Mercantil

Financial Markets Outlook

HOUSE VIEW

November 2026

English translation of the original Spanish-language document "Mercantil House View – Noviembre 2026" (16 pages). In case of any discrepancy, the Spanish original prevails.

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Executive Summary

November brought a major political shift. Starting in January, the United States will have a divided government: the Democrats, who won a majority in both chambers, will control Congress and have a decisive influence over the budget. The change comes with a still-solid economy, which grew 3.4% annualized in the third quarter, and with elevated inflation. We expect growth to moderate gradually, from 2.4% in 2026 to 2.0% in 2027, as the boost from the tax cuts fades, and inflation to begin falling from April 2027, when the sharp rise in prices in March 2026, mostly in energy, stops weighing on the year-over-year comparison. Even so, core inflation, which excludes food and energy, would remain above the Federal Reserve's (Fed) 2% target.

Third-quarter results were solid, but price pressures are also reaching companies. Input costs rose between 14% and 21% over the past year and, since real wages are not keeping pace, companies will have difficulty passing those increases on to their prices. We therefore expect margins to stop growing. This is our main difference from the consensus: we project S&P 500 earnings to grow 8% in 2027, about half of what analysts expect (15% to 18%).

In fixed income, we maintain a neutral exposure relative to the benchmark, with a duration of 6 years. With inflation still high and a Fed that we expect to raise its rate again in December, within Treasuries we concentrate the overweight in the 1- to 3-year segment, which pays more than the Fed rate with contained risk. We will gradually extend maturities again if the 7- to 10-year segment returns to the 5.30% area, or when inflation shows a change in trend, which we anticipate for the first quarter of 2027. In credit, Investment Grade remains the core of portfolios and we raise Global High Yield to overweight, focusing on short-term BB bonds. We avoid AI-linked companies with highly leveraged capital structures, private credit and commercial real estate, and we maintain a wait-and-see stance on gold.

In equities, we maintain the overweight. Earnings growth of 8% is still attractive and the recent correction has left more reasonable valuations, especially in technology, where we return to an overweight. Over the next twelve months we expect the S&P 500 to reach 8,200 points, about 9% above its current level (~7,550), within a range from 6,500 points in an adverse scenario to 9,000 in a favorable one. Weighting the three scenarios, the expected total return, including dividends, is around 8%, compared with the 4.7% a two-year Treasury offers today: a difference that supports maintaining the exposure, albeit with a relatively small margin of safety. We anticipate that AI will remain the market's engine in 2027, with growth better distributed across sectors.

Market Overview

Politics: a divided government and intense negotiations

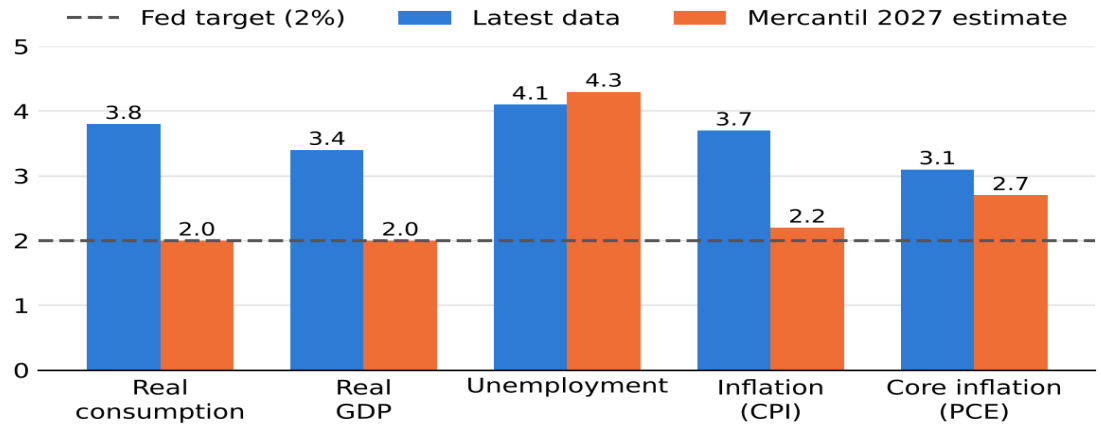
The midterm elections resulted in a divided government. The Democrats won a majority in both chambers of Congress, which approves the budget and legislation, while President Trump retains the White House and his veto power. We anticipate that no major legislation will advance without an agreement between both parties, and we expect intense political negotiations over the budget, the debt ceiling (around February 1, with a risk of a government shutdown) and tariffs, in addition to an attempt by some new legislators to push for impeachment.

