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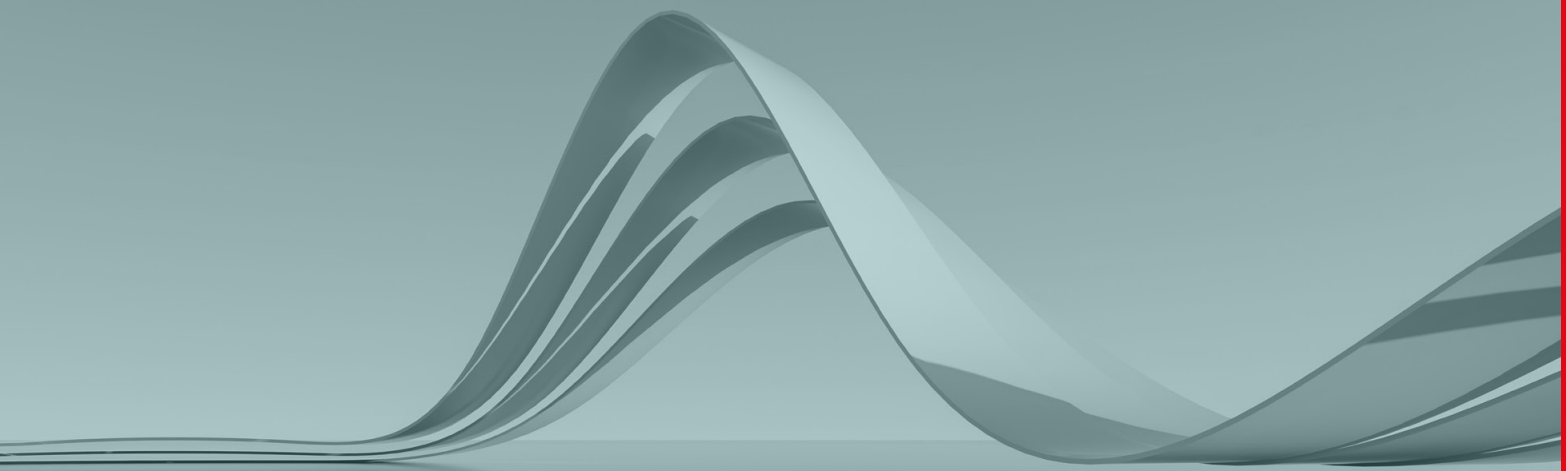

GLOBAL MARKET OUTLOOK 2027

THE CAPITAL TEST

The Capital Test



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Global Head
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Dear Client,

Innovation is moving from promise to widespread implementation. Artificial intelligence, new energy systems, digital infrastructure and the drive for greater strategic resilience are beginning to reshape how economies grow and how companies invest.

Bringing that transformation to life will require an extraordinary amount of capital. Data centers need power and networks. The energy transition needs generation, storage and modern grids. Governments and companies are also investing in defense, infrastructure and more resilient supply chains. These priorities are advancing simultaneously and competing for the same pool of capital.

This is the central idea behind our 2027 Global Market Outlook, *The Capital Test,* and the question that runs through it: **can capital continue financing the future?**

Our view is constructive. Investment, innovation and improving productivity can support continued economic growth. But financing conditions are becoming more demanding. Financing continues to flow, although investors will be increasingly selective about where they commit capital and the returns they expect.

Recent market volatility reinforces this message. Transformative investment themes can create substantial economic value, but returns will increasingly depend on the price paid, the strength of underlying cash flows and the discipline with which capital is allocated. For investors, this reinforces the importance of careful selection, diversification and a long-term perspective.

The cycle continues. The margin for error narrows. Investing in this new phase will therefore require greater discipline in capital allocation, a sharper focus on quality and greater selectivity. Our commitment is to help you capture the opportunities this new cycle creates, while keeping your portfolio aligned with your objectives and prepared for the risks ahead.

Sincerely,



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From tech boom to capital cycle

Last year, our Annual Outlook examined the AI supercycle. We argued that artificial intelligence was more than another technology theme; it could reshape how companies operate, how economies grow and how investors think about productivity. The opportunity was significant, and so was the need for perspective. Every technological transformation brings periods of excitement and experimentation alongside genuine economic progress. That story has not ended. It has entered a new phase.

The first stage of the AI cycle was about possibility. The next is about implementation. Scaling AI requires data centers, semiconductors, cloud capacity and power networks. A revolution that began in software is becoming an **investment cycle increasingly built on physical assets.** AI, however, is only part of a broader transformation.

The energy transition requires generation, grids and storage. Geopolitical fragmentation is driving spending on defense, energy security and resilient supply chains. Aging populations are placing growing demands on health care, pensions and social infrastructure. **The global economy must finance all these priorities at the same time, and the common thread running through them is capital.**

As the table below shows, gross global financing requirements could approach €50 trillion between 2026 and 2030, with around €30 trillion requiring additional mobilization. The largest demands come from the energy transition and digitalization, but the funding challenge extends across defense, infrastructure and aging societies. These estimates are indicative, but their strategic message is clear. **The next phase of growth will be shaped less by ambition than by the availability, cost and allocation of funding.**

As financing becomes more selective, the ability to attract capital on sustainable terms will increasingly determine which projects and businesses move forward. This is why our 2027 Outlook moves from Tech Boom to Capital Cycle and asks a single question: Can Capital Continue Financing the Future?

The next phase of growth depends on the capacity of markets to finance it.

Estimated global financing needs and financing gap by area, 2026–2030
Source: The Year Ahead 2027. Santander Research

Area	Gross financing needs (2026–2030)	Financing gap / additional mobilization
Energy transition	€ 35 tn	€ 22–26 tn
Digitalization and AI	€ 10 tn	€ 2.5–4 tn
Population aging	€ 3.2 tn	€ 1.3–3 tn
Geofragmentation and defense	€ 4.7 tn	€ 2.5–4 tn
Adjustment for overlaps	€ -1.7 tn	€ -1/-2 tn
Net total	**€ 50 tn**	**€ 30 tn**

Methodological note: the figures in this table are an estimate constructed on the basis of the main studies published by multilateral agencies, public authorities, multilateral banks and leading consultancies, including the Organisation for Economic Co-operation and Development (OECD), the United Nations (UN), the International Monetary Fund (IMF), the United Nations Environment Programme (UNEP), the International Energy Agency (IEA), the European Central Bank (ECB), the European Commission, the World Bank, the Stockholm International Peace Research Institute (SIPRI), Climate Policy Initiative (CPI) and McKinsey. To standardize the figures, amounts originally published in dollars have been converted into euros using a rounded exchange rate of USD 1 = EUR 0.86, consistent with exchange rates at the end of August 2026. Given that these are order-of-magnitude estimates, the conversion is not intended to provide exchange-rate precision.

A resilient economic cycle redefined by capital intensity

Our starting point for 2027 is constructive. The expansion continues, but its character is changing. **Growth is becoming more investment-led and asset-heavy, which raises the importance of financing conditions and allocation discipline.** The question is no longer whether capital is available, but on what terms.

The AI value chain shows both the strength and the new shape of this cycle. **Demand is spreading through an interconnected ecosystem,** from model developers and semiconductors to hyperscalers, specialist operators, data centers and power networks. Activity at one link generates revenues and funding needs at the others.

This is a healthier foundation than a cycle driven mainly by expectations. In our view, **earnings have broadly supported market performance, while solid margins, low layoffs and sustained investment signal confidence in future demand.** Financial conditions remain supportive, and we see no broad evidence that asset prices have detached from underlying profitability.

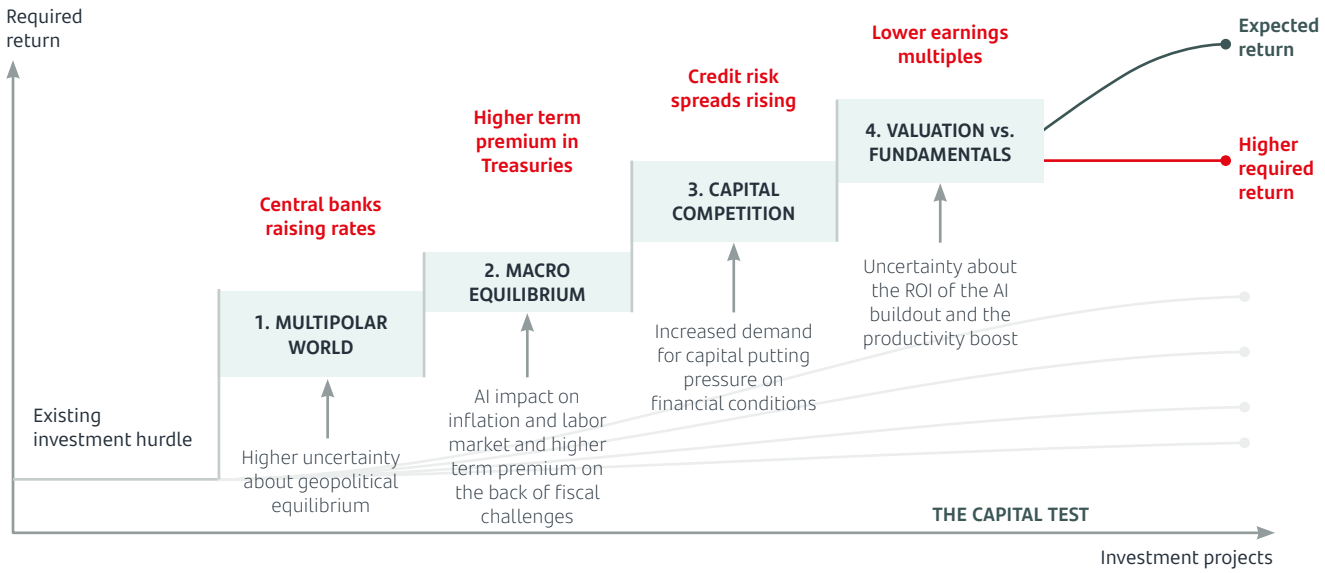
Yet the same ecosystem also explains why the cycle is becoming more demanding. Each link carries a different financial profile: some businesses generate recurring revenues and cash, while others rely on external funding, long-term contracts or returns that are still uncertain. **As spending expands, the connection between demand, financing and profitability matters more.** Balance-sheet strength and execution are becoming as important as the size of the opportunity itself.

Our central scenario remains one of continued expansion, supported by investment, productivity and earnings. AI remains a powerful growth engine, but its impact depends on converting capital spending into adoption, revenues, cash flow and durable returns. Persistent energy disruption, higher financing costs and greater uncertainty around execution are raising the compensation investors require. **The cycle continues, but the investment hurdle is rising and the margin for error is narrowing.**

Capital remains available, but investors are raising the hurdle for deploying it.

The investment hurdle is rising solo la T mayúscula

Earnings and margins remain resilient, supporting investment as the capital test becomes more demanding



Four forces are raising the hurdle for capital

The investment cycle remains resilient, but capital is becoming more selective. The four themes of this Outlook explain why: each introduces a distinct test for the cycle and, together, they lift the return investors require.

First, a multipolar world. Fragmentation and fiscal pressure raise the cost of resilience and increase the extra yield investors demand on long-dated bonds. We expect the adjustment to remain manageable, but cross-border flows are becoming less efficient and more expensive. **Second, a new macroeconomic equilibrium.** Investment supports productivity but also adds to near-term demand. How quickly it diffuses will decide whether the economy can absorb that demand without persistent inflation and higher rates.

Third, capital competition. Governments, companies and projects are competing for the same pool of savings. Leverage, refinancing needs and cash-flow visibility will increasingly shape spreads and funding terms. **Fourth, valuation vs. fundamentals.** Earnings remain supportive, but higher bond yields raise the bar for equities. Profits, cash generation and returns on invested capital must justify current prices.

The AI value chain below shows the test in practice: the same end demand produces different revenue models, funding needs and risk profiles at every link.

Markets are repricing each layer of risk; every link must earn its cost of capital.

The AI value chain: from demand to economic impact

AI demand drives investment across models, computing infrastructure and energy. Each link has a distinct revenue model, funding structure and financial sensitivity

Source: Santander Private Banking Spain

1. Demand and use cases	2. Model developers OpenAI, Anthropic, etc.	3. Semiconductors and computing hardware	4. Hyperscalers Microsoft, Amazon, Google, etc.	5. Neoclouds and specialist operators	6. Power infrastructure and grids
Companies and users embed AI in products and processes, increasing model usage, token volumes and new applications.	Develop and train increasingly advanced models for businesses and users, requiring large computing volumes.	Design and manufacture chips, GPUs, ASICs and associated equipment that enable model training and inference.	Deploy data centers and global networks and provide capacity to model developers and enterprises.	Expand computing capacity, often backed by capacity contracts and technology assets.	Generation, transmission and grid connections support data-center growth through long-lived projects.
REVENUE MODELS AND FUNDING SOURCES					
• Usage and subscription revenue • Application and service revenue • Enterprise monetization	• Usage and license revenue • Venture and strategic capital • Long-term compute contracts	• Chip and equipment sales • Associated service revenue • Operating cash flow and debt	• Cloud and digital revenue • Operating cash generation • Debt; project finance in some cases	• Capacity contracts • Debt and leasing • Asset-backed finance; equity	• Regulated or contracted revenue • Project finance • Long-term debt; equity
FINANCING AND BUSINESS-MODEL SENSITIVITY					
Low Recurring and diversified revenue	**Moderate-High** High capital needs; returns remain uncertain	**Low** Cyclical demand and revenue visibility	**Moderate** Strong cash flow, but heavy capex and higher required returns	**High** Greater reliance on external funding and refinancing	**Moderate** Capital intensive, with execution, regulation and demand risks

The same end demand creates different financial profiles, requiring each link to pass a different capital test.

Can growth withstand geopolitical tensions?



The first test comes from geopolitics. Our central scenario is one of manageable fragmentation, with trade and capital still flowing: globalization becomes less efficient and more strategic, without a broad trade rupture or a widespread loss of fiscal credibility. Investment in strategic capacity supports activity, while solid private balance sheets and technological progress help absorb shocks.

Our central scenario assumes a gradual easing of tensions affecting the Strait of Hormuz and a gradual normalization of energy flows. The global economy has adapted better than initially feared to disrupted flows through the Strait, but the route remains impaired and energy, freight and insurance costs remain elevated. A renewed escalation, broader trade retaliation or bond-market stress would narrow policy room and raise the cost of capital further. Growth can remain resilient, but capital will flow less efficiently and at a higher cost.

5 SIGNALS TO WATCH



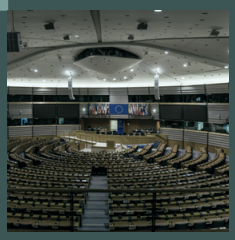
Energy Security

Energy flows and strategic resilience.



Trade Imbalances

Trade restrictions and supply-chain realignment.



Capital Flows

Exchange rates, external balances and cross-border investment.



Budgetary Trade-offs

Fiscal priorities and political stability.



Fiscal Credibility

Sovereign yields, term premia and fiscal discipline.

1. Fragmentation is reshaping the cost and allocation of capital

For three decades, globalization lowered costs by deepening trade links, specializing in supply chains and allowing capital to flow toward its most efficient uses. That model has not disappeared, but it is changing. **Trade tensions, the war in Ukraine and the conflict in the Gulf region, and a renewed focus on energy and national security are making resilience as important as efficiency.**

Governments and companies are responding by **investing more in energy security, defense, infrastructure and regional supply chains.** These investments can improve resilience, but they require additional funding, and duplicated capacity and shorter supply chains rarely come cheap. The result is **greater competition for capital and potentially higher costs** for governments, companies and households.

The pressure is also reaching domestic policy. Higher energy, housing and everyday costs weigh on household confidence and can shape fiscal, trade and energy decisions. Fragmentation therefore affects not only markets, but also the policies that determine where future investment goes.

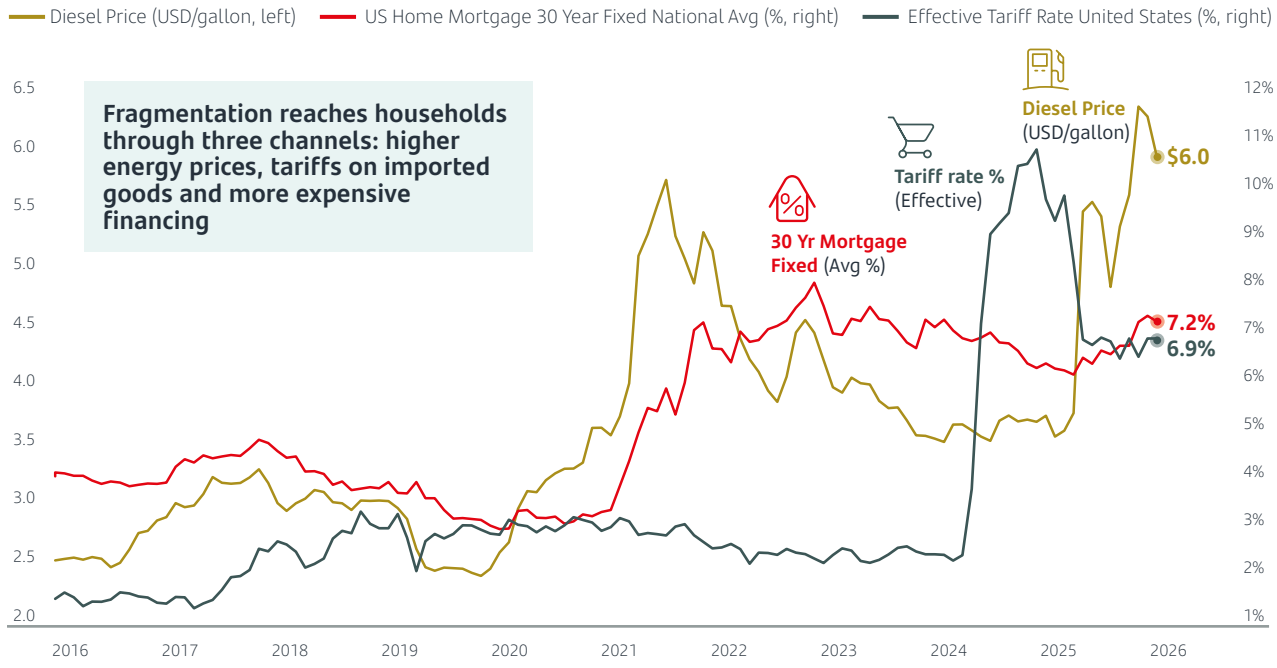
Our central scenario remains one of controlled fragmentation rather than economic dislocation. Financing continues, but through different channels and at a higher price. The global economy is adapting to persistently disrupted energy flows, although renewed attacks continue to expose markets to supply, freight and inflation shocks. Growth can continue, but investors are likely to become more discerning and less tolerant of policy or execution mistakes.

