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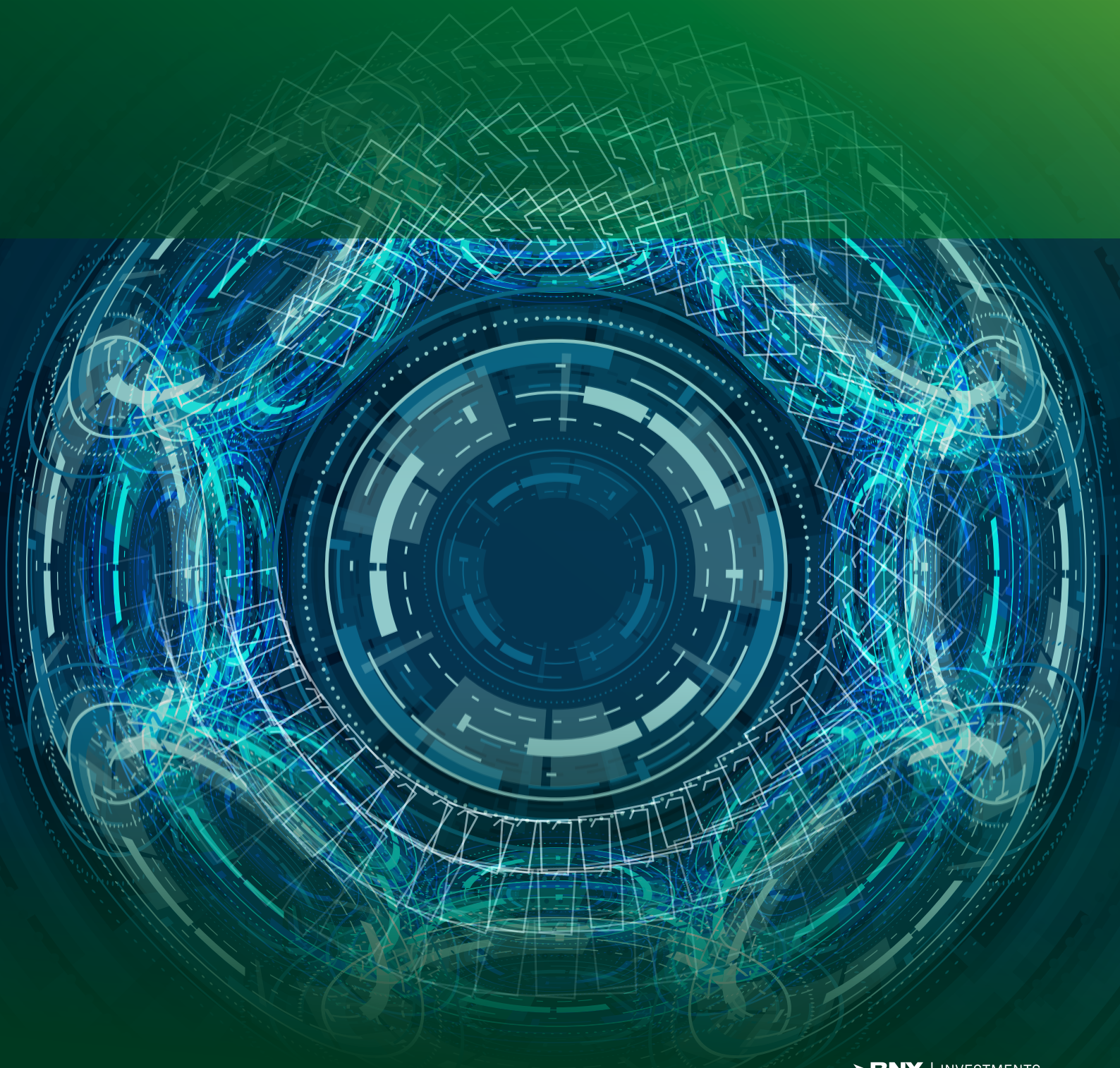
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Insight INVESTMENT

INSIGHT INVESTMENT THOUGHTS FOR 2027

NOVEMBER 2026



BNY | INVESTMENTS

ADRIAN GREY, GLOBAL CHIEF INVESTMENT OFFICER



Adrian joined Insight in April 2003 as Head of European Fixed Income following the acquisition of Rothschild Asset Management Limited, which he joined in 1994. In September 2003, he was appointed Deputy Head of Fixed Income and in 2005 became Head of Fixed Income. Adrian joined the Executive Management Committee in October 2012 and in 2016, he became Chief Investment Officer – Active Management. In September 2018, Adrian took on his current role as Global Chief Investment Officer responsible for the oversight of the firm's investment management teams. He has a BA honours degree in Economics and Politics from Warwick University and an MA in International Economics and International Relations from Johns Hopkins University in the US.

The global economy enters 2027 in surprisingly resilient shape. A succession of potential shocks has failed to derail growth, while accelerating investment in AI infrastructure and higher defence spending are providing powerful support to activity. Yet this resilience sits alongside an unusually uncertain outlook for inflation, policy and geopolitics.

For investors, there is an important positive development. The repricing of interest rates means fixed income markets have the potential to provide a meaningful source of returns, with sufficient income to cushion downside risks if yields climb further. Demand for bonds has already strengthened as yields have risen, and we see no reason for this to change in the year ahead.

But attractive headline yields should not be confused with an easy investment environment. Large government financing requirements are changing the relative-value equation across bond markets, while the extraordinary corporate financing requirements associated with AI infrastructure are creating another substantial source of issuance.

At the longer end of yield curves, persistent inflation risk means the traditional relationship between equities and bonds cannot necessarily be relied upon to provide the diversification it once did. However, higher short-term yields mean investors no longer need to reach for duration to generate meaningful income.

We therefore believe 2027 could be a year in which how investors allocate risk exposure matters as much as how much risk they take. Opportunities that could be attractive, in our view, extend from shorter-dated credit and emerging market debt to inflation-linked bonds, securitised assets and currencies. At the same time, structural developments ranging from European pension and securitisation reform to the development of digital assets could create opportunities that extend well beyond the immediate economic cycle.

Against this backdrop, flexibility and selectivity will be critical. We believe investors should focus on building portfolios capable of generating reliable income, exploiting relative-value opportunities and taking risks when rewarded to do so.

EXECUTIVE SUMMARY

- Higher yields have transformed the outlook for fixed income. Income once again provides a meaningful starting point for returns and a larger cushion against rising yields. Demand for bonds has strengthened since the 2022 rate shock, and we believe fixed income markets will continue to attract inflows in 2027.
- We expect growth to remain resilient, but the foundations may weaken. The extraordinary expansion of AI-related capital expenditure and rising defence spending should support activity, even as tighter financial conditions weigh on more interest-rate-sensitive areas of the economy. That divergence could ultimately make restrictive monetary policy harder to sustain.
- Inflation may moderate later in 2027, but we do not expect a return to the reliably low and stable inflation of the pre-pandemic era. Geopolitical fragmentation, vulnerable supply chains, government spending and growing competition for energy and commodities could leave inflation structurally more volatile. Inflation-linked government bonds have repriced significantly, potentially offering investors more attractive opportunities to add inflation protection.
- Greater fiscal scrutiny should create winners and losers in government bond markets. Rising term premia have restored value in parts of global rates markets, particularly around 10-year maturities, but elevated deficits and debt issuance could keep longer-dated bonds volatile. We expect perceptions of fiscal credibility to become an increasingly important differentiator between sovereign markets.
- Traditional sources of diversification may need to be supplemented. The equity-bond relationship has become less dependable since the pandemic, strengthening the case for broader sources of diversification. Options can potentially create greater return asymmetry, while commodities and currencies can provide exposure to return drivers that differ from those dominating conventional equity and bond markets.
- Credit markets face growing competition for investors' capital. Large government financing needs are competing with corporate borrowers, while AI-related infrastructure investment is generating another source of issuance. We believe this increasingly supply-rich environment could create greater relative-value opportunities and strengthen the importance of active sector and security selection.
- Investors do not necessarily need to take significant duration risk to access attractive income. Short-dated investment-grade and high-yield credit can offer yields comparable with broader markets while limiting sensitivity to interest-rate moves, while floating-rate credit and asset-backed securities provide further potential sources of income.
- Beyond investment grade markets, dispersion is creating opportunities. Higher absolute yields, recent spread widening and significant dispersion support the potential for income-led returns in global high yield bonds. Emerging market debt also enters 2027 with attractive yields and a differentiated opportunity set, while a shrinking high-yield emerging market corporate universe and improving credit quality provide supportive supply/demand dynamics.
- For securitised assets, strong private balance sheets contrast with growing sovereign debt concerns. US household assets have grown substantially even as federal debt has expanded, supporting the case for securitised assets backed by diversified pools of private-sector borrowers. However, wealth remains unevenly distributed, reinforcing the importance of collateral, structure and security selection.
- Beneath apparently calm currency markets, relative-value opportunities are emerging. Conflicting economic, fiscal and monetary-policy forces have helped suppress major currency moves, but growing divergence could make that equilibrium more difficult to sustain in 2027. We believe hedging may become a greater priority, while currency strategies have the potential to provide both an additional source of returns and portfolio diversification.
- Structural change could create opportunities beyond the immediate market cycle. European securitisation and pension reforms have the potential to mobilise more long-term capital, while 2027 could provide an important test of whether greater regulatory clarity around digital assets translates into increased institutional adoption.