For markets, the main effect is a change in the composition of spending, from defense toward social programs, with a deficit that will remain high: 5.8% of GDP in fiscal year 2026, according to the Congressional Budget Office (CBO), and heading toward 6.0% in 2027. The Democrats seek to end the conflict with Iran, although they would maintain support for Ukraine. We therefore consider an agreement in the Persian Gulf possible during the second quarter of 2027, which would make energy cheaper.

Slower growth and inflation falling from April

The economy closed the third quarter strongly: real GDP grew 3.4% annualized and consumption, 3.8%. We do not expect that pace to be sustained: the boost from the tax cuts is fading, real wages fell 0.7% over the past year, and we anticipate that, in the first half, Fed rates will become restrictive and make financing more expensive. We forecast GDP going from 2.4% in 2026 to 2.0% in 2027 (in a range of 1.8% to 2.2%), with consumption also growing close to 2%. Business investment would continue to increase, although at a slower pace (from 12.7% to around 6%), supported by data center projects that are already under way.

Chart 1. U.S. economy: latest data and 2027 estimate, %



Consumption and GDP: real growth in Q3 2026, annualized. Unemployment: October. Inflation: September, year over year. Source: BEA, BLS; Mercantil estimates (Nov 10, 2026).

The labor market recovered after a weak September (29,000 jobs): 165,000 jobs were created in October and the unemployment rate fell to 4.1%. We expect unemployment to rise only slightly, to 4.3%, mainly because AI is reducing hiring in entry-level positions more than total employment.

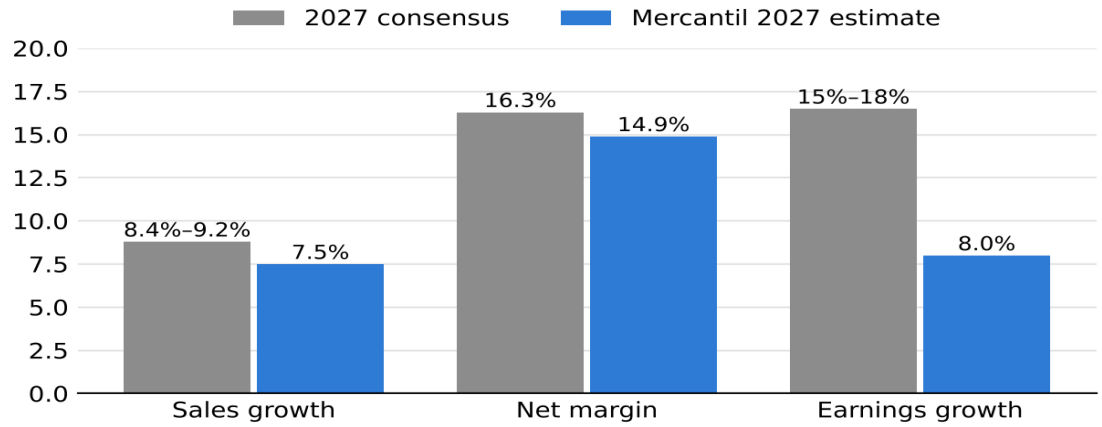
Consumer inflation (CPI) was 3.7% in September, and the October figure again surprised to the upside: prices rose 0.4% in the month and 0.3% excluding food and energy. We expect inflation to begin falling from April 2027, toward 2.2%, due to base effects: the sharp rise in prices in March 2026, mostly in energy, will stop weighing on the annual comparison, and cheaper oil will also help. Core inflation would be more resilient and would remain near 2.7%, because production costs remain high and the money supply (M2) is growing about 6% a year. We therefore do not see a quick return to 2.0%.

Earnings: costs are rising faster than prices

Input prices rose between 14% and 21% over the past year, and producer prices, 6.3%. Those increases have not yet been passed through to consumers: with real wages falling, companies cannot raise their prices to the same extent and are absorbing most of the cost increase. We therefore expect the S&P 500's net margin to remain near 14.9%, instead of rising to 16.3% as the consensus forecasts. We anticipate that the pressure will be greater in consumer brands, retail and transportation.