Capital still flows, but fragmentation is making resilience more expensive and investment increasingly selective.

The consumer cost of geopolitical fragmentation

Energy, trade and financing costs are increasing affordability pressures, although the impact differs across households and over time

Source: Bloomberg. Data as of 11/18/2026



1.1 Energy insecurity is adding an inflation premium to capital costs

Lower buffers give geopolitical shocks a broader economic impact. With inventories below historical norms, supply disruptions can produce a more persistent inflation response.

The charts below show why the starting point matters. European gas reserves and US crude inventories entered the latest disruption from relatively low levels. **With limited buffers, the system has less capacity to absorb interruptions** in production or transportation, making oil and gas prices more sensitive to geopolitical disruptions, especially when strategic routes or major producing regions are involved. Energy inventories have become an important macroeconomic buffer.

The effects then spread well beyond energy markets. Higher oil and gas prices feed into transportation, food, industrial production and services, eroding purchasing power and squeezing company margins. If the disruption persists, businesses are more likely to pass costs on to consumers, and households may seek compensation through higher wages. A temporary price spike can then become broader, more persistent inflation.

The persistence of the disruption therefore matters more than the initial jump in prices. A short-lived dislocation would mainly affect headline inflation and household budgets. A prolonged one could affect underlying inflation, rate expectations and the returns investors demand, tightening financial conditions even before central banks act. Policymakers can look through brief supply shocks; they cannot ignore persistent ones.

In our central scenario, the global economy continues to adapt to constrained energy flows, allowing the most acute price pressures to moderate without restoring the pre-crisis energy regime. Even so, elevated transport costs, low inventories and renewed security incidents could keep headline inflation volatile and justify further monetary tightening if second-round effects emerge.

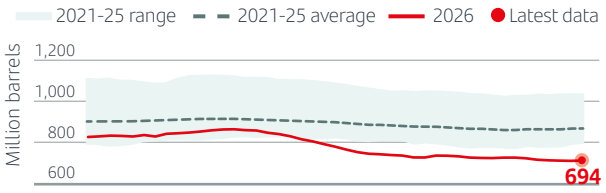
With less capacity to absorb energy disruptions, geopolitical shocks can travel further, from energy prices to inflation, interest rates and the cost of capital.

US crude inventories and European gas storage levels; oil and gas prices

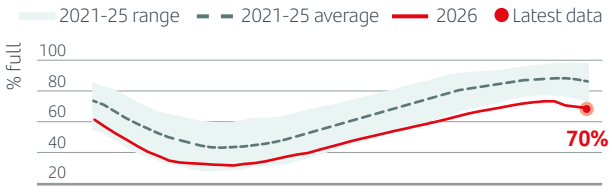
With less oil and gas in storage, geopolitical shocks can have a faster and larger impact on energy prices

Source: EIA (Weekly Petroleum Status Report); Bloomberg; own elaboration. Data as of 11/18/2026

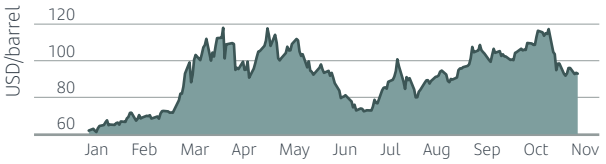
US crude inventories offer a limited buffer



Europe has less stored gas to absorb disruptions



Oil prices have adjusted to tighter supply



European gas prices remain sensitive to supply news



1.2 Trade imbalances are becoming a source of geopolitical friction

Trade tensions are increasingly translating into tariffs, industrial policy and pressure on exchange rates.

China sits at the center of this adjustment. Its export engine remains exceptionally strong, with the trade surplus reaching a record level in the first nine months of 2026. This imbalance is increasing pressure in the United States and Europe for tariffs, domestic industrial support and greater protection of strategic sectors. As more of this output is absorbed by external markets, trade policy is becoming more closely intertwined with economic security and strategic autonomy.

Trade imbalances eventually become an exchange rate question. A weaker currency can preserve export competitiveness, but also raises import costs and inflation. A stronger currency can reduce imported inflation, but may weaken exporters; this tension increasingly places the yuan at the intersection of trade and industrial policy.

The yen matters for a different reason: capital flows. As Japanese yields rise, domestic assets become more attractive to local investors, potentially changing how much Japanese savings are deployed abroad. Currency moves therefore affect not only competitiveness, but also the direction of cross-border capital flows.

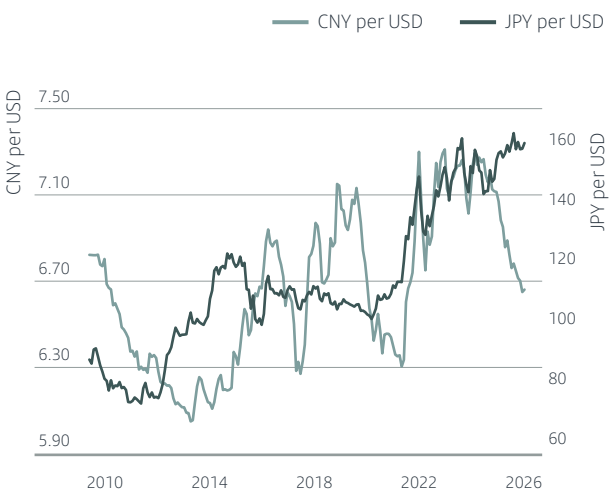
Trade friction does not mean the end of globalization. Companies continue to find new suppliers, markets and transport routes. But adaptation comes at a cost: tariffs increase import prices, while additional inventories, more regional suppliers and duplicated production capacity require companies to invest more. The result is a more capital-intensive form of globalization, where **resilience increasingly competes with efficiency.** Trade continues, but with lower efficiency and greater capital intensity.

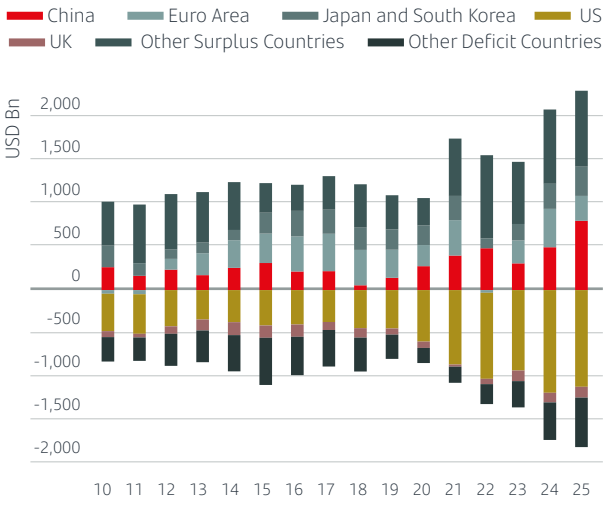
Persistent surpluses are putting currencies under pressure and may encourage a more regional and strategically aligned allocation of capital.

CNY and JPY exchange rates against the US dollar; global current-account balances

Surplus-country currencies are not appreciating enough to restore balance, increasing pressure for tariffs and industrial policy

Source: Bloomberg. Data as of 11/18/2026





1.3 Governments face a rising bill for security and debt

Energy security, industrial policy and defense require more public investment just as rising interest payments absorb a growing share of government budgets.

The war in Ukraine and the conflict in the Gulf region have reinforced the need to expand defense capacity, secure energy supplies and protect critical infrastructure. Trade fragmentation adds further demands as governments support domestic industry and invest in strategic sectors. Governments are therefore bearing more of the cost of adapting to a fragmented world.

The fiscal timing is increasingly challenging. The left-hand chart shows net interest payments across the United States, Japan and the euro area rising sharply from recent lows and moving above defense spending in aggregate. Past borrowing is absorbing more budget resources just as new spending commitments emerge.

Defense commitments are also rising. NATO's previous benchmark of 2% of GDP is giving way to a 2035 commitment comprising 3.5% of GDP for core defense and up to an additional 1.5% for broader defense- and security-related investment. As the right-hand chart shows, the additional fiscal effort varies considerably across countries. The burden will not be shared evenly: countries starting from lower defense budgets face a steeper adjustment, while those with higher interest costs have less room to respond.

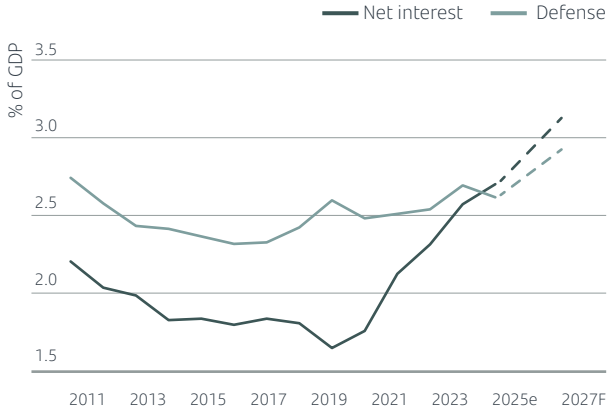
The pressure extends beyond defense and debt. Governments must also fund pensions, health care and household support while affordability remains politically important. The challenge is not simply how much to spend, but which priorities can be funded without weakening fiscal credibility.

These choices will increasingly differentiate countries. Governments with stronger revenues, credible institutions and deeper capital markets will have greater capacity to fund strategic investment. Those with less fiscal room may need to reallocate spending, raise revenue or pay more to attract private capital. Fragmentation increases both governments' financing needs and the **importance of fiscal credibility** in determining their funding costs.

Rising interest costs and higher strategic spending are intensifying competition for public resources, making fiscal credibility key to the cost of capital.

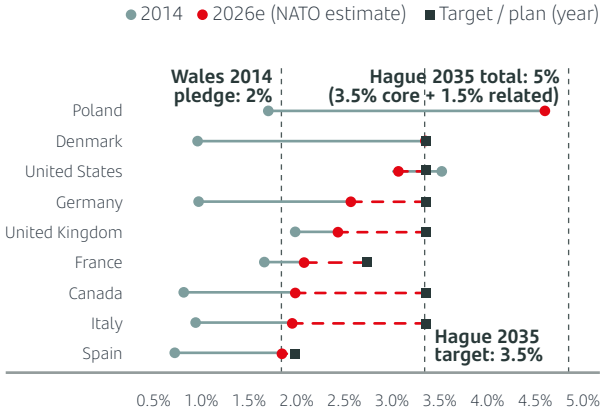
Net interest and defense spending as a share of GDP
United States, Japan, and Euro Area; GDP-weighted
Governments face a rising interest bill just as defense spending needs to increase

Source: IMF, World Economic Outlook database, April 2026 (data as of 1 Apr 2026); SIPRI Military Expenditure Database, 27 Apr 2026.



Defense spending as a share of GDP: current levels, 2014 levels, and 2035 targets
Higher NATO commitments require an uneven fiscal adjustment

Source: NATO (Table 3, Hague Summit Declaration 2025); national plans: ICDS, Atlantic Council, La Moncloa



1.4 Global imbalances are reshaping the flow of capital

For decades, Asian savings helped finance US borrowing. That relationship remains important, but domestic investment needs and geopolitical priorities are creating further competing uses for capital at home.

Asian economies have long generated large trade surpluses and recycled part of those savings into deep and liquid US financial markets. This supported demand for Treasuries, helped finance US deficits and contributed to favorable financing conditions.

The relationship is now evolving. As the chart shows, US debt has continued to rise while the combined Treasury holdings of **China and Japan have fallen from their previous peak. This does not indicate a broad retreat from US assets, but it suggests China and Japan are playing a smaller role in absorbing new Treasury issuance.**

The incentives facing both economies are also changing. China has more domestic uses for capital, from supporting consumption to investing in technology, industrial capacity, and financial stability. **In Japan, higher domestic yields make local assets more attractive than investments abroad.** Currency exposure and geopolitical alignment also play a greater role in cross-border investment decisions.

The United States retains significant advantages. The depth, liquidity and institutional strength of its markets remain difficult to replicate, supporting **continued international demand for US assets.** However, larger fiscal deficits, defense spending and infrastructure investment are increasing the supply of government bonds just as international savings face more competing uses.

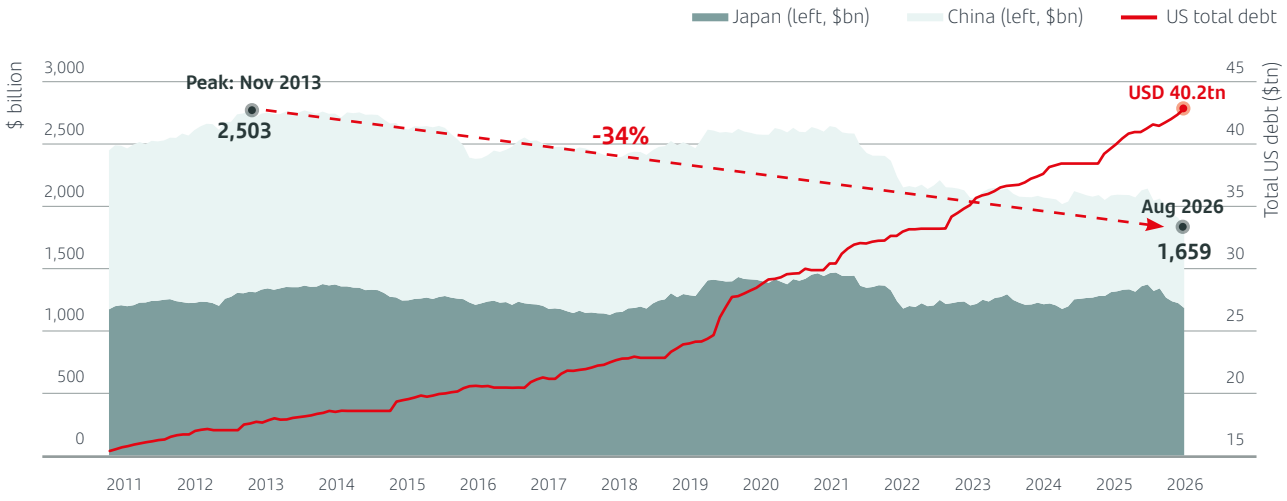
Global capital remains available, but attracting it may require higher returns. As competition for savings grows, countries with credible institutions, attractive assets and disciplined fiscal frameworks will be better placed to secure capital on favorable terms.

As the traditional link between Asian savings and US borrowing weakens, global capital will become more selective about where it goes and the returns it demands.

US debt and the Treasury holdings of China and Japan

US financing needs are rising as traditional sources of Treasury demand play a smaller role

Source: IMF and Bloomberg. Data as of August 2026



1.5 Geopolitical risks are reshaping the rate outlook

Geopolitical pressures are lifting inflation risks, prompting central banks to keep policy tighter for longer and markets to reprice the cost of capital.

Energy insecurity and trade frictions have renewed near-term inflation pressures, interrupting the path toward easier monetary policy. The adjustment is visible in rate expectations, with markets pricing policy to remain restrictive for longer and, in some cases, allowing for additional increases.

We believe, however, that this adjustment in interest rates does not mark the start of a new aggressive tightening cycle. The initial rise in prices largely reflects supply-side pressures rather than an overheating of domestic demand. The key concern for central banks is therefore not the first-round impact, but the risk that higher energy and import costs become embedded in wages, underlying inflation and expectations. This distinction matters because supply-led inflation can keep rates elevated without necessarily requiring a sustained tightening cycle.

This explains why central banks need to reinforce their commitment to price stability. **A measured response supports policy credibility** and helps prevent temporary price shocks from becoming persistent inflation, while limiting unnecessary damage to growth.

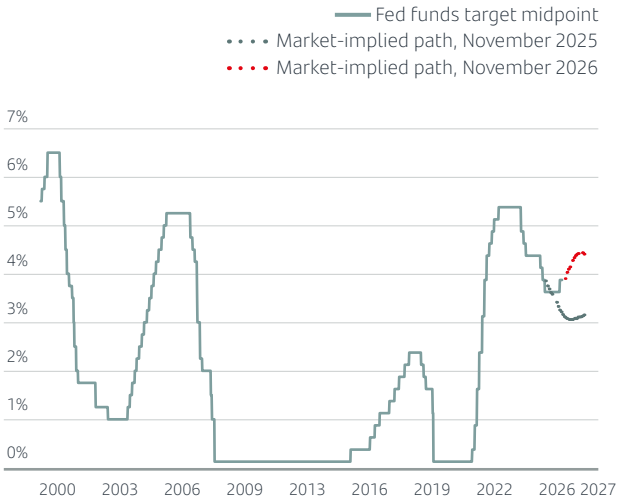
The balance remains delicate. **If inflation expectations stay anchored and second-round effects remain contained, further tightening should be limited.** A more persistent geopolitical shock would narrow that room for maneuver and require a stronger response. The broader implication goes beyond monetary policy. Energy insecurity, trade fragmentation, greater fiscal demands, and shifting capital flows are increasing funding needs and making financing costs more sensitive to risk and credibility.

