MACRO GROUP

MID-YEAR EMD OUTLOOK

BACK TO BASICS - FADE THE TIGHTENING SCARE

July 2026

GlobalEvolution

Part of GENERALI INVESTMENTS

MID-YEAR EMD OUTLOOK – IN A NUTSHELL
LATE-CYCLE, BUT FADE THE TIGHTENING SCARE

- **MACRO: The toppish teflon cycle**

  I. **Growth: It's back to basics as geopolitical risks have normalized. The Teflon cycle is gearing down** as the key growth drivers identified in previous EMD outlooks lose steam (fiscal impulse, lagged impact of past monetary easing and the AI-driven capex cycle). **Iran-induced inventory build-up fades.** On the other hand, oil is back at pre-war levels. EM-US growth gap to move in EM's favour (upper chart), mainly due to cooling US growth & oil's roundtrip – this is not prices, yet (lower chart).

  II. **Inflation: Disinflation in H2, particularly in the US** as the energy impulse reverses and tariff boost fades, while US unit labour cost < 2%. Global inflation to remain above most central banks targets.

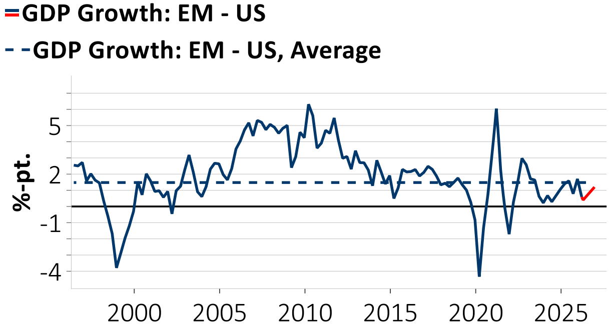
  III. **Policy: Fiscal stimulus fading but don't fear the Fed.** Monetary conditions tighten moderately, but outright **Fed hikes should be avoided, preventing a late cycle to morph into an end-cycle stage.**

  IV. **The single biggest (two-sided) risk: AI innovation cycle -** euphoria extended or reality check looming?

- **MARKETS: Looks like Goldilocks, smells like Goldilocks – but isn't quite Goldilocks**

  - **Review:** Shifting from a defensive to a constructive stance in Q2 proved correct as EMD rebounded & geopolitical tensions faded. Local EMD slightly outperformed hard currency EMD, as expected.
  - **Tactically cautiously constructive, not greedy:** Risk-reward less appealing due to valuation and cracks in the AI euphoria wall. A dovish repricing of the Fed keeps a floor under risk appetite. **Moderately overweight local EMD amid stretched USD positioning. EMFX is the cleanest dirty shirt wrt. valuation.**
  - **Strategic horizon: We continue to expect solid returns** driven by carry & duration as inflation risks subside. The US - RoW growth gap is moving in EM's favour, supporting EMFX. **Overweight local currency EMD.** A late cycle set-up keeps VOL elevated, arguing for a **tactical approach to markets.**

