Investment Outlook 3Q 2026

Multi-Asset Strategies

29.06.2026

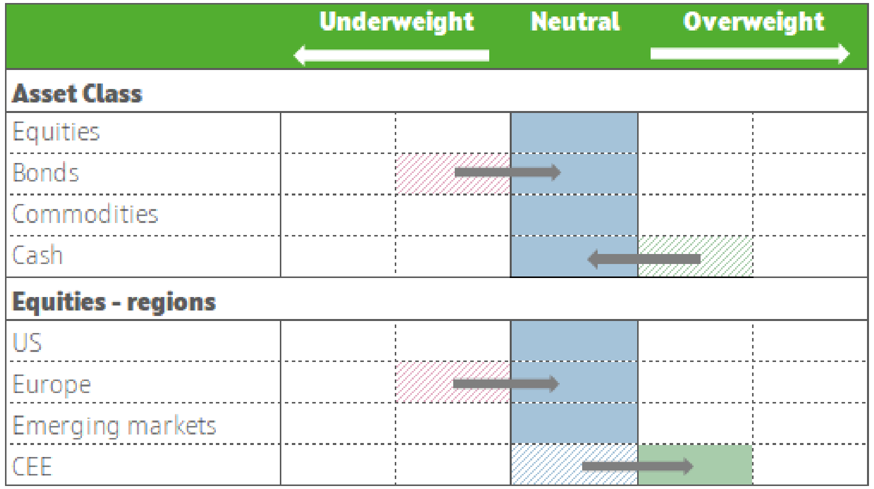
Summary: worst case is averted, but markets could stay volatile

Macro: With the reopening of the Strait of Hormuz, the worst-case economic scenario may have been averted. Growth forecasts have stabilized in the US around 2% for both 2026 and 2027, and 0.7% and 1% in the eurozone. Inflation has remained persistently high in the US, with the base of acceleration broadening rather than narrowing. In the eurozone, inflation may hover around 3%, but inflationary pressures are not expected to strengthen over the medium term. As a result, the market has already priced in two interest rate hikes by the Fed this year, and even if the central bank ultimately does not go that far, the hawkish tone is likely to persist in the coming months. The ECB has already implemented one rate hike, and may not need to carry the second one out. Hungarian yield curve still prices in four cuts for this year, even as HUF is already testing the 350 level. We believe that at current levels, the risk distribution for the exchange rate is clearly tilted toward depreciation. However, we do not expect any significant HUF weakening.

Equities: Strong profit growth remains supportive for equities, which could contribute to a broadening of the market rally beyond the technology sector. However, there are several risk factors, like the hawkish Fed, midterm elections, fragile US-Iran deal, large tech IPOs, and AI return fears, that could lead to increased market volatility. Semiconductors' long-term fundamentals are still strong, but the sector became overcrowded in the short run, and the good news are already priced in, so we removed the sector from our most favored list. We would still keep AI related exposures, like cybersecurity on the software side, but since the next bottleneck could be the power supply to data centers, we remain optimistic about the utilities and renewable energy sectors, as well as healthcare, which stands to benefit from increasingly advanced AI solutions. As we expect a short term pause in the tech rally, even in the face of a significant profit boom, we would maintain neutral exposure regarding the US and EM regions. Given the normalization of energy prices, capital may shift toward relative laggards, like India, LatAm or the CEE region, which have a much more reasonable valuation and growth characteristics.

Bonds: The rapid normalization of energy prices is helping to mitigate inflation risks, which is why it is recommended to maintain a neutral position on long-term bonds rather than underweighting them as before. Long bond yields in both the US and the eurozone are currently within what is considered a fair range in the current macro environment.

Commodities: We maintain our neutral view on commodities, as the conflict in the Middle East is still not resolved. As with energy prices, we expect that even if a peace agreement is reached, fertilizer prices may remain relatively higher, which coupled with a stronger El Nino, provide a tailwind for agricultural commodities. We removed gold from our favored list, as the pace of central bank buying is slowing, meanwhile the hawkish Fed rhetoric, and the strengthening dollar are strong headwinds.



The most favored investment topics:

- **Cybersecurity**
- **Utilities/Renewables**
- **Healthcare**
- **India**
- **LatAm**
- **Agriculture** ✱

✱ Newly added topic to the list

6-12-month market perspective, rebalancing quarterly

Macro overview

Market overview

US: GDP is likely to grow ~2% again in 2026; the outlook remains uncertain

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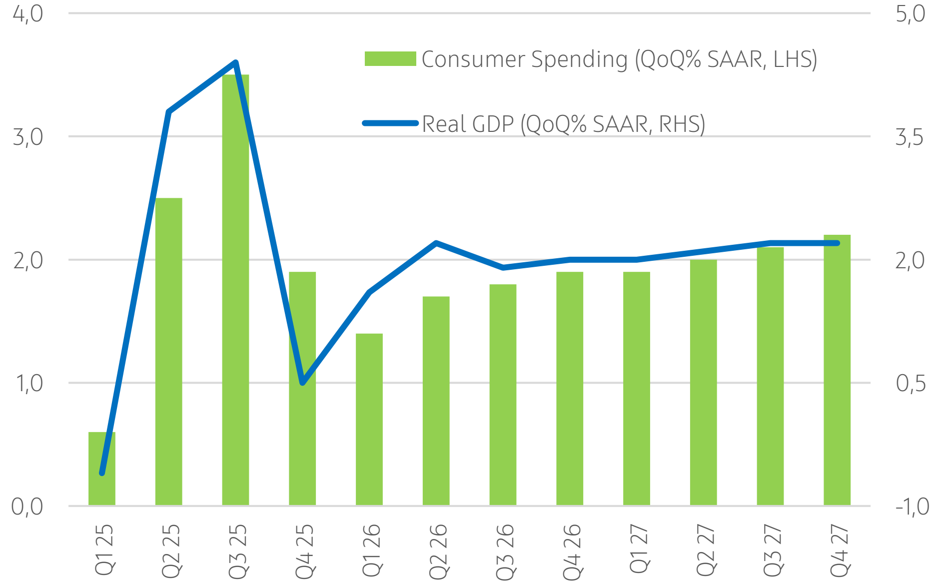
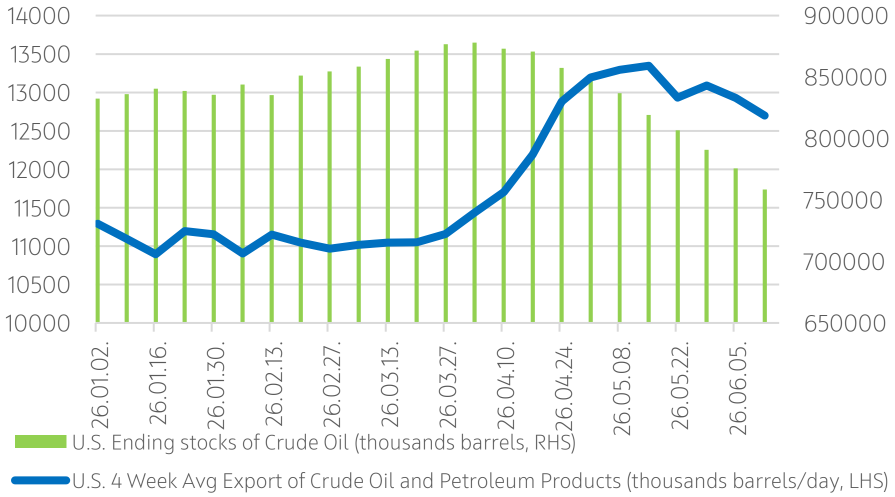
GDP growth, YoY, fact and forecast



U.S. Crude Oil Exports and Inventories



2025: solid 2.1% GDP increase; 2026 Q1: weaker than expected, yet steady expansion

- 2025: Despite the tariff war, US GDP growth remained around 2%, primarily driven by consumption and investment.
- 2026 Q1: The rebound was weaker than expected (+1.6% QoQ, annualized), following the weak base in 2025 Q4 (+0.5% QoQ, annualized), which was caused by the record-long government shutdown:
- Corporate investment: surged significantly; spending on equipment rose by 17.2%, while investment in intellectual property soared by 11.6%, largely driven by the AI boom.
- Household spending: slowed and remained subdued compared to 2025 Q4; the composition clearly shifted from goods toward services.
- Government spending: rose more significantly (+4.4% QoQ, annualized) following the end of the government shutdown in late 2025.
- Net exports: imports (+21.0%) increased far more strongly than exports (+13.1%); beyond the surge in investment-driven import demand, precautionary front-loading may also have played a role, aiming to avoid shortages and price increases linked to the Middle East conflict.

2026/27: GDP growth outlook has stabilized around 2%

- Growth forecasts have stabilized around 2% for both 2026 and 2027, despite ongoing uncertainty.
- Traditionally the main engine of the US economy, household consumption has been closely matched by AI and related investment.
- Persistently high interest rates due to CPI risks, along with a prolonged and unresolved geopolitical conflict and energy price shock, may weigh on growth.
- Due to the US's relative energy independence, it is less exposed than Europe and Asia, yet global supply tightness, supply chain disruptions, and non-energy import cost pressures still weigh on both growth and CPI outlook.
- In the prolonged Middle East conflict, oil production and exports increased markedly. US oil exports rose by 2–2.5 million tonnes per day, significantly contributing to the stabilization of the oil market.

Source: EIA, Bloomberg, OTP Research

US: the labor market appears to be stabilizing

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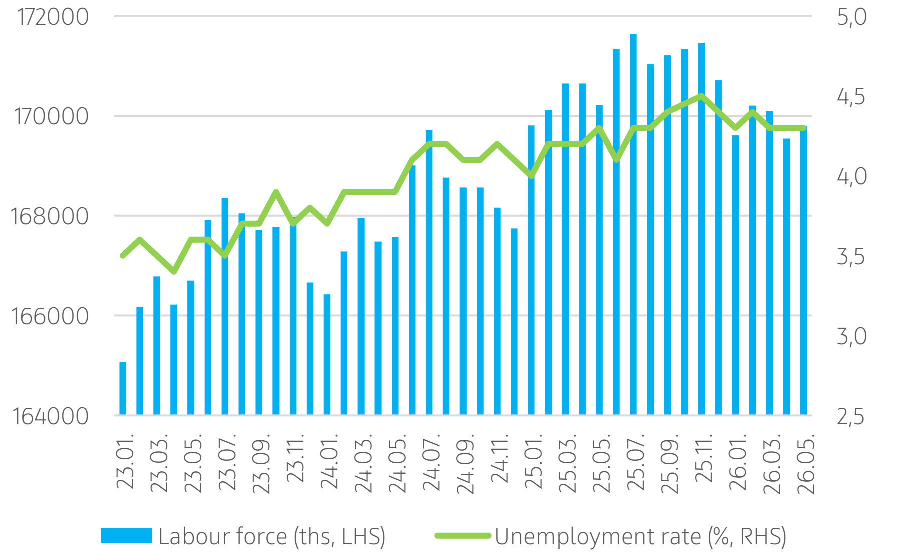
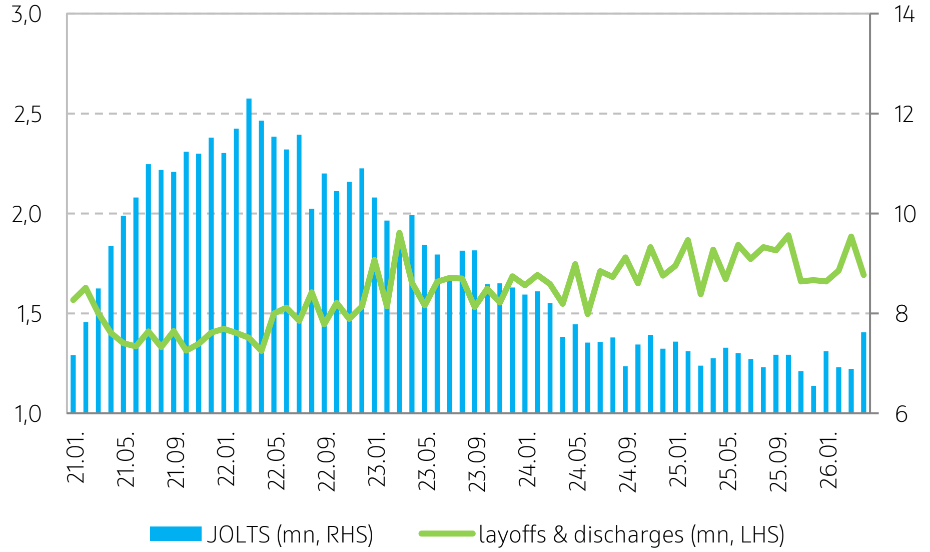
Labor market figures





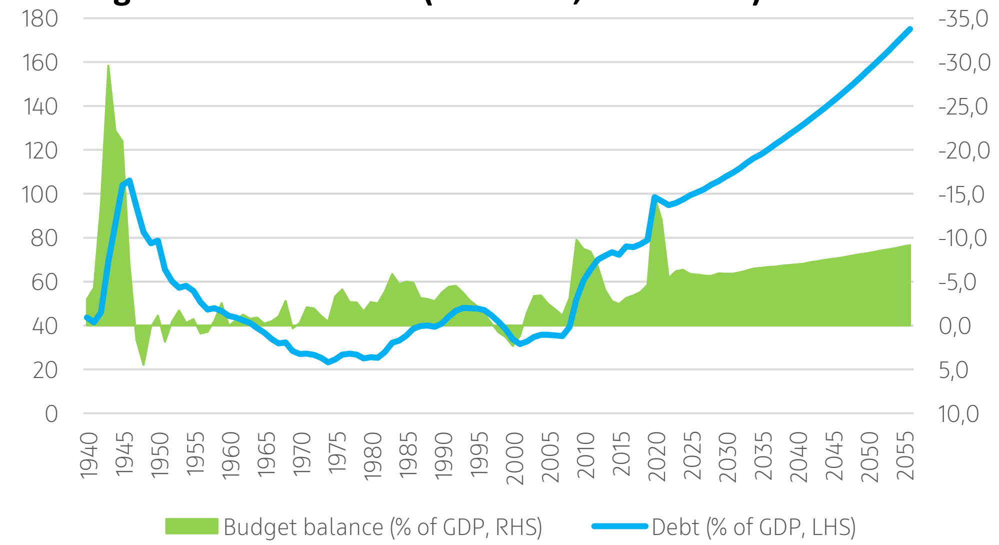
Labor market data are distorted by multiple factors; following the stagnation in 2025, employment growth appears to be resuming this year

- After the sharp deterioration seen over the past year, particularly in its second half, the labor market appears to have stabilized in the first half of 2026.
- Employment growth is accelerating, but there are no signs of overheating; risks continue to be tilted to the downside.
- Assessment of labor market dynamics remains challenging, as it is distorted by methodological changes and extraordinary events–such as strikes, government shutdowns, and immigration policy.
- Both labor demand and supply have gained momentum this year, with demand currently appearing more fragile.
- The level of layoffs, dismissals, and unemployment benefit claims is not historically elevated.
- Non-farm employment growth averaged 92,000 over the past six months and 188,000 over the past three months, exceeding the level required to stabilize the unemployment rate.
- The unemployment rate stabilized at 4.4% in February 2026 and remains low by historical standards.
- Wage dynamics have slowed yet remain relatively strong (standing at 3.4% year-on-year in May).
- Productivity growth has exceeded 2% in recent years; 2026 Q1 brought a notable slowdown, but acceleration is expected over the medium term with the rise of AI.

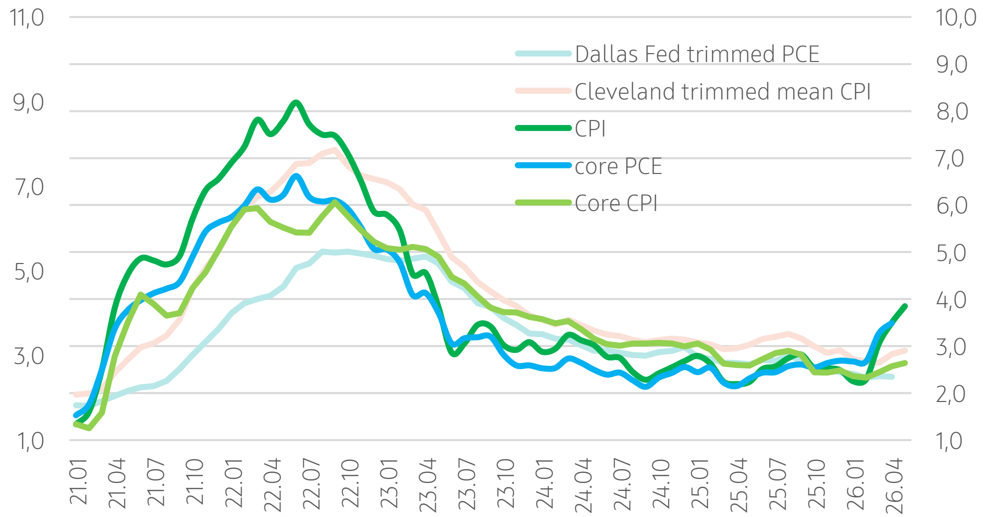
Source: Refinitiv, OTP Research

US: high debt and deficit, inflation above the target

Budget deficit and debt (% of GDP, fact and fc)



Inflation (YoY, %)



- The fiscal deficit is stagnating at around 5% of GDP, including tariff revenues. Part of these revenues–more than USD 175 billion, equivalent to 0.5–0.6% of GDP–must be refunded under a Supreme Court ruling, while Trump's low approval ratings and the upcoming midterm elections may lead to further fiscal spending.
- Government debt continues to rise steadily; interest expenses are set to increase significantly in the coming years due to ongoing repricing.
- Core PCE has been above the 2% target every month for more than five years (April 2026: 3.3% YoY).
- At the level of underlying trends, CPI has remained persistently high, with the base of acceleration broadening rather than narrowing.
- In April, CPI accelerated to 3.8%, exceeding wage growth for the first time in three years. It then rose further to 4.2% in May, and unlike in the euro area, the acceleration is not driven solely by energy prices linked to developments in the Strait of Hormuz.
- In the short term, the acceleration in producer price inflation points to further CPI increases; moreover, the Trump administration has pledged additional tariff hikes for this summer.
- Kevin Warsh, the new Fed Chair, announced at his very first meeting that he had established working groups to lay the groundwork for a transformation of the monetary policy framework. He fundamentally favors looser monetary conditions but acknowledged that the US currently faces a CPI problem.
- Easing tensions in the Strait of Hormuz and the aftermath of the latest Fed meeting have softened expectations for rate hikes; currently, two 25-basis-point increases are priced in for 2026, while the policy rate may remain on hold in 2027.

