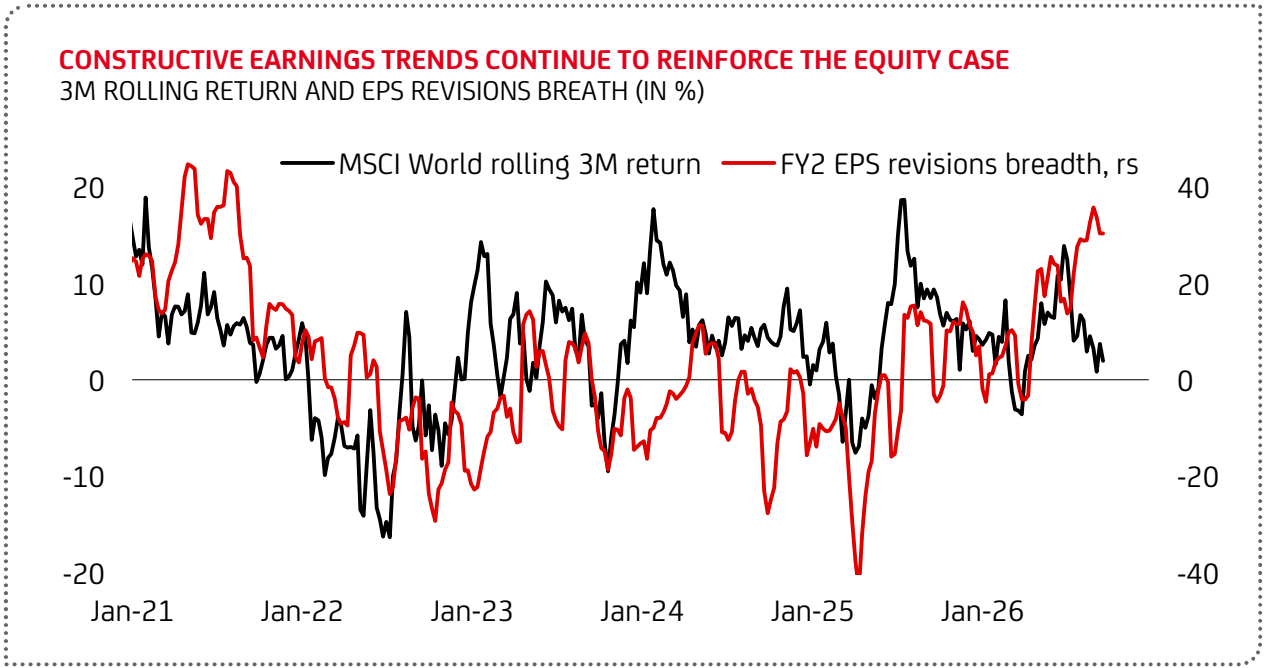


Source: LSEG, The Investment Institute by UniCredit
Note: The chart was last updated by data from 05 Oct 2026.

- Re-surging energy prices, rising core market yields and a stronger dollar create headwinds for CEE currencies, challenging a prolonged stability vs. the EUR.
- External factors will likely remain key drivers for CEE FX, with local factors determining relative performances. A retreat in energy prices could support CEE FX stability.
- **EUR-PLN** may underperform CEE peers in 2H27, when the upcoming elections widen country specific risk premium.
- **EUR-CZK** may remain relatively stable, supported by the CNB's hikes.
- **EUR-HUF:** Fiscal consolidation plans and the NBH's cautious stance may help to keep EUR-HUF in the 355-365 range.
- **EUR-RON:** Political risks may trigger repricing into a higher trading range.

Equity

Earnings remain the market's anchor



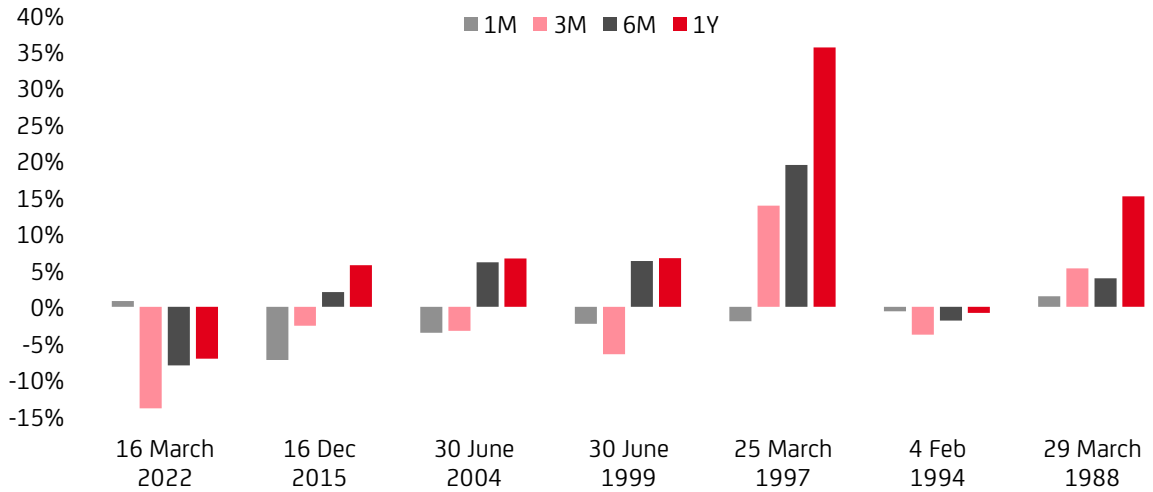
- Corporate earnings remain the key pillar of the equity rally, with companies continuing to deliver results above expectations and analysts raising their profit forecasts.
- Importantly, earnings upgrades are no longer confined to a handful of technology companies. They are gradually spreading across sectors, company sizes and regions, reducing reliance on a narrow group of market leaders.
- Higher energy prices, inflation concerns and rising bond yields may cause bouts of volatility in the short term. However, as long as economic activity remains resilient, we see scope for double-digit gains in global equities by mid-2027.

Source: LSEG Datastream, The Investment Institute by UniCredit
Note: FY2 denotes consensus earnings estimates for the next fiscal year. Revisions breadth is analyst upgrades minus downgrades, expressed as a percentage of total EPS revisions.

History suggests patience pays during Fed tightening cycles

STAYING INVESTED HAS OFTEN PAID OFF

S&P 500 PRICE PERFORMANCE FOLLOWING THE FIRST FED HIKE AFTER A PAUSE

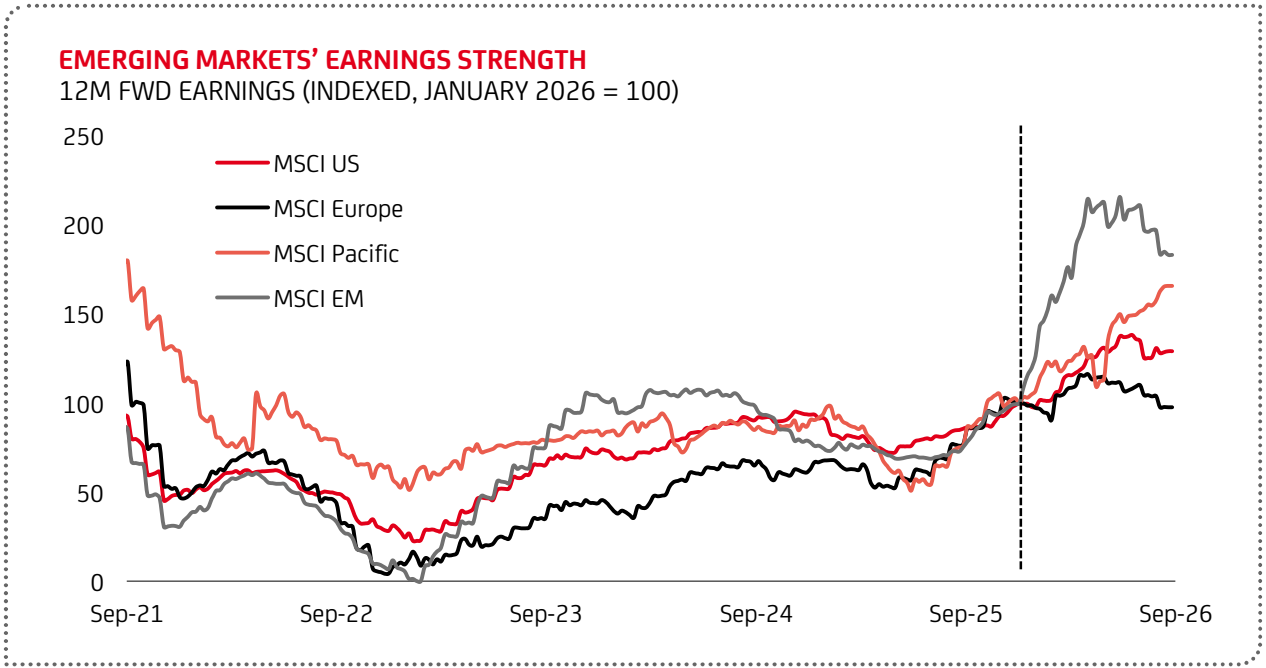


- History suggests that while the first Fed hike after a pause can weigh on equities in the short term, market performance generally improves over longer horizons, with investors often rewarded for staying invested.
- We expect the Fed to deliver one further 25bp rate hike this year, reflecting resilient economic growth, a labour market that remains close to full employment and slower-than-expected progress on inflation.
- Although tighter policy may create near-term volatility and broaden market leadership beyond the strongest growth names, the combination of solid earnings growth and a resilient economy continues to support the medium-term equity outlook.