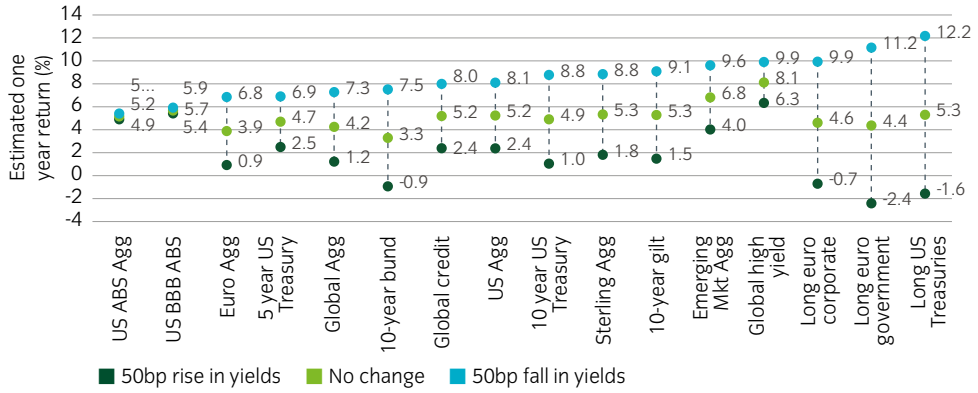
HIGHER YIELDS TILT THE RETURN PROFILE FOR FIXED INCOME

A STRONG STARTING POINT FOR RETURNS

In bond markets, returns are driven by income and changes in price. With yields now at higher levels, income provides a strong starting point for returns and creates a degree of asymmetry to projected outcomes as illustrated in Figure 1. Yields would need to rise meaningfully for capital losses to be sufficient to generate negative total returns, while even a modest fall in yields has the potential to produce strong capital gains and potentially double-digit returns in some asset classes.

There are, of course, risks. Yields could rise further if central banks struggle to contain inflation expectations and are forced to tighten policy aggressively, while wider credit spreads could also weigh on returns for credit investors. However, the higher financing costs associated with such an environment would likely create challenges for equities too. If yields simply remain around current levels or edge lower, bonds have the potential to deliver attractive returns in 2027. **Skilled active managers would be aiming to generate returns in excess of these levels.**

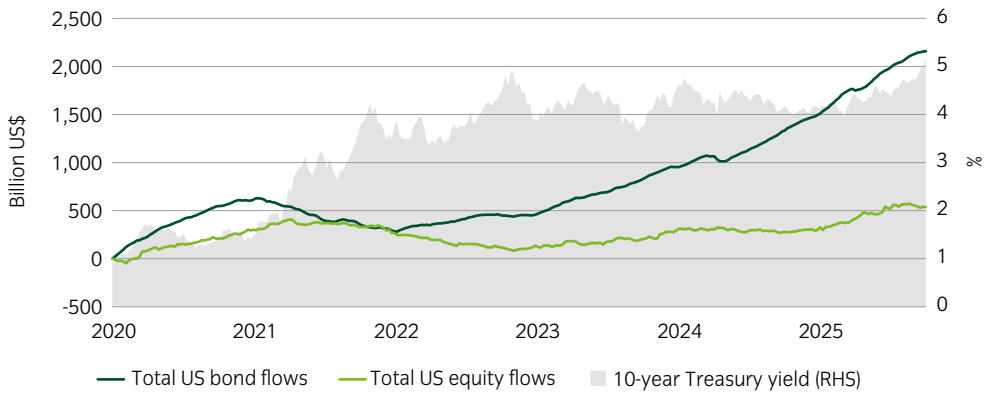
Figure 1: Estimated fixed income returns assuming a parallel shift in yield curves (ordered by yield)[1]



DEMAND HAS TRACKED YIELDS HIGHER

Since the 2022 rate shock, flows into bonds have accelerated and we expect this trend to continue. We illustrate this in Figure 2, which shows flows into US bond mutual funds and ETFs since bond yields shifted upwards.

Figure 2: Higher yields have attracted growing demand for fixed income from US investors[2]



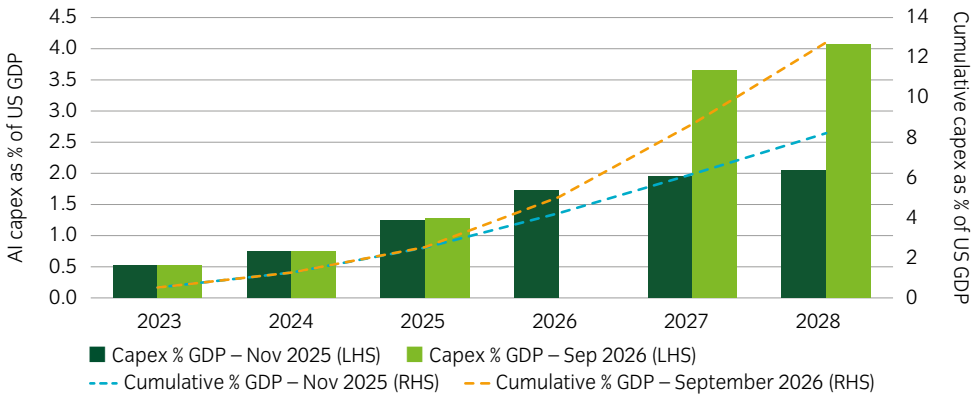
[1] Source: Insight and Bloomberg. Uses Bloomberg index data, total return and unhedged in local currency. Estimated returns are based on yields as at 30 October 2026, with returns projected one year forward. Estimated returns are not guaranteed, and do not reflect deductions for fees, expenses or taxes. 'Long' indices are for 10-year+ maturities.
[2] Source: Insight and Bloomberg. Data shows Investment Company Institute total long-term mutual fund and ETF flows aggregated from weekly data between 30 December 2020 and 14 October 2026.

THE ECONOMIC BACKDROP: RECESSION RISKS APPEAR LOW, INFLATION REMAINS PROBLEMATIC

THE AI INVESTMENT BOOM AND DEFENCE SPENDING SHOULD UNDERPIN GLOBAL GROWTH

Although we may now see some political pushback, expectations for AI-related infrastructure spending have risen sharply. In November 2025, analyst estimates suggested hyperscaler capex could reach around 2% of US GDP by 2028. More recent forecasts see spending surpassing 2.5% of GDP as early as 2026 and reaching 4% by 2028 (Figure 3). If realised, this would amount to a remarkable cumulative investment equivalent to around 13% of US GDP in just five years.

Figure 3: AI investment is projected to keep rising rapidly[3]



Higher defence spending should provide a further meaningful tailwind to global activity, particularly in Europe. EU defence investment is projected to reach almost €163bn in 2026, more than 2.5 times its 2021 level, and is expected to continue growing in 2027[4]. NATO's new spending framework adds a longer-term dimension, with members committed to reaching 5% of GDP across core defence and broader security-related expenditure by 2035. This should support manufacturing, infrastructure and investment, although rising borrowing costs and already-stretched government finances mean the fiscal trade-offs are likely to shift into focus over time.



MARKETS COULD BE VULNERABLE TO DISAPPOINTMENT

Global growth has proved remarkably resilient in recent years, absorbing a succession of potential shocks, including the introduction of broad US tariffs, conflict in the Middle East and the resulting rise in energy prices. Forecasters have repeatedly anticipated a slowdown that has failed to materialise, while economic data has persistently surprised on the upside (see Figure 4). Confidence in the US outlook has become particularly striking. At the September 2026 meeting of the Federal Open Market Committee (FOMC) , not a single participant judged the risks to growth to be tilted to the downside (see Figure 5).