With sales growing about 7.5% and stable margins, S&P 500 earnings would rise around 8% in 2027, compared with the 15% to 18% the consensus expects. It is attractive growth, but far below what the market is pricing in; as analysts adjust their estimates throughout 2027, volatility is likely to increase.

Chart 2. S&P 500 in 2027: consensus vs. our estimate, %



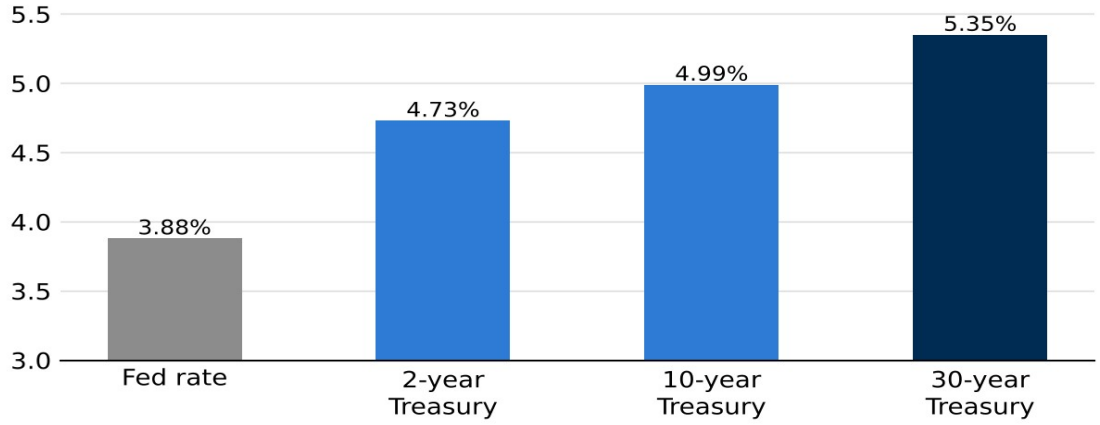
Sales consensus: FactSet; margin and earnings: analyst consensus. Source: FactSet, BLS; Mercantil estimates (Nov 10, 2026).

Interest rates: the Fed would hike in December and long-term rates would stay high

The Fed rate is in the 3.75% to 4.00% range. We expect a 0.25 percentage point hike in December and do not rule out another in March, because core inflation over the last three months is running at an annualized pace of 3.7%. From April, lower inflation and oil below US$90 per barrel should allow short-term rates to fall.

Long-term rates are a different story. The Treasury issues more than US$2 trillion of new debt per year, investments tied to AI infrastructure require roughly US$1 trillion of additional financing, and Japan, the United Kingdom and the European Union are also borrowing more and more. U.S. public debt already equals 101% of GDP and its interest costs are around US$1 trillion a year. With this supply of bonds, the yield on the 30-year bond, the one most exposed to these structural problems, stands at 5.35%, and we expect it to stay high even after the Fed stops raising rates.

Chart 3. U.S. interest rates as of November 11, 2026, %



Fed rate: midpoint of the 3.75% to 4.00% range. Source: Federal Reserve; market data (Nov 11, 2026).

Fixed income: short maturities today, longer ones when inflation eases

In October we preferred building 3- to 7-year positions. With inflation still high and a Fed that would hike again, we now concentrate the overweight in 1- to 3-year Treasuries. The two-year yields about 4.7%, roughly 0.8 percentage points above the Fed rate, with contained risk: a 0.25 percentage point rise in rates would reduce its value by only 0.5%.

Portfolio duration remains at 6 years, equal to that of the benchmark. We will gradually extend maturities again if the yield on the 7- to 10-year segment returns to the 5.30% area (today near 5%) or if inflation shows a clear change in trend, that is, the Fed stops raising rates and core inflation over the last three months falls below 3% annualized (today 3.7%). We anticipate that the latter could occur in the first quarter of 2027. In maturities beyond 10 years we maintain a neutral stance and would only increase exposure if the 20- to 30-year segment rises to the 5.5% area: for now, the risk from the deficit and debt supply is not sufficiently compensated.

