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QIS Thematics

Small things matter

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- [QIS Thematics: Greed and fear](#) – 18 March 2025
- [QIS Thematic - Welcome to Trump 2.0](#) – 11 November 2024
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- [QIS Thematic - Podcast: Risk Premia Outlook for 2025](#) – 29 Jan 2025

1. Summary

PLEASE SEE IMPORTANT DISCLOSURES ON THE LAST THREE PAGES OF THIS REPORT.

Small things matter

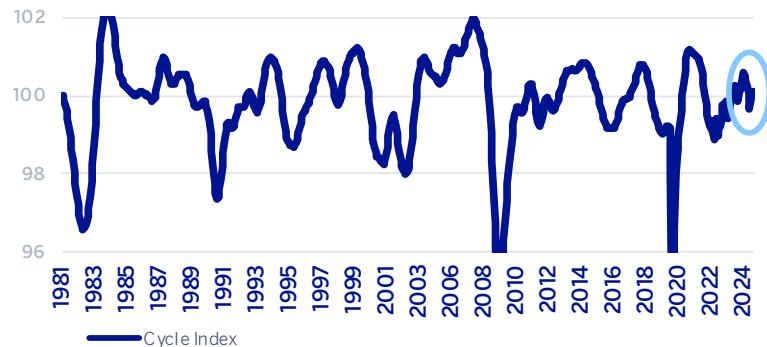
- **US economy in expansion phase:** the BBVA US Macro Indicator was highlighting elevated recession risks at the start of 2Q, but the latest reading for July suggests that the US economy has entered the expansion phase. This was further evidenced during the most recent earnings season, with 80% of US corporates beating estimates. Our optimistic reading is in contrast with the latest jobs report, which showed muted job creation below market expectations. Nonetheless, the PMI reading and sticky wage data suggest supply rather than demand weakness in labour markets.
- **Loose getting looser:** Fed's latest cut points to a restart of cutting cycle, with more cuts to come. Furthermore, the fiscal stimulus facing the US economy from the "One Big Beautiful Bill" – which consensus expects will boost US GDP by up to 0.5% – and potentially tariff-funded fiscal cheques is likely to spur a continuation of risk-on sentiment. Cross-asset volatility has been on a downtrend since peak levels in April. We believe supportive fiscal policy combined with less restrictive monetary policy will keep financial conditions in check in the near term.
- **US economic growth helping earnings:** the latest earnings season saw 80% of US large-cap equities beat analyst EPS estimates, one of the highest beat rates in recent cycles. Tech and communication services led the way (boosted by AI investment), while energy suffered large profits declines, largely due to weak oil prices. Tariffs remain a risk to profit margins; that said, soft labour market data combined with strong earnings point to a productivity boost for US corporate earnings for years to come. After tech, small-cap stocks delivered the best earnings revisions driven by a rebound in US economic activity following the Q1 lull. Looking ahead, US small-cap stocks are expected to see the highest earnings growth in the years to come. Small caps have suffered from higher-for-longer interest rates. As the Fed restarts its cutting cycle, we would expect corporate lending conditions to improve, helping to boost earnings for small-cap stocks.
- **Small things matter:** The Russell 2000 index has underperformed MSCI US equity this year on the back of tech leadership and softening US growth amid tariff uncertainty since the start of the year. Looking back at 40 years of history, the "soft-landing" Fed cuts tend to drive small caps to outperform. Currently, markets are pricing three rate cuts of 25bp for this year and six cuts by the end of next year, with the Atlanta Fed GDPNow still pointing to 3% growth suggesting that the small-cap outperformance has further to run.
- **Implementation:** given the stars are aligning for small caps to outperform, we see the Russell 2000 high vol index (40% volatility based on exponentially weighted moving average) as a better instrument to implement our bullish small-cap view. Episodes of Russell 2000 outperformance of the SPX have seen the Russell 2000 HV index deliver outperformance over the Russell 2000 index due to higher leverage. We saw this during 2016-18, in late 2019, 2021, 2024 and more recently since April as the US economy rebounded from a soft 1Q and the Liberation Day-driven sell-off.

Global macro outlook

- US economy in expansion phase:** the BBVA US Macro Indicator was highlighting elevated recession risks at the start of 2Q, but the latest reading for July suggests that the US economy has entered the expansion phase. This was further evidenced during the most recent earnings season, with 80% of US corporates beating estimates. Our optimistic reading is in contrast with the latest jobs report, which showed muted job creation below market expectations. Nonetheless, the PMI reading and sticky wage data suggest supply rather than demand weakness in labour markets.
- Loose getting looser:** Fed's latest cut points to a restart of cutting cycle, with more cuts to come. Furthermore, the fiscal stimulus facing the US economy from the "One Big Beautiful Bill" – which consensus expects will boost US GDP by up to 0.5% – and potentially tariff-funded fiscal cheques is likely to spur a continuation of risk-on sentiment. Cross-asset volatility has been on a downtrend since peak levels in April. We believe supportive fiscal policy combined with less restrictive monetary policy will keep financial conditions in check in the near term.

BBVA US MACRO CYCLE INDICATOR (BBRIMAUS)

Source: Bloomberg and BBVA Global Markets Strategy



BBVA US FINANCIAL CONDITIONS INDEX (BBRIFCUS)

Source: Bloomberg and BBVA Global Markets Strategy

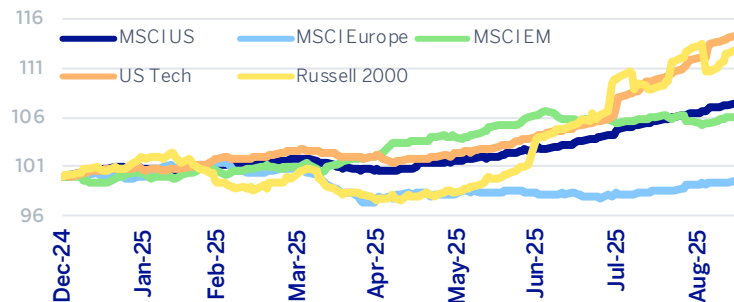


Earnings: past, present and future

- US economic growth helping earnings:** the latest earnings season saw 80% of US large-cap equities beat analyst EPS estimates, one of the highest beat rate in recent cycles. Tech and communication services led the way (boosted by AI investment), while energy suffered large profits declines, largely due to weak oil prices. Tariffs remains a risk to profit margins; that said, soft labour market data combined with strong earnings point to a productivity boost for US corporate earnings for years to come. After tech, small-cap stocks delivered the best earnings revisions driven by a rebound in US economic activity following the Q1 lull. Looking ahead, US small-cap stocks are expected to see the highest earnings growth in the years to come. Small caps have suffered from higher-for-longer interest rates. As the Fed restarts its cutting cycle, we would expect corporate lending conditions to improve, helping to boost earnings for small-cap stocks.
- Rest of the world:** in Europe, a higher EURUSD has hurt margins, with the region undergoing another year of weak earnings. Higher fiscal spending in Europe should boost earnings in the years to come, although with a lag. MSCI EM has also seen earnings improve, driving a recovery in Chinese equity markets after a 63% correction since 2021 peaks. Chinese tech stocks have benefitted from the local AI boom this year, which we see as having legs.

US TECH AND RTY WITH BEST EARNINGS REVISIONS

Source: Bloomberg and BBVA Global Markets Strategy



SMALL-CAP EARNINGS REBOUNDING FROM TROUGH

Source: Bloomberg and BBVA Global Markets Strategy

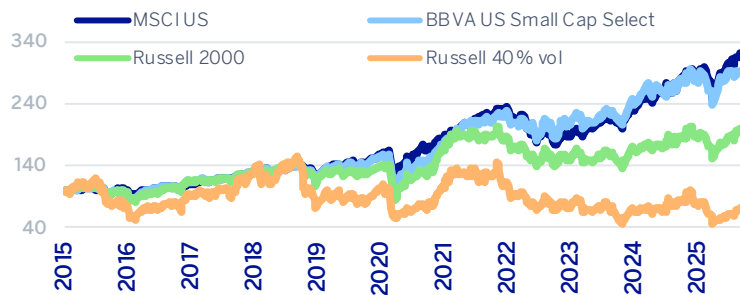
	MSCI US	MSCI Europe	MSCI EM	US Tech	Russell 2000
2021	54.2%	95.2%	41.9%	36.0%	339.3%
2022	3.9%	10.8%	-12.3%	-1.5%	-12.2%
2023	1.0%	-4.4%	-11.2%	7.3%	-6.2%
2024	11.8%	7.0%	6.0%	22.4%	-16.6%
2025	15.2%	-2.6%	16.0%	31.9%	45.8%
2026	14.4%	10.7%	14.6%	25.9%	49.5%
2027	11.9%	9.8%	12.6%	12.5%	35.8%
2028	9.0%	8.1%	14.4%	9.1%	4.4%

Trade of the month: small things matter

- Small things matter:** we expect a combination of US economic growth recovery, loose financial conditions and supportive fiscal policy to help US small-cap stocks to outperform again after last year. The Russell 2000 index has underperformed MSCI US equity this year on the back of tech leadership and softening US growth amid tariff uncertainty since the start of the year. Looking back at 40 years of history, the “soft-landing” Fed cuts tend to drive small caps to outperform. Currently, markets are pricing three rate cuts of 25bp for this year and six cuts by the end of next year, with the Atlanta Fed GDPNow still pointing to 3% growth suggesting that the small-cap outperformance has further to run.
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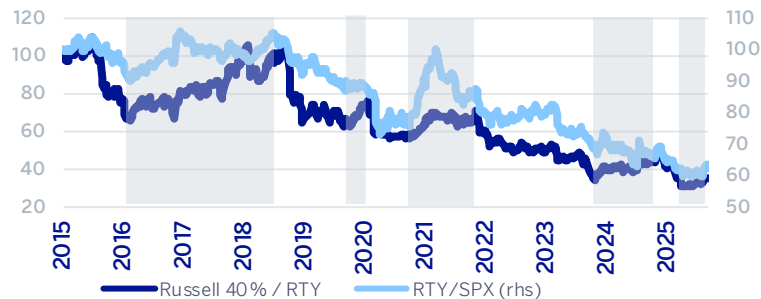
COMPARING INDICES TO IMPLEMENT SMALL-CAP VIEW

Source: Bloomberg and BBVA Global Markets Strategy



RTY HIGH VOL OUTPERFORMS WHEN RTY OUTPERFORMS

Source: Bloomberg and BBVA Global Markets Strategy



US Small Caps Select

The Solactive BBVA US Small Caps Select index picks the largest highly liquid small-cap companies by sector in the US, with a focus on balance sheet quality and profitability.

FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

Theme	BBVA US Small caps	US Small caps	US Equities
Price chg (1M)	2.3	7.3	2.4
Price chg (3M)	2.7	10.6	8.5
Price chg (YtD)	4.9	7.6	12.1
12m FWD PE	16.1	25.5	22.4
EV / EBITDA	9.1	12.5	15.0
12m RoE (%)	15.3	5.3	19.2
Net debt/ EBITDA	1.6	3.8	1.0
1Y fwd Earnings Growth	13%	47%	15%
2Y fwd Earnings Growth	13%	31%	12%
Earnings Mo 1M (%)	0.1	0.4	0.7
Earnings Mo 3M (%)	5.1	2.4	2.1

2. BBVA Fundamental Framework

BBVA Fundamental Framework: key highlights

Key takeaways:

- **Tech is king:** all our tech-heavy thematic have outperformed over the past month and on a three-month basis. As highlighted before, strong earnings revisions in the US tech sector have continued this year, which has helped thematic indices like Cybersecurity, Next Generation Networks, AI and Virtual Reality to outperform. In our [annual house view publication for 2025](#), we highlighted these themes as having the highest earnings growth potential, when combined with strong earnings revisions, despite high expectations – these are the themes best positioned to outperform. The US equity rally and earnings momentum since April has again been largely dependent on the US large-cap Mag-7 stocks, which has helped these themes to be the best performing, especially on our ranking metrics like price momentum/technical, quality, growth and earnings momentum. These themes and key stocks in these indices are trading near all-time highs again, and positioning remains crowded in this space. While we still believe these themes should continue to show outperformance, the positioning and valuation in the space make them susceptible to a higher Beta to the downside during equity market corrections. The top spenders on AI capex, such as Microsoft, Meta and Amazon, all suggest AI capex is likely to continue throughout 2025 and in the years to come. The latest Oracle share price jump is testament to investors looking for the next AI winners and the potential of this theme to continue to drive market returns for the medium term. In line with our positive view on US sectors, the US tech sector also ranks at the top of our fundamental screen when comparing the key European and US sectors.
- **Small things matter:** our small-cap theme now ranks among the best of the rest. After the tech sector, small caps have the strongest earnings momentum currently based on our ranking. Weak price momentum and technicals could reverse shortly if earnings momentum continues to translate into price returns. As the US economy now enters the expansion zone, we see a better outlook for US small-cap stocks, which are typically more linked to domestic economic growth. The small-cap stocks have suffered from higher-for-longer interest rates. As the Fed restarts its cutting cycle, we would expect corporate lending conditions to improve, helping to boost earnings for the small-cap stocks. Looking back at 40 years of history, the “soft-landing” Fed cuts tend to drive small caps to outperform. Currently, markets are pricing three rate cuts of 25bp for this year and six cuts by the end of next year, with the Atlanta Fed GDPNow still pointing to 3% growth, suggesting that the small-cap outperformance has further to run.
- **Eurozone banks:** the European banking sector ranks at the top of our fundamental sector screen. This has mainly been driven by strong earnings momentum and price technicals. The sector has finally recovered from the lost decade on the back of the European financial crisis. The continued earnings momentum and lofty shareholder remuneration is helping the sector to remain the best performer for the second year running.

BBVA thematic: multi-factor ranking

BBVA thematic scorecard

Source: Bloomberg and BBVA Global Markets Strategy

Theme	Performance (USD)				Factor Score						Composite Factor Score
	1M	3M	YtD	1Y	Price Mo.	Valuation	Quality	Growth	Earnings Mo.	Technicals	
Cybersecurity	5.6	10.3	19.0	33.8	1.9	-0.6	2.0	1.6	2.3	1.6	1.5
Next Generation Networks	6.3	12.3	22.5	30.9	2.2	-0.7	0.5	0.8	1.1	2.1	1.0
AI and VirtualReality	3.2	6.7	10.1	23.8	0.6	-2.2	1.6	1.8	0.4	0.3	0.4
Top Trends SIC	3.6	4.6	9.7	6.4	0.0	0.5	0.4	0.5	0.3	0.1	0.3
US Small Caps Select	2.3	2.7	4.9	9.6	-0.5	0.6	-0.3	0.0	1.1	-0.8	0.0
ixESG Global Leaders	2.9	6.3	13.9	10.6	0.3	-0.0	-0.4	-0.3	-0.6	0.6	-0.1
Global Infrastructure	-0.7	0.4	12.6	11.2	-0.7	1.5	-1.7	0.6	0.2	-0.5	-0.1
ixG Global Gover. & Board Diversity	3.0	2.9	14.2	9.0	0.1	0.4	-0.6	-0.9	-0.1	0.4	-0.1
Climate Action PAB Europe	1.8	-0.5	16.8	7.9	-0.3	0.7	-0.2	-0.6	-0.2	-0.4	-0.1
Climate Action CTB Europe	0.9	-0.9	16.3	7.0	-0.5	0.8	-0.3	-0.6	-0.1	-0.6	-0.2
Resource Scarcity	2.4	3.2	12.2	8.3	-0.1	0.7	-0.2	0.2	-1.7	-0.2	-0.2
Health and Wellness	3.7	-0.0	0.8	-12.1	-1.2	0.1	1.1	-0.5	-0.4	-1.4	-0.4
Energy Transition SIC	1.1	8.0	17.6	10.9	0.4	0.8	-0.6	-2.0	-1.4	0.6	-0.4
US REITs	2.9	0.1	2.5	-5.7	-1.1	-1.1	-1.3	-0.8	-0.0	-0.3	-0.8
ixS Global Inclusive Growth	0.1	-0.8	6.7	-0.2	-1.2	-1.4	-0.0	0.1	-0.8	-1.5	-0.8

BBVA sector: multi-factor ranking

BBVA sector scorecard

Source: Bloomberg and BBVA Global Markets Strategy

Theme	Performance (LOC)				Factor Score						Composite Factor Score
	1M	3M	YtD	1Y	Price Mo.	Valuation	Quality	Growth	Earnings Mo.	Technicals	
Euro Banks	0.3	19.4	68.1	74.5	2.2	0.5	1.3	-1.5	0.9	1.5	0.8
US Technology	1.3	15.6	18.7	28.4	0.7	-1.9	2.0	1.2	1.7	1.2	0.8
Europe Basic Resources	5.7	10.1	3.2	6.1	0.6	1.4	-0.7	0.3	-0.8	1.1	0.3
US Financials	1.3	8.2	13.0	24.1	0.2	-0.3	-0.1	-0.5	0.5	0.3	0.0
US Industrials	0.2	6.8	16.9	19.2	-0.1	-1.1	-0.7	0.7	0.2	-0.3	-0.2
Europe Automotives	-1.0	2.1	-0.4	-3.2	-1.2	0.9	0.5	1.6	-2.0	-1.3	-0.2
US Healthcare	3.1	1.7	0.5	-11.1	-0.5	-0.5	-0.6	0.1	-0.1	-0.5	-0.4
Europe Health Care	2.5	-4.1	-2.4	-14.0	-1.0	-0.0	0.1	-0.1	0.0	-1.2	-0.4
US Energy	3.3	0.9	4.3	7.1	-0.2	0.3	-0.8	-1.2	-0.0	-0.3	-0.4
Europe Energy	0.8	2.5	8.4	4.8	-0.6	0.7	-1.0	-0.7	-0.5	-0.5	-0.4

BBVA Sector ranking: in this publication, we extend the framework we launched at the start of the year to analyse BBVA thematic indices with BBVA's multi-factor sector indices. We use a blend of price momentum, valuations, quality, growth, earnings momentum and technical factors to rank various BBVA thematic strategies. The final ranking is the average of the individual factor score. We take the simple average in an attempt to not overfit the results. See slide 14 for more details.

The BBVA Bloomberg Sector Select Multi Factor Index has been designed to provide access to European and US sectors, enhanced with targeted exposures to academically recognised style factors. Style factors are selected based on specific fundamental metrics for their ability to generate alpha within each sector. These indices aim to generate superior performance over time while maintaining a similar risk profile to the sector. Ask your BBVA representative for more details.

BBVA equity strategy views

Equity sectors	-	0	+
US			
Energy			
Materials			
Industrials			
<i>o.w. Aerospace & Defense</i>			
Consumer Discretionary			
Consumer Staples			
Health Care			
Financials			
<i>o.w. Large Cap Banks</i>			
IT			
<i>o.w. Software</i>			
Communication Services			
Utilities			
Real Estate			

Equity sectors	-	0	+
Europe			
Energy			
Materials			
Industrials			
<i>o.w. Aerospace & Defense</i>			
Consumer Discretionary			
<i>o.w. Luxury</i>			
Consumer Staples			
Health Care			
Financials			
IT			
<i>o.w. Software</i>			
Communication Services			
Utilities			
Real Estate			

BBVA GM Equity Views 2H25: Make US equities great again... carefully

BBVA Fundamental Framework: ranking methodology

BBVA Fundamental Framework: in this publication, we update our framework to analyse BBVA thematic indices based on fundamental, price and technical factors. In addition, we launch the same fundamental framework to analyse BBVA multi-factor sector indices. We use a blend of price momentum, valuations, quality, growth, earnings momentum and technical factors to rank various BBVA thematic strategies. The final ranking on the previous slide is the average of the individual factor score. We take the simple average in an attempt to not overfit the results.

Composite factor score: the average of price momentum, valuations, quality, growth, earnings momentum and technical factor scores.

- **Price momentum score:** we calculate the price momentum score based on the one-month, three-month, year-to-date and one-year returns of each thematic.
- **Valuation score:** we calculate the valuation score based on the 12m forward P/E, price-to-book, PE/G and EV/EBITDA ratios.
- **Quality score:** we calculate the quality score based on 12m forward ROE, profit margin, net debt/EBITDA and net debt to equity book value.
- **Growth score:** we calculate the growth score based on long-term growth estimates and earnings growth one year, two years and three years ahead.
- **Earnings momentum score:** we calculate the earnings momentum score based on the one-month, three-month and six-month change in EPS estimate for each thematic.
- **Technical score:** this is based on 14-day RSI, price vs. 50-day moving average and price vs. 52-week highs.



Corporate &
Investment Banking

BBVA Global Risk Premia Strategy

3. Trade of the month: small things matter

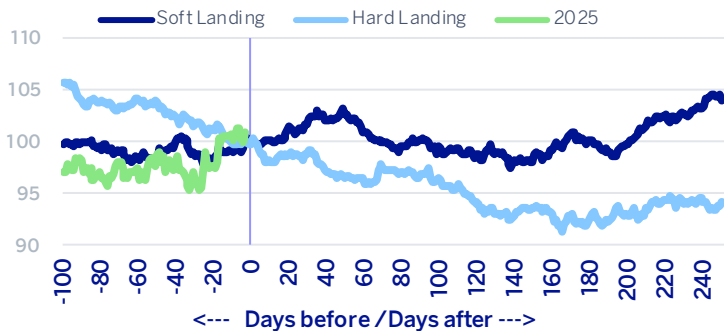
PLEASE SEE IMPORTANT DISCLOSURES ON THE LAST THREE PAGES OF THIS REPORT.

Fed easing 2.0

- “Soft-landing” rate cuts drive small caps to outperform.** Looking back at history, the Fed doesn’t necessarily need a recession to cut rates. The Fed has a dual mandate of stabilising inflation and maintaining a stable job market. The latest data from the US Labor Department suggests that the US economy added 911,000 fewer jobs in the year through March 2025. This will bring the average NFP from March 2024-March 2025 to just 70k per month. This is in line with 70-90k NFP needed for stable employment. However, the average for the past four months has been much lower than this equilibrium rate, with jobs data suggesting that the US economy has not added any jobs over this period and June data revised lower to negative territory.
- We have looked back at 40 years of Fed policy to analyse differing market reactions during rate hikes and cuts, as well as during periods of economic growth and contraction. Figure below highlights the relative performance of US small vs. large caps before and after rate cuts during soft-landing and hard-landing periods. Our study suggests that soft-landing rate cuts offer the best periods for small caps to outperform.