EM- DM: Growth Differentials



GlobalEvolution Source: Global Evolution, Macrobond and Bloomberg

2026 Consensus GDP Forecasts: EM - US

GlobalEvolution Source: Global Evolution, Macrobond and Bloomberg

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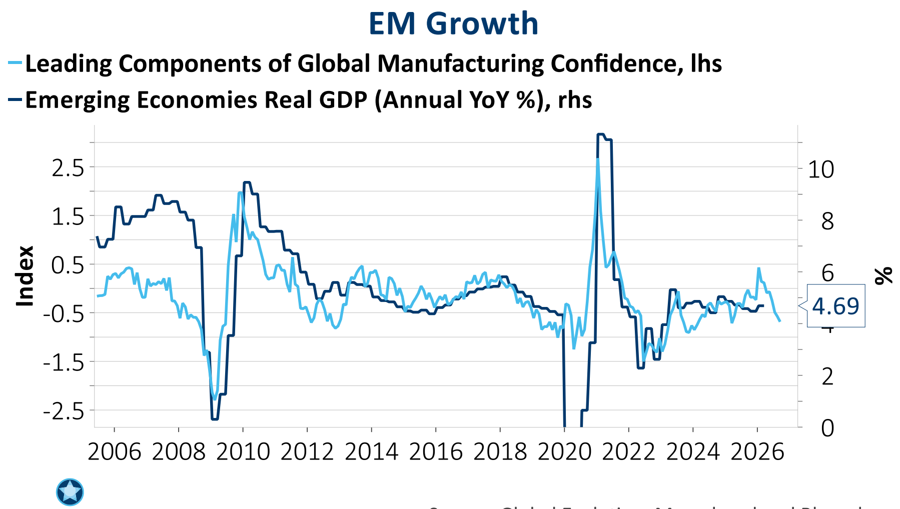
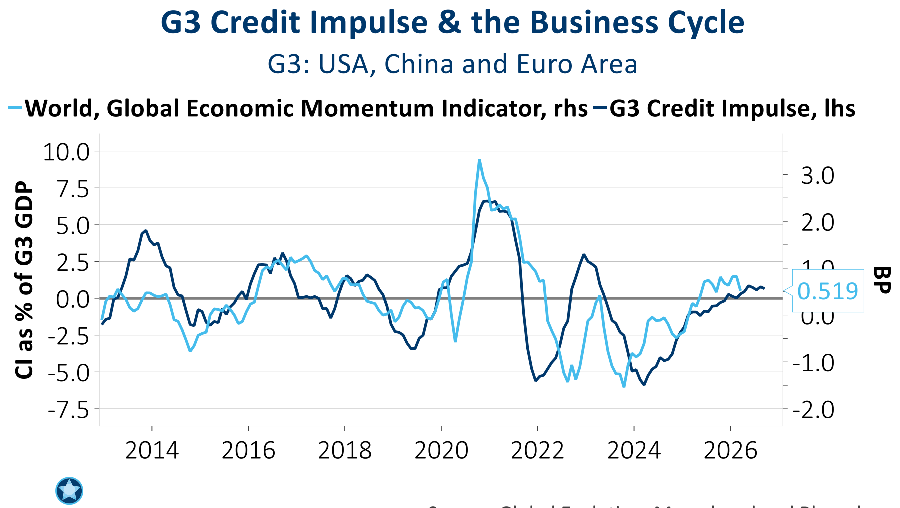
Prepared by Global Evolution as of July 08, 2026.

MID-YEAR EMD OUTLOOK - MACRO PLAYBOOK
GROWTH: TOPPISH TEFLON CYCLE



Source: Global Evolution, Macrobond and Bloomberg

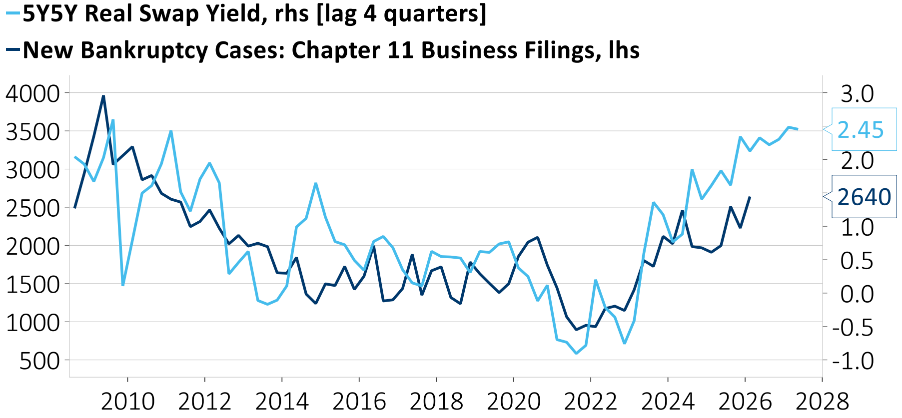


Source: Global Evolution, Macrobond and Bloomberg

- **Teflon cycle:** During the past year, the global economy has shrugged off the energy supply shock and the tariff shock.
- **Gearing down:** Forward-looking indicators point towards growth moderation in H2 (LHS).
- **Heading into H2, key growth drivers are losing steam. On top, consumption & the inventory cycle is set to slow.**
  - **Monetary conditions are tightening** and the credit cycle slowing (RHS) - real rates higher & USD stronger
  - **Fiscal support is fading in the US**. The fiscal impulse in Germany is picking up, but China remains lackluster.
  - The **AI capex cycle** is still running hot, but we're seeing the first signs of peak momentum.