Source: Refinitiv, CBO, OTP Research

Eurozone: growth may accelerate if oil market tensions ease

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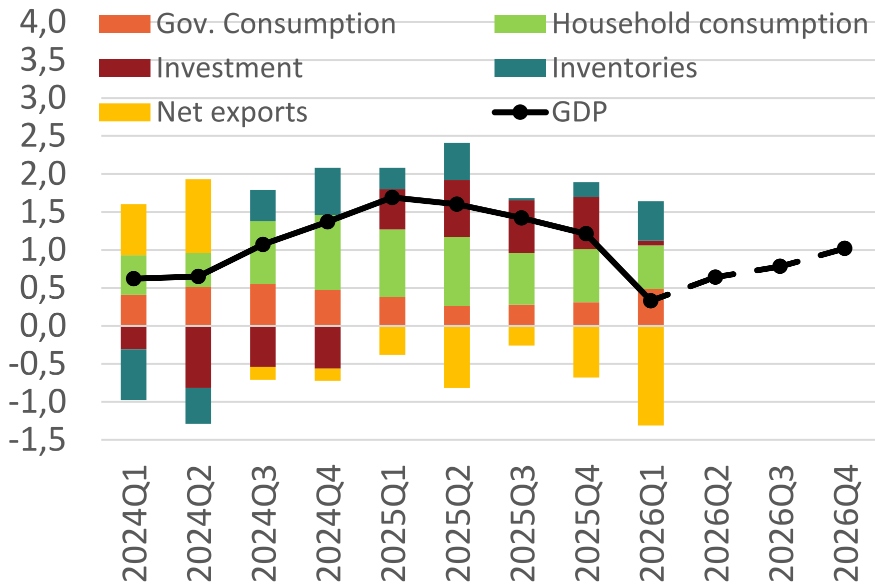
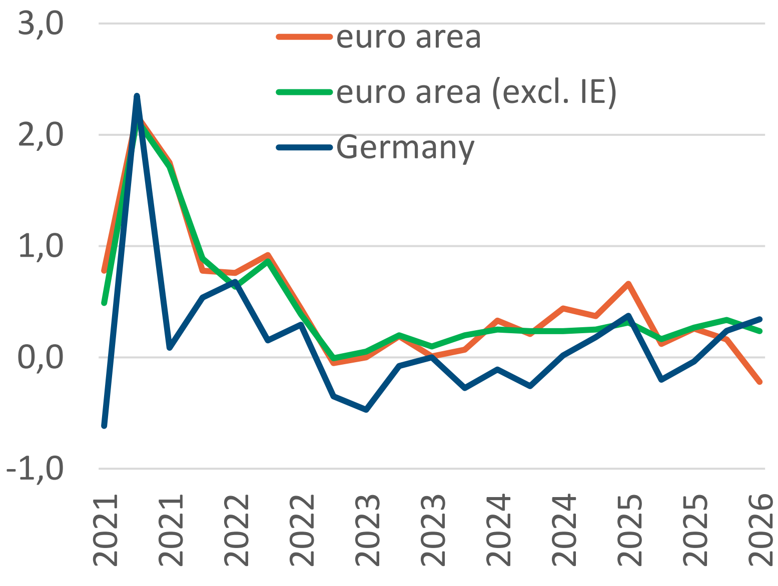
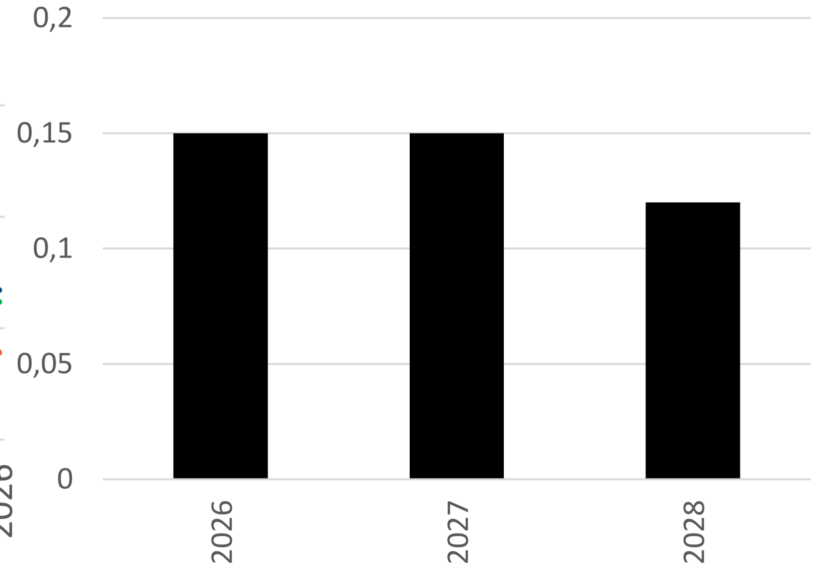
Quarterly YoY GDP growth, Eurozone, %



Quarter-on-quarter GDP growth rates, %



The impact of the announced defense and infrastructure expenditures on GDP growth

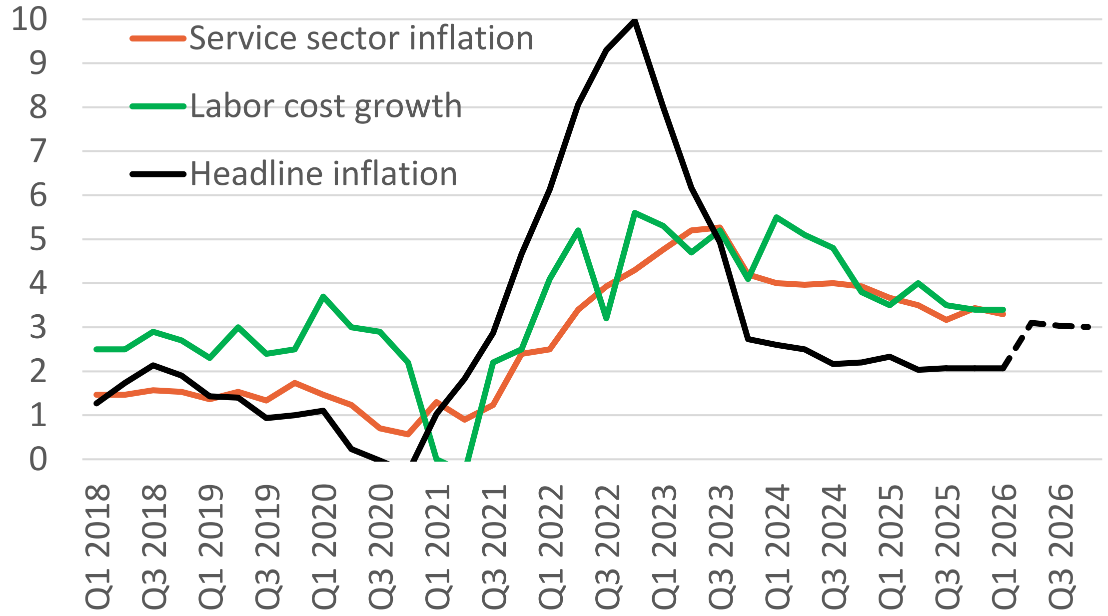


- **2025:** GDP growth stood at 1.5%, and at 1% excluding highly volatile Irish GDP. Q4 growth was 0.8% on an annualized basis, while for the full year it fluctuated around 1%. The slow recovery was broad-based; alongside consumption, investment also made a visible contribution to growth, while lending picked up. The labor market remained tight, and real wage growth stayed strong by historical standards. Momentum in the Mediterranean region persisted last year, while industry-driven economies lagged behind, although German growth gained traction in Q4.
- **2026/27:** Uncertainty related to Iran and the unpredictability of US foreign policy continue to pose significant risks to the euro area economy. At the same time, it is increasingly evident that energy markets have proven more resilient to supply shocks than analysts had assumed at the outset of the conflict. Compared to the 2022 energy crisis, Europe's position is considerably more favorable: thanks to LNG capacities built up in the meantime, natural gas prices have not come close to previous peak levels. Meanwhile, oil prices are currently less than USD 10 higher than pre-war levels, and market reactions to negative news have become more muted. If another significant rise in oil prices is avoided, we consider it realistic that the Eurozone economy expands by around 0.7% this year, in line with market consensus–close to the ECB's 0.8% forecast–and that growth accelerates above 1% again next year. An important shift in the euro area growth pattern is that previously fast-growing southern economies have begun to slow, while Germany has shown clear signs of acceleration in recent quarters.

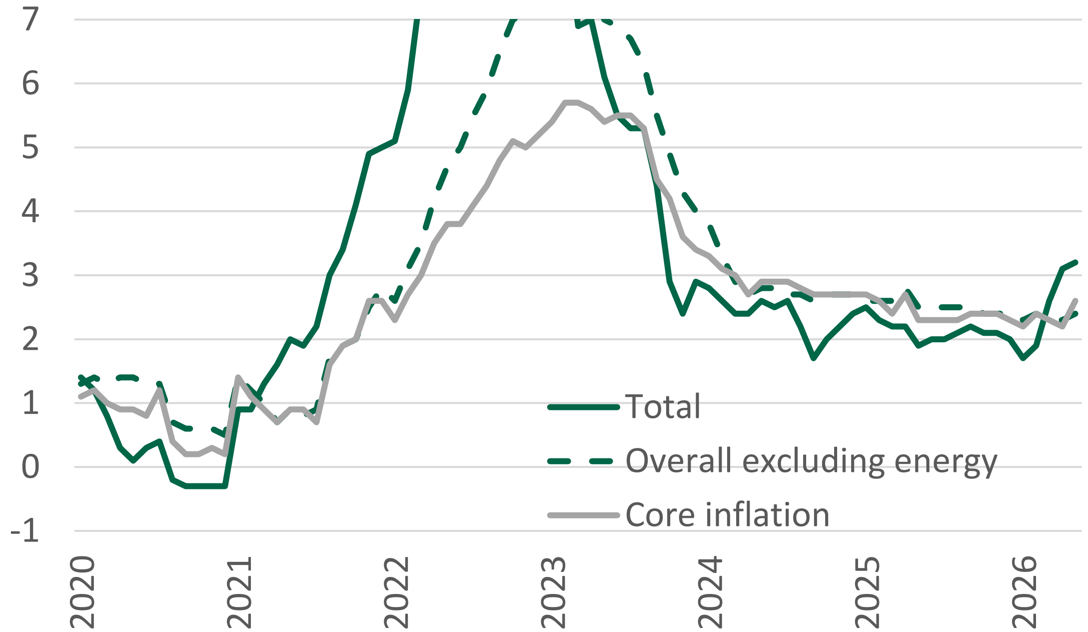
Forrás: Eurostat, ECB, OTP Research

Eurozone: inflation may hover around 3% in the coming months, but inflationary pressures are not expected to strengthen over the medium term

Inflation and wages (YoY; %)



Inflation indicators in the euro area (YoY; %)

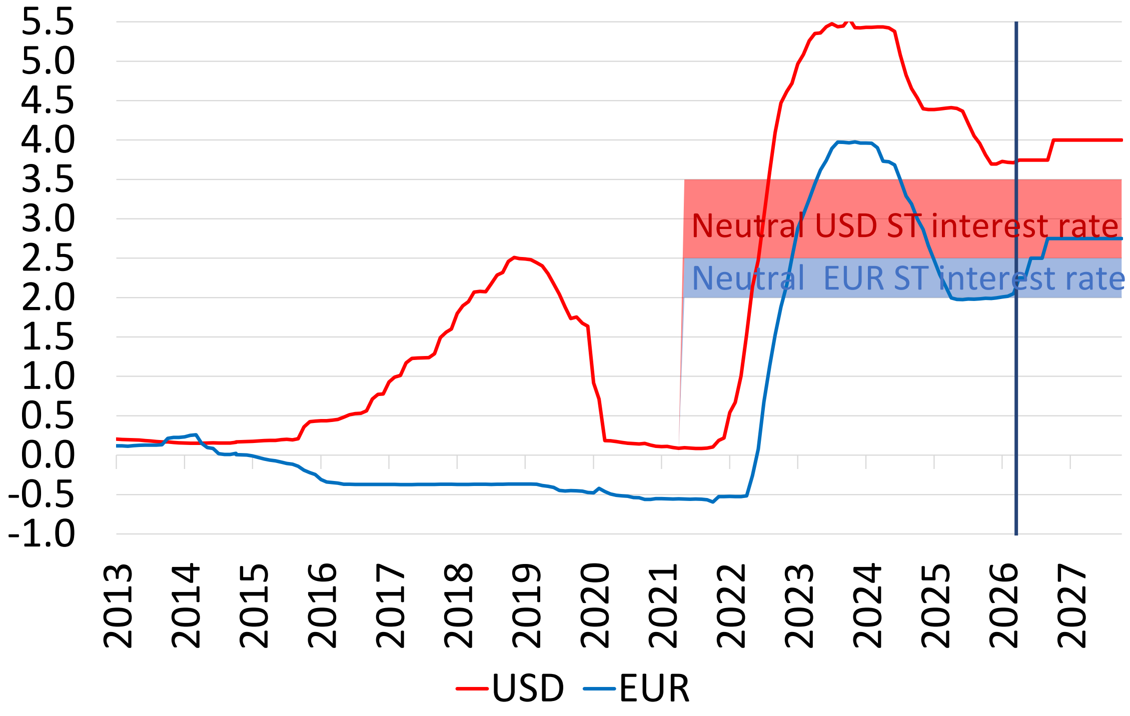


- Since mid-2024, CPI has hovered around the 2% target, while core inflation has remained somewhat above 2%. The increase in headline inflation over the past three months was driven by higher fuel prices, as inflation excluding energy remained at the same level as at the end of 2025. Second-round effects have so far stayed contained, as also reflected in slowing–though still historically elevated (3–4%)–wage growth.
- Based on the recent decline in energy prices, fuel inflation is expected to ease in the coming months. While the earlier rise in natural gas prices may still push electricity and gas prices higher in the short term overall it is unlikely that energy inflation will strengthen materially further. At present, neither the duration nor the magnitude of the increase in energy prices has reached a critical level that would trigger significant second-round effects. At the same time, the ECB needs to take into account that the decline in services inflation has recently stalled around 3%, a level below which it would need to fall to ensure the sustained achievement of the 2% target.

Source: Bloomberg, OTP Research

With easing inflation risks and long-term yields rising to multi-year highs, developed market bonds have become more attractive

Priced USD and EUR policy rate paths (%)



Source: Bloomberg, OTP Research

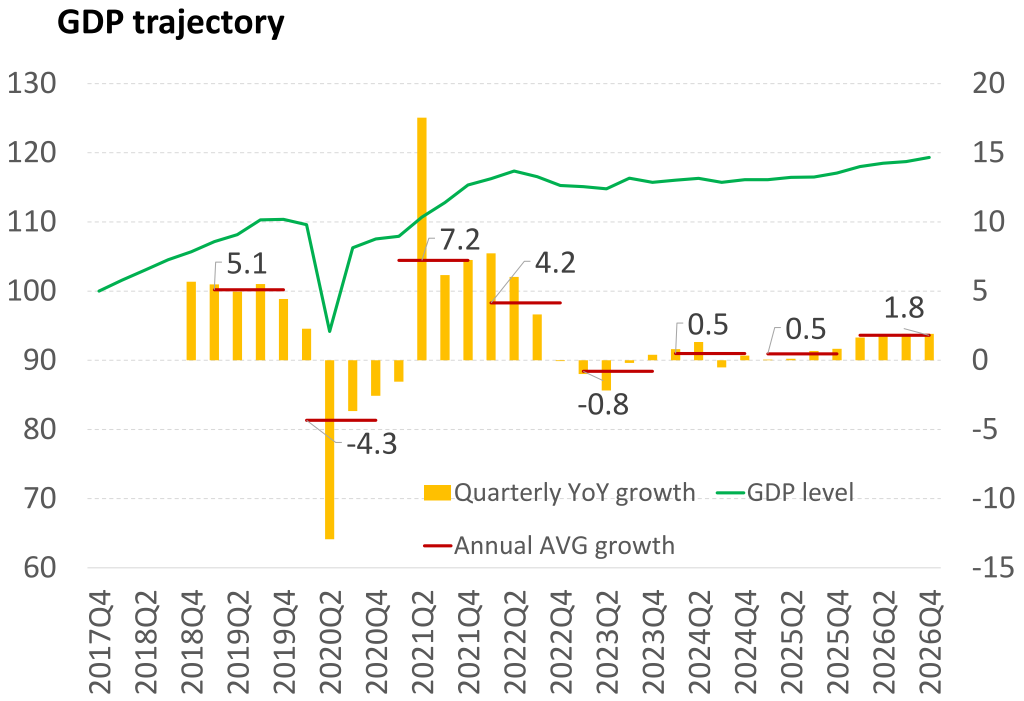
Our assessment of medium-term bond market outlook

- In a fragmented world marked by tariffs, high deficits, and above-target CPI, positive real interest rates are needed to bring inflation back to target. We expect short-term rates to fluctuate around 2–2.5% in the euro area and around 3% in the US over the long term. Due to elevated financing needs, a positive term premium is also required at the long end; we expect the 10-year term premium to reach 100–150 basis points.
- There is limited willingness to make fiscal policy sustainable, while there is a strong temptation to constrain central banks' commitment to low inflation and to resort to financial repression.

Short-term outlook: two rate hikes are expected from the Fed, while the ECB may deliver one additional hike in 2026 following the June increase

- The Federal Reserve began cutting rates in September 2025 with three 25-bp cuts, lowering the target range from 4.25–4.5% to 3.5–3.75%. Following the outbreak of the war in Iran, expectations for rate cuts were first priced out, then the market began to price in rate hikes as US CPI accelerated to 4.2%, while the core producer price index –an indicator with strong predictive power for inflation trends– has approached 5%. Currently, the market prices two hikes for this year, while rates are expected to remain on hold next year.
- Although inflation in the euro area had already been at target for more than half a year prior to the war in Iran, and growth prospects were weaker, markets quickly began to price in rate hikes from the ECB. The first step already took place in June, and market expectations point to one additional hike both this year and next year. However, the interim peace agreement with Iran may mean this does not materialize, as inflation in the euro area excluding energy has not increased since the end of 2025.
- German yields have risen above their autumn 2023 peak, while US long-term yields have reversed from the levels seen in spring 2024. Currently, the term premium on both euro area and US long-dated bonds stands at around 80–100 basis points, which can be considered normal in the current macroeconomic environment.

HU: After 3.5 years of stagnation, the economy gained momentum in Q1; growth of 1.5–2% is achievable this year



Investment and exports weighed on growth in 2025

- Following 2024, consumption remained the sole driver of expansion in 2025 as well, but its growth rate slowed from 6% to 2.9%, in line with declining employment and moderating real wage growth.
- Investment has been declining for four consecutive years, as fiscal tightening and the freezing of EU funds have constrained public investment, while weak outlooks and excess capacity built up in previous years have made the private sector cautious. However, in the second half of 2025, the decline in investment halted on a quarterly basis, which could be an early sign that investment may begin to rise again in 2026.
- Exports declined due to weak European growth, fragile demand for industrial goods and automobiles, as well as strong competition from China.