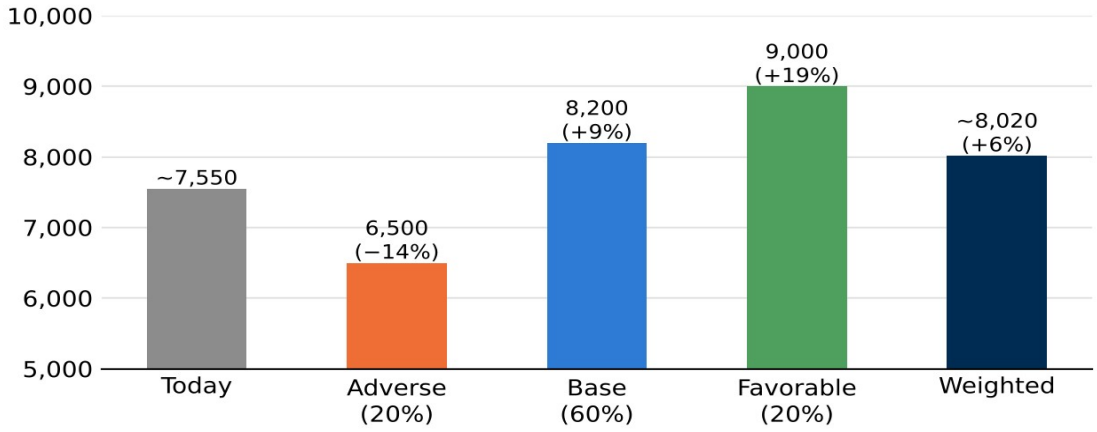
In credit, Investment Grade remains the core of portfolios. After the widening of spreads, we raise Global High Yield to overweight, with 0- to 3-year BB bonds, a preference for issuers outside the U.S. and an issuer-by-issuer selection that avoids troubled sectors: debt-financed AI, commercial real estate and software. Selectivity is key: the cost of protecting against defaults in High Yield (5-year CDS) rose from 3.0% to 3.5% annually. The market now pays more for taking credit risk, but also demands careful issuer selection.

Equities: AI remains the engine, with better-distributed growth

We maintain the overweight in equities. The 8,200-point target for the S&P 500 comes from a simple calculation: earnings growing 8%, dividends of about 1.5% and unchanged valuations, which gives a return of around 10% in the base scenario. The consensus projects between 8,300 and 9,000 points; we maintain a more conservative view because of our expectation of lower earnings growth.

When the scenarios are weighted, the expected return falls to around 8%. In the favorable scenario (20% probability), AI and growth better distributed across sectors would take the index to 9,000 points; in the adverse scenario (20%), a sharp cut in AI investment would send it down to 6,500, about 14% below the current level. An expected return of 8%, compared with the 4.7% on short-term bonds, justifies a moderate overweight, not an aggressive bet.

Chart 4. S&P 500: 12-month scenarios, points (probability)



Weighted: 20% × 9,000 + 60% × 8,200 + 20% × 6,500 ≈ 8,020 (+6%), close to +8% with dividends. Changes relative to ~7,550. Source: Mercantil estimates (Nov 11, 2026).

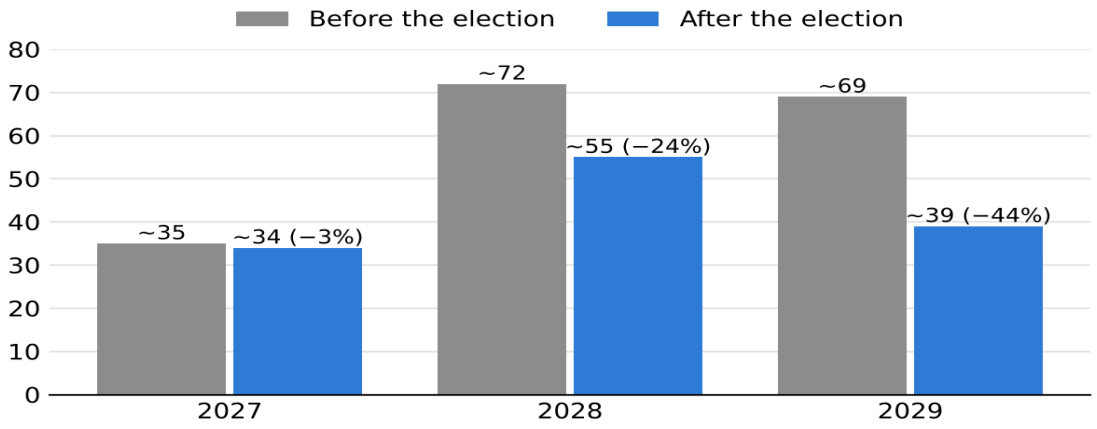
In technology, prices already discount a 25% to 35% drop in chipmakers' earnings in 2028, and the sector's leaders trade at around 10x estimated earnings for that year, the lowest level since 2011. We therefore return to an overweight in the sector and are gradually building positions in the leaders (for example, Nvidia or Broadcom) while prices remain low. At the same time, AI-linked segments account for 41% of the value of the U.S. equity market, a high concentration, so we are selective: we favor profitable companies with solid balance sheets, and complement that exposure with other sectors and regions. We avoid insurers exposed to commercial real estate, private credit and private equity, as well as AI cloud companies financed with high levels of debt.

