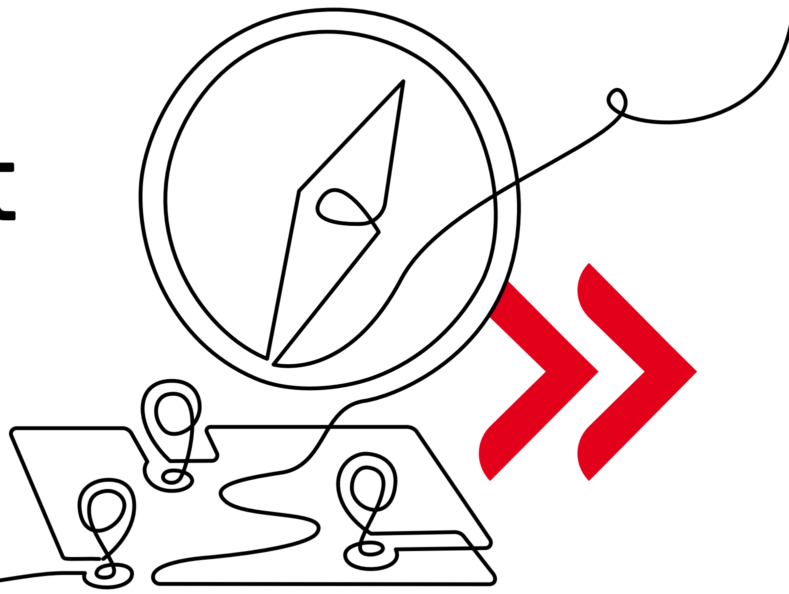
The Investment Institute
by UniCredit

The Checkpoint

17 September 2026



National votes, global effects

US President Donald Trump and Israeli Prime Minister Benjamin Netanyahu have dominated headlines over the past 18 months. Their close personal and political relationship has been a defining feature of recent Middle Eastern developments, including the conflict with Iran, which has fuelled regional instability and periodic turbulence in financial markets. Ironically, both now face pivotal electoral tests, with voters likely to judge them against a backdrop of persistent geopolitical tensions.

In Israel, the October election is shaping up to be one of the most consequential in years. Polls point to a highly fragmented political landscape in which neither the governing coalition nor the opposition is assured of a parliamentary majority. As a result, the election may hinge less on the performance of the largest parties than on the coalition-building process that follows. Security concerns remain the dominant issue, but voters are increasingly focused on the economic costs of prolonged regional conflict. Should the opposition prevail, a faster path towards military de-escalation would become more likely.

Across the Atlantic, the US midterm elections will serve as a referendum on Trump's presidency and economic agenda. Historically, incumbent presidents tend to lose congressional seats during midterms. We expect the Republicans to retain control of the Senate while losing the House. Such an outcome would constrain the Trump administration's room for manoeuvre on fiscal policy, trade and foreign affairs during the second half of the presidential term. It could also increase reliance on executive actions, testing the limits of presidential authority in areas where congressional support is lacking. With the Fed embarking on a new tightening cycle despite pressure from the White House, the risk of an institutional clash is rising.

For investors, the interaction between these two elections could prove consequential. Midterm elections have historically had a limited direct impact on markets, as an administration's most important policy initiatives are typically enacted during its first two years in office. In Israel, a Netanyahu defeat would likely be welcomed by markets if it led to lower geopolitical tensions and reduced inflationary pressures through lower energy prices. In that scenario, risky assets and the US dollar could benefit, while bond yields could decline. Conversely, a Netanyahu victory could sustain a higher geopolitical risk premium, supporting oil prices, gold and other defensive assets.

Fabio Petti
Co-Chair of
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Edoardo Campanella
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Our Asset Allocation

Authors: Fabio Petti, Alessandro Caviglia, Erik Haubold, Martin Mayer

ASSET CLASS	VIEW*	RATIONALE
Global equities	=	**Global equities remain supported by resilient economic activity, sustained private and public investment and strong earnings growth momentum. The solid YTD performance increases the risk of profit taking in the event of a sharp rise in long-term yields.**
US equities	=	US equities continue to be supported by strong earnings growth and AI-related investment. Semiconductor companies remain the main beneficiaries of the AI-spending cycle, although market leadership has gradually broadened. Uncertainty around the path of monetary policy and UST yields deserve close monitoring as they could increase equity market volatility.
Europe equities	=	European economic growth weathered the energy shock better than expected, prospects remain positive and markets have adjusted well to expectations of further rate hikes. Sector composition provides some tailwind amid growing investor interest in value stocks.
Pacific equities (developed markets[1])	=	The outlook remains supported by strong technology-sector earnings and continued demand for AI infrastructure. Japan benefits from improving domestic fundamentals and governance reforms, while semiconductor trends continue to drive regional equities despite ongoing reliance on external factors.
Emerging market equities	+	Emerging markets remain our preferred region. Earnings growth is being driven by semiconductor leaders in Taiwan and South Korea, supported by structural AI demand. Attractive valuations and exposure to both technology and commodities, combined with strong earnings growth, underpin the constructive medium-term outlook.
Global bonds	=	**Elevated inflation and uncertain monetary policy stimulus create upside risks to long-term yields and suggest keeping a cautious approach to duration. Carry remains in demand despite compressed spread levels. Select opportunities arise on emerging-markets issuers and currencies.**
Government bonds (EMU)	=	The ECB is expected to hike rates once more this year, while energy prices continue to put pressure on yields. The short and intermediate parts of the curve offer interesting carry with limited duration risk.
Government bonds (non-EMU)	–	Uncertainty surrounding the path of Fed policy, fiscal largesse and lingering inflation might keep term premium repricing in focus in the US. The risk of rising long-term yields could be accompanied by pressure on the USD, further reducing the appeal of USTs.
Corporate bonds (EUR-denominated IG)	=	Credit spreads remain at the lower end of the historical range, offering limited performance upside. Nevertheless, the asset class has shown resilience, including during the recent market volatility, supported by solid fundamentals.
Corporate bonds (HY)	–	Current spreads do not offer significant risk-adjusted return considering the positive correlation with equity markets in the event of a correction.
Emerging market bonds (hard currency)	=	After several quarters of solid performance, potential return has declined. The asset class remains sensitive to moves in US Treasury yields, particularly at the longer end.
Emerging market bonds (local currency)	+	Improving issuer credit metrics and our expectation of a gradual and orderly USD depreciation, supported by shifting global reserve allocations and waning US exceptionalism, strengthen our confidence in the outlook for the asset class.
Money markets	=	**As the asset class offers limited real return potential, we remain neutral.**
Alternatives	=	**Alternative strategies continue to provide diversification benefits. However, stronger momentum across certain traditional asset classes and elevated valuations in parts of the alternatives universe support maintaining a neutral stance.**
Bitcoin	=	Bitcoin has rebounded strongly, benefiting from improved liquidity conditions, robust ETF inflows and renewed institutional demand. Regulatory uncertainty persists and volatility remains elevated. However, supportive market liquidity, increasing adoption and growing tokenisation trends underpin a constructive medium-term outlook.
Commodities	=	**Commodity markets are driven by geopolitical tensions, supply disruptions and resilient demand. Falling inventories and tight product markets support fundamentals. Yet, elevated prices and global growth uncertainty warrant neutral positioning.**
Oil	=	Oil prices have risen as escalating US-Iran tensions and concerns over shipping through of Hormuz increased supply worries. Higher geopolitical risk premiums, declining inventories and tighter product markets have supported fundamentals. Slower normalisation of Middle Eastern supply conditions is likely to support prices in the near term.
Gold	=	Gold remains supported by central-bank purchases, recovering ETF inflows, portfolio diversification demand and fiscal sustainability concerns. While higher US rates and Treasury yields remain a headwind, debt-related risks and a weaker US dollar provide offsetting support. We maintain a neutral to slightly constructive view.