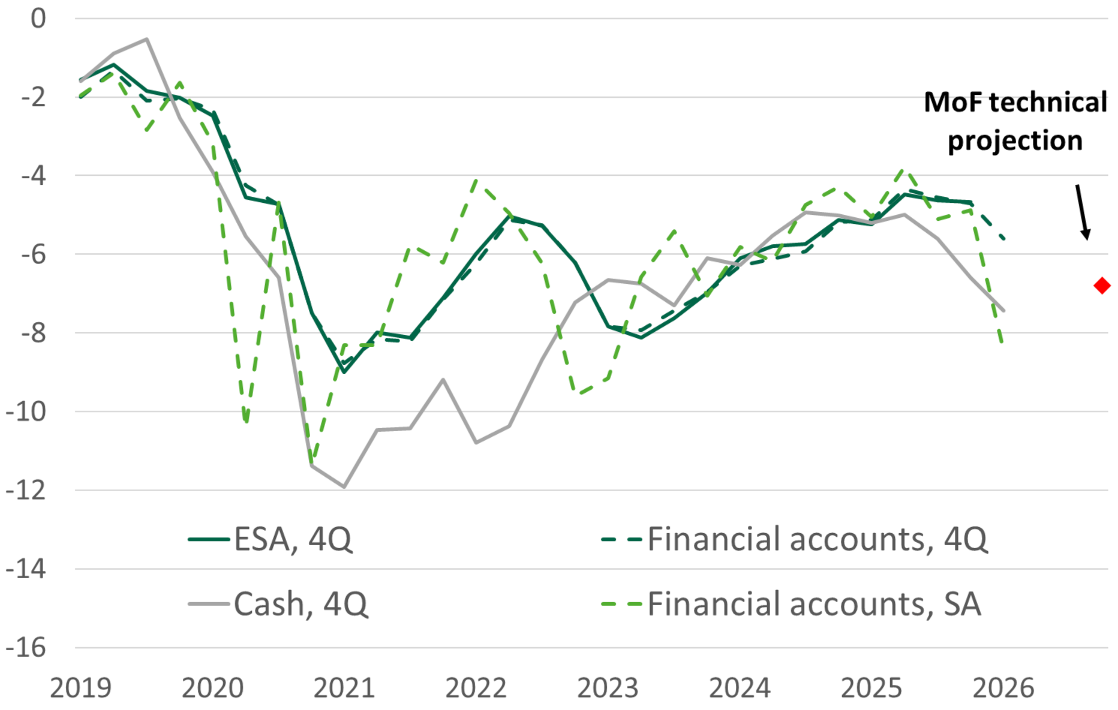
2026: growth accelerated in the first quarter partly due to one-off effects; expansion in the 1.5–2% range remains achievable this year; the impact of EU funds is likely to be felt mainly from 2027 onward

- In Q1, year-on-year growth accelerated to 1.8%, while quarter-on-quarter growth rose to 0.8%. However, behind the stronger-than-expected expansion were several seemingly temporary factors, partly linked to substantial pre-election fiscal spending.
- The war in Iran may have a moderate impact on this year's growth
- Consumption is expected to remain the main driver of growth, supported by households' currently high savings rate. However, declining employment poses a risk.
- Investment continued to stagnate on a QoQ basis in Q1, and the anticipated pickup in public investment linked to the elections appears to have been only modest. However, we expect growth this year in both corporate investment and housing construction, which fell to a 10-year low last year. The impact of the HUF 6,000 billion in available EU funds is likely to boost investment mainly from 2027, although it may already have a positive effect this year indirectly–through strengthening corporate confidence.
- In 2027, growth may accelerate above 2%, driven by ramping-up EU funds, newly operational export capacities, a hopefully positive reallocation in the structure of fiscal spending, and declining interest rates.

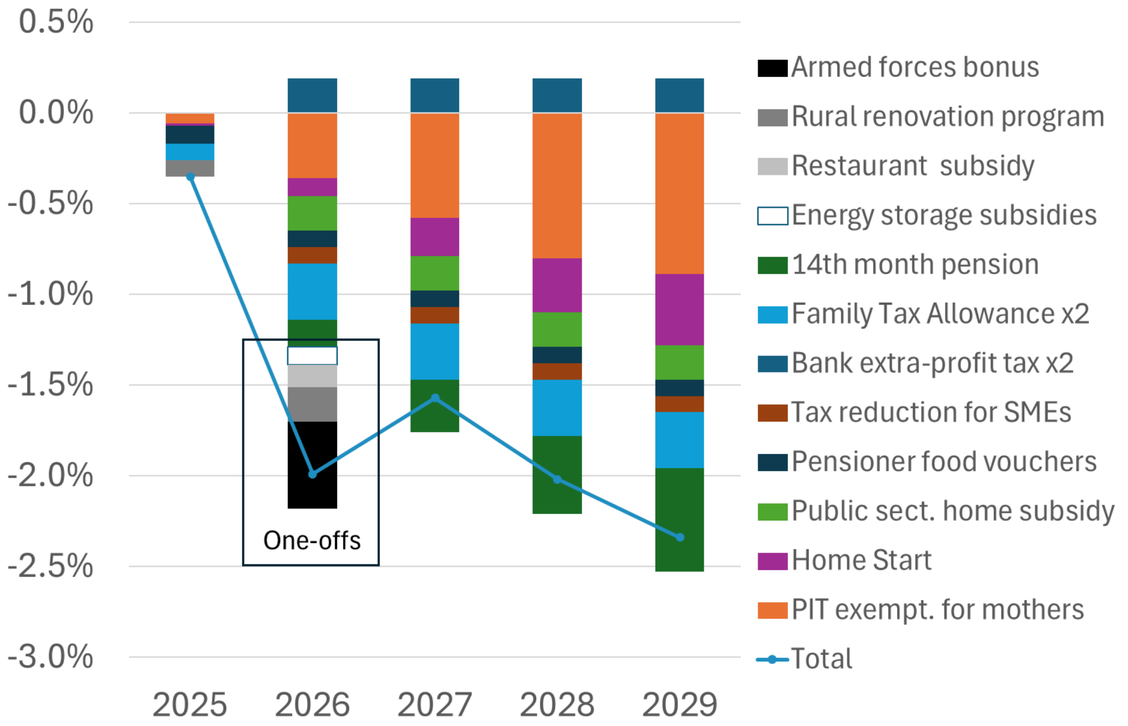
Source: KSH, OTP Research

The deficit may approach 7% in 2026

Indicators of budget balance (% of GDP)



Mid-term fiscal effects of recently announced measures (in % of GDP)



- 2020–2023: high deficits of 6–8% of GDP, driven by COVID-related and election measures
- 2024: the deficit declined to 5% of GDP, thanks to adjustment measures based on tax increases and cuts in public investment
- 2025: 4.7% of GDP, with tightening at the beginning of the year and increased spending toward the end. Without the latter, the deficit would have barely exceeded 4%.
- 2026: due to the previous government's tax cuts, interest subsidy schemes, pension increases, and several one-off transfers in 2026, as well as pre-election spending, the deficit could approach 7% this year.
- Under unchanged policies, the deficit would not increase between 2026 and 2029, as expenditure-raising measures are offset by the phase-out of one-off items and declining interest expenses.
- The new government may adopt this year's supplementary budget in the autumn, along with the fiscal framework for the coming years.

Source: KSH, OTP Research

EUR 16.4 bn EU funds are to be released

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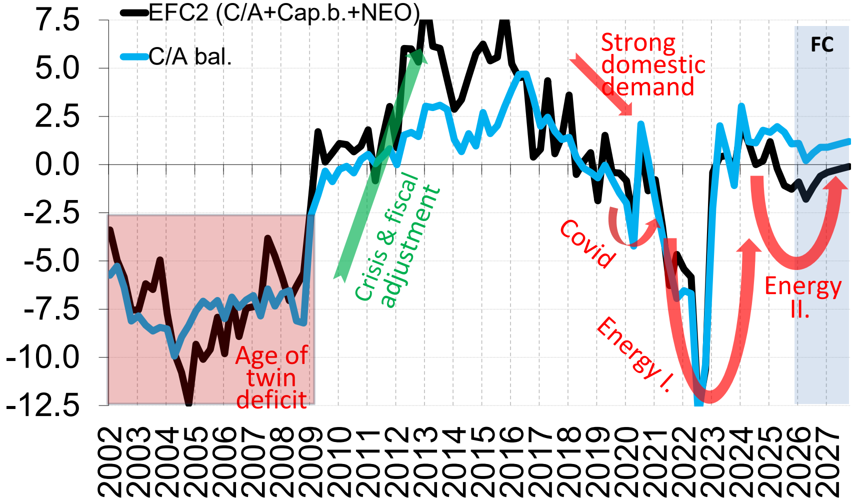
Status		Name	EUR billion	Conditions / comments	Deadline for project delivery
Permanently lost		European Structural and Investment Fund (ESIF), 2021-2027	3.0	Lost due to financial fee related to EU asylum seeker legislation and non-compliance with rule of law	non applicable
Available and paid	**Paid**	ESIF funds, 2021-2027	4.2	Judiciary reform (approved by EU on 13 December 2023)	2029
		Agricultural funds, 2021-2027	6.1	-	2029
		Total	**10.3**		
	Available	ESIF funds, 2021-2027	5.1	Judiciary reform (approved by EU on 13 December 2023)	2029
		Agricultural funds, 2021-2027	6.1	-	2029
		Total	**11.2**		
Available based on recent political agreement, but subject to conditions	**Grants**	Recovery and Resilience Facility (RRF) grant	5.8	27 super milestones+other milestones	31 August 2026
		Repower EU	0.7		31 August 2026
		ESIF funds, 2021-2027, conditionality mechanism or rule of law[1]	4.2		2029
		ESIF Funds	2.2	Subject to academic freedom requirements (EU Fundamental Rights Charter)	2029
	Loans	RRF loan	3.5	27 super milestones+other milestones	31 August 2026
		Total	**16.4**		
Subject to EU approval	**Grants**	ESIF funds 2021-2027	3.0		
	Loans	RRF loan	0.4	27 super milestones	31 August 2026
		Security Action for Europe (SAFE) loan	16.2	27 super milestones + other not specified yet	no fix deadline
		Total	**19.6**		

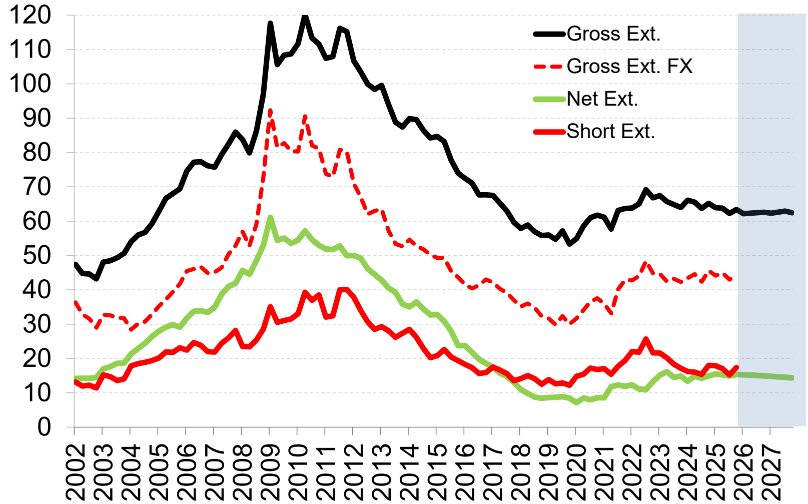
Source: OTP Research

Despite a slight deterioration, the external position remains sustainable

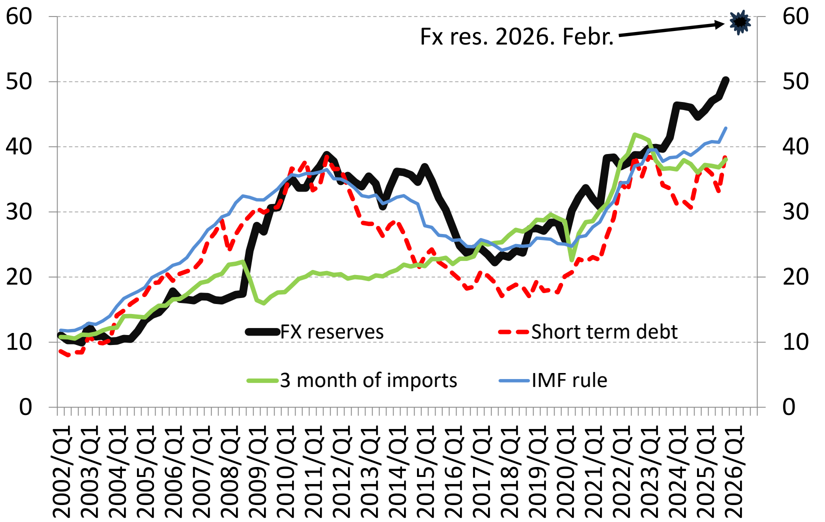
Indicators of external imbalances (% of GDP)



External debt (% of GDP)



FX reserves and reserve adequacy rules (EUR bn)



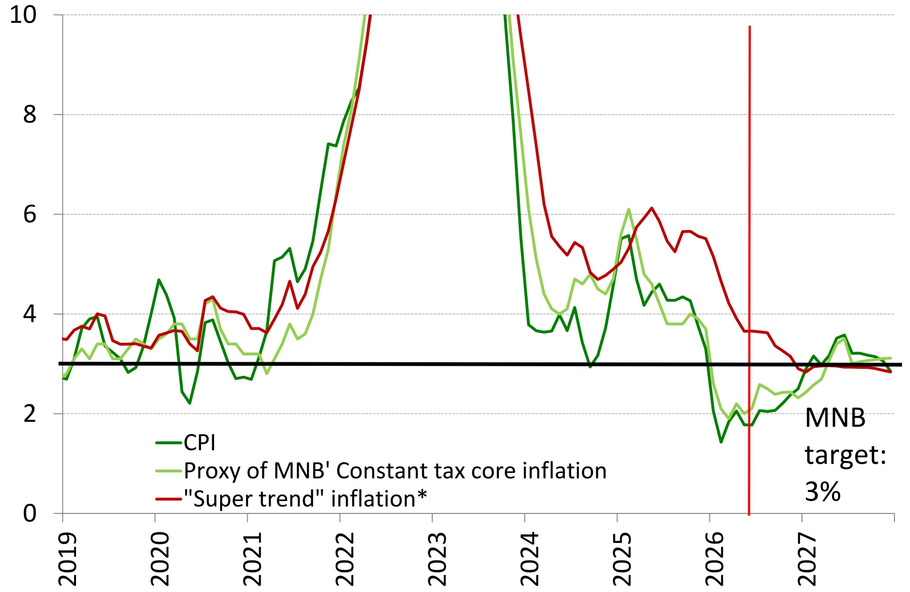
The external position deteriorated slightly in the second half of 2025, as the current account surplus narrowed and may decline from 2% of GDP to 1% this year. At the same time, energy prices could lead to a balanced position or a slight deficit, depending on the magnitude and duration of the price shock. FX reserves remain sufficiently high to provide the central bank with room for maneuver.

- The current account surplus narrowed from around 2% of GDP to 1.6% in 2025 and to 1.1% in Q4, as exports remained under pressure and machinery imports rose. With EU inflows remaining modest (0.5% of GDP) and the NEO still negative (-2.5%), net lending (including the NEO) turned slightly negative at around -0.5% to -1% of GDP.
- Alongside moderately positive FDI inflows and portfolio equity outflows, the economy accumulated net external debt both in Q4 and in 2025 (around 1.6% of GDP). External debt ratios followed a flat or slightly declining trend, with gross external debt remaining below 65% of GDP, in line with the regional average.
- FX reserves exceeded EUR 61 billion by the end of May, standing EUR 15–20 billion above the level considered adequate by reserve rules. This provides the central bank with sufficient room for maneuver to mitigate the exchange rate impact of external shocks.
- Higher energy prices are likely to weigh again on the external position from Q2, but April trade data suggest that import volumes are also rising faster than exports, meaning the deterioration in external balance is not driven solely by adverse terms-of-trade effects. As recent developments indicate that energy prices began to normalize even before the start of Q3, this reinforces our baseline forecast of a slightly positive balance of payments (around 0.5% of GDP), although risks remain tilted to the downside.

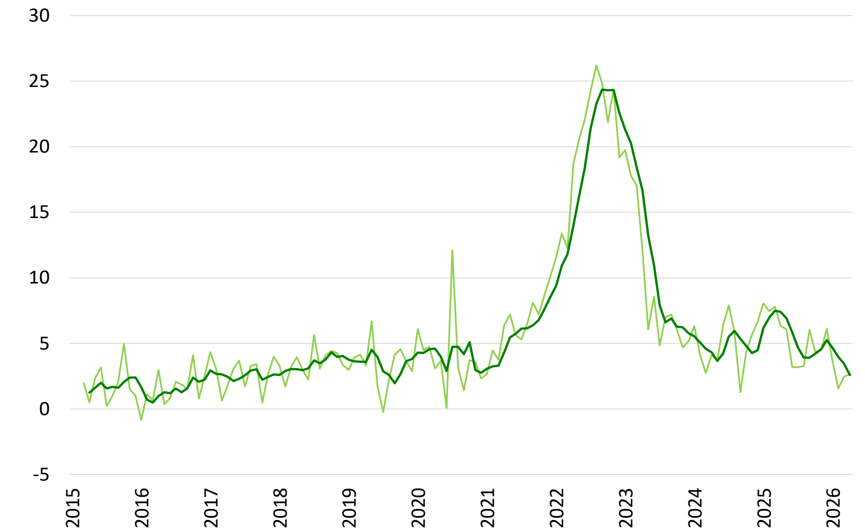
Source: MNB, OTP Research

Supported by a strong exchange rate and favorable food price developments, CPI may range between 2–2.5% this year.

OTP inflation forecasts



Annualized MoM change of „super" trend inflation* (%)



** goods and market services excluding backward-looking pricing components*

Source: KSH, OTP Research

- Early 2026: In February, CPI fell to 1.4%, and we also observed a marked improvement in our so-called "super" core indicator, which we consider the best measure of long-term inflation trends. Since then, CPI has picked up, reaching 1.8% in May, but this had been anticipated, and inflation remains well below both the central bank's 3% target and the euro area's current 3.2% rate. The favorable CPI dynamics at the start of 2026 suggest that risks associated with the 11% minimum wage increase and ongoing consumption-focused fiscal measures did not materialize in early-year pricing, while the strong exchange rate has effectively anchored inflation expectations.
- Effects of the war with Iran: as household energy prices in Hungary are regulated and fuel prices are capped, the direct CPI impact of the war with Iran has been negligible. Given that the increase in energy prices has so far been temporary and not particularly large, second-round effects transmitted through production chains are also likely to remain limited.