[3] Source: Insight Investment and Bloomberg.
[4] Source: EU defence in numbers, European Council.

Looking across markets, a relatively benign economic outlook appears to be reflected in valuations. While this is also our central scenario, there is a risk that any concerns around the sustainability of the AI investment boom could see markets repricing relatively quickly, with volatility rising.

Figure 4: Economic data has been surprisingly resilient[5]

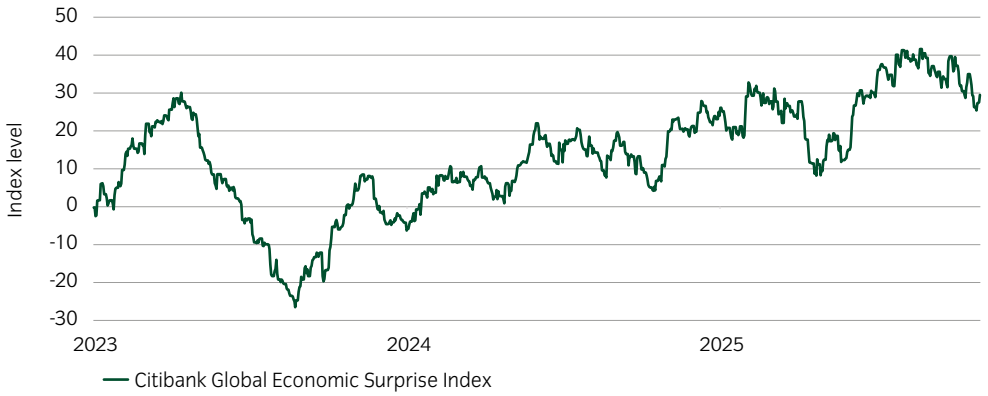
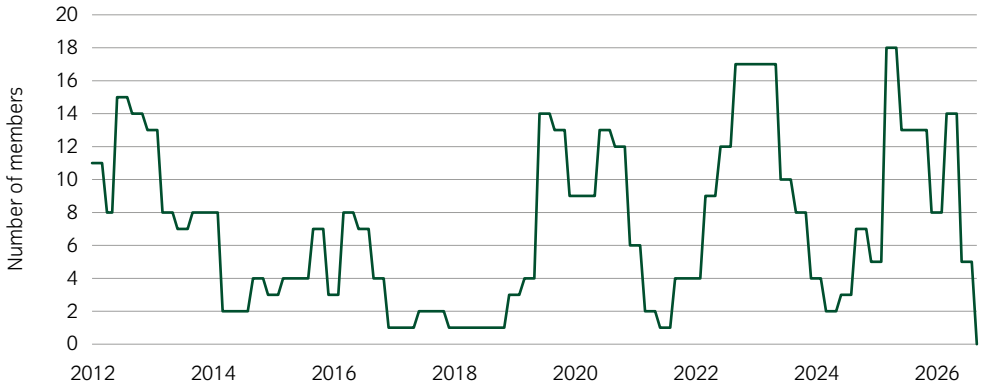


Figure 5: No FOMC members see downside risks to growth[6]



INFLATIONARY PRESSURES ARE LIKELY TO PERSIST

We would expect inflation to moderate in the second half of 2027 if oil supplies normalise, but we believe the era of reliably low and stable inflation is unlikely to return. A more fragmented global economy, increasingly vulnerable supply chains, higher government spending and mounting competition for energy and resources are creating a backdrop in which inflation could be structurally higher, more volatile and more divergent between economies.

Geopolitical risk adds another dimension. Strategic competition between the world's major powers is focusing attention on global bottlenecks and chokepoints, as countries seek to reduce their own vulnerabilities while exploiting those of their rivals. This competition now extends across energy, critical minerals, semiconductors, shipping routes and financial infrastructure.

Supply shocks have become a recurrent theme, and the disruption to the Strait of Hormuz in 2026 demonstrated how quickly geopolitical events can translate into shortages, higher input costs and inflationary pressure. Even after the conflict is resolved, it will take considerable time to rebuild depleted oil inventories (see Figure 6). At the same time, key commodity prices face growing upward pressure. In the years ahead, supply shortages are forecast in commodities such as copper, while the cost of finding new supply has risen (see Figure 7).

[5, 6] Source: Insight and Bloomberg. Data as at 30 October 2026.

Figure 6: Oil inventories need to be rebuilt[7]

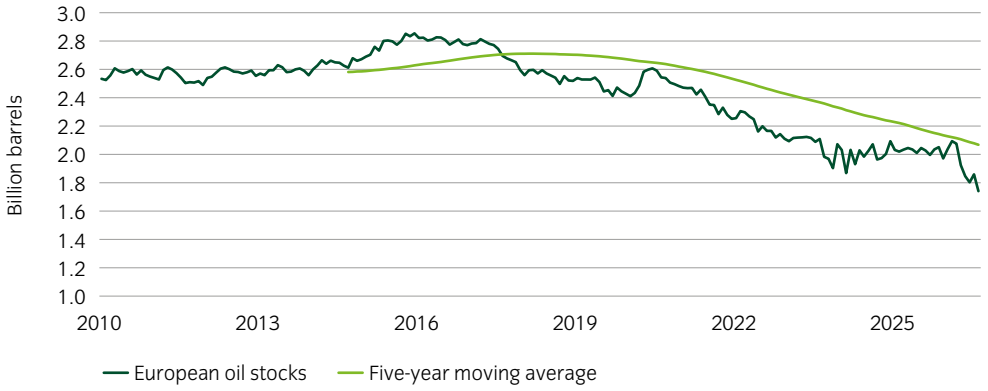
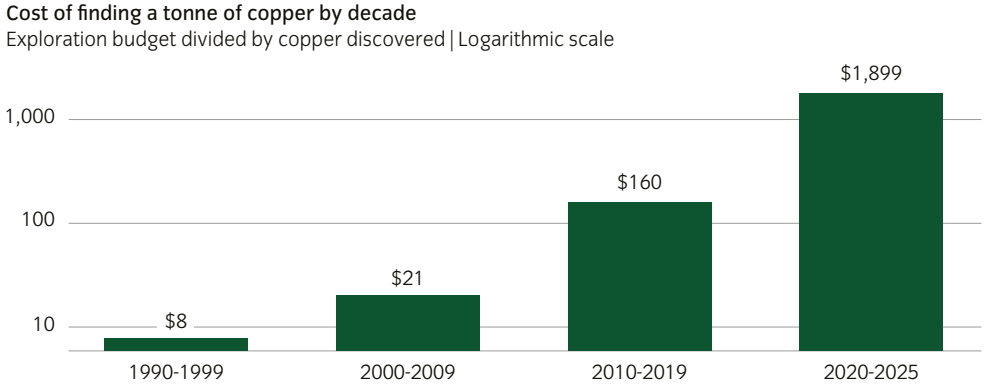


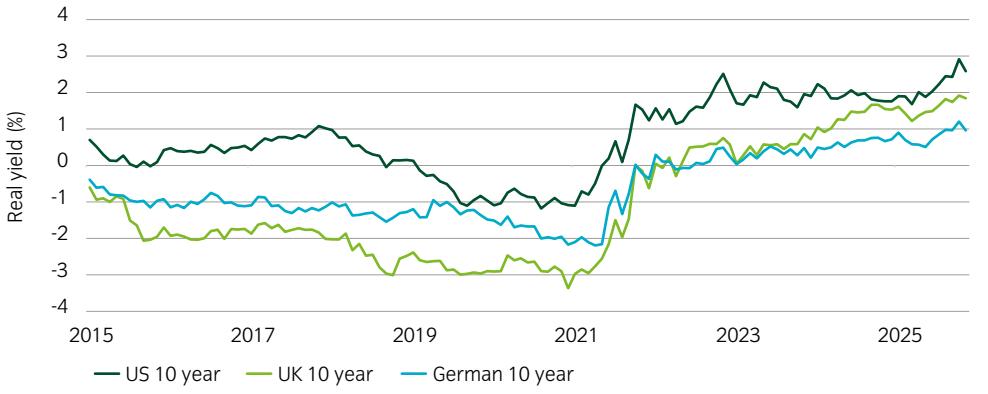
Figure 7: Commodity prices are underpinned by cost pressures[8]



INFLATION-LINKED ASSETS HAVE CHEAPENED

The good news for investors is that there are various ways in which they can protect against the threat of future inflation, and inflation-linked assets have cheapened considerably over recent years. We believe this could be a potentially attractive opportunity for investors to add inflation protection to portfolios where appropriate.

