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# QIS Risk Premia: Credit Focus



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- [Introducing BBVA FCI](#) – 16 September 2025

# BBVA QIS Trade Tracker

## BBVA QIS TRADE TRACKER

Source: Bloomberg and BBVA Global Markets Strategy

Title	Publication	BBX	Performance						Since Launch	Launch date	Close Date	Comments
			1-month	3-month	6-month	year-to-date	1-year					
BBVA EM vs. DM FX carry*	QIS Tactical	BBXTEDLU	0.5	3.1	6.7	0.8	5.8	2.9	07 Oct 25			FX carry currently remains our highest conviction idea
BBVA Small Cap Index*	QIS Thematics	RUTF40V	2.0	2.4	28.0	4.5	-1.4	4.2	18 Sep 25			We expect small caps to outperform as the Fed continues its rate-cutting cycle and US growth remains resilient
BBVA De-Dollarisation Index	QIS Tactical	BBXTDDLU	0.3	-1.1	-2.7	-0.4	7.2	1.0	13 May 25			The BBVA FX strategy team continues to believe in a structurally weak USD
BBVA FX Latam Carry*	QIS Risk Premia Outlook	BBFXLCRU	0.3	2.4	7.2	0.8	9.8	11.0	23 Apr 25			FX carry currently remains our highest conviction idea
BBVA FX Global Carry*	QIS Risk Premia Outlook	BBFXGCRU	0.5	2.3	6.2	0.7	5.9	9.1	23 Apr 25			FX carry currently remains our highest conviction idea
BBVA Long Europe vs. US Equity	QIS Tactical	BBXTEUSU	1.3	1.4	0.3	0.8	2.5	-4.1	31 Mar 25			European equities are starting to look undervalued and underowned again despite the significant fiscal spending announced last year
BBVA Long Europe vs. US FX	QIS Tactical	BBXTEFLU	1.0	-0.3	-0.4	-0.2	10.9	5.8	31 Mar 25			The BBVA FX strategy team continues to believe in a structurally weak USD
BBVA Long Europe vs. US Credit	QIS Tactical	BBXTUICU	-0.3	-1.1	-1.4	0.1	-2.0	-0.1	31 Mar 25	07 Oct 25		Closed
BBVA Global Infrastructure	QIS Thematics	SBVGINUN	0.3	1.8	1.8	0.4	15.3	9.7	18 Mar 25			Global fiscal spending has helped this theme, which we expect to continue this year
BBVA Credit Trend	QIS Risk Premia Outlook	BBCITRUS	0.4	0.9	2.1	0.1	-1.9	-2.4	11 Mar 25	23 Apr 25		Closed
BBVA Cybersecurity Index*	QIS Thematics	SBVCYBEN	4.3	3.1	15.5	3.5	13.5	15.8	31 Dec 24			Cybersecurity is no longer optional; it's fundamental to business continuity
BBVA AI and VR Index	QIS Thematics	SBVAVREN	-2.7	-6.6	0.3	0.5	-7.2	-4.7	31 Dec 24			Rising concerns regarding valuations around AI stocks is a cause of concern. This theme now looks attractive after recent underperformance.

\*High conviction ideas

Table as of 12 January 2026



Corporate &  
Investment Banking

BBVA Global Risk Premia Strategy

# 1. Summary

# Credit in Focus (i)

- US growth at its softest since 1Q25:** US economic sentiment has softened recently. That said, Bloomberg consensus for US growth in 2026 remains at 2.1%. We expect US growth to remain stable over the course of the year supported by a positive liquidity environment and corporate and government spending rather than consumer demand. The growth environment could be characterised as mid-cycle, in our view, with stable liquidity, credit and labour market conditions.
- The BBVA FCI is falling after a spike in 4Q25:** the BBVA Financial Conditions Index (FCI) index has dropped from its recent high reached in 4Q25 due to lower macro volatility and tighter credit spreads (a lower FCI suggests easier financial conditions and higher risk appetite). The credit component of the FCI index has become the main driver of the currently loose financial conditions in the markets. BBVA Credit QIS strategies have historically been the best performing risk premia strategy over the last 15 years when the FCI index has been at similar levels to now.
- Improving Sharpe in FX and Credit markets:** macro volatility has been on a downtrend ever since the volatility spike observed in both equity and credit markets in 4Q25. FX and credit volatility, in particular, are near the lows seen over the past two decades, which means that the Sharpe ratios of our FX and credit strategies have looked extremely attractive over the past three months.
- Performance recap – FX carry remains the best-performing strategy:** the recent drop in FX volatility and a lack of FX specific catalysts is suggesting the strategy could continue to provide the best Sharpe ratio going forward. We therefore remain constructive on FX carry strategies in 2026. The bond trend is still the worst-performing strategy over the past year. Given the uncertainty surrounding the next Fed chairman, inflation and labour markets, we believe the bond trend could remain under pressure in the near term. We see the FX trend as the next best trend strategy to the credit trend, as encompassed in our QIS framework and macro views.

