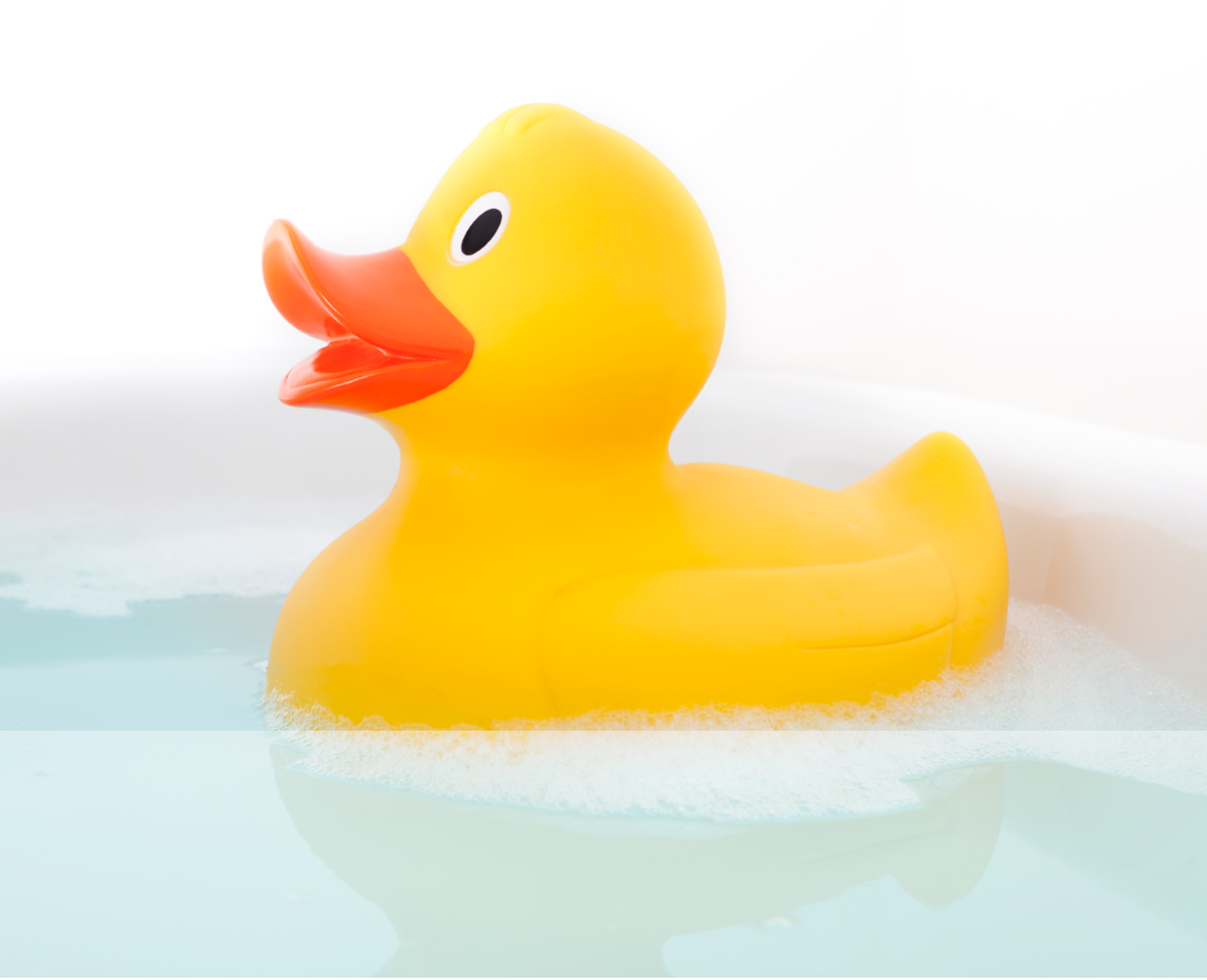


HOUSE VIEW

ECONOMY AFLOAT

BancaMarch

ECONOMY AFLOAT

STRATEGIC POSITION

ASSET ALLOCATION

ASSET CLASS	-2	-1	NEUTRAL	+1	+2
LIQUIDITY		■			
FIXED-INCOME				■	
EQUITY			■		
ALTERNATIVE			■		

FIXED-INCOME	-2	-1	NEUTRAL	+1	+2
SOVEREIGN DEBT		■			
United States			■		
Euro			■		
CORPORATE BONDS				■	
Investment Grade				■	
High Yield			■		
EMERGING MARKET DEBT				■	
CONVERTIBLE BONDS			■		

EQUITY	-2	-1	NEUTRAL	+1	+2
EUROPE			■		
UNITED STATES				■	
EMERGING MARKETS			■		
REST OF WORLD		■			

ALTERNATIVE	-2	-1	NEUTRAL	+1	+2
LIQUID		■			
ILLIQUID				■	

CURRENCIES	-	NEUTRAL	+
DOLLAR		■	
POUND STERLING		■	

Beyond the smoke and noise, global growth continues to show resilience.

Against wind and tide, the world economy has held up and will remain afloat, supported by resilient consumption and rising investment. We believe that the acceleration of investment projects – largely concentrated in the strategic sectors of Artificial Intelligence and Defence – is a trend that will continue to drive global activity over the coming quarters.

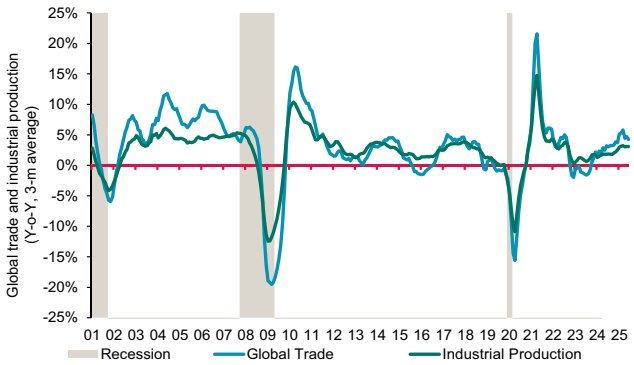
At this particular point in the economic cycle, we have also just passed the first anniversary of Donald Trump's return to the White House. Without doubt, the past 12 months have been intense, and this second term as President of the United States has been marked by economic interventionism. Even so, beyond the high level of noise and constant back-and-forth on tariffs, the economic data show that, for now, the distortions introduced by the greater trade barriers and Trump's protectionist policies have not resulted in major imbalances, nor have they triggered any sharp slowdown in activity.

The best evidence of this is that, as we approach the end of the year, world trade, far from declining, has actually gathered pace.

The volume of global goods transactions is growing at an average rate of 4.7%, faster than the average recorded last year (2.7%). This is also helping to spark a degree of industrial reactivation, with industrial output now expanding at its strongest pace since 2022.

1. THE GLOBAL ECONOMY REMAINS DYNAMIC

Sources: Bloomberg and Banca March

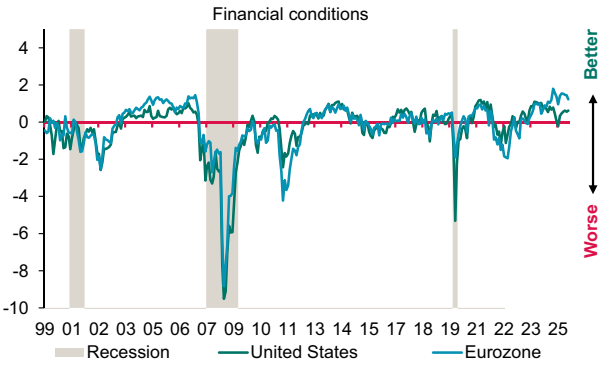


Although trade will likely slow over the coming months as the "front-loading" effect – the acceleration of imports ahead of tariff increases – begins to normalise, the improvement we are seeing in these two economic indicators so closely linked to the cycle – trade and industry – allows us to say that the global economy is maintaining its dynamism.

On the other hand, beyond tariffs, we should not overlook the positive boost to growth coming from other economic measures put in place by the Trump Administration, such as tax reform and policies aimed at keeping energy costs low. In particular, with oil prices averaging around 14% below last year's level, consumers – especially in the United States – stand to benefit from greater spending power.

2. FINANCIAL CONDITIONS WILL PROVIDE SUPPORT

Sources: Bloomberg and Banca March



A boost to consumption is also being provided by the positive wealth effect for higher-income households stemming from the rise in the value of real assets (property) and, above all, the revaluation of financial assets.

All this, combined with the fact that cuts in official rates are clearly easing monetary conditions, something that has historically coincided with periods of sustained growth (chart 2).

Trade deals continued to flourish in the fall.

Trump's recent tour of Asia has produced a genuine wave of new agreements, reinforcing our view that we need to ***look beyond the smoke***. This is, without doubt, proof of the importance of not being swayed by the president's ongoing statements and threats about the "trade war".

Once again, the usual pattern in the stand-off between China and the United States has repeated itself: threaten, negotiate and ultimately reach a partial deal that avoids the worst-case scenarios. Both countries, bound to reach an understanding, have agreed to stop "attacking" each other in the near future. As regards tariffs, the outcome is as follows: 1) the threatened additional 100% tariff is suspended; 2) reciprocal tariffs are postponed for a year until 10 November 2026 – preventing them from rising to 147%; 3) and fentanyl-related duties are cut by 10 percentage points. As a result, the average weighted tariff applied to China falls from 57% to 47%, returning to levels similar to those in place before *Liberation Day*.

In return, China has resumed imports of US soybeans (halted since May) and has agreed to delay for one year the restrictions on exports of rare earths to the United States.

We therefore consider this agreement to be more of a "kick down the road" than a definitive settlement, given the postponement of the moratorium until next year, the guaranteed supply of rare earths for one year, and the planned meeting between Trump and Xi Jinping in 2026.

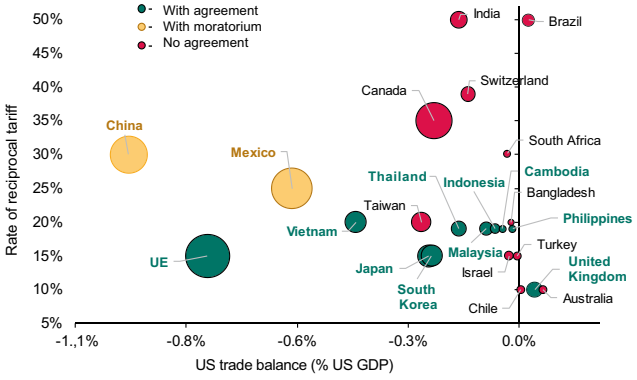
On the *tour* involving several Asian countries – Malaysia, Thailand, Vietnam, Indonesia and Cambodia – possible future tariff exemptions were hinted at, although without specifying which goods. These countries share one common feature: their exports are highly concentrated in technology. In the group made up of Thailand, Vietnam and Malaysia, computers and electronic products account for 47% of everything they export to the United States. So although no tariff reductions have been announced, if exemptions were applied to the goods they export most, the impact of the announced tariff would be minimal, amounting to yet another sleight of hand.

Meanwhile, the stalled trade agreement between the U.S. and South Korea, which had been on hold since the summer, was unlocked. As part of the deal, tariffs on South Korean car imports were reduced from 25% to 15%, putting them on par with their Japanese competitors. In return, South Korea committed to investing $350 billion in the United States.

In recent days, significant progress has been announced in negotiations with Switzerland and India. In the case of the Alpine nation, talks led by top Swiss business leaders could result in a reduction of tariffs from 39% to 15%, although Trump has not yet confirmed a final rate. Regarding India, the U.S. president stated that they are "very close to reaching a deal beneficial for all", though no alternative rate to the current 50% has been defined.

3. AGREEMENTS AFFECT 67.5% OF IMPORTS (*)

Sources: ITA and Banca March



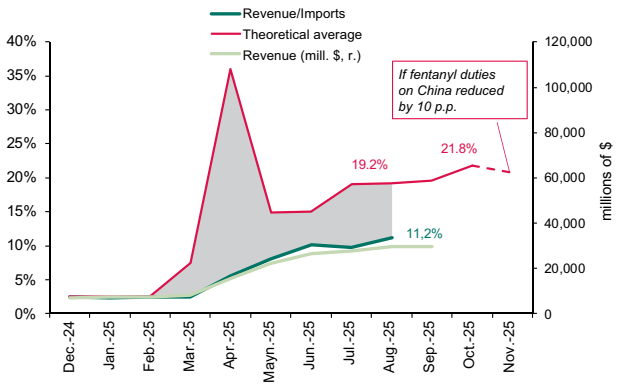
(*) The size of the circles represents the value of US imports from each country.