As of 14 September 2026; 1. Developed markets: Australia, Japan, Hong Kong, New Zealand, Singapore

*VIEW: + Overweight = Neutral – Underweight

Election time in Israel

Author: Edoardo Campanella
Director and Chief Editor of The Investment Institute

A chat with... Michal Halperin

Former Director General of the Israel Competition Authority; social entrepreneur; and board member of Bank Hapoalim.

Edoardo Campanella: What sort of majority (if any) will emerge from the election in your opinion?

Michal Halperin: Predicting the majority is difficult. Israeli society is increasingly polarised, so very few people see the full picture or the real trends. Different media outlets share very different polls that match their political agendas. I have no reason to trust one side's polls more than the other. The final result mainly depends on two big question marks. First, how will the ultra-Orthodox community vote, and what will their participation rate be? Second, how will the Arab citizens vote, and how engaged will they be in the election?

Edoardo Campanella: How polarised is Israeli society and how might the election affect it?

Michal Halperin: Israeli society is extremely polarised. An election campaign only highlights the existing divisions. Today, Israelis are split in their vote mainly over one big issue: keeping the current prime minister and coalition in power or replacing them with a new government. There were several attempts to create centrist parties. These parties tried to build a platform that could appeal to voters from both the government and the opposition. However, they failed to win enough public support. Most of these new parties have already dropped out of the race, and the remaining ones will likely withdraw soon. The division remains intact.

Edoardo Campanella: How do you think Israel's Middle East policy will evolve?

Michal Halperin: Israel's independent Middle East policy no longer exists. Israel effectively lost its ability to make autonomous foreign policy decisions when the Trump administration came into power. Because of this dependency, I do not expect the election results to substantially alter Israel's strategic behaviour across the region. However, the upcoming election is viewed as critical for Israel's future mainly due to domestic issues. Among the most prominent are: **1.** Will Jewish extremist violence in the West Bank continue with the quiet backing of the military, or will authorities finally stop the settlers? **2.** Will the ultra-Orthodox community continue to be exempt from teaching core educational subjects like mathematics, English, civics, and science, and will they remain exempt from military service? **3.** Will key institutions like the Supreme Court and the Attorney General be weakened, putting the foundations of Israeli democracy at risk? **4.** Will Israeli society be willing to confront the catastrophe of 7 October directly and launch an independent, comprehensive commission of inquiry to understand how this catastrophe was allowed to happen?

Edoardo Campanella: Do you see a risk that Israel might over time isolate itself and lose support from Europe and the US?

Michal Halperin: Yes. This is a major risk Israel will face if it does not radically change its behaviour. Israel already experiences isolation in key fields, including academic cooperation, foreign investment and export markets. If current policies continue, other severe consequences will follow. Educated elites may emigrate to other countries – a brain drain that has already begun. Domestically, Israeli democracy will continue to weaken, leading to the oppression of minorities and the collapse of the professional civil service.

FOCUS

US midterm elections: market impact

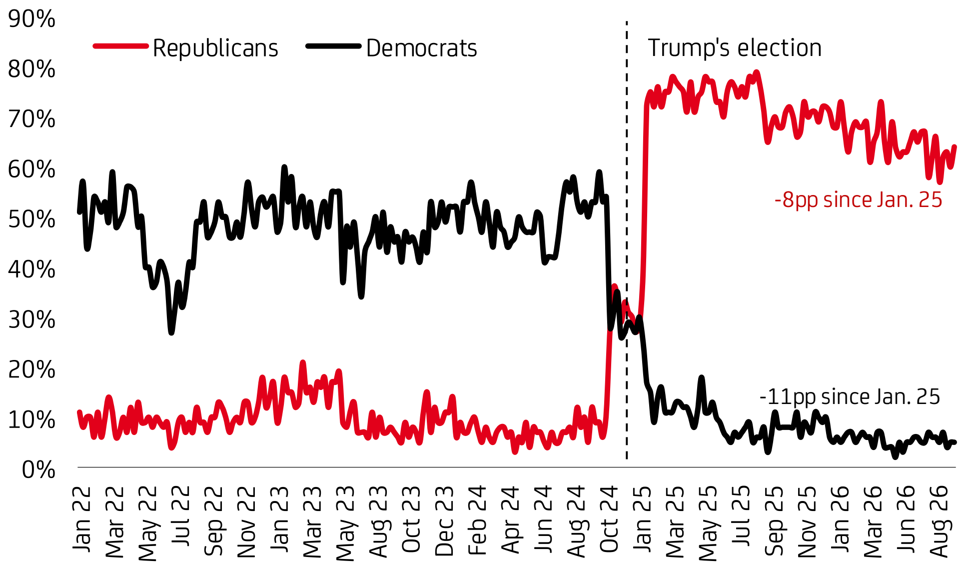
Authors: Luca Cazzulani, Roberto Mialich, Jonathan Schroer, Christian Stocker

The US midterm elections are heating up and could raise market volatility

The US midterm elections will be held on Tuesday, 3 November. In this election all of the 435 seats of the House of Representatives and 33 seats in the Senate will be contested. Currently the Republicans hold majorities in both chambers, with a 53-47 majority in the Senate (including two independents who caucus with the Democrats) and 219-214 in the House (including one independent who caucuses with the Republicans and two vacant seats). Democrats therefore need to flip four seats in the Senate and achieve a net gain of four seats in the House to gain majorities. The Senate seats contested this year are concentrated in states that are, on balance, less favourable to Democrats. Therefore, the probability that the Democrats can win a majority in the House of Representatives is higher than in the Senate. Betting markets and leading political analysts see the Democrats as heavily favoured to win a House majority, while the Senate remains a toss-up. Although the political environment remains highly partisan and polarised, with Democrats and Republicans viewing the country's current direction completely differently, support for Republican policies has been on a downward trend since the start of Trump's second term.