# Credit in Focus (ii)

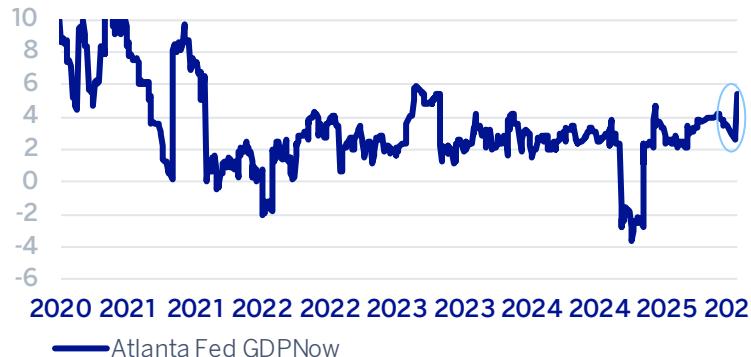
- **QIS allocation using BBVA Macro Indicators:** the current environment of economic recovery combined with loose financial conditions is still favourable for LatAm FX strategies followed by the credit trend strategy, which is in line with our BBVA QIS framework highlighted on slide 11.
- **Looking ahead - credit trend in focus:** in line with our macro expectations, the BBVA QIS framework also shows a preference for FX carry followed by the credit trend. Our leading indicators for trend strategies have started to improve over the last three months, particularly for the FX and credit markets. The recent drop in credit volatility combined with continued positive inflows into credit markets have made credit trend risk premia an attractive proposition for the medium term. The BBVA Asset Allocator Strategy is currently our third preferred strategy. This strategy has shown historic resilience in bull and bear market environments, underscoring its 'all-weather' nature of this strategy, which was designed with this exact purpose in mind.
- **Trade of the month – Credit Trend:** the BBVA credit strategy team continues to see all-in yield as attractive in the credit markets. We expect this to drive inflows into credit markets and, as a result, BBVA credit QIS strategies looks attractive in 2026. As macro volatility subsides in a stable growth and inflation environment, we could see investors increasing their allocation in carry markets. Furthermore, we have seen a sharp decline in credit volatility over the last three months (as evidenced by the volatility of the US High Yield ETF: HYG). This decline in volatility has meant that the Sharpe ratios of our credit strategies have looked extremely attractive over the last three months. While past performance is not indicative of future results, the healthy balance sheet in the corporate sector combined with abundant liquidity could mean that the low volatility regime is here to stay, auguring well for the continued outperformance of the Sharpe ratio of such trades.
- **FX LatAm carry –** we highlighted our preference for the BBVA FX Carry strategy in multiple publications last year. We still believe that the strong momentum of carry strategies and the FX carry strategy in particular should continue this year. The popularity of EM has increased in sell side outlooks for 2026, helped by the continued expectation that US assets will underperform the RoW. We see the current environment of strong flow momentum into emerging markets combined with loose financial conditions and a stable global growth outlook as providing extremely supportive conditions for this trade.

# US growth momentum is steady

**US growth is at its softest since 1Q25:** US economic sentiment has softened recently with concerning jobs data towards the end of last year. This has been further evidenced with the Atlanta Fed's GDPNow indicator falling to a six-month low and US composite PMIs falling to their lowest since April of last year. That said, Bloomberg consensus for US growth in 2026 is still at 2.1% despite expectations that consumer spending will slow from 3.5% last year to just 2% this year. We expect US growth to remain stable over the course of the year given the supportive liquidity environment and prevalence of corporate and government spending over consumer demand. The growth environment could be characterised as mid-cycle, in our view, with stable liquidity, credit and labour market conditions. Despite concerns of the US economy entering a late-cycle phase, we do not believe we are there yet. The upcoming earnings season will shed further light on the state of the US economy and the double-digit earnings growth expected for US equities this year. As we see the US economy in the state of a mid-cycle balance, we expect asset returns to revert towards their long-term means with high-single-digit returns for equity markets supported by earnings growth rather than changes in valuations.

