ERSTE INSIGHTS 2026

The Chief Investment Office view:
Market Perspectives and Investment Outlook

ERSTE Group

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Cutting through the noise – clarity in complex times

A message from Erste Group's Chief Investment Officer

As I reflect on 2025, one central theme resonates through almost every conversation I've had with colleagues and customers alike: Cutting through the noise.

The past year has been marked by dynamic shifts: volatile markets, geopolitical changes in global trade and technological breakthroughs that are redefining entire industries. For investors, separating the signal from the noise has become more crucial – and challenging – than ever. As a banking group rooted in Central and Eastern Europe – a region filled with energy and entrepreneurial spirit – we are well aware of these challenges. At the same time, we take a global view, because that's the stage where tomorrow's opportunities take shape. This blend of local insight and global outlook defines who we are and our approach to investment.

Drawn up under the responsibility of the Chief Investment Office, which provides an integrated investment perspective, this publication leverages the deep and long-standing expertise of our Investment Bank Research and Asset Management teams. Together, they consolidate decades of experience and market intelligence into a coherent, actionable overall perspective.

Because ultimately, it's about helping investors cut through the noise, providing clarity amidst uncertainty and turning complexity into opportunity. Will the world be less complex in 2026? Probably not. But we are confident that with a clear focus, efficient collaboration and seasoned experience, it is possible to not just manage complexity, but transform it into empowerment and value. With optimism. With confidence. With agility. And with continuity.

Sincerely,
Rainer Hauser
Chief Investment Officer at Erste Group

CONTEXT

Economic landscape: What to expect in 2026

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f us.

1 Eurozone

Solid growth should continue

The Eurozone economy expanded in the third quarter of 2025, marking a growth rate of 0.3 % compared to the previous quarter. Following distortions in data during the first and second quarters due to the tariff dispute with the US, economic momentum is gradually returning to normal. At the country level, France and Spain recorded the highest growth rates, at quarter-over-quarter growth of 0.5 % and 0.6 %, respectively. In contrast, Germany's economy remained stagnant, while Italy saw a modest increase of 0.1 % compared to the previous quarter. Given the importance of the US as a trading partner for Germany and Italy, the economic weakness of these two countries comes as no surprise.

Thanks to sustained growth in real wages and a robust labour market, private consumption is expected to remain an important pillar of growth in 2026. Investment growth is also projected to persist, supported by the European Central Bank's (ECB) substantial interest rate cuts, combined with fiscal measures. In contrast, the situation for the export industry will remain difficult, due to the US tariff policy in conjunction with the increasing competitiveness of Chinese suppliers in high-tech sectors.

We expect positive growth impulses for the Eurozone in 2026 from Germany's fiscal package in conjunction with the EU initiative to temporarily exempt government spending on defence from fiscal rules. We forecast a notable acceleration in the German economy, with a growth rate of 1.0 % in 2026. However, as Spain's growth momentum slows and special effects in Ireland subside, we expect growth in the Eurozone to decline to 1.1 % in 2026, down from the 1.4 % for 2025. Inflation is projected to decrease further to 1.8 % in 2026, with a significant contribution to this decline being expected from the inflation for services.

Stable key interest rates expected for 2026

The Governing Council of the ECB left the Eurosystem's key interest rates unchanged in the second half of 2025. The deposit rate, which is decisive for steering monetary policy, has therefore remained steady at 2.0 % since June. Meanwhile, the financial markets are also pricing in stable key interest rates until the end of 2026. We also believe that, with a deposit rate of 2 %, the ECB's Governing Council should have reached the end of its interest rate cuts for the foreseeable future. The degree of economic uncertainty has decreased significantly in recent months. As a result, the downside risks to the growth outlook for the Eurozone have also visibly

FACT BOX

1.8 %

Inflation is expected to decline further to 1.8 % in 2026.

2.0 %

The deposit rate has remained stable at 2 % since June.

reduced. Accordingly, we believe that the likelihood of the ECB cutting interest rates to support the economy has diminished as well. Inflation and the outlook for inflation have recently developed in line with the ECB Governing Council's expectations, close to the inflation target of 2 %.

Over the past year, there have been repeated phases of divergence between longer-term yields on German government bonds and their US counterparts. Positive economic stimuli in Germany (economic stimulus package comprising defence spending, green transformation, and infrastructure) and at the European level (defence spending, digitalization offensive), as well as the somewhat surprising resilience of the Eurozone economy to US tariffs, repeatedly led to yield increases, while prices for US government bonds rose and yields fell. Due to rising new debt, we expect an increased supply of German government bonds for the coming year and beyond, which should provide good support for German yields. According to analyst estimates, net new issues of German government bonds could be in the region of EUR 140 billion in 2026. We also believe that economic and inflation risks in the Eurozone are trending upward for 2026, which could potentially drive yields higher. If the economy performs well, we believe that a slightly higher inflation premium will be incorporated into German government bonds, which could lead to a steepening of the yield curve. After a period of consolidation in German government bond yields, we expect the upward trend to resume as 2026 progresses.

2 Central and Eastern Europe

Economy and key interest rates

Over the past three years, the economies of Central and Eastern Europe (CEE) have outpaced the Eurozone's growth by a factor of two. In 2026, we expect CEE economies to expand their growth differential vis-à-vis the Eurozone to 1.5 %, compared to an estimated 0.9 % in 2025. The average growth rate for the region is expected to accelerate from an estimated 2.3 % in 2025 to 2.7 % in 2026. Household spending will remain the primary driver of growth, supported by solid increases in real wages.

In 2026, we expect investment to increase, as CEE countries seek to leverage the remaining funds from the European Union's Recovery and Resilience Facility. By the end of 2025, approximately EUR 78 billion remained accessible for CEE sovereigns, compelling these countries to expedite reforms and investments in order to claim the remaining funds by September 2026, as disbursements must be completed by the end of 2026. Additionally, loan disbursements from the EUR 150 billion SAFE programme, aimed at strengthening the European defence industry, will be made to CEE countries.

Throughout 2025, the CEE economies showed resilience in the face of global headwinds. The impact of US trade tariffs is already largely incorporated into the 2025 figures. The reduction of tariff rates compared to the original proposals – particularly for automobiles – helped to soften the blow. The subdued growth observed in several CEE countries in 2025 was mainly attributable to domestic challenges that required policy adjustments. Slovakia and Romania took strides toward fiscal consolidation, while Hungary maintained high interest rates to curb inflation and safeguard its currency. Hungary also made little progress in tapping into a significant portion of EU financial support, leading to a diminished inflow of funds that weighed on its economic expansion. With the upcoming parliamentary elections in April, Hungary faces a potential shift in its current political stance.

Inflation is easing across CEE, although at a slower pace than expected. Robust wage growth has kept inflation stable in the service sector. Nevertheless, projections indicate that compared to 2025, average inflation in all CEE countries is expected to decline in 2026, aligning closely with or slightly above the upper limit of the inflation target. Romania is the notable exception, as substantial increases in energy prices and fiscal consolidation measures pushed the country's Inflation rate to almost 10 % following implementation of the budget package. This level is considered to be the peak, with a more pronounced moderation not expected before the summer.

In 2026, monetary policy easing should resume in all CEE countries except the Czech Republic, where the terminal rate appears to be around 3.5 %. Poland and Romania are expected to cut rates in the first half of 2026, with Serbia anticipated to follow in the second half. Hungary may delay its easing measures until the end of the year, once price caps are lifted and the inflation outlook for 2027 becomes clearer.

FACT BOX

1.5 %

In 2026, we expect CEE economies to expand their growth differential vis-à-vis the Eurozone to 1.5 %.

2.7 %

Average regional growth is expected to accelerate to 2.7 % in 2026.

150 Billion

The "SAFE programme" to strengthen the European defence industry amounts to € 150 billion.

”Household spending will remain the primary driver of growth, supported by solid increases in real wages.“

3 United States

Economy recovers slowly while inflation rises

After a strong year in 2024, the US economy lost considerable momentum in the first half of 2025. Annualized quarterly growth averaged 1.6 %, reflecting growing uncertainties primarily brought about by the new tariff regime. Private consumption, traditionally the most important pillar of the US economy, was also subdued and fell short of the previous year's levels. This consumer restraint is attributable to several factors: inflation concerns, a weakening labour market and dim growth prospects are weighing on sentiment. Companies are also exercising caution and have significantly reduced their investments, a trend that was particularly evident in the second quarter.

For the second half of the year, leading indicators such as the S&P Global Purchasing Managers' Index and the Atlanta Fed's GDPnow Index point to a resurgence in growth. Our projections for the year 2026 anticipate a growth of 1.8 %. From today's perspective, a robust rebound in either consumer spending or investment is not foreseeable. The labour market also remains a point of concern: the number of new jobs created in the non-agricultural sector has dwindled to a very low level, recently even showing some negative data points. This trend is evident in both the statistics released by the Bureau of Labour Statistics for September and in the data from the private provider ADP up to November. Job openings are scarce, while the unemployment rate has risen to 4.4 %. We expect the unemployment rate to edge slightly higher for a few more months.

FACT BOX

1.6 %

Annualised quarterly growth averaged 1.6 %.

3.0 %

Inflation has edged up again, most recently standing at around 3.0 % year on year.

Inflation is rising slightly again and was last around 3.0 % year-on-year, which is largely attributable to the new tariffs. Their impact is currently estimated at around 0.5 to 0.6 percentage points. We expect an inflation rate of 2.8 % for the past year and 2.9 % for the year 2026. In our view, the inflation rate will continue on an upward trajectory until the first half of 2026, before declining at a slower pace than the Federal Reserve expects once the one-off effect of the implemented tariffs is no longer included in the calculations of the annual rate of change.

Marked increase in yields expected during 2026

The US Federal Reserve remains caught between two opposing forces: a weakening labour market and a resurgence in inflation. To support employment, a shift towards lower and less restrictive interest rates might be necessary. With the two rate cuts of 25 basis points each that we expect in the coming year, the Fed would reach the neutral interest rate level, thereby injecting sufficient momentum into the labour market to enable stabilization.

At the same time, the Federal Reserve (US Central Bank) views the current resurgence in inflation, which is expected to continue into spring, as temporary and largely driven by tariffs – an assessment that is essential for continuing the cycle of interest rate cuts, despite the potential for such easing to further fuel inflation.

We expect inflation to remain more persistent throughout 2026 than the Fed currently predicts, solidifying at a level that is too high. The labour market is likely to stabilize in the summer thanks to interest rate cuts, although a diminished labour supply could create additional wage pressure. If inflation remains high, the Fed would have to raise interest rates again in line with its 2 % target in order to curb price increases with tighter monetary policy.

Moreover, the monetary policy stance is set to shift with upcoming personnel changes. At the suggestion of President Trump, a new Chair of the Federal Reserve will be appointed in May, preceded by the appointment of another Governor. We expect this to make the Fed more inclined towards lower interest rates and greater tolerance for inflation risks in the future. This carries the risk that key interest rates will remain too low for too long and inflation expectations on the US government bond market will rise. In that scenario, the capital market is likely to step in as a corrective force: yields on longer-term government bonds would rise to price in the higher inflation risk. For the time being, however, yields will dip slightly due to incoming economic data, but will rise again later in the year. In our view, the yield curve should therefore become significantly steeper by mid-year and beyond.

4 Emerging markets economy

China

China’s economy did show a surprisingly strong performance in 2025, despite the US-China tariff conflict. This was probably due to the considerable fiscal and monetary policy support provided by the Chinese government and the country’s central bank. For 2026, the International Monetary Fund (IMF) forecasts a deceleration in growth to 4.2 %, compared to 4.8 % in 2025. China continues to face an unusually high dependence on investment for growth. While the investment ratio in the Eurozone was around 21 % of gross domestic product (GDP) in 2024, it was close to 40 % in China. Fortunately, a slight decline in the investment ratio has been observed since 2022. However, this process is likely to continue for many years to come. In contrast, China’s consumption as a percentage of GDP has increased slightly since 2022.