CHART 1.1: OPINION POLLS REFLECT A HIGHLY PARTISAN ATMOSPHERE

PERCENT AGREEING THAT THE COUNTRY IS HEADED IN THE RIGHT DIRECTION



Source: Yougov, The Investment Institute by UniCredit

An important factor behind the increased likelihood of the Democrats retaking majorities in Congress is rising voter disapproval of Republican policies and their impact on the cost of living. A recent Reuters/Ipsos poll found that 36% of voters trust Democrats on cost-of-living issues, compared with 28% for Republicans. One year earlier, Republicans held a narrow advantage, with 34% favouring Republicans and 33% favouring Democrats. Dissatisfaction with the Republicans' handling of the economy is reflected in Trump's deteriorating favourability ratings.

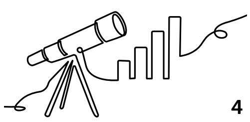
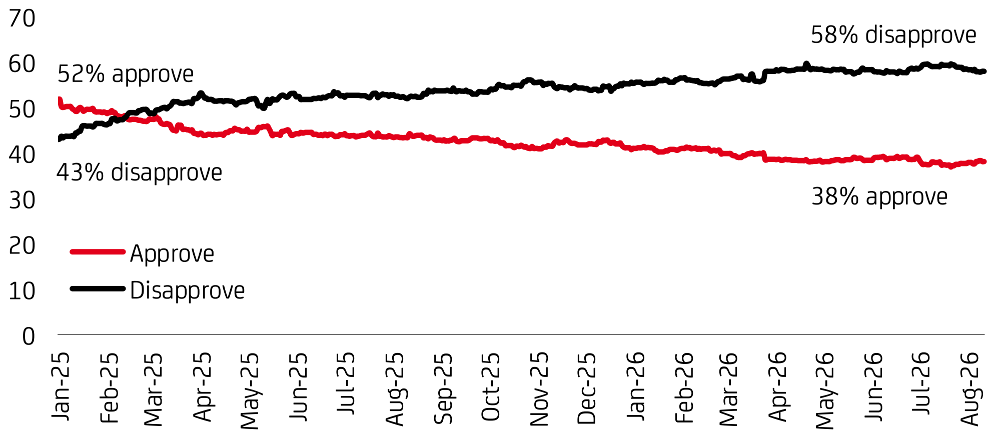


CHART 1.2: TRUMP'S APPROVAL RATING HAS CONTINUED TO SLIDE SINCE INAUGURATION
PRESIDENTIAL APPROVAL RATING



Source: *New York Times* daily poll average, The Investment Institute by UniCredit

In recent elections, the party in power has tended to lose ground in Congress during the midterm elections as voters become disappointed with unfulfilled campaign promises. Presidential popularity has been a key indicator of success in the midterm elections. The only time a president's party gained House seats in a midterm election since the start of the millennium was in 2002, when George W. Bush's approval rating was comfortably above 50% following the initial response to the 9/11 terrorist attacks. Bush faced a backlash in 2006 as voters' focus shifted back to the economy. The Democrats faced a backlash in 2010 amid continued economic dissatisfaction following the financial crisis and controversy surrounding the Affordable Care Act. Trump's low approval rating in his first term coincided with steep losses in the House, although Republicans made modest gains in the Senate. Trump's approval rating is currently well below its 2018 level, raising the potential for meaningful midterm losses for Republicans in November.

PRESIDENTIAL APPROVAL RATING AND MIDTERM ELECTION RESULTS

Election	President	Approval near election	House change for president's party	Senate change for president's party
2022	Biden (D)	~44%	-9 seats	+1 seat
2018	Trump (R)	~41%	-41 seats	+2 seats
2014	Obama (D)	~42%	-13 seats	-9 seats
2010	Obama (D)	Mid-40s	-63 seats	-6 seats
2006	G.W. Bush (R)	High-30s	-30 seats	-6 seats
2002	G.W. Bush (R)	~63%	+8 seats	+2 seats

Source: Gallup, UC Santa Barbara "The American Presidency Project", The Investment Institute by UniCredit

There are three possible outcomes of the midterm elections. Considering the current political dynamics discussed above, we see the third outcome (the status quo) as the least likely. From a market perspective, historically, US midterm elections have not been a major market driver. Over the past ten election cycles, neither Treasury yields, the USD nor equities have displayed a consistent pattern around this event, with market trends generally determined by monetary policy, economic fundamentals and corporate earnings rather than political outcomes. While the current environment is characterised by greater policy uncertainty than usual, we still view the election primarily as a potential source of short-term volatility rather than a decisive medium-term market catalyst.

Let's look at the three different scenarios more in detail:

1. **Baseline scenario: Democrats gain a majority in the House but not the Senate.** The size of the majority is important in this scenario, as a slim majority would give the Democratic opposition modest room for manoeuvre and could be perceived as underperformance given current expectations. The House has considerable control over national finances and would likely oppose any expensive plans to stimulate the economy or a major boost to military spending if it would benefit Republican candidates in the 2028 election. Democrats would be able to launch investigations into past policies and increase oversight of executive actions, which would consume administrative and political resources. We do not expect that a Democratic House would be able to reverse key policies already in place (e.g. cancelling tariffs or ending the conflict in Iran). However, it would significantly limit the Trump administration's freedom to introduce major new policies and would give Democrats investigative powers over the president's administration and family that they have lacked under the Republican-controlled House.
   - ➔ **Market impact:** Such a scenario would likely be modestly supportive for USTs, as greater checks on fiscal spending could ease concerns about deficit and debt. For the USD, the implication would be mildly positive, reflecting expectations of greater fiscal discipline. Legislative gridlock would probably be a stabilising factor for equities, reducing the risk of major policy surprises and allowing investors to refocus on economic growth, earnings, inflation and Fed policy.

2. **Risk scenario 1: Democrats gain majorities in the House and Senate.** The Democrats' majority would be thin and would not be able to override presidential vetoes, but their ability to oppose the Trump administration's policies would be enhanced. A majority in the Senate would enable the Democrats to block, delay or influence major personnel appointments to the Supreme Court and Federal Reserve. We see potential for more market volatility in this scenario, as Trump may be inclined to counteract his weakening political status with controversial executive orders or actions on the international stage that keep his policies firmly in the limelight.
   - ➔ **Market impact:** Tighter constraints on the administration's policy agenda could reinforce expectations of fiscal restraint and support market sentiment across assets. However, investors may also worry about a more confrontational political environment and the risk of unpredictable policy responses from Trump. Such uncertainty could weigh modestly on Treasuries through higher risk premiums and generate short-term volatility in equity markets. This would not support the greenback. Concerns about a contested election outcome could amplify these negative sentiment effects.