Figure 8: Inflation-linked government bond yields have repriced[9]



[7] Source: Insight and Bloomberg. JODI (Joint Organisations Data Imitative) data to 31 August 2026.
[8] Source: S&P Global Market Intelligence, U.S. Global Investors, 2026. Exploration expenditure divided by copper contained in major discoveries. Forbes, September 2026.
[9] Source: Insight and Bloomberg. Data as at 30 October 2026.

GLOBAL RATES

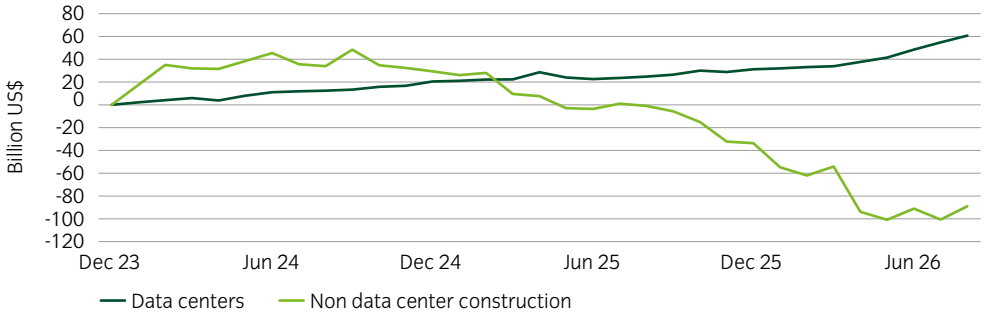
TIGHTER MONETARY POLICY MAY PROVE DIFFICULT TO SUSTAIN

A key challenge for central banks in the current cycle is that some of the most powerful forces driving growth and inflation are relatively insensitive to monetary policy. Companies racing to build AI capacity are unlikely to abandon investment plans simply because interest rates are higher, while elevated energy prices reflect geopolitical tensions in the Middle East and the need to rebuild depleted oil inventories and damaged infrastructure.

However, tighter monetary policy and financial conditions are already weighing on more interest-rate-sensitive parts of the economy. For example, in the US, monthly construction spending on data centres has steadily climbed even as spending on other types of construction has been reduced (see Figure 9).

We believe this dynamic could intensify in 2027, with a slowdown in non-AI-related areas of the economy becoming increasingly apparent through the year. We therefore think the policy cycle could turn more quickly than markets currently expect. **Once central banks are confident that inflation is moving sustainably lower, the case for easing rates could strengthen rapidly.**

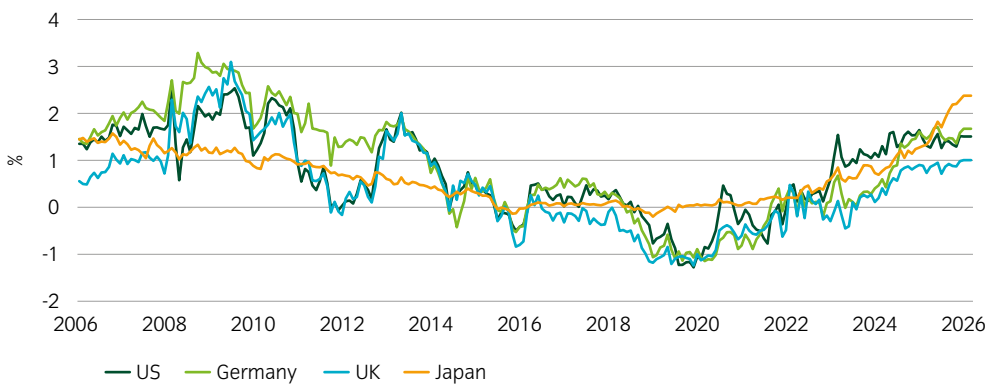
Figure 9: Construction spending in the US is increasingly focused on data centres (change in monthly spending relative to 2023)[10]



INVESTORS ARE BEING PAID TO LEND FOR LONGER

Despite several major central banks raising short-term interest rates, term premia have ground higher, even at 10-year maturities (see Figure 10). The term premium is the additional yield investors are expected to receive for holding longer-dated bonds rather than rolling over short-term debt. Although this premium was higher during the global financial crisis, that was against a very different backdrop. Central banks were slashing policy rates and subsequently used quantitative easing to push term premia lower; with central banks buying longer-dated bonds to suppress yields. With this in mind, we believe 10-year bonds now offer value across several markets.

Figure 10: Term premia have risen despite higher short-term rates[11]



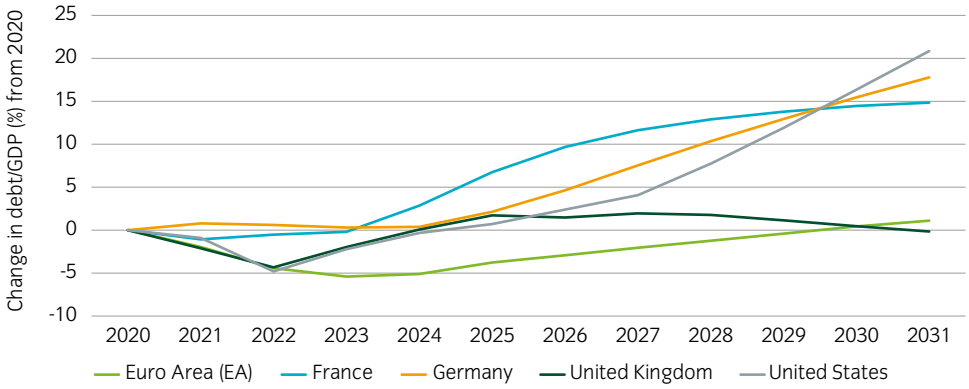
[10] Source: Insight, Bloomberg and US Census Bureau. Data as at 30 September 2026.
[11] Source: Insight, Bloomberg Intelligence. Data as at 30 October 2026.

POLITICAL CREDIBILITY COULD BE KEY FOR LONGER-MATURITY RATES

At the long end of yield curves, 30-year bonds have become increasingly volatile across several markets. Repeated inflation shocks, large fiscal deficits and limited political appetite for spending cuts have all contributed to investor unease. While this volatility may create tactical opportunities, **we believe fiscal credibility will be critical to the longer-term outlook**.

The UK provides a good example. As illustrated in Figure 11, considerable fiscal consolidation is expected in the years ahead, in contrast to other major economies, and the IMF forecast debt-to-GDP will stabilise. Markets remain sceptical, but **a credible shift in that perception could benefit gilts.** More broadly, we believe bond markets are likely to favour governments that can either generate sufficient growth to improve their fiscal position or demonstrate a credible commitment to fiscal discipline.

Figure 11: The UK is one of few countries planning fiscal consolidation[12]



MULTI-ASSET: THE SEARCH FOR ASYMMETRY AND DIVERSIFICATION

LONG-DATED GOVERNMENT BONDS MAY BE LESS DEPENDABLE

Government bonds that mature further into the future – 10 years away or more – were once considered one of the most dependable portfolio diversifiers. When economic growth weakened, equities generally fell; central banks would then cut interest rates and government bond prices rose.

Inflation has complicated that relationship. With inflation above central-bank targets in most major economies, central banks can face pressure to tighten policy and raise rates even if growth is expected to weaken. All else being equal, this can lead bonds and equities to fall at the same time. Compounding these pressures, government debt is now approaching or even exceeds 100% of GDP in several major developed economies, making investors increasingly wary of long-dated bonds given expectations of persistently high borrowing needs.

As Figure 12 illustrates, bonds have become a less reliable source of diversification relative to equities since the pandemic. Higher yields have also reduced the duration of bond markets, as higher coupons return more cash to investors sooner, reducing sensitivity to changes in interest rates. This can be seen in the falling duration of the Bloomberg Global Aggregate Index (Figure 13). While this provides a greater income cushion and can make bond returns more resilient, lower duration also reduces the potential for capital gains when yields fall, weakening their ability to offset losses elsewhere in a portfolio.

[12] Source: IMF World Economic Outlook, October 2026. Sovereign debt/GDP projections relative to 2020.