MID-YEAR EMD OUTLOOK - MACRO PLAYBOOK
BUSINESS CYCLE CONTEXT: LATE CYCLE SET-UP

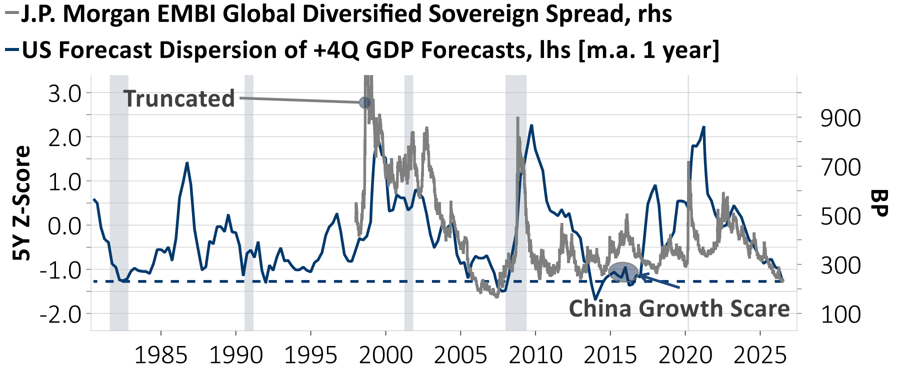
US: Bankruptcies



Source: Global Evolution, Macrobond and Bloomberg

US Forecast Dispersion & Credit Risk

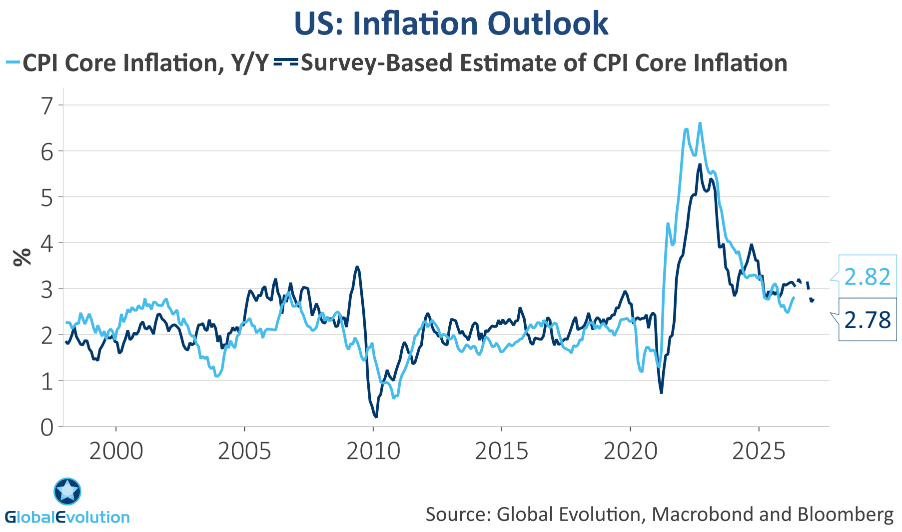
Grey Bars: US Recessions (NBER)