3. **Risk scenario 2: Republicans retain control of the House and Senate:** This scenario would reinforce Trump's control of the Republican party and the national agenda going into the 2028 election cycle. His status as kingmaker in the coming election cycle and his influence over Republican policy would also be reaffirmed.
   - ➔ **Market impact:** For Treasuries, the impact would likely be neutral, as the current policy framework would remain largely intact. The USD could remain under some pressure if investors associate the outcome with continued fiscal expansion and wider deficits. Equities would probably welcome the reduced political uncertainty and continuity of economic policies, although the market impact would ultimately depend more on the outlook for growth, earnings and monetary policy than on the election result itself.

Overall, the market implications of the election will largely depend on whether the outcome is perceived as signalling greater fiscal discipline, which would be positive for financial assets and the USD, or greater political uncertainty and unpredictable foreign policy, which would be negative for markets and the USD. Nevertheless, we expect Fed policy to remain the dominant driver of Treasury yields, interest-rate differentials to remain the key determinant of the USD, and economic growth and corporate earnings to continue shaping equity market performance. The **elections are best viewed as a volatility event rather than a fundamental turning point** for financial markets.

Macro Stories

Authors: Jonathan Schroer, Marco Valli

1 ECB not done yet

On 10 September, the ECB delivered a widely anticipated 25bp rate hike, raising the deposit rate to 2.50%. This level corresponds with the upper bound of the ECB's estimated range for the neutral rate. The ECB's new macroeconomic projections and the tone of the press conference were hawkish. The inflation shock is proving more persistent than the ECB previously envisaged as higher energy prices are likely to keep headline inflation well above target through 1H27, with a return to 2% only expected towards the end of 2027. Meanwhile, the eurozone economy is showing better-than-expected resilience thanks to increased infrastructure and defence spending, a stronger contribution from AI-related investment activity and continued, albeit moderate, growth in private consumption. In this environment, the central bank can focus squarely on risks to the inflation outlook, which remain tilted to the upside as energy prices continue to drift higher. This implies that policy tightening is probably not over yet. Unless energy prices experience a rapid and substantial correction, or economic activity comes under meaningful pressure, the ECB is likely to deliver another rate increase. We expect one final 25bp hike in December, which would take the deposit rate to 2.75%.

2 Fed back to hiking mode

At its September meeting, the Fed delivered a 25bp rate hike, raising the target range for the federal funds rate to 3.75-4.00%. The unanimous decision was an important positive for the credibility of Chair Warsh and the FOMC more broadly, at a time when economic growth remains solid, the labour market operates at full employment, while inflation pressures remain elevated. It was a hawkish hike. The FOMC's interest-rate expectations shifted higher as the Committee marginally upgraded its assessment of economic growth and labour market conditions, while also slightly revising higher its projections for both headline and core PCE inflation. Warsh characterised the rate increase as "removing a dose of accommodation." This wording implies that the policy stance remains at least somewhat accommodative even after the latest hike and the recent, meaningful upward shift in the yield curve. In other words, the FOMC agrees that current financial conditions are not exerting sufficient restraint on inflation, which strengthens the case for further tightening if inflation risks fail to recede. Overall, the Fed is unlikely to be done raising rates. We expect another 25bp hike in December, followed by a prolonged period of policy rates on hold.

3 Gas prices keep rising, fuelling inflation

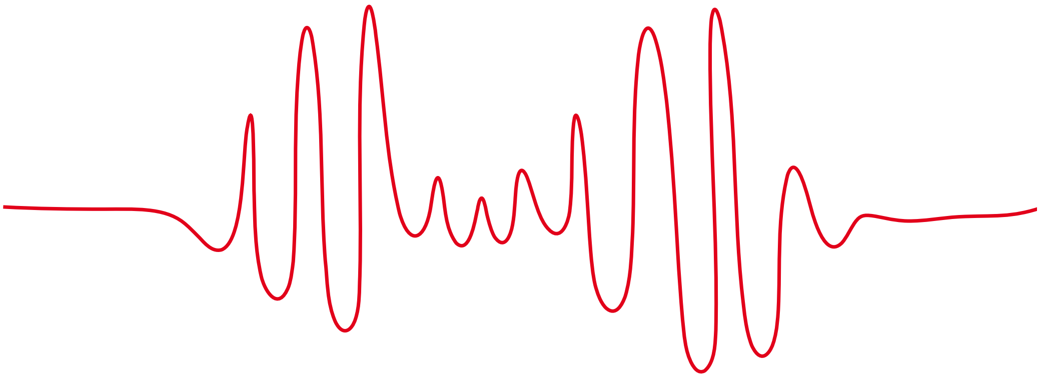
The European gas market has come under significant stress as hostilities between the US and Iran have intensified. Since the beginning of September, the benchmark TTF gas price has vaulted from EUR 70/MWh to above EUR 80/MWh, stoking fears of rising inflation throughout the broader economy. While the main price driver has been the renewed military engagement, Europe's lagging gas restocking before the winter heating season raises concern about a demand crunch as gas operators make a belated push to outbid rivals to meet the 80% storage target by 1 November. While this target can be revised down to 75% during unusual market conditions, reaching even this lower target will be challenging. Low reserves should keep the market on edge in the coming months, especially if winter temperatures are below average. For more information, see our Short View published on 10 September, "Time's up: Europe's winter gas restocking reaches crunch time".

Market Stories

Authors: Francesco Maria Di Bella, Tobias Keller, Stefan Kolek, Roberto Mialich, Jonathan Schroer, Christian Stocker, Thomas Strobel, Michael Teig

The noise ...

Oil and gas prices surged amid the persisting US-Iranian conflict and the related de facto closure of the Strait of Hormuz. The widening of the conflict to the Bab el Mandeb Strait, which together with the Suez Canal is particularly relevant for supply chains between Europe and Asia, fuelling inflation fears. In addition, the 10Y UST yield's test of 5%, its highest level since 2007, has triggered fresh concerns about the sustainability of US public debt.



... and the signal

The latest developments in Iran and the Arabian Peninsula suggest that geopolitics will remain in the driving seat in the coming weeks, shaping expectations for energy prices, inflation and central bank policy. Nonetheless, global economic growth has so far remained resilient, albeit moderate, supported by defence, infrastructure and AI investment. However, the recent rise in oil and gas prices, and the lack of visibility over the US-Iran conflict creates stagflation risk. Moreover, the US midterm elections in November are likely to be an additional source of volatility. The latest inflation data and the hawkish stance adopted by major central banks led us to update our forecasts to incorporate more Fed and ECB tightening and revise our yield projections upward. All in all, we maintain our constructive outlook on global equity markets, with emerging markets continuing to be our preferred region, supported by attractive valuations and meaningful exposure to key long-term growth themes. A moderate, but positive growth outlook should support corporate credit, which, however, given the tight spread levels, remains mainly a carry play. In the current market environment, we remain cautious on USTs, while taking a more neutral stance on (core) EGBs. Uncertainty about the inflation outlook and upside risks to government and corporate bond supply warrant caution when extending duration. While higher rates may constrain upside potential for gold, fiscal and debt-related risks, together with a weaker US dollar, should help offset these headwinds and we have revised our end-year forecast slightly higher.