Overall, these trade agreements cover 67.5% of total U.S. imports. This figure also includes two of its main partners, China and Mexico; while no final agreements exist with them, moratoriums have been established that allow for stability. This represents a starting point, but it does not necessarily create more favourable conditions than those already in place.

On the other hand, customs revenue in September amounted to around $29.6 billion, an increase of just 0.6% compared to the previous month. Year-to-date, total revenue stands at $174 billion, or 4% of total government income. These figures highlight the importance of distinguishing between Trump's statements and the real economic impact: customs-collected tariffs account for only 11% of imports, compared with the theoretical average tariff of 22% announced by the administration. While these rates are four times higher than effective rates at the beginning of the year, they are still only half of what was announced and reflect, among other things, companies' ability to adapt and mitigate some of the negative effects of higher import taxes.

4. TARIFF REVENUE VS. ANNOUNCED TARIFFS

Sources: ITA and Banca March



Supreme Court: if a verdict were to strike down the tariffs, Trump would still have alternative mechanisms to keep them in force.

The legal process to determine the legality of tariffs imposed under the IEEPA continues, and the Supreme Court is expected to issue its decision before year-end. The tariffs under review are the so-called "reciprocal tariffs", applied specifically to certain countries, meaning other products would not be affected. So far, two lower courts have declared this mechanism invalid, but the final decision rests with the Supreme Court – composed of six conservative-leaning justices and three liberal-leaning justices.

Although Trump ostensibly has a favourable majority, questions raised during the hearing revealed scepticism from at least two conservative justices, opening the possibility of a temporary suspension of these tariffs.

In any case, an adverse ruling would not mean the end of the tariffs, as the Trump administration has other legal avenues to continue enforcing them. However, it would slow down implementation and require the government to refund revenues collected under this mechanism to taxpayers.

5. ALTERNATIVE WAYS TO INTRODUCE TARIFFS IN THE U.S.

Source: Banca March

		Action	Used Trump 2.0?	Used Trump 1.0?	Immediate implementation?
Cancelled	International Emergency Powers Act (IEEPA)	Tariffs due to **"national emergency"**	✓	✗	✓
More legal basis, but require time	Section 232 (1962)	Tariffs on **products** for **"national security"** reasons	✓	✓	✗
	Section 301 (1974)	Tariffs **on countries** that represent a **"burden"** to the US	✗	✓	✗
	Section 201 (1974)	**"Safeguard"** tariffs on products	✗	✓	✗
Possible "bridge"	Section 122 (1974)	Tariffs **due to a "payment balance crisis"** for the US	✗	✗	✓
More exceptional	Section 338 (1930)	Tariffs on a country for **"discriminating against the US"**	✗	✗	✓

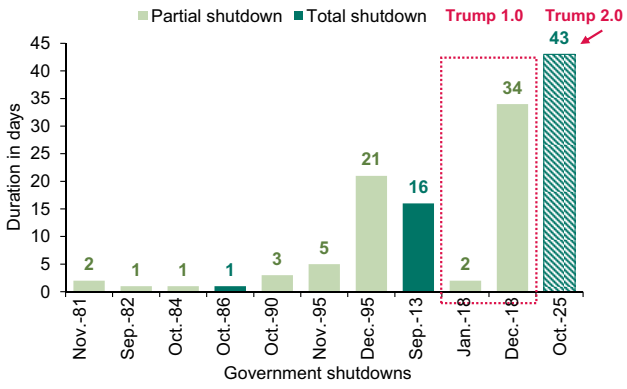
Imminent end to the longest government shutdown in history.

On 1 October, Congress missed the deadline to approve the Budget, triggering the longest government shutdown on record. The main reason is that the Democrats used their votes as leverage to prevent the healthcare insurance subsidies (Obamacare) from expiring.

During shutdowns, certain public services continue to operate – specifically the so-called "mandatory spending" items (Medicare, Medicaid and part of Social Security), as well as more independent agencies such as the Federal Reserve or the Postal Service. However, the remaining departments – Defence, Education, Transportation and others – stay closed. A minimum level of service is maintained by employees who work without pay (such as air-traffic controllers and law enforcement agents), while others are placed on furlough (650,000 people). In any case, their salaries are later reimbursed.

6. THE LONGEST GOVERNMENT SHUTDOWN IN HISTORY

Sources: The White House and Banca March

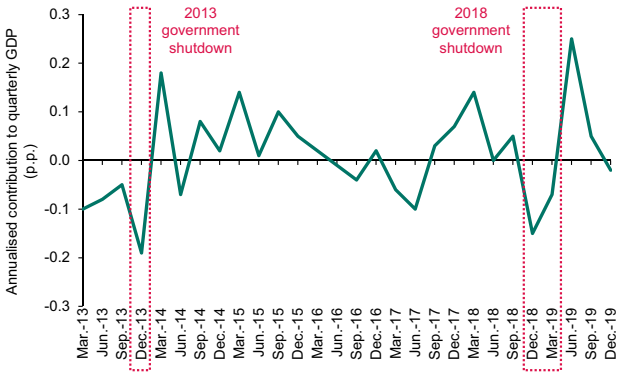


The urgency to negotiate has grown in the face of pressures such as the accumulation of 14 billion dollars in unpaid federal salaries and flight cancellations caused by the shortage of air-traffic controllers, who have continued working without receiving pay. In the latest Senate vote, the Democrats have now given way to allow the Government to reopen, based on the promise that next month their request to maintain Obamacare's validity will be put to a vote. The next steps are approval by the House of Representatives and Trump's signature, something that could happen in the coming days and bring the shutdown to an end. However, the budget agreement will only remain in force until 30 January, when a new shutdown could occur.

Although the economic impact of these episodes is usually temporary, the prolonged nature of the shutdown increases the likelihood that some effects may have become irreversible.

7. FEDERAL CONSUMPTION TEMPORARILY SUBTRACTS FROM GDP

Sources: Bloomberg and Banca March



As for the economic impact, the negative effects on GDP and the unemployment rate are generally reversed once normal operations resume. In terms of GDP, it is estimated that each week of shutdown reduces quarterly GDP growth by between 0.1 and 0.2 percentage points, before recovering by the same amount afterwards. This pattern can be seen in Chart 7, which isolates the effect of the government shutdown by looking at the federal consumption contribution to GDP. This component includes spending such as civil servant remuneration or investment in civil infrastructure, among others. However, given that this has been the longest full government shutdown in history, the negative effects may have been amplified.

Regarding the unemployment rate, if the 650,000 employees remain "on hold" between 12 and 18 October and November, they will be counted as unemployed, which could trigger an increase of up to 0.4 percentage points in the unemployment rate for October and November, to 4.7% from 4.3% (the latest available figure from August). This situation would then correct itself in the following month, returning to baseline levels.

Navigating in the fog: no agreements in Washington, no official data in the markets.

The government paralysis is causing an unprecedented absence of official data, as economic statistics cannot be published in the United States. This makes it difficult to analyse how activity is evolving at a time when there are heightened concerns that higher tariffs might push the economy into contraction.

In the absence of official figures, we have focused our analysis on private and high-frequency indicators that allow us to track the economy in near real time. The good news is that the data we monitor internally suggests that U.S. consumers continue to spend despite the uncertainty.

The American consumer is not slowing down: leisure and travel continue to rise.

Restaurant bookings made through the online platform OpenTable are currently growing at double-digit rates (11%). Another reliable source of mobility data –and therefore of economic activity– we use is the number of airline passengers. With an average of around 2.5 million people per day over the past month, levels are above the usual range for this time of year in all previous years. This is happening despite persistent flight delays throughout the government shutdown, caused by a shortage of air-traffic controllers, who continue to work without pay. To ease staffing pressures, a 10% reduction in regional and domestic flights has been ordered. This effect is smoothed out in the 2.5 million figure mentioned above, as it is a monthly average. However, when looking at the latest two daily data points in isolation, it becomes clear that air traffic has indeed fallen by 10.4% compared with 2024.

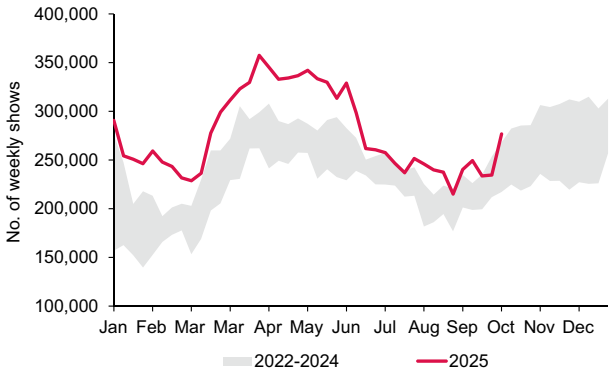
8. ACTIVITY IN REAL TIME

Sources: BDB, Bloomberg and Banca March

			Latest figure	Figure 12 m ago
Consumption				
Redbook Index	Y-o-Y		5.5%	5.4%
Restaurant reservations	Y-o-Y		10.6%	4.5%
Passenger air traffic	mill.		2.48	2.45
Employment				
Unemployment claims	thousands		219	222
New jobs (Linkup)			2,465	2,957
Industry				
Steel production	Y-o-Y		6.6%	-4.1%
Freight train traffic	Y-o-Y		-3.9%	4.2%

9. BROADWAY THEATRES CONTINUE TO FILL UP

Sources: BDB, Bloomberg and Banca March



Another clear sign of strong consumer momentum can be seen in the iconic Broadway industry (Chart 9). Box-office revenues across this cluster of more than 40 theatres in New York continue to exceed the range recorded over the last three years (2022–24). All of these indicators point firmly in the same direction: despite tariffs, the government shutdown, and other uncertainties, American households continue to enjoy leisure activities.

Therefore, even though we are navigating a fog created by the lack of official statistics, we can confirm our view that consumption will continue to support activity in the world's largest economy.

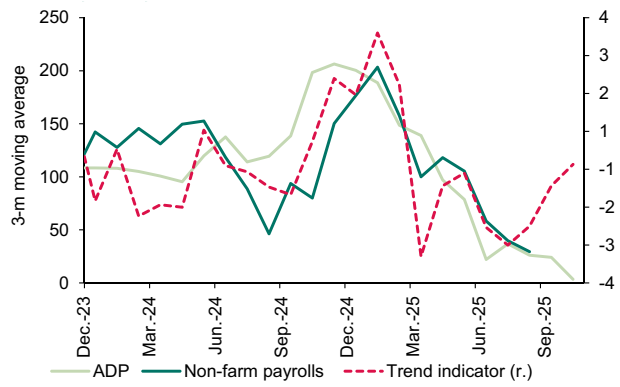
All the more so considering that the tax reform implemented by Trump (the so-called One Big Beautiful Bill Act) will bring retroactive tax cuts, with refunds to taxpayers scheduled for early 2026. The refund period will run from February to April next year and, according to estimates by the IRS, the average refund would rise from the current USD 3,186 to USD 3,743 next year, an increase of USD 557 per taxpayer. These refunds will act as a one-off liquidity injection that will help offset the negative effects of higher tariff-driven inflation and also boost consumer confidence during Q1 2026.

The labour market is moving towards a scenario of low hiring, but with layoffs remaining contained.

The key element that keeps the economic cycle afloat is, ultimately, the labour market. At this stage –and while we wait for the official figures, which have now gone two months without publication– the private data released this month have helped temper the worst fears.

10. ACCORDING TO SURVEYS OF BUSINESS OWNERS, PRIVATE JOB CREATION SHOULD BE BOTTOMING OUT (*)

Sources: Bloomberg and Banca March



Specifically, the figures published by consultancy ADP surprised to the upside in October, showing an increase of 42,000 new employees –a clear improvement on August's 29,000 decline and July's -3,000. As the chart shows, although the three-month average continues to reflect a noticeable slowdown in hiring, October's numbers were positive in that they confirmed a halt in job destruction across the economy.

(*) Trend indicator calculated from ISM business confidence data and SME data.

It is also important to highlight the notable shift in employers' own perceptions. Confidence surveys indicate that the deterioration in the labour market has bottomed out (Chart 10). Since late summer, employers have shown a greater willingness to increase hiring levels, which typically signals an improvement in US employment ahead.

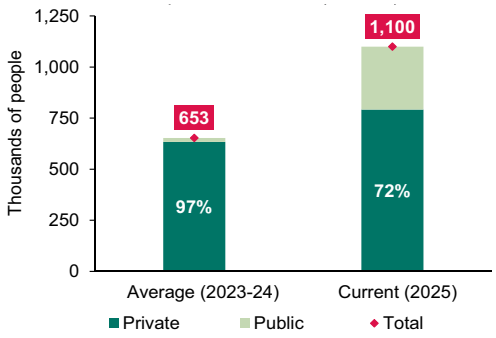
The layoff figures were less encouraging. According to the report from consultancy *Challenger, Gray & Christmas*, US companies cut 153,000 jobs in October, the largest monthly reduction in more than 22 years. As a result, cumulative job cuts this year now exceed one million people, up 65% from last year.