Source: LSEG Datastream, The Investment Institute by UniCredit

Equity

Strong earnings outlook continues to drive emerging markets

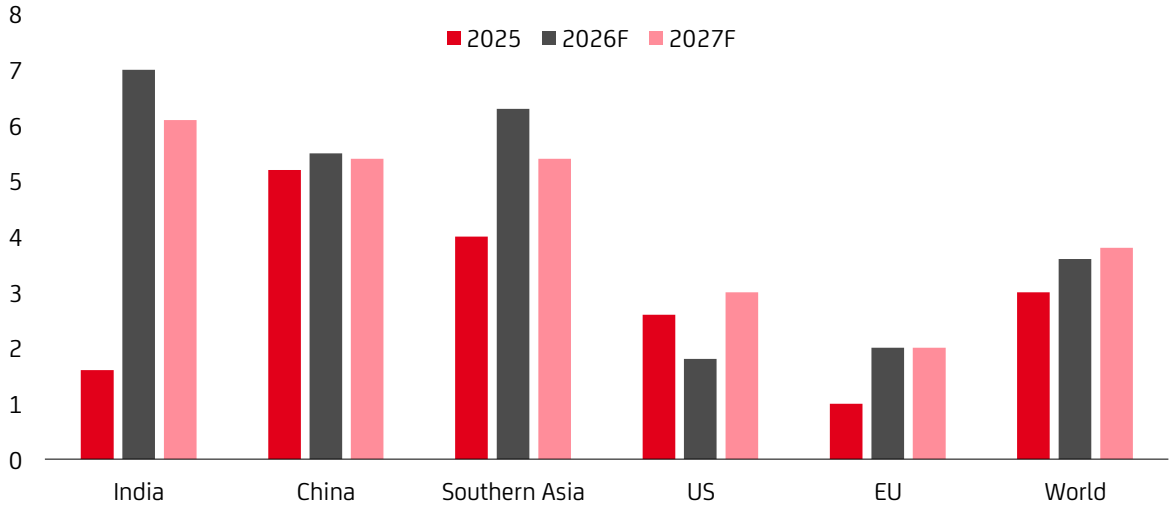


- EM equities continue to benefit from structural growth drivers, including the AI build-out. Taiwan and South Korea occupy strategically important positions in the global AI value chain, helping to support earnings growth and corporate fundamentals across emerging markets.
- Although earnings expectations have moderated somewhat in recent months, we view this as a consolidation rather than a change in trend. The broader earnings backdrop remains constructive and continues to compare favourably with most other regions.
- Valuations also remain attractive relative to other regions. This combination underpins our overweight stance on EM equities.

Source: LSEG Datastream, The Investment Institute by UniCredit

Equity

Industrials: powering the next investment cycle

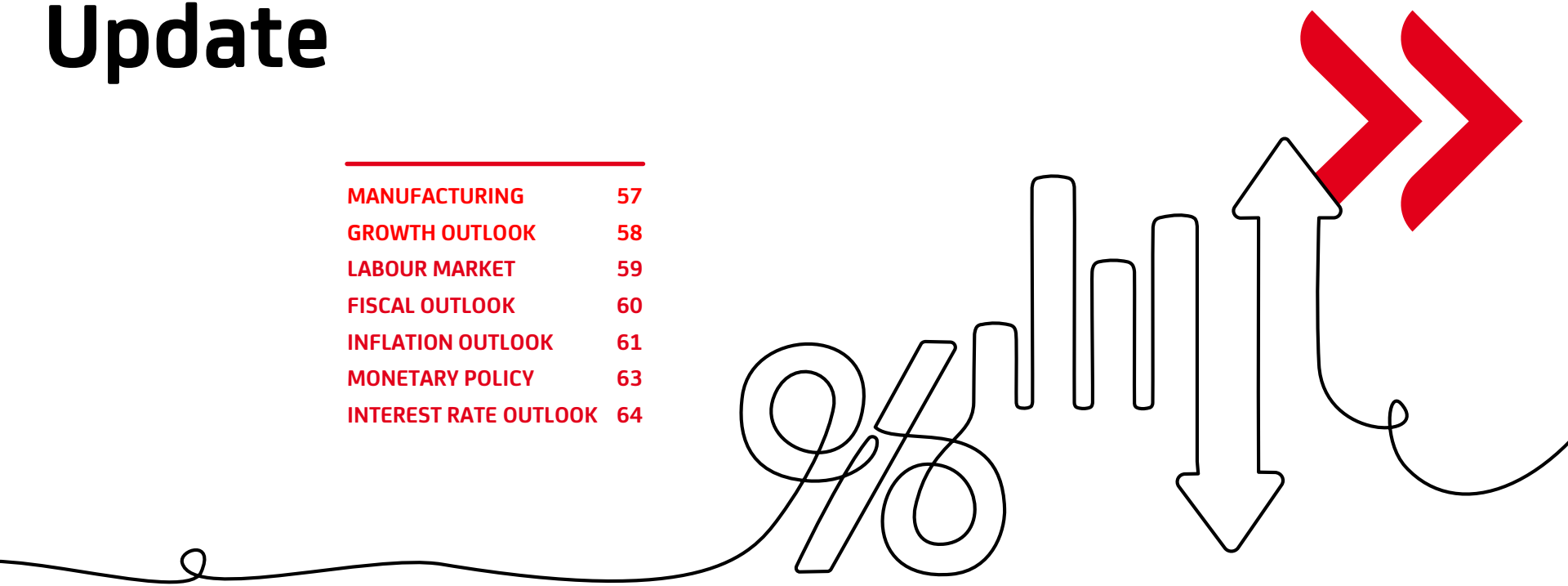


Source: IEA, The Investment Institute by UniCredit

- Accelerating electricity demand, driven in part by the rapid expansion of AI infrastructure, is creating a need for sustained investment in power networks, grid modernisation and related infrastructure.
- At the same time, improving manufacturing activity is broadening earnings support across the industrial sector, leaving companies exposed to both structural and cyclical growth drivers.
- Industrials offer attractive exposure to several of the most important investment themes of the coming decade, supported by solid earnings growth and less-demanding valuations than technology stocks. They also help broaden the sources of return within equity portfolios.

CEE Update

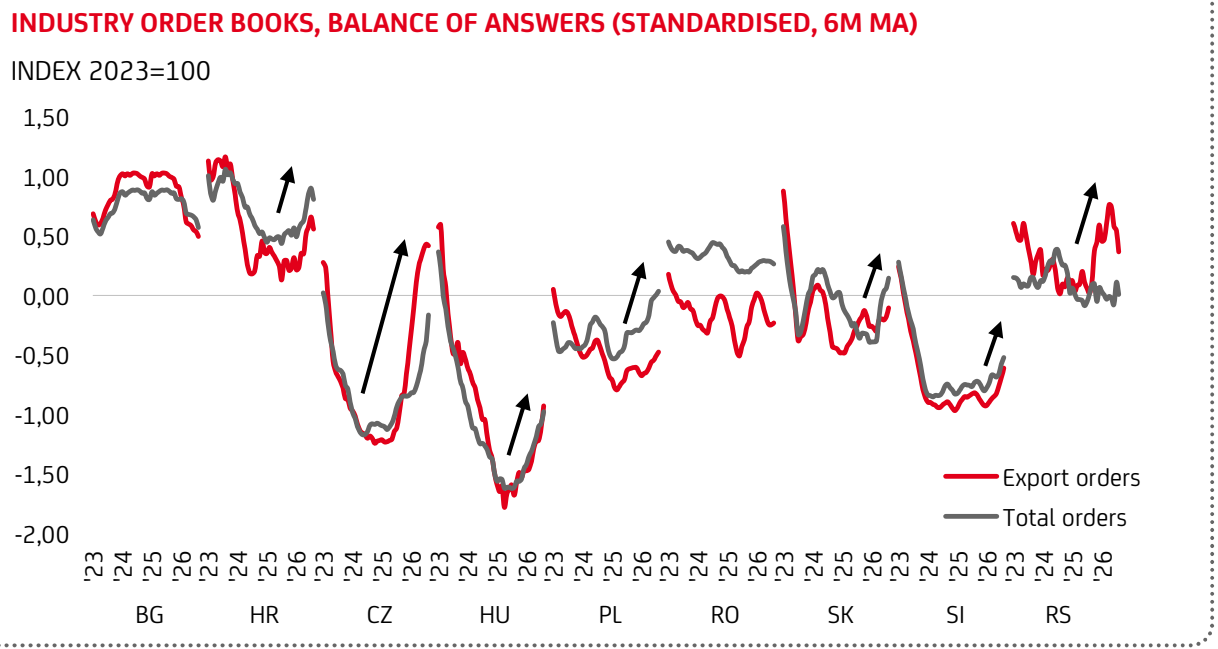
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Manufacturing

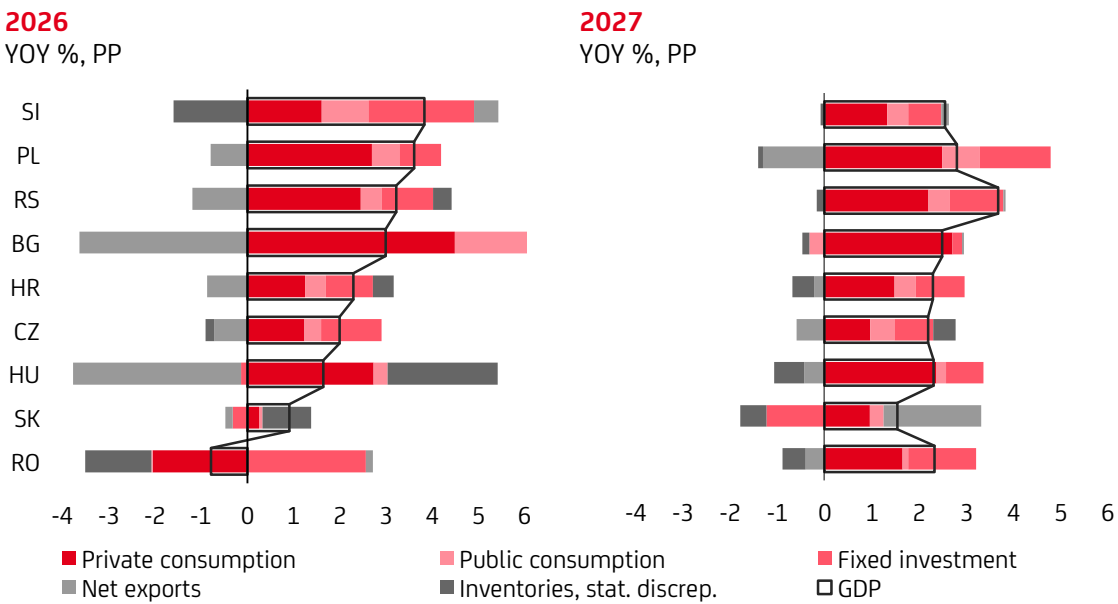
Broadening recovery in CEE industry



- Recent survey evidence points to a more broad-based recovery in CEE industry. Improving external demand and investments linked to the energy transition, AI, digital infrastructure and defence support manufacturing orders.
- Not all tailwinds are equally durable. Defence-related spending may boost selected industries, but its effects are likely to be concentrated and may fade over time. The outlook for the automotive sector remains uncertain. Investment linked to the energy transition and AI infrastructure appears more structural. Higher commodity prices also pose a risk.
- Overall, the picture for CEE manufacturing looks brighter, recovering from a weak starting point, which suggests the sector still has free capacity for output growth if external demand continues to improve.