Outlook: CPI may reach 2.3% in 2026 and 3% in 2027. With declining energy prices following the Iran agreement and a persistently strong exchange rate, risks are tilted to the downside

- Alongside favorable underlying trends, disinflation is also supported by benign food price developments. Current oil prices and exchange rate levels have made it possible to phase out the protected fuel price scheme. We expect that conditions for removing margin caps may also fall into place in the near term, although the CPI impact of this is likely to remain limited.
- Risks: the main short-term CPI risk has for now eased with the Iran peace agreement, and the phase-out of margin caps does not pose a significant inflation risk either. By contrast, downside risks have strengthened. The currently strong exchange rate can play a key role in anchoring inflation expectations, while the reopening of the Strait of Hormuz may restore structural oversupply in energy markets over a 1–2 year horizon, contributing to lower CPI through energy prices.

The rate-cutting cycle may accelerate in the second half of 2026

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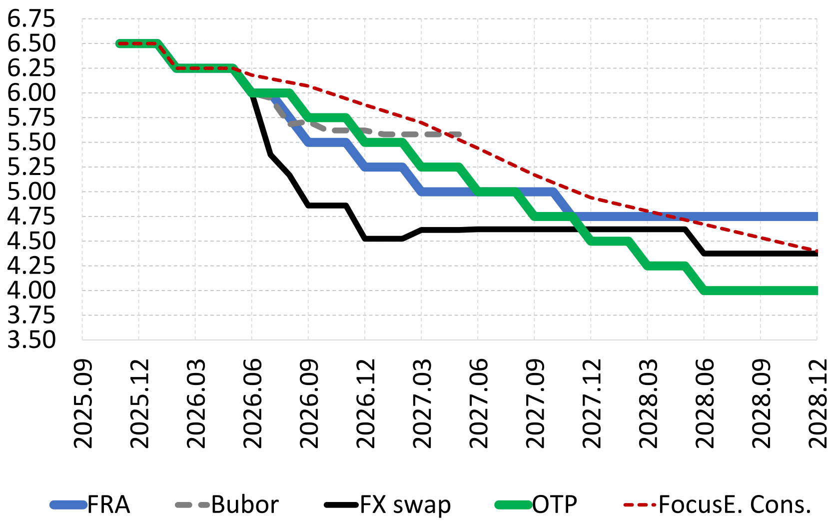
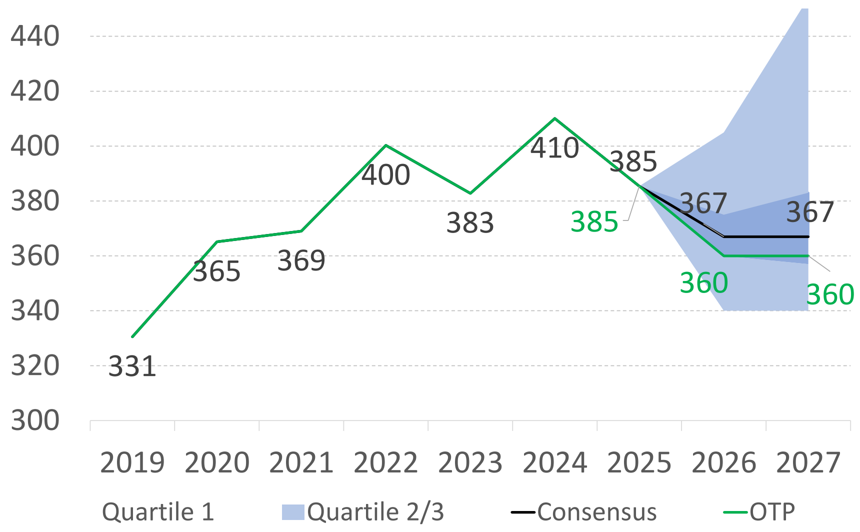
Effective interest rate (OTP forecast and market



EUR/HUF outlook (end of period)



Source: Bloomberg, Focus Economics, OTP Research

The market is pricing in four cuts for this year, supported by declining country risk premia and a favorable CPI trajectory.

Pre- Iran events:

Amid the steady appreciation of the forint and low inflation, the first 25-basis-point rate cut (to 6.25%) took place in February, in Q4 2025 and early 2026, after the policy rate had been held at 6.5% for 17 months. Rate-cut expectations strengthened, with the market anticipating a decline in the policy rate to 5.5%.

Consequences of the war:

- The forint depreciated rapidly, rate-cut expectations faded, and the market began to price in rate hikes. The MNB did not continue rate cuts after February.
- The bond market rally seen between December and February reversed: yields surged, peaking near 8%, around 150 basis points above the February low.

Money and bond market outlook:

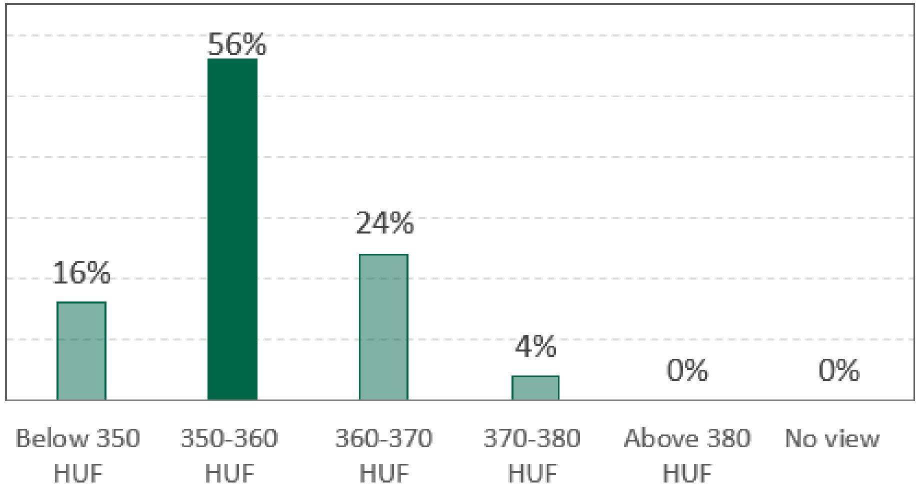
- The impact of the war on energy prices–and, through that, on the real economy and CPI–has (so far) been far more moderate than initially feared. Inflation dynamics remain favorable, while the Tisza Party's two-thirds victory and its intention to introduce the euro have brought a fundamental shift in Hungary's risk perception. While markets expect rate hikes from both the ECB and the Fed, the forint yield curve still prices in four cuts for this year, even as the exchange rate is already testing the 350 level. It will be important to monitor the medium-term fiscal and macroeconomic outlook to be presented in October, as well as the central bank's communication regarding a potential revision of the inflation target.

EUR/HUF: no significant forint depreciation is expected

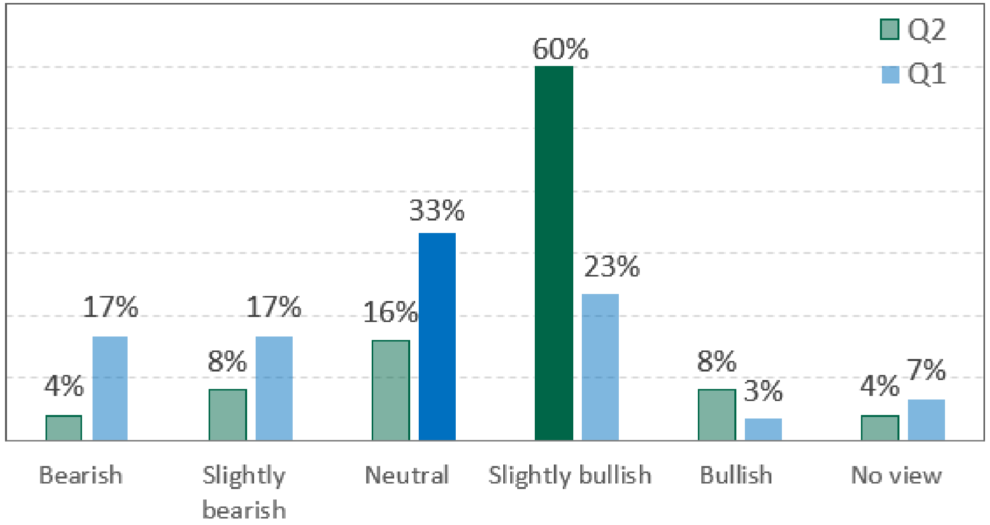
- Despite the sharply narrowing forward-looking EUR/HUF interest rate spread, the forint appreciated further, reaching the central bank's pain threshold. As a result, the rate on the FX swap instrument was cut by 50 bps at the May auction.
- The forint has appreciated significantly in a short period, to an extent not justified by economic fundamentals. The one-year real appreciation is historically notable, and in the past, larger real appreciations–unlike in the current situation–were associated with surging domestic CPI.
- We believe that at current levels, the risk distribution for the exchange rate is clearly tilted toward depreciation. However, we do not expect any significant weakening.

OTP Global Markets Institutional Investor Survey Results

What is your expectation for EUR/HUF in the next 3 months?



What is your view on BUX Index in the next 3 months?



Source: OTP Multi-Asset Strategies

- Over 25 senior financial professionals, active in CEE markets and managing more than EUR 6.5 billion in assets under direct control, participated in our survey, which was closed by 12th of June. Here, we highlight the most notable insights. Access the full report here.
- Hungarian assets re-rate sharply as election risk fades. Investor sentiment has turned decisively more constructive after the April vote, with 72% now expecting EUR/HUF below 360 over the next three months. The shift suggests investors are increasingly pricing a lower Hungarian risk premium, supported by a more predictable macro policy mix, eurozone-convergence ambitions and improving disinflation confidence.
- Investor sentiment toward Hungarian equities improved sharply compared with the March survey. 60% of respondents are now slightly bullish on the BUX Index, up from 23% in Q1, while bearish and slightly bearish views fell from a combined 34% to 12%. The Hungarian market had still been trading at a meaningful discount to the region before the election, despite some narrowing, mainly due to the poor perception of domestic economic policy. The change in government could support a further decline in Hungary's equity risk premium and trigger convergence toward Poland, a market with which Hungary had moved closely for several years before 2022.
- The CETOP outlook also improved, but less dramatically. The CEE stock market (CETOP) is expected to deliver around 25% profit growth this year, broadly comparable with the US, but without relying on AI- or technology-driven earnings momentum. This makes the region attractive in a scenario where global equity leadership broadens beyond US megacap technology.

Asset classes

otp Global Markets

Equities

With fast energy price normalization, the global economy may weather the Iran war with moderate damages. Strong profit growth remains a positive factor, but there are a number of risk factors that could increase volatility.

Bonds

The rapid normalization of energy prices is helping to mitigate inflation risks, long bond yields in both the US and the eurozone are currently within what is considered a fair range in the current macro environment.

Commodities

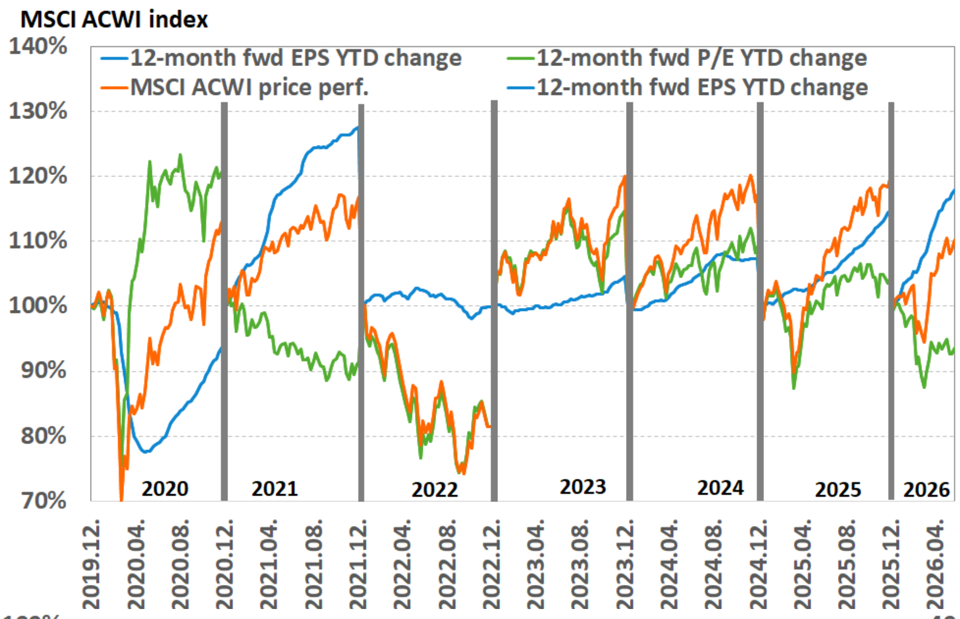
We maintain our neutral view, as the Middle Eastern conflict is still not resolved, and in the worst-case scenario energy prices could jump again. We favor agricultural commodities in the long-term.

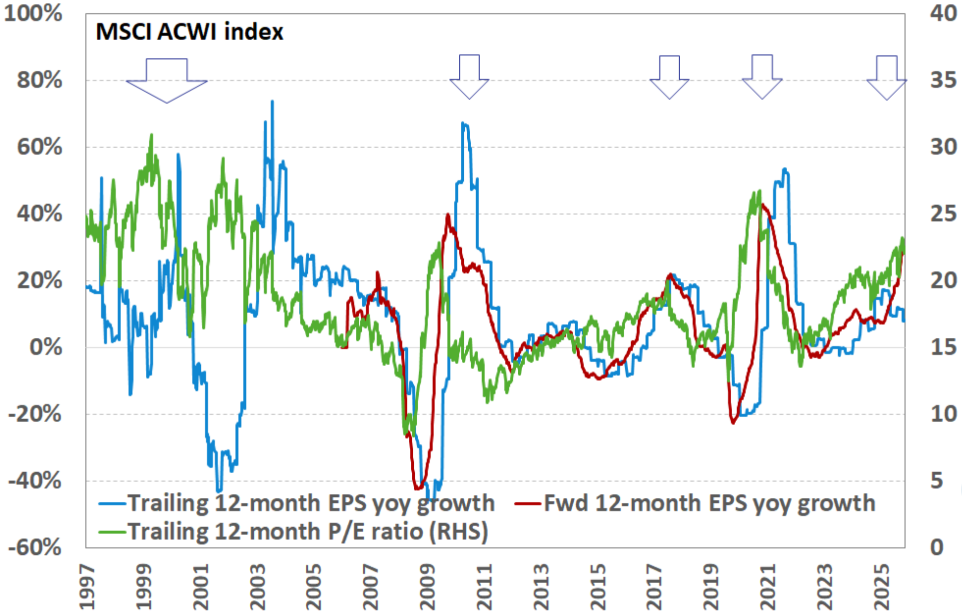
Overweight

Neutral

Underweight

Equities: the worst case has been averted



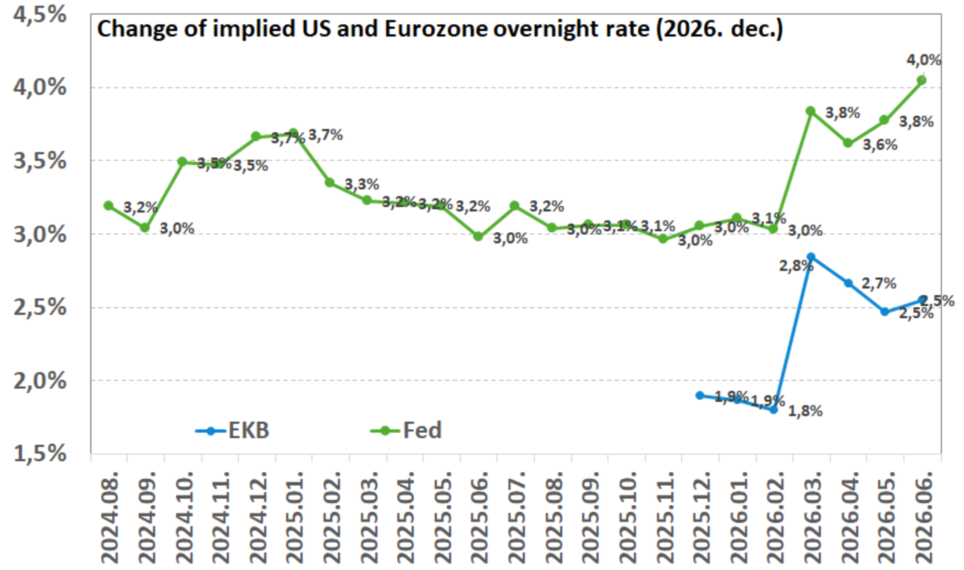


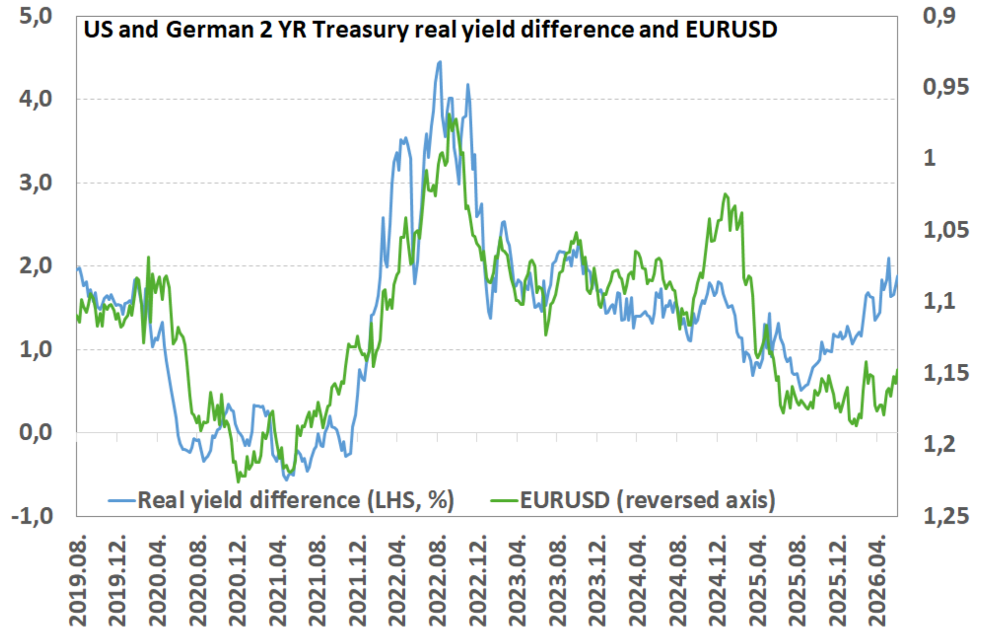
Source: Bloomberg, OTP Multi-Asset Strategies

- The reopening of the Strait of Hormuz helped to avoid the worst-case economic scenario. Since oil and gas prices did not remain at persistently high levels, the global economy is facing only moderate growth and temporary inflationary pressures, which means that central banks will likely not need to embark on another cycle of interest rate hikes. Overall, this may represent an external environment that remains supportive for stock markets, albeit one that is more burdened with risks than in the past.
- Stock markets had already dismissed the Hormuz risk entirely in the second quarter, a development significantly driven by first-quarter earnings season that was much stronger than expected. This was driven in part by the huge AI investment cycle and the strong performance of semiconductor manufacturers, the biggest beneficiaries of this cycle. But even excluding the outstanding tech performance, the broader profit surge (ex tech) remains dynamic. As a result, global profit expectations for this year have also risen by 9% since the beginning of the year, which is historically remarkable for such a short timeframe; the last time something similar occurred was after the reopening following the COVID-19 pandemic. Annual profit growth is thus already at 25%, a level typically seen at the peaks of previous earnings cycles.
- Looking ahead, momentum may slow somewhat in the second half of the year, but since the probability of a recession is low, this validates the historically high valuation levels for now. Moreover, the forward-looking P/E ratio has declined this year, meaning that the stock market rally is now driven by earnings growth, which reflects a healthy dynamic.
- However, the positive impact on profits may be temporarily offset by arising risks: the U.S.-Iran agreement could result in a 60-day transitional period that appears fragile in many respects; oil reserves have been significantly depleted, leaving no buffer against further supply shocks, while the new Fed Chair is also initiating significant changes that break with the traditions of recent years. As inflation figures are expected to stay elevated in the summer months, even the dovish new Fed Chair may have a hawkish tone, which will lead to greater market volatility. Like the U.S. midterm elections this fall and a number of large tech IPOs.