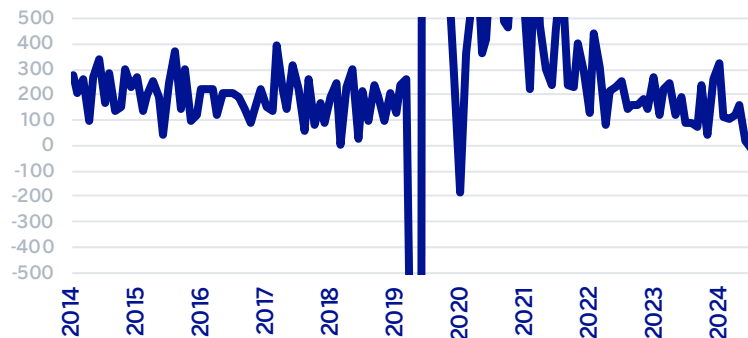
RTY/US EQUITIES AROUND FED CUTS

Source: Bloomberg and BBVA Global Markets Strategy



US ECONOMY HARDLY CREATING ANY JOBS

Source: Bloomberg and BBVA Global Markets Strategy



Non-labour market data suggests economic strength

- Are we heading for a recession then?** The Atlanta Fed GDPNow forecast is above 3% and the BBVA US Macro Indicator has entered the expansion phase. The 12-month change in the US leading economic indicator is still positive. Finally, the US economic surprise indicator also remains in positive territory. All this points to the Fed cuts being for insurance purposes to avoid a hard landing in the US labour market. We see signs that the latest rate cuts are insurance cuts, similar to in 1995. We see rate cuts and resilient economic growth as the key drivers of a small-cap earnings recovery over the coming year.
- US economy in expansion phase:** the BBVA US Macro Indicator was highlighting elevated recession risks at the start of 2Q, but the latest reading for July suggests that the US economy has entered the expansion phase. This was further evidenced during the most recent earnings season, with 80% of US corporates beating estimates. Furthermore, the fiscal stimulus facing the US economy from the “One Big Beautiful Bill” – which consensus expects will boost US GDP by up to 0.5% – and potentially tariff-funded fiscal cheques is likely to spur a continuation of risk-on sentiment.

US ECONOMY CONTINUES TO SURPRISE EXPECTATIONS

Source: Bloomberg and BBVA Global Markets Strategy



ATLANTA FED GDPNOW SUGGESTS SOLID 3% GROWTH

Source: Bloomberg and BBVA Global Markets Strategy

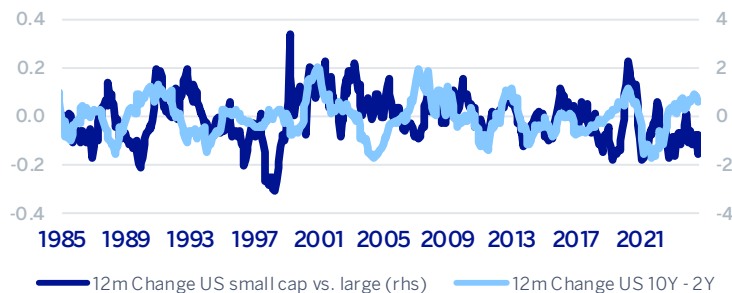


Macro drivers for small-cap outperformance

- Growth matters for small caps:** we find that small-cap performance tends to correlate heavily with the change in the OECD's leading economic indicator. However, our study finds that this relationship has broken down since 2023. The US economy has maintained very strong momentum, while US small caps have underperformed. We believe this could be attributed mainly to investors waiting for a recession and US large cap tech outperformance. The consensus expectation since the beginning of 2023 has been for the US economy to enter a recession after the rapid rate increases of 2022. Clearly, the US has defied all expectations due to strong consumer and corporate balance sheets.
- US rates curve points to stronger economic outlook:** we find that small-cap performance tends to correlate heavily with the change in the shape of the US yield curve 2s10s, which tends to be a proxy for the economic growth ahead. We expect the yield curve to maintain a steepening bias next year, as the Fed normalises policy rates. Historically, such an environment has tended to drive a continuation of small-cap outperformance on the back of fiscal spending and a reflationary regime. Small-cap stocks have room to catch up to the movement in rates curve since this time last year.

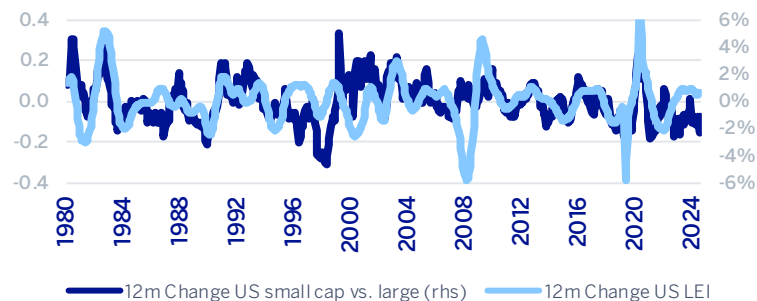
CURVE STEEPNESS LEADS SMALL CAP OUTPERFORMANCE

Source: Bloomberg and BBVA Global Markets Strategy



POSITIVE LEI SUGGESTS SMALL-CAP OUTPERFORMANCE

Source: Bloomberg and BBVA Global Markets Strategy

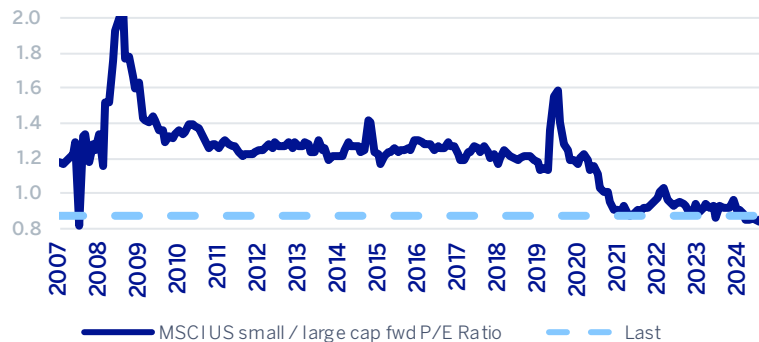


Valuations remain a driver

- **Valuations matter:** the small-cap indices historically trade at higher valuations to large caps due to a higher growth outlook than their established large-cap peers. Post-COVID, the valuation gap narrowed significantly due to higher interest rates and a weak growth outlook. This valuation gap is still the narrowest compared to a normal growth cycle for the decade preceding COVID. We expect valuations to normalise in favour of small caps in the months ahead.
- **High-yield credit has outperformed despite small-cap weakness:** we see rate cuts and resilient economic growth as the key drivers of a small-cap earnings recovery. Currently, markets are pricing three rate cuts of 25bp for this year and six cuts by the end of next year, which we believe should be delivered given the weakness in labour market data. We believe the actual cutting of interest rates will have a significant impact on the refinancing of debt at lower rates, which should drive an earnings recovery in this space. The US economy has defied all recessionary concerns, and we believe rate cuts should be supportive for cyclical earnings.

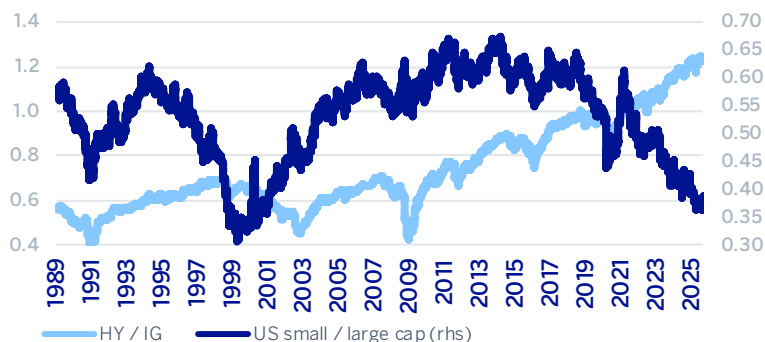
SMALL VS. LARGE-CAP VALUATION DISCOUNT NEAR LOWS

Source: Bloomberg and BBVA Global Markets Strategy



SMALL CAPS HAVE UNDERPERFORMED DESPITE US HY RALLY

Source: Bloomberg and BBVA Global Markets Strategy

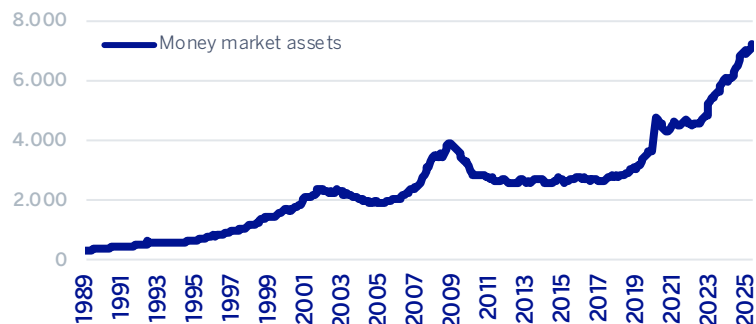


Positioning is key

- Positioning remains key:** we believe that positioning in technology and AI beneficiaries is still the core of most investor portfolios. The Mag-7 have been the clear drivers of US equity markets for the past three years. While we still believe these themes should continue to show outperformance, the positioning and valuation in the space make them susceptible to a higher Beta to the downside during equity market corrections. The top spenders on AI capex, such as Microsoft, Meta and Amazon, all suggest AI capex is likely to continue throughout 2025 and in the years to come. This should therefore be positive, and hence we don't see scope for any substantial de-risking from the AI trade.
- Cyclical underweight:** At the same time, positioning towards more cyclical parts of the economy like financials, industrials and small caps remains muted, as evidenced by the record valuation gap between small and large-cap stocks. This suggests to us that positioning remains underweight cyclical stocks. The current record level of cash balances in short-term money market funds could see outflows, particularly given that the Fed is likely to continue its rate-cutting trajectory into the new year. We expect cyclical equities to benefit and small caps to benefit the most.

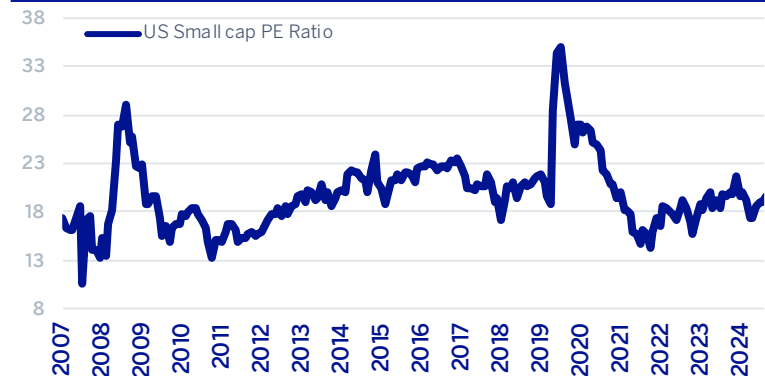
MONEY MARKET CASH BALANCES COULD FLOW INTO EQUITIES

Source: Bloomberg and BBVA Global Markets Strategy



SMALL CAP PE RATIOS NEAR MEDIAN LEVELS

Source: Bloomberg and BBVA Global Markets Strategy

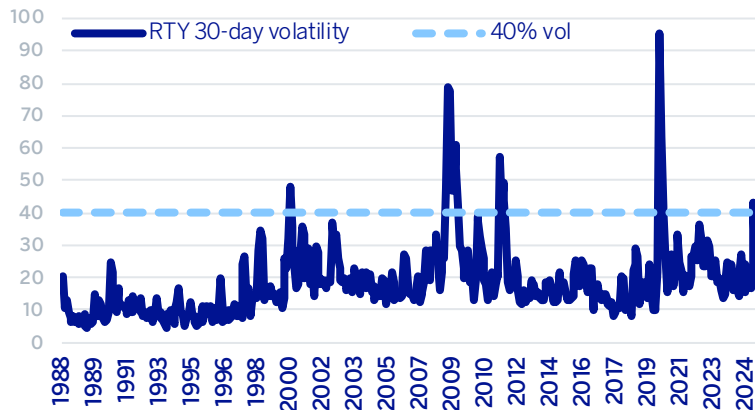


Trade of the month: small things matter

- Implementation:** given the stars are aligning for small caps to outperform, we see the Russell 2000 high vol index (40% volatility based on exponentially weighted moving average) as a better instrument to implement our bullish small-cap view. Episodes of Russell 2000 outperformance of SPX have seen Russell 2000 HV index deliver outperformance over the Russell 2000 index due to higher leverage. We saw this during 2016-18, in late 2019, 2021, 2024 and more recently since April as the US economy rebounded from a soft Q1 and the Liberation Day-driven sell-off.
- Description:** the Russell 2000 Futures 40% ATV Volatility Index targets a realised volatility of 40%, by dynamically changing exposure to the underlying reference futures index. To remain close to the specified target vol level, Russell volatility indices leverage (de-leverage), i.e., increase (decrease), allocation to the underlying, based on a realised vol estimate.