Note: The chart shows the European Commission's industry order-books indicator, which captures firms' assessments of current order-book strength. As a sentiment indicator rather than a measure of actual orders, values are shown in standardised form, with the y-axis indicating the number of standard deviations from the historical average. Industry is used as a proxy for manufacturing given its dominant role across most CEE economies.
Source: European Commission Economic Sentiment Indicator, Macrobond, The Investment Institute by UniCredit

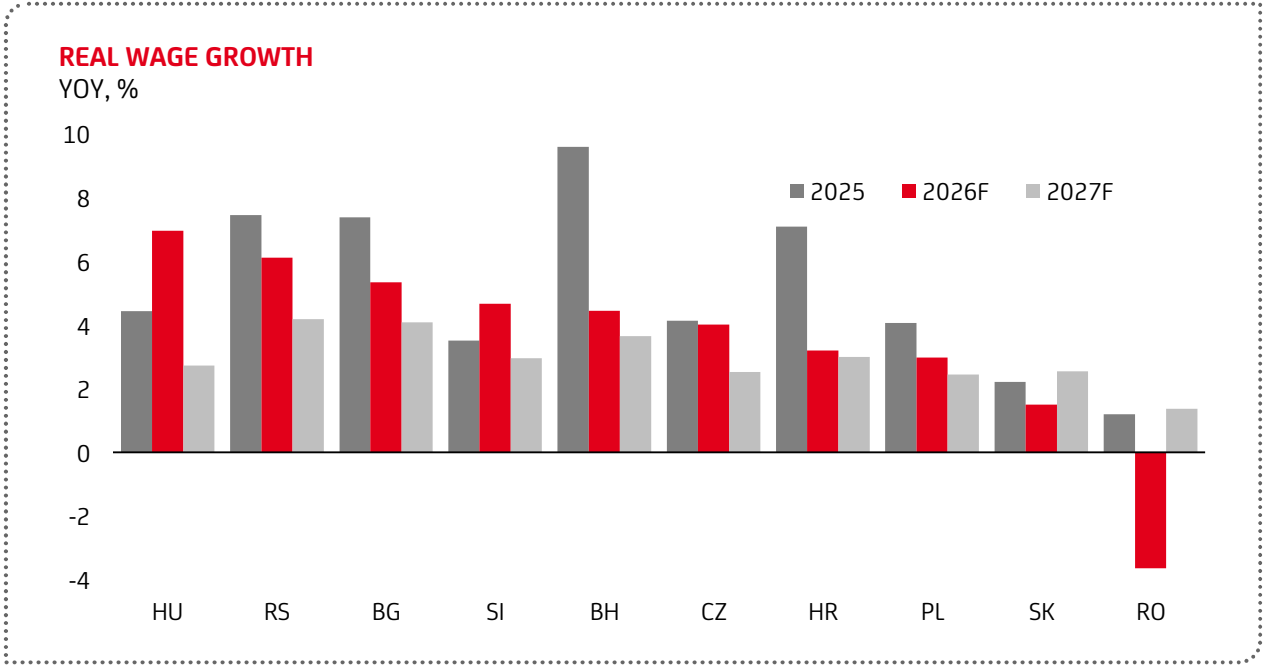
CEE growth outlook: resilience amid energy price uncertainty



- GDP growth has remained resilient despite energy price shocks and may stay in the 2-3% range across most CEE countries in 2026. Slovakia and Romania lag due to fiscal consolidation, while Hungary faces a drag from net exports.
- Growth is expected to accelerate across most countries in 2027, with the EU-CEE average rising from around 2.2% to 2.5%. An improving external environment, support from Germany's fiscal stimulus, and increased spending on AI, defence, electrification and the energy transition support exports and investment.
- Private consumption should remain the main growth engine, although it may slightly moderate in some countries as real wage growth slows. Investment should remain resilient despite a temporary slowdown in public investment as RRF funding is phased out.

Source: National statistical offices, Eurostat, Macrobond, The Investment Institute by UniCredit

Wage growth past its peak in most CEE Economies

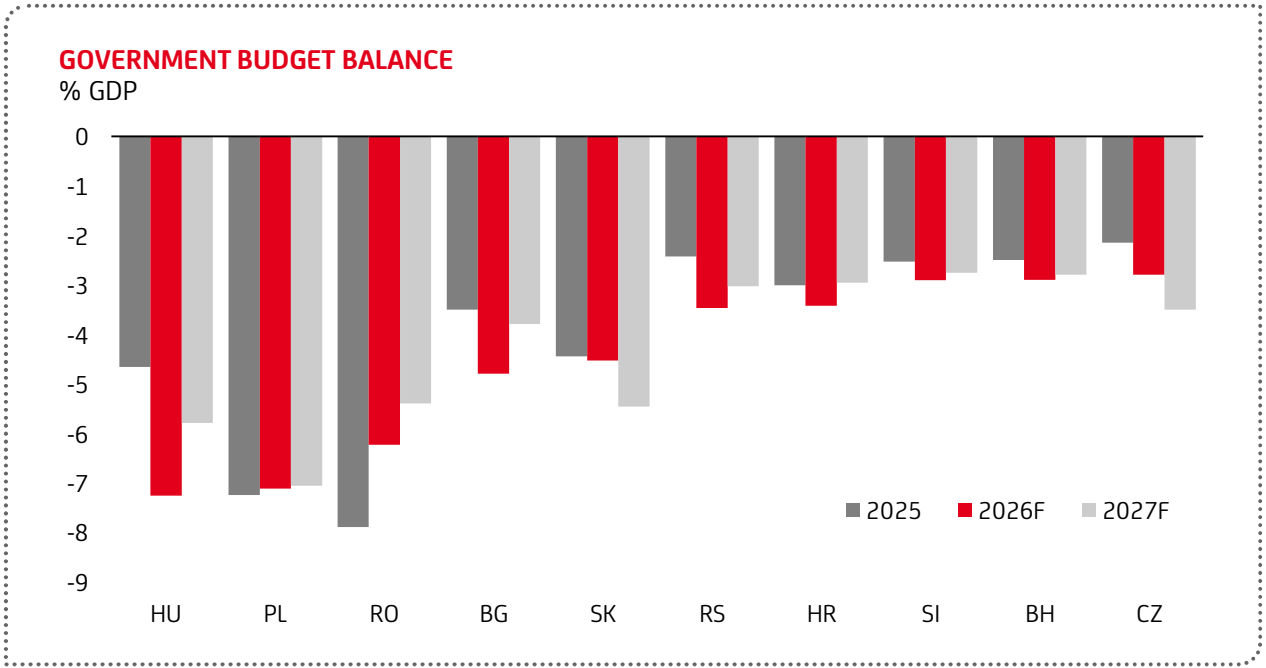


- Real wage growth is likely to moderate in almost all countries in 2026 and 2027.
- In the public sector, fiscal consolidation pressures in some countries and limited fiscal space in others should constrain wage increases. Slovakia may be an exception, with the electoral cycle likely supporting faster wage growth.
- In the private sector, labour markets remain generally tight, but signs of easing in some countries, together with efforts to preserve competitiveness, may contribute to slower wage growth.
- Moderating real wage growth should lead to slower private consumption growth. If energy prices remain elevated for an extended period, the squeeze on real incomes could weigh more heavily on consumption.

Source: National statistical offices, Eurostat, Macrobond, The Investment Institute by UniCredit

Fiscal outlook

Fiscal adjustment needed, with energy prices to remain a risk

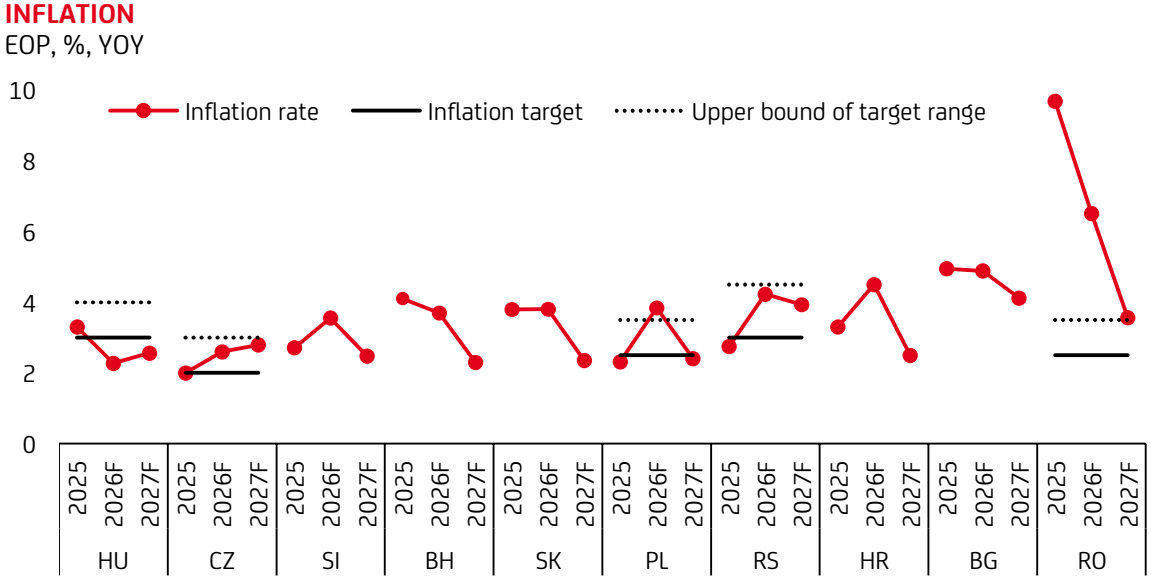


Source: National statistical offices, Eurostat, The Investment Institute by UniCredit

- Fiscal deficits remain elevated and are expected to widen in 2026 due to energy support measures and defence spending, before stabilising or declining in 2027. Persistently high energy prices or weaker growth could worsen fiscal metrics.
- Political risks prevail: Poland is likely to postpone consolidation until after the 2027 elections, while Romania's fiscal adjustment could be slowed by political instability. Elections in Slovakia in 2027 are expected to stall consolidation efforts.
- In Hungary, the government will unveil its medium-term fiscal plan in October, detailing its strategy to reduce the deficit to below 3% of GDP by 2030.
- Elsewhere in the region, deficits are expected to remain around or slightly above 3% of GDP, although Bulgaria is likely to see a temporary widening to around 5%.