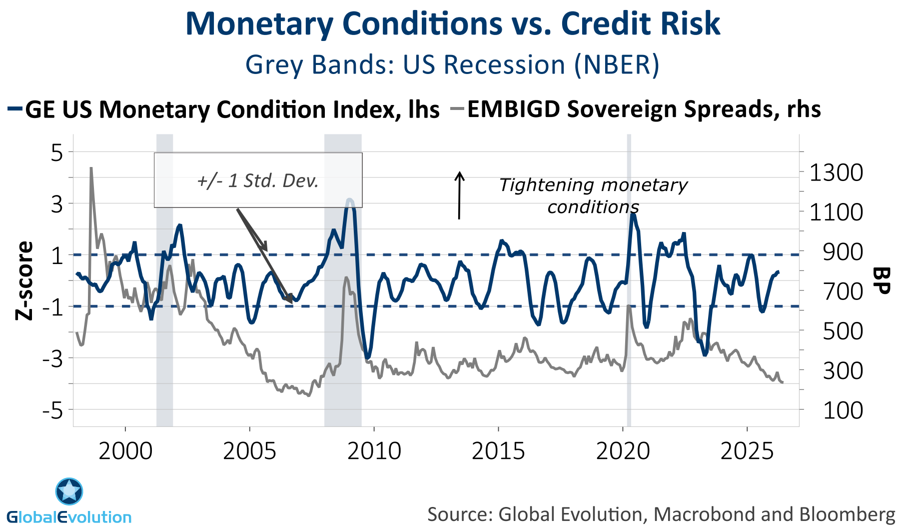
Source: Global Evolution, Macrobond and Bloomberg

- **Bellwethers of a late-cycle environment:** Monetary tightening in broader sense, yield curve flattening, deteriorating credit cycle (LHS), tight but cooling labour markets. Very low forecast dispersion suggests a bit of **“macro complacency” (RHS)**.
- **The speed of the late-cycle moves are key:** Indicators point towards a gradual rise in unemployment (NFIB, Conf.Board), slow deterioration in credit metrics.
- Crucially, we do not expect a resumption of Fed’s tightening cycle, **preventing an end-cycle showdown.**

MID-YEAR EMD OUTLOOK - MACRO PLAYBOOK
DON'T FEAR THE FED → NO END-CYCLE SHOWDOWN



Source: Global Evolution, Macrobond and Bloomberg



Source: Global Evolution, Macrobond and Bloomberg

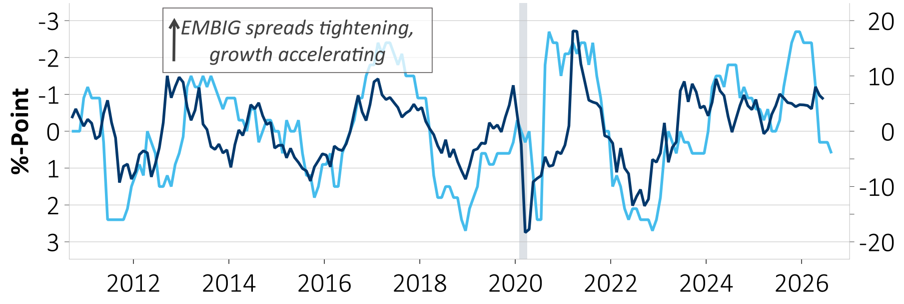
- **Inflation risks peaking in H1:** Inflationary impact from energy and tariffs is fading. US inflation model (LHS) reached a post-pandemic low (LHS). **The mother of all central bank fears not materializing:** Wage gauges still trended lower.
- **Past peak hawkishness at June FOMC meeting**: No Fed hikes in 2026 expected. US inflation likely to end the year below Fed's own 2026 estimate, trending down (Warsh: Trends matter more than datapoints). **Cut possible in early 2027.**
- **Monetary conditions are tightening in a typical late-cycle fashion but at a moderate pace**, keeping the business cycle intact (RHS). Especially less forward guidance should imply **more market volatility around FOMC events & data releases**

MID-YEAR EMD OUTLOOK – MARKET EXPECTATIONS
CONSTRUCTIVE, NOT GREEDY AS VOL REMAINS HIGH

Short-Term Business Cycle & The EM Credit Cycle

Grey Bars: US Recession (NBER)

–Y/Y Change in EMBIG Spreads (Reversed), lhs
–Diffusion Index of OECD LEI (Rising-Falling), rhs