Equities

Fundamentals remain supportive for equities

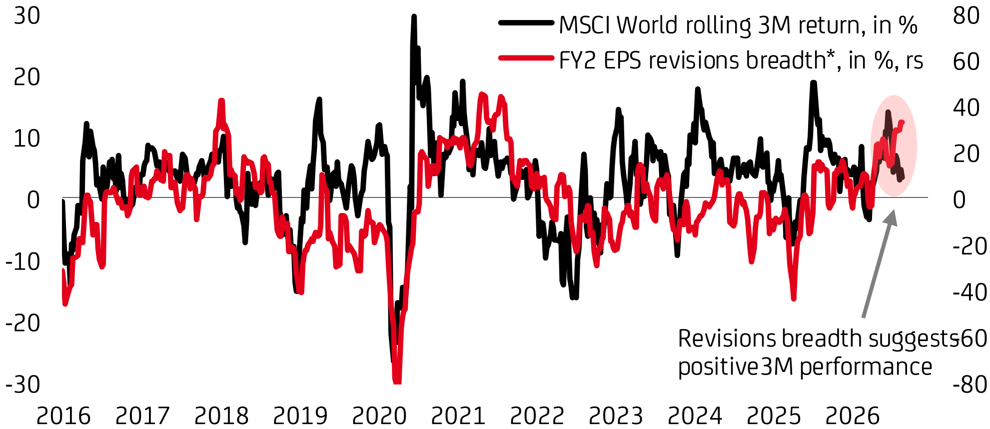
We maintain our constructive outlook on global equity markets, with emerging markets continuing to be our preferred region, supported by attractive valuations and meaningful exposure to key long-term growth themes. At the same time, European equities are increasingly challenging long-held investor assumptions. Earnings growth is accelerating, profitability is improving, and market performance has been stronger than widely recognized. While Europe continues to face structural challenges related to innovation, politics, and capital allocation, its combination of resilient earnings, attractive valuations and strong cash generation makes it an increasingly compelling region for diversification. In contrast, amid the risk of further increases in capital market interest rates, the long-standing dominance of large-cap US technology stocks is likely to moderate over the coming months. Against this backdrop, we see growing upside potential in the Financials and Industrials sectors across both the US and European markets.

After years of dominance by Technology, signs are emerging that market leadership may be broadening in the US. Rising long-term interest rates are becoming a headwind for growth stocks, as higher discount rates reduce the present value of future earnings and limit valuation upside. At the same time, the unprecedented scale of AI-related investment is putting pressure on free cash flow generation at several leading US technology companies. This does not argue against continued positive returns from the sector. Rather, it suggests a more balanced market environment, with a wider range of sectors contributing to performance. In this context, the S&P 500 Equal Weight Index may be well positioned to outperform the traditional market-cap-weighted S&P 500, whose returns remain heavily concentrated in a small number of technology giants.

European equities are entering a more supportive phase. After several years of largely stagnant earnings trends, corporate profit momentum is showing clear signs of improvement, supported by a gradually strengthening European economy. At the same time, rising yields are creating a favourable backdrop for value-oriented sectors, which represent a significant share of the European market. Given Europe's sector composition, the region appears particularly well positioned to benefit from a broader market rotation and improving economic activity. In our view, the combination of accelerating earnings growth, a more constructive macro backdrop, and Europe's value bias provides a compelling case for European equities.

CHART 2.1: EARNINGS REVISIONS SUGGEST STRONG PERFORMANCE IN 4Q26

POSITIVE EARNINGS REVISIONS ARE THE MAIN DRIVER OF STOCK MARKET RETURNS



Source: LSEG Datastream, The Investment Institute by UniCredit

Note: FY2 EPS revisions breadth: (# positive revisions - # negative revisions)/total revisions

Fixed Income

Government bonds: cautious approach still warranted

Renewed tensions in the Middle East have pushed oil and gas prices higher, reigniting selling pressure on government bonds over the summer. This has been compounded by growing concerns that AI-related issuance could crowd out sovereign borrowing, intensifying competition for capital and ultimately driving real yields higher. In addition, hawkish remarks by Fed Chair Kevin Warsh at Jackson Hole have triggered a repricing of Fed expectations, putting further upward pressure on front-end yields. As Chart 2.2 shows, government bond yields have risen significantly year to date, with a pronounced bear flattening concentrated in the first half of 2026. Since early July, however, yield curves have shifted in a largely parallel fashion.

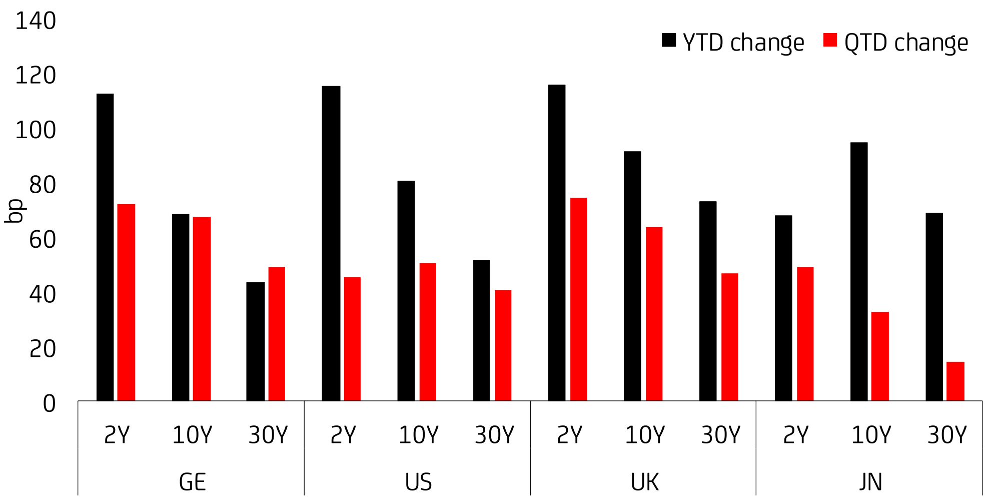
We have reassessed the recent rise in yields and updated our forecasts to incorporate more Fed and ECB tightening than previously envisaged. **We now expect 10Y UST yields to reach 4.75% at year-end, while 10Y Bund yields should be around 3.20%.** While higher policy rates are likely to mechanically lift two-year yields, we expect curves to remain relatively flat over the foreseeable future, with bull steepening emerging once rate-cut expectations begin to come into view, tentatively in late 2027. This reflects our view that major central banks will move rates further into restrictive territory primarily to curb inflation expectations, rather than to restrain an economy that has become structurally stronger.