In the years ahead, China’s government will continue its efforts to gradually recalibrate the country’s economic structure towards consumer-driven growth. Otherwise, China’s economy could fall into recession, putting considerable pressure on China’s leadership. For the global economy, it is crucial which sectors the Chinese government prioritizes for support in order to prevent a recession. After focusing on e-mobility and the e-economy over the past four years, China could shift its focus to modernizing traditional sectors such as steel and chemicals. In the medium term, China is likely to continue to burden the global economy with its surplus production. Given the United States’ tariff policy, the European Union (EU) may find itself disproportionately impacted as a key market for Chinese exports.

India

India’s economic momentum accelerated in 2025, with GDP growth rising to an impressive +8.2 % year-on-year in the third quarter. Private consumption was the driving force behind the economy, driven by rising real incomes. Due to strong domestic demand, the Reserve Bank of India (RBI) has revised its GDP forecast for the full year upwards to +7.3 % year-on-year.

FACT BOX

4.2 %

The IMF forecasts a slowdown in China's growth from 4.8 % to 4.2 %.

40 %

China's investment ratio stands at 40 % of GDP.

8.2 %

India's GDP growth reached 8.2 % in the third quarter.

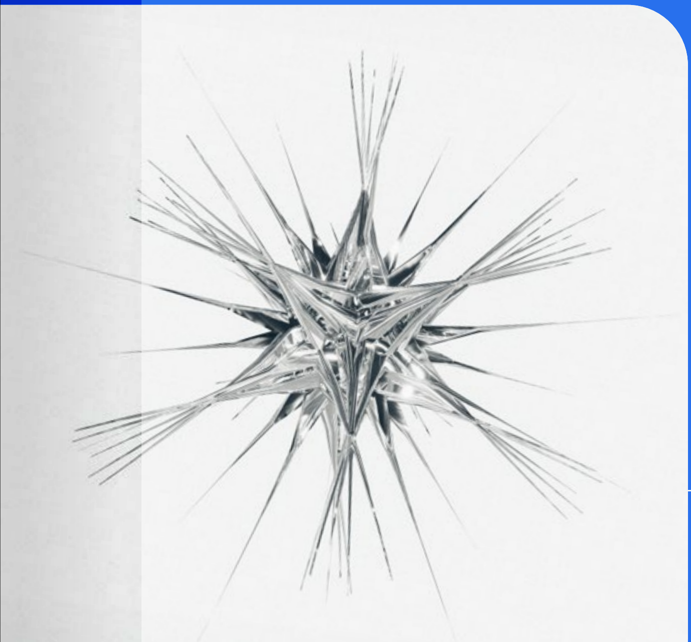
While GDP data shows an acceleration, monthly leading indicators point to a slight normalization of the economy. The Purchasing Managers' Index (PMI) for the manufacturing sector weakened to 56.5 points in November (October: 59.2 points). This cooling trend is attributable to external factors, among them the imposition of new tariffs by the US and a dip in external demand.
However, the PMI for the service sector continues to perform strongly, reaching 59.8 points in November (October: 58.9 points), buoyed by an increase in new orders, particularly from Asia.

Despite robust growth, inflation declined much faster than expected in the fourth quarter. By October, it had tapered to a mere +0.25 % year-on-year – the lowest level since records began. This trend gave the Reserve Bank of India (RBI) the latitude to resume its easing cycle after a brief pause and cut its key interest rate by 25 basis points (bp) to 5.25 % at its December meeting. The financial markets responded to these developments – acceleration in growth coupled with simultaneous monetary easing – with heightened volatility. The depreciation of India's currency is attributable to the narrowing interest rate differential and foreign outflows triggered by uncertainties in global trade. The Indian rupee continued to weaken against the US dollar in the fourth quarter, depreciating by -1.3 % (2025 YTD: -5.1 % as of 16 December 2025).

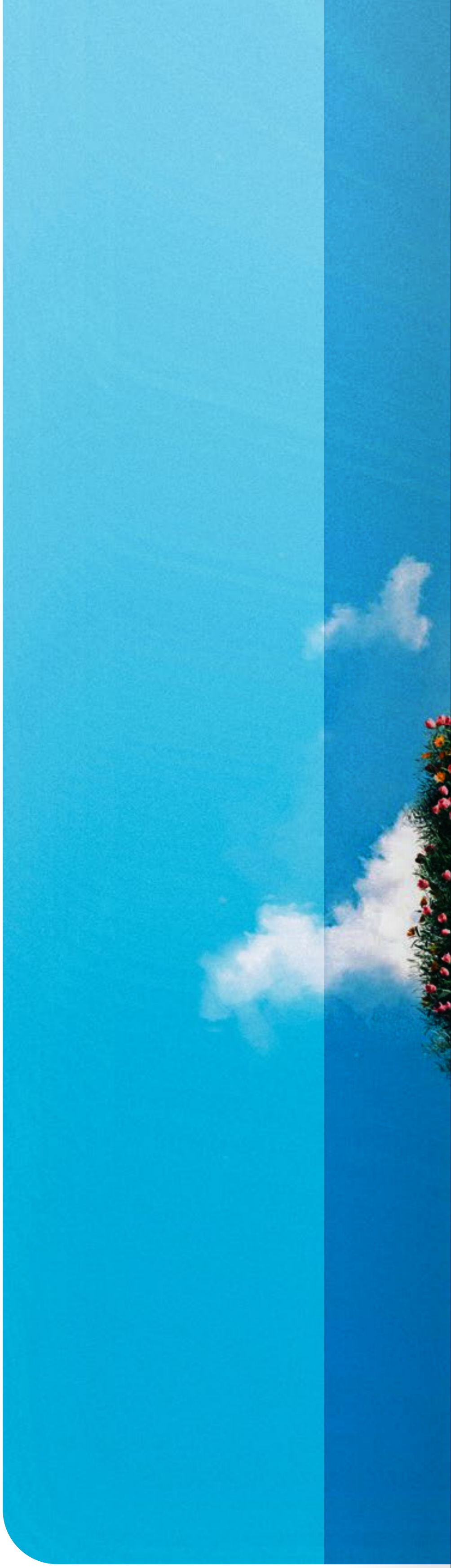
STORIES

02

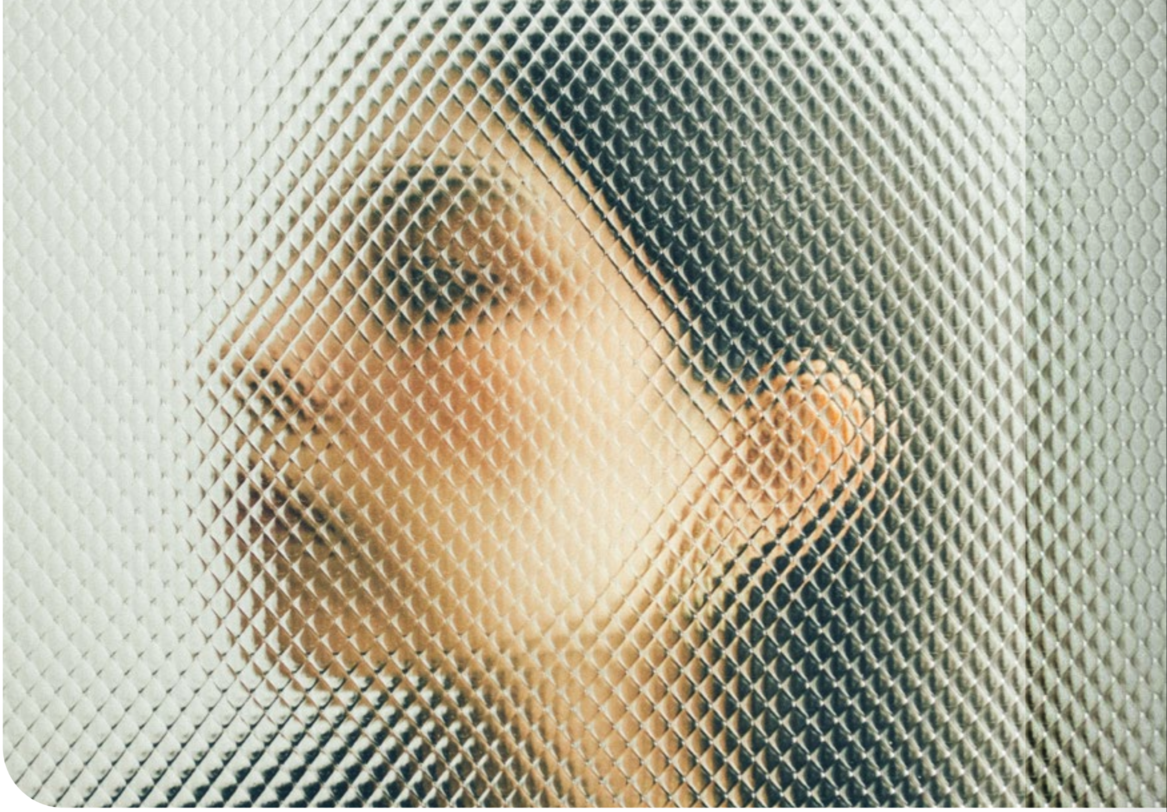
Key trends and investment stories



Artificial intelligence: a long-term market driver



Since the launch of ChatGPT in November 2022, artificial intelligence (AI) has emerged as a driving force for market evolution and growth in the US. We believe that AI will remain a dominant theme for years to come, shaping both investment opportunities and risks. Four aspects stand out in particular in this context.



1

Seeing AI as a “Wave”

Economic trends often follow certain narratives, as Nobel Prize winner Robert Shiller observes.

They spread like waves – initially peaking, then waning, before making a comeback. AI is no different: active user numbers have already shown some decline, and the initial enthusiasm has cooled somewhat. But that is not the end of the story. Recurring waves of enthusiasm and disappointment are to be expected, and the topic of AI will remain relevant even in the face of setbacks.

2

Adapting to the Phases

History shows that new technologies evolve in stages.

The first to benefit are manufacturers. Next are users. And finally, the businesses that thrive in the new ecosystem created by the technology. The automobile industry illustrates this pattern: the first profits went to car manufacturers, then to transport service providers, and later to shopping malls on the outskirts of cities. AI is still riding the first wave. More will follow, each bringing its own set of winners and losers. Portfolios must adapt to these changes.

3

The Question of Technology

Enduring Talent: Useful but Limited – or Transformative? Three Scenarios Are Possible.

1. The perpetual talent: AI remains promising but fails to achieve commercial success.
2. Useful but limited: AI becomes an important tool, but is only one technology among many.
3. Transformative: AI evolves into an "all-purpose technology" like electricity or the internet, fundamentally reshaping our economies. For this to happen, acceptance needs to grow, monetization pathways must be clearer, and productivity gains need to become evident. We see strong potential for this outcome.

4

The race for supremacy

Technology giants are pouring vast investments into in AI, striving for a near-monopoly position.

Unlike social networks, for example, AI is not characterized by cost advantages, economies of scale or network effects – the phenomenon where a product's value increases for all users as more users join the same platform. Market leaders must prove two things: their ability to generate profits and their ability to sustain long-term growth. So far, they have managed to do just that – but they must prove themselves again each quarter.

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What is the takeaway for investors?

→ Even groundbreaking technologies face setbacks. However, these are just pauses, not full stops.

→ The current AI market leaders combine strong profits with the promise of shaping the future. They merit inclusion in portfolios – if they continue to deliver.

→ History favours innovators who disrupt markets. We can expect new players to emerge in the AI space, offering the greatest potential for returns.