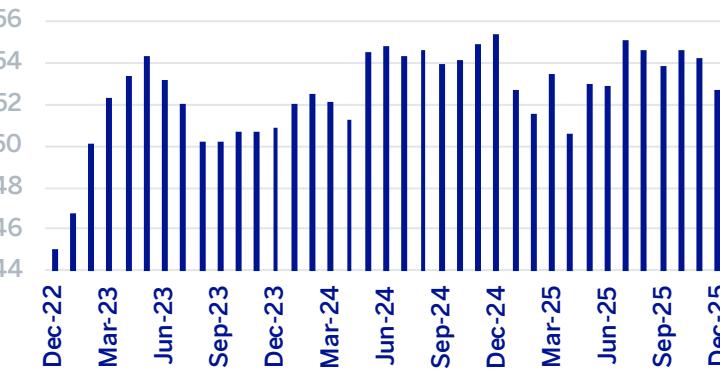
## US GROWTH MOMENTUM HAS BEEN STEADYING RECENTLY

Source: Bloomberg and BBVA Global Markets Strategy



## US COMPOSITE PMI AT 8-MONTH LOWS

Source: Bloomberg and BBVA Global Markets Strategy

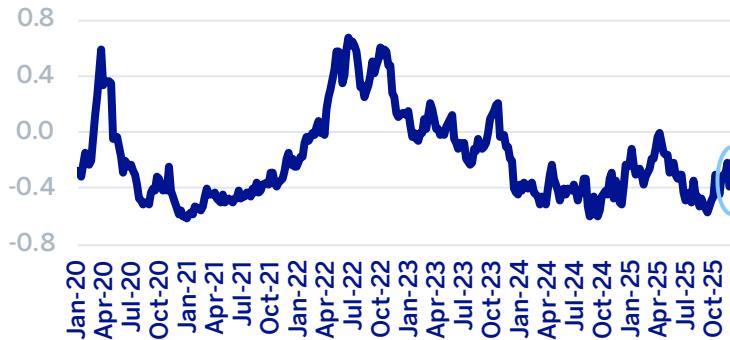


# BBVA FCI falling after a spike in 4Q25

**BBVA FCI falling after a spike in 4Q25:** we saw our BBVA Financial Conditions Index (FCI) pick up towards the end of last year on the back of higher equity volatility just after the US shutdown and concerns about the US labour market. A rise in our BBVA FCI is typically an early warning sign, as it was in 4Q24, although we suggested then that investors sell equity volatility given that growth and earnings data remained resilient. Our expectation that equity volatility would converge lower vs. rates and FX volatility proved to be accurate with the VIX making new lows for the year in December. The BBVA FCI index is currently sitting at -0.33x, up from the lows of -0.56x in September of last year. BBVA Credit QIS strategies have historically been the best performing risk premia strategy over the last 15 years when the FCI index has been at similar levels to now. The BBVA Credit strategy team continues to see all-in yield as attractive in credit markets, which we expect to drive inflows into these markets thus making BBVA credit QIS strategies attractive propositions for 2026. As macro volatility subsides in a stable growth and inflation environment, we could see investors increasing their allocation in carry strategies. We have previously shared our preference for FX carry strategies, which we still like. Credit QIS could prove to be a valuable diversifier to this view given the different dynamics and fundamental drivers in FX and credit markets.

## BBVA US FINANCIAL CONDITIONS INDEX (BBRIFCUS)

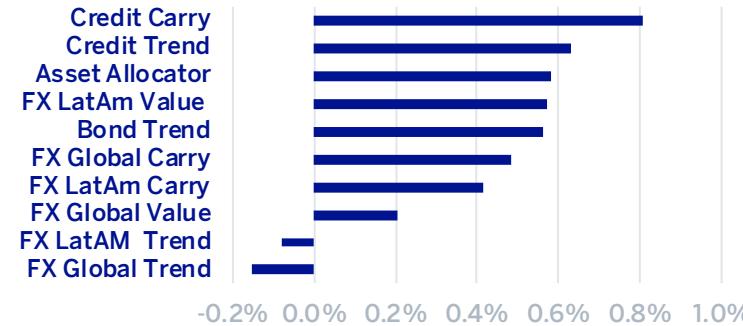
Source: Bloomberg and BBVA Global Markets Strategy