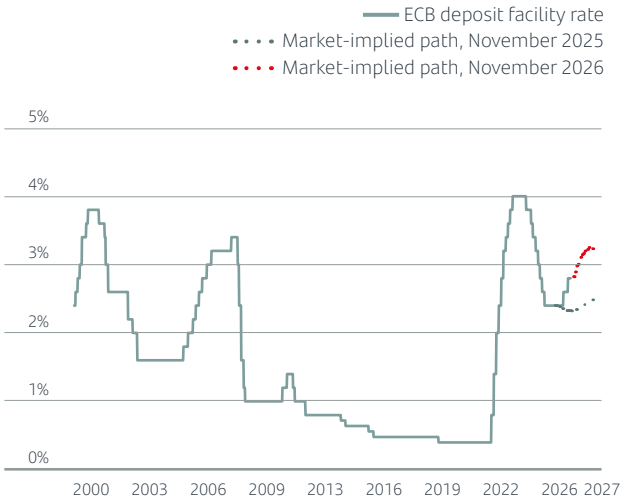
Energy, trade, fiscal, and capital-flow tensions are keeping rates higher and making financing conditions more sensitive to risk and credibility.

Federal Reserve and ECB policy rates and market expectations

End-2027 rate expectations have moved higher as inflation risks have increased

Source: Bloomberg. Data as of November 5, 2026





What is the new equilibrium for growth, inflation, and interest rates?



The global economy is entering a more capital-intensive phase. AI is turning a technology boom into a physical investment cycle across data centers, power systems, infrastructure and supply chains, supporting growth and corporate activity across regions. Strong profitability and resilient labor markets continue to support the expansion, even as AI begins to reshape tasks, skills and labor demand.

This resilience is reshaping the equilibrium between growth, inflation, and interest rates. Productivity gains should support growth as underlying inflation gradually moderates, although energy-related pressure may keep the path of headline inflation uneven. Private and public investment needs are rising, increasing competition for capital. Invested capital can still generate attractive returns, but the threshold for success is rising.

5 SIGNALS TO WATCH



Corporate confidence

PMIs, CEO surveys and business investment.



Infrastructure spending

AI, power systems and capital expenditure.



Labor market impact

Employment, job openings, wages and unit labor costs.



Inflation expectations

Breakevens, core inflation and wage pressures.



Productivity

Output per hour, total factor productivity and efficiency gains among AI adopters.

2. Higher rates are testing the investment cycle

Geopolitical and energy tensions have renewed near-term inflation risks, pushing expectations for short-term interest rates higher as markets reassess the path of monetary policy. **The pressure on rates, however, does not stop at the short end of the curve.**

Further along the yield curve, a different set of forces comes into play. The buildout of AI infrastructure and other strategic investment is increasing private-sector demand for capital, while large government financing needs add pressure at the long end. The yield curve therefore provides a map of the forces explored in this chapter: **monetary policy and inflation at the short end, private investment demand at intermediate maturities, and fiscal sustainability at longer maturities.**

The **central issue is whether an unusually large investment cycle can absorb higher rates** across the curve and still generate enough productive capacity and productivity to support growth without creating persistent inflation.

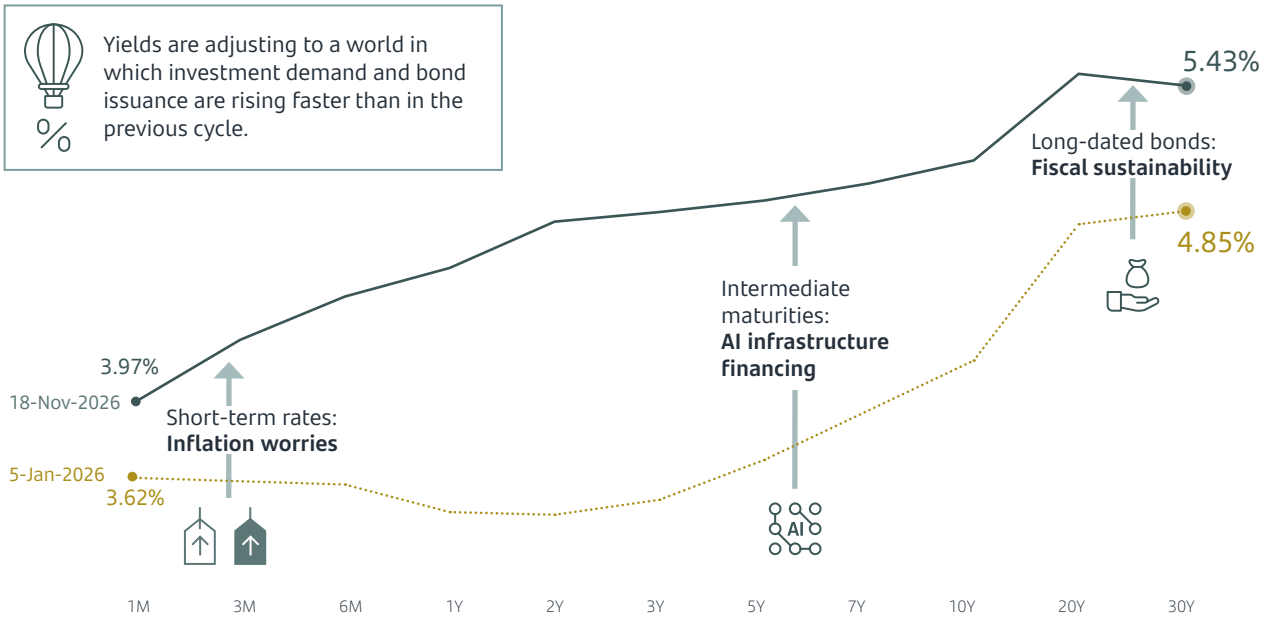
The new macroeconomic equilibrium will depend on how the investment boom interacts with economic activity and labor markets, and on how quickly AI adoption translates into productivity. **Different pressures are converging on the same curve, testing how much higher financing costs the economy can absorb without undermining the investment cycle.** The curve connects the legacy of the geopolitical shock with the financing demands of the next phase of growth.

The global economy is becoming more productive, but also more capital-intensive. That combination should support growth, while keeping inflation and interest rates higher.

US Treasury yields across maturities: November 2026 vs. January 2026

Monetary policy drives the short end, private investment shapes intermediate maturities, and fiscal sustainability influences the long end

Source: Bloomberg and own elaboration. Data as of 11/18/2026



2.1 AI is becoming a physical investment cycle

AI investment is becoming an important engine of economic growth. What began as a digital technology boom is now driving a buildout of potentially historic scale.

AI may be digital, but scaling it requires vast amounts of physical capital. Computing capacity requires chips and data centers; those facilities depend on power generation, grids, cooling, and specialized equipment. As AI deployment accelerates, **increasing amounts of capital, energy and productive resources are being drawn toward the infrastructure required to support it**.

The chart on the left puts the potential scale into historical perspective. Stijn Van Nieuwerburgh of Columbia Business School estimates that US data-center and related AI infrastructure investment could total around USD 10.3tn between 2025 and 2032, equivalent to an average 3.6% of GDP per year. Under that scenario, the AI buildout would exceed the estimated investment intensity of major US railroad, electrification, highway and telecommunications booms, potentially making it **one of the largest physical infrastructure investment cycles in US economic history.**

This is no longer only about future spending. The chart on the right shows **that capital spending by major cloud providers is already running well above the investment intensity reached during the late-1990s telecom buildout.** The near-term economic effects are therefore becoming increasingly visible in capital spending and broader business activity.

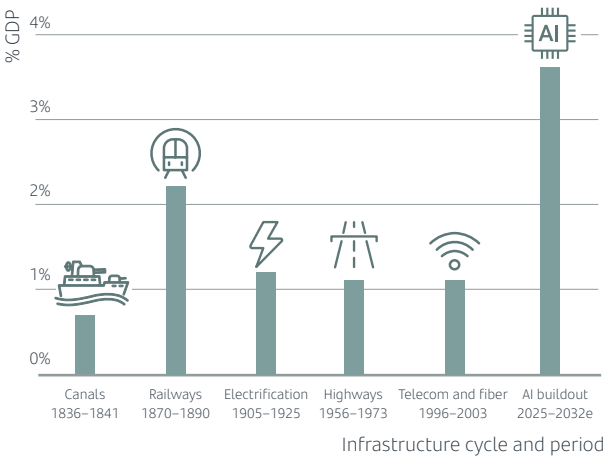
But the scale of capital spending is only the starting point. Investment can support activity while infrastructure is being built, but **lasting economic value ultimately depends on what that capital produces.** The critical question is how quickly this unprecedented deployment of capital can expand productive capacity, diffuse across the wider economy and translate technological progress into higher productivity. That **transition from investment to productivity will determine the broader macroeconomic impact of the AI cycle.**

AI is moving from digital disruption to physical infrastructure, potentially creating one of the largest investment cycles in US economic history.

Estimated average annual investment (%GDP) across major infrastructure buildouts

AI could become one of the largest US infrastructure investment cycles in history

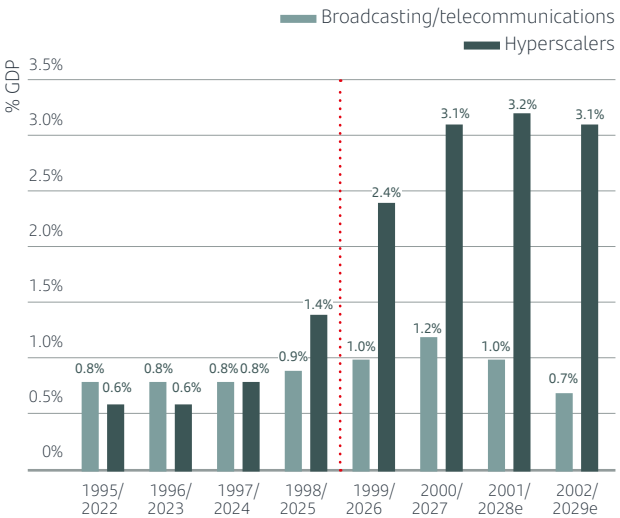
Source: Stijn Van Nieuwerburgh, Brookings Papers on Economic Activity; Bloomberg. AI buildout is an estimate for 2025–2032



Hyperscaler capex vs. US broadcasting & telecommunications investment in the late 1990s (% GDP)

The AI buildout is already outpacing the telecom boom

Source: Apollo, based on company filings and US national accounts



2.2 The investment cycle is supporting growth beyond the US

Strong profitability is sustaining a broader investment cycle across global supply chains, even as economic momentum becomes more uneven.

The investment impulse is extending beyond the US. Technology investment is feeding demand through Asian semiconductor and memory supply chains and European industrial companies, while **strategic investment is reinforcing activity across regions.**

The PMI chart below reflects that broader resilience: activity remains in expansion across much of the global economy, even as momentum varies considerably by country.

Healthy corporate profits are helping sustain investment. Elevated margins give companies both the capacity and the incentive to continue investing. The chart on the right shows the longer-term shift: corporate profits are capturing a rising share of national income, while labor compensation has moderated. This financial strength is helping sustain investment even as other parts of the economy face greater pressure.

That divergence helps explain why **resilient growth is not being felt equally across the economy.** In the US, corporate confidence contrasts with pressure on households from housing and other living costs and a cooling labor market. Europe combines resilient services with weaker manufacturing, while China pairs export strength with subdued consumption and continued weakness in residential investment.

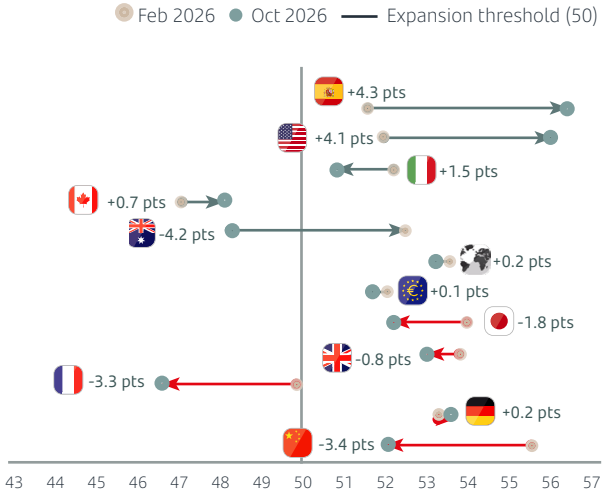
The result is a resilient but increasingly differentiated global expansion. Profits and investment continue to support activity, but the benefits vary across sectors, regions, and households. **Growth remains intact, although its sources and momentum increasingly differ across economies.**

Corporate strength is sustaining the investment cycle, but its benefits are spreading unevenly across economies and households.

Business Confidence (Composite PMIs)

Business activity remains resilient across most major economies

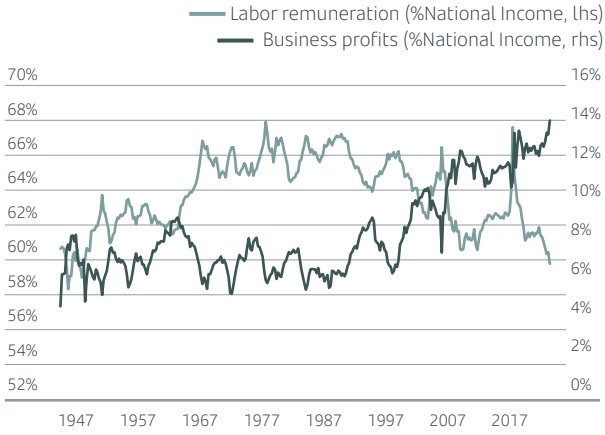
Source: Bloomberg and own elaboration. Data as of Oct 2026



Business profits and labor compensation (% of national income)

US corporate profits are capturing a rising share of national income

Source: US Bureau of Economic Analysis, Bloomberg. Data as of Q2 2026



2.3 AI is changing tasks faster than employment

Employment remains an important support for the economy, but slower hiring and AI adoption are gradually changing the labor market beneath the surface.

The labor market remains a critical pillar of the economic cycle. Household income continues to support spending even as consumers face higher living and housing costs. But **companies are becoming more cautious about adding workers.** That distinction matters: slower hiring can cool the economy without the more damaging effects of widespread job losses.

AI adds a new dimension. Its first impact is more likely to be on the tasks workers perform than on the total number of jobs. As businesses redesign workflows, some routine tasks may be automated, while complementary skills become more valuable. **AI is therefore changing what companies hire for before materially changing how many people they employ.** The experience of large technology companies shows how revenue can grow much faster than headcount, increasing revenue per employee.

So far, the evidence points to cooling rather than contraction. Payroll growth has slowed markedly from the post-pandemic pace, but initial jobless claims remain contained and widespread layoffs have not emerged. **This "low-hiring, low-firing" environment allows labor income to keep supporting consumption** while easing pressure on wages.

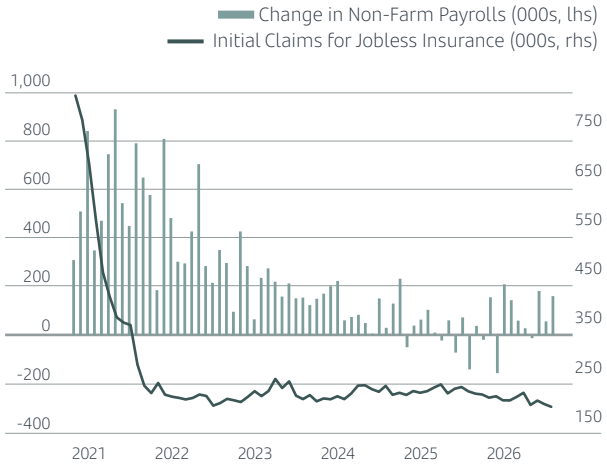
The next question is whether AI changes that balance. If adoption raises productivity while employment remains resilient, the economy could produce more without generating equivalent pressure on labor demand. But if weaker hiring eventually broadens into job losses, or if task automation leads to broader job displacement, the implications for household income and consumption would become more significant. **Understanding how AI affects tasks, skills, and hiring therefore becomes essential to assessing the next stage of the labor-market adjustment.**

So far, AI appears to be changing tasks and skills faster than it is changing overall employment.

US Monthly Non-Farm payrolls and jobless claims

The labor market is cooling through hiring, not layoffs

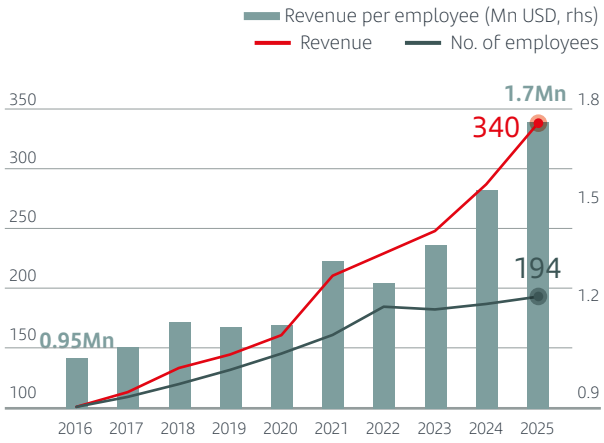
Source: Bureau of Labor Statistics. Data as of October 2026



Aggregate revenue and employment at eight large technology companies (2016 = 100)

Revenue per employee has nearly doubled since 2016

Source: Bloomberg. Revenues & No. of employees for (Microsoft, Alphabet, Meta, Apple, Nvidia, Oracle, Salesforce and Adobe). Data as of 2025



2.4 Inflation is contained, but the path back to target is narrowing

Investment and employment continue to support demand. Can inflation return to target without materially weakening growth?