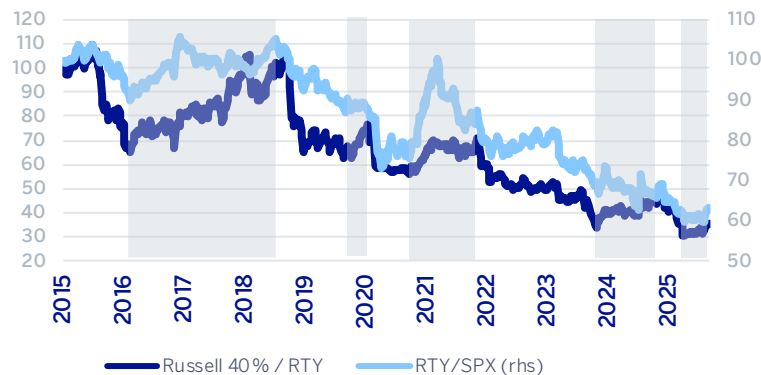
RUSSELL 2000 REALISED VOLATILITY

Source: Bloomberg and BBVA Global Markets Strategy



RTY HIGH VOL OUTPERFORMS WHEN RTY OUTPERFORMS

Source: Bloomberg and BBVA Global Markets Strategy



4. Thematic monitor

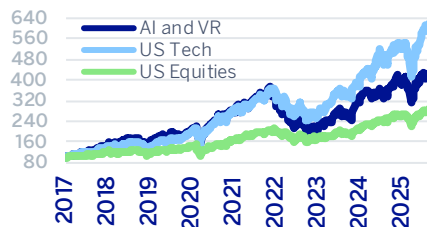
AI & Virtual Reality

Artificial intelligence is emerging as the next evolutionary leap. This refers to the exponential expansion of the predictive, problem-solving and interactive capacities of information processors built on massive data analysis capabilities. These interactions are furthered by the parallel development of virtual reality and augmented reality environments and devices, through which users can experience highly reactive cyber domains offering endless social and commercial possibilities.

The Solactive BBVA Artificial Intelligence and Virtual Reality index selects companies shaping the traits of this new generation of digital systems, creating the core infrastructure and components, enhancing their accessibility and design, and ensuring their suitability for data management.

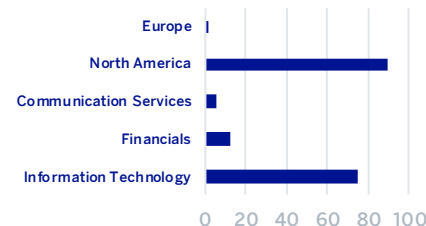
PERFORMANCE VS. BENCHMARK (s)

Source: Bloomberg and BBVA Global Markets Strategy



TOP SECTOR AND REGIONAL EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy



FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

Theme	AI and VR	US Tech	US Equities
Price chg (1M)	3.7	1.2	1.9
Price chg (3M)	8.9	16.2	10.5
Price chg (YtD)	9.9	17.6	13.0
12m FWD PE	29.5	29.8	22.5
EV / EBITDA	19.3	21.0	15.1
12m RoE (%)	14.7	31.4	19.2
Net debt/ EBITDA	0.3	-0.3	1.0
1Y fwd Earnings Growth	26%	27%	15%
2Y fwd Earnings Growth	19%	16%	12%
Earnings Mo 1M (%)	0.8	2.9	0.7
Earnings Mo 3M (%)	0.8	6.5	2.1

Cybersecurity

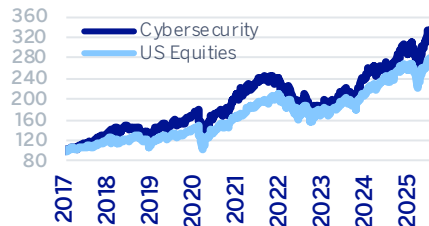
The global cybersecurity market is projected to achieve a **9.7% CAGR in 2021-26e**, growing from USD217.9bn to USD345.4bn.

The fastest-growing market subsegment is **cloud security** due to the growing popularity of using non-PC devices to interact with core business processes.

The Solactive BBVA Cybersecurity index selects companies on the front lines of digital security, providing data protection and cyber-risk insurance, creating secure online transaction platforms and heeding the call for cyber defence, thanks to the low-latency network infrastructure and components.

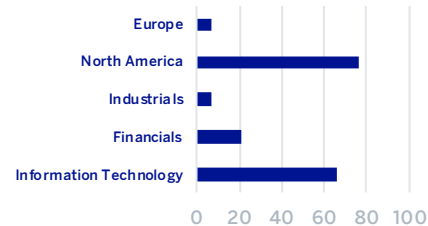
PERFORMANCE VS. BENCHMARK (s)

Source: Bloomberg and BBVA Global Markets Strategy



TOP SECTOR AND REGIONAL EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy



FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

Theme	Cybersecurity	US Equities
Price chg (1M)	5.1	1.9
Price chg (3M)	12.2	10.5
Price chg (YtD)	19.8	13.0
12m FWD PE	21.3	22.5
EV / EBITDA	14.8	15.1
12m RoE (%)	17.6	19.2
Net debt/ EBITDA	0.4	1.0
1Y fwd Earnings Growth	23%	15%
2Y fwd Earnings Growth	19%	12%
Earnings Mo 1M (%)	1.2	0.7
Earnings Mo 3M (%)	5.2	2.1

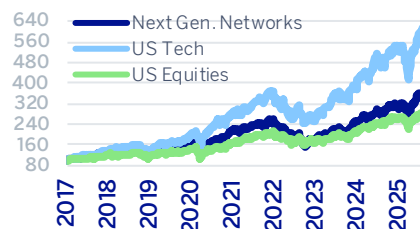
Next Generation Networks

The true potential of 5G lies in the increased densification of the network that will service millions of intelligent devices for the Internet of Things (IoT), in addition to the installation of new fibre-optic sections that enable the speed and response characteristics of the new network. This should promote new business models in several industries.

The Solactive BBVA Next Generation Networks index selects the leading global companies in the deployment of the 5th (and subsequent) generation of telecommunications networks.

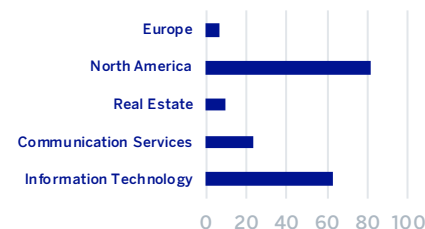
PERFORMANCE VS. BENCHMARK (s)

Source: Bloomberg and BBVA Global Markets Strategy



TOP SECTOR AND REGIONAL EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy



FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

Theme	Next Gen. Networks	US Tech	US Equities
Price chg (1M)	3.9	1.2	1.9
Price chg (3M)	11.8	16.2	10.5
Price chg (YtD)	21.3	17.6	13.0
12m FWD PE	22.7	29.8	22.5
EV / EBITDA	12.3	21.0	15.1
12m RoE (%)	18.0	31.4	19.2
Net debt/ EBITDA	1.6	-0.3	1.0
1Y fwd Earnings Growth	18%	27%	15%
2Y fwd Earnings Growth	15%	16%	12%
Earnings Mo 1M (%)	0.8	2.9	0.7
Earnings Mo 3M (%)	1.0	6.5	2.1

Top Trends

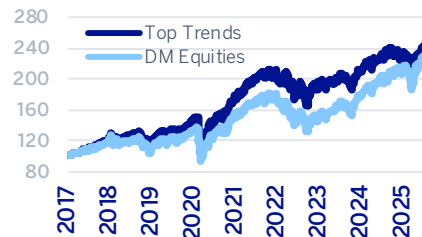
Megatrends are transformative movements and drivers that will change societies and economies in the upcoming years.

The Solactive BBVA Top Trends index selects the leading global companies from the most relevant revolutions:

- ESG revolution
- Energy Transition revolution
- Technological Breakthrough revolution
- Future Health Care revolution
- Urbanisation revolution

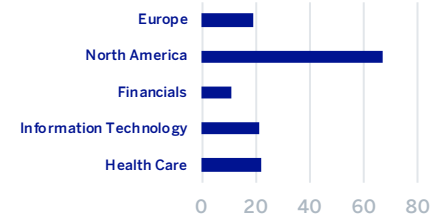
PERFORMANCE VS. BENCHMARK (s)

Source: Bloomberg and BBVA Global Markets Strategy



TOP SECTOR AND REGIONAL EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy



FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

Theme	Top Trends	DM Equities
Price chg (1M)	2.5	2.0
Price chg (3M)	5.6	9.4
Price chg (YtD)	10.2	16.2
12m FWD PE	17.4	20.2
EV / EBITDA	10.2	13.5
12m RoE (%)	14.4	10.2
Net debt/ EBITDA	1.2	1.3
1Y fwd Earnings Growth	12%	13%
2Y fwd Earnings Growth	12%	11%
Earnings Mo 1M (%)	-0.3	0.8
Earnings Mo 3M (%)	1.0	1.5

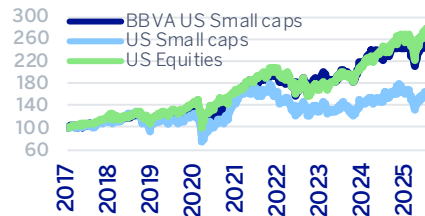
US Small Caps Select

Small-cap stocks tend to outperform large caps over time given their ability to grow more rapidly than larger companies. Moreover, most academic research finds small high-quality companies tend to significantly outperform their large-cap equivalents in a variety of economic conditions and over different time periods.

The Solactive BBVA US Small Caps Select index picks the largest highly liquid small-cap companies by sector in the US, with a focus on balance sheet quality and profitability.

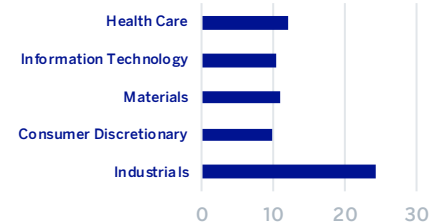
PERFORMANCE VS. BENCHMARK (s)

Source: Bloomberg and BBVA Global Markets Strategy



TOP SECTOR AND REGIONAL EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy



FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

Theme	BBVA US Small caps	US Small caps	US Equities
Price chg (1M)	0.5	4.4	1.9
Price chg (3M)	4.3	14.5	10.5
Price chg (YtD)	5.1	8.5	13.0
12m FWD PE	16.1	25.1	22.5
EV / EBITDA	9.1	12.0	15.1
12m RoE (%)	15.3	5.6	19.2
Net debt/ EBITDA	1.6	3.6	1.0
1Y fwd Earnings Growth	13%	48%	15%
2Y fwd Earnings Growth	13%	39%	12%
Earnings Mo 1M (%)	0.1	0.0	0.7
Earnings Mo 3M (%)	4.9	3.9	2.1

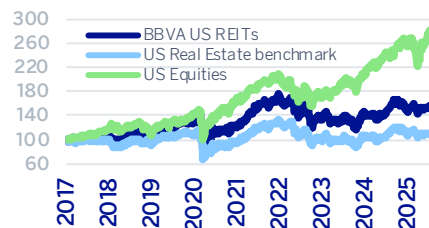
US REITs

Real Estate Investment Trusts present an opportunity to gain exposure to the real estate sector through a liquid, diversified and tax-efficient vehicle. US REITs tend to behave particularly well in periods of high inflation, acting as a safe haven, as rental fees tend to be CPI-linked.