The rise in yields, which have reached multi-year highs in many jurisdictions, has triggered heated debate over appetite for duration, risk premiums and competition for capital. We regard the recent move in yields as a repricing that largely reflects higher policy rates across jurisdictions compared with the past decade. There are lingering risks at the long end related to risk premiums and public finances, a potentially less predictable Fed and weakening demand for US assets amid geopolitical uncertainty.

In the current market environment, we remain cautious on USTs, while taking a more neutral stance on (core) EGBs. In any case, uncertainty over the inflation outlook, a more fragmented geopolitical picture and the prospect of abundant supply from both governments and private institutions suggest maintaining a prudent approach towards duration exposure.

CHART 2.2: GOVERNMENT BOND YIELDS RISE ACROSS THE BOARD

YIELD CHANGES (BP)



Source: Bloomberg, The Investment Institute by UniCredit

Corporate credit: carry remains the key source of return

Rising yields and oil prices, coupled with continuous high new-bond supply, create a challenging environment for European credit in 2H, which is expected to lead to a gradual spread widening.

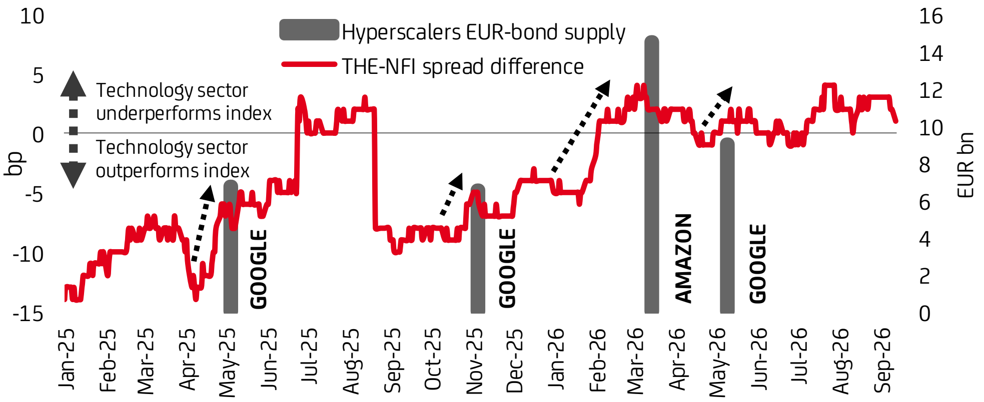
Non-financials credit risk premiums have started to drift slightly wider over the past few weeks as ongoing tensions in the Strait of Hormuz are pushing oil prices higher, adding to the risks posed to economic growth by low gas reserves. This is likely to weigh on appetite for European credit, which continues to trade at close to historically tight credit risk premiums. While basic resources and oil & gas have the potential to outperform, we remain negative on chemicals, travel & leisure as well as technology. The latter, although showing strong credit metrics, faces huge capex expenditures by hyperscalers. The five major hyperscalers – Amazon, Google, Microsoft, Alphabet and Oracle – plan to invest a total of USD 710bn in 2026, almost 60% more than last year; in 2027, their capex is expected to hit USD 1tn. While most funding is done via private equity and private credit, relatively low funding costs in euro have led to hyperscalers also placing reverse Yankee bonds. However, the relatively low volumes compared to the overall market are unlikely to have a major impact on the European credit market as a whole. But with the technology sector being among the smaller ones, the individual issues over the past two years have led to underperformance.

Covered-bond issuance by banks has remained exceptionally strong in 2026, with EUR 168bn issued YTD and record-high primary-market activity in June and August (July was quiet due to the summer break), prompting an increase in our full-year funding forecast from EUR 165-170bn to EUR 175-180bn. Given EUR 159bn in covered-bond maturities, this implies net supply of EUR 26-31bn, with a further EUR 7-12bn of covered-bond issuance expected during the remainder of this year. Senior unsecured bank-bond issuance has reached EUR 182bn YTD, led by banks from the UK, France, the US and Canada. Banks from the CEE region have issued EUR 8bn. We confirm our original full-year 2026 senior funding forecast of EUR 220-240bn, although issuance will likely be closer to the lower end of this range. For the remainder of 2026, we expect some EUR 40bn in additional senior funding, while covered-bond issuance should moderate after the exceptionally strong first half.

Overall, investor demand has remained strong and credit spreads have not reacted much to the renewed Iran-US tensions. We expect the constructive tone to prevail among credit investors and think that the expected 2026 supply will be well absorbed by the market.

CHART 2.3: HYPERSCALER EUR-DENOMINATED BOND ISSUANCE VS. RELATIVE PERFORMANCE OF THE TECHNOLOGY SECTOR

IN EUR BN AND BP, RESPECTIVELY



Source: Bloomberg, The Investment Institute by UniCredit

FX

EUR-USD: stabilisation above 1.15 still more likely than a sharp a definitively drop below

The EUR-USD rally to 1.1711 in August was helped by thinner trading volumes during the summer months and spillover effects from the falling USD-JPY after joint FX intervention by the BoJ and the US Treasury at the end of July.

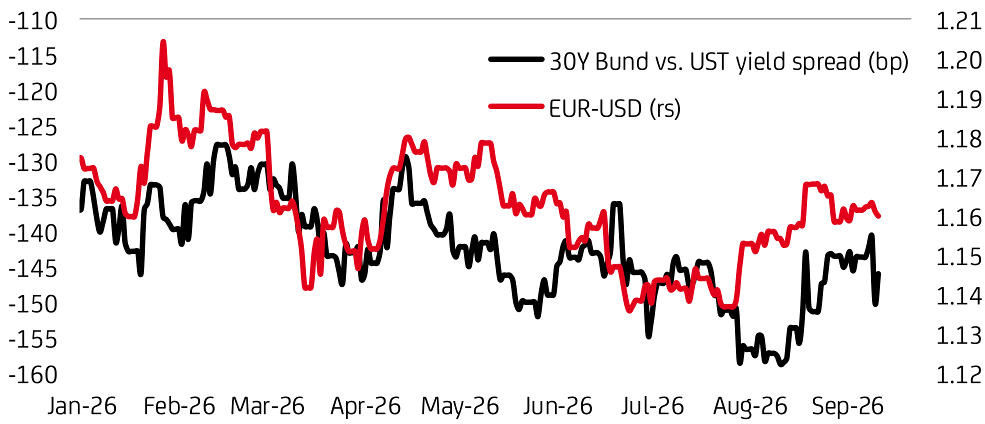
EUR-USD then fell below 1.16 after Fed Chair Kevin Warsh spoke at Jackson Hole, where he reiterated that the Fed "has work to do", forcing markets to reprice expectations for more tightening.