The final stage of disinflation is becoming more demanding. Higher energy and commodity prices have renewed near-term inflation pressure. Beyond that shock, investment remains strong, employment resilient, and consumption well supported. The **economy is therefore absorbing higher costs without the broad weakening in demand** that would normally accelerate inflation's return toward target.

So far, however, the evidence remains relatively reassuring. **Wage growth has moderated significantly from its post-pandemic peak and there is limited evidence that higher energy costs are generating a broader wage-price spiral.** The chart on the right captures that normalization: wage and consumer-price inflation have both fallen substantially, reducing the risk that temporary price pressures become embedded in domestic inflation dynamics.

Inflation expectations are the critical line of defense. The chart on the left shows that higher Treasury yields have increasingly reflected higher real yields rather than a comparable rise in breakeven inflation. **As long as expectations remain anchored, temporary supply shocks are less likely to alter wage- and price-setting behavior.** But resilient demand means central banks cannot take that anchoring for granted.

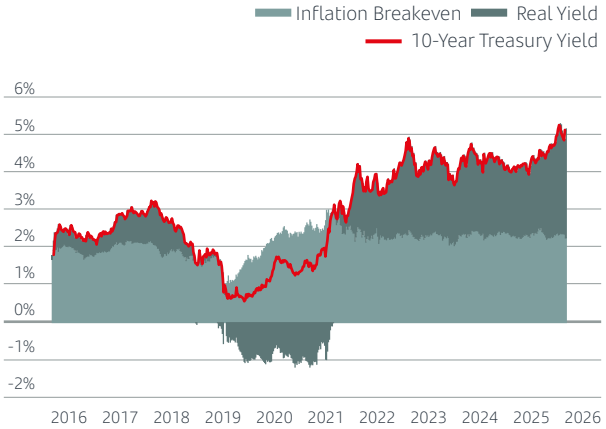
This leaves policymakers with a narrower path. If central banks ease too quickly, resilient demand could slow the disinflation process; if they remain restrictive for too long, monetary policy could weigh unnecessarily on weaker parts of the economy. The question is therefore shifting from whether inflation is falling to how quickly it can return to target without materially weakening the cycle.

Inflation pressures remain contained and expectations anchored, but resilient demand is making the last mile back to target more difficult.

US 10-year Treasury yield decomposition

Higher real yields account for most of the rise in US Treasury yields

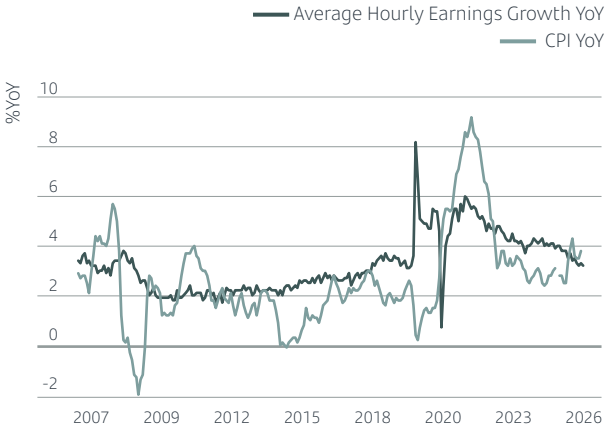
Source: Bloomberg. Data as of 11/18/2026



US wage growth and inflation (% year over year)

Wage growth and headline inflation have fallen sharply from their post-pandemic peaks

Source: Bloomberg. Data as of 11/18/2026



2.5 The new equilibrium comes with a higher cost of capital

The new equilibrium depends on whether productivity gains can sustain growth as inflation moderates, even as rising private and public financing needs keep long-term interest rates elevated.

The investment cycle has so far reinforced economic resilience. Capital spending is supporting growth, corporate activity remains resilient and employment continues to underpin consumption. As AI adoption broadens, **the critical next step is productivity:** greater output per worker and more efficient use of capital and energy could allow the economy to sustain stronger growth without generating equivalent inflation pressure.

But higher productivity does not imply a return to the previous interest rate regime. Investment demand remains unusually strong, inflation is proving more persistent and governments are competing for capital at the same time. **Large fiscal deficits and rising sovereign financing needs add another source of pressure on long-term rates, particularly where investors question the credibility of the fiscal path.** Recent pressure in European sovereign markets illustrates how quickly fiscal sustainability can affect the return investors demand for committing capital over longer horizons.

The chart below captures this broader repricing. Thirty-year sovereign yields have risen materially across major developed markets from the exceptional lows around 2020. The move is therefore not simply a monetary-policy story: **investors must finance greater investment needs and higher sovereign issuance while accepting more uncertainty around inflation and fiscal sustainability.**

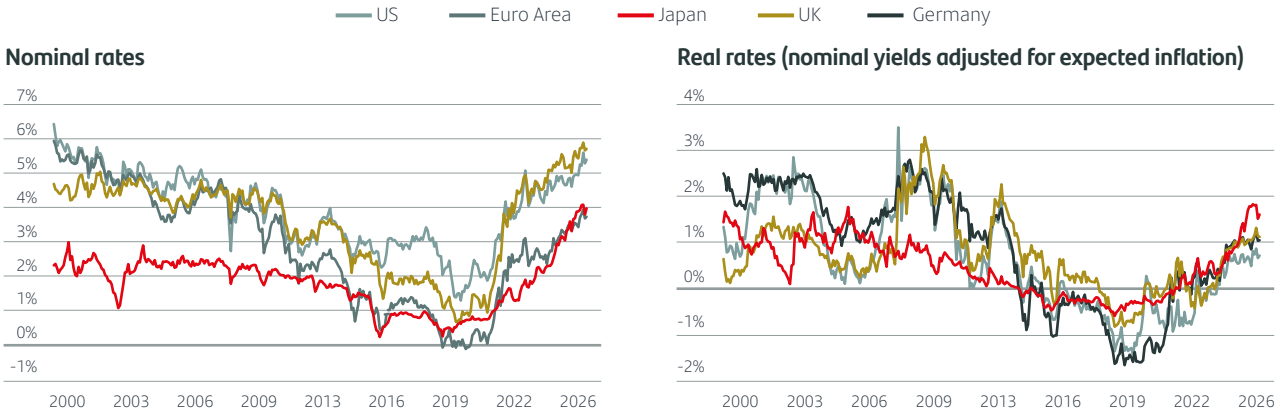
Together, these forces define the new macroeconomic equilibrium. Productivity should gradually improve the balance between growth and inflation, allowing the economic cycle to remain resilient as price pressures moderate. But productivity does not eliminate the demand for capital that the investment cycle itself creates, nor the competing financing needs of governments. **Our central scenario is therefore one of resilient growth and gradually moderating inflation, but with nominal and real interest rates remaining above the exceptionally low levels that followed the Global Financial Crisis.**

Higher productivity can sustain growth, but it is unlikely to restore the exceptionally low interest-rate environment of the previous cycle.

30-year government bond yields across major developed markets: nominal and real rates

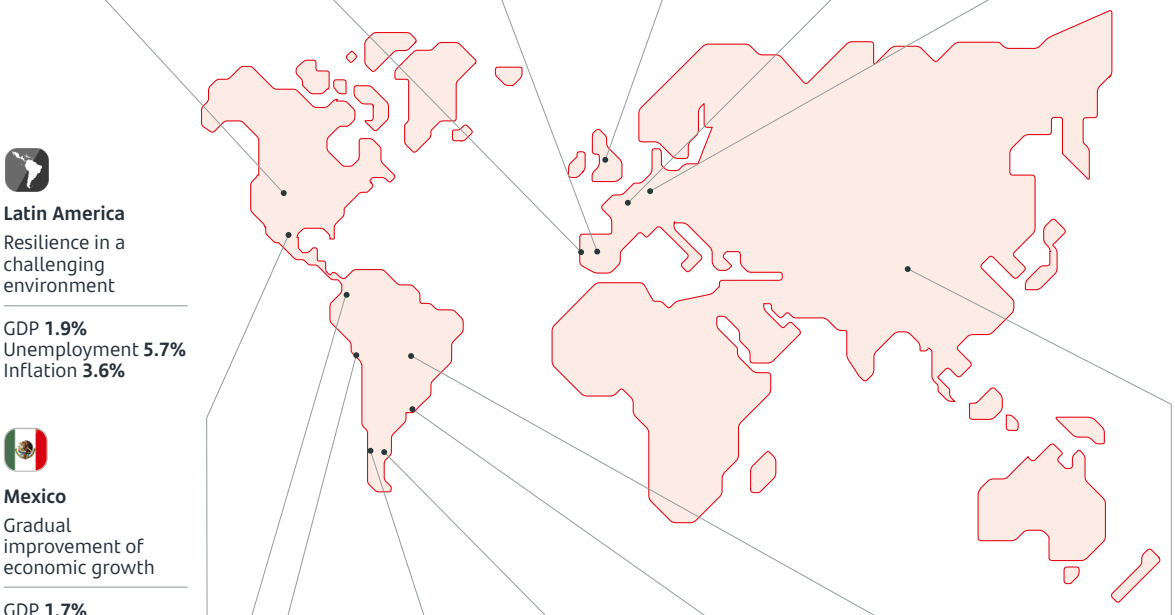
Thirty-year sovereign yields have risen as investment demand and public financing needs challenge the post-GFC rate regime

Source: Bloomberg. Data as of 11/18/2026



2027 Macroeconomic projections

Source: The Year Ahead 2027. Santander Research



United States
Sound growth and disinflation as the main challenge

GDP **2.2%**
Unemployment **4.2%**
Inflation **2.5%**

Portugal
Moderate steady growth on stronger foundations

GDP **2.1%**
Unemployment **6.1%**
Inflation **2.4%**

Spain
An economy maintaining its momentum once again

GDP **2.2%**
Unemployment **9.4%**
Inflation **2.9%**

United Kingdom
Growth steady despite external pressures

GDP **0.9%**
Unemployment **5.4%**
Inflation **3.3%**

France
Weak growth and fiscal consolidation in focus

GDP **0.8%**
Unemployment **8.3%**
Inflation **2.1%**

Germany
Fiscal stimulus and structural challenges

GDP **1.2%**
Unemployment **6.3%**
Inflation **2.6%**

Euro Area
From resilience to transformation

GDP **1.4%**
Unemployment **6.3%**
Inflation **2.6%**

Latin America
Resilience in a challenging environment

GDP **1.9%**
Unemployment **5.7%**
Inflation **3.6%**

Mexico
Gradual improvement of economic growth

GDP **1.7%**
Unemployment **3.2%**
Inflation **3.9%**

China
The next growth chapter

GDP **4.5%**

Colombia
Toward a more balanced growth model

GDP **2.0%**
Unemployment **10.1%**
Inflation **5.1%**

Peru
Strong underlying economy and investment beyond recovery

GDP **3.2%**
Unemployment **5.0%**
Inflation **3.0%**

Chile
Turning the corner as investment takes the lead

GDP **3.5%**
Unemployment **8.5%**
Inflation **3.5%**

Argentina
A more robust macroeconomy for the next stage

GDP **2.7%**
Unemployment **7.1%**
Inflation **23.0%**

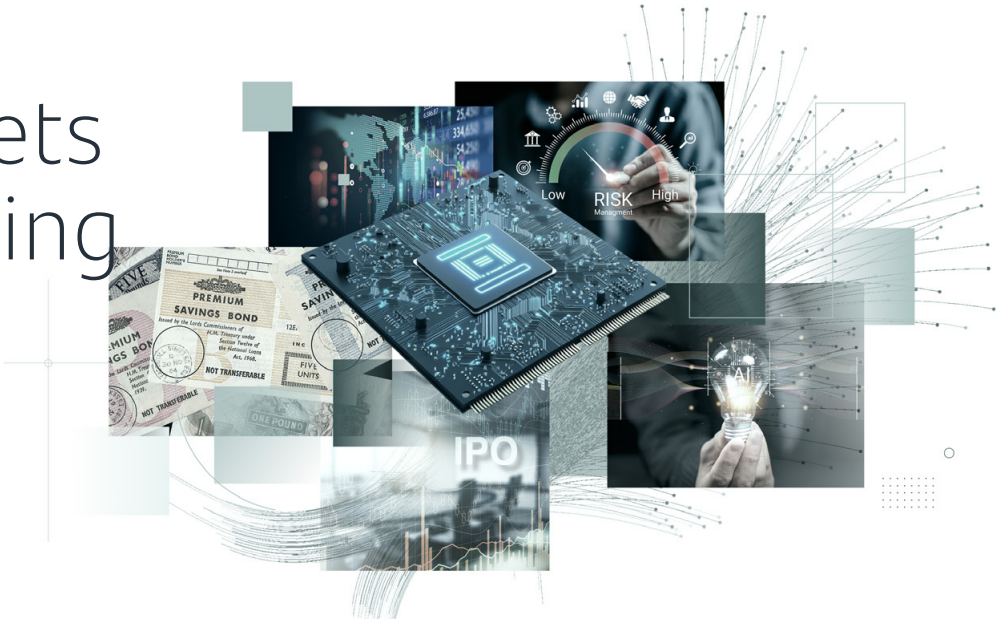
Uruguay
Moderate recovery amid investment constraints

GDP **1.5%**
Unemployment **8.1%**
Inflation **4.8%**

Brazil
A year of macroeconomic rebalancing

GDP **1.3%**
Unemployment **6.0%**
Inflation **4.4%**

Can markets absorb rising capital demand?



The investment cycle is becoming a financing cycle. AI is moving from an asset-light technology story to a capital-intensive buildout of data centers, chips, power systems, and networks. As investment needs increasingly exceed internal cash generation, even the strongest technology companies are relying more on bonds, project finance, private capital, and equity markets. The cost and structure of capital are therefore becoming central to investment decisions, increasing the importance of long-term project economics and financing commitments.

Our central scenario is greater selectivity, not funding scarcity. Capital markets remain open, and corporate fundamentals remain supportive, allowing the investment cycle to continue. But not every borrower, project, or business model can access capital on the same terms. **Credit and equity investors are demanding greater compensation for leverage, capital intensity, and execution risk.**

5 SIGNALS TO WATCH



Cash flow generation

Free cash flow, capex coverage, margins, and ROIC.



Bond issuance

Investment-grade issuance, refinancing and concessions.



Credit flows

Fundraising, lending volumes, terms, defaults and recoveries.



Financing conditions

Corporate spreads, CDS, new-issue premiums and costs.



Equity IPOs

Deal volumes, subscriptions, valuations, and after-market performance.

3. Funding a more capital-intensive world

The AI buildout is moving from physical to financial constraints. The next test is how much capital markets can provide, through which channels and at what price.

The previous chapter showed why AI could generate one of the largest infrastructure booms in modern economic history. Building data centers, power generation, and digital networks on that scale could require one of the largest mobilizations of private capital ever. As spending increasingly exceeds internally generated cash flow, even the largest technology companies are turning to a broader range of funding sources. **The challenge is therefore expanding from building the infrastructure to financing it.** Its scale will depend not only on how much capital markets can provide, but also on the channels available and the price of that capital.

The chart below captures that transition. Among hyperscalers including Microsoft, Amazon, Alphabet, Meta and Oracle, capital expenditure is growing over 80% a year, compared with approximately 27% growth in operating cash flow. Based on current estimates, in Q3 2026, aggregate capex crossed above operating cash flow, bringing aggregate free cash flow to zero and marking a **shift beyond corporate self-funding toward external capital.**

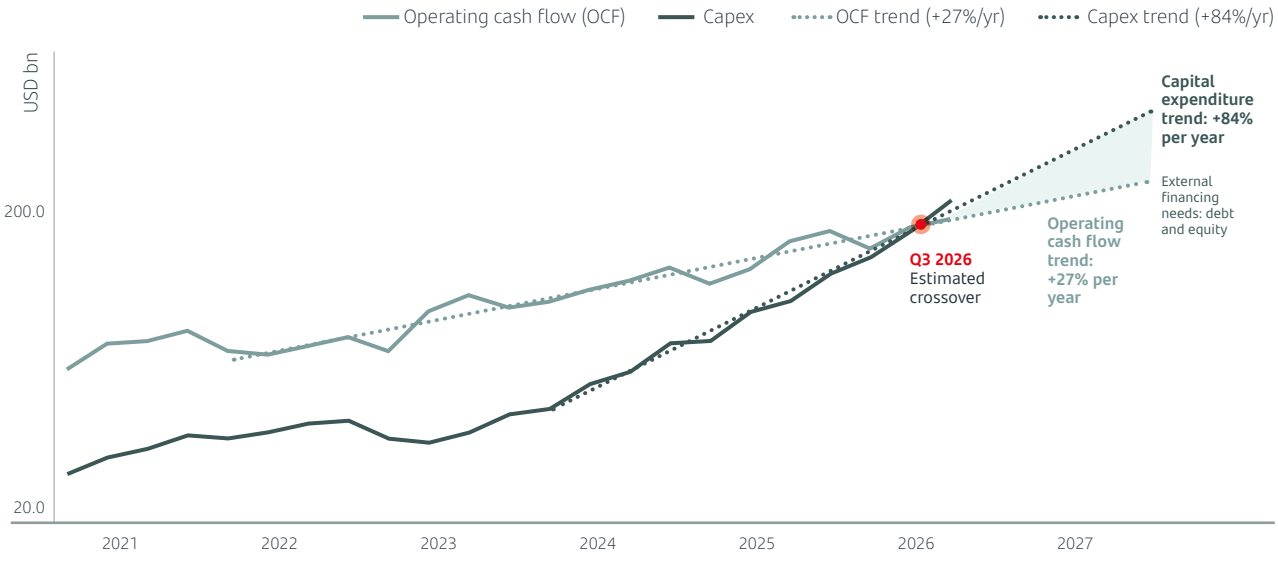
The key question is not simply whether enough capital exists, but how this growing demand will be financed and how the associated risks will be distributed. Which companies can continue to self-fund? Where will leverage rise? How much risk will move into project finance and private markets? And what returns will investors require? These are the questions that will determine whether the AI investment cycle can continue to scale.