The Solactive BBVA US REITs index selects the best-positioned US REITs that offer a recurrent dividend income source, avoid excessive financial leverage in their undertakings and provide a critical hedge against raging inflation.

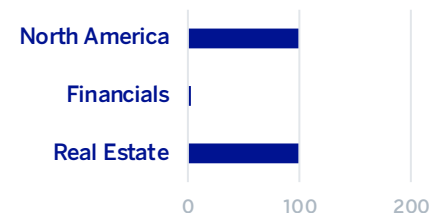
PERFORMANCE VS. BENCHMARK (s)

Source: Bloomberg and BBVA Global Markets Strategy



TOP SECTOR AND REGIONAL EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy



FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

Theme	BBVA US REITs	US Real Estate	US Equities
Price chg (1M)	3.9	5.4	1.9
Price chg (3M)	2.3	4.1	10.5
Price chg (YTD)	3.6	4.6	13.0
12m FWD PE	32.9	37.6	22.5
EV / EBITDA	16.6	17.1	15.1
12m RoE (%)	7.6	5.0	19.2
Net debt/ EBITDA	4.8	5.1	1.0
1Y fwd Earnings Growth	7%	11%	15%
2Y fwd Earnings Growth	9%	9%	12%
Earnings Mo 1M (%)	0.0	-0.5	0.7
Earnings Mo 3M (%)	0.0	-0.1	2.1

Health & Wellness

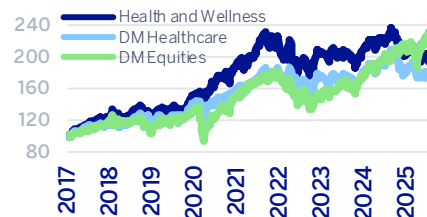
The COVID-19 pandemic impacted people's lives in every way, although it mainly prompted **global awareness about the importance of health.**

In a society long concerned with aging and health care affordability, renewed interest in disease “prevention” over “treatment” is growing rapidly, paving the way for innovative therapies and major advancements in biopharmaceuticals, medical technology and consumer care products and services.

The Solactive BBVA Health & Wellness index selects companies with human health at their core, leading the fight against infectious and chronic diseases, serving the needs of the elderly, refining health care management and favouring healthy lifestyles and well-being.

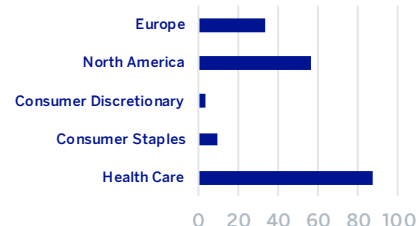
PERFORMANCE VS. BENCHMARK (s)

Source: Bloomberg and BBVA Global Markets Strategy



TOP SECTOR AND REGIONAL EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy



FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

Theme	Health and Wellness	DM Healthcare	DM Equities
Price chg (1M)	1.5	3.0	2.0
Price chg (3M)	0.2	1.5	9.4
Price chg (YtD)	1.0	3.9	16.2
12m FWD PE	16.1	16.4	20.2
EV / EBITDA	11.4	11.9	13.5
12m RoE (%)	18.5	18.8	10.2
Net debt/ EBITDA	0.9	1.0	1.3
1Y fwd Earnings Growth	10%	13%	13%
2Y fwd Earnings Growth	10%	10%	11%
Earnings Mo 1M (%)	-0.2	0.2	0.8
Earnings Mo 3M (%)	-2.1	-2.3	1.5

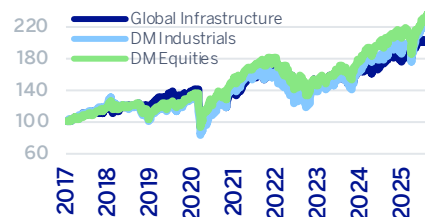
Global Infrastructure

Infrastructure companies have proven to be stable and predictable cash generators, even during economic recessions, when countries have resisted by relying on networks managed by experienced operators. These companies have been able to cover society's main sanitation, commerce and communication needs, while consolidating the cash flow obtained from their fundamental services.

The Solactive BBVA Infrastructure index selects companies that ensure the proper functioning of nations' infrastructure, optimising water and waste management, and facilitating transport flow and connectivity.

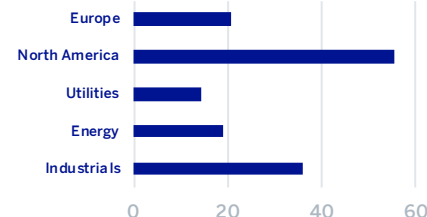
PERFORMANCE VS. BENCHMARK (s)

Source: Bloomberg and BBVA Global Markets Strategy



TOP SECTOR AND REGIONAL EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy



FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

Theme	Global Infrastructure	DM Industrials	DMEquities
Price chg (1M)	-0.3	0.9	2.0
Price chg (3M)	0.7	6.9	9.4
Price chg (YtD)	13.3	21.8	16.2
12m FWD PE	18.4	22.2	20.2
EV / EBITDA	10.8	13.8	13.5
12m RoE (%)	11.1	17.0	10.2
Net debt/ EBITDA	4.0	1.6	1.3
1Y fwd Earnings Growth	9%	14%	13%
2Y fwd Earnings Growth	8%	12%	11%
Earnings Mo 1M (%)	0.4	0.1	0.8
Earnings Mo 3M (%)	0.4	-0.1	1.5

Resource Scarcity

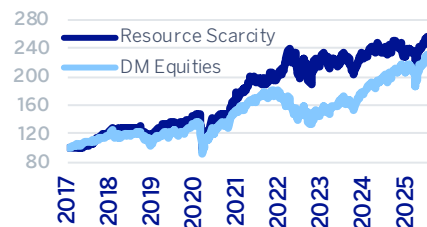
The unmatched level of human development and prosperity achieved in the last few decades has run parallel with the overuse and erosion of natural resources. These valuable resources now appear more critical than ever to the needs of a global society increasingly concerned with the effects of rapid population growth and climate change.

In this context, some firms are actively gearing their businesses to ensure the flow of these natural assets and promote maximum efficiency in their usage.

The Solactive BBVA Resource Scarcity index selects the companies harnessing nature's most unscattered riches, easing water and food supply, improving forestry and mineral harvesting, managing urban physical space and providing the energy of tomorrow.

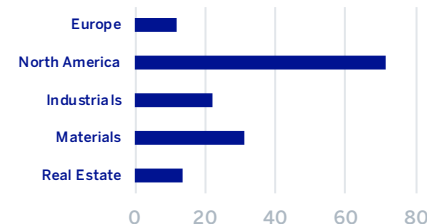
PERFORMANCE VS. BENCHMARK (s)

Source: Bloomberg and BBVA Global Markets Strategy



TOP SECTOR AND REGIONAL EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy



FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

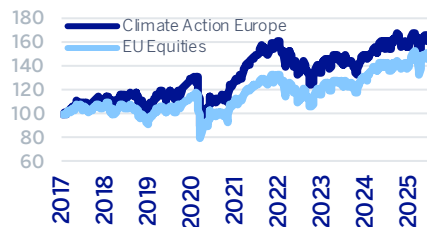
Theme	Resource Scarcity	DM Equities
Price chg (1M)	2.7	2.0
Price chg (3M)	3.8	9.4
Price chg (YtD)	12.8	16.2
12m FWD PE	20.8	20.2
EV / EBITDA	9.5	13.5
12m RoE (%)	10.3	10.2
Net debt/ EBITDA	1.4	1.3
1Y fwd Earnings Growth	18%	13%
2Y fwd Earnings Growth	13%	11%
Earnings Mo 1M (%)	-0.7	0.8
Earnings Mo 3M (%)	-1.6	1.5

Europe Climate Action

Solactive BBVA Climate Action PAB Europe index is a Paris-Aligned Benchmark (PAB) that invests in companies at the forefront of the climate transition based on the EU Climate Benchmarks. Complying with the minimum requirements set by the EU, our strategy goes much further. Our goal is to leverage transitional opportunities, avoiding environmental risks, and targeting an average temperature increase well below 2°C, which is the most demanding scenario.

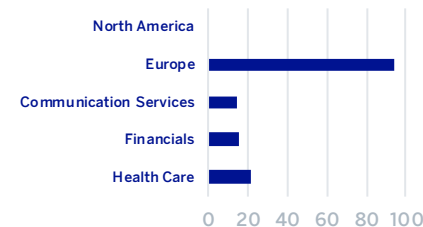
PERFORMANCE VS. BENCHMARK (s)

Source: Bloomberg and BBVA Global Markets Strategy



TOP SECTOR AND REGIONAL EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy



FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

Theme	Climate Action	EU Equities	US Equities
Price chg (1M)	0.4	0.8	1.1
Price chg (3M)	-1.5	2.8	8.9
Price chg (YtD)	2.8	13.1	-0.3
12m FWD PE	15.8	14.7	22.5
EV / EBITDA	9.3	10.1	15.1
12m RoE (%)	12.7	4.6	19.2
Net debt/ EBITDA	1.6	2.5	1.0
1Y fwd Earnings Growth	6%	7%	15%
2Y fwd Earnings Growth	10%	10%	12%
Earnings Mo 1M (%)	0.1	-0.1	0.7
Earnings Mo 3M (%)	-1.8	-1.2	2.1

Energy Transition

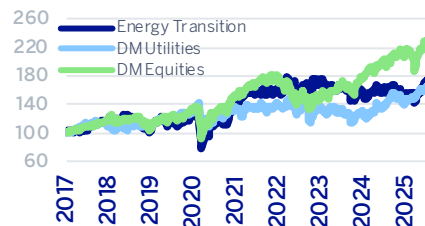
The path to net-zero emissions and the growing concern about energy security are triggering a transformation in the energy system worldwide.

The cumulative investment in the energy transition and related sectors over the next three decades is expected to exceed USD190trn, with a projected +80% capex increase from 2022 to 2050 (BNEF).

The Solactive BBVA Energy Transition index selects companies on the front lines of energy resources, energy generation, its distribution and storage, and enabling efficiency along the entire value chain from production to consumption.

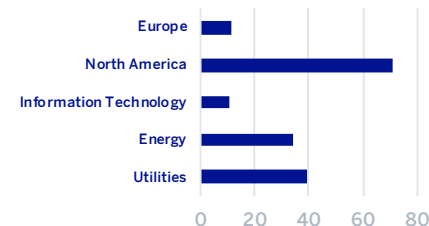
PERFORMANCE VS. BENCHMARK (s)

Source: Bloomberg and BBVA Global Markets Strategy



TOP SECTOR AND REGIONAL EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy



FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

Theme	Energy Transition	DM Utilities	DM Equities
Price chg (1M)	1.5	-0.5	2.0
Price chg (3M)	7.1	4.5	9.4
Price chg (YtD)	17.6	20.4	16.2
12m FWD PE	17.5	16.4	20.2
EV / EBITDA	8.8	10.6	13.5
12m RoE (%)	12.2	11.2	10.2
Net debt/ EBITDA	2.2	4.6	1.3
1Y fwd Earnings Growth	3%	7%	13%
2Y fwd Earnings Growth	11%	8%	11%
Earnings Mo 1M (%)	0.4	-0.1	0.8
Earnings Mo 3M (%)	-7.0	0.8	1.5

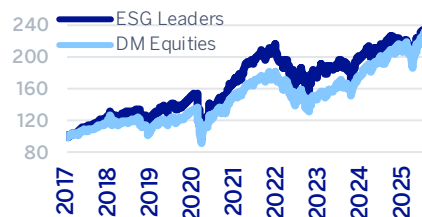
ixESG Global Leaders

The Solactive BBVA ixESG Global Leaders index offers **investors the opportunity to achieve their ESG investment goals by selecting the leading companies in ESG according to their Sustainalytics ESG rating, and includes two innovative features:**

- **Innovative dynamic exclusion of controversial activities:** thresholds for activity exclusions decrease over time (in particular for nuclear and thermal coal power generation) to 0% by 2035.
- **Fast exit rule:** companies that lose their ESG quality are excluded in a monthly review.