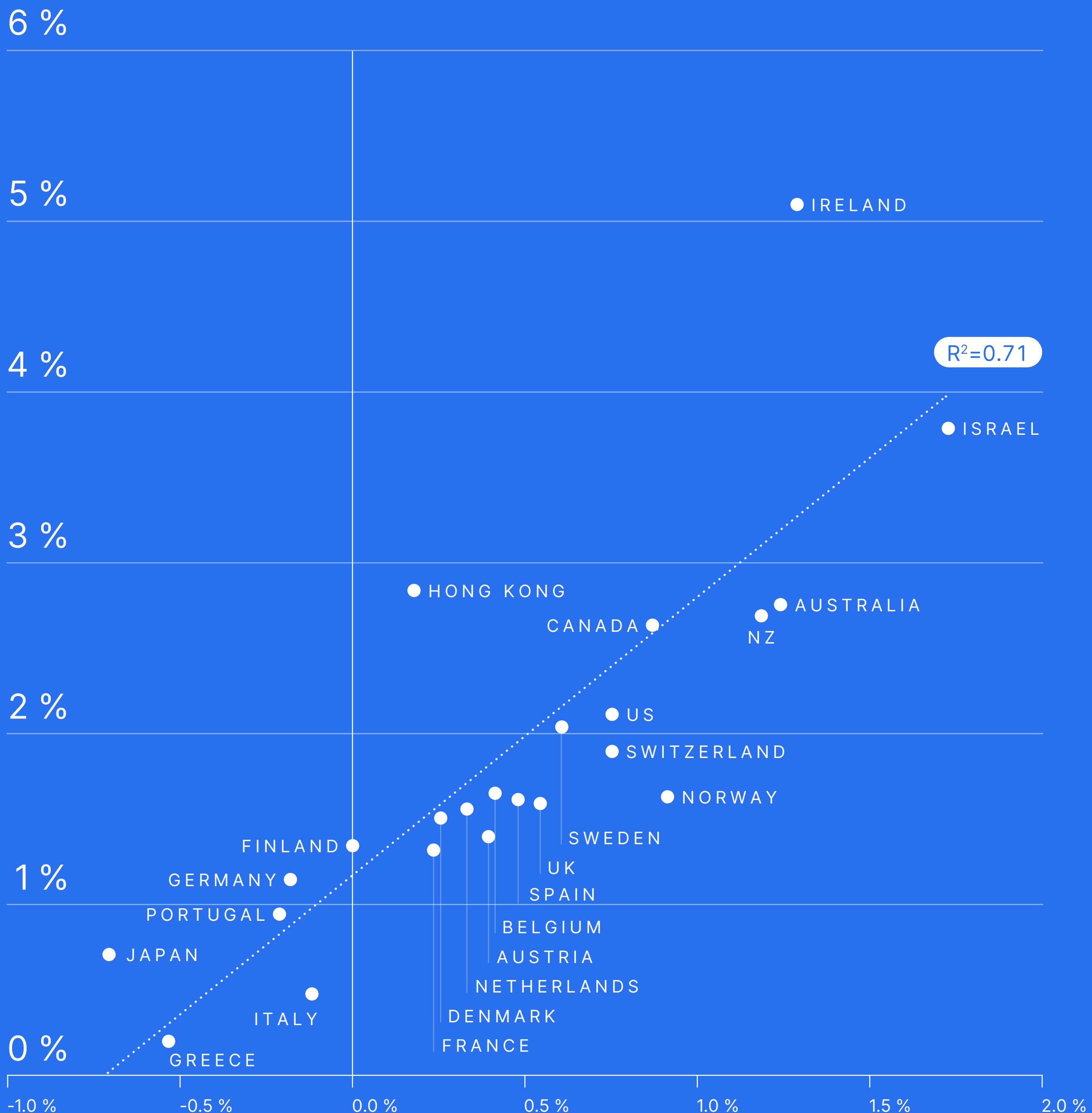
Investments in securities involve both opportunities and risks.

Demographics: still needed, still cared for at 64?

In the financial market, good forecasts are as rare as they are invaluable. However, demographic developments are a notable exception. The ability to predict the number of people entering the workforce in the next 5 or 10 years is remarkably reliable. After all, those who will seek employment in 5 years are already here, making their way through school or vocational training. Nevertheless, the power of demographics is often underestimated. Much like the proverbial frog in the pot, slow-but-steady changes go unnoticed or generate too little attention.

Correlation between economic growth and the increase in the working-age population in developed market economies since 2000

Source: Erste Asset Management.
Past performance is not a reliable indicator of future results.



What are the major population trends?

1) Earth's population continues to grow, leading to escalating demands on both resources and the environment.

2) People are living longer, which creates a whole new world of challenges and economic opportunities (e.g. in the areas of healthcare and public services).

3) The populations of Europe, Japan and China are shrinking, while those of India and Africa are growing. The US (before Trump) is in the middle of the spectrum.

How are economic growth and population growth related?

The chart shows the correlation between economic growth and the increase in the working-age population (people aged 15 to 65) in developed market economies since 2000. The correlation is obvious: the smaller the labour force, the lower the economic growth.

But why is that?

Paul Krugman, Nobel laureate in economics, once summarized economic growth as a combination of inspiration (how productively we work) and perspiration (how much we work). When there are fewer people clocking in, we end up with fewer hours worked overall, leading to a slowdown in growth. Accordingly, growth potential – and, by extension, everything that depends on growth, such as the social security system or debt sustainability – changes in step with population growth.

What can be done to boost demographic growth potential?

The toolbox of short-term actions is rather limited and includes

1) shifting from less productive to more productive activities
(a key factor in the playbook of successful emerging markets like China),

2) extending the duration and/or hours of workforce participation
(e.g. shortening the time spent in education or pushing back the retirement age),

3) migration (a cornerstone of the US success story), or

4) bringing people who are not or no longer part of the workforce back to the labour market

None of these actions is easy to implement or will deliver immediate results. One example is migration, a politically controversial measure. Yet, these are precisely the challenges we will have to confront in the coming years – that much can already be predicted with certainty from demographic trends.

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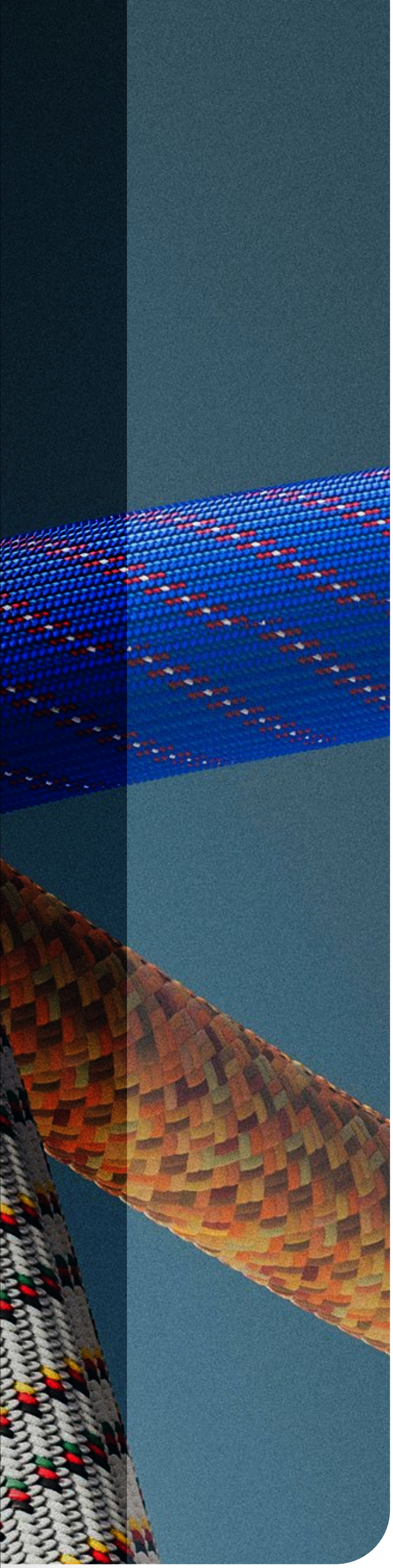
What is the takeaway for investors?

→ Demographic change takes a long time to happen, but it is easy to forecast (and therefore difficult to address).

→ Demographic change has an impact on key economic variables (consumer behaviour, growth, inflation) and asset prices (e.g. interest rates, real estate).

→ Demographics and globalization are closely linked. Labour shortages, for example, can be offset by importing goods. If societies decide against both, the effects may be even more pronounced (for example higher inflation rates due to the unavailability of imports to balance out labour shortages).

→ Demographic change – like any change – also brings a raft of opportunities. Not all countries and regions are affected to the same extent. Many businesses are increasingly discovering older generations as potential customers (keyword: grey economy). This underscores the importance of factoring these opportunities into one's own portfolio, making a case for well-diversified portfolios that are open to the rapidly growing markets of tomorrow.



Deglobalisation: global interdependence under review

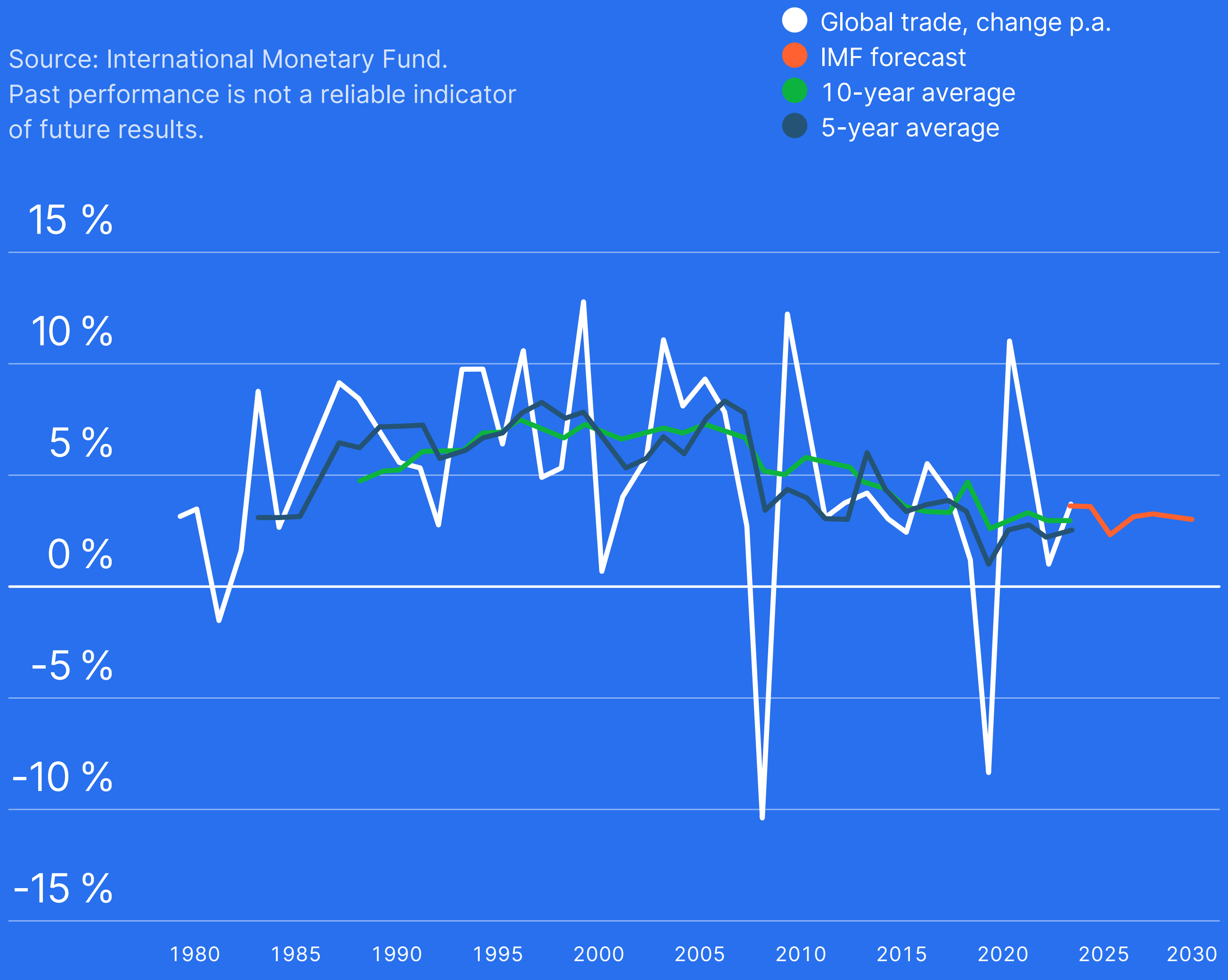
Globalization has been a defining feature of economic development since the 1970s. However, globalization has come under criticism lately: Covid, the rivalry for global supremacy between the US and China, and the war in Ukraine have highlighted the risks of global supply chains. At the same time, the voices of those marginalized by globalization are becoming louder, exerting influence over political actors and decision-makers.