As internal cash flow covers less of the AI buildout, external capital will play a larger role in determining which projects move forward.

Aggregate quarterly capital expenditure and operating cash flow of major US technology companies, USD bn

AI infrastructure: investment is outrunning internal funding

Source: Bloomberg. Data as of October 30, 2026. Microsoft, Amazon, Alphabet, Meta and Oracle. Estimates based on historical data and internal assumptions. Actual results may differ materially.



3.1 Bond markets impose credit discipline

As AI investment moves beyond internal cash flow, bond markets are becoming a key source of external funding. With debt comes greater scrutiny of leverage, cash flow and execution risk.

Greater reliance on debt is changing how investors assess technology credit. Sector leaders remain highly profitable, but a more capital-intensive model reduces the financial flexibility created by high margins, rapid growth, and abundant free cash flow. **As leverage rises, creditors must judge whether future cash flows can support the debt required to build capacity.**

The chart below shows the repricing across the capital structure. Wider five-year CDS spreads indicate that bond investors are demanding more compensation for technology credit, while lower equity multiples provide a parallel signal that shareholders are discounting future growth more heavily. Both markets reflect the same shift: **growth remains attractive, but investors are demanding greater compensation for financing capital-intensive expansion.**

Bond markets are already pricing issuers more selectively. Recent trading in longer-dated technology bonds illustrates this shift, with some securities trading below issue price and at yields above broader investment-grade levels. Oracle provides one example of this repricing as investors assess the implications of rising capital intensity for leverage, cash-flow generation and execution risk. **These are not signs of a closed market, but evidence of greater differentiation across issuers and financing structures.** Companies with stronger balance sheets and clearer paths to monetization should retain better access to capital, while more leveraged or speculative projects face a higher financing threshold.

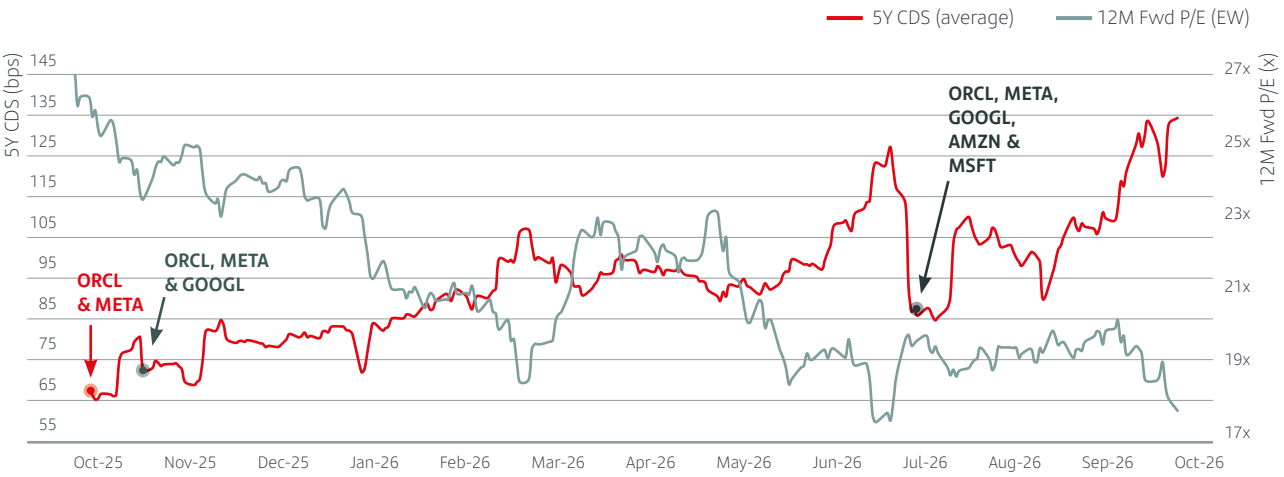
Bond markets are now imposing greater financial discipline on the AI cycle. Access to debt remains open, but capital-intensive growth must demonstrate a credible path to the cash flow needed to service it. The key questions are who can raise debt, at what price, and on what terms.

Bond markets are not stopping the AI buildout, but they are increasingly differentiating who can fund it, and at what price.

5-year CDS spreads and 12-month forward P/E of major US technology companies

Rising investment needs are pushing both equity and credit investors to demand greater compensation for hyperscaler risk

Source: Bloomberg, own elaboration. Data as of 10/11/2026. Points mark the dates when each company is added to the CDS average. Through October 30, 2025, the series includes only ORCL; then ORCL and META; GOOGL is added on November 21, 2025; and all five companies are included from August 4 - 5, 2026 onward.



3.2 Assessing risk through the AI ecosystem

Rapid credit growth around new technologies has sometimes led to losses for investors and lenders.

Previous technology cycles show that transformative technologies can create enormous economic value while still producing losses for individual investors and lenders. The reason is timing: capital is committed before future demand, revenues and winners are fully known. AI creates the same financing challenge.

Leading technology companies start from much stronger balance sheets, recurring revenues, and substantial cash flow. But **the scale of the AI buildout is changing the nature of their financial commitments.** Alongside rising capital spending and debt, companies are locking in multi-year leases, capacity agreements, chip purchases, data-center commitments, and power contracts. These commitments secure scarce capacity today, but place demands on future cash flow before the associated revenues are fully visible. **Credit analysis must therefore look beyond reported debt** to the contractual commitments extending into future years.

These financing and commercial arrangements also create greater interdependence across the AI chain. A cloud provider may invest in an AI developer that later becomes a major customer, while suppliers may finance customers or rely heavily on a small number of buyers. The **risk is therefore not only financial leverage, but also concentration:** several layers of the ecosystem may ultimately depend on the same underlying demand and sources of cash flow. Greater interdependence increases the importance of diversified customers, independent demand, and recurring cash flow.

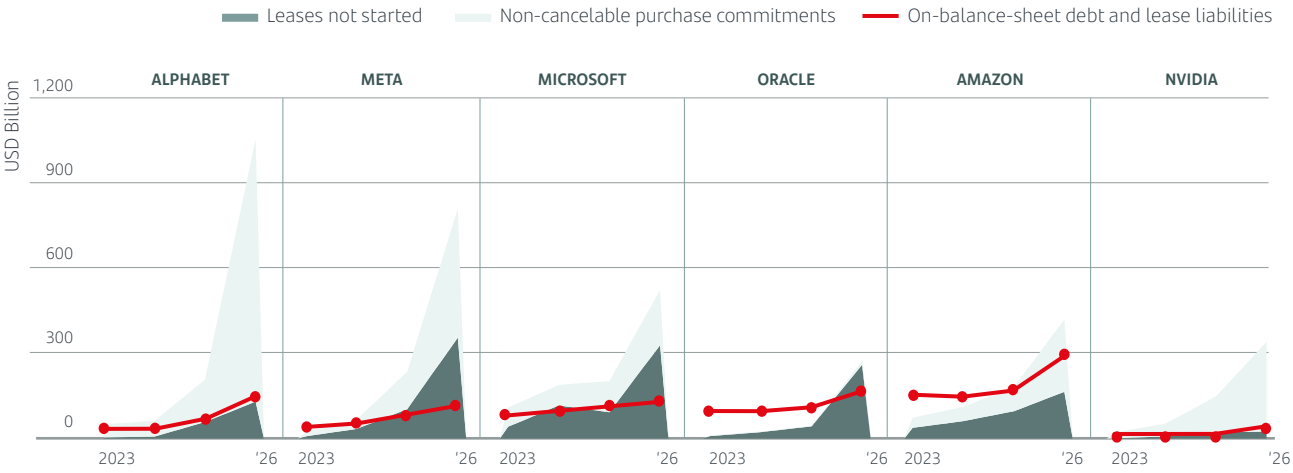
Credit analysis is therefore expanding beyond balance-sheet leverage to assess the duration, flexibility, and concentration of long-term commitments. As the buildout scales, understanding who ultimately bears those obligations becomes as important as measuring reported debt. **In the next phase of the AI cycle, the strongest balance sheet may not be the one with the least reported debt, but the one with the greatest flexibility to absorb future commitments.**

The AI buildout is creating obligations beyond reported debt, making future cash-flow commitments and who ultimately bears them central to credit risk.

Debt and disclosed long-term commitments of major US technology companies, USD bn

On-balance-sheet debt understates the scale of future AI commitments

Source: Company 10-K filings, own elaboration. Leases not started: signed leases that have not yet started (off-balance sheet). Purchase commitments: non-cancelable purchase commitments (disclosed in the commitments notes of each 10-K/10-Q). On-balance-sheet debt: financial debt plus recognized lease liabilities. Reporting date: each company's fiscal year-end; 2026 = latest published report.



3.3 Data Centers: financing AI infrastructure

Long-term commitments from major cloud providers can attract financing beyond their own balance sheets. The key question is how risk changes when that financing moves to the project level.

The scale of the buildout increasingly requires capital beyond the major cloud providers themselves. Special-purpose vehicles can bring in external investors by separating the user of capacity from the owner and financier of the asset. This expands financing capacity but moves leverage and risk to the project level, beyond the user's balance sheet.

A strong cloud-provider tenant can reduce revenue risk, but it cannot eliminate project risk. Cash flow begins only when a facility is completed, connected to power, and ready to operate, so regulatory and operational risks are relevant. Construction delays, grid constraints, permitting issues, and equipment shortages can therefore raise financing costs before revenues begin. Local concerns over electricity prices, grid capacity, water use, and community impact may also affect where data centers are built and how quickly they become operational.

A further risk is the mismatch between financing terms and technological change. Data centers may remain useful for decades, but their residual value will depend on location, power access, adaptability, and the ability to attract another tenant.

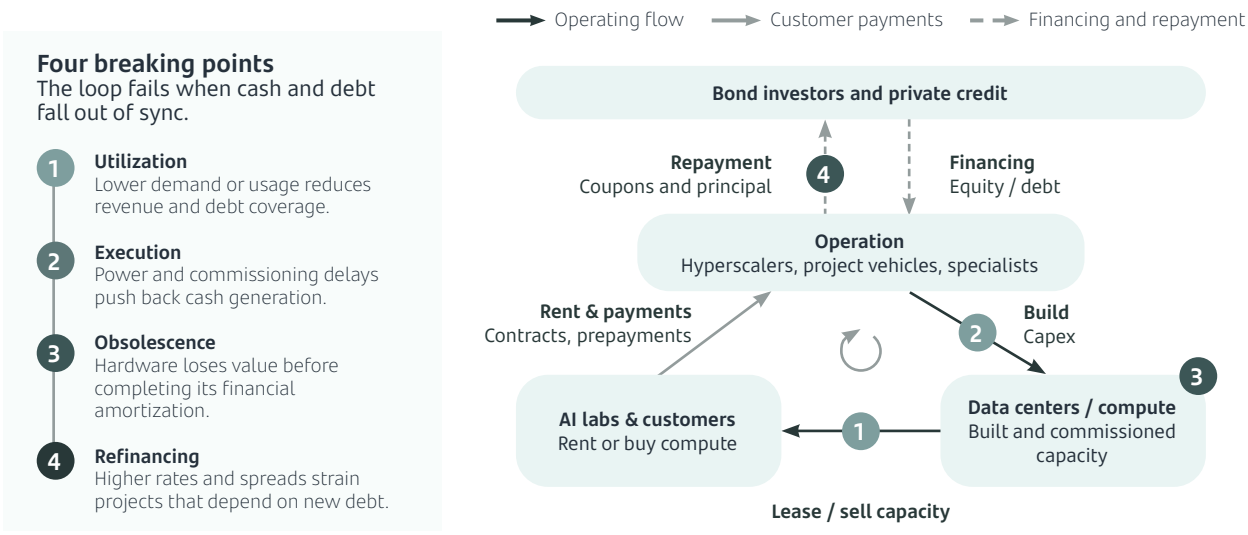
Data-center debt should therefore be priced on project fundamentals, not simply on the credit quality of the hyperscaler using the capacity. Investors need to assess construction risk, contractual protection, tenant concentration, leverage, refinancing needs and residual value. The central question is how much protection the structure provides if construction is delayed, technology changes or the original tenant no longer needs the capacity.

Data-center credit demands a project-level risk premium: strong tenants help, but construction, leverage and recovery values ultimately determine the price.

AI infrastructure financing cycle: key participants, funding flows and potential breaking points

Utilization, execution, obsolescence, and refinancing are the four key vulnerabilities

Source: Own elaboration



3.4 IPOs open the next funding channel

Public equity is becoming an important funding channel for the AI investment cycle. A potential wave of large IPOs would test how much new equity supply public markets can absorb.

As investment needs rise, public markets may play a larger role in financing growth rather than primarily returning capital to shareholders through buybacks. The left-hand chart captures this change in direction: after years in which companies were net buyers of equity, rising capital requirements are bringing IPOs, follow-on offerings, and other issuance back into the funding mix. Investors are increasingly being asked to supply capital rather than receive it.

The potential scale of a broader IPO wave makes that transition significant. The right-hand chart shows how a small number of large IPOs could bring an unusually large amount of new equity supply to public markets. These deals would compete with existing listed companies for the same investor risk budgets, making market depth and pricing discipline increasingly important.

The comparison with the dot-com era is tempting, but incomplete. Many companies came to market in the late 1990s before establishing meaningful revenues or durable business models. Today, deeper private markets allow companies to remain private for longer and reach much greater commercial scale before listing. A future IPO wave could therefore be exceptional in size, while being led by companies with substantially greater evidence of revenue and commercial adoption.

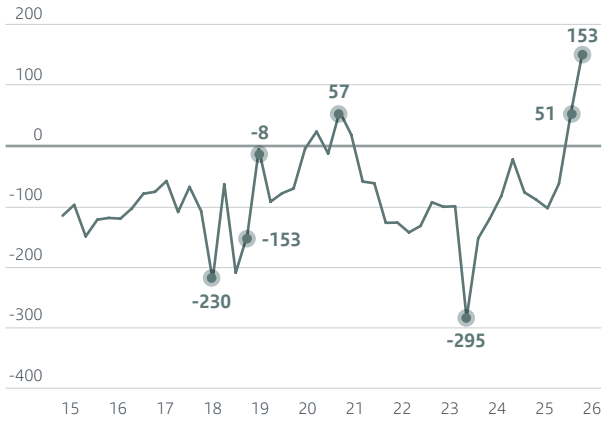
Anthropic's IPO has provided an important early test of investor appetite for large AI-related listings. Its rapid revenue growth, combined with the substantial investment required to develop and scale frontier AI models, illustrates both the sector's growing capital needs and the willingness of public markets to finance them. The offering demonstrated that public equity can broaden the funding base beyond internally funded technology leaders, while the company's initial trading performance also underscored the importance of valuation discipline. The next test is whether listed AI companies can convert access to capital into durable earnings, cash flow and attractive returns for investors.

Public equity can broaden the funding base, but successful IPOs will still depend on commercial maturity, disciplined pricing, and investor returns after listing.

Net equity issuance in the US, USD bn

The investment boom is shifting equity markets from returning capital to raising it

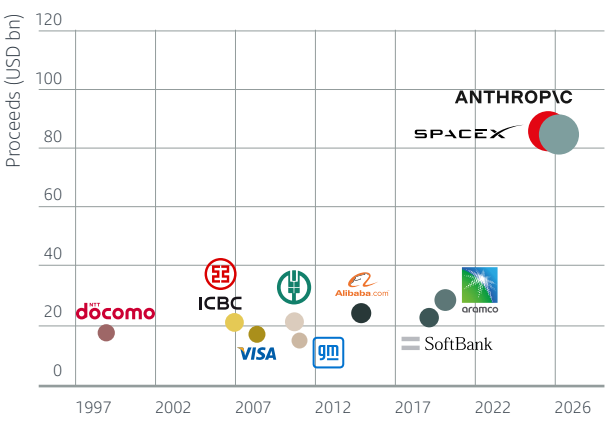
Source: Bloomberg, own elaboration



Selected large IPOs by proceeds, USD bn

AI listings could bring substantial new equity supply to public markets

Source: Bloomberg, own elaboration



3.5 Markets remain open but demand greater discipline

Our central scenario is that capital markets can continue to finance the AI investment cycle, but access and terms will become more selective.

The evidence does not yet point to broad capital scarcity. As the chart shows, **financial conditions have tightened from exceptionally easy levels, but credit spreads and broader funding conditions remain consistent with functioning markets.** The repricing documented throughout this chapter points instead to greater selectivity: investors are distinguishing more clearly among business models, balance sheets, and financing structures.

Higher borrowing costs are not, by themselves, evidence of financial stress. Corporate spreads remain contained despite higher government yields, suggesting that much of the increase in financing costs still reflects higher risk-free rates rather than a broad deterioration in corporate credit quality. The distinction matters: investors are charging more for specific risks without withdrawing capital from the system.