Figure 12: Bonds have become more correlated with equities over time[13]

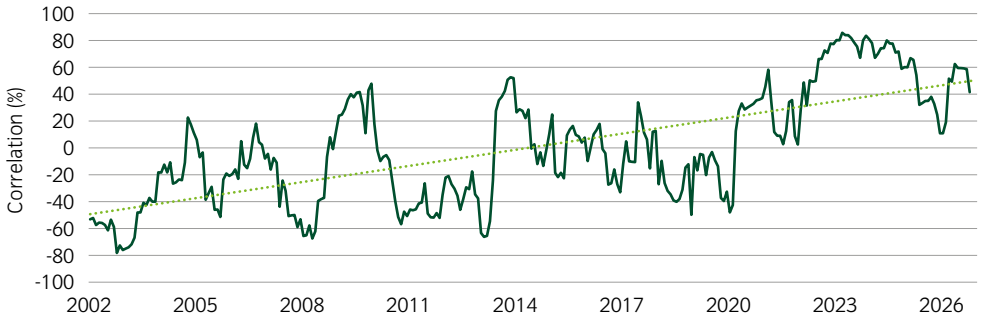
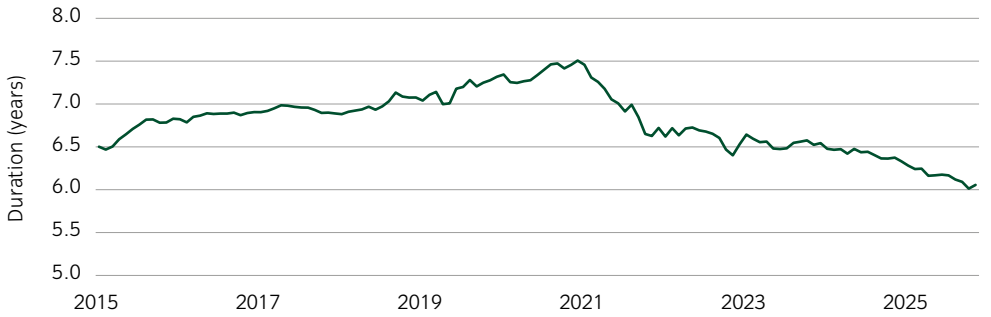


Figure 13: Duration has declined as yields have risen[14]



ASYMMETRY AND ALTERNATIVE SOURCES OF DIVERSIFICATION

With bonds no longer a reliable source of diversification, multi-asset investors need to look more widely for ways to manage risk and add diversification.

The asymmetry of options

Diversification is not only about holding assets that behave differently. Options can also be used to change the balance between upside and downside, helping multi-asset investors target a more asymmetric return profile.

For example, put options can provide a degree of protection against equity market falls while allowing the portfolio to retain exposure to potential gains. **Other option structures can trade some upside participation for greater protection or income. The objective is not to eliminate losses altogether, but to reduce participation in significant market declines while retaining meaningful exposure when markets rise. Options can therefore be tailored to different portfolio objectives and market conditions.**

Alternative sources of diversification

Commodities have historically offered low correlation with traditional asset classes while providing exposure to different economic drivers. They can be particularly valuable during inflationary periods, when equities and bonds may struggle together. Over the 1930-2026 period, commodities had a correlation of just +0.2 with US equities and -0.2 with US government bonds[15].

Currency markets can offer a different form of diversification. Rather than relying on the direction of equity or bond markets, currency strategies can seek returns from distinct drivers such as carry, momentum, value, volatility, quality and macroeconomic fundamentals. Combining these drivers can potentially provide a liquid and scalable return stream with low correlation to traditional assets.

[13] Source: Insight and Bloomberg. Data between 31 January 2001 and 30 October 2026. 12-month rolling correlation between MSCI World Index and Bloomberg Global Aggregate Index, both total return and hedged into US dollars.
[14] Source: Insight and Bloomberg. Data as at 30 October 2026. Bloomberg Global Aggregate Index.
[15] Source: Insight calculations between 1930 and 30 June 2026.

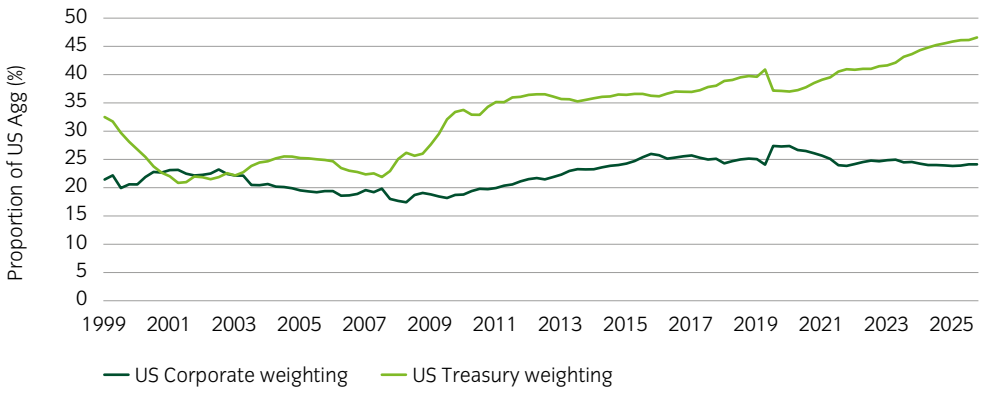
CREDIT MARKETS: COMPETING FOR CAPITAL

GOVERNMENT ISSUANCE IS REDEFINING RELATIVE VALUE

The rapid growth in US Treasury issuance has steadily increased the weight of government bonds in broad US fixed income indices, reducing the relative weight of corporate credit. In some respects, this has created a favourable technical backdrop for corporate bonds. Corporates offer a yield premium over Treasuries, encouraging investors to maintain or increase credit exposure while the economic backdrop remains supportive. At the same time, corporates now represent a smaller pool of assets within the index. With strong inflows into fixed income markets still needing to find a home, that relative scarcity can strengthen demand and provide technical support for valuations.

However, that favourable dynamic should not be taken for granted. Corporates increasingly need to compete with the governments for investors' capital, especially in markets where governments are running large ongoing fiscal deficits. If government issuance continues to outpace corporate issuance and yields keep rising, there may come a point where corporates need to offer a larger yield premium as sufficient compensation to persuade investors to move out of increasingly attractive government debt. **We will be closely monitoring both demand and issuance trends in the year ahead.**

Figure 14: US Treasuries are increasingly dominating US fixed income markets[16]



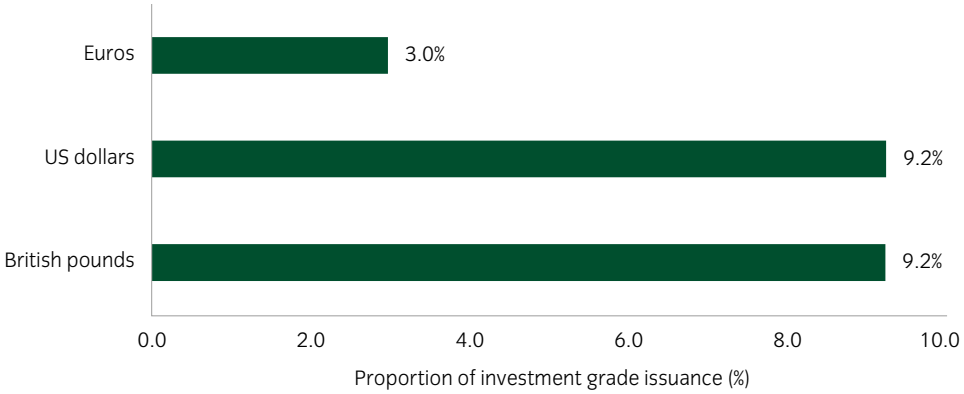
COMPETITION IS RISING EVEN WITHIN CREDIT MARKETS

One area of credit markets that is growing rapidly is debt issued to fund the build out of AI infrastructure. The scale of investment required is substantial, spanning not only data centres and computing capacity, but also the power generation, transmission and other infrastructure needed to support them. While large technology companies have historically funded investment comfortably from their cash flows, the size of planned capital expenditure means they are now turning to debt markets. This is not only in US dollars, but across a range of other currencies (see Figure 15).

This is creating another source of competition for investors' capital. Large, highly rated technology companies have demonstrated a willingness to issue debt at attractive yields to secure the scale of funding they require. So far, broader credit markets have absorbed this additional supply relatively comfortably. However, as issuance grows and investors become more discerning about which business models are sustainable and where risks are greatest, we expect relative-value opportunities to become more apparent. This could make active sector and security selection increasingly valuable in 2027.

[16] Source: Insight and Bloomberg. Data as at 30 October 2026. Bloomberg US Aggregate Index.