What does globalization mean?

Globalization refers to the unhindered, free exchange of goods, services, capital, and labour across borders. By this measure, the world has never been entirely globalized, even in recent years. Human migration has always faced barriers, agricultural trade has consistently been more restricted compared to industrial goods, and countries such as China have never been fully integrated into the global capital market. Globalization was – and is – not an absolute condition but a matter of degree.

IMF: Change in global trade in goods and services in % p.a.

Source: International Monetary Fund. Past performance is not a reliable indicator of future results.



Looking at the data, it becomes clear that despite extensive media coverage, deglobalization is a lot more talked about than it actually occurs. Although the global exchange of goods and services is growing at a slower pace than 10 or 20 years ago, it is still increasing. Why? Globalization makes economic sense because it allows for the realization of comparative advantages – a theory that goes back to economist David Ricardo. Ricardo observed that in a world of limited resources, the proverbial pie grows largest when each entity specializes in what they are relatively best at, thereby maximizing the output from its resources. And because this international division of labour is so advantageous, it is difficult to scale back global trade – despite all the buzz about pulling back from globalization.

The push towards deglobalization remains, fuelled by political strategies and media attention worldwide. Against that stand the advantages of globalization. This suggests that the issue will remain a focal point of markets in the coming years, but that no widespread rollback of global interconnections is to be expected. Nevertheless, there will be sectors where major changes will occur (e.g. rare earth metals, defence, energy autonomy, pharmaceutical supply security).

INVESTOR:INNEN

What is the takeaway for investors?

- The topic of deglobalization is set to remain on the agenda. The obvious pros and cons of globalization indicate that we are unlikely to see rapid and massive changes in either direction.
- The impact on businesses will vary widely, depending on sector, area of operation or strategic direction.
- Changes will create both opportunities and risks. Some countries or industries will benefit from nearshoring or friendshoring decisions (nearshoring moves production closer to the home country, friendshoring relocates it to trustworthy, politically friendly countries, such as CEE), while others will find themselves on the losing end of these developments.

US politics: predictably unpredictable

Donald Trump’s second term officially ends on 20 January 2029. Throughout the Trump presidency, one constant remains – uncertainty. This doctrine of unpredictability will continue to drive abrupt market fluctuations, triggered by the President’s statements or policy proposals.

What is certain in 2026?

Despite all uncertainty, two events in 2026 will undoubtedly preoccupy the markets: the appointment of a new Federal Reserve Chair and the midterm elections in autumn 2026.

New leadership at the Fed

The tenure of the current Federal Reserve Chair, Jerome Powell, is set to expire in May 2026. By then, President Trump's choice for Powel's successor will have been announced. Among the frontrunners are Kevin Hassett, Chris Waller, Michelle Bowman and Kevin Warsh – seasoned economists with political backgrounds – as well as Rick Rieder, a Wall Street veteran. They all are considered advocates of traditional monetary policy, yet have recently shown a notable tilt towards Trump's agenda.

Does this mean the end of the Fed's independence?

We don't think so. There are three compelling reasons why:
1. Institutional rules: The Fed's operational framework is tightly regulated. For example, Fed members can only be dismissed for good cause.
2. Quality of the candidates: Each of the potential picks brings experience and expertise to the table.
3. Market expectations: Analysts anticipate that interest rates will fall. Not a single expert forecasts that benchmark rates in a year will be higher than they are today. The public call for rate cuts therefore doesn't just stem from Donald Trump's agenda.

While the debate over the Fed's independence will continue, the loss of its independence is not imminent in our view.

Midterm elections on 3 November

The midterms – federal elections near the midpoint of the presidential election cycle in which the House of Representatives and part of the Senate are re-elected – are a litmus test for Trump's influence on the political landscape. Historically, the party that holds the White House loses seats in midterm elections, which puts significant pressure on the president's party to bolster its odds by all means legally possible. This includes tactics like redistricting and tightening voter registration rules, sparking concerns over an intensifying divide in US politics and a tilt towards more extreme political outcomes. The elections themselves are set to be a focal point for the markets. They will determine the Trump administration's ability to pursue its agenda during Donald Trump's remaining term in office. Regardless of the outcome of the midterms, the political divide in the US will remain, and US domestic politics will therefore continue to occupy the markets for a long time to come.

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What is the takeaway for investors?

- Brace for a year marked by political risks and events that will test investors' nerves. Keeping calm is key.
- Given the sustained high levels of uncertainty affecting both the economic landscape and confidence levels in the US, broad and global diversification is advisable.

"As a result, US domestic politics will continue to occupy markets for a long time."

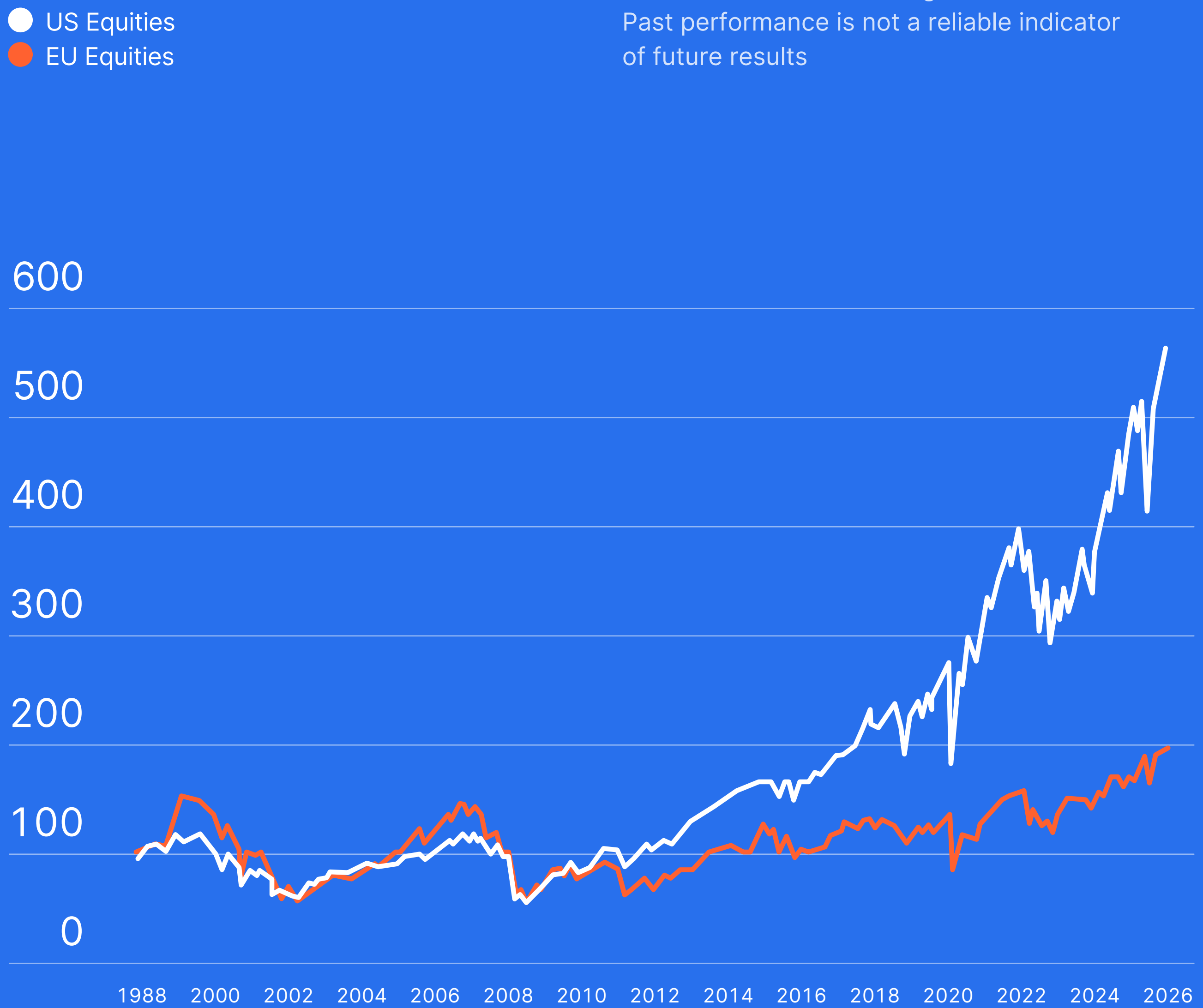
Europe: more than meets the eye

When asked about Europe, the response from investors is not always enthusiastic. For years, the region seemed unable to compete with the tech giants in the US. The following chart illustrates how returns in Europe consistently trailed behind the US over a long period of time.

Historical development of stock performance in Europe and the USA

Price performance since 31.12.1998
(31.12.1998 = 100)

Source: Erste Asset Management
Past performance is not a reliable indicator of future results



However, the same data can also tell a different story. For almost four years, Eurozone stocks have kept pace with – and at times even outperformed – their US counterparts. And these years have been anything but stable, marked by a Covid-driven surge in remote work, the AI hype, war in Ukraine, Trump's tariffs, dollar fluctuations, energy shocks, inflation and a full interest rate cycle. Europe has performed better than many think.

Historical development of stock performance in Europe and the USA

(Rebased on Index 100 for the years 2008 and 2021)

Source: Erste Asset Management
Past performance is not a reliable indicator of future results

Europe's weaker returns performance coincides with the euro crisis. Austerity measures, debt reduction and institutions unprepared for a crisis hampered growth. However, much has improved since then.
Banks have robust capital buffers and, following the launch of ChatGPT, have even eclipsed the performance of the illustrious "Magnificent Seven" (the seven major US tech stocks: Apple, Microsoft, Alphabet, Amazon, Meta Platforms, Tesla, NVIDIA).

Bond and stock markets in former crisis countries such as Ireland, Spain, Italy and Portugal have recently delivered exceptionally high returns, signalling market approval of the changes in these countries. Fiscal discipline in the Eurozone is high – no Eurozone country has deficits like the US.

During the Covid pandemic, Europe demonstrated its ability to act collectively: EU-wide investment programmes boosted the market for EU bonds, which has now become a significant market segment.

In addition to these long-term developments, there are also short-term changes that speak in Europe's favour.

- Germany is planning extensive investments in infrastructure and defence, the largest since reunification.
- Additional liquefied gas capacities will enter the market over the next two years, which will further reduce gas prices and enhance energy security.
- The European Central Bank (ECB) cut interest rates early, a move that should support the economy in 2026.
- Unlike in the US, European households still have savings accumulated during the pandemic. These can be spent when sentiment turns.
- The likelihood of an end to the war in Ukraine appears to be increasing over time.

INVESTORS

What is the takeaway for investors?

→ Europe is doubly undervalued. Sentiment is gloomy, which sets the stage for potential positive surprises. In addition, financial metrics, such as the price-to-earnings ratio, are significantly more attractive than in the US. This speaks in favour of Europe.

→ The market structures of the US and Europe are different. While profits in the US are heavily reliant on major tech companies, the focus in Europe is primarily on small caps, value stocks and financials. This translates into a broader spectrum of opportunities.

Economists define money by the functions it serves: it is the most exchangeable commodity in an economy, a store of value and a unit of account.

Cryptocurrencies: the value question

At this time, cryptocurrencies – or cryptos for short – do not fulfil these roles. Cryptos are not money. Nevertheless, for many, particularly younger investors, they are not only a fascinating technology, but also an important part of their portfolios.

Cryptos have no intrinsic value. They are not backed by any central bank, government, or underlying economy, making it difficult to assign them a fundamental value. Are cryptos cheap or expensive? There is no answer to this question. What can be said, however, is that the crypto industry is currently experiencing tailwinds. The Trump administration itself has crypto interests and is doing a lot to promote the crypto industry (e.g. by establishing a government fund that can invest in cryptos). Added to this is the administration's pronounced intent to avoid stifling the economy with regulation. This has paved the way for greater acceptance, improved marketability and increased demand for cryptos. On the other hand, the high volatility of cryptos cannot be overlooked.