With the reopening of the Strait of Hormuz, the worst-case economic scenario may have been averted, and the global economy may weather the war with only moderate damages. Strong profit growth remains supportive, which could contribute to a broadening of the market rally beyond the technology sector. However, there are several risk factors, like the hawkish Fed, midterm elections, fragile US-Iran deal, large tech IPOs, AI return fears, that could lead to increased market volatility.

Bonds: the outlook improved with the opening of the strait



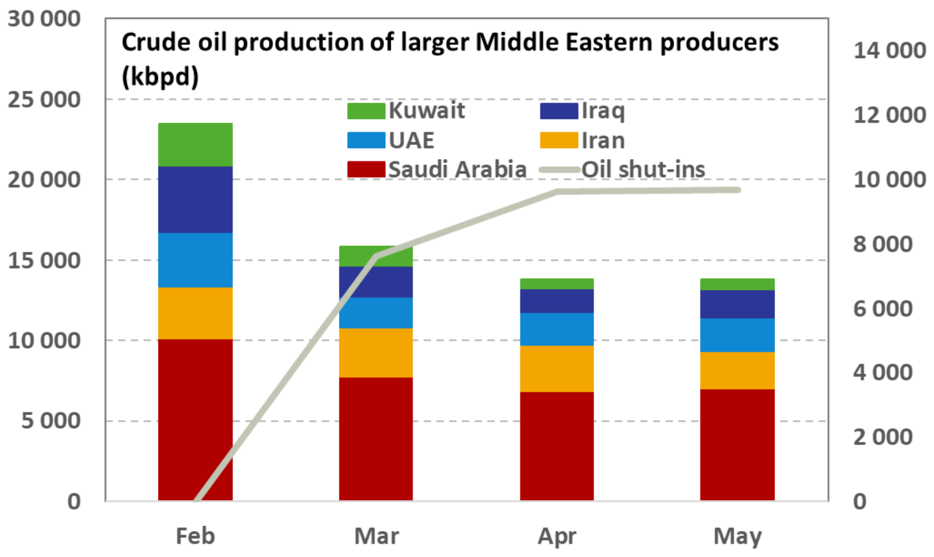


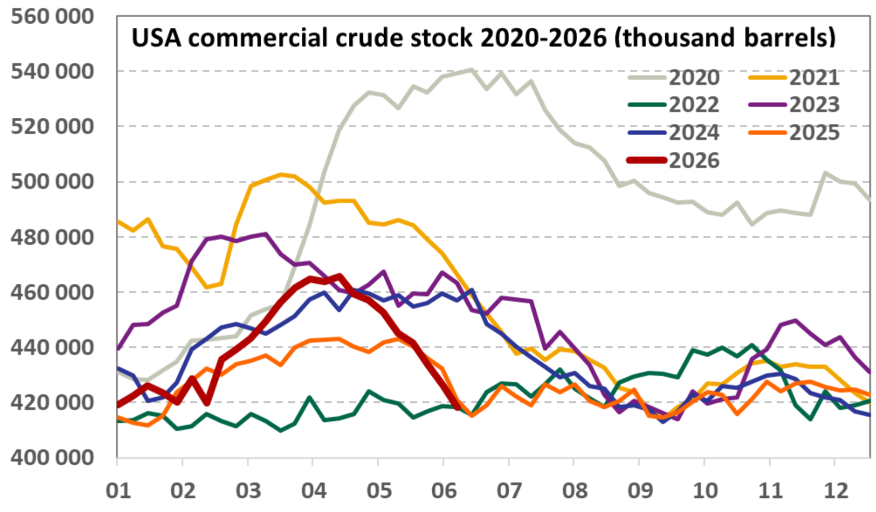
Source: Bloomberg, OTP Multi-Asset Strategies

- Since the oil price is now only 10% above pre-Iran war levels (compared with 50% at the end of the previous quarter), the rapid energy price normalization is helping to substantially mitigate inflation risks, which also makes long-term bonds more attractive than they were at the end of the last quarter.
- However, we see no change in the fact that inflation in the U.S. (PCE) has been above the central bank's target for more than five years, and it is expected to accelerate during the summer months. As a result, the market has already priced in two interest rate hikes by the Fed this year (to 4% by December, the highest in two years), and even if the central bank ultimately does not go that far, the hawkish tone is likely to persist in Q3. Employment growth is accelerating, and the labor market is stable, while the budget deficit and indebtedness remain high; further fiscal spending cannot be ruled out ahead of the midterm elections, which, taken together, could keep long bond yields elevated (fair levels are 4–4.5%).
- Inflation in the eurozone was already hovering around the central bank's target before the war, and it is being temporarily pushed higher by rising energy prices. However, no secondary effects are expected, so as energy prices normalize, medium-term inflationary pressures will not intensify. The ECB has already implemented one interest rate hike, and although another is priced in for this year, the central bank may not need to carry it out. Ten-year bond yields in the 3–4% range appear to be a fair valuation in this environment; in other words, current levels can be considered neutral overall.
- The U.S.'s forward-looking growth advantage is growing, while the spread between short- and long-term real yields is also widening relative to the eurozone. This provides a tailwind for the dollar; moreover, positioning is neutral, meaning there is plenty of room for dollar longs to drive further appreciation.
- Following the surge in March, investment-grade and high-yield credit spreads returned to near-historic lows as growth concerns eased and risk appetite strengthened. Looking ahead, however, investments in AI infrastructure could lead to an increasing supply of corporate bonds, with a spread widening effect.

The rapid normalization of energy prices is helping to mitigate inflation risks, which is why it is recommended to maintain a neutral position on long-term bonds rather than underweighting them as before. Long bond yields in both the US and the eurozone are currently within what is considered a fair range in the current macro environment.

Commodities: this year has been a rollercoaster so far





- At the beginning of the year, industrial and precious metals still dominated the broader commodities market, but the war in Iran that broke out in late February brought about a significant change, as energy prices suddenly surged, while gold and silver began to decline after their outstanding performance in recent years. However, the jump in oil and gas prices did not last long, as tensions between the United States and Iran have eased in recent weeks, and the parties are seeking an agreement, although the situation remains marked by significant uncertainty. Accordingly, energy prices fell but remain above the levels seen before the outbreak of the conflict. At the same time, certain agricultural commodities (e.g., wheat, rice, cotton) also showed early signs of recovery after several years of decline.
- Despite the drop in oil prices, global oil production suffered significant losses due to the war in the Middle East and the closure of the Strait of Hormuz. The International Energy Agency (IEA) reported in mid-May that the cumulative production shortfall had already exceeded 1 billion barrels. As a result, many countries began tapping into their existing strategic oil reserves and sought to find alternative sources of supply. For example, U.S. oil exports have surged significantly in recent months in response. The fact that China also significantly reduced its oil imports played a major role in averting a global crisis.
- The most important question for the coming period will therefore be whether the Strait of Hormuz will indeed open up (an explicit part of the U.S.-Iran framework agreement signed on June 17), and if so, how quickly shipping traffic will return to normal. Moreover, this remains an urgent matter, as oil reserves have already plummeted to multi-year lows, and may soon reach critical levels. In our view, however, even if the conflict is resolved in a durable way energy prices may remain at relatively high levels, as it may take a significant amount of time to repair the supply chain damage caused so far. On the other hand, if shipping traffic does not resume, another spike in oil prices remains a possibility.
- At the same time, we continue to believe that, in the longer term, the situation could be favorable for the pricing of agricultural products, among other things, while the outlook for metals is mixed, as the conflict has disrupted several supply chains, but a potential slowdown in demand is a negative factor here.

Overall, we maintain our neutral view on commodities, as the conflict in the Middle East, - which has been dragging on for months - is still not resolved, and in the worst-case scenario, energy prices could spike again. At the same time, we favor agricultural commodities within the broader sector as a longer-term pick.

Source: OTP Multi-Asset Strategies, EIA, OPEC, IEA

Equities - Regions

US

Net energy exports and the AI-driven surge in profits are both contributing to outperformance, while the new central bank leadership's more hawkish stance and overcrowded positioning in the tech sector are increasing short-term risks.

Europe

Given the normalization of energy prices and the potential exhaustion of the tech rally, capital may shift toward laggards, which could benefit undervalued markets (like Europe), where the relative deterioration in earnings momentum may also come to a halt.

Emerging Markets

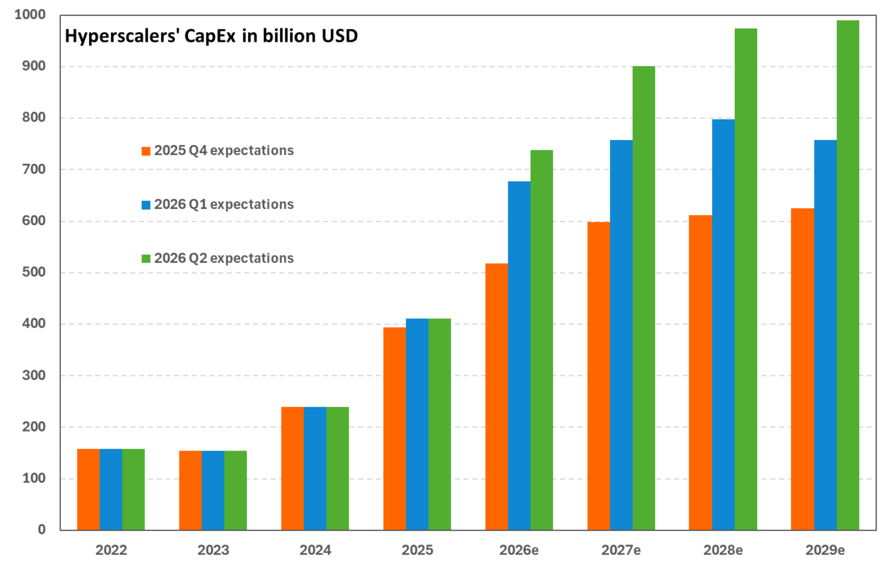
Valuations are favorable, and profit growth is among the world's best, but this is driven by a narrow group of AI-related stocks. Speculative exposure in the semiconductor sector is already significant, so we specifically favor markets where such exposure is low.

CEE

Close to same profit growth is achieved like in the US, without significant exposure to technology; thus, a temporary hit to the AI narrative could be a tailwind. Rising inflation is relatively favorable due to financial exposure and attractive valuations.

Overweight   Neutral   Underweight

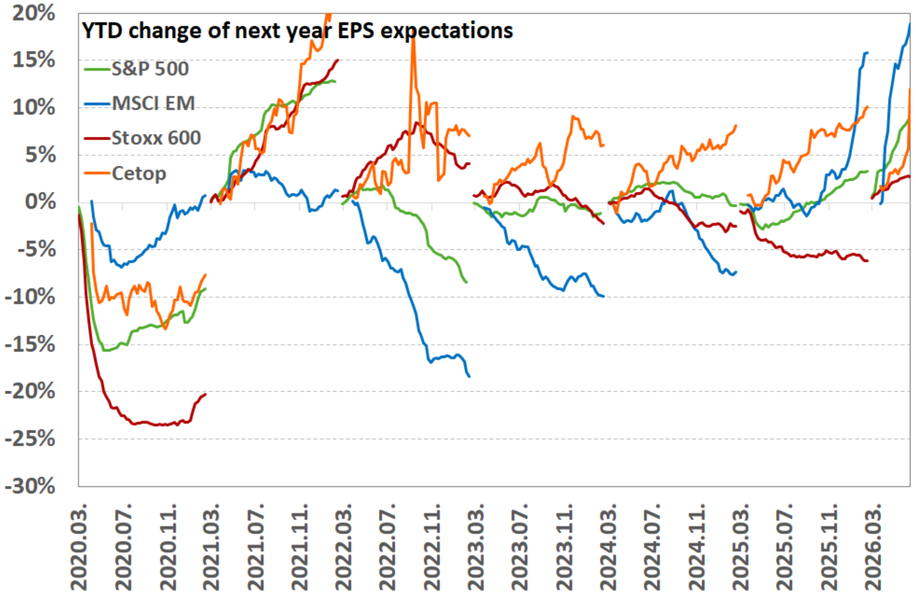
US: a rotation may follow the AI-driven profit surge

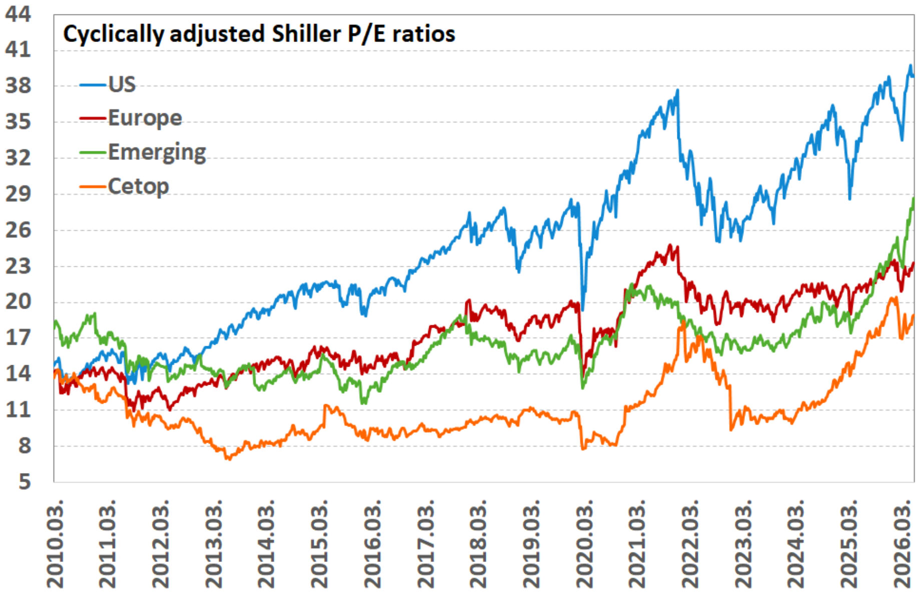


Source: Bloomberg, OTP Multi-Asset Strategies

- The outperformance over the past quarter was aided by the fact that, as a net energy exporter, the blockade of the Strait of Hormuz did not threaten the supply side of the US, so investors looking beyond the risks began to reallocate funds back into the market. The corporate earnings season also went very well, with annual profit growth of 30%, which led to a rapid improvement in profit outlooks–one of the strongest in the region. This momentum was driven by the increased weight of AI-related stocks.
- AI-driven demand remains robust in the semiconductor sector (analysts have raised their 2026 earnings forecasts by 43%), a trend that could persist over the next 12–18 months, as capacity is booked years in advance, while new production lines are not expected to come online until the second half of 2027 at the earliest. Strong expected demand for data centers, high profit growth, and margins are likely to continue supporting the industry from a fundamental perspective; however, in the short term, the scope for further positive revisions is narrowing, which–combined with valuations above the historical average–points to moderating earnings surprise potential. Due to the disappearance of free cash flow generated by hyperscalers and the recent rise in chip prices, there is increasingly less room for capital expenditure plans to grow at the same pace as in recent quarters. Given the sector's significantly stretched positioning, it may already be more sensitive in the short term to growing concerns about returns, a trend that could be reinforced by the decline in token prices and the GPU rental index in recent weeks. The new central bank leadership's more hawkish tone, the growing expectations of interest rate hikes and the overcrowded positioning is a risky combination for the interest-rate-sensitive sectors.
- Furthermore, tech IPOs and capital raises (OpenAI, Anthropic) may have a temporary crowding-out effect, not to mention that their failure would pose a significant risk due to the cross-financing structures that have developed in the sector. However, these developments do not necessarily derail the long-term narrative, as the US government is explicitly seeking to become a shareholder in leading AI companies, effectively treating financing risks with a sort of "last resort" approach.
- Given the deteriorating risk-return profile in the short term, it may be worth taking profits on the 80–100% returns achieved in the semiconductor sector since the beginning of the year, but we would continue to maintain AI related exposure. One such area is cybersecurity on the software side, but since the next bottleneck could be the power supply to data centers, we remain optimistic about the utilities and renewable energy sectors, as well as the healthcare sector, which stands to benefit from increasingly advanced AI solutions. In the case of the latter, their defensive nature is also an advantage during the period of heightened volatility expected in the coming period.