Figure 15: Large technology company issuance is a meaningful proportion of total investment grade bond issuance[17]



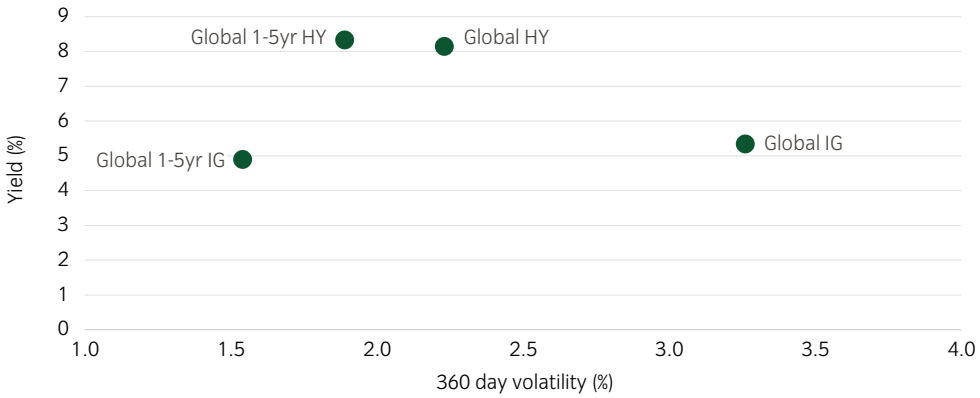
ATTRACTIVE RETURN POTENTIAL DOESN'T NEED A BIG DURATION CALL

The era of ultra-low interest rates left investors facing an uncomfortable choice between accepting very low prospective returns or taking substantially more risk, in terms of duration or liquidity, to generate more income. That trade-off has dramatically changed. The upward shift in yields means liquid fixed income markets once again offer the potential to generate meaningful contractual income, even from assets with shorter maturities.

For the most risk-averse investors, cash no longer simply offers liquidity. Money market funds have the potential to generate attractive income with limited capital risk, while preserving liquidity and the flexibility to redeploy capital if more compelling opportunities emerge. For investors prepared to move incrementally along the risk spectrum, short-dated corporate bonds, floating-rate credit and asset-backed securities can potentially enhance income further, while retaining limited sensitivity to interest-rate movements.

As illustrated in Figure 16, shorter-dated global investment-grade and high yield bonds can offer similar yields to broader fixed income markets but have experienced lower volatility. In high yield bond markets, over time, the risk of default has been reduced over shorter investment horizons[18]. **In our view, the balance of risk and return in shorter-dated fixed income could prove appealing to many investors.**

Figure 16: Shorter-dated fixed income could have the potential to lower volatility without compromising income[19]



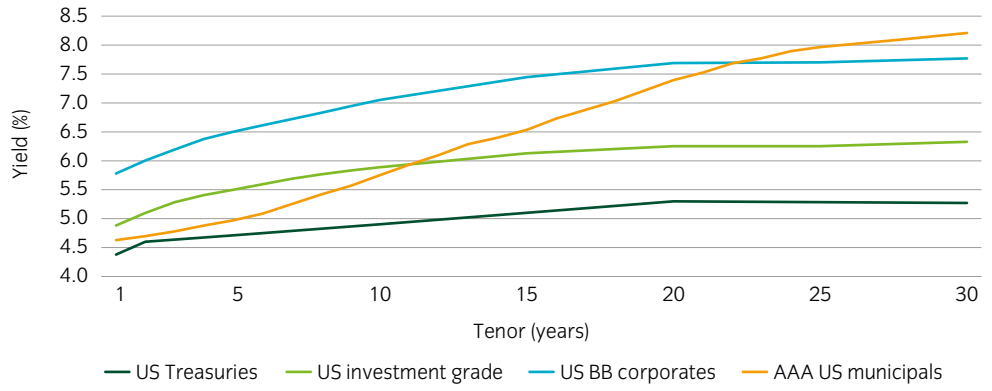
[17] Source: Insight and Bloomberg. Data as at 30 October 2026. Issuance data is for Amazon, Google, Meta, Oracle and SpaceX.
[18] Source: Fitch Ratings Average default rates between 1990-2025, 2025 Transition and Default Studies.
[19] Source: Insight and Bloomberg. Data as at 30 October 2026. Bloomberg Global High Yield Corporate Index hedged into US dollars (and 1-5 year), Bloomberg Global Aggregate Corporate Index hedged into US dollars (and 1-5 year).

US MUNICIPAL BONDS: INCOME AND QUALITY COULD STAND OUT IN 2027

For US taxpayers, the opportunity in municipal bonds looks increasingly interesting. Tax-exempt yields have risen substantially, but their value becomes clearer when expressed on a taxable-equivalent basis.

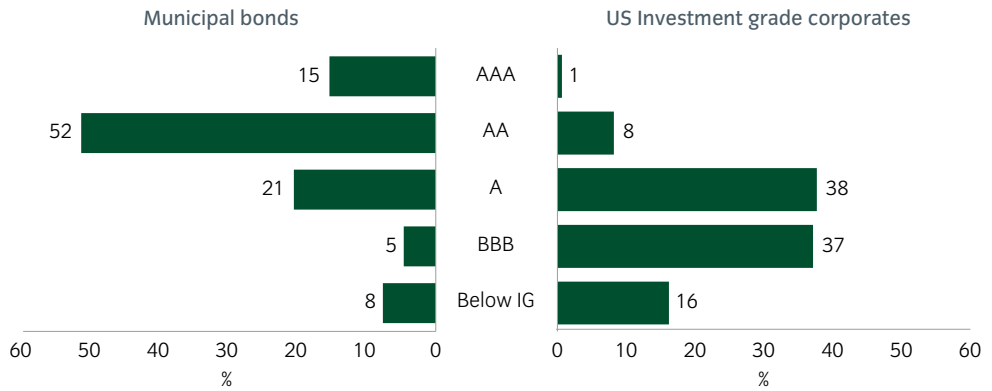
As illustrated in Figure 17, for higher-rate taxpayers, AAA municipal bonds offer a taxable-equivalent yield well above US investment grade credit in maturities beyond ten years, and above BB-rated corporates in very long maturities. For investors able to benefit from the tax exemption, we think this creates a potentially compelling source of after-tax income without requiring a substantial step down in credit quality.

Figure 17: For higher-rate taxpayers, the municipal yield curve is steep on a taxable equivalent basis[20]



International investors typically have a greater focus on taxable municipal bonds, although the ability to allocate tactically to the tax-exempt market can create additional opportunities. More broadly, the appeal of municipals extends beyond relative value to their underlying credit quality. Around 67% of the municipal universe is rated AA or AAA, compared with less than 9% of US investment-grade corporates, with a further 21% rated A (see Figure 18). This strong credit profile is underpinned by a comparatively resilient fiscal position, with US state reserves expected to remain well above their long-term average.

Figure 18: Municipal bonds are generally higher quality than investment grade corporates[21]



For investors concerned about deteriorating sovereign finances, selective exposure to financially strong US states and municipalities could offer a differentiated complement to traditional government and corporate bond allocations.

[20] Source: Insight and Bloomberg. Data as at 30 October 2026. The municipal tax-equivalent yield (TEY) is calculated using a 40.8% tax bracket, which includes a 37.0% top federal marginal income tax rate and a 3.8% Net Investment Income Tax (NIIT).
[21] Source: Bloomberg Index data. Data as at 30 October 2026.

BEYOND INVESTMENT GRADE CREDIT: THE HUNT FOR VALUE

HIGH YIELD BONDS: GRINDING OUT RETURNS FOR ANOTHER YEAR

After the repricing of government bond markets and recent widening in high yield spreads, yields in both US and European high yield bond markets are back at levels last seen in 2024 (see Figure 19). Unless there is a meaningful deterioration in growth and corresponding rise in defaults, a sideways trend in yields in 2027 would give the asset class the potential to deliver high single digit returns.

This return potential has underpinned investor demand for high yield bonds in recent years. At the same time, attractive headline yields do not mean opportunities are evenly distributed. Dispersion, which is the proportion of the market trading well away from the aggregate index level, remains reasonably high (see Figure 20), and high yield bond markets face similar AI-related supply pressure to investment grade bond markets. Lower-rated credit spreads have also underperformed, and we would expect these issuers to increasingly explore refinancing opportunities in private credit markets if public market financing is too prohibitive.

In our view, income should be the primary driver of global high yield returns in 2027, but we would expect the high level of dispersion to create potential opportunities for active investors, alongside risks to navigate.