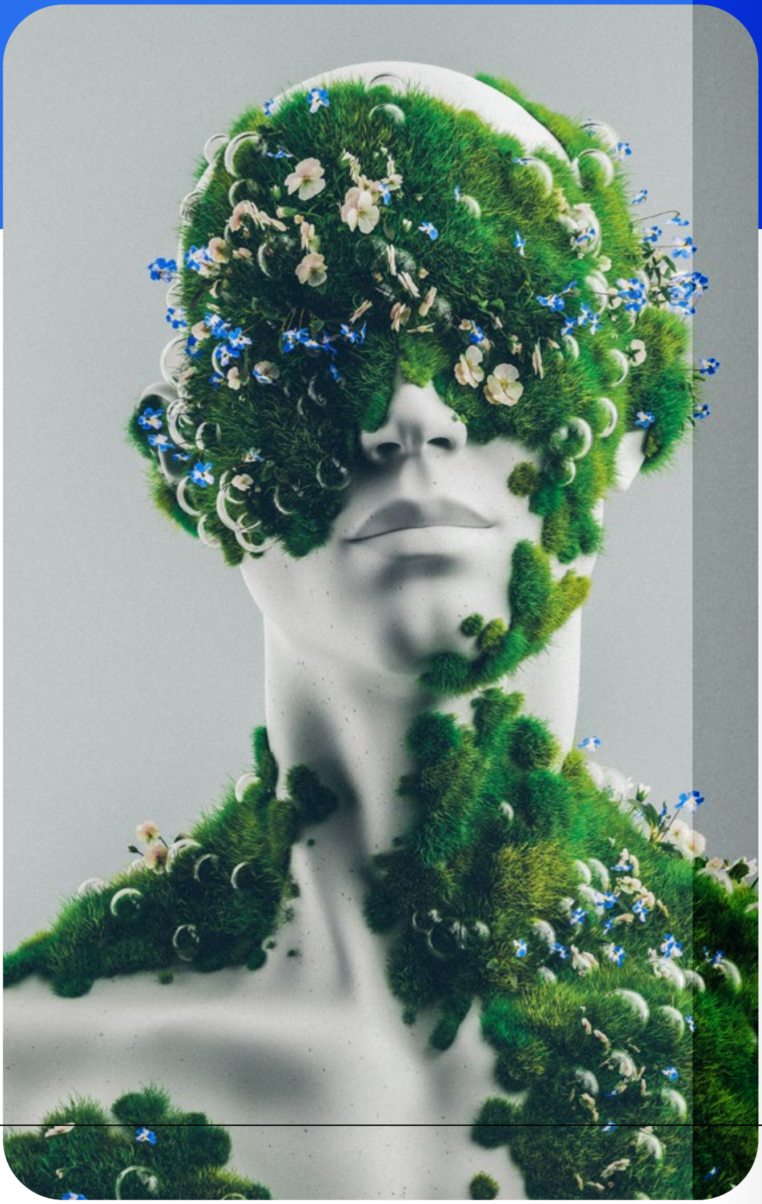
Given the difficulty of analysing cryptos and assigning them a value, we as the Erste House refrain from issuing crypto recommendations.

TRENDS

Asset trends and Asset allocation

2025 was a year full of surprises.

The global economy proved more resilient than many had expected.



Artificial intelligence (AI) transitioned from a buzzword to an actual growth driver, and despite the trade conflict and US tariffs, market stability was not fundamentally shaken. In fact, the opposite happened: businesses were able to increase their profits, investment (particularly in AI infrastructure) remained robust, and neither geopolitical tensions nor political uncertainties managed to derail the positive development for long.

Investments in securities involve both opportunities and risks.

Nevertheless, the next few years will not be smooth sailing.

As we look towards 2026 and beyond, we are faced with geopolitical conflicts, inflation concerns, political uncertainties and the question of how long the AI boom will last.

In this outlook, we guide you through our assessment of the key asset classes, from equities and bonds to gold and commodities. We explain how we integrate these asset classes into a portfolio, our rationale for focusing on value, the opportunities we are targeting and the areas where we remain deliberately cautious.

Equities: focus on quality, selection and opportunities

After a year in which the stock markets benefited from robust profit growth, AI euphoria and surprising economic resilience, we enter 2026 with a cautiously optimistic outlook on equities. Our approach is currently aligned with our long-term planned weighting, prioritizing clear focus points combined with selective stock picking.

Our assessment for 2026:

Positive undertone with a selective approach

We continue to see good prospects for equities. Corporate profits are developing solidly, and many sectors are benefiting from structural trends such as digitalization and AI. Yet, caution is warranted, as valuations in some markets are already ambitious, particularly in the US. This argues for moderate positioning, targeted selection and a focus on quality.

A mix of quality and favourable valuations

Our approach focuses on a mix of quality companies and favourably valued stocks (commonly known as value stocks). While growth stocks have dominated in recent years, our deliberate inclusion of value stocks aims to make the portfolio more robust and benefit from different market phases.

AI: a growth engine – not just for tech

The AI boom remains an important driver – not only for large US technology stocks. Utilities and industrial companies are also benefiting from investments in infrastructure and digitalization. We remain fundamentally invested in the "Magnificent Seven" – the seven major US technology stocks: Apple, Microsoft, Alphabet, Amazon, Meta Platforms, Tesla and NVIDIA. However, we increasingly see potential in sectors that are benefiting indirectly from the AI trend.

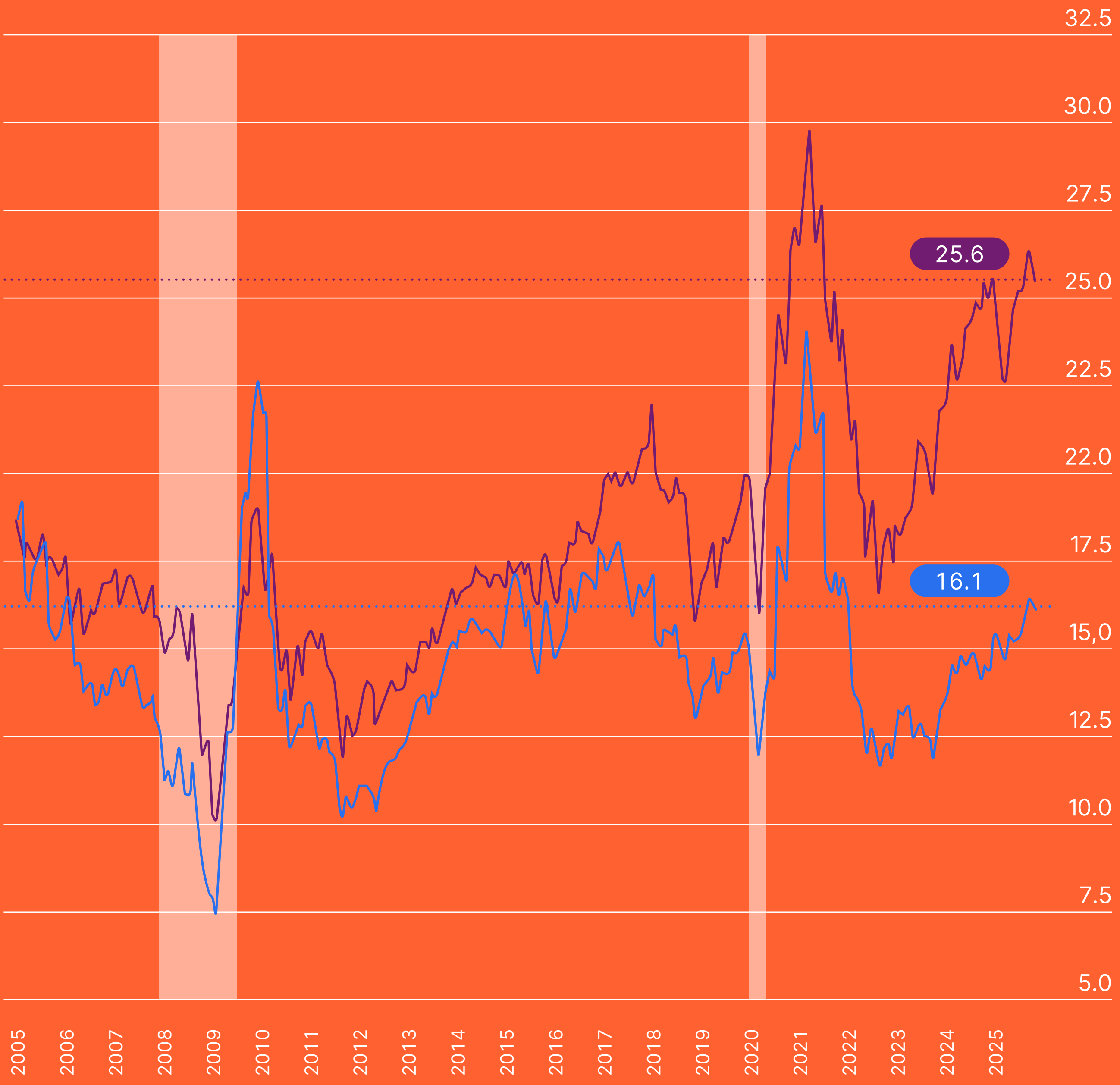
Europe: attractive valuations, structural opportunities

European equities are particularly attractive to us, mainly because they offer investments in dividend-rich companies. In addition, the small-cap segment is becoming increasingly appealing. Europe generally offers more favourable valuations than the US and is benefiting from structural changes, such as fiscal policy measures (i.e. the use of government spending to stimulate the economy) and the energy transition.

Historical development of company valuations in Europe and the USA

USA P/E-Ratio (25.6)
Europe P/E-Ratio (16.1)
Recession

Source: Bloomberg.
Past performance is not a reliable indicator of future results.



Investments in securities involve both opportunities and risks.

United States: more value, less hype

In the US, we are focusing on attractively valued stocks, thereby reducing our dependence on highly valued tech heavyweights. The Magnificent Seven remain part of the portfolio, but we are also redirecting our focus to other areas.

Emerging markets: opportunities with a selective approach

Emerging markets are an important component of our equity portfolio. We consider Latin America to be particularly promising: the region benefits from favourable valuations and a robust commodity base – valuable characteristics in a globally diversified portfolio.

China: between adjustment and tension

Our stance on China has become more cautious following the powerful rally this year. The country's real estate sector is undergoing a prolonged adjustment period characterized by oversupply, while high levels of debt among private and public households are weighing on the economy. Additionally, demographic headwinds and geopolitical tensions with the US are factors of concern.

INVESTORS

What is the takeaway for investors?

→ The outlook for equity investors remains promising in 2026 – provided they prioritize quality, selectively add undervalued companies to their portfolio and remain flexible enough to respond to new trends. Our strategy: selection, diversification and a clear focus on value rather than hype.

European and US government bonds: stability with a measured approach

Particularly in periods marked by uncertainties around growth, inflation and monetary policy (i.e. central banks' management of interest rates and money supply in order to control inflation and promote economic growth), government bonds can make an important contribution. Our outlook for 2026 is fundamentally constructive, but nuanced.

Historical development of yields on 10-year German government bonds

Average (Decade)
GER 10-Year Yields (2.7 %)

Source: Bloomberg.
Past performance is not a reliable indicator of future results.

Our assessment for government bonds in 2026:

Eurozone: attractive with opportunities in the periphery

From a regional perspective, our preference leans towards the Eurozone. With inflation on the decline and the ECB initiating rate cuts – yet maintaining a cautious stance on future monetary policy – Eurozone government bonds emerge as a compelling option. Selected peripheral countries (e.g. Spain, Portugal, Italy) also offer attractive return opportunities.

United States: underweight due to heightened fiscal and currency risks

In our assessment, US government bonds currently present limited appeal. Despite the Federal Reserve's move to lower interest rates, our confidence in US fiscal policy has been shaken. Ballooning budget deficits, political uncertainties and a softening labour market are causing heightened volatility. We are also cautious about the US dollar. From a European perspective, the costs associated with hedging against the dollar appear high.