Debt and equity markets therefore retain substantial financing capacity. Bond markets remain open to issuance, private capital can finance infrastructure, and equity markets could reopen to large listings. The common change across these channels is price: **investors increasingly require greater compensation where leverage, duration, complexity, or execution risk are higher.**

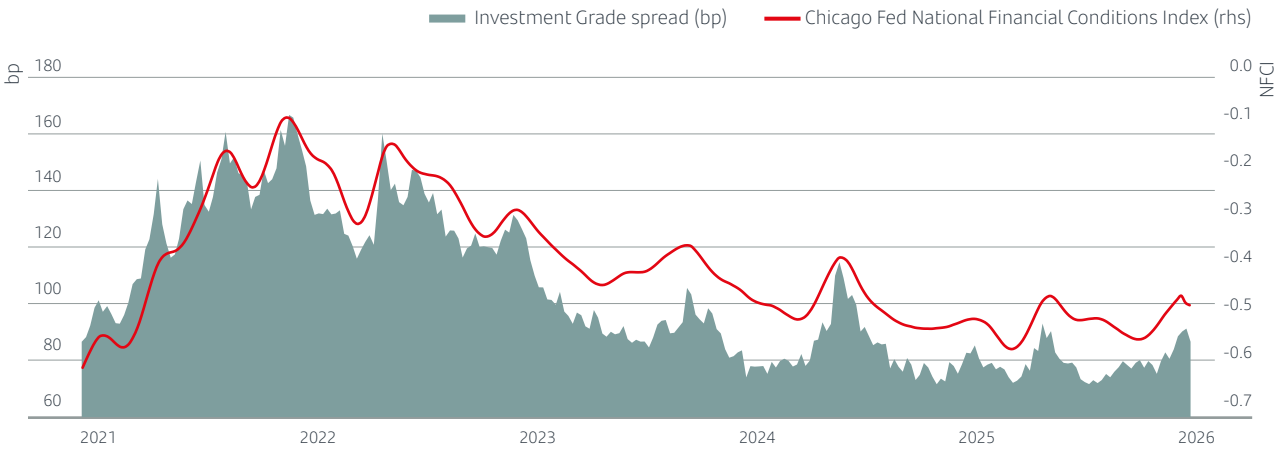
Capital remains available, but access is becoming increasingly conditional on balance-sheet strength, cash-flow visibility, and credible execution. Stronger borrowers can continue to fund investment on attractive terms; projects and issuers with weaker financial structures must offer higher returns, greater protection, or more equity. The cycle continues. The margin for error narrows.

Capital can continue financing the future, but access, price and terms will increasingly reward quality.

Investment-grade credit spreads and financial conditions in the US

Financial conditions have tightened, but credit spreads still point to functioning markets rather than broad financial stress

Source: Bloomberg. The National Financial Conditions Index (NFCI) is constructed to have an average value of zero and a standard deviation of one over a sample period extending back to 1973. Positive values of the NFCI indicate financial conditions that are tighter than on average, while negative values indicate financial conditions that are looser than on average. Data as of 11/18/2026



Are fundamentals supporting current valuations?



Corporate fundamentals enter 2027 from a position of unusual strength. Listed companies are delivering one of the strongest non-cyclical earnings expansions in recent history, while operating margins remain close to historical highs. But strong businesses do not automatically make attractive investments. The relevant question is whether future earnings can justify the expectations already reflected in market prices.

Earnings growth, resilient margins, and productivity gains continue to support equity markets. The moderation in valuation multiples over the past year has improved the starting point for investors, while a higher cost of capital places greater emphasis on disciplined capital allocation. **The key question is whether companies can convert growth into cash flow and sustain attractive returns on invested capital.**

5 SIGNALS TO WATCH



EPS Acceleration

EPS growth, revenue growth and earnings guidance.



Productivity and Margins

Operating and gross margins, profitability guidance.



Analysts' Expectations

Consensus EPS forecasts, revisions and target prices.



Concentration Risks

Capital-spending concentration, vendor financing, and related-party exposure.



Cross-Asset Valuation

Equity earnings yield, bond yields and the equity risk premium.

4. An exceptional earnings cycle meets renewed market discipline

The previous chapters traced the capital cycle: how geopolitical change redirects capital, how productivity reshapes the economy and whether markets can finance an increasingly capital-intensive future. **The final test is whether this investment can generate the earnings, cash flow and returns on capital required to meet market expectations**. This is where fundamentals meet valuation.

Corporate fundamentals enter 2027 from a position of unusual strength. Earnings growth has broadened beyond the largest technology companies, while margins remain close to historical highs despite higher wages, financing costs and geopolitical uncertainty. The next phase will depend on whether this resilience can persist as investment spending accelerates and the economic cycle matures.

Higher bond yields now offer attractive returns without assuming equity risk, raising the hurdle equities must clear. **The earnings engine remains robust, but with limited scope for broad multiple expansion, future returns should depend primarily on earnings delivery, resilient margins and cash-flow generation.**

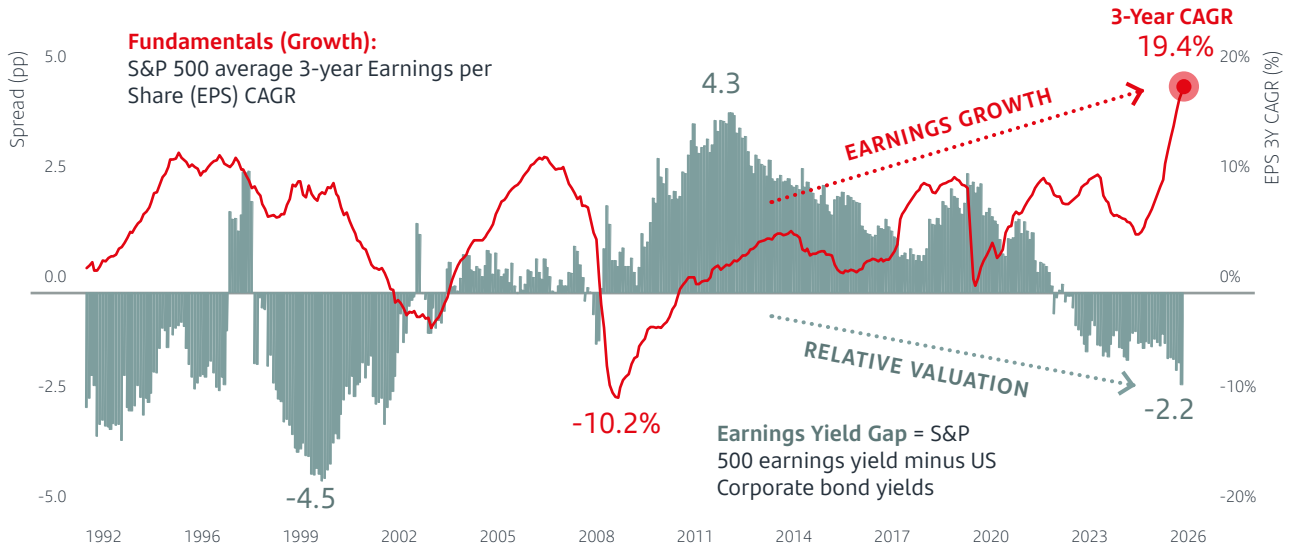
The capital test is shifting from whether investment can be financed to whether it can earn an attractive return. **Markets are not rewarding every AI story indiscriminately.** Investors are looking beyond headline growth to assess the durability of profits and whether AI reinforces or disrupts competitive positions. Exposure alone is not enough. The key distinction is between companies that can convert investment into earnings, cash flow and attractive returns on capital, and those that require ever more capital simply to sustain growth. As Howard Marks has observed, **business quality matters, but so do the expectations embedded in the price.**

Strong fundamentals and more balanced valuations provide support, but future returns will depend on whether earnings, cash flow and ROIC can exceed embedded expectations.

S&P 500 3-year EPS CAGR and earnings yield gap versus US corporate bond yields

Earnings growth is the strongest in decades, but higher bond yields have reduced the relative valuation appeal of equities and raised the threshold for future returns

Source: Bloomberg, own elaboration. Data as of 11/18/2026



4.1 A tech boom underpinned by earnings, not multiple expansion

The comparison with the dot-com era is unavoidable, but the financial anatomy of the two cycles is very different.

Both periods have been shaped by technologies capable of transforming the economy, attracting extraordinary amounts of capital and placing technology at the center of market leadership. The difference lies in how far expectations have been matched by earnings delivery.

During the internet boom, technology valuations rose far above those of the broader market, while earnings failed to keep pace. Investors paid increasingly high multiples for future growth before a comparable earnings advantage had emerged. When expectations moved too far ahead of delivery, valuations bore most of the adjustment.

The current technology cycle presents a different picture. Technology earnings have risen sharply relative to the rest of the market, while valuation multiples remain much closer to broader equity levels. Several leading technology companies are already converting AI-related demand into revenue and profits. Today's market leadership is therefore supported by a stronger earnings base, rather than relying mainly on multiple expansion or distant expectations.

This distinction matters, but valuation remains critical. A technological revolution is not the same as a valuation bubble, and the strength of the current earnings cycle suggests that markets are rewarding economic delivery. Even so, a high-quality business may offer an insufficient return if its price already assumes continued exceptional performance. Stronger fundamentals do not remove the valuation question; they make the test more demanding.

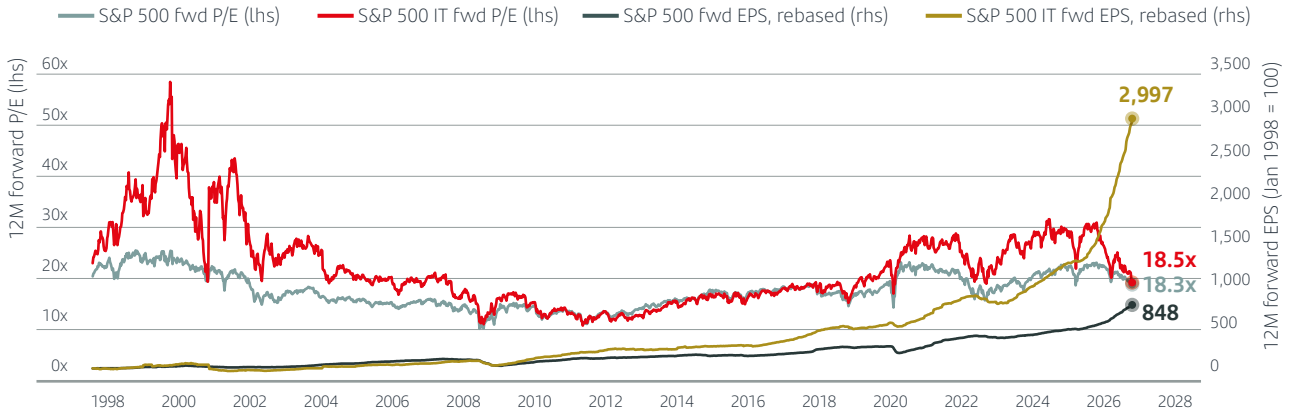
The issue is no longer whether technology earnings are real, but whether they can remain durable as investment rises, competition intensifies and the cycle matures. Investors should increasingly distinguish between companies that can convert investment into sustained earnings, cash flow and attractive returns on capital, and those that require progressively more capital merely to preserve their growth rates.

Technology leadership is supported by earnings rather than multiple expansion. The next test is whether that growth remains durable and capital-efficient.

12-month forward P/E and forward EPS: S&P 500 vs. Information Technology

Unlike the dot-com era, technology earnings have risen far more than valuation multiples, providing a stronger fundamental foundation for market leadership

Source: Bloomberg and own elaboration. Data as of 11/18/2026



4.2 The AI profit cycle is broadening across regions

The earnings strength behind US technology leadership is broadening across global markets.

As the AI investment cycle reshapes where profits are generated, differences in market composition are becoming an increasingly important driver of regional earnings and margins. Markets with the greatest exposure to semiconductors and memory are recording some of the clearest improvements in profitability.

The earnings momentum behind US tech leadership is spreading to global markets. NVIDIA and Micron continue to benefit from strong demand linked to AI infrastructure, while semiconductor leaders such as TSMC and SK Hynix are supported by demand for advanced chips and high-performance memory. Beyond semiconductors, companies such as ABB and Schneider Electric are benefiting from rising investment in electrification, power infrastructure and data centers. This broadening of earnings drivers suggests that the AI investment cycle is increasingly extending beyond a narrow group of US technology companies, creating a more diversified global earnings backdrop.

As profitability improves across the value chain, the **regional distribution of earnings is beginning to broaden.** This helps explain why regional equity performance cannot be understood through macroeconomics or headline valuations alone. Market composition increasingly matters. Regions with greater exposure to companies capturing the economics of AI investment are benefiting from stronger earnings momentum and improving margins, while others have participated more modestly.

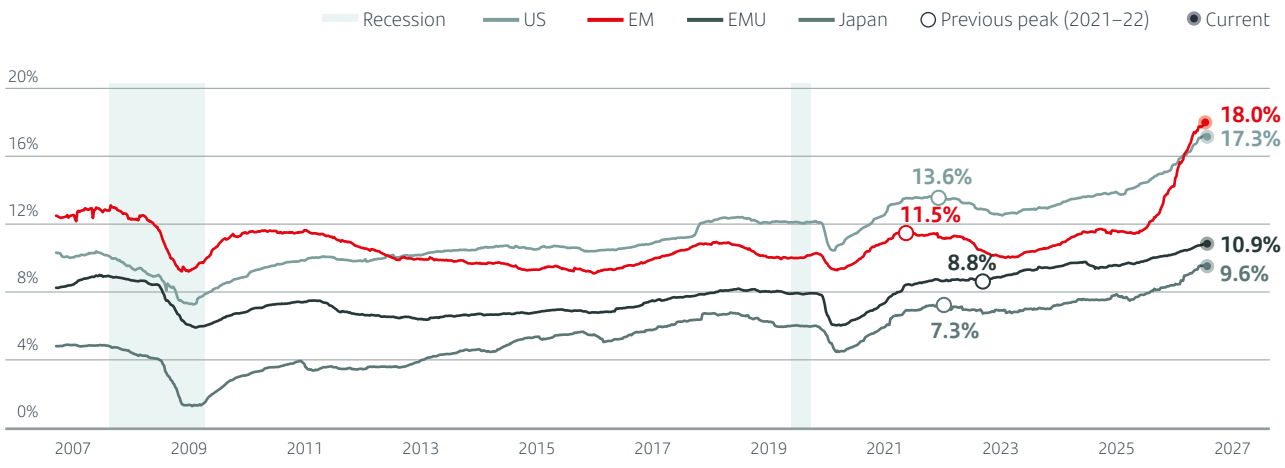
Record profitability, however, changes the question rather than ending the debate. As the cycle matures, leadership should depend less on margins reaching new highs and more on whether companies can preserve them as investment rises and competition broadens. **This shifts the focus from current profitability to the durability of future returns.**

The AI profit cycle is broadening across regions. The next test is whether record margins can translate into durable cash flow and returns on capital.

Estimated profit margins in major equity markets

Forward margins have risen across all major regions, with emerging markets currently above the US and Europe and Japan exceeding their previous peaks

Source: Bloomberg; own elaboration. Forward profit margin = consensus forward net income / forward sales. Data as of 09/10/2026



4.3 The search for AI's productivity winners

The AI cycle has created extraordinary value, with much of the visible value creation so far concentrated among infrastructure and technology leaders. The next phase will test whether adoption can broaden the profit pool.

The number of trillion-dollar companies has risen rapidly, yet **market leadership remains concentrated in a relatively narrow group of technology businesses.** Several companies have reached a scale with few historical parallels, illustrating both the value created by the AI buildout and its concentration among the largest beneficiaries.

This leadership is supported by earnings, although part of today's exceptional profitability also reflects scarcity. Constraints in semiconductors, memory and computing capacity have strengthened the pricing power and margins of companies at critical points in the AI infrastructure chain. **Recent profit growth has therefore reinforced the link between scarce capacity, earnings delivery and market leadership.**

As capacity expands, the sources of value should begin to broaden. The investment question will gradually shift from who supplies AI infrastructure to which companies can use AI to lower costs, improve processes, strengthen margins or create new revenue streams. **This would extend the opportunity beyond today's infrastructure leaders to companies capable of converting adoption into measurable economic gains.**

Evidence of that transition remains uneven. The expanding trillion-dollar club shows that value creation extends beyond a single company, while the exceptional scale of the largest leaders confirms that concentration remains high. **The next test is whether a broader group of companies can translate AI adoption into durable earnings, cash flow and attractive returns on capital.**

AI leadership remains concentrated among infrastructure providers. A broader cycle will require adopters to turn productivity gains into earnings, cash flow and returns on capital.