Europe: stabilising energy prices, could stop the decline in profits

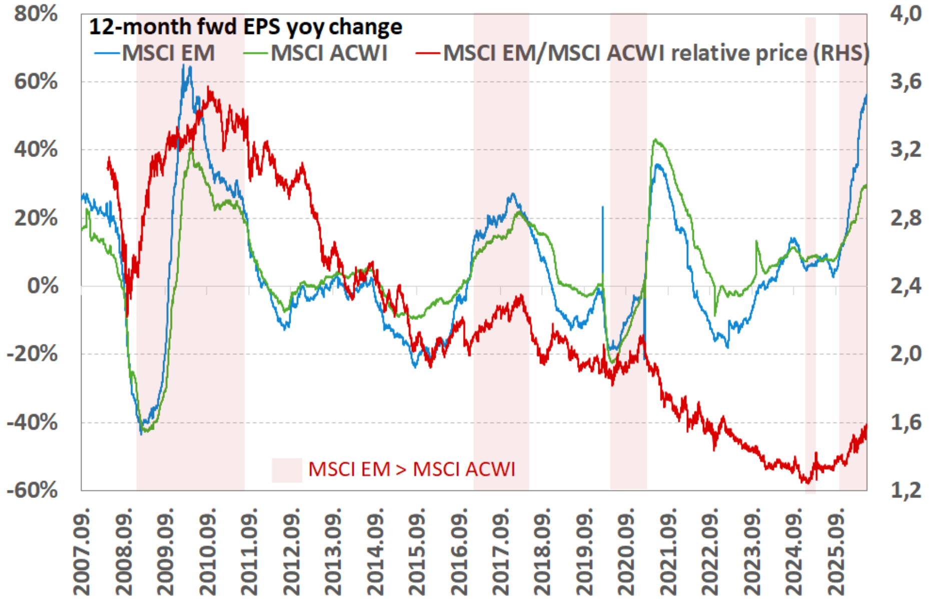


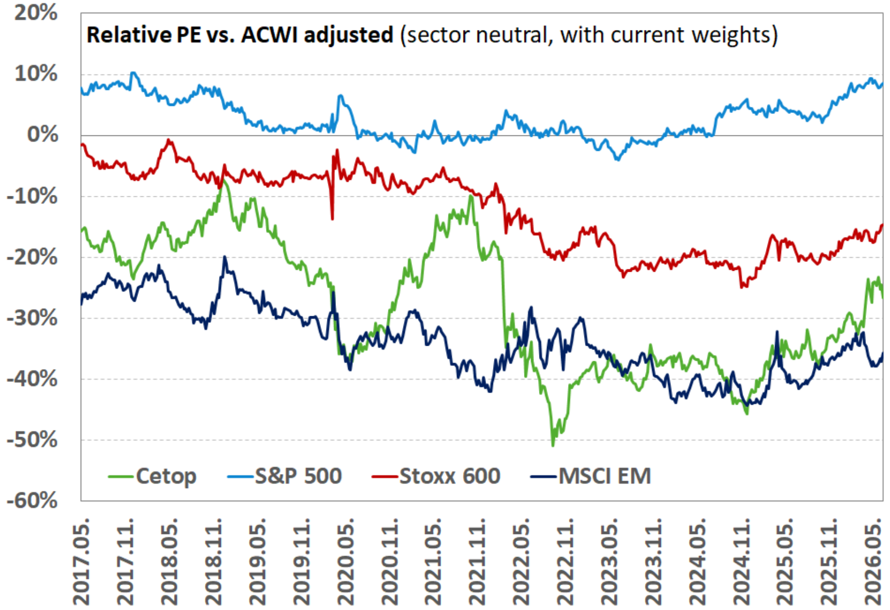


Source: Atlantic Council, Bloomberg, OTP Multi-Asset Strategies

- The European stock market underperformed during the quarter, driven in part by its status as a net energy importer–which put it at a disadvantage due to the blockade of the Strait of Hormuz–as well as a weaker-than-expected macroeconomic outlook, corporate profit growth that lagged behind other regions, and the ECB raising interest rates in response to inflation risks.
- Since energy prices have begun to stabilize following the news of the US-Iran peace agreement, this could temporarily benefit Europe. On the one hand, the ECB will likely not need to raise interest rates further, and economic growth could even reach around 1% as a result of Germany's fiscal stimulus. The economic surprise index, which is currently at a very low level, may begin to improve, which could also help earnings outlooks. As profit growth in the technology sector weakens in the second half of the year, the relative profit advantage of the US and emerging markets may begin to narrow, potentially halting the deterioration of Europe's relative position near its ten-year lows. If this were accompanied by a major rotation out of the technology sector, it could also have a positive impact on the European stock market. The most important argument in its favor is that, from a global perspective, it can be considered relatively cheap; the cyclically adjusted Shiller P/E ratio is already below the level seen in emerging markets, although it remains near a 20-year high.
- We therefore consider temporary outperformance to be a possibility, but lasting change would require more than that. Europe is grappling with numerous problems, and although its leaders have recognized these, we are moving very slowly toward change, with no truly forward-looking, tangible results so far (the free trade agreements concluded with numerous countries could be cited as a positive example). There is a significant lag in innovative growth opportunities, the demographic situation is poor, bureaucracy is slow, there is excessive regulation, and on the political front, divisions and risks stemming from extremism are evident. Although the energy supply has been diversified in recent years, European gas prices will not return to pre-2022 levels even with the price drop following the opening of the Strait, which represents a lasting competitive disadvantage. Access to Russian gas could mitigate this, but for now, this does not seem feasible at the political level (although major European countries are increasingly calling for negotiations to begin).
- The financial sector, which has been the leading European sector to date, remains attractive based on most of the valuation and growth criteria examined; with the gradual reopening of the strait, the travel segment also appears to be of interest. In the case of the latter, however, it is worth keeping an eye on developments, as the peace appears fragile meaning that any flare-ups could lead to greater volatility. The utilities sector is also seeing favorable earnings revisions, and investments in electrification and data centers could have a positive impact in Europe as well.

Emerging markets: semi concentration may turn into a disadvantage



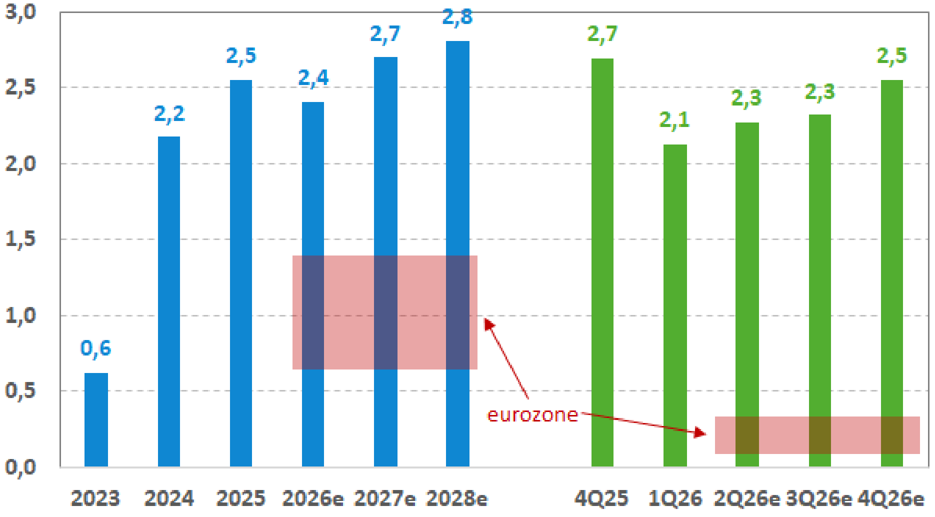


Source: Bloomberg, OTP Multi-Asset Strategies

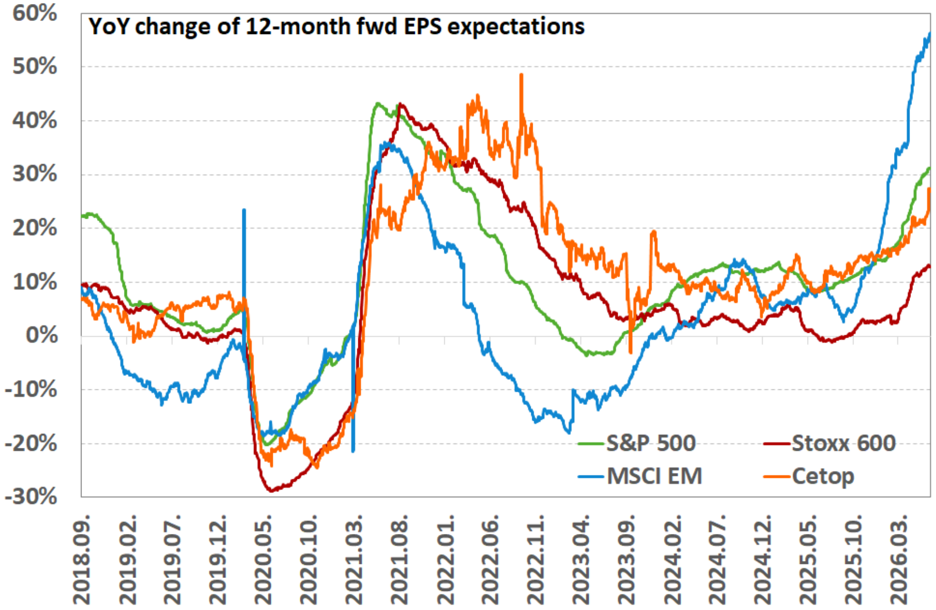
- Although the Asian region was most vulnerable to a blockade of the Strait of Hormuz due to its significant dependence on local imports, the stock market quickly recovered from the initial turmoil, contributing to the recent outperformance of emerging markets as a whole. The Taiwanese and South Korean markets played a leading role in this, particularly semiconductor manufacturers such as Samsung, SK Hynix, and Taiwan Semiconductor, who saw their stock prices skyrocket. These three stocks account for 30% of the MSCI Emerging Markets Index, while the broader technology sector accounts for a total of 44%.
- Since the emerging markets index is fairly concentrated (similar to several others), this year's exceptional 30% upward earnings revision–as well as the annual earnings surge of over 50% expected for this year–is largely attributable to exposure to the aforementioned stocks. Excluding these, earnings growth in emerging markets this year and next (~25% and ~10%) would be in line with the global average.
- Due to the sudden jump in profits, emerging markets are one of the most attractive regions based on forward-looking valuation metrics: the P/E ratio is around 11, which represents a local low in recent years, and the relative discount is 35%, which is far higher than the 26% average. Given the high concentration of technology stocks, it is worth filtering out sector-specific effects from the valuation picture; however, even in this case, it can be said that emerging markets are, in relative terms, the cheapest region. However, the Shiller P/E ratio now stands at 29, reaching the level seen at the 2007 market peak.
- In other words, the big question is whether the region–and, within it, the stocks mentioned–will be able to maintain the pace of profit growth seen in recent times. Given the semiconductor cycle, there may still be room for this in the coming year, but the risk-reward ratio has already deteriorated significantly, and signs warranting caution have emerged. A significant amount of hot, speculative money has already flowed into the Taiwanese and South Korean markets, and signs of overextension are visible; in other words, if the semiconductor sector were to experience the pause and consolidation we expect, this could lead to a break in the uptrend and outperformance in the whole emerging markets index as well.
- For this reason, we would maintain a neutral exposure to the region as a whole and focus specifically on ex AI related exposures such as India or even Latin America. The Chinese stock market's recent underperformance has once again brought it to attractive valuation levels, while numerous local technology companies offer AI solutions of a quality comparable to those in the US, but at a much lower cost. However, this, combined with the lack of a breakthrough at the most recent Xi-Trump meeting, does not provide sufficient incentive for foreign investors to make significant allocations to the region.

CEE: strong profit growth, even without AI exposure

Cetop countries* real GDP growth expectations, %



*weighted average of Poland, Czech Rep., Romania, Hungary, Slovenia, Croatia



- Risks on the growth and inflation fronts are likely to remain moderate due to the fast energy price normalization. Although growth expectations in the region's countries have deteriorated compared to the start of the year, GDP growth of 2.4% is still expected in 2026 (averaged based on the weighting of regional countries in the CETOP index), and growth could accelerate to 2.8% in the following years. Household consumption is likely to be the primary driver of this growth, but investments may also increase thanks to EU funds, and the positive effects of the German fiscal stimulus. Overall, the region may continue to grow at a faster pace than the eurozone's 0.6–1.4% rate in the coming years.
- Budget deficits remain high in the region by European standards (5.6% of GDP this year), and only a moderate reduction is expected in the coming years (projected at 5.2% by 2027). In Poland, the 2027 election reduces the likelihood of fiscal consolidation, but this does not currently pose a threat of a credit rating downgrade, nor does it in Hungary's case, thanks to access to EU funds. Romania may be an exception in the region, as political turmoil has increased the risks surrounding its fiscal trajectory.
- The effects of persistently high budget deficits and the rise in energy prices this spring are reinforcing upside risks to inflation, which is why most central banks in the region may adopt a wait-and-see stance on interest rates (with the Hungarian and Romanian central banks possibly being exceptions). This also has a positive effect on banks' interest rate margins, and since the upward trend in volumes may continue– coupled with strong portfolio quality – all of this creates a favorable environment for the financial sector.
- The financial sector heavy CEE stock market is expected to post a 25% profit growth this year – on par with the US – despite having no exposure to AI or technology sectors. As a potential short-term pause in the semiconductor rally is expected, the region is well-positioned to become one of the targets for capital reallocation. This is accompanied by valuation levels that remain sufficiently attractive; the P/E ratio of 10.5 is around the 20-year average, while other regions are already above it, and there is a discount of around 30% compared to Europe, which is unreasonably large. The Shiller P/E ratio of 19 is also the lowest.
- Within the CEE region, following a change in government and the potential release of more EU funds than expected, the Hungarian stock market offers the most attractive opportunity. The goal of adopting the euro has triggered bond yield convergence, which still has further room left, and along with this, we expect the equity market risk premium to narrow, which could lead to relative outperformance in the coming period.

Source: Bloomberg, OTP Multi-Asset Strategies

The most favored investment topics

Semiconductors

Long-term fundamentals are still strong, but the sector became overcrowded in the short run, and the good news are already priced in.

Cybersecurity

AI is more likely to act as a catalyst for growth. Following a strong earnings season, there may still be room to raise expectations.

Utilities/Renewables

Rising electricity demand (potential next bottleneck in the AI buildout) is a structural tailwind for both. Renewable expansion will continue.

Healthcare

Supported by long-term structural drivers; the sector's defensiveness provide resilience during higher market volatility.

India

The economy may weather the rise in energy prices with moderate damage, which could help corporate profit growth gradually recover.

LatAm

In case of a short term pause in the AI rally, factors like the nearshoring trend or low valuations may be supportive for Brazil and Mexico.

Agriculture

Supported by relatively higher energy and fertilizer prices due to Iran war, and stronger El Niño expected this year is an additional tailwind.

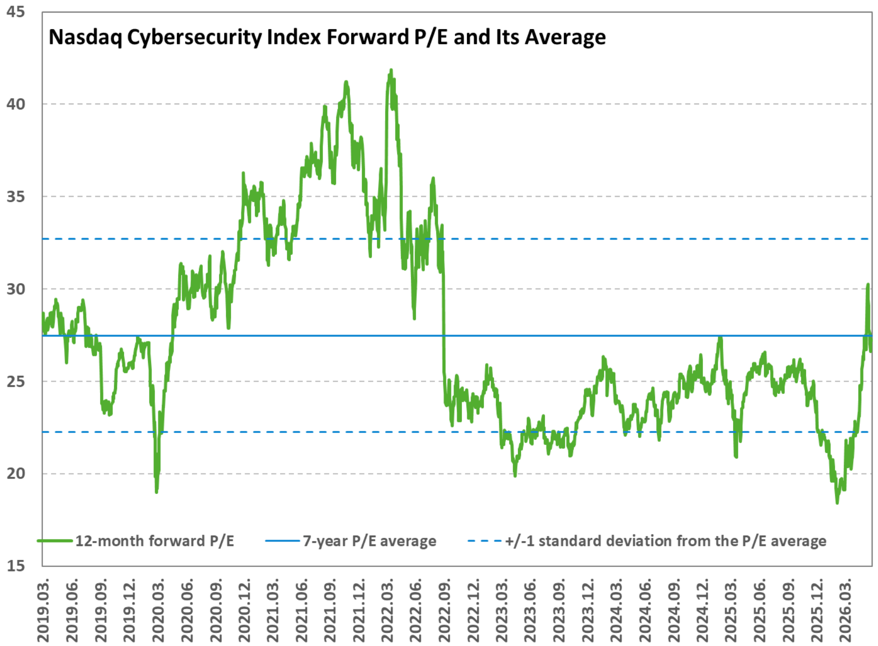
Gold

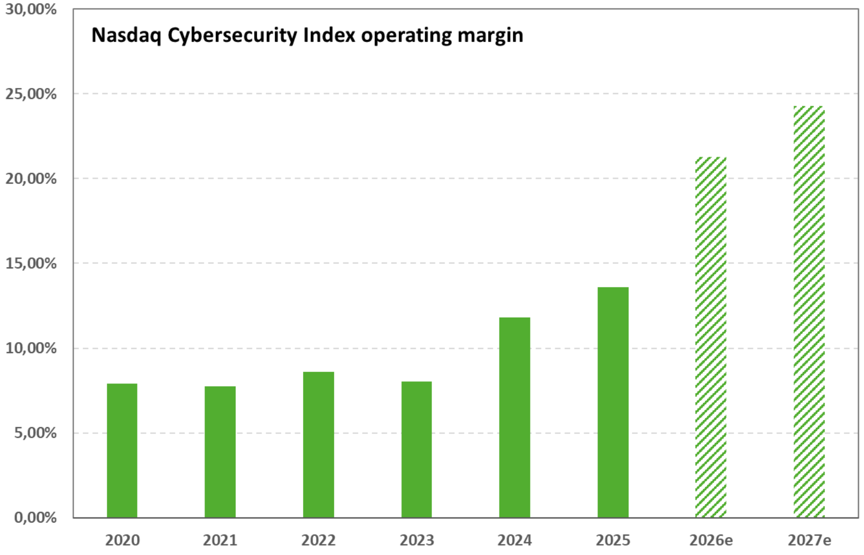
The pace of central bank buying is slowing, meanwhile the hawkish Fed rhetoric, and the strengthening dollar are strong headwinds.