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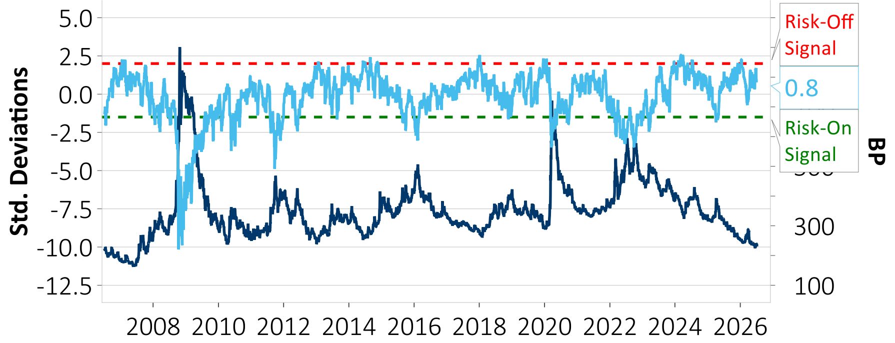
Source: Global Evolution, Macrobond and Bloomberg

Tactical Signals: Risk Environment

–Sentiment: GE Risk Index, lhs
–J.P. Morgan EMBI Global Diversified Sovereign Spread, rhs



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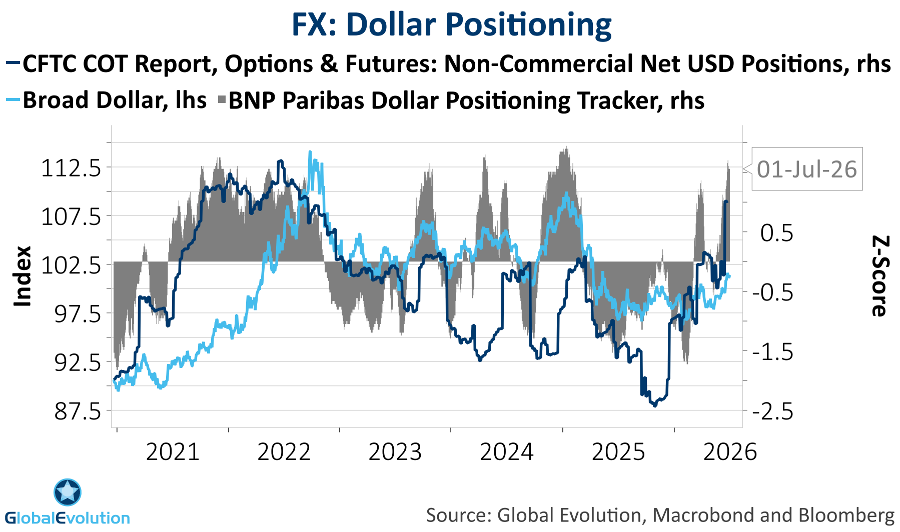
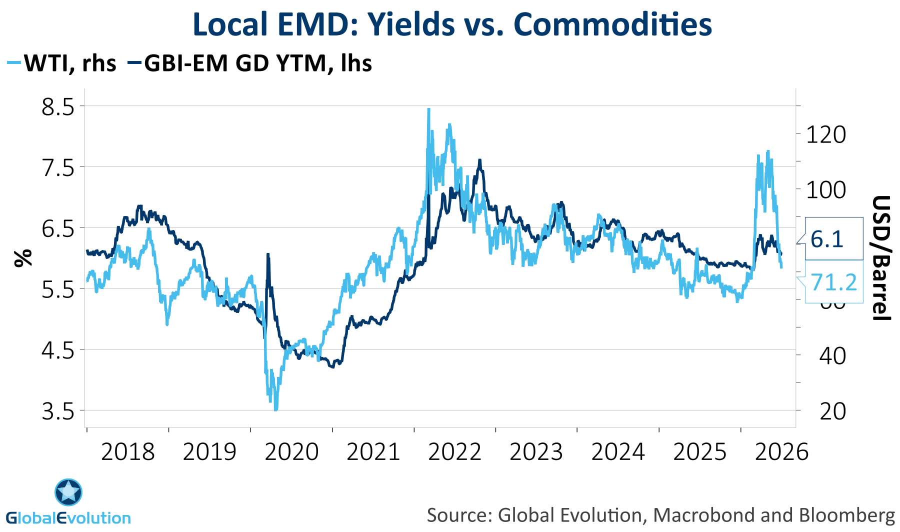
Source: Global Evolution, Macrobond and Bloomberg