Companies surpassing USD 1 trillion in market capitalization

More companies have crossed the USD 1 trillion threshold, although technology continues to dominate

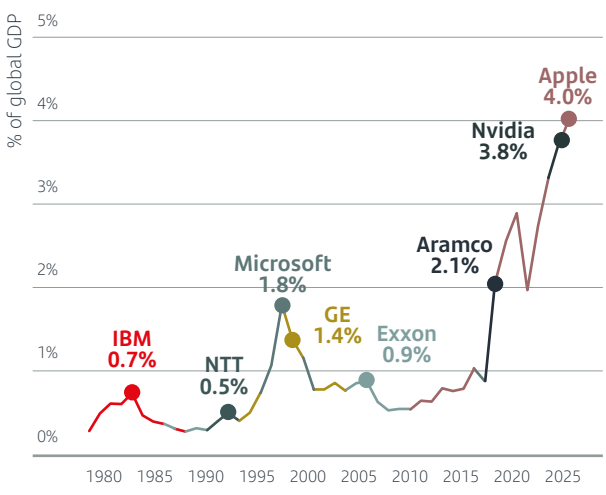
Source: Bloomberg, own elaboration. Data as of 11/17/2026

Year > $1 tn	Company	Sector	Country	Current Market cap
2018	Apple	Information Technology	US	**$5.1 tn**
2019	Microsoft	Information Technology	US	**$3.8 tn**
	Saudi Aramco	Energy	S. Arabia	**$1.7 tn**
2020	Alphabet	Communication Services	US	**$3.5 tn**
	Amazon	Consumer Discretionary	US	**$2.9 tn**
2021	Meta Platforms	Communication Services	US	**$1.6 tn**
	Tesla	Consumer Discretionary	US	**$1.5 tn**
2023	Nvidia	Information Technology	US	**$3.7 tn**
2024	Broadcom	Information Technology	US	**$1.7 tn**
	Berkshire Hathaway	Financials	US	**$1.2 tn**
	TSMC	Information Technology	Taiwan	**$1.7 tn**
2025	Eli Lilly	Health Care	US	**$1.3 tn**
2026	SpaceX	Industrials	US	**$2.0 tn**
	Anthropic	Information Technology	US	**$1.2 tn**

Market capitalization of the world's largest listed company as a share of global GDP

The market value of the largest listed company has reached 4% of global annual GDP

Source: Bloomberg, Bridgewater and own elaboration. Market capitalization and GDP measure different economic concepts; the comparison is shown for scale only.



4.4 The Capital Test raises the hurdle for returns

Strong earnings and higher bond yields are broadening the sources of portfolio return. Capturing them requires greater selectivity across equities and bonds.

The backdrop has changed. **Geopolitical uncertainty, persistent public financing needs and the scale of AI investment are keeping the cost of capital above the levels that prevailed for much of the past decade.** For investors, this raises the return required from every asset and places greater emphasis on balance-sheet strength, cash-flow visibility and disciplined capital allocation. The central question is whether investment can translate into durable earnings growth and attractive returns on capital.

For equities, the opportunity extends beyond headline growth. Strong earnings, resilient margins and improving productivity provide fundamental support, while lower valuation multiples have improved the starting point. **Future performance should therefore depend less on broad multiple expansion and more on sustained earnings delivery, free cash flow and attractive returns on invested capital.**

Higher bond yields provide a more predictable source of income and diversification. Government bonds once again offer meaningful income and can provide portfolio diversification in certain market environments. **Corporate credit can reward investors who distinguish between companies financing productive investment and those stretching their balance sheets to sustain growth.** Across both equities and bonds, attractive returns depend on risks being understood and appropriately compensated.

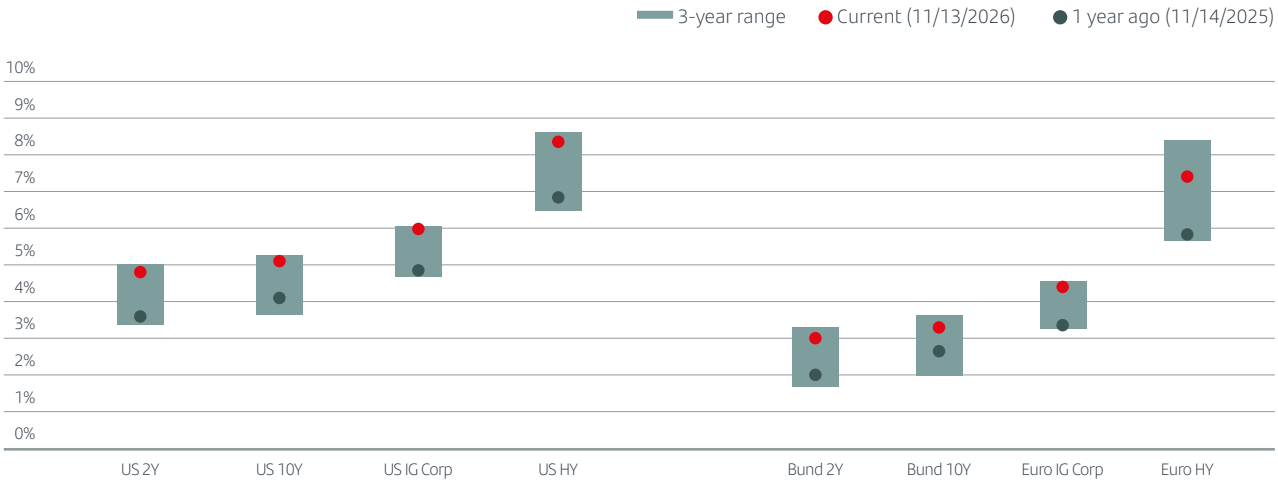
The capital test does not point to less opportunity, but to a broader and more selective investment environment. Growth remains an important source of return, while higher yields have restored income as a meaningful portfolio anchor. **Combining quality growth with reliable income should create more resilient portfolios than relying on rising asset prices alone.**

Portfolio returns no longer need to rely primarily on growth. Income can once again make a meaningful contribution to total returns.

Bond yields across US and European fixed income markets: current, 1 year ago and 3-year range

Current yields remain attractive relative to their recent ranges, restoring income as a meaningful source of portfolio return

Source: Bloomberg, own elaboration. Data as of 11/18/2026



5. Allocate capital with greater discipline

The cycle continues. The margin for error narrows. Portfolios must participate in the opportunities created by the capital cycle while applying a higher threshold for quality, income and diversification.

Investment in AI, energy, infrastructure, defense and automation continues to support growth and broaden the opportunity set. But higher financing costs, greater capital intensity and demanding valuations mean that not every company, project or asset will benefit on equal terms.

Portfolio outcomes will increasingly depend on what investors own, the price they pay and how effectively they diversify their sources of return. Implementation should therefore combine selective participation in the capital cycle with a higher threshold for quality, renewed sources of income and more deliberate diversification. Every allocation should fulfill a clear role within the portfolio and offer adequate compensation for the risks it introduces.

Finance the capital cycle selectively

Participate in the infrastructure and financing needed to expand productive capacity. Focus on essential assets, disciplined capital providers and selective private-market opportunities, while maintaining rigorous underwriting and liquidity discipline.

Raise the quality threshold

Favor companies that convert investment into durable earnings, free cash flow and returns above their cost of capital. Prioritize resilient margins, strong balance sheets and limited dependence on external financing.

Rebuild income in a higher-rate world

Use higher yields to restore income as a strategic source of portfolio return. Capture attractive carry, retain duration flexibility and broaden income selectively across high-quality and actively managed credit.

Diversify across return drivers

Combine differentiated sources of growth, income and protection. Broaden equity exposure across regions and sectors, add selective real-asset exposure and manage currency risk deliberately.

5.1 Finance the capital cycle selectively

A broader capital cycle is reshaping the investment opportunity set. Capturing it requires selectivity across assets, providers and markets.

Investment is expanding beyond technology into the physical and industrial capacity required to support AI, electrification, automation and more resilient supply chains. This broadens the opportunity set across power systems, data infrastructure, connectivity and industrial equipment. However, **an attractive structural theme does not automatically represent an attractive investment at every valuation.**

Investors should focus on opportunities supported by visible demand, identifiable cash flows, disciplined capital structures and realistic investment horizons. In private markets and more complex financing structures, appropriate investor protections, disciplined underwriting and effective liquidity management remain essential.

3 Key investment ideas:

Back essential infrastructure	Favor disciplined capital providers	Look beyond public markets
The capital cycle is expanding into the physical infrastructure required by AI, electrification and automation. Power grids, data centers, connectivity, energy storage and industrial equipment are positioned to attract sustained investment. Consider exposure through essential assets and companies providing the equipment, energy and materials needed to expand productive capacity and strengthen supply-chain resilience.	A capital-intensive cycle should increase demand for lending, underwriting and capital-markets services. Banks, private-credit managers and financial intermediaries with disciplined origination are best placed to benefit. Focus on providers combining rigorous due diligence with conservative underwriting. Maintain greater selectivity toward complex structures with weak investor protections or unresolved regulatory risks.	A significant part of the capital cycle is taking place outside listed markets. Infrastructure, private credit, secondary investments and selected private equity can provide access to projects and companies underrepresented in listed-market indices. Use private markets selectively to broaden the opportunity set, while managing liquidity, strategy and underlying-asset concentration and manager-selection risk.

5.2 Raise the quality threshold

A higher cost of capital raises the threshold for investment risk. Durable earnings, cash returns and financial resilience matter more than narratives.

With valuations already reflecting a constructive outlook, future returns should depend more on sustained earnings delivery than on further multiple expansion. Companies with visible earnings, resilient margins, recurring revenues, pricing power and strong balance sheets should be better positioned to absorb a higher cost of capital. But **quality alone is not sufficient if expectations are already fully reflected in the price.**

Investors should favor businesses able to convert investment into free cash flow and generate returns on invested capital above their cost of capital, while maintaining manageable leverage and limited refinancing needs. These characteristics will become increasingly important as the AI cycle moves from infrastructure investment toward broader adoption and monetization.

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3 Key investment ideas:

Prioritize durable earnings	Demand cash returns on investment	Favor financial resilience
Favor companies with visible earnings, resilient margins and the pricing power to absorb a higher cost of capital. With valuations already reflecting a constructive outlook, future returns should depend more on sustained earnings delivery than on further multiple expansion. Focus on recurring revenues, durable competitive advantages and positive earnings revisions.	Investment and productivity gains must ultimately translate into free cash flow and attractive returns on invested capital. Revenue growth or rising capex alone is not enough, particularly as the AI cycle moves from infrastructure investment toward adoption and monetization. Favor companies able to generate returns on invested capital (ROIC) above their cost of capital.	Higher financing costs increase the value of strong balance sheets and internally funded growth. Companies with manageable leverage, stable cash flows and limited refinancing needs should be better positioned to sustain investment through changing market conditions. Maintain greater selectivity toward business models dependent on cheap funding or distant cash flows.

5.3 Rebuild income in a higher-rate world

Higher yields have restored income as a meaningful source of portfolio returns. Capturing it requires discipline across carry, duration and credit risk.

For investors, **bonds can offer a more predictable source of income, greater visibility over future cash flows and an opportunity to balance equity risk.** Short- and intermediate-maturity government and high-quality corporate bonds offer a strong starting point, combining attractive carry with more limited sensitivity to inflation, fiscal issuance and changes in term premia than longer-duration assets.

Implementation should remain flexible and selective. Investors can extend duration gradually when valuations offer adequate compensation and diversify income through emerging-market debt, flexible credit and selected high-yield issuers, while maintaining discipline around credit, duration, liquidity and refinancing risk.

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3 Key investment ideas:

Capture attractive carry	Keep duration flexible	Broaden income sources selectively
Higher yields have restored income as a meaningful source of portfolio return. Short- and intermediate-maturity government and investment-grade bonds can provide attractive carry without requiring a large directional view on interest rates. Use current yields to rebuild strategic income and reduce reliance on further equity multiple expansion.	Higher yields do not make every part of the curve equally attractive. Fiscal deficits, heavy bond issuance and elevated term premia may keep upward pressure on long-term yields even if policy rates stabilize. Maintain moderate duration and extend it gradually when market corrections offer sufficient compensation for inflation and fiscal risks.	Emerging-market debt, flexible credit and select high-yield issuers can broaden income beyond traditional developed-market bonds. Their higher yields, however, must compensate for credit, refinancing, liquidity and policy risks. Diversify across income sources, favoring active selection, manageable leverage and limited near-term refinancing needs.

5.4 Diversify across return drivers

Diversification must extend beyond traditional asset-class labels. Portfolios need distinct sources of growth, protection and resilience.

Market concentration and a more fragmented global economy increase the risks of relying on a narrow group of companies, sectors or regions. **Diversification cannot eliminate losses, but it can reduce a portfolio's dependence on any single company, sector, region, asset class or economic outcome.** Investors should broaden equity exposure across differentiated earnings drivers, while retaining selective participation in technology and adding opportunities in Japan, Europe and emerging markets.

Real assets and deliberate currency management can provide additional sources of resilience. Gold, energy and industrial metals respond differently to inflation, fiscal and geopolitical risks, while selective currency hedging can reduce the risk that exchange-rate movements overwhelm the returns generated by underlying investments. **The objective is not to predict which asset class will perform best, but to construct a portfolio capable of remaining resilient across a range of market and economic conditions.**

3 Key investment ideas:

Diversify equity exposure	Add real-asset diversification	Manage currency exposure deliberately
Technology remains an important source of earnings growth, but portfolio returns should not depend on a narrow group of companies or a single market. Broaden exposure across regions, sectors and business models with differentiated earnings drivers. Combine US and Asian technology with selective opportunities in Japan, European financials and industrials, and emerging markets.	More frequent supply shocks, fiscal uncertainty and geopolitical fragmentation increase the value of real assets. Gold, energy and selected industrial metals can provide differentiated responses to inflation, political risk and investment demand. Use real assets as strategic diversifiers, calibrating exposures to their distinct sensitivities rather than treating commodities as a single asset class.	International diversification does not automatically provide effective currency diversification. Separate asset-selection decisions from currency views, particularly where exchange-rate movements could dominate the underlying investment return. Use strategic and partial hedging selectively, while monitoring changes in interest-rate differentials, fiscal credibility and the risk of abrupt carry-trade reversals.

CONCLUSION:

The Capital Test does not call for abandoning growth or reducing risk indiscriminately. It calls for greater discipline in deciding what to own, what to pay and how each allocation contributes to the portfolio as a whole. In 2027, resilient portfolios should combine quality assets, more predictable sources of income, sensible valuations and genuinely differentiated sources of return. The objective is not to predict every market move, but to remain invested through a disciplined process that can adapt as opportunities and risks evolve.

Annex

Main asset returns over the last 10 years

Source: Bloomberg and own elaboration

Data as of 11/17/2026	Returns						Annualized returns				
	2020	2021	2022	2023	2024	2025	YTD	1 year	3 years	5 years	10 years
Liquidity (USD) [1]	**0.4%**	**0.1%**	**1.7%**	**5.2%**	**5.4%**	**4.4%**	**3.3%**	**3.8%**	**4.6%**	**4.0%**	**2.5%**
Liquidity (EUR) [2]	**-0.5%**	**-0.5%**	**0.1%**	**3.4%**	**3.9%**	**2.3%**	**2.0%**	**2.2%**	**2.9%**	**2.3%**	**0.9%**
Global fixed income [3]	**9.2%**	**-4.7%**	**-16.2%**	**5.7%**	**-1.7%**	**8.2%**	**-2.3%**	**-1.6%**	**3.1%**	**-1.6%**	**0.7%**
US Fixed Income [4]	**7.5%**	**-1.5%**	**-13.0%**	**5.5%**	**1.3%**	**7.3%**	**-1.4%**	**-0.8%**	**4.0%**	**-0.3%**	**1.6%**
US Governments (USD) [5]	5.8%	-1.7%	-7.8%	4.3%	2.4%	6.5%	-0.3%	0.3%	3.8%	0.9%	1.6%
US Corporate (USD) [6]	9.9%	-1.0%	-15.8%	8.5%	2.1%	7.8%	-1.9%	-1.1%	4.6%	-0.1%	2.5%
US High Yield (USD) [7]	7.1%	5.3%	-11.2%	13.4%	8.2%	8.6%	0.1%	1.6%	7.4%	3.6%	5.1%
Euro Fixed Income [8]	**4.0%**	**-2.9%**	**-17.2%**	**7.2%**	**2.6%**	**1.2%**	**-1.5%**	**-1.7%**	**2.2%**	**-2.0%**	**-0.1%**
Euro Governments (EUR) [9]	5.0%	-3.5%	-18.5%	7.1%	1.9%	0.6%	-2.1%	-2.5%	1.6%	-2.8%	-0.3%
Euro Corporate (EUR) [10]	2.8%	-1.0%	-13.6%	8.2%	4.7%	3.0%	-0.4%	-0.4%	3.7%	0.0%	1.0%
Euro High Yield (EUR) [11]	1.8%	4.2%	-11.1%	12.8%	9.1%	4.9%	-0.2%	0.6%	6.0%	2.7%	3.6%
Global Emerging Fixed Income (USD) [12]	**6.5%**	**-1.7%**	**-15.3%**	**9.1%**	**6.6%**	**11.1%**	**-1.1%**	**-0.3%**	**7.6%**	**1.6%**	**3.2%**
Latam Emerging Fixed Income (USD) [13]	4.5%	-2.5%	-13.2%	11.1%	10.5%	13.2%	-0.8%	0.2%	10.4%	3.8%	3.9%
MSCI World (USD)	**15.9%**	**21.8%**	**-18.1%**	**23.8%**	**18.7%**	**21.1%**	**7.6%**	**10.9%**	**18.0%**	**9.5%**	**12.5%**
S&P 500 (USD)	18.4%	28.7%	-18.1%	26.3%	25.0%	17.9%	8.3%	11.3%	19.1%	10.9%	14.7%
MSCI Europe (EUR)	5.4%	16.3%	-15.1%	19.9%	1.8%	35.4%	5.6%	10.6%	15.8%	8.3%	9.7%
MSCI Emerging Markets (USD)	18.3%	-2.5%	-20.1%	9.8%	7.5%	33.6%	7.7%	9.3%	17.6%	5.4%	8.3%
MSCI Asia Pac. Ex Japan (USD)	22.4%	-2.9%	-17.5%	7.4%	10.2%	29.6%	8.6%	9.9%	17.9%	5.8%	8.7%
MSCI Latin America (USD)	-13.8%	-8.1%	8.9%	32.7%	-26.4%	54.8%	3.1%	6.6%	8.8%	11.7%	6.6%

1) Barclays Benchmark Overnight USD Cash Index; 2) Barclays Benchmark 3mEUR Cash Index; 3) Bloomberg Barclays Global Aggregate Total Return Index Value Un; 4) Bloomberg Barclays US Agg Total Return Value Unhedged USD; 5) Bloomberg Barclays US Intermediate Treasury TR Index Value Unhedged U; 6) Bloomberg Barclays US Corporate Total Return Value Unhedged USD; 7) Bloomberg Barclays US Corporate High Yield Total Return Value Unhedged USD; 8) Bloomberg Barclays EuroAgg Total Return Index Value Unhedged EUR; 9) Bloomberg Barclays EuroAgg Treasury Total Return Index Value Unhedged EUR; 10) Bloomberg Barclays Euro Aggregate Corporate Total Return Index Value Unhedged EU; 11) Bloomberg Barclays Pan-European Aggregate High Yield TR Index Value Unhedged; 12) Bloomberg Barclays EM USD Aggregate Total Return Value Unhedged; 13) Bloomberg Barclays Emerging Markets Latam Total Return Value Unhedged USD. Equity indices include dividends (TR Index).