Figure 19: Absolute yields have climbed back to levels last seen in 2024[22]

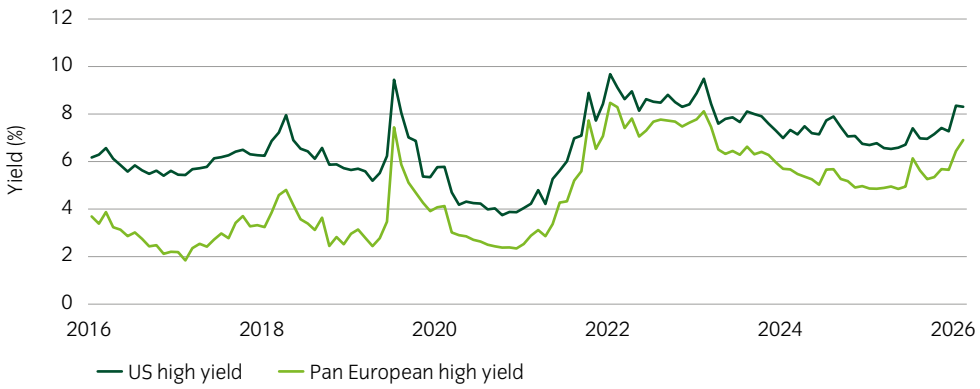
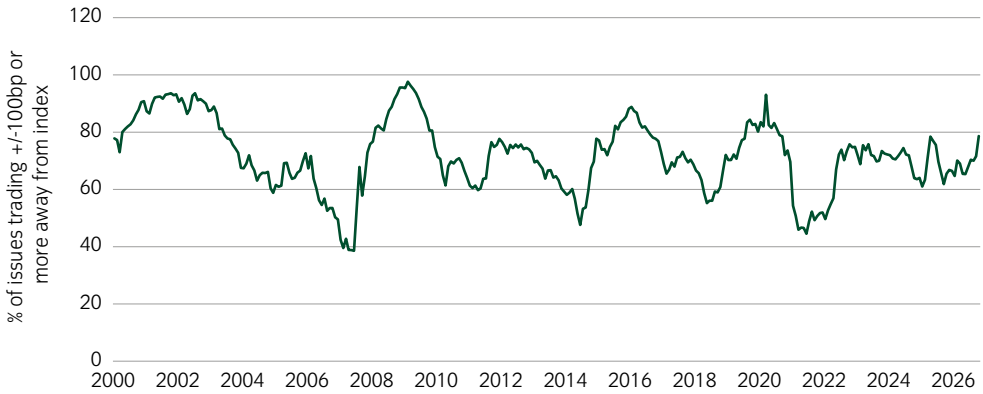


Figure 20: High dispersion creates potential for stock selectors to benefit from relative-value opportunities[23]

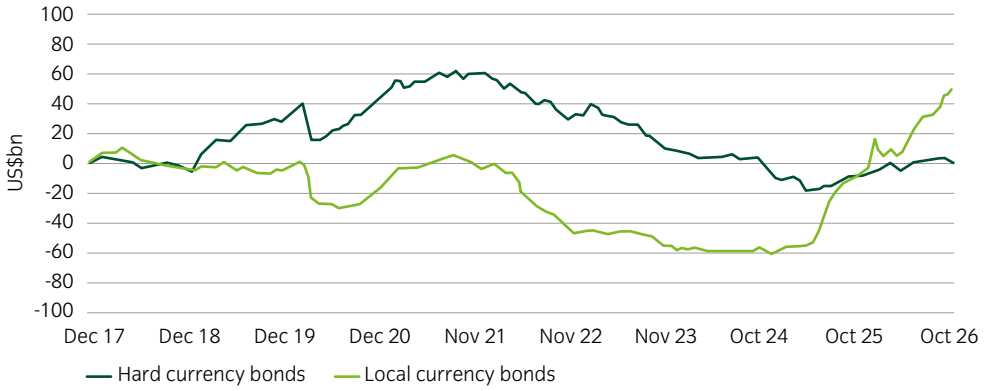


[22] Source: Insight and Bloomberg. Data as at 30 October 2026. Yield to Worst of Bloomberg US Corporate High Yield Index and Bloomberg Pan-European Corporate High Yield Index.
[23] Source: BofA Global Research. Data as at 30 October 2026.

EMERGING MARKET DEBT: HARD TO IGNORE

2026 was a pivotal year for emerging markets, with broad-based inflows returning to the asset class for the first time in several years (see Figure 21). While renewed US monetary tightening would typically present a more challenging backdrop, we believe emerging markets enter 2027 from a position of relative strength. Attractive yields, resilient fundamentals and increasingly differentiated domestic policy cycles support the outlook, although we expect opportunities to become more dispersed.

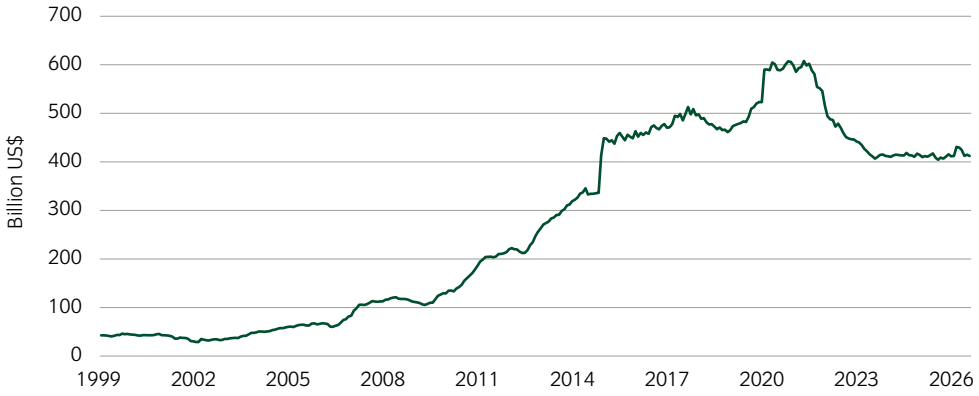
Figure 21: Investors returned to emerging markets in 2026[24]



In local markets, emerging market central banks generally face less pressure to tighten policy than their developed-market counterparts, providing greater scope to look through temporary inflation pressures and focus on domestic economic conditions. We believe this should support select local rates markets, where relatively high interest rates can provide attractive income and potential capital upside if inflation remains moderate. However, renewed inflation pressures and policy tightening in some countries highlights the importance of being selective.

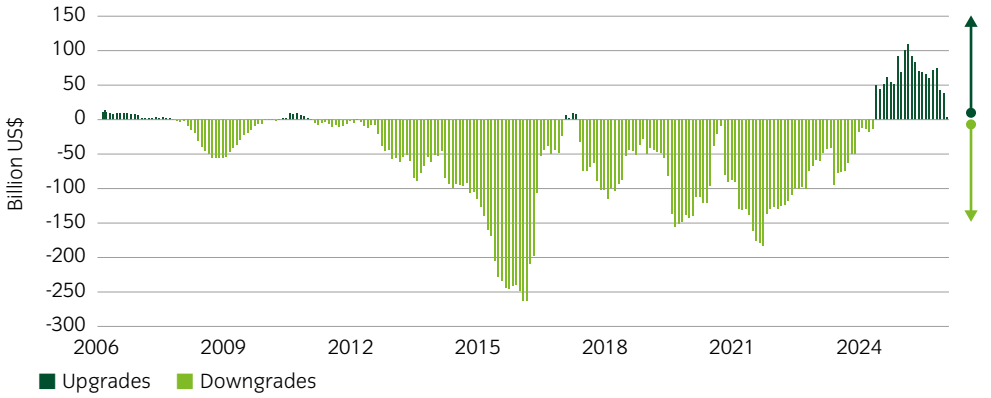
We also see reasons to remain constructive on hard-currency sovereign and corporate debt, with **high-yield emerging market corporate bonds looking particularly attractive**. The asset class has shrunk by around a third in recent years (see Figure 22), as strong cashflows have allowed companies to deleverage rather than refinance. **Improving fundamentals have also driven an unusually strong period of net rating upgrades** (see Figure 23). The combination of improving credit quality and a shrinking investable universe creates a favourable technical backdrop that could remain supportive for the asset class.

Figure 22: Investors are chasing a smaller pool of assets in emerging high-yield corporate market[25]



[24] Source: Barclays, Emerging Market Quarterly, published October 2026. Cumulative flows from 2017.
[25] Source: BofA Global Research. Data as at 30 October 2026. Size of EM high-yield corporate market.