- A slowing but resilient business cycle supports **solid EMD returns on a 12M horizon in high single digit/low double digit territory.**
- **Carry-driven returns expected:** Amid historically tight spread levels and cooling global growth, tightening potential is limited (LHS).
- Cautiously constructive, not greedy: Sentiment hasn't corrected meaningfully lower (RHS), pointing towards **elevated vol and a tactical market environment.**
- **While not punitively tight, monetary conditions are much tighter than last year,** challenging the overall beta environment.

MID-YEAR EMD OUTLOOK – MARKET EXPECTATIONS
LOCAL FX EMD: LAGGARD IN H1, TAILWINDS IN H2





- **Positioning has turned massively in favour of DXY, suggesting depreciation in the coming months (LHS)**
- **Cleanest dirty shirt on valution:** EURUSD close to short-term fair-value fo the first time in a while, DXY expensive on long-term valuation and fundamental EMFX valuation less stretched than e.g. Credit.
- Reversal of the oil price shock **capping the EM hiking cycle**, supporting GBI duration (RHS).

BENCHMARK AND INDICES

Index	Definition	Index Returns				
		2025	2024	2023	2022	2021
J.P. Morgan EMBI GD	is the J.P. Morgan EMBI Global Diversified Index (EMBI GD): The index is a market capitalization-weighted total return index of hard currency (USD, EUR, GBP) denominated Brady bonds, loans, Eurobonds and local market debt instruments traded in emerging markets.	14.30	6.54	11.09	-17.78	-1.80
J.P. Morgan GBI-EM GD	is the J.P. Morgan Government Bond Index for Emerging Markets Global Diversified (J.P. Morgan GBI EM GD) : The index is a comprehensive global local emerging markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure.	19.26	-2.38	12.70	-11.69	-8.75
50/50 Blended	(EMBIGDGBIEMGD) is a 50/50 blended benchmark of J.P. Morgan GBI-EM GD and EMBI GD used for Global Evolution strategies with both hard currency and local currency exposure.	16.80	2.01	11.92	-14.75	-5.32
J.P. Morgan CEMBI Broad Diversified HY	is a market capitalization weighted index consisting of US dollar denominated emerging market high yield corporate bonds.	9.13	11.67	11.17	-9.77	2.05
J.P. Morgan EMBI Global Diversified HY	is a sub index consisting of the high yield part of J.P. Morgan EMBI Global Diversified Index (EMBI GD): The index is a market capitalization-weighted total return index of hard currency (USD, EUR, GBP) denominated Brady bonds, loans, Eurobonds and local market debt instruments traded in emerging markets.	18.28	13.00	15.38	-15.68	-1.45
J.P. Morgan CEMBI BD	is the J.P. Morgan Corporate Emerging Market Bond Index Broad Diversified, which track USD denominated debt issued by emerging market corporations. CEMBI BD is a granular asset class with 1,331 bonds of 609 different issuers from 52 different countries.	8.72	7.63	9.08	-12.26	0.91
ICE BofaML	ICE BofaML Local Emerging Markets Non-Sovereign Index tracks the performance of local currency emerging markets non-sovereign debt publicly issued in the international markets. The index includes corporate and quasi-government debt, but excludes sovereign, central bank and supranational debt.	8.01	8.42	9.43	-11.08	0.83
Bloomberg Barclays Asia Credit BBB+ and above	The Bloomberg Barclays Asia Credit BBB+ and above index is a customized Index which contains Asia Credit securities with a minimum rating of BBB+	7.41	4.04	6.84	-9.67	-0.50
J.P. Morgan EMBI Global Diversified IG	is a sub index consisting of the investment grade part of J.P. Morgan EMBI Global Diversified Index (EMBI GD): The index is a market capitalization-weighted total return index of hard currency (USD, EUR, GBP) denominated Brady bonds, loans, Eurobonds and local market debt instruments traded in emerging markets.	10.38	0.32	7.08	-19.76	-1.93
S&P 500	is the Standard & Poor's 500 Index: The index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. The index is widely used as benchmark as reference of large-cap U.S. equities.	16.39	23.31	24.23	-19.44	26.89
US DXY	is a measure U.S. Dollar index, which tracks the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.	-9.37	7.06	-2.11	8.21	6.37