However, this sharp rise in layoffs was not driven by deterioration in the private sector –which accounted for 72% of layoffs, compared with an average of 93% in 2023–24– but rather by substantial job cuts in the public sector (-300,000 people this year), which alone explained two-thirds of the increase in total layoffs.

Taken together, although the clear deterioration in hiring and layoff metrics bodes poorly and heightens our concerns about the sustainability of the economic cycle, we believe there are factors that will allow the economy to continue functioning in a context of low hiring but also low layoffs.

11. THE PUBLIC SECTOR ACCOUNTS FOR 2/3 OF ALL LAYOFFS THIS YEAR

Sources: Challenger, Gray & Christmas and Banca March



Historically, for companies to materially increase layoffs, there must first be a fall in corporate profits –something far removed from the current situation in US business. In the first half of the year, aggregate profits grew at rates above 4% year-on-year.

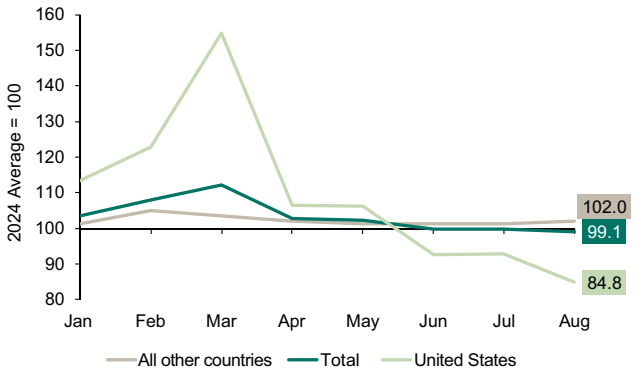
The revival of old Europe encounters obstacles.

Economic activity in the euro area was volatile in the first half of the year, and the latest figures, already relating to Q3, again highlight that the region continues to experience weak and uneven growth, with a backdrop of fragile public finances in most of its economies.

The increase in United States tariffs and the growing competition from Chinese exports are important obstacles along the way. The combination of these two factors is slowing exports, which is hitting Germany's industrial sector particularly hard.

12. EUROZONE EXPORTS

Sources: Bloomberg and Banca March



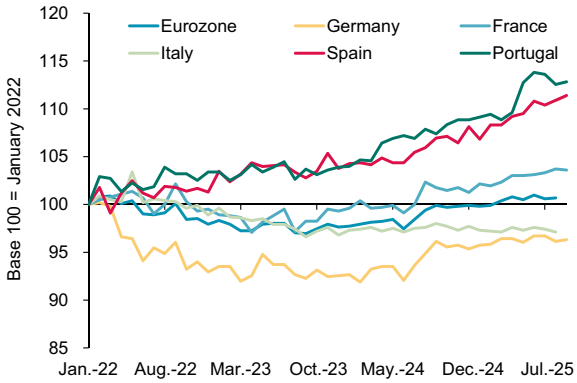
Although European exports to the United States are up 10% so far this year, this was driven by an anticipation effect ahead of the tariff introduction, which led to a sharp surge in sales in Q1. However, this behaviour is reversing quickly and the latest figures, which already correspond to August, show falls of 15% compared with last year's average.

In contrast, domestic demand in the region is being supported by lower financing costs (the ECB has reduced the price of money by 200 bps since the start of rate cuts in June 2024) and by a labour market posting an unemployment rate of 6.3% for the region as a whole, at historically low levels.

In addition, tourism continues to flow into the region, which is helping to drive an uneven recovery in consumption between countries: for example, since early 2022, real retail sales have grown at a faster pace in more tourism-driven economies such as Spain, Portugal or France. Meanwhile, in Germany or Italy, more affected by higher electricity prices and inflation, retail sales have still not returned to pre-Ukraine-invasion levels.

13. THE COUNTRIES MOST DEPENDENT ON TOURISM ARE LEADING THE WAY IN RETAIL SALES (CONSUMPTION)

Sources: Bloomberg and Banca March



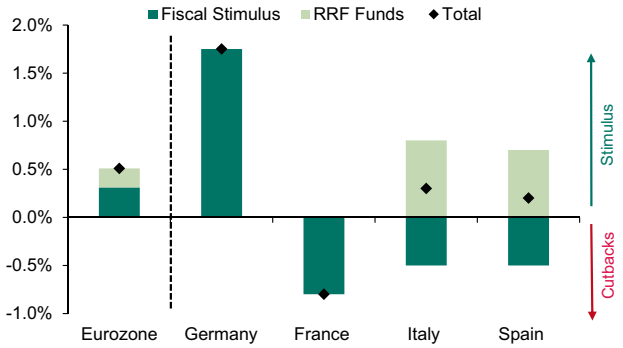
In this environment, the region's GDP managed to grow by 0.2% quarter-on-quarter in Q3, one tenth above the previous figure. Among the major economies, it was notable that the strongest performance came from Spain (+0.6% quarter-on-quarter) and also France (+0.5%). In turn, the more industrial economies such as Germany and Italy, although they exited the contraction seen in the previous quarter, continued to show lacklustre growth due to weaker exports.

After years of stagnation, Germany's historic shift will be a catalyst that will end up driving the recovery.

As for public finances, 2026 will bring changes and, for the first time since the end of the pandemic, Europe's aggregate fiscal policy will no longer be contractionary.

14. FISCAL STIMULUS PLANNED IN THE 2026 BUDGETS

Sources: Bloomberg and Banca March



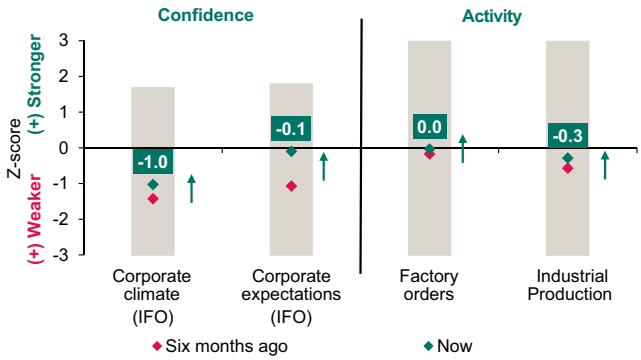
However, this headline figure hides a very different reality among the region's major economies. As the chart shows, only Germany has the capacity to provide its own fiscal stimulus, while France will have to continue adjusting its sizeable deficit (5.4% of GDP), and in Italy the scope for stimulus will depend, as in Spain, on improvements in the implementation of the EU's Next Generation funds.

Focusing on Germany, in the first quarter of the year the special funds for infrastructure and defence were approved, along with the constitutional reform that relaxes fiscal limits. Even so, their activation depended on the approval of the 2025 budget, which did not come until September, keeping the fiscal stimulus on hold. Now, with the budget passed and with greater certainty regarding the tariffs agreed with the United States, we are beginning to see some recovery, which we expect to gain momentum through 2026.

The first signs are coming from an improvement in the main business climate indicators in October (chart 15) and also from factory orders which, in September and for the first time in the past five months, returned to positive territory with a monthly increase of 1.1%. It therefore appears that Germany is heading towards a reactivation, allowing it to regain its role as the region's growth engine over the course of next year.

15. GERMANY: IMPROVEMENT IN ACTIVITY AND CONFIDENCE

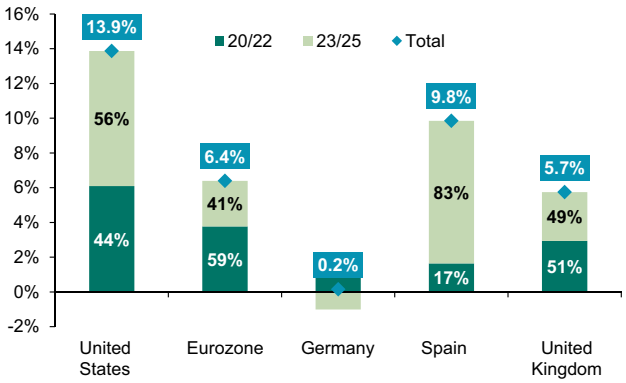
Sources: Bloomberg and Banca March



All in all, unlike what we have seen in recent years, when services –and tourism in particular– were the main driver, we believe that the coming years will bring a cycle shaped by the need to increase investment in infrastructure and defence. This shift will mean that the more industrial economies will take the lead in the recovery.

16. GDP GROWTH SINCE THE PANDEMIC

Sources: Bloomberg and Banca March



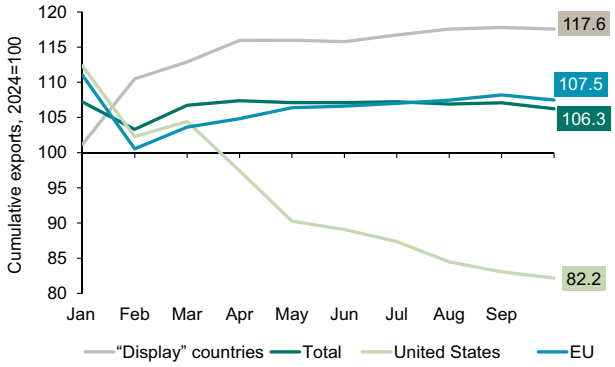
As the chart shows, after five years of stagnation, we believe the time has come for Germany to begin closing part of the large growth gap accumulated since the pandemic: euro area GDP is 6.4 p.p. above its pre-COVID level, while Germany's has barely increased.

In China, vulnerabilities persist and further stimulus will be required.

In recent quarters, the divergence between supply and demand in the economy has widened. The flexibility and resilience of its external sector was the main positive surprise and, as chart 17 shows, total exports are 6% above last year's level. This is a remarkable outcome, given that sales to the rest of the world have more than offset the sharp fall in exports to the United States (-18%). In GDP terms, it helped industry expand by 5.8% year-on-year in the third quarter, consolidating its position as the main growth engine.

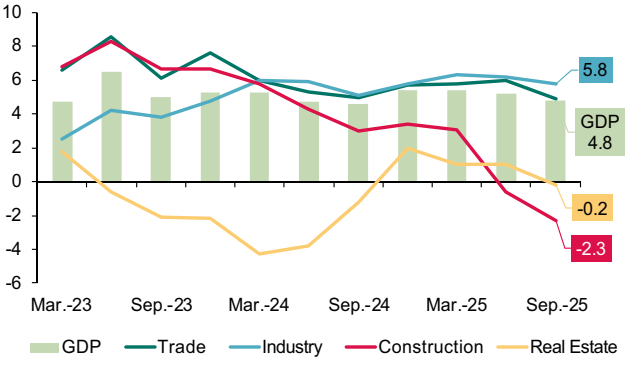
17. CHINA HAS MANAGED TO OFFSET THE DROP IN EXPORTS TO THE US.

Sources: Bloomberg and Banca March



18. GDP GROWTH MEETS TARGETS, BUT WITH WEAKNESSES

Sources: Bloomberg and Banca March



(*) Display countries: Taiwan, Indonesia and Vietnam.

This contrasts with the weakness of private consumption, still held back by the property crisis, which has also caused a fall in fixed investment, something not seen in China since the pandemic. Against this backdrop, the Communist Party has started to publish the guiding principles of its 15th Five-Year Plan, covering the period 2026–2030. The aim is to rebalance the economy, placing technology and security at the core of economic progress for the next five years (see table).

19. THE NEW FIVE-YEAR PLAN HAS A CLEAR GOAL: REBALANCING

Source: Banca March

Goals	Metrics	14th Plan (21-25)	Current (2024)	Plan 15 Expectations (26-30)
Growth	Grow GDP	Approx. 5%	5.5%	4.5% - 5%
Innovation	R&D Spending (% GDP)	Increasing	2.7%	Growth of goals expected, and more investment
	Patents per 10,000 inhab.	12	14	
	Contribution from digital economy	10%	10.4%	
Quality of life and the environment	Grow per capita income	Similar to GDP	5.7%	Stay on current path
	Unemployment rate	< 5.5%	5.3%	
	Life expectancy	78	79	
	% non-fossil energy	20%	19.8%	Reinforce goals to achieve these targets
	Reduce CO2 per unit of GDP	18%	8%	

The Government aims to lift GDP per capita from the current 14,000 dollars to above 25,000 by 2035, and one of the main goals of the new plan is to increase household consumption "significantly", although the specific policy measures will not be revealed until the final version is released next March. To achieve this objective of boosting private consumption as incomes rise, it will be necessary to bring down households' high saving rates (above 31% of income). Therefore, new stimulus measures will arrive in China in March, including more concrete actions that, on the one hand, will increase spending on R&D to preserve competitiveness in the race for Artificial Intelligence.