Inflation

Energy and food prices turn more inflationary



Source: National statistical offices, national central banks, The Investment Institute by UniCredit

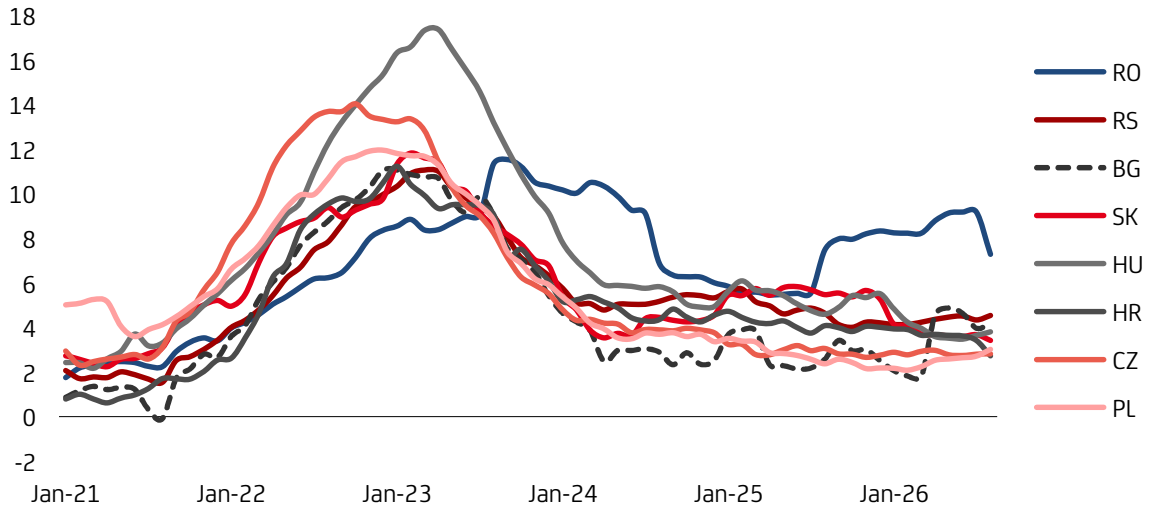
- Energy prices may push inflation temporarily higher, and food prices may become a source of inflationary pressure.
- **RO:** Inflation declined sharply in 3Q26, as supply-side shocks dropped out of the annual base. Weak consumption may support further disinflation in 2027.
- **HU:** Inflation may peak at close to 3.5% in 3Q27, following a gradual rise driven by food and fuel prices, hikes in tobacco excise duty and fading disinflationary support from a stronger HUF.
- **PL:** A fuel tax cut is set to push inflation towards 3% in October before it rises to just below 4% in December as the effect unwinds. Inflation should then ease towards 2.5% by end-2027, supported by favorable energy base effects.
- **CZ**: A looser fiscal stance and more inflationary food prices offset the impact of the fading energy price shock in 2027.

Core price trends

Second-round effects pose upside risks to sticky core prices

CORE PRICES REMAIN ABOVE TARGET IN ALL CEE COUNTRIES

YOY CHANGE IN HICP EXCL. ENERGY, FOOD, ALCOHOL AND TOBACCO (%)

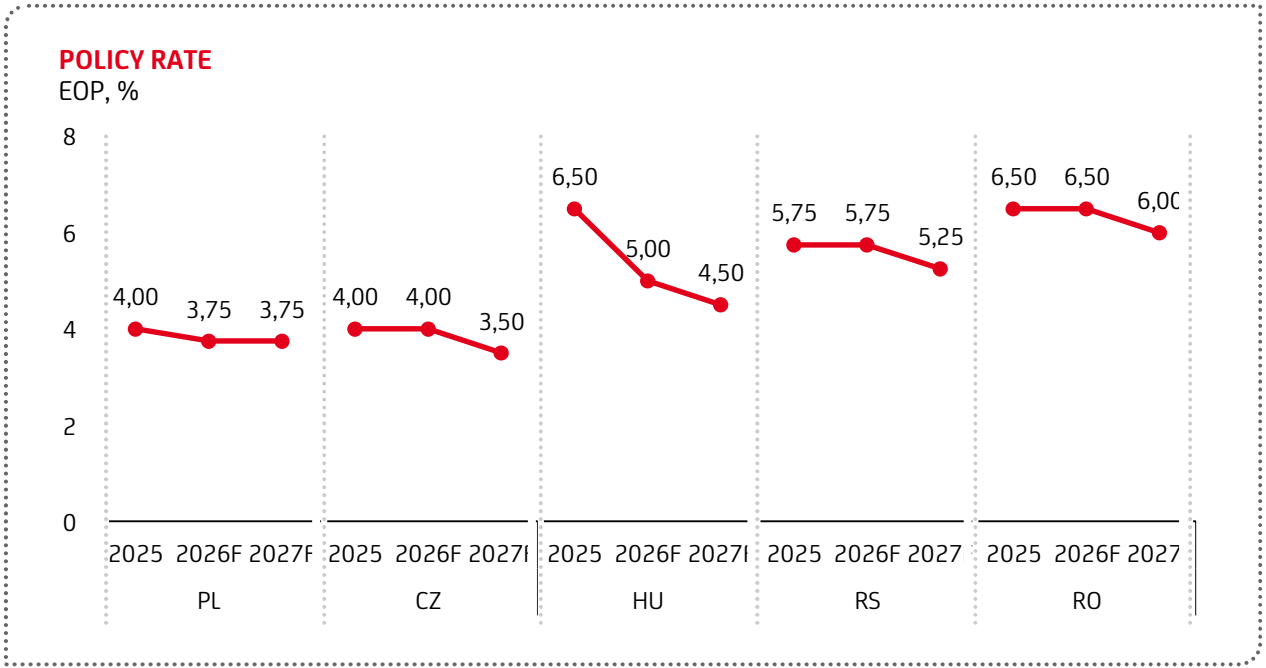


Source: Eurostat, The Investment Institute by UniCredit

- Still-elevated wage growth, tax hikes and an increase in energy-sensitive service prices keep core inflation sticky and above target in the CEE economies.
- In Romania, VAT hikes boosted annual inflation; their effect dropped out in August.
- Core prices remain close to 4% in Serbia, Bulgaria and Hungary with upside risks related to second-round effects from renewed rises in energy prices.
- The recent HUF appreciation has supported disinflation in core prices in Hungary. Slowing wage growth will be essential to keep inflation around the reduced target in 2028.
- Core inflation is better anchored in Czechia and Poland but remains well above target; food prices may become a source of inflationary pressure

Monetary policy

Only the CNB may hike, while the NBH could still cut rates in 4Q26

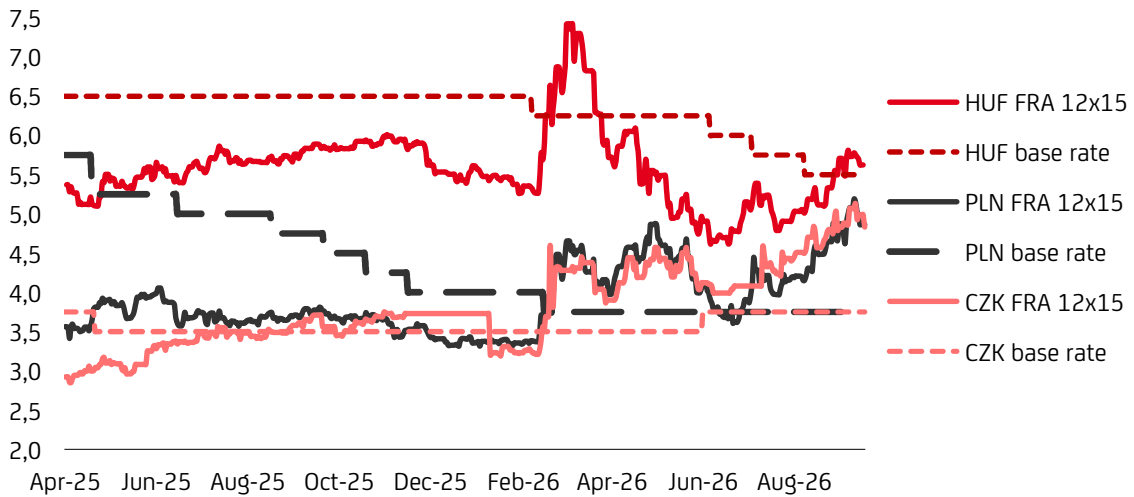


- **CZ:** We expect one additional hike in November and expect the two hikes implemented in 2H26 to be reversed in 2H27.
- **PL:** While inflation may rise close to 4% temporarily, we expect it to return to the target range in 2027, allowing the NBP to keep rates on hold.
- **HU:** The NBH may still see room to resume cuts if energy prices retreat and fiscal plans and wage negotiations support a low-inflation outlook.
- **RO:** The NBR will likely keep the policy rate unchanged until mid-2027 and rely on liquidity tools to manage the ROBOR. Disinflation may open the door for rate cuts in 2H27 if fiscal consolidation remains on track.
- **RS:** The NBS is likely to keep rates on hold until late-2027, when inflation may retreat from the 4-4.5% range.