Re-escalating tensions in the Middle East provided the USD with an additional support, dragging EUR-USD back close to the 1.15 early this week. **Looking ahead, we still expect a slightly lower USD and thus a mildly firmer EUR during the remainder of 2026 and in 2027.** The rate hikes we expect the Fed to deliver are sufficiently priced in along the forward curve and are thus unlikely to significantly lift the US unit at this point. Yet the US unit may suffer from a potential increase in tensions between the US Treasury and the Fed regarding the management of interest rates and long-term yields.

The chart below shows that EUR-USD has become sensitive to the narrowing in Bund-UST yield spreads, even at extra-long maturities (30Y), which reflects possible debt concerns. Moreover, the US administration may favour a lower USD ahead of the midterm elections on 3 November to help US exports, given the impasse over tariffs on imports.

In a nutshell, at this point, a sharp USD recovery making 1.15-1.10 the reference band would materialise only in case of a further abrupt and widespread surge in global risk aversion or more intense repricing of rate hikes in the US. For now, we remain confident that stabilisation slightly above 1.15 is still more likely than a sharp and definitive break, thus we are keeping our targets of 1.17 for EUR-USD by 4Q26 and 1.19 by 4Q27.

CHART 2.4: EUR-USD IS SENSITIVE TO YIELD SPREADS, EVEN AT LONGER MATURITIES
EUR-USD AND THE 30Y BUND VS. UST YIELD SPREAD



Source: LSEG, The Investment Institute by UniCredit

Commodities

Crude oil

As tensions between the US and Iran have escalated, oil prices have climbed above USD 105/bbl amid rising concerns over global supply – reflecting a reassessment of the near-term outlook for the oil market. A series of disruptions to regional energy flows, renewed attacks on infrastructure and uncertainty surrounding shipping through the strait have pushed Middle East developments back to the forefront of market attention. While the rise in Brent partly reflects a higher geopolitical risk premium, it has also coincided with a tightening in underlying market fundamentals. Global inventories continue to decline, refined product markets have tightened and supply disruptions are limiting the ability of the market to rebuild buffers. China may provide less of a buffer than earlier in the year, having curtailed imports and relied on inventories during the initial supply shock, which helped moderate pressures on global oil markets. As Chinese inventories are drawn down, that offset may gradually fade. Recent events suggest that Middle Eastern supply conditions may normalise more slowly than previously anticipated; therefore, **we have recently increased our Brent forecast to USD 87/bbl for4Q26.**

Natural gas

The benchmark European natural gas price (TTF) has surged by 72% to EUR 80/MWh since the ceasefire between the US and Iran ended on 8 July. Despite rising prices, gas demand strengthened over the summer as Asia imported more LNG to power cooling systems as temperatures rose above the averages of recent years. European gas importers slowed purchases in this rising price environment, leaving them with very low inventory levels. At the end of August, gas storage levels were at 65%, which was 12pp below where they were in the prior year and well below the 80% target – with two months to go before the official start of the winter heating season. While we expect European regulators to use their allowed flexibility to lower this target to 75%, achieving adequate storage will still be challenging as margins for importers have disappeared given the near-term uncertainty. This difficult background for the coming months is likely to keep the TTF price high. Our forecast for the coming quarters factors in a frozen conflict rather than the return of kinetic military activity. **We expect TTF to average EUR 60/MWh in 4Q26 and EUR 55/MWh in 1Q27.**

Gold

Gold has recently traded around USD 4,300/oz, but the relationship between gold and interest rates has become more nuanced. While elevated US Treasury yields and higher front-end rates remain a headwind by increasing the opportunity cost of holding a non-yielding asset, investors are focusing more on the shape of the yield curve than on yield levels alone. A steepening curve driven by stronger growth and higher equilibrium interest-rate expectations would typically be negative for gold. However, a steepening driven by fiscal deficits, debt-sustainability concerns and higher term premia can be supportive, particularly if it weakens confidence in the US dollar. Against this backdrop, we maintain a neutral to slightly constructive view on gold. Sustained central-bank purchases, recovering ETF inflows, portfolio-diversification demand and concerns about preserving purchasing power amid large fiscal deficits and rising public debt continue to provide support. **We have revised our end-2026 forecast range to USD 4,300-5,000/oz** and expect gold to remain range-bound with a modest upward bias. While higher rates may constrain upside potential, fiscal and debt-related risks, together with a weaker US dollar, should help offset these headwinds and limit downside risks.

Forecast Tables

UniCredit Forecasts

GDP, CPI AND BUDGET BALANCE FORECASTS

	Real GDP (% Y/Y)			Consumer prices (% Y/Y)			Budget balance (% of GDP)		
	2025	2026	2027	2025	2026	2027	2025	2026	2027
Global	**3.2**	**3.1**	**3.2**	-	-	-	-	-	-
US	**2.1**	**2.1**	**2.0**	**2.7**	**3.4**	**2.5**	**-5.8**	**-6.5**	**-6.5**
Eurozone	**1.3***	**0.9***	**1.2***	**2.1**	**3.0**	**2.6**	**-2.9**	**-3.8**	**-3.6**
Germany	0.2**	1.2**	1.6**	2.2	2.7	2.4	-3.0	-4.3	-4.3
France	0.9	0.4	0.8	0.9	2.0	1.6	-5.2	-5.3	-5.3
Italy	0.7	0.8	0.6	1.5	3.0	2.4	-3.1	-2.9	-2.9
Spain	2.8	2.6	1.8	2.7	3.3	2.8	-2.4	-2.4	-2.3
UK	**1.3**	**1.1**	**1.2**	**3.4**	**3.1**	**2.5**	**-5.2**	**-4.0**	**-3.5**
China	**5.0**	**4.6**	**4.2**	**-0.2**	**1.2**	**1.1**	**-7.9**	**-8.2**	**-8.4**
Japan	**1.2**	**0.7**	**0.8**	**3.2**	**2.1**	**2.2**	**-1.1**	**-2.3**	**-2.6**
India	**7.7**	**6.4**	**6.7**	**2.1**	**4.7**	**4.0**	**-7.4**	**-7.4**	**-7.3**

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

CENTRAL BANKS WATCH

	Current	4Q26	1Q27	2Q27	3Q27	4Q27
Fed	4.00	4.25	4.25	4.25	4.25	4.25
ECB	2.50	2.75	2.75	2.75	2.75	2.50
BOE	3.75	3.75	3.75	3.75	3.75	3.75
BoJ	1.00	1.50	1.50	1.50	1.50	1.75
Riksbank	1.75	1.75	1.75	1.75	1.50	1.50
Norges Bank	4.25	4.50	4.50	4.50	4.50	4.50