At the same time, domestically, policies will be introduced to strengthen social safety nets in education, healthcare and the care of children and older people, helping shift resources from saving to consumption.

Inflation is diverging on either side of the Atlantic: we expect a rebound in the United States, while pressures in the euro area remain more balanced.

Global inflation has stabilised, albeit with divergent trends among the major powers: China remains in deflation, eurozone prices are balanced, while in the United States a short-term rebound is expected.

Starting with the eurozone, in October the CPI moderated to +2.1% year-on-year, with the core rate comfortably at +2.4%. By component, the only exception to this moderation came from services, closely linked to the strength of the labour market and rising wages – the eurozone is recording its lowest unemployment rate in history. That said, with weak growth, we see no domestic pressures that would lead us to fear a wage-driven resurgence in inflation from the services sector.

External factors are also benign: the euro is stronger than at the start of the year, and with contained energy costs, we anticipate the region's CPI will remain close to +2% at least until the end of next year.

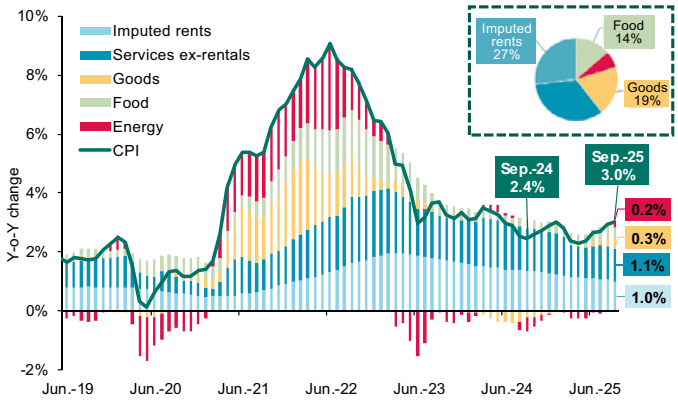
Higher tariffs will feed into US inflation, but their effect will be temporary.

In the United States, the only official release from the statistical institute during this government shutdown was the October CPI, published nine days late.

Both the headline and core rates stood at +3% year-on-year. As the chart shows, one of the notable points was that service prices recorded the smallest increase since 2021, driven by a slowdown in imputed rents – a component representing almost a quarter of the CPI – which, for the first time in the past four years, contributed less than 1 p.p. to inflation.

20. US INFLATION: SLOWDOWN IN SERVICES VERSUS A RECOVERY IN GOODS

Sources: Bloomberg and Banca March



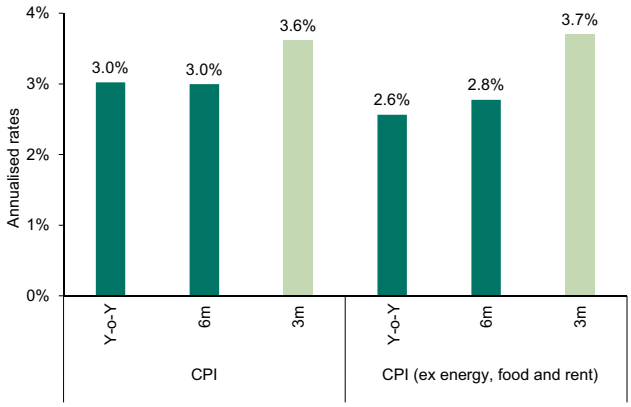
However, despite the moderation in services, US inflation rebounded to its highest increase of the year. This rise was driven by a larger contribution from energy, but especially by goods prices, which alone added three tenths.

Looking ahead, we expect this trend to continue, with the tariff increases permeating the economy and pushing goods prices higher.

This effect is beginning to become visible, and as shown in Chart 21, if we measure the change recorded over the past three months and annualise it –a measure of "momentum" or trend– we can see that the inflation rate would be increasing at a pace already above 3.5%. We expect these levels to be reached during the first quarter of next year, when the base effect of the tariff increases will be more pronounced.

21. THE RISING TREND IN INFLATION IS ALREADY REFLECTING THE IMPACT OF TARIFFS

Sources: Bloomberg and Banca March

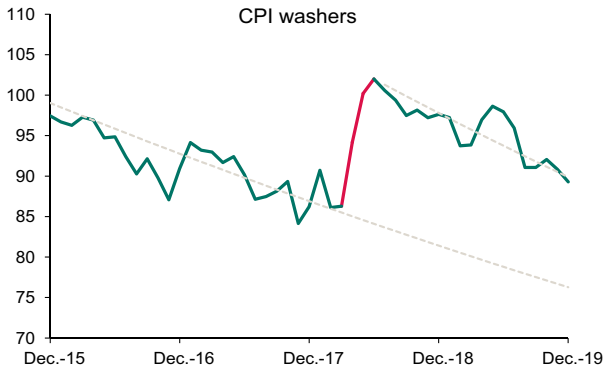


However, we believe that this rise in inflationary pressures caused by tariffs will be temporary and therefore transitory. On the one hand, the CPI weight of the component most exposed to higher import costs (tariffs) – goods – is relatively limited, representing less than one-fifth of the overall basket, even when taken in full. On the other hand, the examples seen under Trump 1.0 with tariff increases on specific goods, such as washing machines, caused a base effect but did not alter the overall price trend (Chart 22).

More importantly, we anticipate that with weaker employment dynamics, wages will continue to moderate, reducing the risk of second-round effects of higher tariffs on inflation. Consequently, service prices (including the important concept of "imputed rents" to homeowners, which are highly relevant in the US CPI) will continue to ease, placing a ceiling on inflationary spikes.

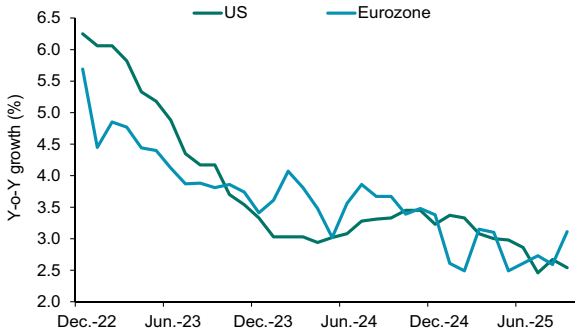
22. SPECIFIC EFFECT ON WASHING MACHINE PRICES DUE TO THE 2018 TARIFFS.

Sources: Indeed, Bloomberg and Banca March



23. WAGE MODERATION WILL CUSHION PART OF THE REBOUND IN THE CPI.

Sources: Indeed, Bloomberg and Banca March



In summary, we see inflation remaining structurally higher in the United States, but trending toward around 2.5% by the end of next year, confirming that the current rebound is transitory. In the eurozone, we expect stability, with both the headline and core rates continuing to hover around the ECB's 2% target.

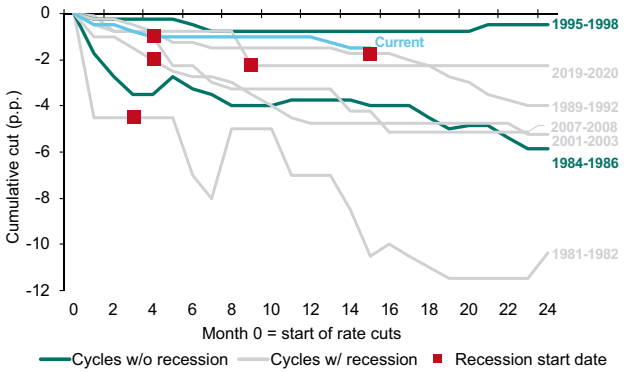
CENTRAL BANKS

The Federal Reserve will continue with gradual rate cuts in line with the strength of the economy.

The fact that 15 months have passed since interest rates began to be lowered in September 2024, without a recession occurring, increases our confidence in the view that we are experiencing a soft landing and a cycle resembling that of 1995. As shown in the chart, the 15-month reference is important because, historically, it represents the longest period elapsed between the start of a rate-cutting cycle and the 1990 recession.

24. USA: FED RATE CUTS DURING RECESSIONS

Sources: Bloomberg and Banca March

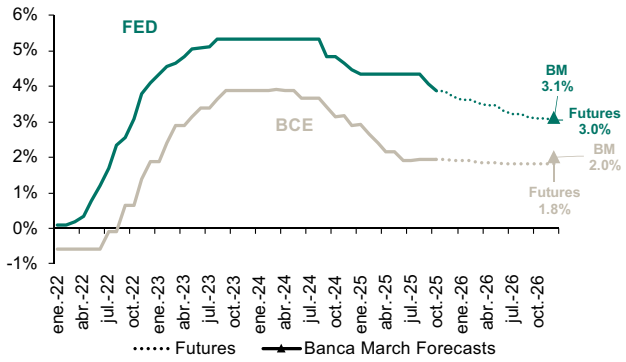


In this context, Federal Reserve Chair Jerome Powell has managed to regulate the "temperature" of the economy without rushing, ignoring Trump's own demands for deeper cuts. Nevertheless, the recent government shutdown poses an additional challenge for the monetary authority, which is currently navigating in the fog due to the lack of official employment and price statistics.

Diverging paths between the Fed and the ECB. We anticipate three additional rate cuts by the Fed through December 2026, while the ECB will keep rates unchanged.

25. FED VS. ECB: INTEREST RATE EXPECTATIONS

Sources: Bloomberg and Banca March



The Federal Reserve has announced the end of its balance sheet reduction programme (QT) starting in December –ceasing liquidity drains from the financial system– and will continue its gradual path of interest rate cuts in parallel. Meanwhile, official rates in the eurozone are close to neutral, so in our view, the ECB will maintain its policy rates unchanged from now on. At the same time, unlike the Fed, it will continue reducing its balance sheet over the coming months.

The Fed's balance sheet as a percentage of GDP will end the year slightly above pre-pandemic levels. From that point on, the world's main central bank will adopt a neutral balance sheet policy, something not seen since late 2017.

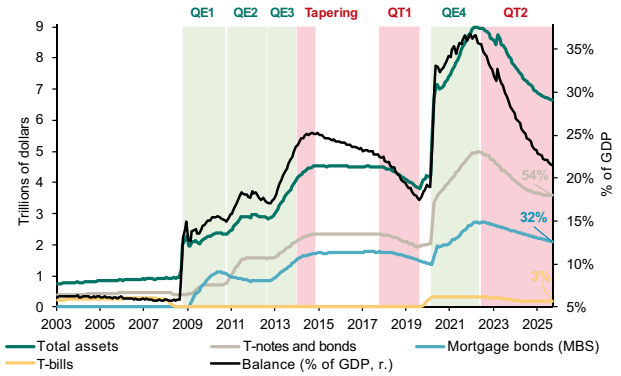
On the US side, after three and a half years, the balance sheet reduction process comes to an end following the recent tensions in the money market. This higher liquidity in the economy will be offset by official rates –currently in the 3.75%–4% range– which will remain restrictive.

Specifically, the Fed will end the year with a balance sheet around 21% of GDP, barely above the 19% recorded at the start of 2020. Looking ahead, under the new framework, all maturities will be rolled over, although mortgage-backed securities (MBS) maturities will be reinvested in short-term Treasury bonds.

This decision responds to two recurring concerns expressed by committee members. First, unlike MBS, which have maturities exceeding 10 years, short-term Treasury bonds are more closely aligned with the interest rates the Fed controls, facilitating monetary policy transmission and providing greater flexibility. Several officials have also expressed a desire to reduce exposure to the housing sector, widely seen as outside the mandate of monetary policy and a potential source of distortions.

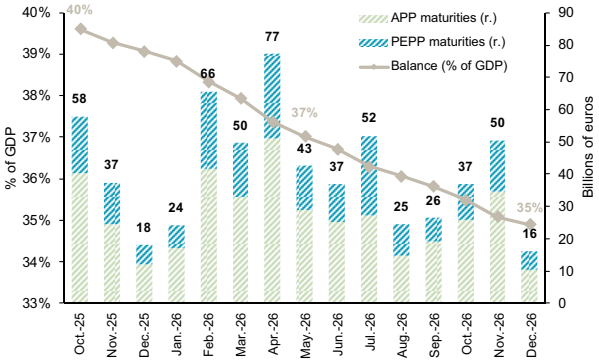
26. FED: TREND IN ASSETS (*)

Sources: Bloomberg and Banca March



27. ECB: TREND IN ASSETS

Sources: Bloomberg and Banca March



(*) The % are in terms of total assets.