Removed topics from the list

Newly added topics to the list

Cybersecurity: early AI winner on the software side



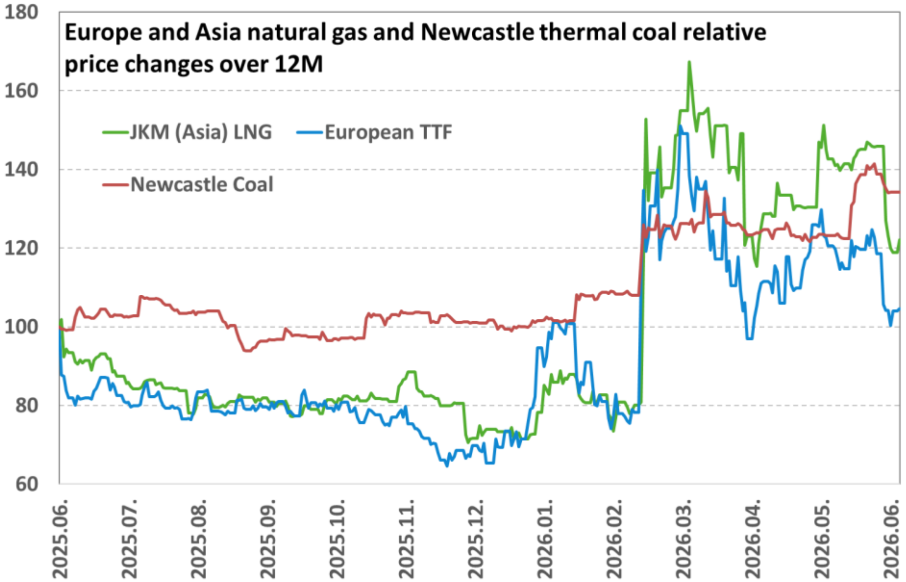


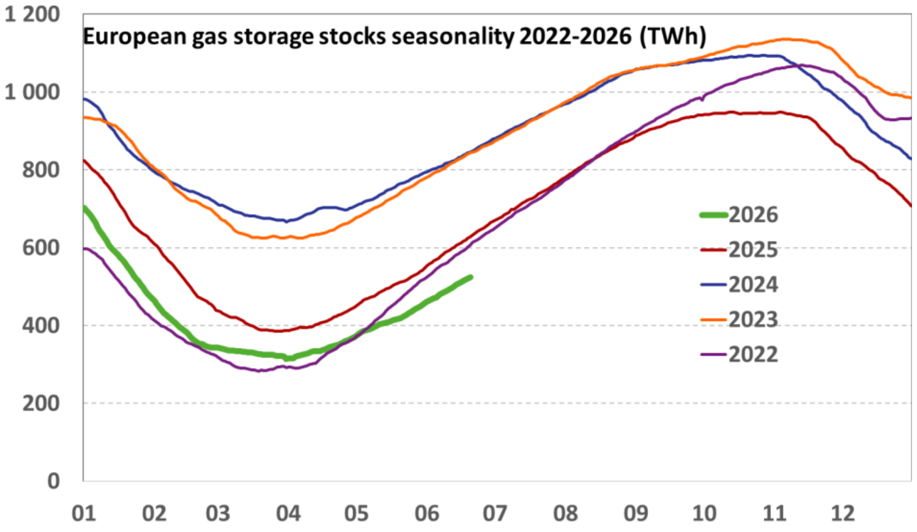
Source: Bloomberg, OTP Multi-Asset Strategies

- Following a decline in the first quarter, the cybersecurity sector has decoupled from broader software market trends and has shown significant relative outperformance in recent months. Instead of the disruptive risk posed by Anthropic AI models, investor focus has shifted to artificial intelligence as a potential catalyst for stimulating demand. The segment remains fundamentally more resilient due to its deep integration into IT infrastructure, the regulatory environment, and the real-time system log data that is difficult for large language models (LLMs) to access – the lack of which poses a significant barrier to entry for LLM-based alternatives.
- In our view, the spread of AI agents is driving demand in the cybersecurity market by expanding the attack surface, while growing cloud adoption is further strengthening the demand for cloud and cloud-based workflow protection solutions. Attack activity is significantly intensifying: the number of cyberattacks has nearly tripled over the past five years, and the proportion of generative AI-based incidents could reach 17% by 2027 (Gartner). The advanced vulnerability detection capabilities of Anthropic's Mythos model could provide further incentive to increase security spending.
- The Q1 earnings season was strong for the sector: the vast majority of companies reported growth that exceeded expectations and was often accelerating, primarily due to AI-driven demand. In the short term, this supported a shift in the investor narrative, during which the sector transitioned from an AI laggard to an AI leader. In the longer term, the growing importance of hybrid warfare and increased government spending could provide further momentum. The U.S. currently spends ~0.1% of GDP on cybersecurity, while the ~1.5% target for infrastructure and cybersecurity spending set by NATO for 2035 holds significant potential to stimulate demand.
- The sector's valuation is no longer as attractive as it was three months ago due to significant stock price increases, but it is still only around its historical average (forward P/E of ~27). Following a strong earnings season, we see room for analysts to raise their expectations in the coming period, which could provide further tailwinds for the sector. Meanwhile, consolidation processes in this fragmented industry could continue to help widen margins and drive the sector's valuation higher.

Within the software sector, cybersecurity may be a more resilient area in the face of AI disruption, while artificial intelligence is more likely to act as a catalyst for growth. Following a strong earnings season, there may still be room to raise expectations, while industry consolidation is expected to further improve margins and support higher valuation ratios.

Utilities & Renewables: higher energy prices are a tailwind



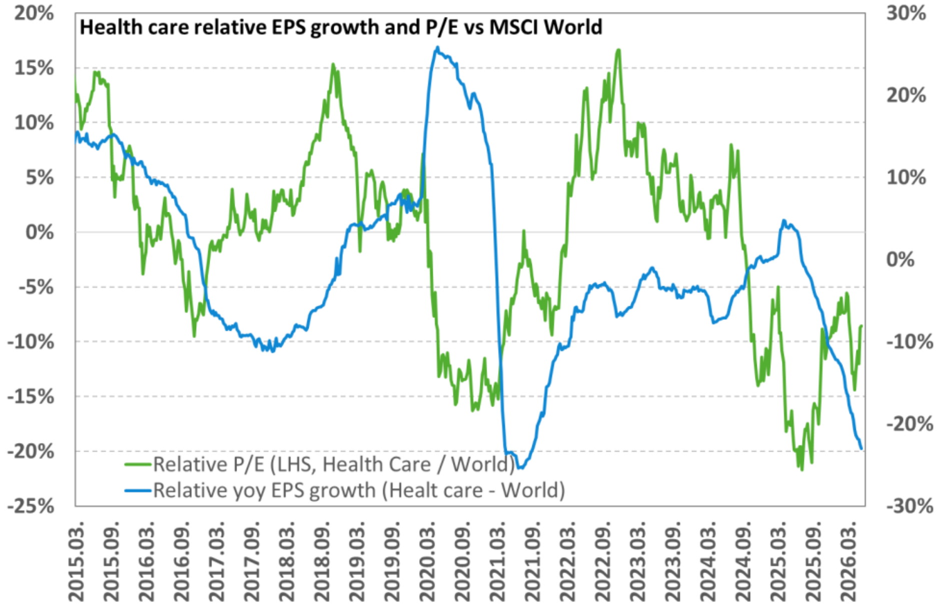


- The utilities sector has performed relatively well this year, but the overall picture is mixed: the index tracking European utility companies has outperformed some of the major stock market indices (e.g., S&P 500, DAX, Stoxx Europe 600), while the index tracking U.S. utility companies is in the green YTD but performed less well.
- It remains a valid point that the surge in energy prices caused by the war in Iran could be beneficial for some utility companies. Despite the energy price declines seen in recent weeks, the prices of coal and European natural gas (TTF) remain significantly higher compared to pre-conflict levels. Furthermore, due to seasonal factors, the summer (cooling needs) and year-end periods (lighting, heating, etc.) typically result in higher electricity demand. As a result, it is possible that electricity prices will continue to rise slightly in the coming months.
- Of course, there are also significant regional differences, as some European (e.g., Italy, the United Kingdom) and Asian countries have a higher dependence on natural gas, which means that electricity prices in these regions may be subject to greater volatility. It may be worth selecting utility companies that have diversified power production assets (e.g., with a higher proportion of both renewable and nuclear energy). As for U.S. companies, the growing energy demand from data centers continues to provide a strong tailwind in the longer term, and the government also supports fossil fuel generation.
- At the same time, the current situation remains fundamentally positive for renewable energy production and energy storage, as uncertain oil and gas supply chains could strengthen the demand for the energy transition in the long-term. This year, energy investments could rise by 5% to $3.4 trillion, with nearly 20% of that amount related to renewable energy generation (solar, wind, and hydro), according to the IEA's forecast.
- However, a potential downside for both the renewable energy and utility sector is that, as a result of the war in Iran, several countries may move toward interest rate hikes, which could lead to higher financing costs (this trend is not yet drastic, but it is worth keeping an eye on).

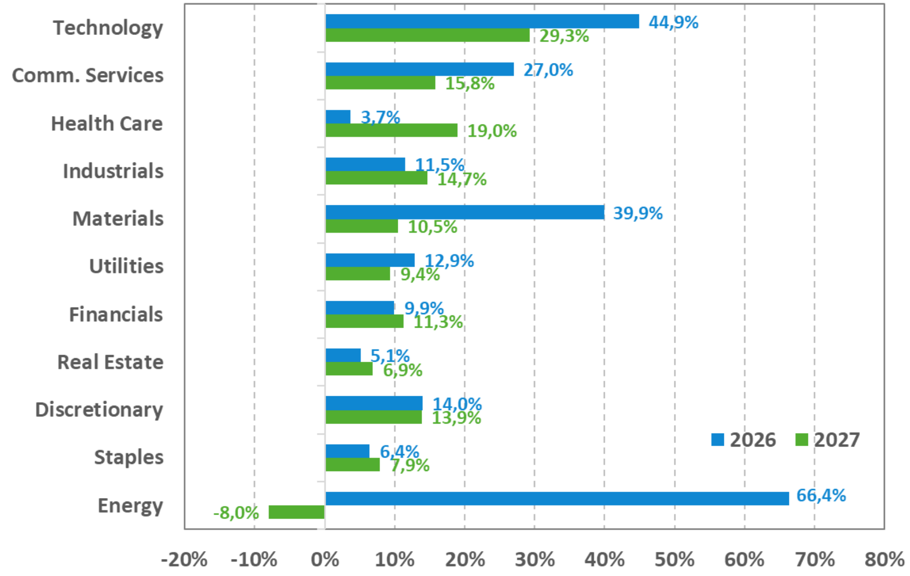
Overall, we remain positive on the renewable energy and utility sectors' long-term outlook due to expected growth in electricity demand and relatively higher energy prices as a result of the Iran war. Potentially higher interest rate environment may pose a risk.

Source: Bloomberg, OTP Multi-Asset Strategies, GIE AGSI+, IEA

Healthcare: structural growth meets defensive strength



S&P 500 expected earnings growth

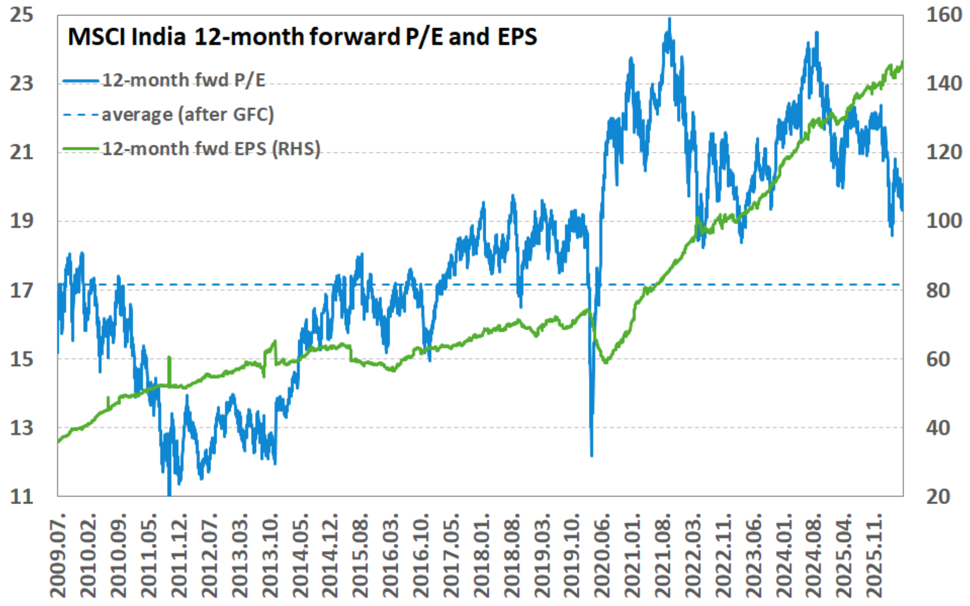


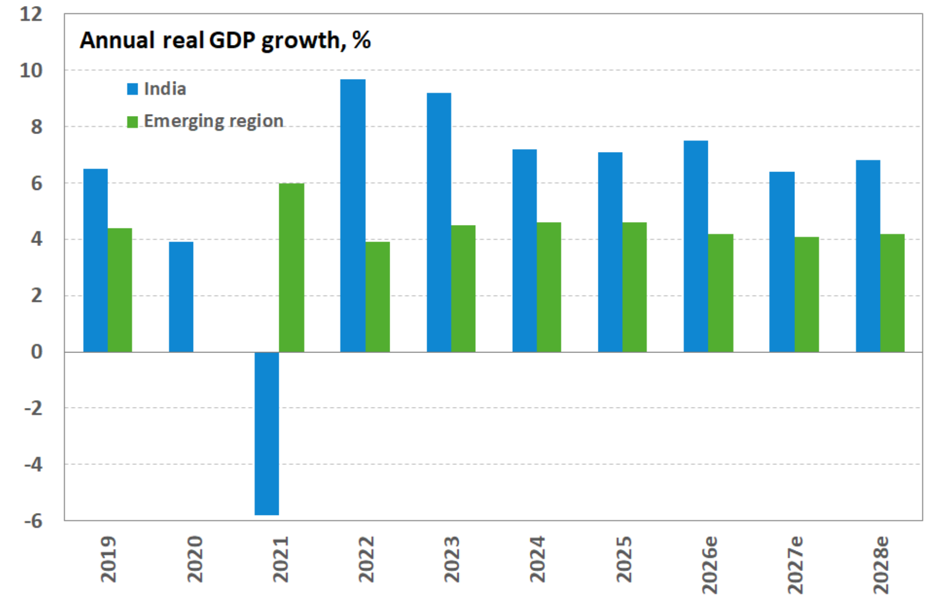
Source: Bloomberg, OTP Multi-Asset Strategies

- Healthcare remains one of our favoured sectors for the second half of 2026, as the sector continues to offer structural growth supported by an ageing global population, increasing life expectancy and steadily rising healthcare expenditure. It also offers innovation-driven earnings potential, as AI can help reduce operational costs, shorten drug-development timelines and improve productivity, while the sector has historically demonstrated defensive characteristics.
- The healthcare sector trades at a reasonable relative valuation, with a 17.7 12-month forward P/E, compared with the S&P 500's 20.1 12-month forward P/E. However, headline earnings numbers remain soft, with expected growth of just 3.7% for 2026 and -8.1% for Q2 2026. This weakness is mainly attributable to one-time charges related to Gilead's three acquisitions, rather than a deterioration in the underlying business. Excluding Gilead, the sector would deliver 7.1% EPS growth for Q2 2026.
- The GLP-1 market, particularly obesity drugs, remains one of the sector's most important growth engines, although the story has become more nuanced. Rising patient volumes and broader reimbursement need to be balanced against pricing pressure, government negotiations and potential margin dilution. The global incretin market, including GLP-1 therapies, could scale to around $200 billion by the end of the decade. M&A is also likely to remain a structural tailwind for the broader pharmaceutical sector, as companies prepare for one of the most significant loss-of-exclusivity cycles in more than a decade.
- Regulatory risk remains present, but it is now more visible and therefore more manageable. The U.S. administration has reached pricing agreements with several major pharmaceutical companies, combining lower U.S. drug prices with tariff relief, direct-to-consumer sales channels and U.S. investment commitments. This may pressure pricing in the near term, but it also reduces the probability of more disruptive worst-case scenarios, as companies are adapting through negotiated arrangements rather than facing purely unilateral policy shocks.

Healthcare remains a favoured sector for H2 2026, supported by structural growth, innovation and reasonable relative valuation. The sector also has defensive characteristics, which provide meaningful resilience during periods of market volatility.

India: could be a winner of a potential rotation out of the AI story





Source: Bloomberg, OTP Multi-Asset Strategies

- The year got off to a good start for the Indian economy, with GDP growth of nearly 8% in the first quarter; however, the blockade of the Strait of Hormuz halted this momentum. India is the world's third-largest oil importer, covering nearly 90% of its consumption through imports, and it also sources half of its LPG and LNG in this way, leaving it with significant geographical exposure to the Persian Gulf. After the disruptions in fertilizer supplies, the economy will also have to contend with the effects of El Niño, as the latter could lead to drier weather and lower agricultural yields.
- The energy price normalization is good news given the country's import reliance, and although the economy can no longer completely avoid its negative effects, it may get off with moderate damage: the central bank has cut its GDP growth forecast for this year to 6.6% but raised its inflation forecast to 5.1%. RBI has kept the benchmark rate unchanged for now (at 5.25%) and has attempted to offset the pressure on the rupee caused by the deterioration of the current account balance by introducing several measures. The rupee's depreciation may come to a halt, partly due to the normalization of energy prices; however, given the expected rise in inflation in the second half of the year, the central bank will likely have to raise rates.
- Apart from a temporary slowdown, the Indian economy continues to show strength; it is particularly unique for a country of this size that its working-age population is expected to continue growing in the coming decades, which could lead to GDP growth rates above the emerging market average. This, combined with the end of the energy crisis, could help corporate profit growth–which has slowed in recent times–to regain momentum. Growth rates of 15–20% (in 2027) could once again place the region among the world's leaders, which, from an investor's perspective, could represent a favorable diversification opportunity within emerging markets–particularly relative to South Korea or Taiwan, where growth is largely driven by exposure to AI names. If the semiconductor sector's rally is followed by a period of consolidation – as we expect –due to significant overpositioning, the Indian stock market could emerge as the winner of a rotation process, as valuation metrics have already normalized considerably in recent months, returning to what could be considered neutral levels.

Thanks to the opening of the strait, the Indian economy may weather the rise in energy prices with only moderate damage, which could help corporate profit growth gradually recover. By 2027, Indian companies could once again rank among the world's leaders, which could attract the attention of investors looking to diversify beyond AI exposures. In the longer term, favorable demographic trends will be a structural driver.