BENCHMARK AND INDICES

Index	Definition	Index Returns				
		2025	2024	2023	2022	2021
WTI Crude Oil	is the West Texas Intermediate, also known as Texas light sweet and is a grade of crude oil used as a benchmark in oil pricing.	-19.94	0.10	-10.73	6.71	55.01
LMEX	is the London Metal Exchange (LME) index which is a commodities exchange in London, England, that deals in metal futures.	30.45	3.81	-5.57	-11.51	31.85
10 yr UST	Bloomberg US Government 10 Year Term Index Total Return.	3.29	-3.68	0.53	-13.93	-5.51
J.P. Morgan NEXGEM	is J.P. Morgan's Next Generation Markets Index: The index tracks dollar-denominated government bonds issued by frontier markets. It is a fixed-income benchmark that provides exposure to non-investment grade rated, smaller, less liquid population of emerging market economies. The index closely follows the methodology of EMBI GD.	20.16	11.37	21.01	-18.45	-1.32
MSCI EM	is Morgan Stanley Capital International (MSCI) index for Emerging Markets: The index is used to measure equity market performance in global emerging markets. The index captures large and mid representation across 24 EM countries and covers approx. 85% of the free float-adjusted market capitalization in each country.	33.57	7.50	9.83	-20.09	-2.54
Bloomberg Global Bonds	is the Bloomberg Barclays Global aggregate Index that is a flagship measure of global investment grade debt from measured from 24 local currency markets. It is a multi-currency benchmark which includes treasury, government-related, corporate and securitized fixed-rate bonds from developed and emerging markets issuers.	8.17	-1.69	5.72	-16.25	-4.71
Frontier Markets Composite, Gross of Fees	The strategy invests in both local and hard currency denominated debt and currency instruments from frontier markets globally. To achieve the investment objective, Global Evolution's investment process focuses on investing early in countries where there is positive momentum towards improving fundamental underpinnings, where the political environment is stable or a catalyst for positive change is present, where the financial infrastructure supports external investment, and where well-compensated risk premium exists that represents good value. Strategies are well-diversified and designed to provide attractive risk-adjusted returns.	22.28	17.25	11.71	-7.52	11.78
J.P. Morgan - Corporate EMBI Broad Diversified Maturity 1-3 years	J.P. Morgan Corporate EMBI Broad Div. Maturity 1-3: is a US dollar denominated Emerging Market Corporate Bond Index that represents short duration corporate debt with a duration of up to 3 years.	6.84	8.48	8.00	-7.77	1.80
1/3 J.P. Morgan EMBI GD + 1/3 J.P. Morgan GBI-EM GD + 1/3 J.P. Morgan CEMBI BD	This is a combined benchmark of the three indices EMBI GD, GBI-EM GD and CEMBI BD, each making up a third. This benchmark captures both the sovereign bonds market in hard and local currencies as well as the corporate bonds market for corporates denominated in USD, meaning it covers a wide spectrum of the emerging market.	14.06	3.86	11.01	-13.87	-3.26
50% J.P. Morgan EMBI GD IG + 50% J.P. Morgan CEMBI BD IG	This is a 50/50 blended benchmark of J.P. Morgan EMBI GD IG and CEMBI BD IG, thereby covering the investment grade part of both the sovereign and corporate bonds market denominated in hard currencies (only USD denominated bonds for the corporate market).	9.42	2.61	7.34	-17.00	-0.92

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