Artificial intelligence: fewer data centers, but strong demand

Data center construction is showing signs of slowing. About 45% of planned U.S. capacity is in states whose new governors support moratoriums, and 76% of voters oppose new data centers. Projects already under way cover 2027, but projects for 2028 and 2029 face delays: new capacity would be about 24% lower in 2028 and 44% lower in 2029 than in the pre-election plans.

Demand, however, remains solid: chip rental prices are up between 26% and 50% over the year and we anticipate that existing data centers will replace their chips with newer, more efficient ones. Chip demand for 2027 is therefore already committed, although it could moderate in 2028 and 2029 as fewer data centers open.

Chart 5. New U.S. data center capacity, GW (under construction and high probability)



Before and after the November 2026 election. Source: Goldman Sachs / Aterio; Mercantil estimates.

Investment conclusion

The political change in Washington comes with an economy that we expect to moderate in 2027 without entering a recession, and with inflation that would begin to ease from the second quarter of 2027. We expect AI to remain the market's engine, with growth better distributed across sectors, but we project earnings growth significantly below that built into consensus estimates, so the margin of safety is small.

In global allocation, we moderately overweight equities, keep fixed income neutral and underweight cash. In fixed income, with a neutral duration of 6 years, we now prefer 1- to 3-year Treasuries and will gradually extend maturities if rates on the 7- to 10-year segment return to the 5.30% area or when the inflation trend changes, probably in the first quarter of 2027. We strongly underweight sovereign bonds of other developed countries. Investment Grade is the core of credit, complemented with short-term BB-rated High Yield to generate income. We keep the dollar neutral and, with gold, we continue to wait. We avoid AI-linked companies with highly leveraged capital structures, private credit and commercial real estate.

In equities we maintain the overweight, with greater exposure to the United States and Emerging Markets and neutral on the rest of the developed world. We prefer technology, where we are gradually building positions in the chip leaders, and consumer discretionary, with less exposure to consumer staples and real estate. We use financial options to hedge risks or to participate in market growth, depending on each portfolio's profile.

Data as of November 10, 2026. The companies mentioned are examples only and do not constitute an individual investment recommendation.

Global Fixed Income

Overview

October reversed much of the adjustment seen in September. The 10-year U.S. Treasury, which had come off its highest level since 2002, touched a high of 5.30% at the start of the month and closed around 4.93%: a decline of 35 bps, the largest in a single month since December 2023. The 2-year ended near 4.6%. Two factors explain the turn: less restrictive signals from Fed Chair Kevin Warsh, and the flight to safety in Treasuries when fears around artificial intelligence (AI) hit technology stocks.

On October 28, the Fed held its rate in the 3.75% to 4.00% range, with 10 votes in favor and 2 in favor of a 25 bps hike. The data do not point in a single direction: employment weakened in September, with only 29,000 new jobs and unemployment of 4.2%, but inflation rose to 3.7% and third-quarter GDP accelerated to 3.4%. The additional hike the Fed anticipated in September remains on the table: the market assigns it an 85% probability for the December 9 meeting, and that is also our expectation.

Outside the United States, the bias remains restrictive. The Bank of England raised its rate by 25 bps, to 4.00%, on November 5 and expects inflation to reach 5% by mid-2027. The European Central Bank (ECB) held its rate at 2.50%, with inflation of 4.0%, and the Bank of Japan at 1.25%; in both cases, the consensus expects a 25 bps hike in December.