Emerging markets: opportunities in local currency bonds

Our focus is particularly drawn to government bonds from emerging markets denominated in local currencies. Many of these countries – particularly in Asia – are more advanced in their interest rate cycles yet continue to offer attractive yields. We see opportunities here, particularly with the potential emergence of a stronger Asian economic bloc centred around China.

INVESTORS

What is the takeaway for investors?

→ Government bonds are a foundational component of a portfolio's stability portion. We are positioning ourselves in Europe, seizing select opportunities in emerging markets, while maintaining a cautious stance towards the US.

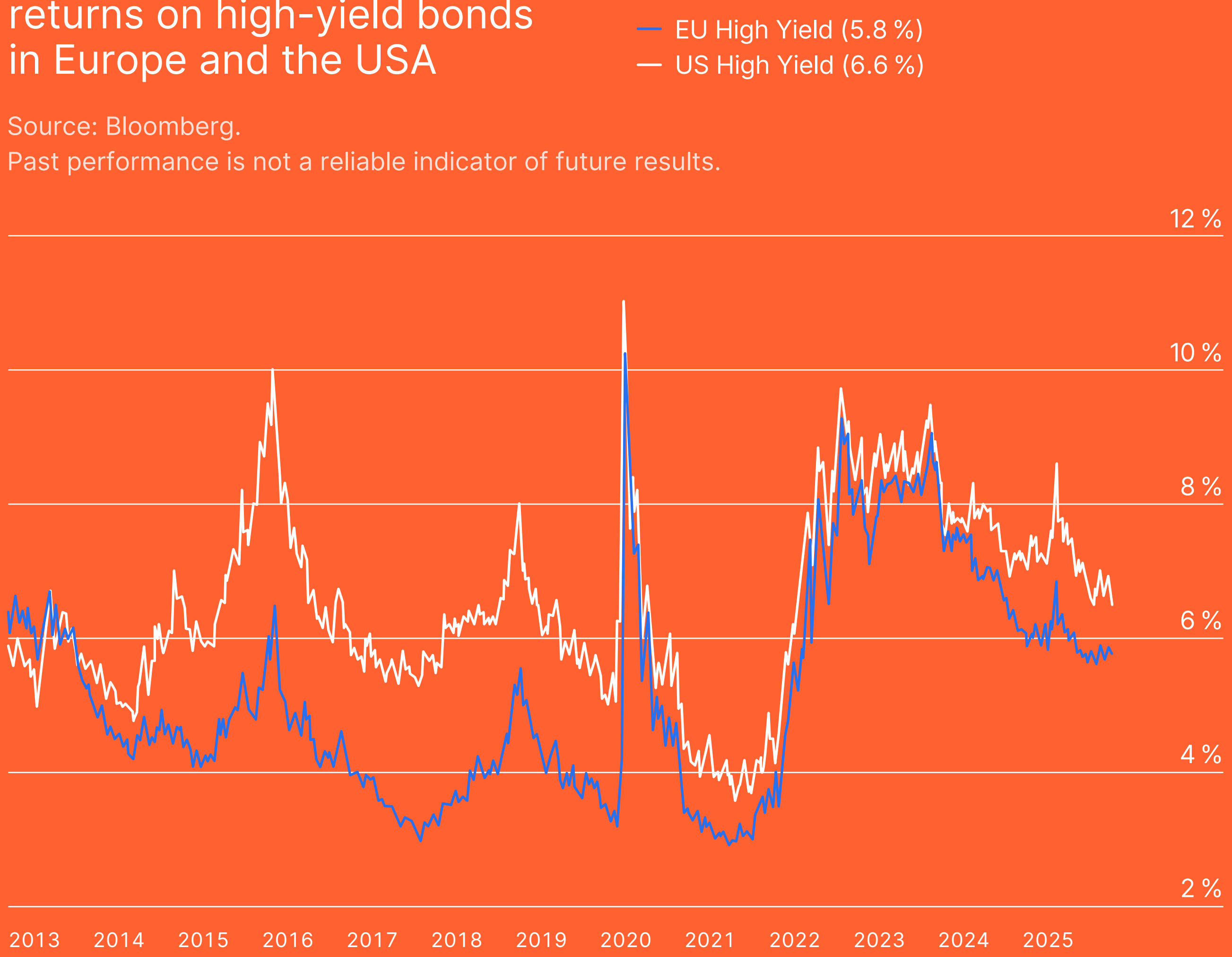
Investitionen in Wertpapiere bergen neben Chancen auch Risiken.

"Particularly in periods marked by uncertainties around growth, inflation and monetary policy... government bonds can make an important contribution."

Corporate bonds: selection and opportunities with ongoing returns

Historical development of returns on high-yield bonds in Europe and the USA

Source: Bloomberg.
Past performance is not a reliable indicator of future results.



Our assessment for 2026:

Investment-grade corporate bonds: stability and ongoing returns

In the current market environment, corporate bonds rated high (AAA to BBB) by credit rating agencies offer attractive returns with a manageable level of risk. Issuers with solid balance sheets, stable business models and a low level of dependence on economic fluctuations are particularly interesting. Flexibility in terms of maturities remains important in order to respond to changes in interest rates and risk premiums.

High-yield corporate bonds: opportunities in Europe and Asia with broad diversification

High-yield bonds are also an interesting source of returns in the current market environment. However, careful selection is warranted: our preference is on regions and sectors with strong fundamentals and attractive valuations. We see opportunities particularly in Europe and Asia. Broad diversification across issuers is crucial to safeguard against the risk of default by any single company.

INVESTORS

What is the takeaway for investors?

→ Corporate bonds are an important component of portfolio returns. Our approach is centred on quality, targeted selection and broad diversification. At the same time, we keep a watchful eye in order to identify and manage risks at an early stage.

Investments in securities involve both opportunities and risks.

Commodities: diversification and strategic opportunities

Commodities can play several roles in a balanced portfolio – both as a source of returns and as a counterweight to inflation, geopolitical risks, and currency fluctuations.

Our assessment for 2026:

Gold: strategic pillar in the portfolio

Gold can serve as a cornerstone for safeguarding against inflation and sovereign debt risks, geopolitical uncertainties and the potential erosion of confidence in the US dollar. Fiscal dominance – increasing political pressure on central banks to maintain an accommodative policy – as well as falling key interest rates and continued high inflation point to sustained demand for gold. Central banks in emerging markets remain net buyers, and the geopolitical climate also supports the gold price.

Industrial metals: selectively attractive due to structural tailwinds

The energy transition, the expansion of AI infrastructure and the increasing demand for electricity are creating structural tailwinds. Industrial metals such as copper benefit from supply bottlenecks and the global transformation towards greater digitalization and sustainability.

Energy: volatile environment

Our stance on conventional energy commodities such as oil is cautious. OPEC's influence has diminished, and structural changes in the energy market are causing heightened volatility.

INVESTORS

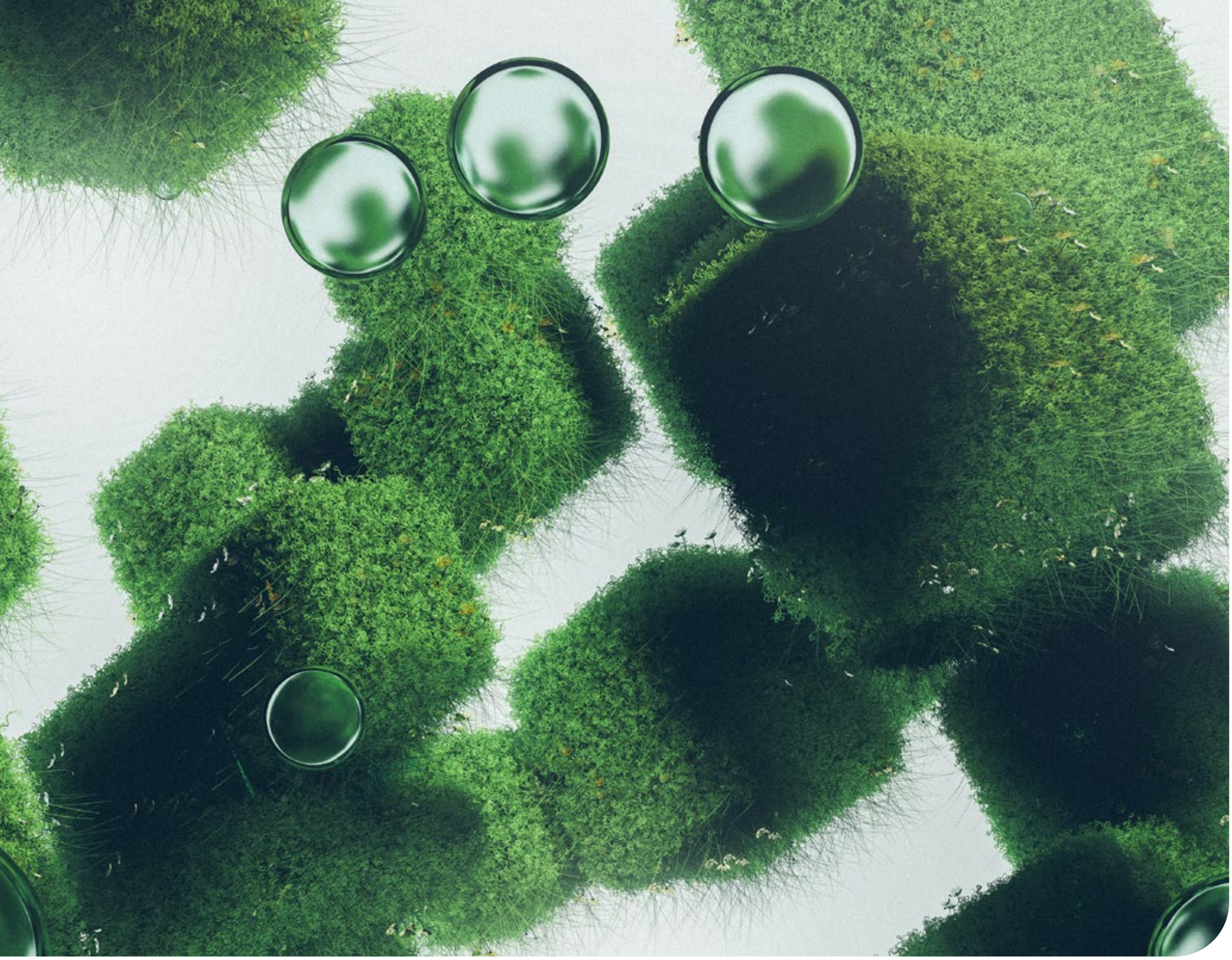
What is the takeaway for investors?

→ Commodities serve as a strategic addition for diversification purposes. A structural exposure to gold can cushion inflation and geopolitical risks, while selective positions in industrial metals benefit from the energy transition and digitalization. However, caution is advised with traditional energy sources.

"Gold can serve as a cornerstone for safeguarding against inflation and sovereign debt risks, geopolitical uncertainties and the potential erosion of confidence in the US dollar."

Historical development of central bank demand for gold and the gold price

Source: Bloomberg.
Past performance is not a reliable indicator of future developments.



Alternatives: returns and stability outside the traditional markets

In a challenging market environment, the importance of alternative investments – such as hedge funds, private equity, infrastructure or real estate – is on the rise. Alternatives provide an opportunity to tap into sources of return that are only loosely correlated with traditional equity and bond markets, thereby contributing to a more robust and diversified portfolio.

Our assessment for 2026:

Private markets: opportunities beyond the stock market

Private equity and real estate provide access to companies and projects that are not tradable on public trading venues. Our approach prioritizes quality, sustainable business models and careful selection. Particularly in an environment where traditional financing is becoming harder to secure, private markets can offer attractive opportunities.

Hedge funds: risk managers in the portfolio

What sets hedge funds, particularly global macro hedge funds, apart in times of geopolitical uncertainty and volatile markets is their flexibility. They make targeted use of macroeconomic trends, political events and currency fluctuations for their strategies and are therefore less dependent on individual markets. Particularly during periods when traditional asset classes come under pressure at the same time, macro hedge funds can make an important contribution to stability and diversification in the overall portfolio through active risk management and rapid adaptability.