Figure 23: The asset class has enjoyed a period of net upgrades[26]



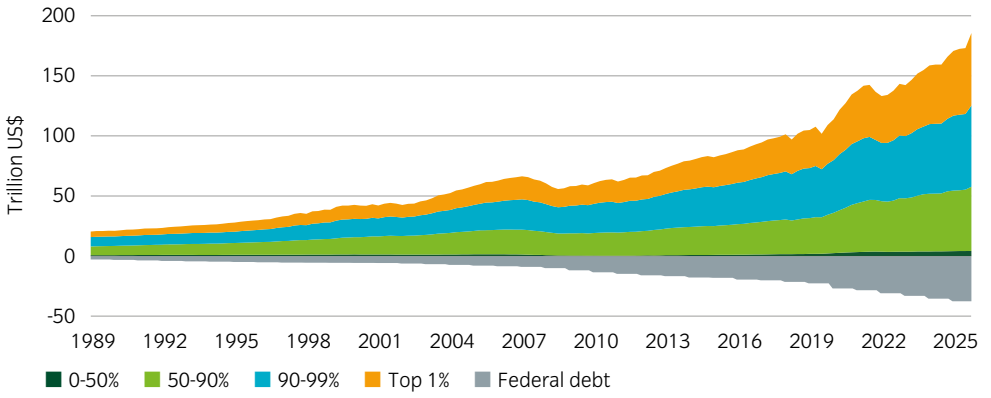
SECURED FINANCE: DIVERGING BALANCE SHEETS

While markets start to question the debt sustainability of some governments, we would note the growing divergence between public and private-sector balance sheets in the US, the largest market for asset-backed securities (ABS). Much attention is understandably focused on elevated government debt, persistent fiscal deficits and the rising cost of servicing that debt. In contrast, years of rising asset values have left many households with substantial financial and housing wealth, while higher interest rates have also increased the income being generated on cash and savings.

As illustrated in Figure 24, household wealth is unevenly distributed, leaving lower-income consumers with limited savings more exposed to higher borrowing costs and the rising cost of living. However, ABS pools can provide diversified exposure across large numbers of borrowers, while underwriting standards and structural protections can help mitigate exposure to weaker individual credits. **Structural protections also mean that losses are absorbed first by junior tranches, providing a buffer for more senior, higher-rated securities.**

We believe the strength of household balance sheets, a still-resilient labour market and the structural protections embedded within securitised assets strengthen the relative case for the asset class. ABS offer exposure to diversified pools of private-sector borrowers and underlying collateral, while the predominantly floating-rate nature of the asset class can provide an attractive source of income without relying on tight corporate spreads or taking direct exposure to growing concerns around sovereign debt levels.

Figure 24: US household assets have grown faster than federal debts[27]



[26] Source: BofA Global Research. Data as at 30 October 2026. 12mth rolling data.
[27] Source: Board of Governors of the Federal Reserve System, Distributional Financial Accounts; US Department of the Treasury, Fiscal Service; Federal Reserve Bank of St. Louis (FRED), as at Q2 2026.

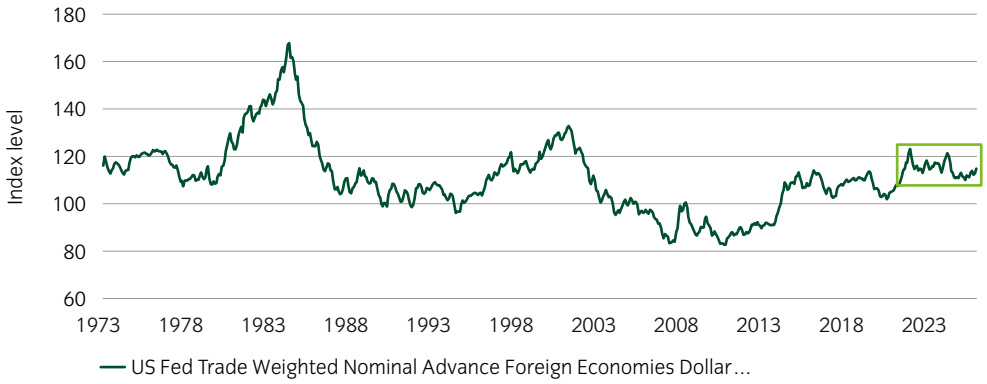
CURRENCY: THE CURIOUS STABILITY OF CURRENCY MARKETS

COMPETING FORCES HAVE KEPT THE DOLLAR TRENDING SIDEWAYS

Currency volatility has remained surprisingly subdued despite a backdrop of geopolitical uncertainty, fiscal concerns and divergent monetary policy. Rather than suggesting an absence of risk, we believe this reflects powerful and often conflicting forces. Higher interest rates can support a currency even as fiscal or political concerns weigh on it, while resilient global growth has reduced the pressure for more disruptive adjustments.

The US dollar captures this tension particularly clearly. Concerns around the US fiscal outlook compete with relatively attractive interest rates and continued demand for dollar assets. The result has been a currency without a strong directional trend, helping to suppress volatility across developed currency markets more broadly.

Figure 25: The trade-weighted US dollar has been trending broadly sideways for years[28]



LOOK BEYOND THE DIRECTION OF THE DOLLAR

For investors, the lack of a clear trend has shifted the emphasis towards relative-value opportunities. Currency strategies can combine signals such as carry, valuation and momentum with macroeconomic and policy analysis to seek returns from differences between individual currencies, rather than relying on the direction of traditional markets.

This can also provide a useful source of portfolio diversification. With equities and bonds potentially more correlated in an uncertain inflation environment, currency returns can be driven by a different set of factors. We remain constructive where those factors appear to be aligning, notably in the Japanese yen and Swedish krona, while greater policy and political uncertainty elsewhere argues for selectivity.

However, we also think the balance keeping currency markets in check could become harder to sustain in 2027. Differences in monetary policy, fiscal credibility, growth and capital flows are becoming more pronounced, potentially creating greater dispersion between currencies even without a major directional move in the dollar. Our sense is that many investors are underestimating currency risks within their portfolios, lulled into a false sense of security by historic dollar strength. If currency market volatility increases, or the dollar decisively breaks out of its trading range, the benefits of currency hedging could become quickly apparent.

[28] Source: Insight, Bloomberg, Federal Reserve. Data as at 30 October 2026.

ISSUES TO WATCH IN 2027

EUROPEAN SECURITISATION REFORM COULD BECOME A GROWTH STORY

One development we believe investors should watch closely in 2027 is the reform of Europe's securitisation market. Despite the size of the European economy, its securitisation market remains relatively underdeveloped: new issuance was estimated at €252.3bn in 2025, compared with $1.1trn in the US. This suggests considerable scope to develop securitisation as a financing channel for European companies, households and infrastructure.



A more proportionate regulatory framework could also help mobilise institutional capital to allocate towards the asset class, supporting greater issuance and liquidity. In turn, a deeper securitisation market could help connect Europe's large pool of long-term savings with productive investment.

2027 could be an important year in determining whether this potential is realised. The reform agenda includes the recalibration of bank capital requirements, simplified due diligence, changes to UCITS investment limits and a clearer framework for public and private securitisations. Progress could potentially have significant longer-term implications for investment and economic growth.

EUROPEAN PENSION REFORM COULD PROVIDE A FURTHER BOOST

Europe has a longstanding challenge to convert its substantial household savings into long-term investment. The European Commission's supplementary pensions agenda is designed partly to address that problem. The Commission reported[29] in September 2026 that only around 20% of Europeans participate in occupational pension schemes and 18% hold a personal pension product. It is encouraging member states to consider auto-enrolment, alongside pension tracking systems and dashboards, while proposed reforms to the IORP II framework and the Pan-European Personal Pension Product seek to improve the functioning of supplementary pensions.

TRACKING THE DIGITAL ASSET TRANSITION

2027 could prove an important year in the transition towards digital assets. Tokenisation can potentially allow transactions to settle much faster, reduce reconciliation and settlement risk, improve the use of collateral and enable assets to become programmable through smart contracts. Tokenised money-market funds and deposits are already among the clearest early use cases, but the opportunity could increasingly extend to ETFs, private-market funds and the underlying securities themselves.



Regulation could be the catalyst that determines how quickly that transition progresses in 2027. In the US, the GENIUS Act is moving stablecoins onto a formal regulatory footing, with the Treasury indicating an expected effective date of 18 January 2027 and regulators continuing to develop detailed rules governing issuance and oversight. Progress on the wider digital-asset framework has been less straightforward. The CLARITY Act failed to advance in the Senate in September 2026, shifting greater responsibility towards the SEC and CFTC to develop rules using their existing authorities. More broadly, 2027 should provide an important test of whether greater regulatory certainty translates into greater institutional adoption.

[29] Source: Supplementary pensions: Boosting retirement savings through auto-enrolment, European Commission, September 2026

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