Source: National statistical offices, national central banks, The Investment Institute by UniCredit

Market expectations of rate hikes seem excessively hawkish

FRA MARKETS IMPLY RATE HIKES IN POLAND AND CZECHIA, UNCHANGED RATES IN HUNGARY
3-MONTH INTERBANK RATES STARTING IN 12 MONTHS, BASED ON FORWARD-RATE AGREEMENTS (%)



Source: LSEG, The Investment Institute by UniCredit
Note: : The chart was last updated on 5 October 2026

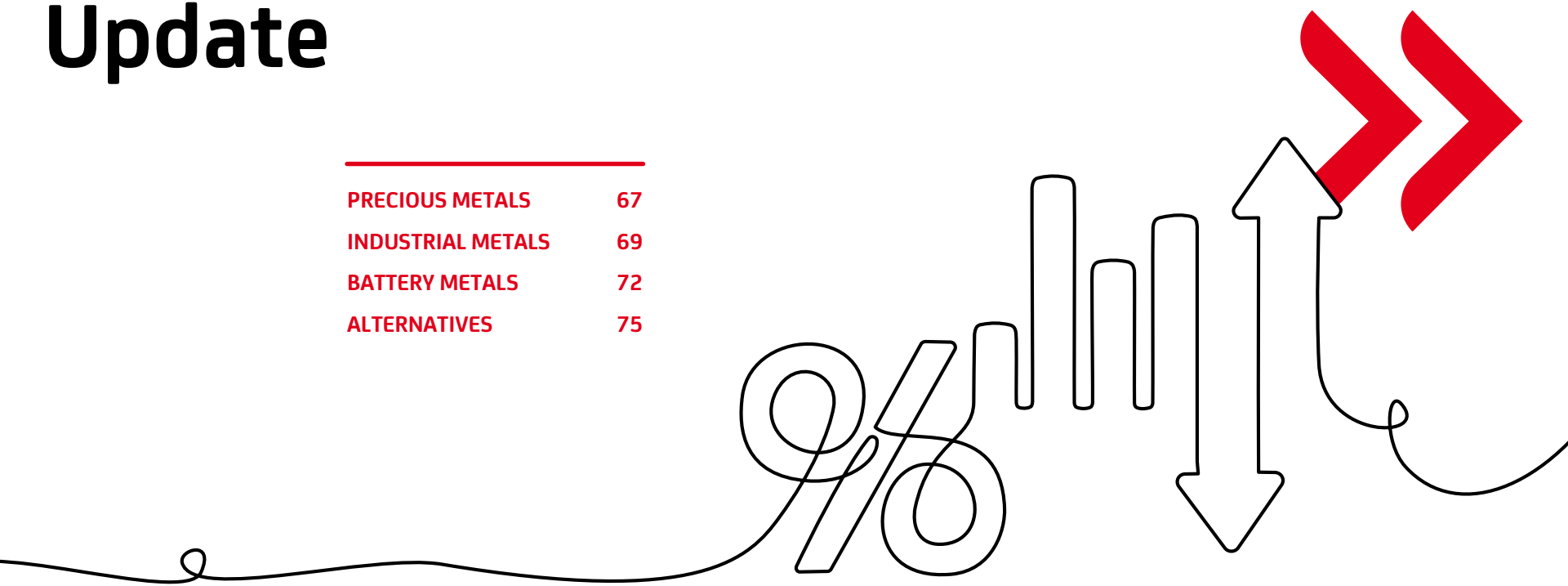
- **Hungary:** The NBH may resume rate cuts if credible fiscal consolidation plans and a retreat in energy prices underpin a low-inflation outlook. HUF stability remains a priority to anchor inflation expectations. As EU fund inflows cushion FX reserves, the bar for rate hikes seems high, even under adverse external conditions.
- **Poland:** The NBP removed its dovish bias due to fiscal risks and rising energy prices, but rate hikes are likely to be avoided unless inflation rises above 4% for a protracted period.
- **Czechia:** The CNB board remains hawkish with its focus on domestic demand, lending, wage growth and external price shocks. We expect at least one additional rate hike in 4Q26, while a further inflationary shift in the above-mentioned factors would be needed for additional hikes to follow.

Key risks to our outlook

- ↓ Energy prices remain high for longer than expected, with repercussions for inflation, global growth, fiscal metrics and markets.
- ↓ A rise in long-end core market yields or a spike in global risk aversion could push funding costs higher.
- ↓ Weaker growth and higher energy subsidies could exacerbate fiscal slippage and raise the risk of rating downgrades in high-deficit countries.
- ↓ Populist, anti-EU governments could come to power in Romania or Poland.
- ↓ A growing threat of hybrid warfare from Russia could increase regional geopolitical risks.
- ↑ German fiscal stimulus and increased defence spending in Europe could have greater-than-expected positive spillover effects.

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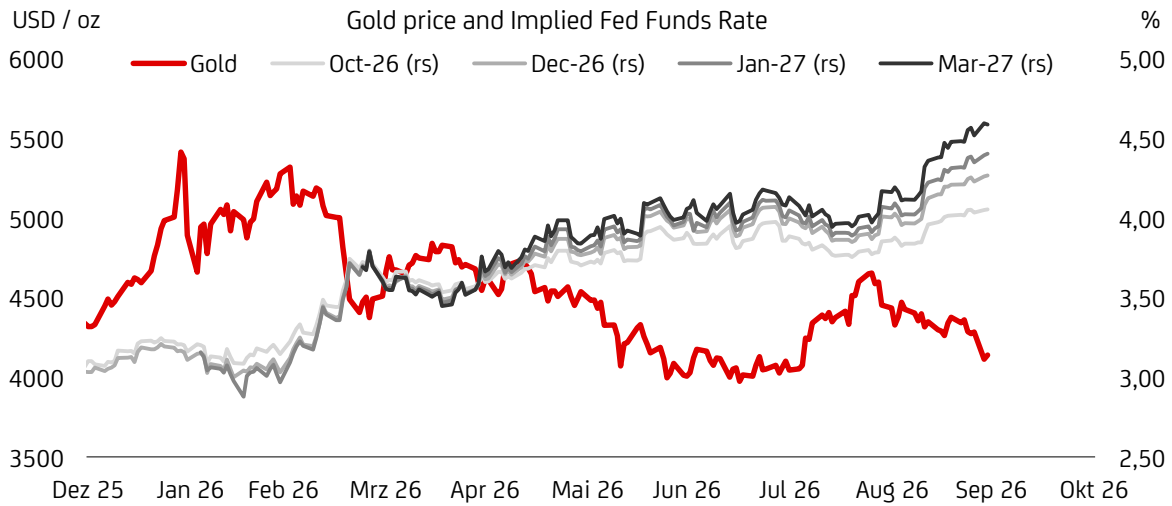


Authors
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Gold retreats as markets price additional Fed tightening

GOLD PULLBACK: SPOT PRICES RETREAT AS RATE EXPECTATIONS RISE

GOLD SPOT PRICES AND IMPLIED FED FUNDS RATES (UPCOMING FED MEETINGS)



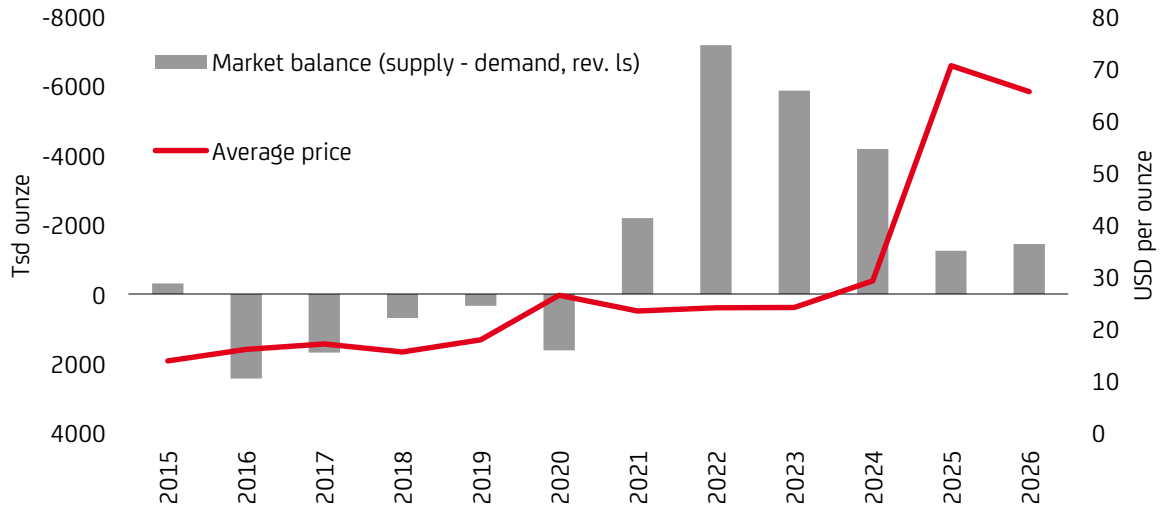
Source: Bloomberg, The Investment Institute by UniCredit

- Gold has corrected from its September peak to around USD 4,100/oz as rising Fed-rate expectations and bond yields increase the opportunity cost of holding non-yielding assets. Resilient ETF inflows, central-bank demand and diversification needs remain supportive.
- A more hawkish Fed and a "higher-for-longer" rate environment remain key headwinds. However, debt-sustainability concerns and rising term premiums could support gold if they weaken confidence in the US dollar. We revise our end-2026 forecast range to USD 3,900-4,500/oz.
- Renewed ETF inflows, fiscal concerns or a weaker US dollar could lift prices, while elevated real yields are likely to keep gains gradual and constrain near-term upside.