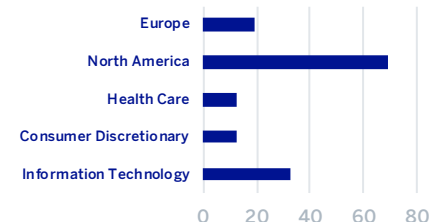
PERFORMANCE VS. BENCHMARK (s)

Source: Bloomberg and BBVA Global Markets Strategy



TOP SECTOR AND REGIONAL EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy



FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

Theme	ESG Leaders	DM Equities
Price chg (1M)	2.9	2.0
Price chg (3M)	8.3	9.4
Price chg (YTD)	15.0	16.2
12m FWD PE	18.3	20.2
EV / EBITDA	13.6	13.5
12m RoE (%)	13.4	10.2
Net debt/ EBITDA	2.1	1.3
1Y fwd Earnings Growth	12%	13%
2Y fwd Earnings Growth	11%	11%
Earnings Mo 1M (%)	-0.2	0.8
Earnings Mo 3M (%)	-1.8	1.5

ixG Global Governance & Board Diversity

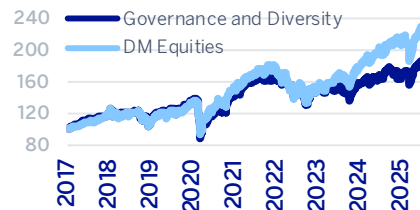
The Solactive BBVA ixG Global Governance & Board Diversity index selects the global leaders in corporate governance, according to their Sustainalytics G rating. Moreover, it overweights companies with a better diversity board score.

The components are selected according to the best Sustainalytics G rating, preserving the sectoral and country weight of its parent index.

The thresholds for activity exclusions decrease over time (in particular for nuclear and thermal coal power generation) to 0% by 2035. Companies that lose their G quality are excluded in a monthly review.

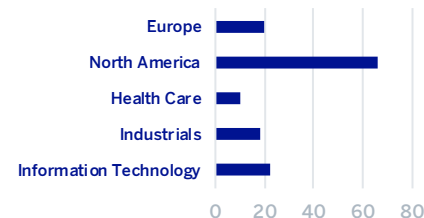
PERFORMANCE VS. BENCHMARK (s)

Source: Bloomberg and BBVA Global Markets Strategy



TOP SECTOR AND REGIONAL EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy



FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

Theme	Governance and Diversity	DM Equities
Price chg (1M)	3.0	2.0
Price chg (3M)	4.2	9.4
Price chg (YtD)	15.1	16.2
12m FWD PE	17.2	20.2
EV / EBITDA	10.8	13.5
12m RoE (%)	13.0	10.2
Net debt/ EBITDA	2.1	1.3
1Y fwd Earnings Growth	5%	13%
2Y fwd Earnings Growth	10%	11%
Earnings Mo 1M (%)	0.4	0.8
Earnings Mo 3M (%)	-1.4	1.5

ixS Global Inclusive Growth

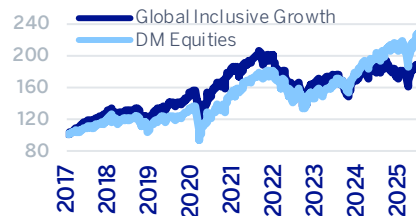
The Solactive BBVA ixS Global Inclusive Growth index offers investors the opportunity to invest in leading growth companies at a reasonable price, together with a social focus according to the UN Sustainable Development Goals with a global scope.

The index seeks firms poised for sustained, above-average earnings growth, not yet fully reflected in the stock's price, based on PEG, EV/EBITDA to EBITDA growth metrics. We emphasise companies that secure future growth through the investment cycle.

The social tilt is included in both the exclusion and weighting processes. Social UN SDGs are considered as per the ICMA Social Bond Principles Mapping (1 - 11).

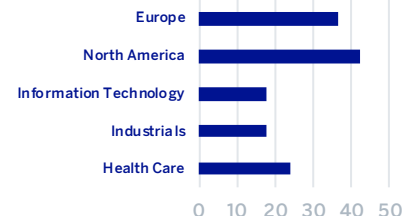
PERFORMANCE VS. BENCHMARK (s)

Source: Bloomberg and BBVA Global Markets Strategy



TOP SECTOR AND REGIONAL EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy



FUNDAMENTAL COMPARISON VS. BENCHMARK

Source: Bloomberg and BBVA Global Markets Strategy

Theme	Global Inclusive Growth	DM Equities
Price chg (1M)	0.6	2.0
Price chg (3M)	1.4	9.4
Price chg (YtD)	7.7	16.2
12m FWD PE	25.5	20.2
EV / EBITDA	15.2	13.5
12m RoE (%)	13.4	10.2
Net debt/ EBITDA	1.9	1.3
1Y fwd Earnings Growth	10%	13%
2Y fwd Earnings Growth	16%	11%
Earnings Mo 1M (%)	-0.3	0.8
Earnings Mo 3M (%)	-3.0	1.5

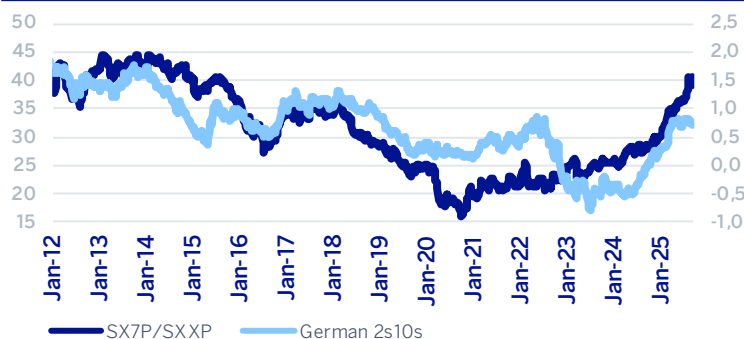
5. Sector monitor

Euro Banks

Higher-for-longer rates support the outperformance of banks: since the global financial crisis (GFC), eurozone banks have consistently underperformed European equities as Japanisation risks in the eurozone drove long-term rates lower and the yield curve flatter (until 2020). A deflationary environment tends to make it difficult for banks to generate double-digit returns on equity (ROE), as we saw in Japan previously, and in Europe post the European sovereign crisis. Since the COVID-19 crisis and the return of inflation, banks have been generating double-digit ROEs again, which have recently continued to rise above 12%. This is the first time in 15 years that banks have managed to sustain a double-digit ROE. Despite the ECB's rate cuts, we believe the era of NIRP is behind us. A positive rate environment is supportive for banks generating a healthy ROE and trade at a price-to-book above 1x sustainably. European growth has remained weak over the last two years, despite banks having managed to generate healthy profits. We believe the normalisation of European growth on the back of new fiscal spending announced in Europe should see banks continue to re-rate. The recent bond sell-off and the US election outcome have driven European banks to recuperate most of its European equity underperformance of the past decade. The continued earnings momentum and lofty shareholder remuneration is helping the sector remain the best-performing sector for the second year running.

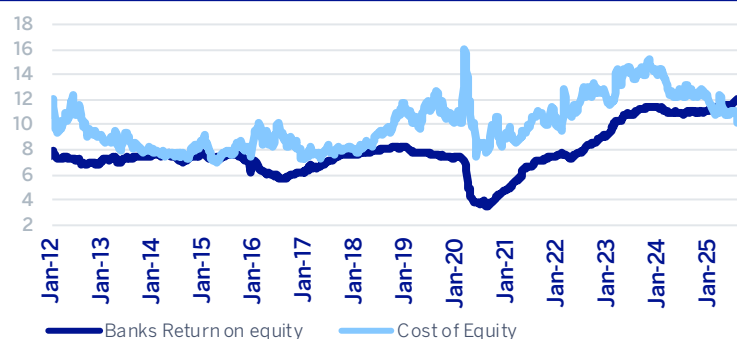
BANKS' OUTPERFORMANCE LINKED TO STEEPER YIELD CURVE

Source: Bloomberg and BBVA Global Markets Strategy



BANKS ROE HIGHER THAN COE AND LIKELY TO REMAIN

Source: Bloomberg and BBVA Global Markets Strategy

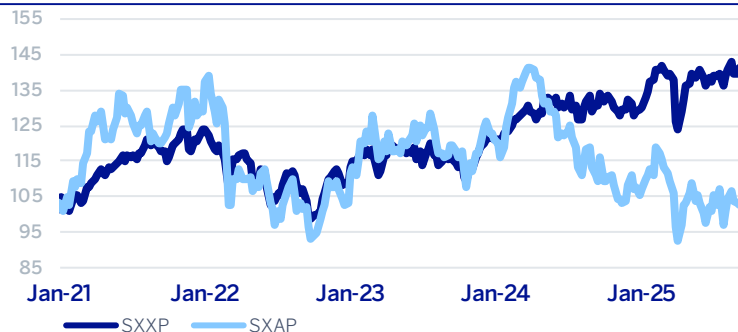


European Autos

European autos struggling from tariff threat and Chinese competition: the European autos sector has continued to underperform since 2Q last year mainly due to losing grounds to Chinese EV producers, tariff risks and a higher EURUSD. The sector has seen its 12-month forward EPS expectations halve over the last 18 months. With EPS expectations already at decade lows the valuations have started to normalise. We believe the discounted valuation for the sector was already reflecting some of these structural earnings risks facing the sector. Since the latest earning season, EPS expectations have now started to stabilise. The sector is expected to see earnings growth next year after undergoing an EPS reset over the last two years. The fiscally supportive environment in Germany should translate into further positive EPS revisions in the medium term. In addition, the stabilisation of Chinese growth expectation should provide an additional boost for the automotive sector, which continues to generate a significant proportion of revenue from the region. Finally, BBVA's FX strategy team sees EURUSD at 1.19 by June 2026, which suggests that the bulk of FX-related headwinds could be behind us. The auto sector in Europe has the highest sensitivity to FX moves given the global nature of the supply chain. The sector has seen margin compression on the back of a higher EURUSD, the bulk of which should be behind us if EURUSD remains below 1.20.

THE EUROPEAN AUTO SECTOR HAS LAGGED MARKETS

Source: Bloomberg and BBVA Global Markets Strategy



THE EUROPEAN AUTO IS RE-RATING AFTER WEAK EARNINGS

Source: Bloomberg and BBVA Global Markets Strategy

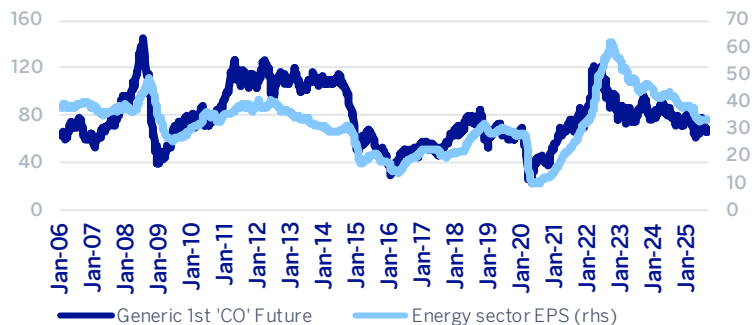


European Energy

This unloved sector could drive right tail risks: EPS in the Energy sector have been under pressure for the past three years on the back of the correction in oil prices. Energy sector earnings tend to track oil prices closely, for obvious reasons, and these then drive the relative performance of the sector vs. the market. Despite continued downward revisions in earnings, the sector has performed in line with broader European equities. This suggests that the initial discounted valuation was already pricing in an oil price reset. The sector's relative valuation is still near its trough of its 15-year pre-COVID history. That said, valuations are hardly a compelling argument for the sector unless we see a rebound in energy prices. The global growth outlook is particularly important for oil demand. Our US macro indicator suggests that the US economy has now entered an expansion phase. This, combined with fiscal spending in Europe and a potential growth rebound in Emerging Markets stemming from a weak USD, should drive a demand recovery in the energy sector. The positioning towards the sector remains under-owned, which makes it vulnerable to right tail risks. BBVA's Equity strategy team has a positive outlook for the European energy sector.