In contrast, the European institution led by Christine Lagarde will continue withdrawing liquidity through balance sheet reduction. According to our estimates, the ECB will divest assets totalling €560 billion over the coming months, representing a reduction of around 5 percentage points of GDP.

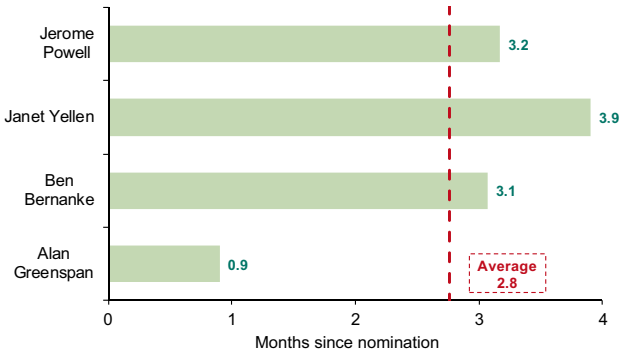
Fed: Trump is already considering the next chair.

In six months, Jerome Powell will step down as Chair of the Federal Reserve —although he will remain on the committee until 2028—, so the Trump Administration is already assessing potential successors.

Historically, there is almost a three-month gap between the nomination of a new chair and their taking office, which means that appointing a candidate before February 2026 would represent yet another intervention by the Executive.

28. MONTHS BETWEEN A CANDIDATE'S NOMINATION AND TAKING OFFICE (*)

Sources: Bloomberg and Banca March



(*) The nomination date is when the president sends his nominee to the Senate Banking, Housing, and Urban Affairs Committee.

Against this backdrop, the current Treasury Secretary, Scott Bessent, has indicated that he is assessing five possible contenders, including two sitting members of the Fed's Board of Governors: Michelle Bowman and Christopher Waller, both appointed during Trump's first term. However, the favourites to lead the Institution are Kevin Hassett, the current Director of the White House National Economic Council, and Kevin Warsh, a former Federal Reserve governor, appointed by Bush in 2006. Of the two, Warsh stands out as the candidate most aligned with Trump's economic outlook: he has been critical of Jerome Powell's leadership and has publicly advocated for interest rate cuts, in line with the White House's preference for a more expansionary monetary stance. We think his potential appointment could cause some unease in markets, as it would likely be interpreted as a sign of greater political alignment and reduced institutional independence.

FIXED INCOME

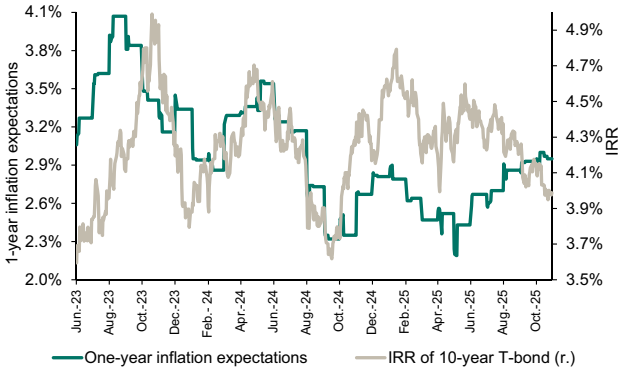
We remain cautious on duration in light of increasing funding needs on both sides of the Atlantic. In the United States, current interest rates also do not reflect the temporary rebound in inflation.

Fiscal imbalances are not supportive of duration. Both in the United States and in the main euro area economies, governments will continue to increase their debt levels, putting growing pressure on the long end of sovereign curves.

With Trump's arrival in the White House and, in particular, after Liberation Day, sovereign debt has ceased to perform its traditional role as a safe-haven asset during periods of high uncertainty. The weak performance of bonds —which have delivered a return of just 1.3% since early April (currency-hedged)— is the result of inflationary pressure from the tariff war and, additionally, the approval of the One Big Beautiful Bill Act, which will further worsen the already fragile state of the fiscal balance.

29. EXPECTED ONE-YEAR INFLATION (*) VS. IRR OF 10-YEAR T-BOND

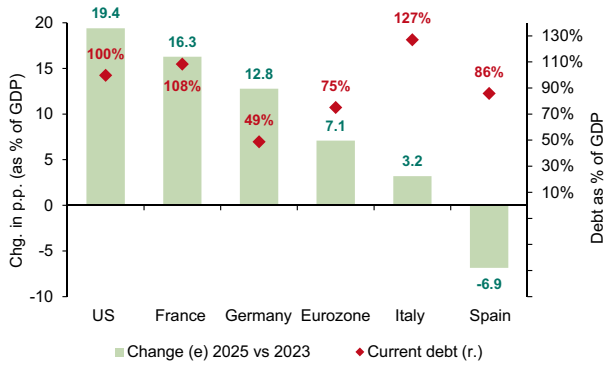
Sources: Bloomberg and Banca March



(*) *Nowcast* from the Cleveland Fed.

30. CHANGE IN PUBLIC DEBT (2025 VS. 2030)

Sources: Bloomberg, IMF and Banca March

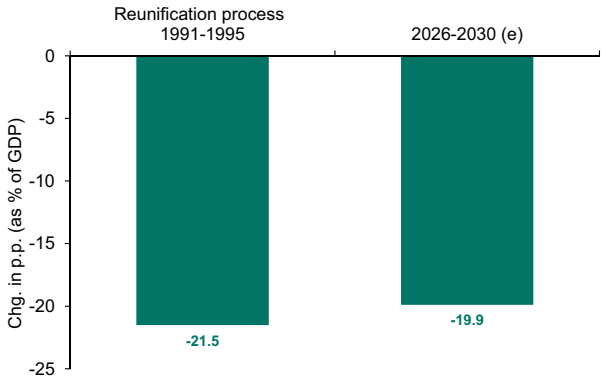


According to IMF estimates, US public debt, currently at 100% of GDP, could rise by almost 20 pp by the end of 2030. However, this deterioration will not be exclusive to the United States: it will also affect the main economies of the eurozone. In aggregate terms, eurozone debt will reach around 81% of GDP in the coming years, an increase of 7.1 p.p.

Among the large eurozone economies, although France will experience the sharpest deterioration (+16.3 pp, reaching 121% of GDP), Germany's abandonment of austerity will be especially significant. In perspective, the fiscal deficit Germany will accumulate over the coming years under these reforms represents the largest deterioration since the reunification process in 1990, which ended with the former German Democratic Republic (GDR) joining the Federal Republic of Germany (FRG).

31. GERMANY: CUMULATIVE CHANGE IN FISCAL DEFICIT AS A % OF GDP

Sources: Bloomberg and Banca March



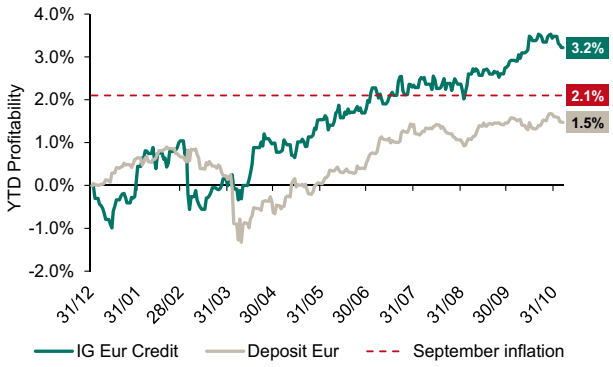
In Europe, a higher level of risk must be assumed to preserve capital. We continue to favour high-quality European credit thanks to its carry and a supportive macroeconomic backdrop that will allow it to outpace inflation with contained volatility.

On this side of the Atlantic, high-quality corporate debt has performed well despite global uncertainty and the episodes of political instability seen in the region, particularly in France.

With a little under two months left in the year, the segment has delivered a return of roughly +3.2% with low volatility. Meanwhile, as we have warned on previous occasions, very short-term debt has stopped offering positive real returns, even in an environment where prices remain close to the European Central Bank's 2% target.

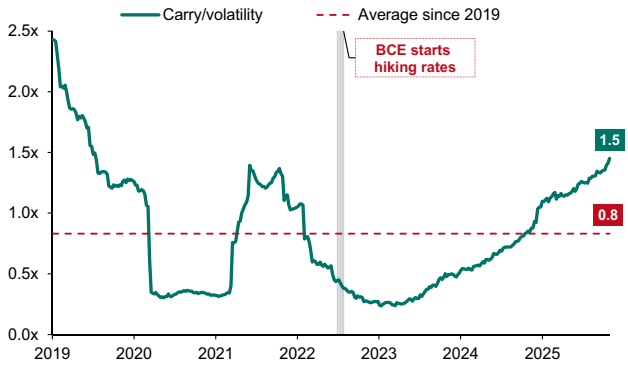
32. EURO IG CREDIT VS. DEPOSITS: RETURNS YTD

Sources: Bloomberg and Banca March



33. EURO IG CREDIT: VOLATILITY-ADJUSTED CARRY (*)

Sources: Bloomberg and Banca March



(*) Carry = coupon + roll. We assume the 5-year yield rolls down linearly to the 3-year yield.

In the coming months, the combined effect of coupon income and roll-down —the yield associated with the passage of time in a positively sloped curve— will continue to provide support. If we adjust this carry for volatility, we find ourselves at particularly attractive levels, nearly twice the average of recent years.

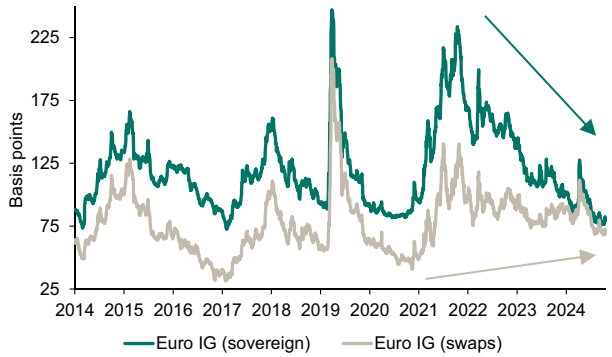
Diverging leverage trends between the private and public sectors justify the tight valuations seen in European IG fixed income.

Although high-quality credit spreads versus sovereign debt are at historic lows, the same is not true relative to private-sector swaps —a financial contract in which one party pays a fixed rate and the other a floating one. This reflects the fact that the credit quality of governments has deteriorated in recent years, in a context in which fiscal deficits will continue to expand.

More specifically, credit spreads versus sovereign debt have narrowed from the October 2022 highs of 234 bps to 80 bps today, well below the historical average of 120 bps. Meanwhile, spreads versus swaps —which are often a good proxy for private-sector risk-free debt— have fallen from 140 bps to 70 bps, in line with their historical average of 78 bps.

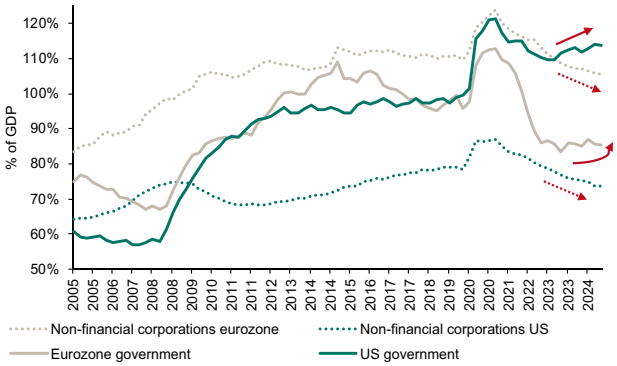
34. EURO IG CREDIT: SPREAD VS. SOVEREIGN DEBT AND SWAPS(*)

Sources: Bloomberg, BIS and Banca March



35. DEBT AS A % OF GDP BY SECTOR

Sources: Bloomberg, BIS and Banca March



This shift reflects, among other factors, the divergence in leverage that is about to open between the public and private sectors on both sides of the Atlantic. In Europe in particular, while private companies will continue reducing their debt ratios —corporate debt has fallen by 13 pp of GDP since the pandemic— governments in the region, especially Germany, are about to embark on ambitious spending plans. We believe this dynamic will continue to weigh on the quality of sovereign fixed income, which suggests that spreads may remain around current levels in coming months.

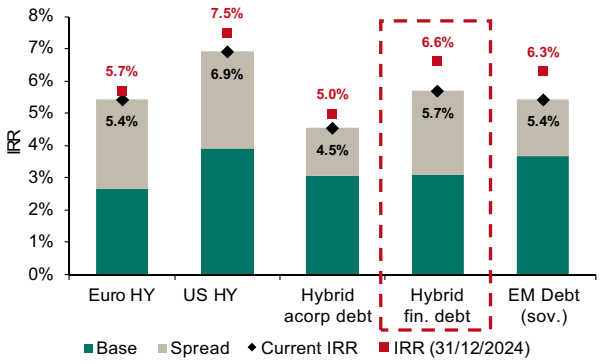
Within the higher-risk segment, we favour financial hybrid debt and emerging-market debt as additional sources of return.