What is the takeaway for investors?

→ Alternative investments aren't a cure-all, but a valuable component of a resilient portfolio. They complement traditional asset classes, increase diversification and can help stabilize the portfolio even in difficult market phases.

"What sets hedge funds, particularly global macro hedge funds, apart in times of geopolitical uncertainty and volatile markets is their flexibility."

Overall portfolio for 2026: robust, broadly positioned and flexible

We are structuring the overall portfolio for 2026 in a way that enables it to remain robust even in an environment marked by uncertainties and structural changes. Our focus is on broad diversification across various asset classes, regions and sectors in order to cushion against volatilities while capitalizing on opportunities in a targeted manner. Equities remain a growth driver for us, with a focus on quality, favourable valuations and structural trends. Emerging market equities complement the portfolio. In this regard, we take a nuanced view of their opportunities and risks associated with them. In the bond sector, government bonds from the Eurozone and emerging market bonds in local currencies provide stability and returns. Corporate bonds – both investment grade and high yield – offer additional return opportunities, with quality and liquidity being the priority. Commodities, particularly gold, are strategic add-ons to guard against the erosive effects of inflation, geopolitical risks and currency fluctuations. Alternative investments such as private markets and macro hedge funds boost portfolio robustness and can make valuable contributions, particularly in uncertain times. We maintain sufficient liquidity to respond flexibly to market opportunities and risks.

INVESTORS

What is the takeaway for investors?

→ Our approach combines proven principles with targeted focus areas to protect and grow your assets, even in turbulent times.

Investments in securities involve both opportunities and risks.

	less	neutral	more
Global equities			
US	●	○	○
Europe	○	○	●
Emerging markets	○	●	○
Bonds			
Government bonds Europe	○	○	●
Government bonds US	●	○	○
Government bonds emerging markets – local currencies	○	○	●
Corporate bonds Europe	○	○	●
Corporate bonds US	●	○	○
High Yield Europa	○	○	●
High Yield US	●	○	○
Alternatives			
Gold	○	○	●
Industrial metals	○	○	●
Energy commodities	●	○	○
Private markets	○	●	○
Hedge funds	○	●	○

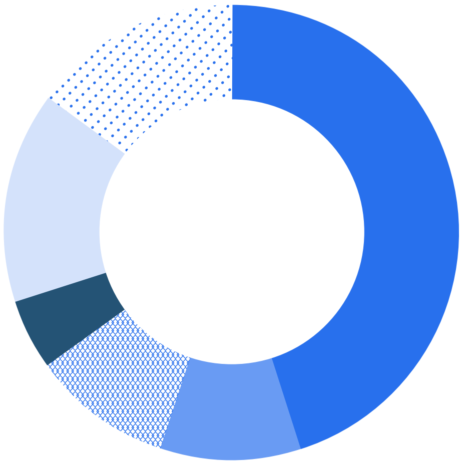
Assessment of attractiveness: less neutral more

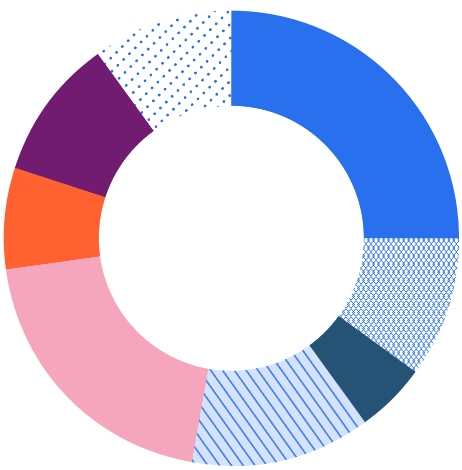
Possible asset allocations
based on risk tolerance.

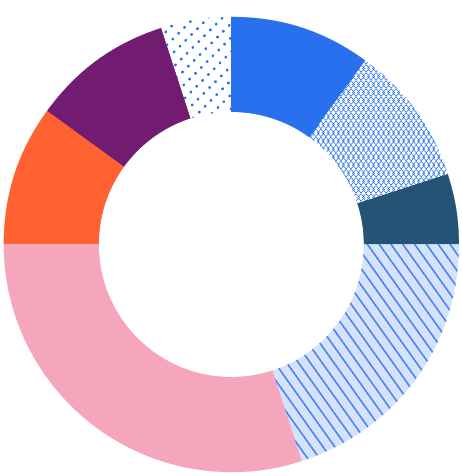
Conservative

Moderate

Dynamic


Euro-Corporates Investment Grade, 45 %
European High Yield, 10 %
Emerging Sovereign Bonds (Hard Currency), 10 %
Emerging Market Local-Currency Bonds, 5 %
Developed Market Equities, 15 %
Open-Ended Real Estate Funds, 15 %


Euro-Corporates Investment Grade, 25 %
Emerging Sovereign Bonds (Hard Currency), 10 %
Emerging Market Local-Currency Bonds, 5 %
Equities Europe, 13 %
Equities US, 20 %
Equities Emerging Markets, 7 %
Gold, 10 %
Open-Ended Real Estate Funds, 10 %


Euro-Corporates Investment Grade, 10 %
Emerging Sovereign Bonds (Hard Currency), 10 %
Emerging Market Local-Currency Bonds, 5 %
Equities Europe, 20 %
Equities US, 30 %
Equities Emerging Markets, 10 %
Gold, 10 %
Open-Ended Real Estate Funds, 5 %

PLANNING

04

How to plan ahead

Planning is the foundation of successful investing.

To this day, the concept of investing is often associated with trading, speculative forecasts and a high level of complexity.

We are convinced that successful investing is based on something else: a clear plan, disciplined implementation and thoughtful risk management.

In this chapter, we are introducing three proven basic principles.

We will demonstrate how these principles can be translated into straightforward, actionable steps – for beginners and for investors looking to optimize their portfolio. Apply these principles to align your finances with your goals, navigate market fluctuations with a composed mindset and let compound interest work to your advantage.

PRINCIPLE I

Time in the market beats market timing

PRINCIPLE II

Invest regularly

PRINCIPLE III

Diversification

PRINCIPLE I

Time in the market beats market timing

Markets move, your goals do not. The most reliable way to build wealth is to stay invested through market ups and downs. Time in the market, backed by a clear strategy, is more powerful than any attempt to perfectly nail the next market move.

BEST PRACTICE

1. Allocation

Define a long-term asset allocation tailored to your investment horizon and risk profile.

2. Rebalancing

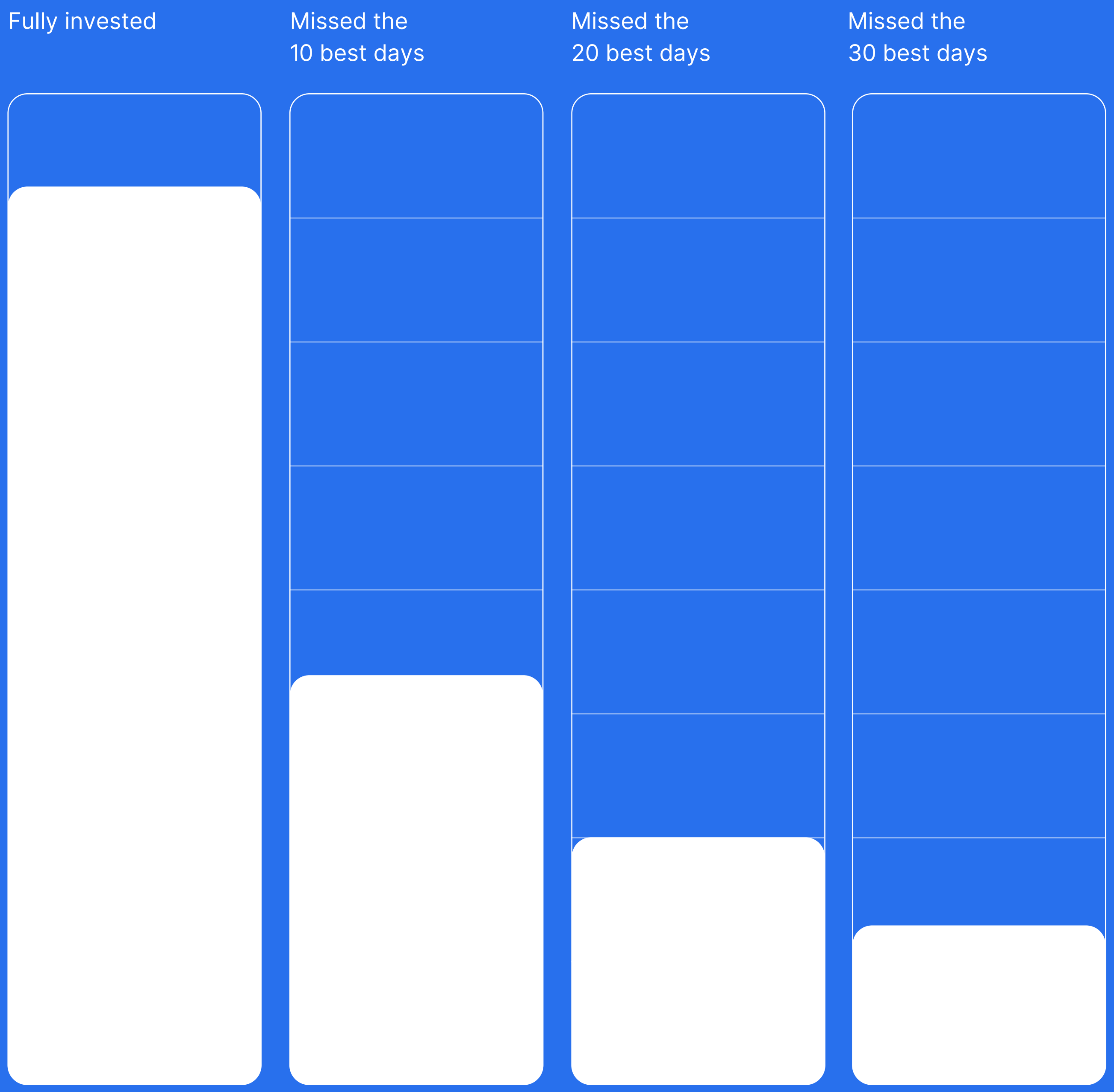
Adjust the balance of your portfolio as needed to stay on track.

3. Liquidity

Keep sufficient cash reserves for short-term expenses to avoid having to sell under pressure during market dips.

When markets dip, let your strategy, not the headlines, guide your next move.