Equities

Source: Bloomberg and own elaboration

Data as of 11/17/2026

			Change	Last 10 years			Return			Annualized return			
		Last Price	12 months	Low	Range	High	2024	2025	YTD	1 year	3 years	5 years	10 years
US	S&P 500	7,341		2,239		7,686	23.3%	16.4%	7.2%	10.0%	17.6%	9.4%	12.9%
	DOW JONES AI	50,759		19,763		53,186	12.9%	13.0%	5.6%	8.9%	13.2%	7.2%	10.4%
	NASDAQ 100	27,002		4,864		30,409	24.9%	20.2%	6.9%	8.9%	19.5%	10.6%	18.8%
Europe	Stoxx 50	651		320		651	6.0%	16.7%	9.9%	13.8%	12.6%	5.8%	6.7%
	Eurozone (EuroStoxx)	6,212		2,787		6,420	8.3%	18.3%	7.3%	10.1%	12.7%	7.1%	7.4%
	Spain (IBEX 35)	19,625		6,452		19,974	14.8%	49.3%	13.4%	21.3%	26.2%	16.9%	8.5%
	France (CAC 40)	8,217		4,396		8,581	-2.2%	10.4%	0.8%	1.2%	4.3%	2.8%	6.1%
	Germany (DAX)	26,045		9,936		26,258	18.8%	23.0%	6.3%	10.4%	17.8%	9.9%	9.3%
	United Kingdom (FTSE 100)	10,690		5,577		10,911	5.7%	21.5%	7.6%	10.5%	12.5%	8.0%	4.6%
	Italy (MIB)	50,846		17,051		52,613	12.6%	31.5%	13.1%	16.2%	19.9%	12.8%	11.9%
	Portugal (PSI 20)	9,594		3,945		9,667	-0.3%	29.6%	16.1%	16.3%	15.2%	11.1%	8.1%
	Switzerland (SMI)	14.976		8,220		14,916	4.2%	14.4%	12.9%	18.9%	11.7%	3.5%	6.5%
LatAm	Mexico (MEXBOL)	70,389		34,555		71,406	-13.7%	29.9%	9.5%	12.9%	10.1%	6.6%	4.6%
	Brazil (IBOVESPA)	169,817		60,227		188,787	-10.4%	34.0%	5.4%	8.2%	10.8%	10.5%	11.0%
	Argentina (ARG BYMA)	6,953		964		10,507	109.5%	-5.7%	-23.6%	-21.2%	26.9%	24.0%	10.4%
	Chile (MSCI IPSA TR)	10,477		3,487		11,420	8.3%	56.2%	0.0%	5.8%	22.0%	19.5%	9.6%
Asia	Japan (NIKKEI)	58,860		18,909		70,062	19.2%	26.2%	16.9%	17.0%	20.6%	14.7%	12.7%
	Hong-Kong (HANG SENG)	23,508		14,687		32,887	17.7%	27.8%	-8.3%	-10.9%	10.4%	-1.7%	0.5%
	South Korea (KOSPI)	4,968		1,755		8,476	-9.6%	75.6%	17.9%	21.5%	26.2%	10.9%	9.6%
	India (Sensex)	82,532		26,626		85,707	8.2%	9.1%	-3.2%	-2.8%	7.8%	6.6%	12.1%
	China (CSI)	3,976		3,011		5,352	14.7%	17.7%	-14.1%	-13.5%	3.7%	-4.0%	1.5%
World	MSCI WORLD	4,717		1,751		4,968	17.0%	19.5%	6.5%	9.6%	16.5%	7.9%	10.7%

Equities by Style and by Sectors

Source: Bloomberg and own elaboration

Data as of 11/17/2026

			Change	Last 10 years			Return			Annualized return				Ratios	
		Last Price	12 months	Low	Range	High	2024	2025	YTD	1 year	3 years	5 years	10 years	PE Ratio	Dividend Yield
	MSCI World	15,290		4,844		16,066	18.7%	21.1%	7.6%	10.9%	18.0%	9.5%	12.5%	18.87	1.55
Style	MSCI World High Dividend Yield	3,772		1,546		3,815	8.0%	18.6%	17.7%	21.1%	16.8%	10.2%	9.7%	16.13	2.97
	MSCI World Momentum	5,897		1,623		7,285	30.2%	21.3%	3.9%	7.2%	19.7%	8.1%	14.1%	15.30	1.68
	MSCI World Quality	6,207		1,631		6,387	18.4%	16.5%	7.6%	11.4%	16.2%	9.1%	14.5%	24.09	1.22
	MSCI World Minimum Volatility	6,121		2,850		6,140	10.9%	10.5%	9.0%	9.5%	11.6%	5.8%	8.1%	19.49	1.97
	MSCI World Value	19,194		7,167		19,553	11.5%	20.8%	15.6%	20.4%	18.5%	10.6%	10.0%	15.66	2.29
	MSCI World Small Cap	931		362		994	8.2%	19.9%	9.8%	16.0%	16.5%	5.4%	9.5%	17.63	2.06
	MSCI World Growth	14,333		3,745		15,778	25.9%	21.1%	0.0%	1.9%	17.2%	7.9%	14.5%	24.31	0.74
Sector	Energy	746		164		824	2.7%	13.3%	39.4%	38.8%	17.6%	18.9%	9.5%	10.00	2.90
	Materials	751		303		842	-5.5%	25.8%	7.4%	16.0%	11.6%	6.1%	9.5%	16.68	2.17
	Industrials	810		286		886	13.1%	24.9%	5.2%	8.6%	17.5%	9.6%	11.2%	23.40	1.48
	Consumer Discretionary	690		249		713	21.5%	8.4%	-2.1%	1.0%	11.0%	2.4%	10.9%	22.42	1.03
	Consumer Staples	598		295		598	5.7%	8.7%	16.7%	18.4%	11.8%	6.1%	7.6%	22.79	2.43
	Health Care	682		252		683	1.1%	14.8%	15.5%	18.2%	12.6%	6.4%	10.4%	22.48	1.60
	Financials	472		141		490	26.7%	28.7%	7.9%	16.1%	24.0%	12.6%	11.8%	14.70	2.44
	Information Technology	1,298		184		1,533	32.8%	23.5%	9.4%	10.2%	23.7%	14.0%	21.7%	24.39	0.56
	Real Estate	2,350		1,439		2,450	2.1%	3.4%	11.3%	11.2%	9.7%	0.5%	5.5%	37.07	3.35
	Communication Services	299		114		359	33.8%	32.0%	-9.5%	-4.9%	18.6%	7.2%	10.4%	15.27	1.05
	Utilities	469		200		499	13.0%	24.8%	6.5%	4.1%	16.1%	8.7%	9.4%	17.91	3.12

Sovereign Bonds

Source: Bloomberg and own elaboration

Data as of 11/17/2026

					10 years					
	Rating	Interest rate			Change	Last 10 years			Change (bp)		Slope
	(S&P)	C. Banks*	2 years	10 years	12 months	Minimum	Range	Maximum	Month	Year	10-2 years
Developed											
US	AA+	4.00%	4.80%	5.11%		0.53%		5.28%	54	109	0.30
Germany	AAA	2.50%	3.13%	3.38%		-0.70%		3.59%	101	69	0.25
France	A+	2.50%	3.63%	4.88%		-0.40%		4.97%	169	147	1.26
Italy	BBB+	2.50%	3.49%	4.43%		0.54%		4.78%	91	103	0.94
Spain	A+	2.50%	3.19%	3.94%		0.05%		4.13%	88	78	0.75
United Kingdom	AA	4.00%	4.99%	5.37%		0.10%		5.42%	80	93	0.38
Greece	BBB	2.50%	3.22%	4.29%		0.61%		7.82%	107	100	1.07
Portugal	A+	2.50%	3.14%	3.81%		0.03%		4.19%	96	81	0.67
Switzerland	AAA	0.00%	0.29%	0.56%		-1.05%		1.58%	29	41	0.27
Japan	A+	1.25%	1.87%	2.88%		-0.27%		3.07%	178	107	1.01
Emerging											
Brazil	BB	13.75%	14.70%	15.22%		6.49%		15.26%	5	181	0.52
Mexico	BBB	6.25%	7.53%	9.29%		5.55%		10.44%	-115	38	1.76
Chile	A	4.50%	4.99%	6.15%		2.19%		6.79%	42	83	1.16
Argentina	B-	29.00%	n.d.	n.d.		0.00%		0.00%	n.d.	n.d.	n.d.
Colombia	BB-	12.25%	12.28%	12.71%		5.39%		13.79%	86	19	0.43
Turkey	BB-	36.00%	36.19%	33.75%		8.89%		33.87%	656	448	-2.44
Poland	A-	3.75%	4.96%	6.30%		1.16%		8.37%	41	116	1.34
China	A+	1.46%	1.23%	1.59%		1.59%		3.91%	-8	-24	0.37
India	BBB	5.50%	6.87%	7.25%		5.84%		8.02%	49	76	0.38

* Intervention rate, except in Euro Zone countries, where the marginal deposit facility is used.

Currencies

Source: Bloomberg and own elaboration

Data as of 11/17/2026

		Change	Last 10 years			Return	Annualized return			
	Last Price	12 months	Low	Range	High	YTD	1 year	3 years	5 years	10 years
EUR/USD	1.0998		0.98		1.24	-6.4%	-5.1%	0.3%	-0.6%	0.3%
EUR/GBP	0.83		0.82		0.92	4.7%	-5.5%	-1.7%	-0.2%	-0.3%
EUR/CHF	0.92		0.91		1.20	0.7%	-0.2%	1.5%	2.6%	1.5%
EUR/JPY	175		117		186	-4.7%	2.7%	-2.3%	-5.9%	-4.0%
EUR/PLN	4.40		4.15		4.86	-4.2%	-3.8%	-0.1%	1.2%	0.1%
GBP/USD	1.32		1.12		1.42	-2.0%	0.4%	2.0%	-0.4%	0.6%
USD/CHF	0.84		0.77		1.02	-5.7%	-5.3%	1.8%	2.0%	1.8%
USD/JPY	159		103		163	-1.7%	-2.6%	-2.1%	-6.5%	-3.6%
USD/MXN	18.42		16.56		24.17	-2.2%	0.0%	-2.2%	2.3%	1.0%
USD/ARS	1,552.25		15.39		1,557.84	-6.5%	-10.7%	-38.9%	-42.2%	-36.9%
USD/CLP	993		594		1,003	-9.3%	-7.0%	-3.8%	-3.5%	-3.8%
USD/BRL	5.78		3.11		6.18	-5.2%	-7.7%	-5.3%	-0.9%	-5.1%
USD/COP	3,304		2,795		4,940	14.4%	13.7%	7.4%	3.5%	-0.4%
USD/CNY	6.67		6.28		7.32	4.8%	6.6%	2.7%	-0.9%	0.3%
EUR/SEK	11.13		9.44		11.88	-2.8%	-1.4%	1.0%	-2.1%	-1.2%
EUR/NOK	10.59		8.88		11.97	11.8%	10.6%	3.7%	-1.3%	-1.5%

Commodities

Source: Bloomberg and own elaboration

		Change	Last 10 years			Return			Annualized return			
	Last Price	12 months	Low	Range	High	2024	2025	YTD	1 year	3 years	5 years	10 years
Crude Oil (Brent)	93.1		23		123	-3.1%	-18.5%	53.1%	44.6%	4.9%	3.0%	7.6%
Crude Oil (W. Texas)	86.0		19		115	0.1%	-19.9%	49.8%	43.1%	4.3%	1.9%	6.6%
Gold	3,849.6		1,148		5,279	27.2%	64.6%	-10.9%	-5.7%	24.8%	15.6%	12.2%
Copper	13,226.5		4,951		14,410	2.4%	41.7%	6.5%	21.9%	17.0%	7.1%	9.2%
CRB Index	380.4		117		411	12.5%	0.7%	27.3%	25.8%	11.6%	10.0%	7.6%
Natural Gas (USA)	3.2		3		5	0.5%	0.0%	-28.1%	-33.1%	-11.9%	-0.7%	-2.3%
Natural Gas (Europe)	85.4		4		240	51.1%	-42.4%	203.3%	173.3%	23.7%	-2.1%	17.1%

Periodic table of asset returns

Annual Returns of Major Asset Classes

Type of Asset	Index	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026 YTD
US Equities	S&P 500 TR	**37.3%** Emerging Market Equities	**1.9%** Cash USD	**31.5%** US Equities	**18.4%** US Equities	**38.5%** Commodities	**22.0%** Commodities	**28.3%** Japan Equities	**25.0%** US Equities	**55.3%** Spain Equities	**31.6%** Commodities
Japan Equities	Topix TR	**22.4%** Global Equities	**-1.2%** Global Fixed Income	**28.2%** Europe Equities	**18.3%** Emerging Market Equities	**28.7%** US Equities	**1.7%** EUR Cash	**28.0%** Spain Equities	**20.5%** Japan Equities	**33.69%** Emerging Market Equities	**17.0%** Spain Equities
Spain Equities	Ibex35 TR	**22.2%** Japan Equities	**-3.2%** Global IG	**27.7%** Global Equities	**15.9%** Global Equities	**23.2%** Europe Equities	**-2.0%** Spain Equities	**26.3%** US Equities	**20.0%** Spain Equities	**25.5%** Japan Equities	**15.0%** Japan Equities
Emerging Markets Equities	MSCI EM TR	**21.8%** US Equities	**-4.1%** Global High Yield	**19.6%** Global 60:40	**14.1%** Global 60:40	**21.8%** Global Equities	**-2.5%** Japan Equities	**23.8%** Global Equities	**18.7%** Global Equities	**21.2%** Europe Equities	**9.5%** Europe Equities
Europe Equities	Eurostoxx50 TR	**16.6%** Global 60:40	**-4.4%** US Equities	**18.4%** Emerging Market Equities	**10.0%** Global IG	**12.7%** Japan Equities	**-9.5%** Europe Equities	**22.2%** Europe Equities	**18.4%** Commodities	**21.1%** Global Equities	**8.3%** US Equities
Commodities	Commodity RB TR	**10.4%** Global High Yield	**-5.3%** Global 60:40	**18.1%** Japan Equities	**9.2%** Global Fixed Income	**10.8%** Global 60:40	**-12.7%** Global High Yield	**16.7%** Global 60:40	**11.0%** Europe Equities	**17.9%** US Equities	**7.7%** Emerging Market Equities
Global Equities	MSCI World TR	11.3% Spain Equities	**-8.7%** Global Equities	**16.6%** Spain Equities	**7.4%** Japan Equities	**10.8%** Spain Equities	**-16.2%** Global Fixed Income	**14.0%** Global High Yield	**10.5%** Global 60:40	**16.4%** Global 60:40	**7.6%** Global Equities
Global IG	Global Aggregate - Credit TR	**9.2%** Europe Equities	**-10.7%** Commodities	**12.6%** Global High Yield	**7.0%** Global High Yield	**1.0%** Global High Yield	**-17.0%** Global IG	**9.8%** Emerging Market Equities	**9.2%** Global High Yield	**12.1%** Global High Yield	**3.9%** Global 60:40
Cash USD	Overnight USD Cash Index	**8.9%** Global IG	**-11.5%** Spain Equities	**11.8%** Commodities	**-0.4%** Cash USD	**0.1%** Cash USD	**-17.0%** Global 60:40	**9.2%** Global IG	**7.5%** Emerging Market Equities	**8.2%** Global Fixed Income	**3.3%** Cash USD
Global High Yield	Global High Yield Index TR	**3.0%** Global Fixed Income	**-12.0%** Europe Equities	**10.7%** Global IG	**-3.2%** Europe Equities	**-2.5%** Emerging Market Equities	**-18.1%** US Equities	**5.2%** Cash USD	**5.4%** Cash USD	**5.0%** Commodities	**0.2%** Global IG
Global 60:40	Bloomberg Global EQ:FI 60:40 Index	**1.7%** Commodities	**-14.6%** Emerging Market Equities	**3.0%** Global Fixed Income	**-9.3%** Commodities	**-3.2%** Global IG	**-18.1%** Global Equities	**4.2%** Global Fixed Income	**0.7%** Global IG	**4.4%** Cash USD	**-0.9%** Global High Yield
Global Fixed Income	Bloomberg Global Agg TR	**1.0%** Cash USD	**-16.0%** Japan Equities	**2.2%** Cash USD	**-12.7%** Spain Equities	**-4.7%** Global Fixed Income	**-20.1%** Emerging Market Equities	**0.0%** Commodities	**-1.7%** Global Fixed Income	**2.8%** Global IG	**-2.3%** Global Fixed Income

+ Returns −

*Data as of 11/17/2026
Total return indices track both the capital gains as well as any cash distributions, such as dividends or interest, attributed to the components of the index.

Source: Bloomberg

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