The month's tactical decision is in credit. In September, the widening of High Yield spreads supported our cautious stance; in October, the move continued, from 313 to 344 bps, while Investment Grade went from 79 to 89 bps, pressured by abundant AI-related corporate debt issuance. A wider spread means the market is again paying more for taking credit risk. We therefore raise Global High Yield from neutral to overweight, with three conditions: BB rating, maturities of 0 to 3 years and a preference for issuers outside the United States, particularly in euros, where the widening was greater.

In sovereign debt, we maintain the preference for U.S. Treasuries that we adopted in September, but we change the point on the curve. After the decline in yields, the intermediate and long segments move to neutral and the overweight is concentrated in the 1- to 3-year segment. We would gradually extend maturities again if the 7- to 10-year segment returns to the 5.30% area and the 20- to 30-year to 5.5%. Sovereign bonds of other developed countries remain a strong underweight, which leaves room for the overweight in credit. Portfolio duration remains at 6 years, equal to that of the benchmark.

Positioning by region and sector

Segment	View	Maturity and duration	Rating	Regions and currencies	Sectors
Developed-market governments	Underweight	1–3-year Treasuries: overweight. Rest of the curve: neutral. Neutral duration	—	US > UK > Germany > Japan; USD > EUR > GBP > JPY	—
Global Investment Grade	Overweight	3 to 7 years. Neutral duration	BBB	Greater weight outside the US. Overweight EUR	Communications, utilities and financials
Global High Yield	Overweight (previously neutral)	0 to 3 years. Short duration	BB	Europe. Overweight EUR	Materials, industrials and energy
Emerging Markets	Neutral	2 to 7 years. Neutral duration	BBB- and BB+	Latin America. USD issuance	Materials, industrials and financials

Valuations. The dollar Investment Grade index offers an OAS of 90 bps, with a duration of 6.2 years; BB-rated High Yield, 209 bps (vs. 176 bps last month), with a duration of 3.3 years. Communications, technology and utilities registered the largest widenings: we see opportunities in the first and the last, and remain cautious on technology. In Emerging Markets spreads also widened, but they remain expensive relative to the rest of credit; there we prefer quasi-sovereign and corporate issuers over sovereigns.

Currencies. Analysts project only marginal dollar weakness (−0.3% by the end of the fourth quarter), insufficient to make sovereign bonds in other currencies attractive. We therefore prefer to obtain euro exposure through corporate credit, where spreads compensate better than in dollars.

Notes

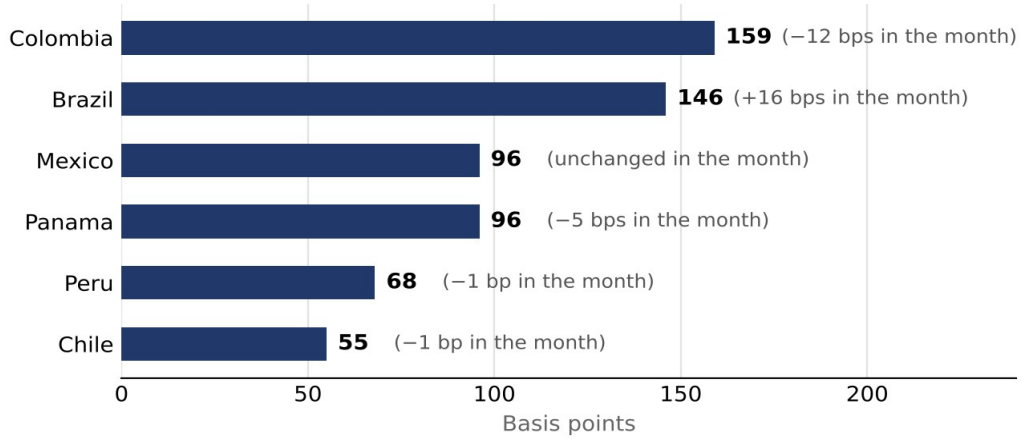
- bps: abbreviation for “basis points” (1 basis point equals 0.01%).
- Spread: the additional yield a higher-risk bond (for example, a company’s) pays compared with a risk-free one (such as U.S. Treasuries).
- OAS (Option-Adjusted Spread): the standard measure of that additional yield, adjusted for the options embedded in the bond.
- Investment Grade: bonds with a credit rating between AAA (highest quality) and BBB- (lowest quality in the segment).
- High Yield: bonds that pay a higher yield because of their lower credit quality; they range from BB+ (highest quality in the segment) to CCC (very high risk of default).
- Duration: measures how much a bond’s price changes in response to changes in interest rates; the higher the duration, the greater the sensitivity.
- CDS (Credit Default Swaps): contracts that work as insurance against an issuer’s default; their price, in bps, reflects how much it costs to insure against it.