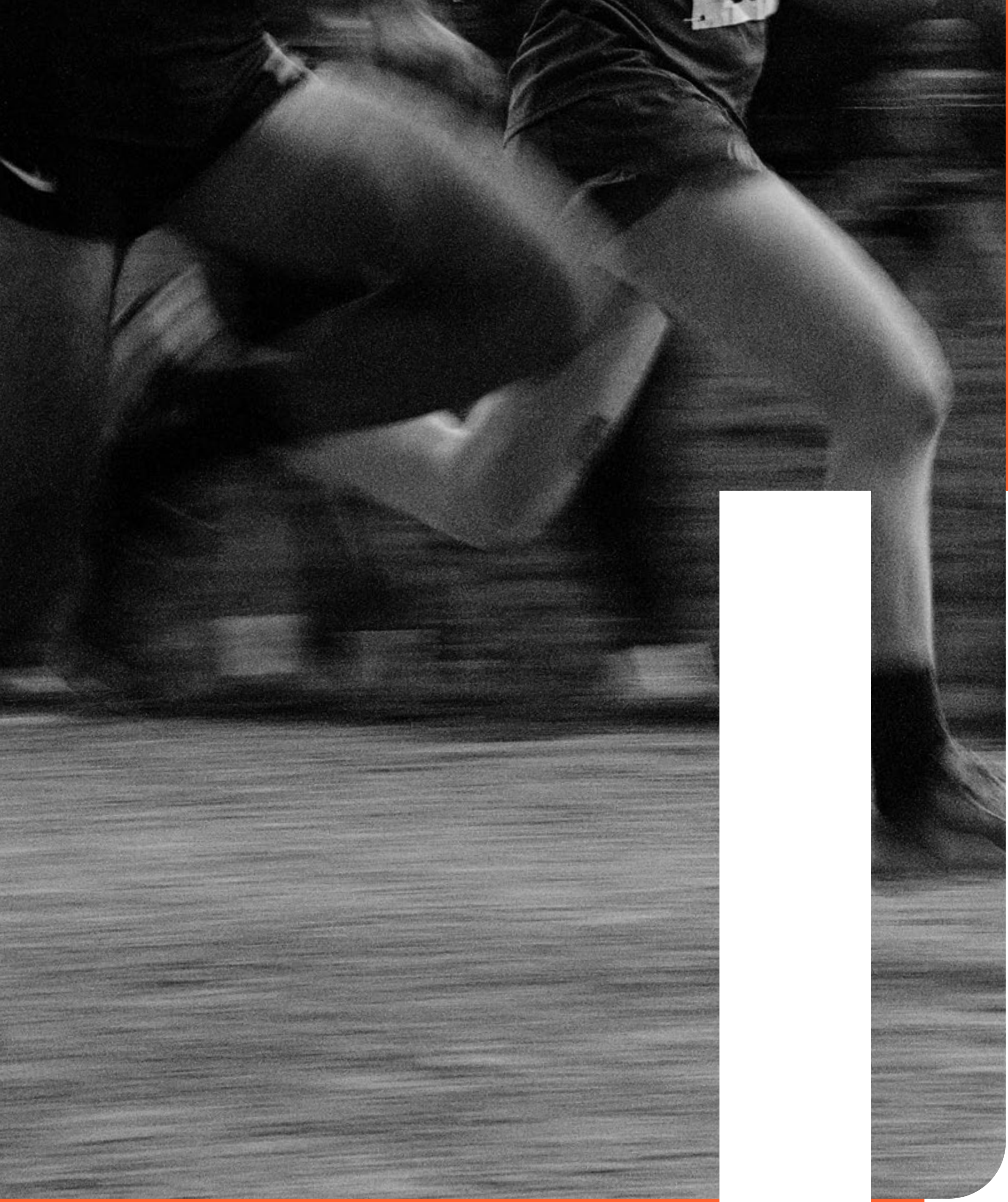
Discipline beats emotion



Investments in securities involve both opportunities and risks.

Selling at the wrong time can be very costly. The infographic shows the performance of a €10,000 investment in US equities over 20 years and highlights why staying invested for the long term is crucial. Missing the best 30 days over a 20-year period has massive consequences. Notably, the strongest market days often occur shortly after sharp corrections.

For illustrative purposes only.
Past performance is not a reliable indicator of future results.



PRINCIPLE II

Invest regularly

Regular investments smooth out risks and get you closer to your goals. This approach – known as cost averaging – keeps your plan on track, reduces the risk of investing a large sum at a less-than-ideal time, and puts idle funds from low-interest accounts to work towards long-term investment goals.

BEST PRACTICE

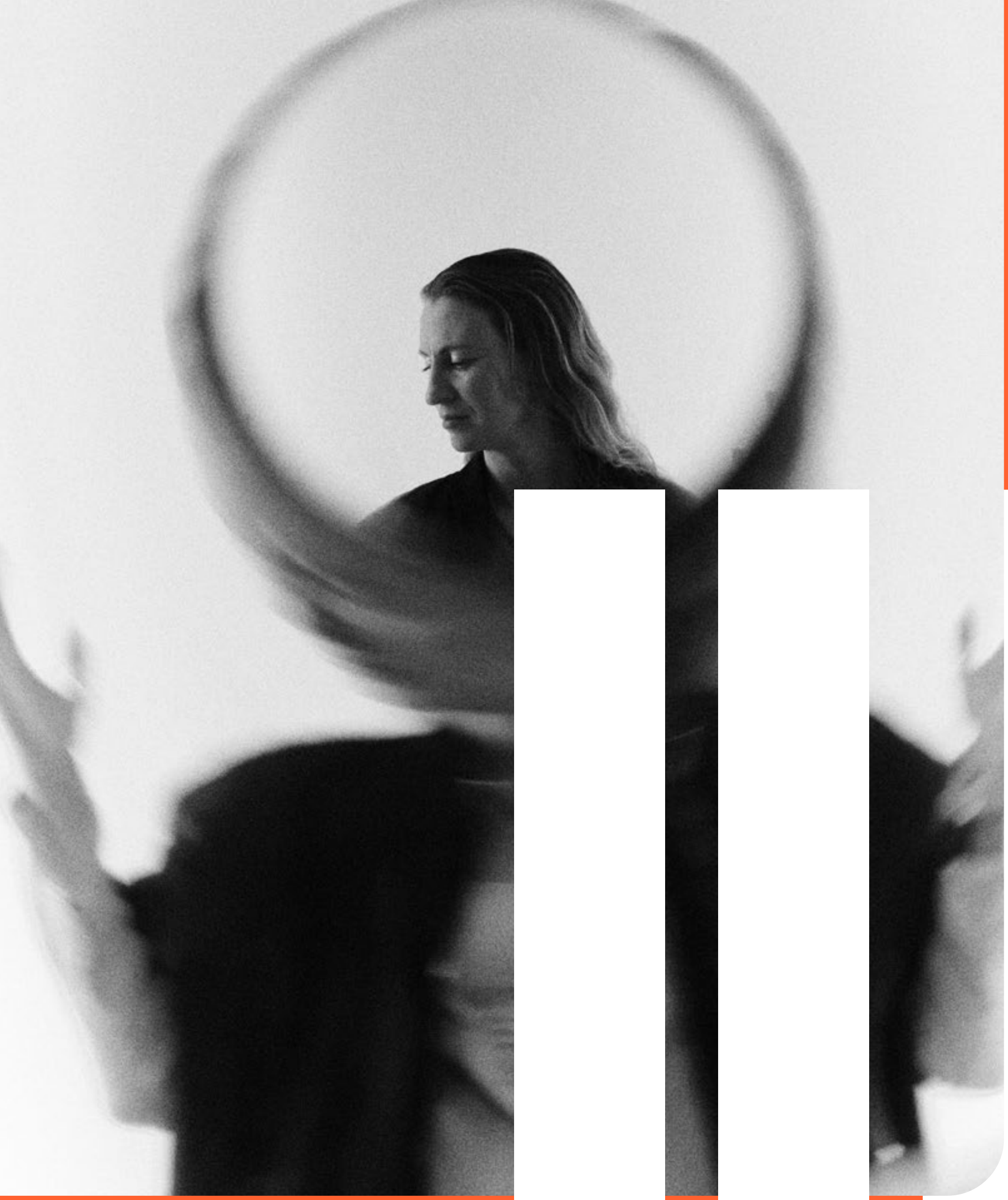
1. Consistency — Select an amount to be invested in your portfolio regularly (e.g. monthly).

2. Averaging — When prices are low, you automatically buy more shares, and when prices are high, you buy fewer.

3. Smoothing — This smooths out the average cost of your investment over time.

The advantages are discipline, less decision fatigue and a straightforward way to invest liquidity or ongoing income. In rising markets, a one-off investment may be more advantageous.

Investments in securities involve both opportunities and risks.



PRINCIPLE III

Diversification

2026 will be marked by economic shifts, interest rate changes and geopolitical uncertainty. Your portfolio should be prepared accordingly – it should be stable and resilient.

BEST PRACTICE

1. Balance
Multi-asset strategies balance risks and open up opportunities across different markets.

2. Stability
Structured bonds with barriers offer stability and certainty during turbulent market phases.

3. Diversity
Globally diversified funds increase the security of your long-term investment strategy.

Diversification is the foundation for stability and growth. Take advantage of the opportunities offered by a broadly diversified portfolio – for more security and peace of mind in a dynamic world.

APPENDIX

Forecast overview, About us, Contact, Important legal information

Forecast overview

GDP growth in %

	2024	2025FC	2026FC
Eurozone	0.90	1.40	1.10
US	2.80	1.60	1.80
Austria	-0.70	0.40	0.80
Croatia	3.80	3.00	2.70
Poland	1.10	2.50	2.40
Romania	0.60	0.20	2.00
Serbia	3.00	3.50	3.50
Slovakia	0.90	1.30	2.10
Slovenia	3.90	2.00	2.70
Czechia	1.90	0.70	1.30
Hungary	1.70	0.90	2.10
CEE8 average	2.00	2.30	2.70

Forecasts are estimates.

Key interest rates in %

	Actual*	Jun–26FC	Dec–26FC
Eurozone	2.00	2.00	2.00
US	3.64	3.13	3.13
Czechia	3.50	3.50	3.50
Hungary	6.50	6.50	6.00
Poland	4.00	3.50	3.50
Romania	6.50	6.25	5.25
Serbia	5.75	5.50	5.00

Forecasts are estimates.

10-year government bond yield in %

	Actual*	Jun–26FC	Dez–26FC
Eurozone	2.85	2.90	3.00
US	4.17	3.90	4.60
Czechia	4.64	4.20	4.00
Hungary	7.00	6.70	6.60
Poland	5.24	5.00	4.80
Romania	6.89	6.70	6.50
Serbia	5.05	5.00	4.70

Forecasts are estimates. Past performance is not a reliable indicator of future results.

Inflation in %

	2024	2025FC	2026FC
Eurozone	2.40	2.10	1.80
US	3.00	2.80	2.90
Austria	2.90	3.50	2.40
Croatia	3.00	3.70	3.20
Poland	2.40	2.60	2.40
Romania	3.70	4.40	3.50
Serbia	3.60	3.60	2.50
Slovakia	5.60	7.30	6.50
Slovenia	4.60	3.90	3.40
Czechia	2.80	4.00	3.50
Hungary	2.00	2.30	2.10
CEE8 Average	3.60	4.10	3.40

Forecasts are estimates.

Exchange rates

	Actual*	Jun–26FC	Dec–26FC
EURUSD	1.175	1.22	1.22
EURCZK	24.28	24.26	24.10
EURHUF	384.40	385.00	385.00
EURPLN	4.22	4.30	4.25
EURRON	5.09	5.10	5.17
EURRSD	117.26	117.20	117.20

Forecasts are estimates.

Yield spread to Germany in basis points

	Actual*	Jun–26FC	Dec–26FC
Austria	25	30	30
Croatia	40	40	40
Slovakia	68	85	85
Slovenia	30	40	40

Forecasts are estimates.

Source: Market data providers, Erste Group Research / *Actual refers to 15 December 2025
We are obliged by regulatory requirements to provide the following notice: Forecasts are not a reliable indicator of future performance. Past performance is not a reliable indicator of future results.

1

Erste Group is the leading banking group in the eastern part of the EU.

46

46,000 Erste Group employees serve customers across all markets.

1,8

1,800 branches ensure close regional proximity to retail and corporate customers.

2,57

Net profit amounted to € 2.57 billion in the financial year through the third quarter of 2025.

17

million customers use Erste Group’s banking and financial services.

7

In seven countries: Austria, Czechia, Slovakia, Romania, Hungary, Croatia and Serbia.

363

Erste Group reported total assets of € 363 billion as of Q3 2025.

18.2

Erste Group’s CET1 ratio (pro forma) stands at 18.2 %.

Contact

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Please note. You are about to acquire a product that may be difficult to understand. Before you make an investment decision, we recommend that you read the full information on the relevant financial product:

- the (base) prospectus
- the Final Terms
- addenda, if any, and
- the key information document (KID), if any, and
- the "Investor Information as defined in Section 21 of the Alternative Investment Funds Managers Act [AIFMG]"

These documents can be obtained free of charge from here: Erste Group Bank AG, Am Belvedere 1, 1100 Vienna

Please also note our client information.

Our analyses and conclusions are of a general nature and do not take into account the personal characteristics of our investors in terms of experience and knowledge, the investment objective, the financial situation, the financial loss-bearing capacity or risk tolerance.

THE FOLLOWING IMPORTANT LEGAL INFORMATION REFERS TO THE CONTENT OF ERSTE GROUP RESEARCH ON PAGES 9 TO 21

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INSIGHTS

2026