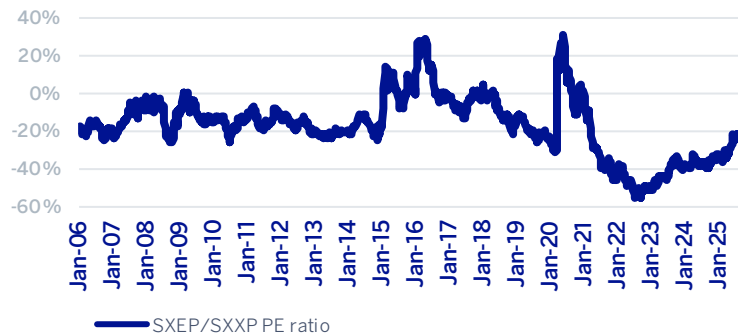
ENERGY SECTOR EARNINGS HAVE BEEN UNDER PRESSURE

Source: Bloomberg and BBVA Global Markets Strategy



THE SECTOR TRADES AT A DISCOUNT VS. EUROPEAN EQUITIES

Source: Bloomberg and BBVA Global Markets Strategy

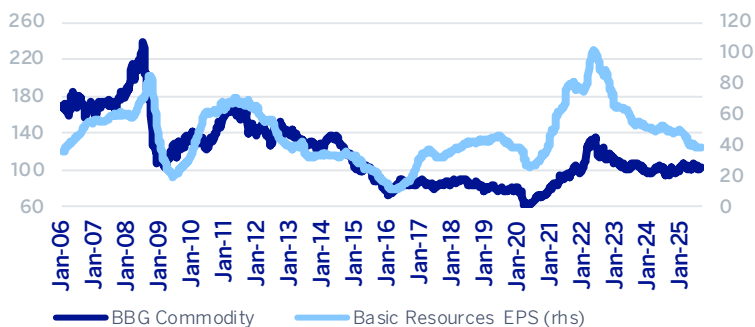


European Miners

An EPS reset leaves room for recovery: the European basic resources sector has seen a phenomenal 62% drop in EPS expectations since it peaked in 2022. The valuations gap with European equities has now normalised on the back an EPS reset, which suggests that the discounted valuations were already pricing in this reset that could be now behind us. The sector underperformed at the start of the year on the back of trade tensions. More recently, as tariff risks normalized, we have started to see the sector outperform again. With the EPS reset behind us, the sector is expected to see earnings grow again for the next two years. The global growth outlook is particularly important for the sector outlook. Our US macro indicator suggests that the US economy has now entered an expansion phase. This, combined with fiscal spending in Europe and a potential growth rebound in Emerging Markets stemming from a weak USD, should drive a demand recovery. The positioning towards the sector remains under-owned, which makes it vulnerable to right tail risks. The sector is finally seeing M&A come back with the latest deal between Anglo American and Teck, which should drive investor interest back into this sector. The sector has suffered from a lack of capex in the high-rate environment, as interest rates normalise we should start to see capex and M&A activity return. We have already seen signs of capex increases this year. The increase in Capex and M&A combined with a weak USD could reverse the sector underperformance seen over the last three years.

BASIC RESOURCES EPS HAVE BEEN UNDER PRESSURE

Source: Bloomberg and BBVA Global Markets Strategy



THE SECTOR TRADES AT A DISCOUNT VS. EUROPEAN EQUITIES

Source: Bloomberg and BBVA Global Markets Strategy

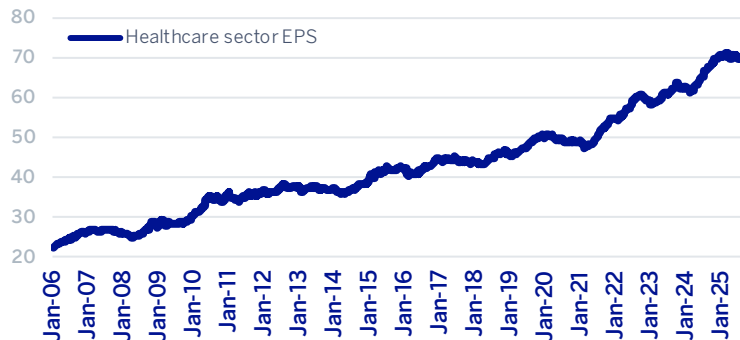


European Health Care

Quality defensive growth: European health care sector provides stable earnings growth over long periods. The sector has historically always traded at a valuation premium to broader European equities on the back of its defensive earnings growth potential. The valuation premium of the sector vs. broader European equities has recently fallen near its historic low levels. During the course of 2025, a stronger USD has weighed on profit margins in the sector. Furthermore, the tariff risks associated with the new US administration have led to a de-rating in the sector over the past year. This is one of the sectors where our Equity Strategy team has an overweight view, both in Europe and the US. The relative valuation of the sector suggests that a lot of tariff-related uncertainty has already been embedded into the price. Given that we expect the bearish momentum in the USD to slow compared to 1H this year, we believe margin risks stemming from FX should subside. The sector remains one of the key beneficiaries of aging demographics, particularly in Europe. Recent regulatory concerns have weighed on valuations, but high margins in this sector are necessary to fund innovation for the years to come. The sector is expected to resume earnings growth next year and, given the attractive valuations, we believe the health care sector could be one of the leading sectors in 2026.

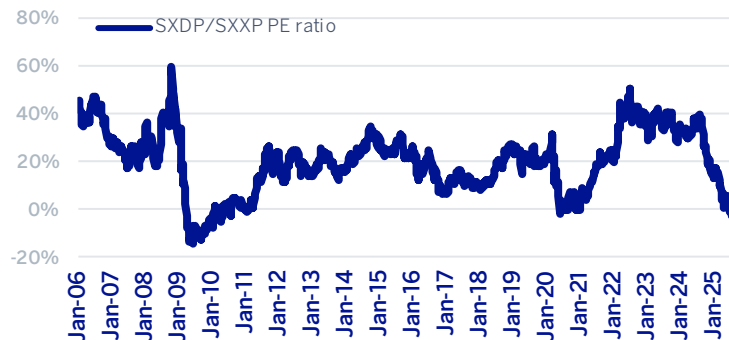
THE HEALTH CARE SECTOR DELIVERS STABLE EPS GROWTH

Source: Bloomberg and BBVA Global Markets Strategy



THE SECTOR TRADES AT ITS LOWEST RELATIVE VALUATION

Source: Bloomberg and BBVA Global Markets Strategy

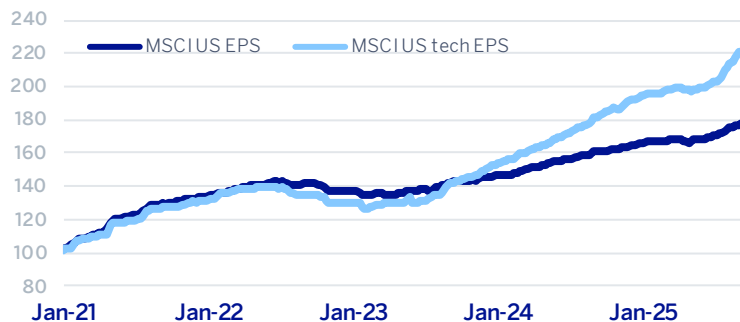


US Technology

Winner of AI boom: the US tech sector has delivered 120% EPS growth since the end of 2020 which is 2x the earnings growth in MSCI US equity. With the sector weighting currently at 33%, it has been responsible for two-thirds of the earnings growth since the end of 2021. The start of AI momentum has led the sector to becoming the main beneficiary with investors. These stocks are trading near all-time-highs with current valuations driving comparison with the late '90s tech bubble. The key difference between now and then is the fact that all the key beneficiaries are profitable and that actual tech spending continues to grow. Forrester research forecasts US tech spending will climb to USD2.7trn this year. While we expect the tech momentum to continue, the positioning and valuation in the space makes them susceptible to a higher Beta to the downside during equity market corrections. The top spenders on AI capex, such as Microsoft, Meta and Amazon, all suggest AI capex is likely to continue throughout 2025 and continue in the years to come. The latest Oracle share price jump is a testament to investors looking at the next AI winners and the potential of this theme to continue driving market returns in the medium term. In line with our positive view on US sectors, the US tech sector also ranks near the top of our fundamental screen to compare the key European and US sectors.

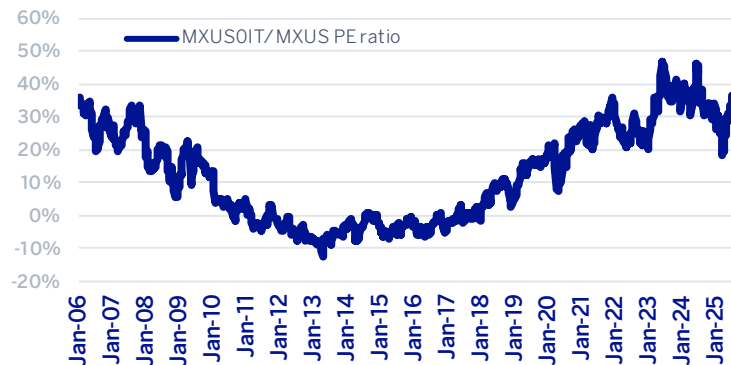
THE US TECH SECTOR HAS DELIVERED 2X US EQUITY EPS GROWTH

Source: Bloomberg and BBVA Global Markets Strategy



THE SECTOR TRADES AT LOFTY VALUATIONS

Source: Bloomberg and BBVA Global Markets Strategy

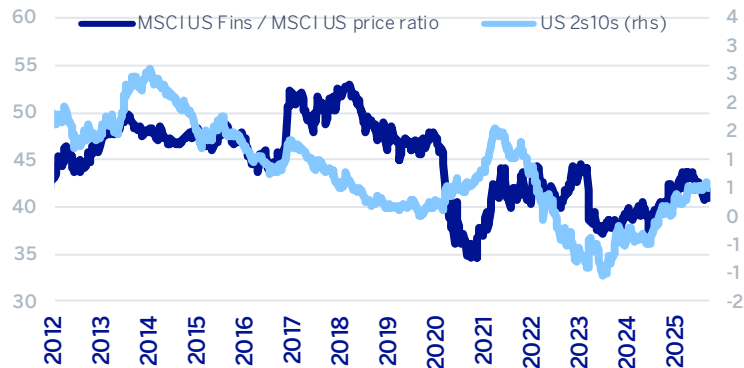


US Financials

Steeper curve helps financials: US financials have outperformed despite the US equity rally largely being considered as almost entirely driven by the tech sector. The steepness of the yield curve tends to be a leading indicator for financial sector outperformance. We see US curves remaining steep, and getting even steeper as the Fed embarks on its rate cut journey. The BBVA US Macro Indicator is highlighting that the US economy is now in expansion phase and, in addition, our FCI indicator suggests that financial conditions remain loose. Combining both these factors, the environment is suited for an improvement in US credit growth, which in turn tends to be a healthy environment for profit growth in the banking sector. Lastly, the new US government has taken a favourable approach to banking sector regulation. For example, US treasury secretary, Scott Bessent, has emphasised that the US large-cap banks are over-regulated, which is driving a rise in private-credit markets. A supportive regulatory environment helps US financials to compete globally and generate higher profitability over the long run. We believe the favourable regulatory environment should be the main catalyst for the US financial sector in the near term.