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

INTEREST RATE AND YIELD FORECASTS

	Current	4Q26	1Q27	2Q27
Eurozone				
Depo rate	2.50	2.75	2.75	2.75
3M Euribor	2.66	2.80	2.80	2.80
2Y Schatz	3.22	2.85	2.80	2.70
10Y Bund	3.51	3.20	3.20	3.15
2Y EUR swap	3.47	3.00	2.95	2.85
10Y EUR swap	3.55	3.25	3.25	3.20
10Y swap-Bund spread	4	5	5	5
2Y BTP	3.41	3.05	3.00	2.90
10Y BTP	4.36	3.95	3.95	3.95
10Y BTP-Bund spread	86	75	75	80
US				
Fed fund rate	4.00	4.25	4.25	4.25
3M OIS SOFR	4.01	4.17	4.17	4.17
2Y UST	4.74	4.35	4.35	4.30
10Y UST	5.02	4.75	4.75	4.75
10Y UST-Bund spread	152	155	155	160

FX FORECASTS

	Current	4Q26	1Q27	2Q27
EUR-USD	1.15	1.17	1.18	1.18
USD-JPY	155	157	155	154
EUR-JPY	179	184	183	182
GBP-USD	1.35	1.34	1.33	1.33
EUR-GBP	0.86	0.87	0.89	0.89
USD-CNY	6.71	6.70	6.69	6.67
EUR-CNY	7.74	7.84	7.89	7.87

Source: Bloomberg, The Investment Institute by UniCredit

RISKY ASSETS FORECASTS

	Current	End-2026	Mid-2027
Oil			
Brent USD/bbl.	105	87	78
Equities			
Euro STOXX 50	6,271	6,600	6,800
STOXX Europe 600	637	670	700
DAX	25,538	27,500	28,500
MSCI Italy	134	140	145
S&P 500	7,553	7,900	8,200
Nasdaq 100	28,945	30,000	32,000
Credit			
iBoxx Non-Financials Senior	80	80	80
iBoxx Banks Senior	77	75	75
iBoxx High Yield NFI	286	280	280

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

For detailed forecast tables click the following links:
Economics > | FI > | FX > | Risky Assets >

Development of selected financial market indices

From To	14.09.21 14.09.22	14.09.22 14.09.23	14.09.23 14.09.24	14.09.24 14.09.25	14.09.25 14.09.26	14.09.21 14.09.26	01.01.26 14.09.26
STOCK MARKET INDICES (TOTAL RETURN, IN %)							
MSCI World (in USD)	-14.3	16.5	24.2	19.9	17.3	72.8	12.2
MSCI Emerging Markets (in USD)	-23.2	5.3	13.5	26.7	30.9	50.5	22.9
MSCI US (in USD)	-11.6	15.8	26.7	19.9	16.7	79.4	12.1
MSCI Europe (in EUR)	-6.1	14.3	15.3	11.6	18.2	61.9	10.4
MSCI AC Asia Pacific (in USD)	-23.8	10.0	15.3	24.0	27.6	52.4	22.7
STOXX Europe 600 (in EUR)	-7.9	14.1	15.6	12.0	18.2	59.6	10.2
DAX 40 (Germany, in EUR)	-17.1	21.3	18.3	28.0	7.4	62.0	3.9
MSCI Italy (in EUR)	-8.0	35.4	25.0	33.1	24.6	158.1	16.6
ATX (Austria, in EUR)	-14.7	12.7	19.1	35.8	49.9	131.7	30.8
SMI (Switzerland, in CHF)	-8.6	6.5	12.0	5.0	17.3	33.9	7.7
S&P 500 (US, in USD)	-9.8	16.1	26.7	19.2	17.1	83.2	12.2
Nikkei (Japan, in JPY)	-7.5	21.9	12.3	23.9	44.3	129.8	27.3
CSI 300 (China, in Yuan)	-15.6	-5.8	-12.9	46.4	1.4	1.7	-1.5
BOND MARKET INDICES (TOTAL RETURN, IN %)							
US government bonds 10Y (in USD)	-15.7	-3.7	9.4	1.4	-2.5	-12.1	-3.4
German Bunds 10Y (in EUR)	-16.3	-4.8	6.5	-1.8	-3.2	-19.4	-2.9
EUR government bonds 1Y-10Y (iBOXX, in EUR)	-15.5	-3.5	7.2	0.3	-2.2	-14.1	-2.5
EUR corporate bonds 1Y-10Y (iBOXX, in EUR)	-13.6	1.2	8.2	4.1	-0.8	-2.3	-1.2
BOND YIELDS (CHANGE IN BASIS POINTS = 0.01 PERCENTAGE POINTS)							
US government bonds 10Y (in USD)	213	88	-64	37	93	365	83
German Bunds 10Y (in EUR)	204	87	-48	58	84	384	68
EUR government bonds 1Y-10Y (iBOXX, in EUR)	220	91	-52	39	82	379	73
EUR corporate bonds 1Y-10Y (iBOXX, in EUR)	321	66	-90	-10	106	393	90
EURO EXCHANGE RATES (CHANGE, IN %)							
US dollar (EUR-USD)	-15.4	7.4	3.3	6.4	-1.4	-1.9	-1.7
British pound (EUR-GBP)	1.5	-0.6	-1.8	2.5	-1.1	0.6	-1.9
Swiss franc (EUR-SFR)	-11.7	-0.2	-2.1	-0.7	0.9	-13.3	1.3
Japanese yen (EUR-JPY)	10.0	10.5	-1.2	10.4	3.0	37.7	-3.0
COMMODITIES (CHANGE, IN %)							
Commodity Index (GSCI, in USD)	-6.4	12.3	34.3	41.4	17.2	132.6	-0.8
Industrial metals (GSCI, in USD)	-13.0	-0.8	6.7	8.3	27.5	23.7	10.1
Gold (in USD per fine ounce)	-5.7	12.1	34.7	42.9	17.4	138.3	-1.1
Crude oil (Brent, in USD per barrel)	27.7	-0.2	-22.9	-8.0	57.5	43.3	73.4

Source: Refinitiv Datastream, The Investment Institute by UniCredit (as of 14 September 2026)
Note: Past values and forecasts are not a reliable indicator of future performance. Indices cannot be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance. The return on investments in foreign currencies may also rise or fall as a result of currency fluctuations. So-called synthetic bonds are calculated to reflect the performance of government bonds in a fixed maturity range. In each case, the most "suitable" real federal bond at the relevant time is used as a reference for the yield opportunity of the synthetic bond. The development of the expected yield to maturity is shown under the following conditions: servicing of interest payments and redemption in accordance with the terms and conditions and holding until maturity. In this respect, it is a yield opportunity. The yield opportunities reflect the different risk assessments of the investors for the respective products or countries (higher yield opportunity=higher risk assessment). The synthetic bonds cannot be purchased and therefore do not include any costs. In the case of currencies and commodities, acquisition and/or custody costs incurred are not included.

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