Panama and Latin America Fixed Income

Overview

In September, the region's CDS widened across the board, dragged by the rise in the risk-free rate. October marked a clearer differentiation among issuers: with the 10-year Treasury declining, each country moved according to its own factors. Brazil's CDS widened 16 bps after the election and Colombia's tightened 12 bps, while those of Mexico, Panama, Peru and Chile barely changed.

5-year CDS: level as of October 30 and change in the month



Source: Bloomberg

Bond spreads (OAS) showed another side: they widened in Mexico (+32 bps), Panama (+30 bps), Brazil (+21 bps) and Peru (+20 bps). In other words, the market demanded more yield on bonds even though the cost of insuring against a default remained stable. We are not making any positioning changes: Colombia remains overweight, Chile underweight and the rest neutral, with a preference for Investment Grade issuers in dollars and maturities of 2 to 7 years.

Panama

Last month we noted that the recommendation of an orderly closure of Cobre Panamá left the credit without its main catalyst. The mine's future remains unresolved and a new risk is added: the El Niño phenomenon could reduce Canal transit and, with it, fiscal revenues. The deficit is estimated at 4.0% of GDP for 2026 and 3.8% for 2027. The CDS closed at 96 bps (−5 bps in the month and −29 bps in the year), although the OAS widened 30 bps. We maintain a neutral stance.

Brazil

The election, which was heading into a technical tie, was resolved with a Lula victory that the market had not anticipated, and the reaction was the sharpest in the region: the CDS rose 16 bps, to 146 bps, and the OAS widened 21 bps. The Selic rate is expected to remain at 13.75% for the rest of the year, putting the cutting cycle on pause, while concern over a fiscal deficit of 8.4% of GDP remains elevated. We maintain a neutral stance pending fiscal definitions from the new term.

Colombia

After the surprise hike in September, the Banco de la República held its rate at 12.25% and is expected to close the year at 12.50%. Inflation stands at 6.3% and the projected deficit for 2026 at 7.2% of GDP, with execution risks in the fiscal reforms. Even so, it had the best relative credit performance during the month: the CDS tightened 12 bps, to 159 bps, and is down 51 bps year to date. With a 5-year yield of 6.8%, the

highest in the sample, we maintain the overweight: the carry, that is, the income earned from holding the bond, compensates for a fiscal premium that remains the main risk.

Mexico

Mexico retains its defensive profile. The market projects that the policy rate will stay at 6.25% until 2027, with expected growth of 1.6% and a deficit of 3.6% of GDP. The catalyst we have been watching remains open: the USMCA (T-MEC) is still not renewed, although neither has it been suspended. The CDS closed unchanged at 96 bps, but the OAS registered the largest widening of the month (+32 bps). We maintain a neutral stance.

Chile

We maintain the underweight. Activity remains weak: in September it grew just 0.2% year over year, with a 12.1% drop in mining; unemployment stands at 9.8% and the 2026 growth projection was cut to 0.4%. At the same time, with inflation at 4.1%, the market expects the rate to rise to 4.75% at the end of 2026 and to 5.0% in 2027, and the peso is down 7.4% for the year. At 55 bps, the CDS remains the lowest in the region: credit strength is already fully reflected in prices.

Peru

The outlook changed little from last month. Inflation remains at 4.55%, its highest level in three years, and the Central Bank holds its rate at 4.25%, with a possible hike before year-end. August GDP grew 3.2% year over year and projections point to 3.0% in 2026 and 3.4% in 2027. With the CDS at 68 bps (−1 bp in the month), we maintain a neutral stance.

Global Equities

Overview: a defensive October and an adjustment in technology

In October, global equities fell 1.7% and investors sought refuge in the most defensive sectors. Energy (+13%), Consumer Staples (+10%), Health Care (+10%) and Utilities (+8%) led the month, while Technology (−9%), Communication Services (−10%) and Emerging Markets (−9%) registered the largest declines. Year to date in 2026, Energy (+55%) and Technology (+28%) remain the most profitable sectors, above the S&P 500 (+12%), while Consumer Discretionary (−6%) and Communication Services (−12%) continue to lag.