More clarity about Fed policy should support silver

SILVER STILL HAS SCOPE TO THE UPSIDE AS EXCESS DEMAND PERSISTS

MARKET SUPPLY-DEMAND FOR SILVER VS. AVERAGE SILVER PRICE

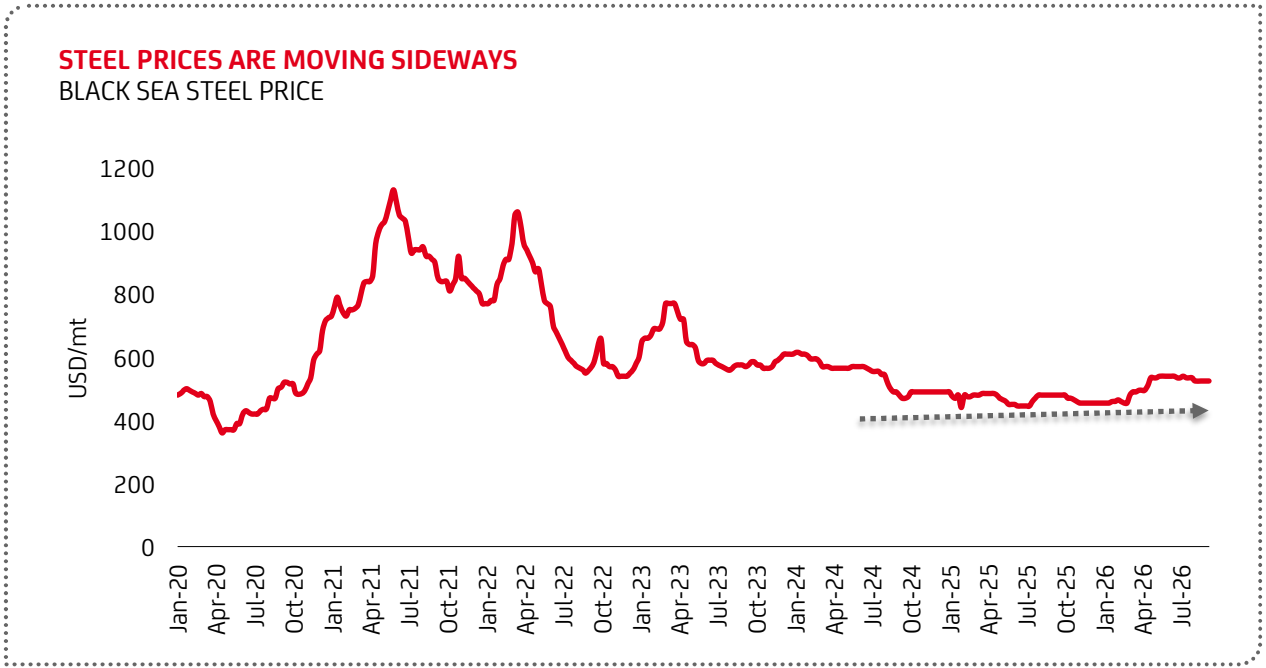


Source: Datastream, The Investment Institute by UniCredit

- At around USD 62 per ounce, the price of silver is within **our forecast range for this year, which we reiterate at USD 60-70 per ounce**.
- We expect the silver price to remain **supported by persisting excess demand**, which comes on the back of industrial demand (photovoltaic, chipmaking) and the debasement trade amid persisting inflation concerns. However, high yields are limiting, at least temporarily, a more pronounced upside move in the price of silver.
- However, similarly to gold, the silver price remains **highly sensitive to real yields**; if the Fed's stance turns more hawkish than expected by the market – which is not our base case – this could adversely affect the price of silver. We see this as a major risk factor for silver price.

Industrial metals

Steel prices to move sideways amid sluggish demand recovery



- **European steel demand is recovering only gradually** and is expected to rise by 1.8% in 2027 from 1.2% this year – led by construction, while the automotive industry is weak.
- Upside risks stem from prolonged **supply-chain issues** related to the closure of the Strait of Hormuz and Bab al-Mandab.
- **Car making remains the main drag** on flat steel demand, with consumption almost flat. Higher energy costs, weaker confidence and elevated financing costs are weighing on the sector.
- Expectations for Europe's steel-demand recovery have effectively been shifted from 2026 to 2027.

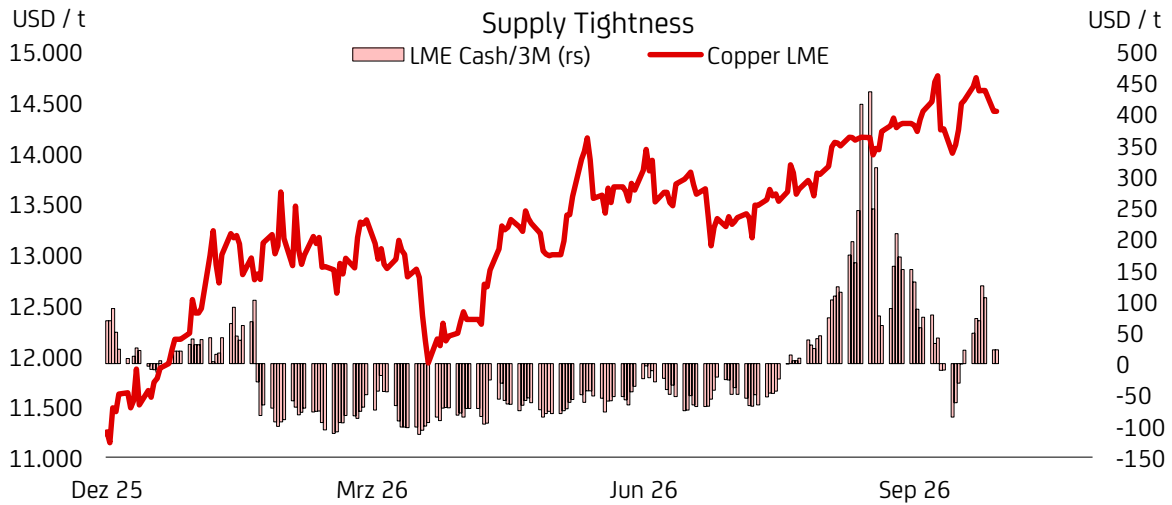
Source: Bloomberg, The Investment Institute by UniCredit

Industrial metals

Copper: supply tightness and tariff uncertainty support prices

COPPER: TIGHTENING PHYSICAL MARKETS SUPPORT PRICES NEAR RECORD HIGHS

COPPER PRICES (USD/T) AND LME CASH/3M SPREAD (USD/T)



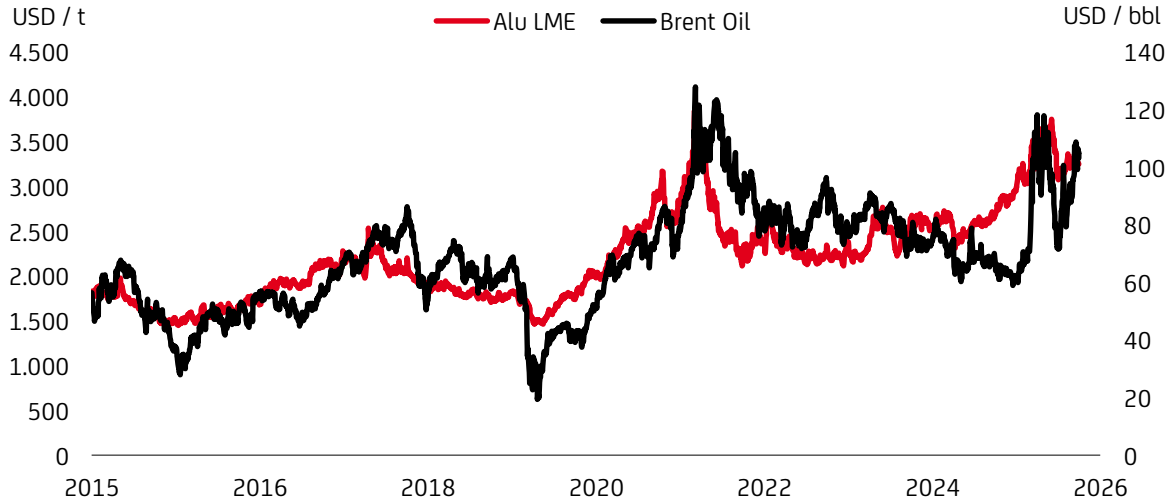
Source: Bloomberg, The Investment Institute by UniCredit

- Demand remains supported by structural drivers such as data centres, electrification and infrastructure spending, while copper continues to trade near record highs after posting a third consecutive monthly gain. Potential US tariff measures could add near-term demand distortions and inventory shifts.
- Supply conditions have tightened further. Disruptions at Escondida, weaker-than-expected Chilean output, strike risks at Centinela and declining LME inventories continue to reinforce a constrained market backdrop.
- Our outlook remains constructive. Strong structural demand, low inventories and persistent supply risks underpin prices despite short-term volatility. We maintain a positive stance, with a revised 2026 price range of USD 14,100-14,900/t.

Aluminium: resilient prices as Middle-East risks ease but persist

ALUMINIUM SUPPORTED BY OIL RECOVERY AND PERSISTENT SUPPLY TIGHTNESS

LME ALUMINIUM PRICE AND BRENT CRUDE PRICE



- Aluminium has traded broadly sideways in recent weeks, holding around USD 3,260/t. Despite softer momentum, prices remain around 20% above year-ago levels, supported by broader industrial metal strength and lingering supply constraints.
- While easing tensions in US-Iran talks have reduced concerns about Gulf-supply disruptions, geopolitical risks in the Middle East remain. Low inventories and constrained spot availability continue to support the market. Faster output growth in China and Indonesia could offset supply tightness.
- Our outlook remains constructive. We maintain a positive stance, confirming our 2026 price range of USD 3,100-3,400/t.

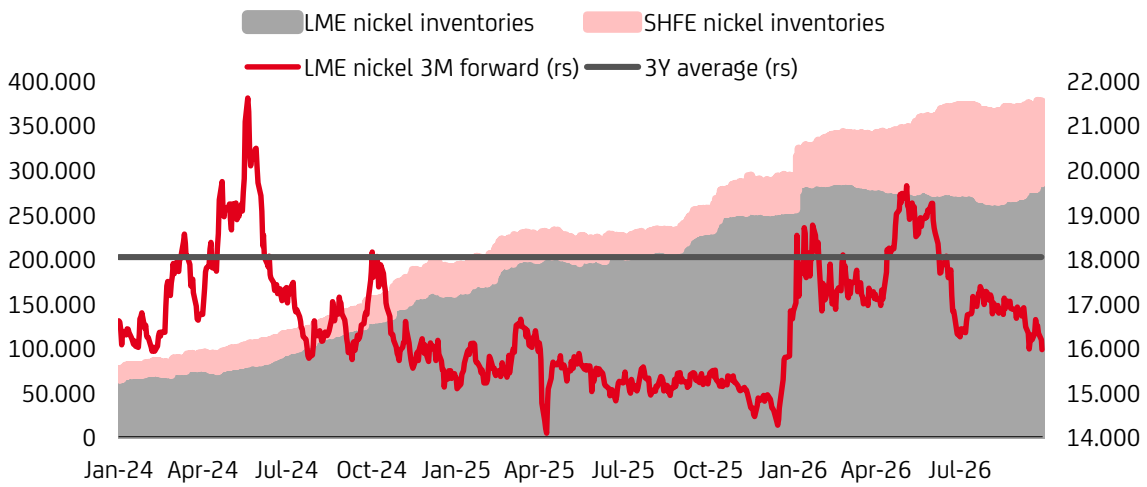
Source: Bloomberg, The Investment Institute by UniCredit

Battery metals

Nickel eases after mixed supply signals

NICKEL PRICE SLIDES AFTER PEAKING IN MAY

LME NICKEL 3M FORWARD PRICE (USD/MT) AND INVENTORIES (MT)