Regarding lower-quality debt (HY), declines were recorded over the past month in both the United States (-0.5% with currency hedged) and Europe (-0.2%). However, year-to-date performance remains positive, with gains of 5.2% and 4.6%, respectively. Looking ahead, we believe the outlook is less clear than in previous years and that current spreads do not compensate for existing uncertainty, so we maintain a neutral stance on the asset class.

That said, we see a more attractive risk-return profile in European financial credit, which offers yields to maturity similar to those of the riskier segments but with greater stability, supported by the strong position of the region's banking sector. In particular, the CET1 capital ratio –a key indicator of banks' financial strength– currently stands at 17.7%, a record level and well above the ten-year average of 15.4%. Likewise, the percentage of non-performing loans (NPLs) remains steady at 1.7% compared with a historical average of 2.7%.

36. RETURNS BY CREDIT TYPE

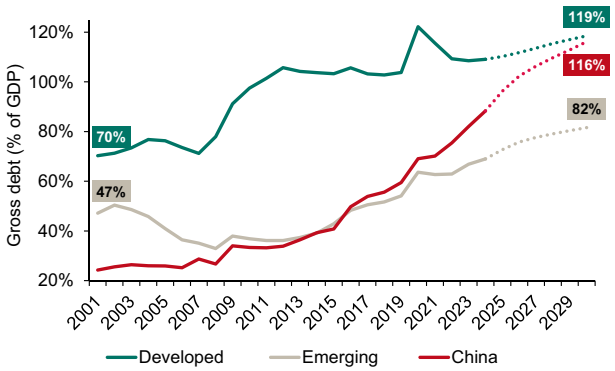
Sources: Bloomberg and Banca March



We also see potential in emerging-market debt. Unlike developed economies, many jurisdictions –with the exception of China– have shown notable fiscal discipline in recent years. While gross debt stands at around 69% of GDP in these markets, in advanced economies it already exceeds 109%. In addition, improvements in current-account balances have reduced their reliance on external financing, lowering their vulnerability to episodes of currency-market stress.

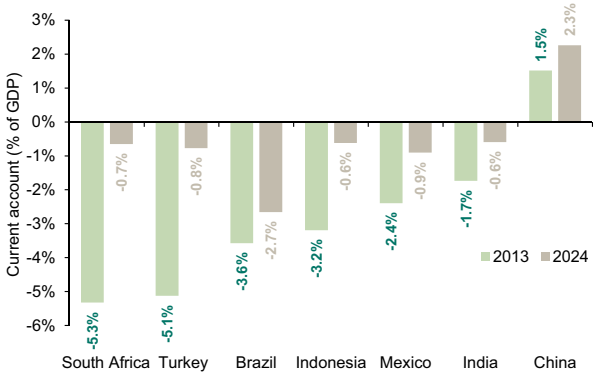
37. EMERGING VS. DEVELOPED: GROSS DEBT AS A % OF GDP

Sources: IMF and Banca March



38. EMERGING: CURRENT ACCOUNT AS A % OF GDP

Sources: IMF and Banca March

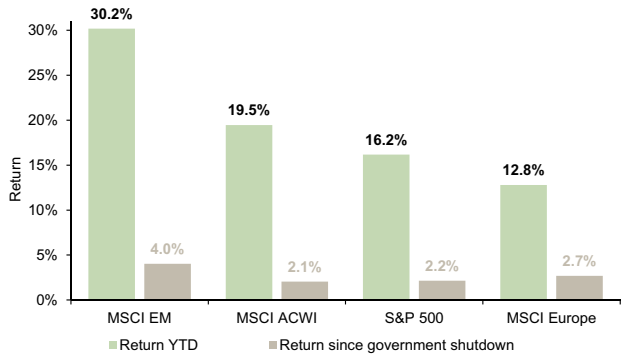


EQUITIES

Equity markets remain on a firm footing, led by technology and supported by a strong earnings season and reduced geopolitical risk.

39. YTD TREND IN MARKET INDICES

Sources: Bloomberg and Banca March



Global equities continued their upward trend, with the Nasdaq, S&P 500 and MSCI Europe posting seven, six and four consecutive months of gains, respectively. North American markets have brushed off the US federal government shutdown seen at the start of October –the longest on record– which, after more than 40 days of inactivity, is set to reopen.

So far this year, gains have been led by cyclical sectors such as communication services (+30%), technology (+28.5%) and industrials (+22.8%), in contrast with defensive consumption (+5.0%) and materials (+4.6%). Geographically, the United States has consolidated its stronger annual performance relative to Europe (+16.2% vs. +12.8%), both still some distance behind the impressive performance of emerging markets (+30.2%), driven by China and its technology sector.

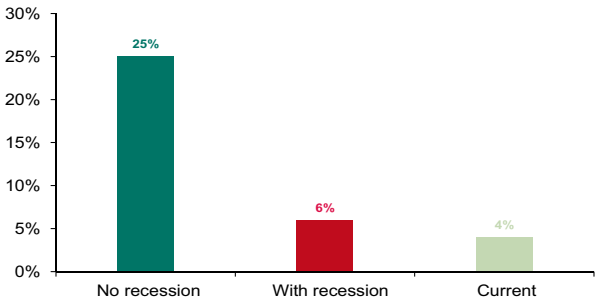
Equities will benefit from reduced tariff tensions, a less restrictive monetary policy, strong corporate earnings growth and favourable seasonality heading into year-end.

We believe the confluence of these four factors will continue to support further gains in risk assets. The progressive signing of trade agreements, as well as the easing of trade frictions with China and confirmation that the economic cycle remains on track, with robust earnings growth, form two key pillars that complement the favourable seasonality typically seen in the final months of the year.

It is also worth highlighting that we are in an unusual environment, given that throughout history, rate cuts without an ongoing or recently concluded recession have only occurred twice (1985 and 1998). It is also worth remembering that there has never been a recession following a renewed cycle of rate cuts. For this reason, the shift towards a more neutral stance by the Federal Reserve —not only in regard to interest rates but also to balance-sheet reduction— appears supportive for equities in the final months of the year.

40. S&P 500: AVERAGE 12-MONTH RETURN AFTER THE RESUMPTION OF INTEREST RATE REDUCTIONS (*)

Sources: Bloomberg and Banca March

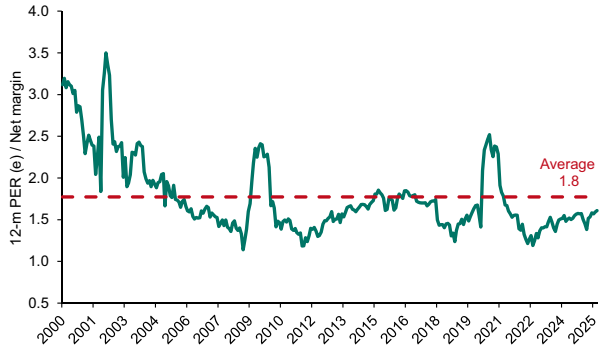


(*) Second cycle of drops: 1981, 1985, 1990, 1998, 2002, 2008 and 2020.

As for valuations, although they remain elevated (19x earnings), the relationship between valuations and expected margins is still within its historical average. Therefore, as long as margins continue to perform as strongly as they have so far —with peaks expected next year— and profits maintain their positive momentum, we believe valuations continue to reflect business quality and remain far from the overstretched levels seen at the start of the century.

41. MSCI WORLD (ACWI) PER 12M(E) OVER EXPECTED NET MARGIN

Sources: Refinitiv and Banca March



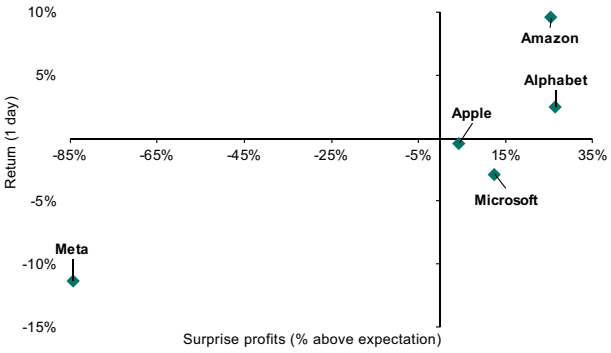
Corporate results for 3Q25 have been very strong, particularly in the United States.

The earnings season, now close to completion, has been highly positive and is set to be the best third quarter since 2021. Following a strong 2Q25 (+13.8% in EPS, +6.4% in revenues), momentum has continued into 3Q25. Specifically, with 90% of the S&P 500 already reported and Nvidia still to publish, EPS is rising by +11.8%, with a high positive-surprise rate of 83%.

We also highlight positively that, as in the previous quarter, initial growth expectations could once again be exceeded by 9 percentage points in the United States (+17%) and by 6 points in Europe (+6%).

42. BIG TECH S&P 500: SURPRISE PROFITS VS. STOCK MARKET REACTION

Sources: Bloomberg and Banca March

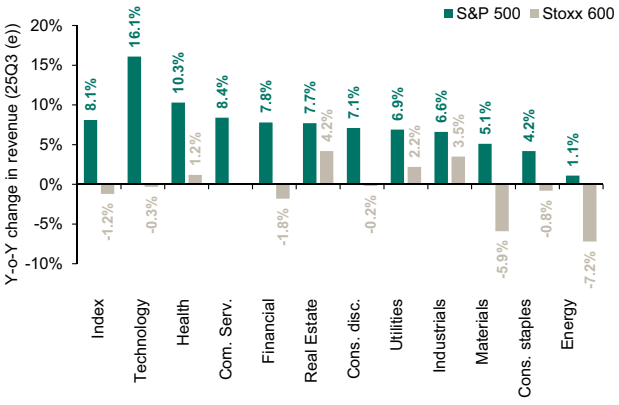


The market once again focused on big tech, which delivered strong and better-than-expected growth, though with a mixed share-price reaction —Amazon and Alphabet stood out— linked to aggressive future capex plans that will need to translate into higher revenues over coming quarters.

Another point of attention was the revenue line itself, which accelerated its quarterly trend to post +8.1% growth, with a positive-surprise ratio more than twice the S&P 500's historical average. By sector, technology is leading growth (+16.1%), followed by healthcare (+10.3%) and communication services (+8.4%).

43. TREND IN REVENUE BY SECTOR

Sources: Bloomberg and Banca March

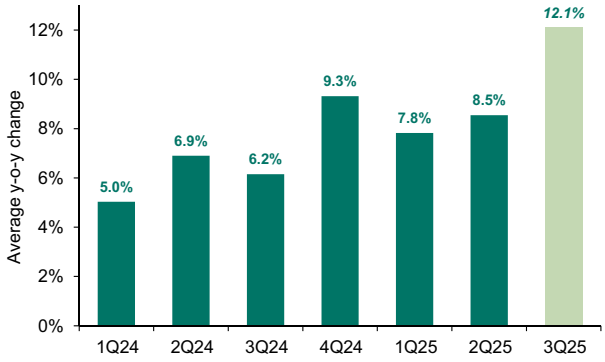


It is also worth noting that, in the United States, median earnings growth among companies in the Russell 3000 index —the market's broadest gauge— has reached its highest level in two years, signalling a broader distribution of growth.

In short, we continue to believe that the continuation of the economic cycle and the rebound in investment will sustain positive earnings momentum next year. We also estimate that double-digit growth (14%) will remain led by big tech —technology, communication services and consumer discretionary— contributing 53% compared with two-thirds this year, but it will increasingly extend into other industries, allowing for a more balanced advance in earnings in 2026.

44. MEDIAN EARNINGS GROWTH OF RUSSELL 3000 STOCKS

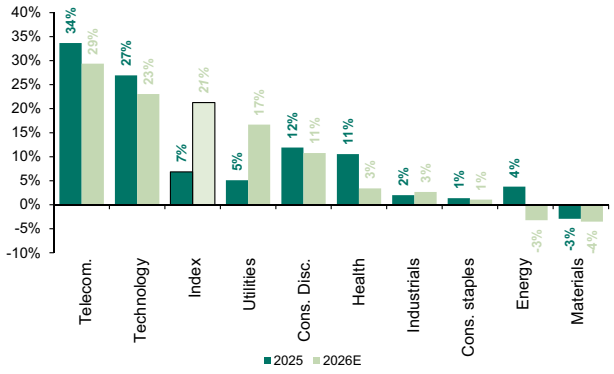
Sources: Bloomberg and Banca March



Corporate capital expenditure globally will also increase —by 21% in 2026— marking the largest rise in the past 25 years. Although investment in artificial intelligence is one of the main drivers, this growth is not limited to data centres: sectors such as power generation —utilities— will also ramp up investment to meet the energy demands of AI deployment.