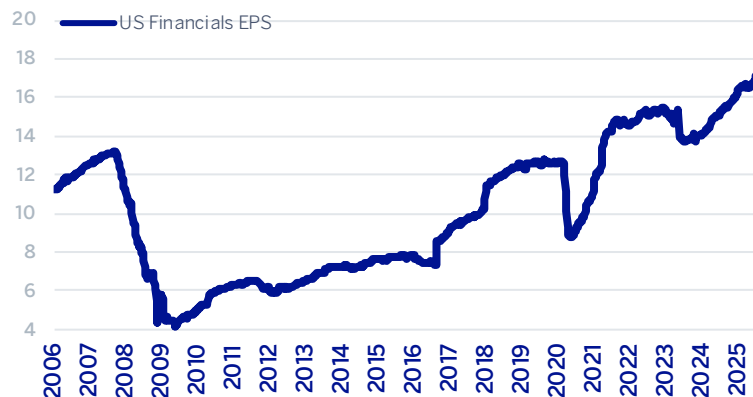
US FINANCIALS HAVE OUTPERFORMED DESPITE TECH DOMINANCE

Source: Bloomberg and BBVA Global Markets Strategy



A RALLY DRIVEN BY EARNINGS

Source: Bloomberg and BBVA Global Markets Strategy

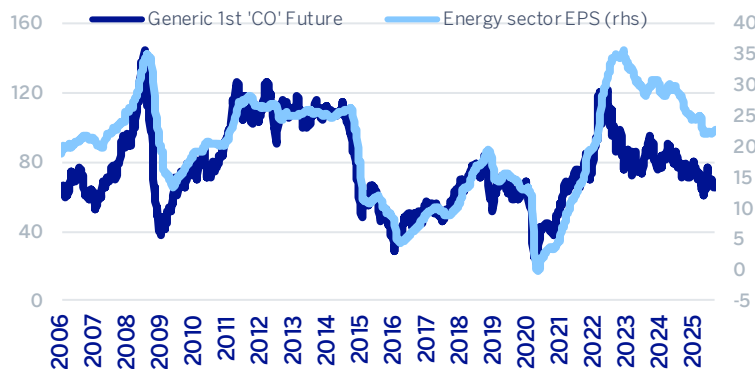


US Energy

An unloved sector could drive right tail risks: similar to their European counterparts, Energy sector EPS have been under pressure over the last three years due to the correction in oil prices. Energy sector earnings tend to track oil prices closely, for obvious reasons, and these then drive the relative performance of the sector vs. the market. The sector relative valuations remains near two-decade lows, although more driven by the re-rating of the Mag-7, which have been the main driver of US equity returns over the last three years. Valuations are hardly a compelling argument for the sector unless we see a rebound in energy prices. The global growth outlook is particularly important for energy demand. Our US macro indicator suggests that the US economy has now entered an expansion phase. This, combined with fiscal spending in the US and Europe and a potential growth rebound in Emerging Markets stemming from a weak USD should drive a demand recovery in the energy sector. The positioning towards the sector remains under-owned, which makes it vulnerable to right tail risks. BBVA's Equity strategy team has a positive outlook for the US energy sector.

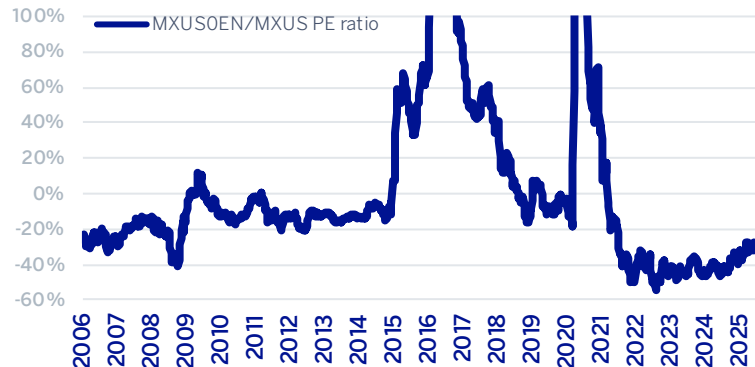
ENERGY SECTOR EARNINGS HAVE BEEN UNDER PRESSURE

Source: Bloomberg and BBVA Global Markets Strategy



THE SECTOR TRADES AT A DISCOUNT VS. US EQUITIES

Source: Bloomberg and BBVA Global Markets Strategy

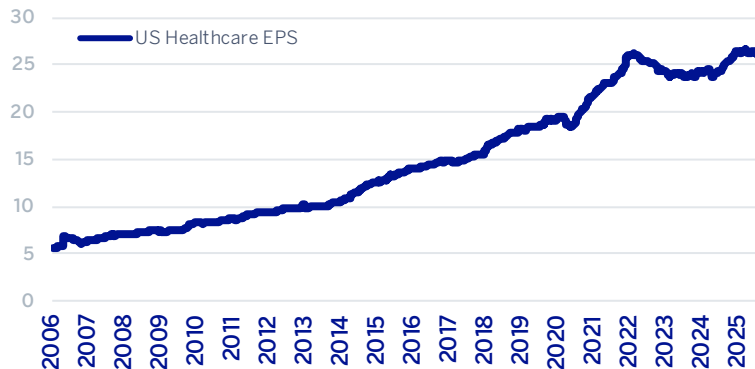


US Health Care

Quality defensive growth: similar to their European counterparts, the US health care sector provides stable earnings growth over long periods. The sector offers almost recession-proof earnings exposure, as health care needs are relatively immune to economic cycles. The valuation premium of the sector vs. broader US equities has recently fallen to near its historic low levels. During the course of 2025, the tariff risks associated with the new US administration have led to a de-rating in the sector. This is one of the sectors where our Equity Strategy team has an overweight view, both in Europe and the US. The relative valuation of the sector suggests that a lot of tariff-related uncertainty has already been embedded into the price. The sector remains one of the main beneficiaries of aging demographics. Recent regulatory concerns have weighed on valuations, but high margins in this sector are necessary to fund innovation in the years to come. The sector is expected to resume earnings growth next year and, given the attractive valuations, we believe the health care sector could be one of the leading sectors in 2026.

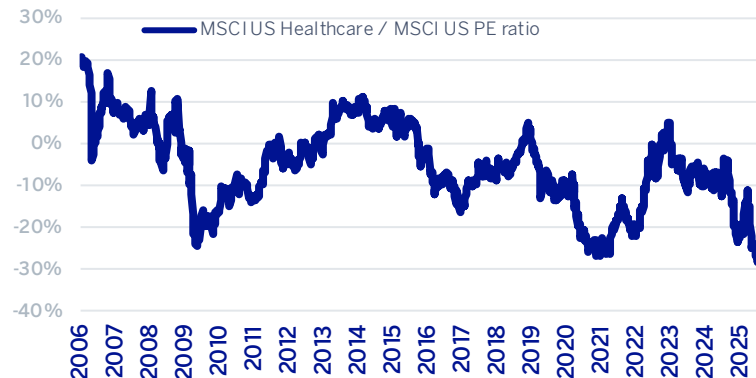
THE HEALTH CARE SECTOR DELIVERS STABLE EPS GROWTH

Source: Bloomberg and BBVA Global Markets Strategy



THE SECTOR IS TRADING AT ITS LOWEST RELATIVE VALUATION

Source: Bloomberg and BBVA Global Markets Strategy

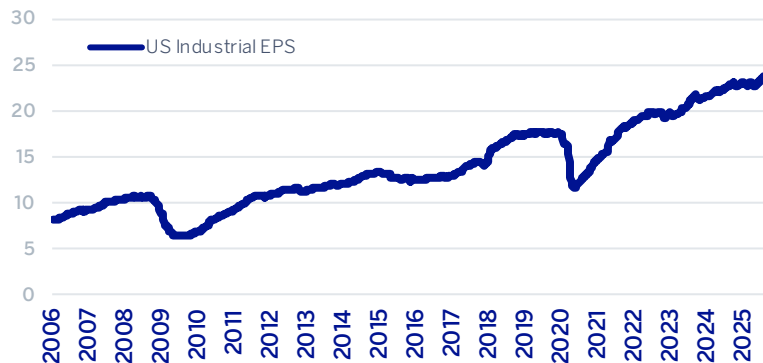


US Industrial

Cyclical exposure suited for the prevailing US macro outlook: the BBVA US Macro Indicator is highlighting that the US economy is now in expansion phase. Furthermore, our FCI indicator suggests that financial conditions remains loose. Combining both these factors, the environment is suited for a higher cyclical exposure to US equities. Our model suggests a high allocation to technology and the industrial sector in the current environment. The valuation premium of the sector vs. broader US equities has recently climbed to near 15-year highs. That said, the earnings momentum in the sector is still strong, which suggests that the rally in the sector has likely been driven by fundamental earnings growth rather than valuation re-rating, and the US economy entering expansionary territory should help. This is also one of the sectors for which our Equity Strategy team has an overweight view in the US. Finally, the US government's focus to bring manufacturing back into the US should drive higher capex spending in the country, which could be another positive catalyst for the sector. The higher-for-longer tariff scenario could lead to corporate America focusing on manufacturing locally, which could also help boost industrial sector earnings.

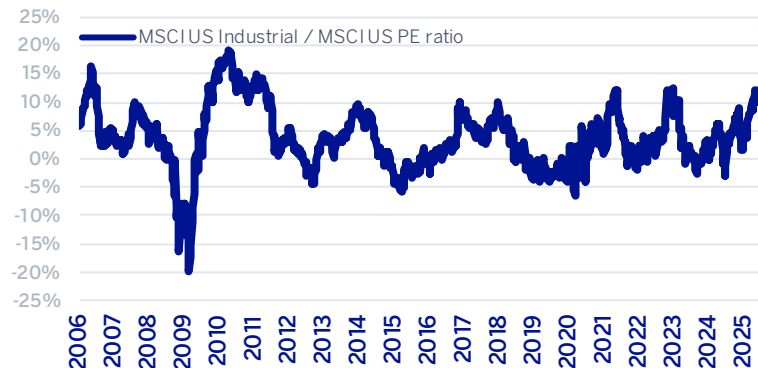
THE INDUSTRIAL SECTOR DELIVERS CYCLICAL EPS GROWTH

Source: Bloomberg and BBVA Global Markets Strategy



THE SECTOR TRADES AT HISTORICALLY HIGH VALUATION PREMIUM

Source: Bloomberg and BBVA Global Markets Strategy



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By virtue of Regulation (EU) 596/2014 on Market Abuse and Delegated Regulation (EU) 2016/958, the proportion of recommendations and their category/meaning as well as the averages of these recommendations are shown for the last 12 months. The average in which BBVA or any of the companies of the BBVA Group have provided investment banking services or have acted as an underwriter in public offerings of securities is also shown for each category and recommendation type.

BBVA's Marketing Materials activity in the last 12 months in terms of financial instrument/issuers and their investment recommendations are as follows :

Recommendation history

The average in which BBVA or any of its companies in the BBVA group have provided Investment Banking services or have acted as underwriter is 10%, of which 100% are Long/Buy/Overweight.

Expert certification

The Experts hereby certify that (i) the views expressed in this Marketing Material accurately reflect their personal views about the subject companies and their securities and (ii) their remuneration may be linked to trading or sales in the instruments included in this document or in relation to the global sales and trading activity of the BBVA unit or group.