LatAm: supportive factors like nearshoring and low valuations

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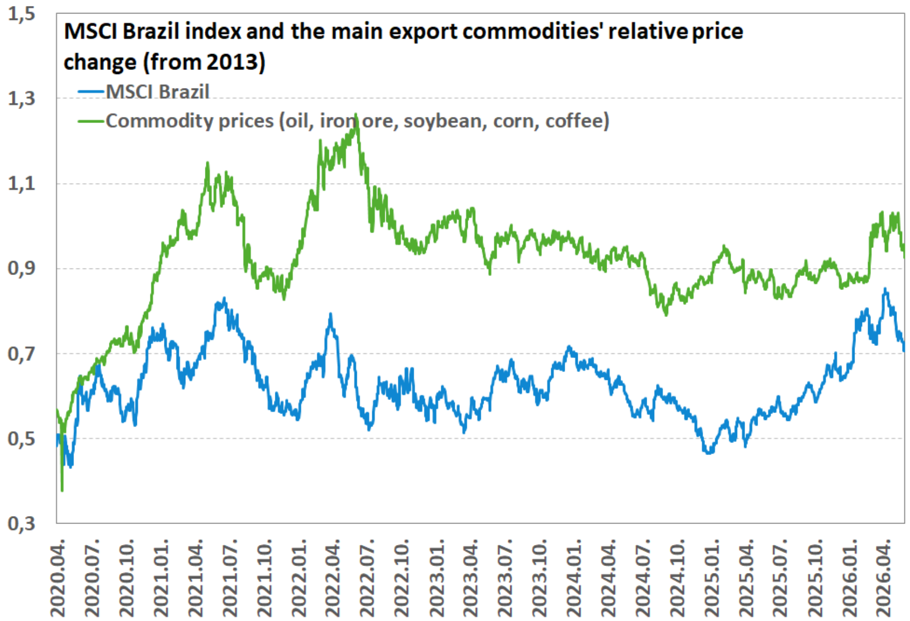
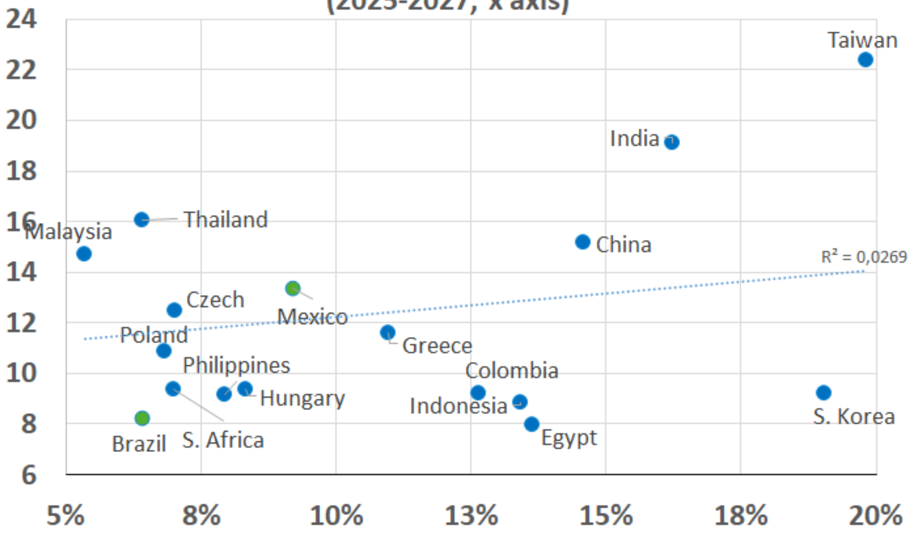


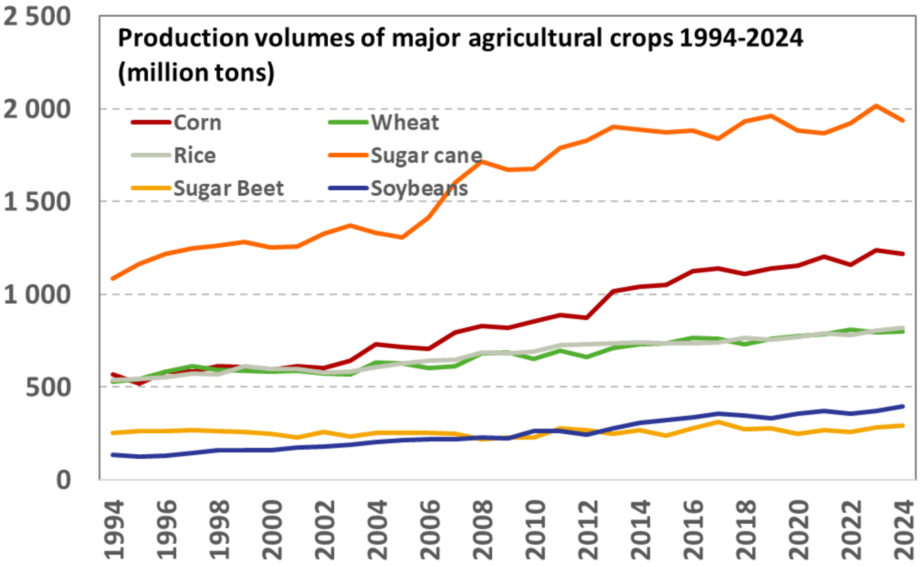


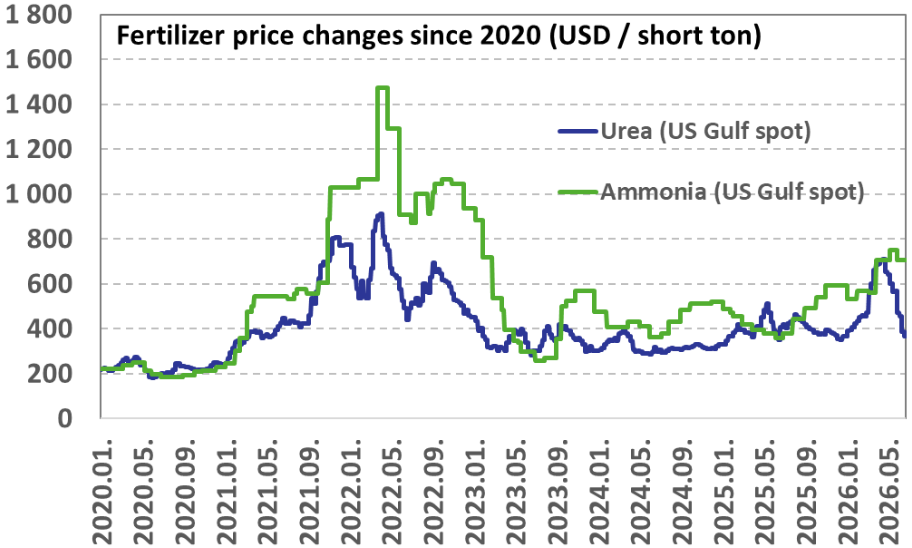
Source: Bloomberg, OTP Multi-Asset Strategies

- Following a significant rally at the start of the year, the past few months have been marked by profit-taking on the Brazilian stock market. This is due to rising energy prices as well as inflation expectations exceeding 5% for this year, which is outside the central bank's tolerance range. As a result, the market has become more cautious regarding the ongoing rate cutting cycle, but further two rate cuts are still expected this year. Of course, this does not necessarily mean that the stock market will come under sustained pressure, as real interest rate remains quite high and could gradually decline in the coming years.
- Rising inflation could hurt President Lula's chances of reelection in the October elections, but according to recent polls, he is still maintaining his lead and even managed to increase it in June. This is because the effects of the energy price shock have been offset by social spending; his challenger, Flavio Bolsonaro, has been embroiled in a corruption scandal. The greatest macroeconomic vulnerability stems from the high budget deficit and rising public debt; if the new administration addresses these issues, it could even create room for more significant interest rate cuts. Rising commodity prices are improving sentiment toward the Brazilian stock market; however, due to the elections, investors' risk perception may increase in the coming months. The stock market, however, remains attractively valued.
- In Mexico, sluggish economic growth has been exacerbated not only by tariffs, trade uncertainties, and spending cuts due to the high budget deficit, but also by rising energy prices in recent months; however, partly as a result of slow growth, inflation remains within the central bank's tolerance band. To boost "Plan Mexico"–the long-term economic and industrial development program adopted early last year–several measures aimed at attracting foreign investment have been adopted (establishing a new agency, simplifying tax procedures, reducing bureaucracy, shortening the project approval processes), which could stimulate growth over time, although this will also require a reduction in uncertainty surrounding the U.S.-Mexico-Canada Agreement (USMCA). Rather than extending the USMCA for 16 years, it is currently more likely that the agreement will be placed on a one-year review cycle.
- The long-term investment case remains unchanged, supported by Mexico's geographic location, its close economic integration with the United States, and competitive manufacturing base.

If we were to see a brief pause in the AI story, capital could flow into regions supported by other factors, such as the nearshoring trend or low valuations. Mexico and Brazil are still well positioned for such a change in market perception.

Agriculture: the market may have reached an inflection point





- The war in Iran, which has been dragging on for months, is having a significant impact not only on oil and gas prices, but also on many other raw material markets due to various ripple effects. As a result, it has left its mark on agricultural products as well. On the one hand, the closure of the Strait of Hormuz has caused energy prices to spike, driving up fuel and electricity prices as well, which in turn increases the production costs of agricultural products. We also note that, despite the declines in energy prices in recent weeks, they remain above pre-war levels. Furthermore, in our view, even if a lasting resolution is reached in the Iranian conflict, energy prices may remain relatively high for some time: global oil reserves have plummeted and will need to be replenished in the coming period, and it may take some time for shipping traffic to return to normal and for oil production in the Middle East to recover. This could also lead to a sustainably higher demand for biofuels.
- At the same time, countries in the Middle East are also major fertilizer exporters (accounting for ~30% of international trade), so the prices of many related products have also risen sharply, including, among others, urea, ammonia, sulfur, and ammonium phosphates (MAP, DAP). However, prices are still well below the levels seen after the outbreak of the Russia-Ukraine war, and after the initial spike following the outbreak of the Iran war, there was also a significant correction, but this is partly due to seasonal factors. As with energy prices, we expect that even if a peace agreement is reached, fertilizer prices may remain relatively higher compared to pre-conflict levels for some time, which would further amplify cost pressures.
- Another key aspect of the agricultural investment story is that, following the spike in prices for many crops after the outbreak of the Russia-Ukraine war in 2022, prices have mostly trended downward in recent years and have rebounded slightly from multi-year lows only in recent weeks. Depressed sales prices and rising costs are not good news for producers, as they are causing profit margins to shrink further, which could lead to a decline in the supply of certain products over time. As a bonus, there is also the "super El Niño" phenomenon expected this year, which could bring extreme weather conditions to certain regions.
- In light of this, agricultural products that have high fertilizer requirements, can be used as biofuels, and may be vulnerable to the extreme weather conditions expected this year could be of interest from an investment perspective (e.g., wheat, corn, rice, sugar, cocoa, coffee, etc.).

We view the long-term outlook for the agricultural sector favorably, as energy and fertilizer prices may remain elevated for some time due to the war in Iran, and the stronger El Niño phenomenon expected this year could also provide a tailwind.

Source: Bloomberg, OTP Multi-Asset Strategies, FAO

2026 YTD performance review

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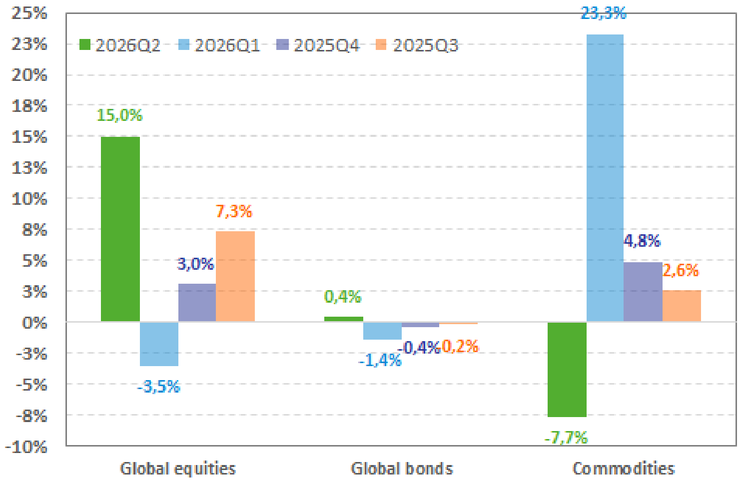
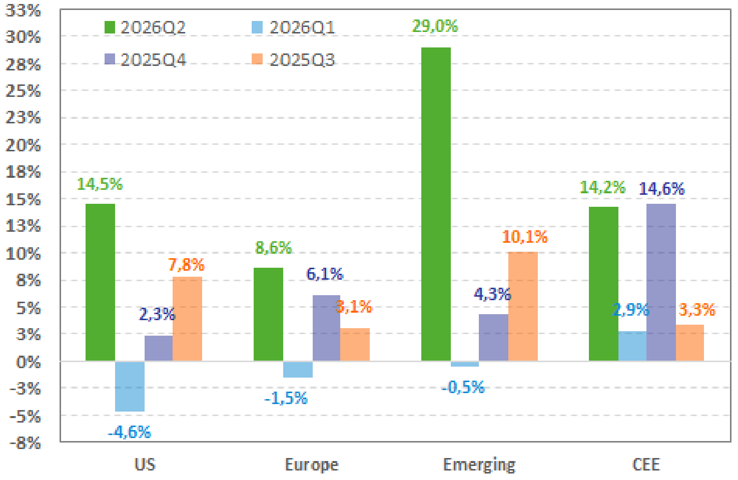
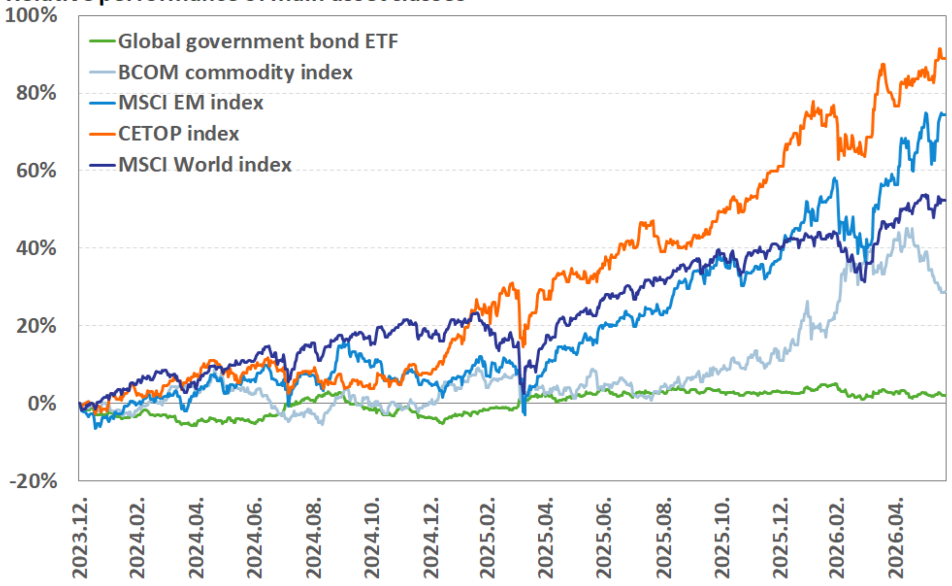
Asset Class performance



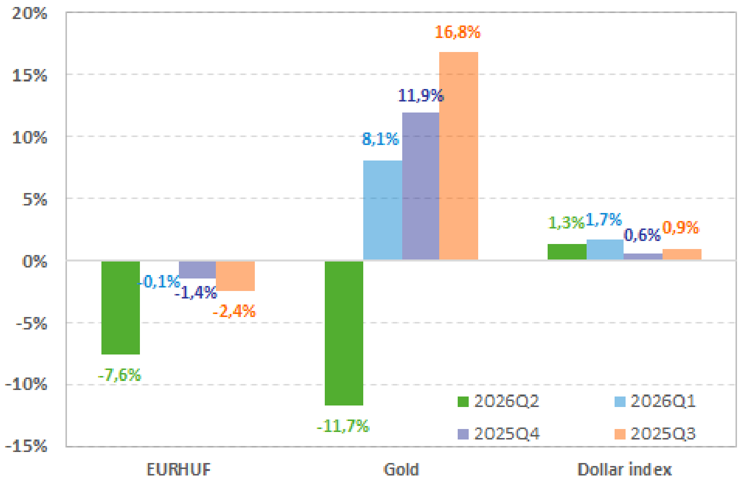
Equity regions' performance



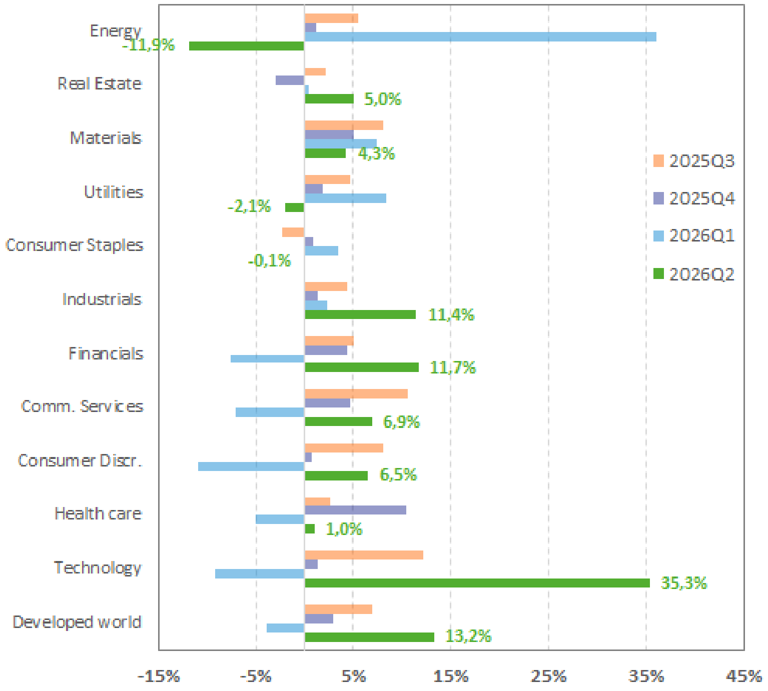
Relative performance of main asset classes



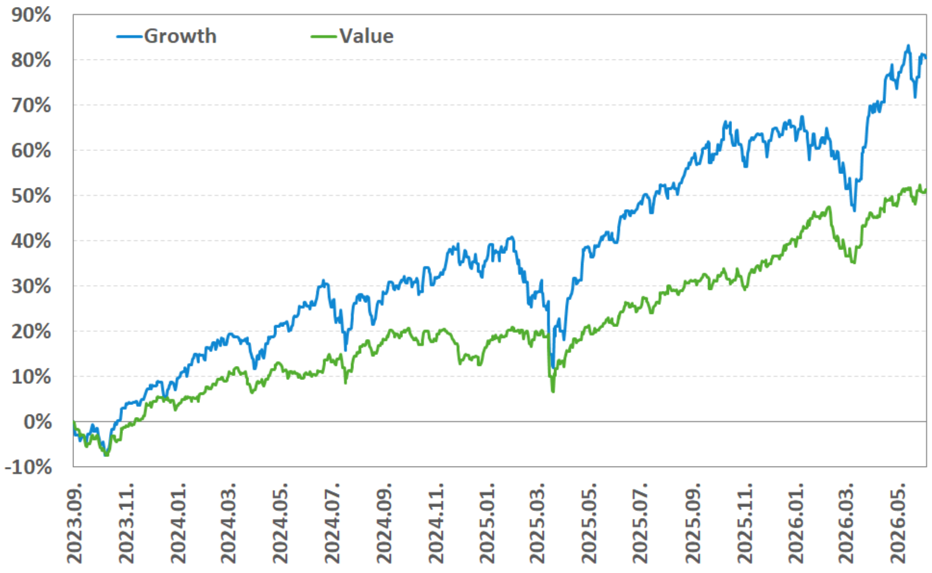
FX and gold performance



Equity sectors' performance



MSCI ACWI growth and value relative performance



Source: Bloomberg, OTP Multi-Asset Strategies

Prepared by:

Győző Eppich
Chief Economist

David Sandor
Chief Investment Strategist

Akos Szeman
Senior Analyst

Jozsef Puzsar
Senior Analyst

Zoltan Horvath
Analyst

Adam Bekesi
Junior analyst

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