Source: LSEG, The Investment Institute by UniCredit

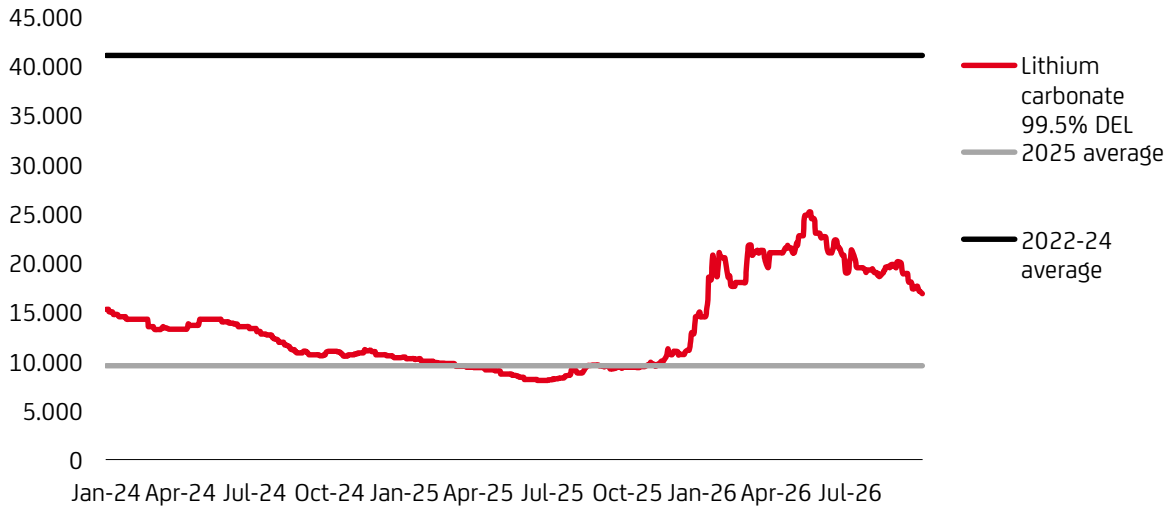
- Nickel prices have been highly volatile this year. After breaking out of a long downtrend in December, they peaked in May and have been declining since then. Differing signals about supply constraints from the leading producing country, Indonesia, have been a major part of the price volatility. Rising inventory levels are a sign that short-term supply remains ample.
- Although the long-term demand trend for nickel is not as strong as it is for lithium, as nickel-free chemistries are increasingly being implemented in battery production, nickel remains a key raw material for various supply chains in the energy transition. Given our expectation of healthy demand and tighter supply in the short and medium term, we expect prices to rise back toward USD 17,000-18,000/mt in the near term.

Battery metals

Lithium price weakens despite strong demand

LITHIUM PRICES CONTINUE EASING AS SUPPLY EXCEEDS DEMAND GROWTH

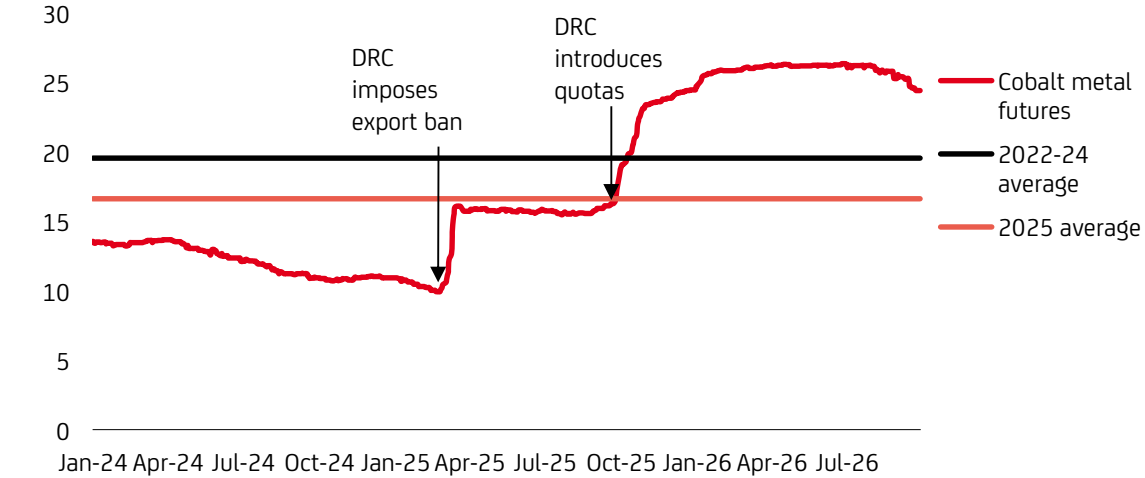
LITHIUM CARBONATE 99.5%, USD/MT



Source: Fastmarkets, The Investment Institute by UniCredit

- Lithium prices broke out of a long downward trend at the start of 2026 as strengthening demand and supply concerns coincided. However, after peaking in May, prices have eased recently. The price decline comes despite strong demand growth for electric storage systems and electric vehicles. The price slide was driven by new supply coming online in Australia, Argentina, Brazil, and China, as well as revised inventory data in China indicating more supply than previously expected.
- Over the medium term, supply and demand for lithium are expected to grow, which could make price trends uneven. While new supply is a headwind to price increases, lithium is irreplaceable for investments in the energy transition and should see rising prices in 2027 as demand eventually overtakes supply growth.

Cobalt price stabilises as market adjusts to new quotas

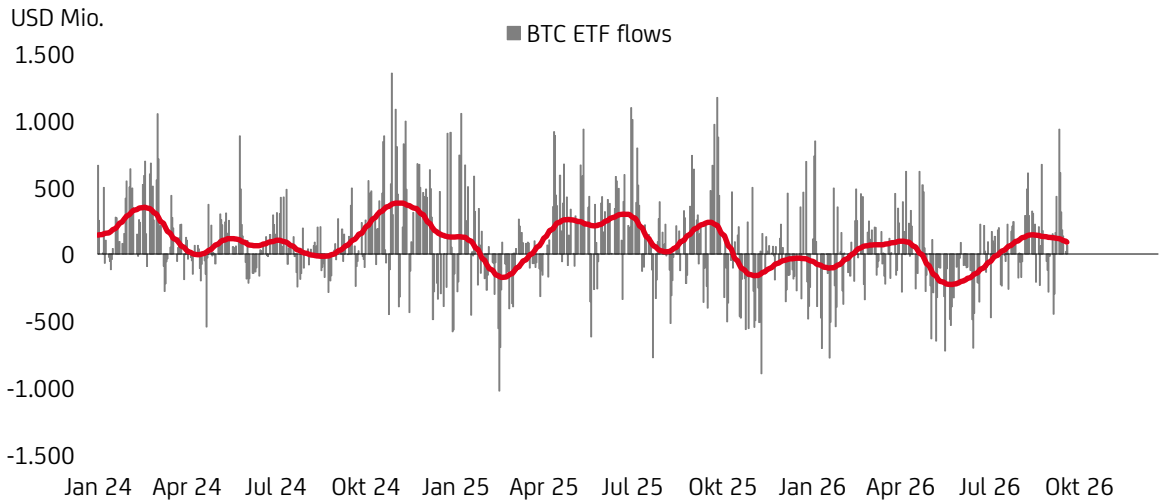


Source: Fastmarkets, The Investment Institute by UniCredit

- Cobalt metal prices have drifted down after a long period of stability to start the year. Chinese cobalt hydroxide prices are down more severely on weakening demand, due to ample stock building in China, which is a bearish signal for the market. Cobalt does not appear to be as undersupplied as it was immediately after the Democratic Republic of Congo moved to restrict supplies with an export ban and a new quota system in 2025 as new supplies are flowing again.
- Near-term sentiment towards cobalt remains mostly bearish and we expect slight downward pressure on prices to continue in the near term. Cobalt also faces more long-term demand pressure than other battery metals as cobalt-free battery chemistries continue to gain traction.

Bitcoin: strong ETF demand drives gains, fundamentals supportive

ETF DEMAND HAS RE-EMERGED AS A KEY DRIVER OF BITCOIN PERFORMANCE
ACUTUAL AND SMOOTHED BITCOIN ETF NET FLOWS (DAILY CHANGES)

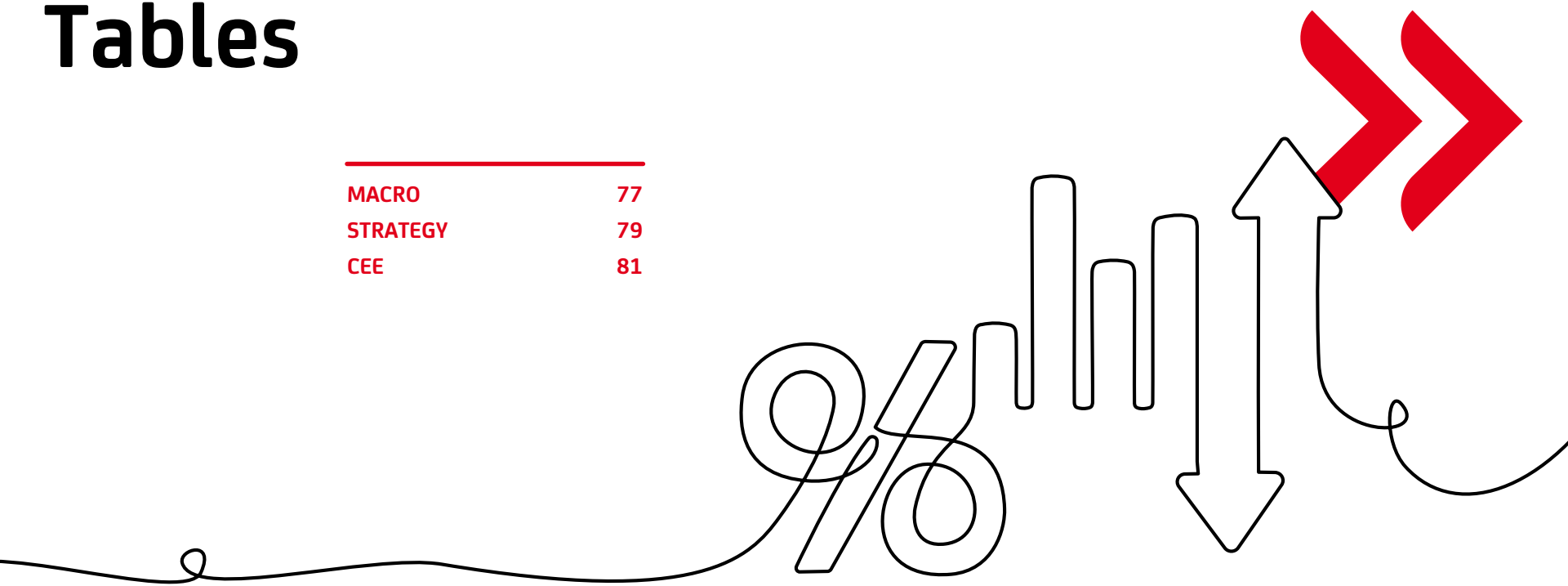


Source: Bloomberg, The Investment Institute by UniCredit

- Bitcoin has been one of the strongest performing asset classes in September, rising around 9% month to date from approximately USD 77k to above USD 84k.
- Institutional demand remains a key support factor, with US spot Bitcoin ETFs continuing to attract net inflows, led by major providers such as BlackRock and Fidelity.
- Bitcoin's outperformance contrasts with weaker gold prices, highlighting a divergence between risk-oriented and traditional safe-haven asset flows.
- While Bitcoin remains sensitive to liquidity conditions and shifts in risk sentiment, medium-term fundamentals continue to be supported by post-halving supply dynamics, growing institutional adoption and an improving regulatory backdrop.