Volatility rose in the first days of November. On November 5, global stock markets fell 3.8% and semiconductor stocks fell 12.3%, their worst day since March 2020, amid concern that the U.S. election result, favorable to the Democratic Party, will translate into obstacles to the approval and construction of data centers.

Corporate fundamentals remain solid: the adjustment is in prices, not in results

Third-quarter results confirm the strength of companies: 82% of S&P 500 companies beat analysts' expectations and their earnings grew 30% compared with the same period of the previous year. Technology stands out again, with growth of 67.5% and 94% of companies above expectations. In addition, AI-related demand is secured: Microsoft, Alphabet and Amazon have accumulated about US$1.8 trillion in signed contracts pending execution.

We therefore view the recent decline as a price adjustment and not a deterioration of the businesses. As the chart shows, the expected earnings of semiconductor companies remain at highs, while their valuation fell to about 14x expected earnings, the most attractive level since late 2022.

Semiconductors: expected earnings at highs and more attractive valuations



Blue line: expected earnings per share of the semiconductor index (left axis). Orange line: valuation, measured as price/expected earnings (right axis). Source: Bloomberg

Positioning by region and sector

We maintain a positive view on global equities and do not believe the recent correction alters the strategic overweight thesis. Companies continue to grow strongly, valuations are now more reasonable and, according to J.P. Morgan, investor pessimism is approaching the levels of April 2025, after the

announcement of tariffs in the United States. Along the same lines, Morgan Stanley considers that the S&P 500 correction is practically complete and anticipates a recovery toward year-end.

Regionally, we maintain greater exposure to the United States and Emerging Markets, and a neutral stance in the rest of the developed markets, where we favor Europe (Spain and Italy) over Canada and Australia. By sector, we retain the preference for Consumer Discretionary and lower exposure to Consumer Staples and Real Estate.

Positioning changes in November

Technology (from neutral to overweight): In October we reduced exposure to neutral given demanding valuations and a high market concentration in a few companies. After a correction of nearly 18% between the end of September and November 5, the sector now offers a more attractive entry point, so we return to the overweight. The decision is supported by fundamentals: AI-related demand is contracted, earnings continue to accelerate and regulatory risk mainly affects future projects, since about 60% of the data center capacity planned in the United States for 2027 is already under construction. We favor profitable companies with solid balance sheets over those that finance their expansion with debt.

Mercantil Asset View

Based on the analysis above, we present below our tactical positioning by asset class and segment:

Overall positioning

Asset allocation	S-UW	UW	N	OW	S-OW
Cash		•			
Global Fixed Income			•		
Global Equities				•	

Risk factors	S-UW	UW	N	OW	S-OW
Dollar			•		
Beta				•	
Duration			•		
Credit risk				•	

Positioning: Fixed Income

Global Fixed Income	S-UW	UW	N	OW	S-OW
Treasuries 1–3 years				•	
Treasuries 3–7 years			•		
Treasuries 7–10 years			•		
Treasuries 20+ years			•		
Other developed sovereigns	•				
Global Investment Grade				•	
Global High Yield				•	
Emerging Markets debt			•		

Panama and Latin America Fixed Income	S-UW	UW	N	OW	S-OW
Brazil			•		
Colombia				•	
Mexico			•		
Panama			•		
Chile		•			
Peru			•		

Positioning: Equities

Equities: Regions	S-UW	UW	N	OW	S-OW
United States				•	
Developed ex-US			•		
Emerging				•	

Equities: Sectors	S-UW	UW	N	OW	S-OW
Consumer Staples		●			
Consumer Discretionary				●	
Energy			●		
Financials			●		
Industrials			●		
Real Estate		●			
Materials			●		
Health Care			●		
Communication Services			●		
Utilities			●		
Technology				●	

Legend: how to read the positioning

Code	Meaning
S-UW	Strong underweight: exposure well below that of the benchmark
UW	Underweight: exposure below that of the benchmark
N	Neutral: exposure in line with the benchmark
OW	Overweight: exposure above that of the benchmark
S-OW	Strong overweight: exposure well above that of the benchmark

The "●" mark indicates our current stance on each asset relative to its benchmark. For risk factors, overweight (OW) means greater exposure than the benchmark to the dollar, to beta (sensitivity to the equity market), to duration (sensitivity to interest rates) or to credit risk.

Important information

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