45. TREND IN CAPEX BY SECTOR

Sources: Bloomberg and Banca March

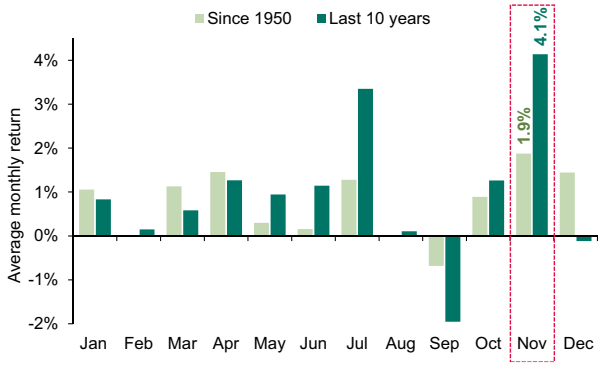


What starts well, ends better. Seasonality favours the last two months of the year.

Historically, November and December tend to be supportive months for equity markets. As shown in chart 46, November typically delivers positive average returns and is often the best month of the year.

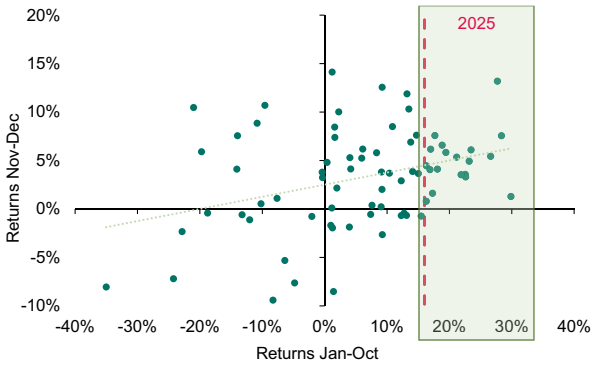
46. S&P 500: RETURNS BY MONTH OF THE YEAR

Sources: Bloomberg and Banca March



47. S&P 500: RETURNS JAN - OCT VS. NOV - DEC

Sources: Bloomberg and Banca March

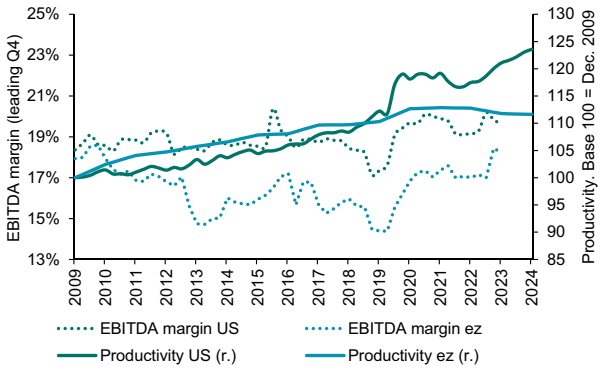


Added to this is the well-known saying "What starts well, ends better", which has historically proven to be true. In years when cumulative returns from January to October have been positive, the final two months also tend to close in positive territory. Moreover, when returns in that period have exceeded 15%, as they have this year, market performance in November and December has been positive in all cases except 2012, when losses were minimal (-0.7%)

Overweight the United States: the recent earnings revisions confirm the structural superiority of American companies.

48. USA VS. EUROPE: MARGINS AND PRODUCTIVITY

Sources: Bloomberg, Refinitiv and Banca March



Having absorbed the initial impact of tariffs, the U.S. market has managed a strong recovery, posting a 37% gain, which is 3 percentage points above the global index over the same period. Positive earnings surprises in the latest quarter, along with a higher distribution of profits, continue to drive the strong performance of the S&P 500 relative to other international indices.

USA: S&P 500, Europe: Eurostoxx 50.

Margin advantages and solid earnings growth are expected to persist next year: S&P 500 earnings are forecast to increase by 14% —after double-digit growth in 2025— compared with 12% for Europe and Japan, which are regaining traction after near-zero growth in 2025. This gap reflects a structural advantage, as productivity improvements in the U.S. economy have largely been captured by companies —mainly in the technology sector— allowing them to achieve above-average growth in a sustained manner.

With this structural dynamic in place and our preference for the technology sector, we believe U.S. equities will continue to deliver higher returns than global stocks in the coming months, even amid more demanding valuations.

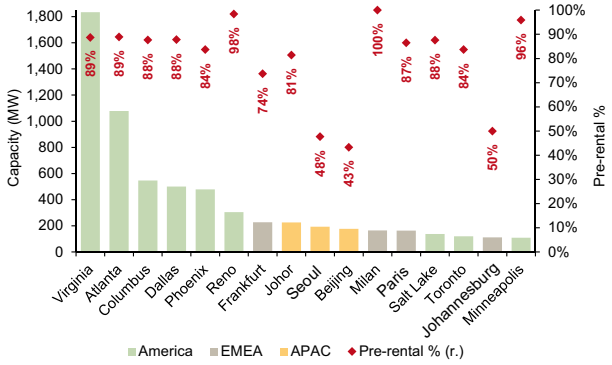
Investment in AI continues to rise in response to unmet demand. The expansion of computational capacity through data centres will continue to absorb a large portion of new investment. From a financial perspective, there are no signs of a bubble. We remain confident in the differential growth potential of the technology sector.

Technology continues to outperform the market — 28% vs. 20% for the global index— with the fears from early in the year fully dissipated.

We believe that business growth and quality continue to justify high multiples. As noted earlier, while declining, technology's contribution to global earnings growth remains highly significant —around 50%. Earnings are expected to grow by 21% in 2026.

49. PERCENTAGE OF DATA CENTRES UNDER CONSTRUCTION THAT ARE LEASED

Sources: Cushman & Wakefield and Banca March



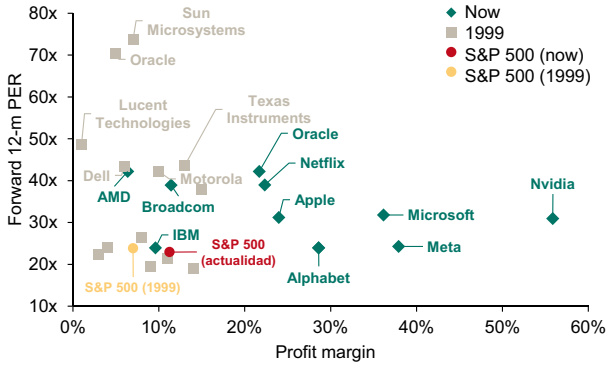
Moreover, capital expenditure within the technology sector is expected to rise by 27% in 2026. This increase is driven by exceptional demand for computational capacity, which, according to Amy Hood, CFO of Microsoft, has yet to be fully met.

Within the cloud computing oligopoly —comprising Amazon, Microsoft, and Alphabet— demand for data centres to support AI development is growing across all regions, and these companies are not fully meeting customer needs. Clear evidence of the current need for data centres is that, despite immense investment —USD 356 billion, equivalent to one-fifth of Spain's GDP— most projects under construction already have allocated workloads and are leased, indicating no excess capacity is being created. In line with this, vacancy rates in data centres are below 2%, the lowest recorded in the past 10 years.

On the other hand, although valuations are high —as is the case for the broader index— the quality of the businesses is substantially higher than in previous cycles. The five hyperscalers —Alphabet, Amazon, Microsoft, Meta, and Oracle— together with Nvidia, report profit margins far above the market average (37% versus 14% for the S&P 500). Moreover, half of these six companies closed the third quarter with negative net debt, meaning they have more cash and liquidity than debt, indicating that a large portion of the intense investment in data centres is being financed with cash flows generated by their solid businesses.

50. VALUATIONS AND PROFIT MARGIN (1999 VS. 2025)

Sources: Bloomberg, Refinitiv and Banca March



With all this in mind, we can state that financial indicators do not show signs of exuberance, and valuations reflect fundamentals clearly superior to the rest of the market. That said, expectations are high, and sector volatility could be greater than in others in response to any disappointment, however small. In this regard, management teams have begun preparing the ground, as investments in AI development and data centres could temporarily slow margin expansion. Beyond this adjustment, the outlook remains optimistic: demand continues to grow without being fully met. From our perspective, the dynamic rollout of AI will allow the technology sector to continue leading stock market gains in the coming quarters.

Health sector: regulatory uncertainty decreases, as expected.

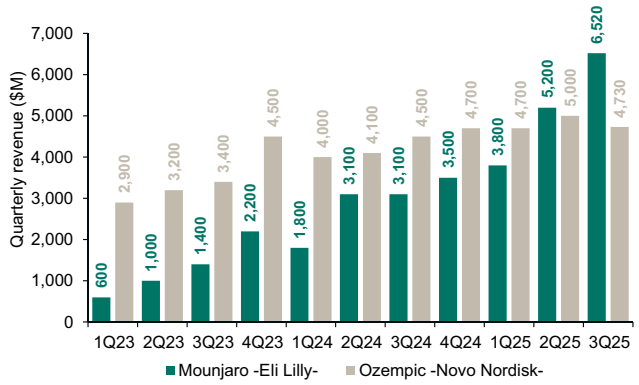
Following the crystallisation of the U.S.-EU tariff agreement, which includes a general maximum rate of 15% but significant exemptions for pharmaceutical products, regulatory uncertainty has continued to ease.

Several agreements between the U.S. administration and pharmaceutical companies illustrate this. The first announced was with Pfizer, which includes reducing the price of certain medicines in the U.S. in exchange for up to three years of tariff exemptions on imports and the ability to expand domestic production—Pfizer currently produces 70% of its output outside the U.S. The deal includes discounts of up to 85% on certain drugs for programs such as Medicaid, a $70 billion investment in domestic production, and the creation of a web portal to purchase medicines at reduced prices.

The Trump administration also announced deals with Danish company Novo Nordisk and U.S.-based Eli Lilly to reduce the prices of obesity drugs such as Ozempic —Novo Nordisk— and Zepbound —Eli Lilly—. Under this negotiation, injectable treatments would cost between $1,000–$1,350/month, reduced to around $350/month, while the new oral versions, once approved by regulators and included in the "national priority" category, will be sold at $149/month through the government portal.

51. ELI LILLY VS. NOVO NORDISK: THE FIGHT FOR THE OBESITY MARKET

Sources: companies and Banca March



Although these are significant discounts, comparing them with net prices —resulting from negotiations between pharmaceutical companies and insurers— is complex, as the discounts are not applied uniformly. We do believe the negative impact is limited —Novo Nordisk anticipates a single-digit negative effect; for Eli Lilly, consensus expects the price cuts to be offset by higher volumes due to an increase in patients. Additionally, as with Pfizer, both companies will receive three-year tariff exemptions, and their access to Medicare and Medicaid at the beginning of 2027 should reinforce their leadership in the fast-growing obesity market.

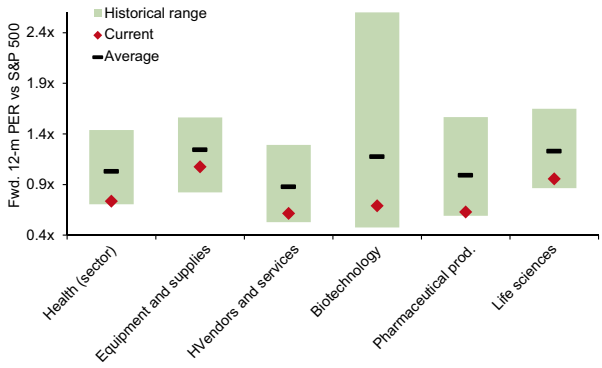
We maintain an overweight stance on the healthcare sector: a defensive sector with strong growth prospects and attractive valuations.

After a challenging year for the sector, the outlook is beginning to improve thanks to greater clarity regarding future drug tariffs and imports, as well as the specific agreements mentioned, which we believe could be replicated across the sector.

These developments, implying reduced regulatory pressure, have been driving the sector since September (+15%). With current valuations around 17 times earnings —versus nearly 20x for the global index— and considering its defensive nature and income-generating capacity, the healthcare sector remains one of the most attractive in the market.

52. HEALTH VS. S&P 500: RELATIVE VALUATION

Sources: Refinitiv and Banca March.