Forecast Tables

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Macro

GDP, CPI and budget balance

For detailed forecast tables click the following links:

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	Real GDP % Y/Y			Consumer prices % Y/Y			Budget balance % of GDP		
	2025	2026	2027	2025	2026	2027	2025	2026	2027
Global	**3.2**	**3.1**	**3.2**	**-**	**-**	**-**	**-**	**-**	**-**
US	**2.3**	**2.3**	**2.0**	**2.7**	**3.5**	**2.7**	**-5.8**	**-6.5**	**-6.5**
Eurozone	**1.3**[1]	**0.9**[1]	**1.2**[1]	**2.1**	**3.1**	**2.6**	**-2.9**	**-4.5**	**-4.4**
Germany	0.2[2]	1.2[2]	1.6[2]	2.2	2.8	2.5	-3.0	-4.3	-4.3
France	0.9	0.4	0.8	0.9	2.2	2.0	-5.4	-5.3	-5.0
Italy	0.7	0.8	0.6	1.5	3.2	2.5	-3.1	-2.9	-3.4
Spain	2.8	2.6	1.8	2.7	3.9	3.0	-2.4	-2.3	-2.1
UK	**1.3**	**1.1**	**1.2**	**3.4**	**3.2**	**2.6**	**-5.2**	**-4.0**	**-3.5**
China	**5.0**	**4.6**	**4.2**	**0.1**	**1.0**	**1.1**	**-7.9**	**-8.2**	**-8.4**
Japan	**1.2**	**0.7**	**0.8**	**3.2**	**2.1**	**2.2**	**-1.1**	**-2.3**	**-2.6**
India	**7.3**	**6.4**	**6.4**	**2.1**	**4.7**	**4.0**	**-7.4**	**-7.4**	**-7.3**

Source: The Investment Institute by UniCredit
1. Eurozone excluding Ireland: 1.0% (2025), 1.1% (2026), 1.2% (2027); 2. Non-WDA figures. Adjusted for working days: 0.3% (2025), 1.0% (2026) and 1.5% (2027)

Macro

Central Banks Watch

For detailed forecast tables click the following links:

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RISKY ASSETS >

	Current	4Q26	1Q27	2Q27	3Q27	4Q27
Fed	4.00	4.25	4.25	4.25	4.25	4.25
ECB	2.50	2.75	2.75	2.75	2.75	2.50
BOE	3.75	4.00	4.25	4.25	4.25	4.25
BoJ	1.25	1.50	1.50	1.75	1.75	2.00
Riksbank	1.75	2.00	2.00	2.00	2.00	1.75
Norges Bank	4.50	4.50	4.50	4.50	4.50	4.50

Source: The Investment Institute by UniCredit
Note: Figures are end-of-period

Strategy

Interest rate and yield

For detailed forecast tables click the following links:

ECONOMICS >

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RISKY ASSETS >

		Current	4Q26	1Q27	2Q27
Eurozone	Depo rate	2.50	2.75	2.75	2.75
	3M Euribor	2.60	2.80	2.80	2.80
	2Y Schatz	3.04	3.10	3.10	2.90
	10Y Bund	3.46	3.40	3.40	3.30
	2Y EUR swap	3.40	3.25	3.25	3.05
	10Y EUR swap	3.59	3.45	3.45	3.35
	10Y Bund-swap spread	13	5	5	5
	2Y BTP	3.49	3.30	3.30	3.10
	10Y BTP	4.65	4.15	4.15	4.10
	10Y BTP-Bund spread	119	75	75	80
US	Fed funds rate	4.00	4.25	4.25	4.25
	3M OIS SOFR	4.02	4.17	4.17	4.17
	2Y UST	4.81	4.70	4.60	4.40
	10Y UST	5.28	5.00	4.90	4.75
	10Y UST-Bund spread	182	160	150	145

Source: Bloomberg, The Investment Institute by UniCredit

Strategy

FX and risky assets

For detailed forecast tables click the following links:

ECONOMICS >

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RISKY ASSETS >

	Current	4Q26	1Q27	2Q27
EUR-USD	1.12	1.14	1.15	1.16
USD-JPY	158	156	154	153
EUR-JPY	177	178	177	177
GBP-USD	1.32	1.33	1.33	1.33
EUR-GBP	0.85	0.86	0.86	0.87
USD-CNY	6.70	6.65	6.63	6.62
EUR-CNY	76.1	7.58	7.62	7.68

	Current	End-2026	Mid-2027
Oil			
Brent USD/bbl.	101	92	78
Equities			
Euro STOXX 50	6,239	6,600	6,800
STOXX Europe 600	631	670	700
DAX	25,231	27,500	28,500
MSCI Italy	128	140	145
S&P 500	7,723	7,900	8,300
Nasdaq 100	30,808	30,000	33,000
Credit			
iBoxx Non-Financials Senior	90	80	80
iBoxx Banks Senior	100	75	75
iBoxx High Yield NFI	329	280	280

Source: Bloomberg, S&P Global, The Investment Institute by UniCredit

CEE

GDP, inflation and current account balance

For detailed forecast tables click the following links:

ECONOMICS >

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RISKY ASSETS >

	Real GDP % change			CPI, EoP % change			C/A balance % GDP		
	2025	2026F	2027F	2025	2026F	2027F	2025	2026F	2027F
EU-CEE	2.4	2.2	2.5	2.8	3.6	2.8			
Bulgaria	3.1	3.0	2.5	5.0	4.9	4.1	-5.7	-5.5	-5.1
Croatia	3.4	2.3	2.3	3.3	4.5	2.5	-3.5	-4.0	-3.9
Czechia	2.6	2.0	2.2	2.0	2.6	2.8	0.7	-0.1	-0.9
Hungary	0.5	1.6	2.3	3.3	2.3	2.6	2.2	-0.3	1.3
Poland	3.6	3.6	2.8	2.3	3.7	2.4	-0.9	-0.9	-0.9
Romania	0.7	-0.8	2.3	9.7	6.5	3.6	-7.9	-7.5	-7.2
Slovakia	0.8	0.9	1.5	3.8	3.8	2.4	-3.6	-4.0	-3.0
Slovenia	1.1	3.8	2.6	2.7	3.6	2.5	4.1	2.7	2.8
Bosnia and Herz.	2.1	2.3	2.5	4.1	3.7	2.3	-3.2	-3.5	-3.6
Serbia	2.0	3.2	3.7	2.8	4.2	3.9	-4.9	-4.5	-3.5

Source: National statistical offices, Eurostat, Macrobond, central banks, The Investment Institute by UniCredit

Basic balance, external debt and budget balance

For detailed forecast tables click the following links:

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RISKY ASSETS >

	Extended basic balance % GDP			External debt % GDP			Budget balance % GDP		
	2025	2026F	2027F	2025	2026F	2027F	2025	2026F	2027F
EU-CEE									
Bulgaria	-1.2	0.6	-0.5	50.5	52.5	54.0	-3.5	-4.8	-3.8
Croatia	1.6	0.2	0.0	65.5	63.4	62.2	-3.0	-3.4	-3.0
Czechia	1.8	1.2	-0.2	66.3	65.3	64.0	-2.1	-2.8	-3.5
Hungary	2.9	1.9	5.6	95.1	99.4	106.1	-4.7	-7.3	-5.8
Poland	1.9	3.4	3.4	50.3	50.7	51.0	-7.3	-7.1	-7.1
Romania	-4.0	-4.0	-3.0	59.8	59.3	58.8	-7.9	-6.2	-5.4
Slovakia	-3.4	-3.1	-2.4	100.8	101.5	102.6	-4.5	-4.5	-5.5
Slovenia	6.1	4.9	4.3	89.0	86.1	84.4	-2.5	-2.9	-2.8
Bosnia and Herz.	-1.0	-0.9	-1.1	16.6	16.2	16.0	-2.5	-2.9	-2.8
Serbia	-2.3	-2.0	-0.9	57.6	56.3	54.2	-2.4	-3.5	-3.0

Source: The Investment Institute by UniCredit

Government debt, policy rate and exchange rate

For detailed forecast tables click the following links:

ECONOMICS >

FI >

FX >

RISKY ASSETS >

	Government debt % GDP			Policy rate %			FX vs. EUR EoP		
	2025	2026F	2027F	2025	2026F	2027F	2025	2026F	2027F
EU-CEE									
Bulgaria	27.2	32.4	35.5	-	EUR	EUR	1.96	EUR	EUR
Croatia	56.3	56.6	56.4	EUR	EUR	EUR	EUR	EUR	EUR
Czechia	44.2	45.1	46.3	3.50	4.00	3.50	24.2	24.3	24.2
Hungary	74.6	77.3	78.9	6.50	5.00	4.50	385	360	364
Poland	59.7	64.1	68.5	4.00	3.75	3.75	4.23	4.30	4.35
Romania	59.4	63.1	65.2	6.50	6.50	6.00	5.10	5.26	5.33
Slovakia	61.4	63.1	65.9	EUR	EUR	EUR	EUR	EUR	EUR
Slovenia	66.0	65.0	64.0	EUR	EUR	EUR	EUR	EUR	EUR
Bosnia and Herz.	29.4	30.0	31.0	-	-	-	1.96	1.96	1.96
Serbia	44.7	44.5	44.5	5.75	5.75	5.25	117.3	117.4	117.4

Source: The Investment Institute by UniCredit

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