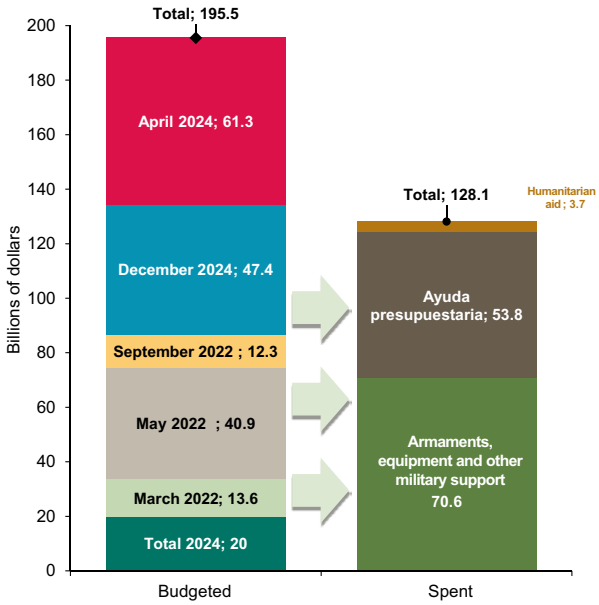
In the defence sector, the possibility of a Russia-Ukraine agreement would not invalidate the European rearmament thesis.

It has been nearly four years since the start of the Russian invasion of Ukraine, and almost a year since Trump's return to the White House, yet no agreement between the Slavic countries has been reached. Meanwhile, since the beginning of the conflict, the EU's committed support to Ukraine —militarily, financially, and humanitarianly— has exceeded €214 billion, comparable to the U.S. commitment, which has already disbursed nearly $130 billion.

Nonetheless, the arrival of a potential agreement does not invalidate the mindset shift led by Germany, in which the pan-European ReArm Europe program will mobilize over €800 billion over five years to facilitate investment mutualisation, modernise the armed forces, and strengthen local production. In addition, NATO countries' commitment to raise defense spending from 2% to 5% of GDP —3.5% for the armed forces and 1.5% for infrastructure, transport, and cybersecurity— would amount to an additional €500 billion per year in Europe.

53. USA: AID TO UKRAINE 2022 – JUNE 2025

Sources: Congressional Budget Office; Bomprezzi; Ukraine Support Tracker; Kiel Institute and CFR Research



We maintain our preference for the defence sector.

Although we are aware of the sector's strong performance this year (+38%), we believe the trend will continue and expand.

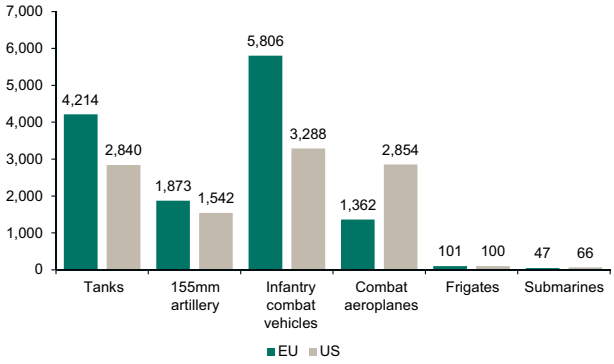
European defence companies are recording record levels in their order books —up 70% over nearly three years— with multi-year spending commitments and a growing market share, yet their valuation multiples remain lower than those in the U.S.

Compared to U.S. aerospace and defence stocks, which trade at historically high price/earnings multiples (PE 32.7x), the European counterpart still trades at a lower PE ratio (29.1x) and offers higher-quality metrics, such as return on equity (ROE) and return on assets.

In short, we believe that the sector in general, and especially Europe, still has room to excel, within a cycle that continues to gain depth and visibility.

54. US AND EU: WEAPONS IN SERVICE

Sources: WisodomTree and Banca March

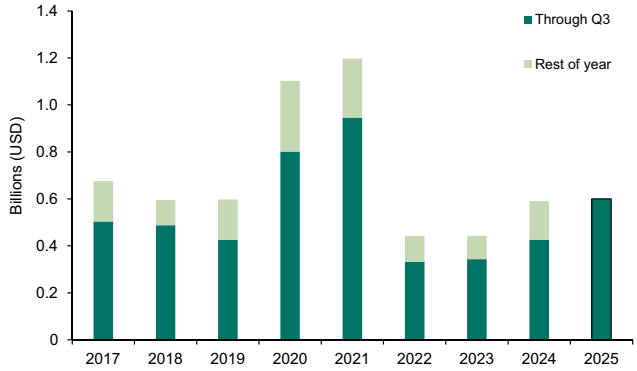


Small-cap American companies will be the main beneficiaries of a less restrictive monetary policy. Corporate activity is increasing and is expected to continue in the coming months, supporting the still depressed valuations of smaller-cap firms.

The Russell 2000 has continued to advance in recent months (up 19% since May versus 16% for the S&P 500). In our view, U.S. small-cap companies will be among the segments that benefit most from monetary policy normalisation. Smaller companies carry higher leverage than large-cap firms —4 times EBITDA versus 2.4 times for the S&P 500— and half of their debt is at variable rates, compared with 25% for the S&P 500, meaning that rate cuts feed through to earnings more quickly.

55. VOLUME OF IPOS AND ADDITIONAL ISSUES

Sources: Bloomberg, Refinitiv and Banca March



Moreover, the reduction in rates is boosting corporate activity, with IPOs at a four-year high and corporate transactions following the same trend.

Earnings are also expected to recover in the coming months, with projected growth of 46% for the Russell 2000 and 18% for the S&P 600 —which tracks the largest companies in the small-cap segment— far surpassing large-cap firms (+14%). Valuations within the higher-quality segment —the S&P 600— remain relatively low, trading at a 28% discount, the lowest level in the past 20 years.

CURRENCIES

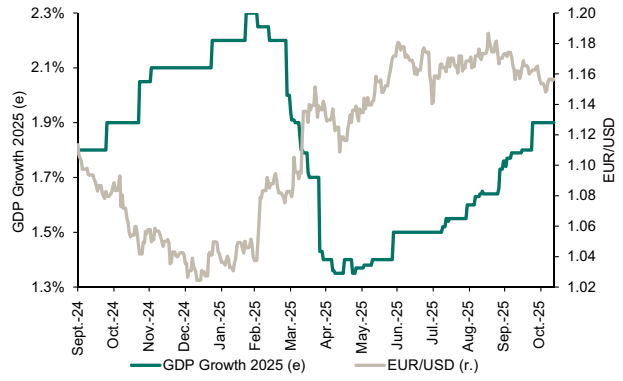
Fed rate cuts have been offset by the economic rebound, and the dollar is regaining ground.

The first half of the year was bleak for the U.S. currency, which suffered its largest depreciation in the past 50 years. Trump's unconventional economic policies directly impacted the dollar: higher tariffs were expected to slow growth, while his ongoing interference in monetary policy raised fears about the Fed losing its independence. These factors weakened market confidence in the dollar as a safe-haven asset, intensified short positions in derivatives, and quickly pushed the exchange rate to 1.18 EUR/USD.

However, the second half of the year brought about a change in tone for the greenback, which has regained ground and now trades above 1.15 EUR/USD (+2.5% since early July).

56. USA: GDP GROWTH VS. EUR/USD

Sources: Bloomberg and Banca March



This appreciation is particularly notable as it coincided with the resumption of the Fed's rate-cut cycle —50 basis points over just two months— reducing the interest rate differential versus the euro.

The dollar is also being supported by the cyclical improvement of the U.S. economy. Fears of a slowdown in American growth are fading, and market expectations are now closer to our scenario in which, despite tariffs, the economic cycle will not derail and the dollar will maintain its status as the preeminent reserve currency.

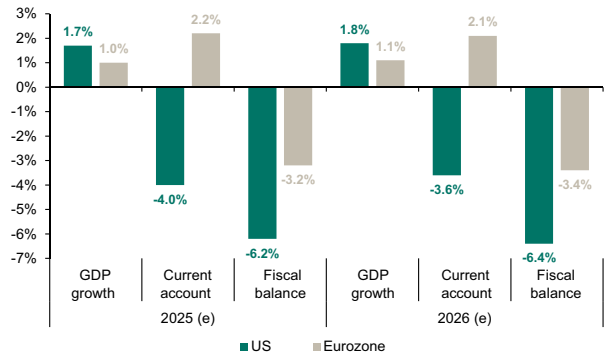
The exchange rate has stabilised, and positioning is no longer extreme. We would take advantage of further appreciation to the lower end of the expected range (1.12–1.14 EUR/USD) to reduce dollar exposure.

In the medium term, economic fundamentals will exert opposing forces on the dollar. On the upside, both U.S. GDP growth and interest rates are expected to remain above those in the eurozone. Conversely, the fiscal deficit and the widening U.S. current account imbalance will act as limiting factors, capping potential further dollar gains.

Accordingly, we consider levels between 1.14–1.12 EUR/USD appropriate for reducing dollar exposure.

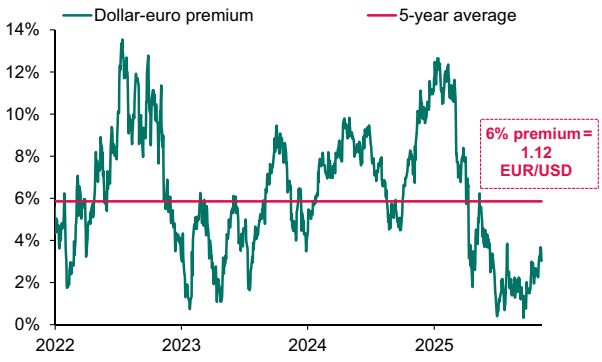
57. USA VS. EUROZONE: GROWTH, CURRENT ACCOUNT BALANCE AND BUDGET DEFICIT (*)

Sources Bloomberg and Banca March



58. EUR/USD VALUATION

Sources Bloomberg and Banca March



(*) Current account and budget deficit as a % of GDP.

As shown in chart 58, over the past five years the dollar's average valuation premium, in terms of purchasing power parity versus the euro, was 6%, corresponding to around 1.12 EUR/USD. In this context, any appreciation beyond 1.14 EUR/USD would already reflect the market's correct anticipation of stronger U.S. growth next year and that the Fed's rate cuts will not be as aggressive as the market expected a few months ago.

The pound is trading at annual lows of 0.881 EUR/GBP.

The British currency has depreciated by 6.5% year-to-date against the single currency, now marking annual lows at 0.881 EUR/GBP. Although the interest rate differential still provides some support for sterling, signals of prolonged economic stagnation –with 2026 GDP expected at +1%–, high inflation –the latest figure at +3.8%, the highest in the G7– and the expectation of further tax increases currently tilt the balance in favour of the euro.

The Bank of England held rates, awaiting the new budget.

The Bank of England kept the official interest rate unchanged at 4.0%, in line with expectations. The decision was, however, narrowly split – five members favoured holding, while four preferred a cut – highlighting divisions within the committee over the appropriate pace of monetary easing. Governor Andrew Bailey's comments were notable: he supported keeping rates steady and was the only one of the five to suggest that inflation risks had diminished.

Overall, the Monetary Policy Committee believes that inflation has peaked and will fall in the October and November data as weaker economic growth and a deteriorating labour market weigh on demand.

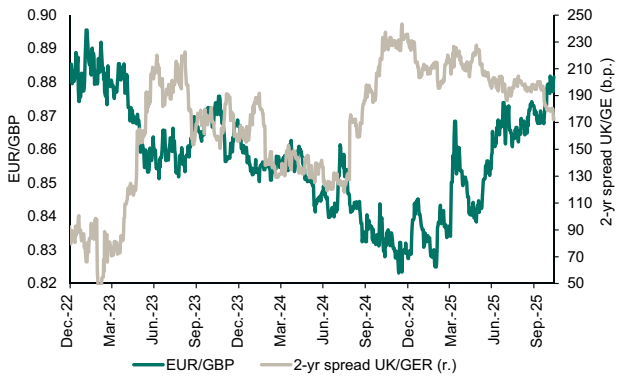
On the political front, ahead of the budget presentation on 26 November, Chancellor of the Exchequer Rachel Reeves referred to "years of poor economic management" and outlined a plan focused on fiscal discipline. Her comments reinforced expectations of tighter fiscal policy, with speculation about a tax rise on salaries over £50,000/year, which is expected to raise an additional £15 billion, putting further pressure on sterling.

The further weakening of the pound does not currently represent a buying opportunity. Range 0.84-0.89 EUR/GBP.

In light of the above, we believe pressure on the pound will persist and may even increase. The Bank of England will eventually resume its rate-cutting path, although its policy remains more restrictive than that of the ECB. At the other extreme, the imbalance in public finances, sluggish growth, and low productivity will continue to weigh on the currency. For these reasons, we remain neutral within a now wider range of 0.83–0.89 EUR/GBP, awaiting better opportunities for the pound.

59. 2-YEAR SPREAD (UNITED KINGDOM – GERMANY) VS. EUR/GBP

Sources: Bloomberg and Banca March.



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