## QIS RETURNS BASED ON THE CURRENT FCI

Source: Bloomberg and BBVA Global Markets Strategy

QIS strategy returns when FCI is between -0.2 and -0.4

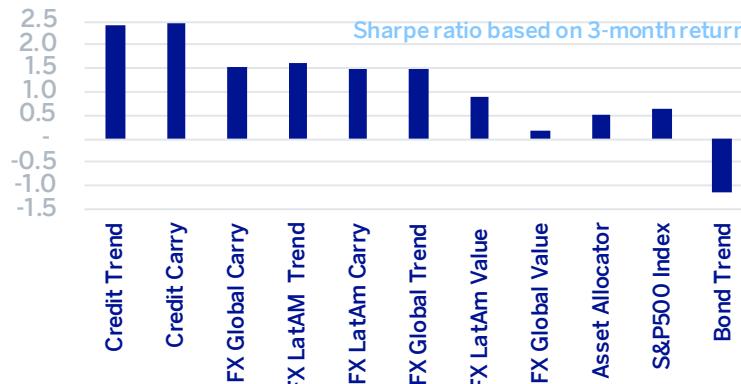


# Improving Sharpe Ratios in FX and Credit

**Improving Sharpe ratios in the FX and credit markets:** macro volatility has been on a downtrend ever since the volatility spike observed in equity and credit markets in 4Q25. The volatility in FX and credit, in particular, is near the lows seen over the last two decades, which has meant that the Sharpe ratios of our FX and credit strategies have looked extremely attractive over the last three months. While past performance is not indicative of future results, the healthy balance sheets in the corporate sector combined with abundant liquidity indicate that the low volatility regime could be here to stay. The BBVA credit strategy teams believe in "carry" over "compression" this year. Given our credit carry strategy is essentially a play on credit spread compression, we believe the credit trend strategy aligns perfectly with the constructive view towards credit markets in 2026. BBVA's credit trend strategy aims to capture the trend risk premia generated by changing macro- and micro-economic conditions by taking long/short positions in credit markets via iTraxx and CDX Indices.

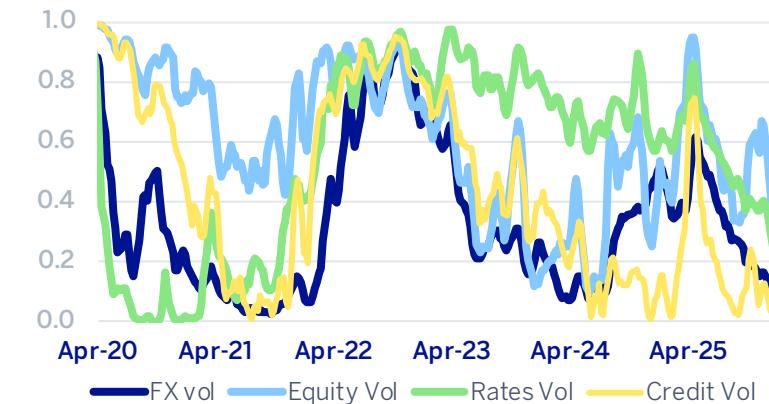
## BBVA QIS STRATEGY SHARPE RATIOS OVER THE LAST 3M

Source: Bloomberg and BBVA Global Markets Strategy



## MACRO VOLATILITY ON A DOWNTREND

Source: Bloomberg and BBVA Global Markets Strategy



# BBVA risk-premia: the credit trend in focus

- In line with our macro expectations, the **BBVA QIS framework also shows a preference for FX carry followed by credit trend.**

Our leading indicators for trend strategies have started to improve over the last three months, particularly for the FX and credit markets. Please see the appendix for detailed descriptions of our indicators.

## BBVA RISK-PREMIA FRAMEWORK

Source: Bloomberg and BBVA Global Markets Strategy

Lead indicators			Leading Score	Momentum Score
FX Global Carry	PPP Indicator	FX vol indicator	100%	89%
Credit Trend	Credit Trend Score	Macro Vol indicator	89%	33%
Asset Allocator	Correlation indicator	Macro Vol indicator	78%	56%
Bond Trend	Macro Vol indicator	Trend Indicator	67%	0%
FX LatAm Carry	Latam rate indicator	FX Latam vol indicator	56%	100%
FX LatAM Trend	Macro Vol indicator	Latam trend Indicator	44%	78%
FX Global Trend	Macro Vol indicator	Trend Indicator	33%	67%
FX LatAm Value	FX Latam vol indicator		22%	44%
Credit Carry	Spread Indicator	Macro Vol indicator	11%	22%
FX Global Value	FX vol indicator	FX Dispersion indicator	0%	11%

- The credit trend has become the second-best strategy based on our framework. The rise in the ranking has been driven by an improving trend score. The recent drop in credit volatility combined with continued positive inflows into credit markets have made credit trend risk premia an attractive proposition for the medium term. Trend strategies went through a difficult period from 2H24 until 1H25 given the uncertainty surrounding the US election and tariffs. As the macro volatility subsides, we believe credit could be the best asset class to start an allocation in towards trend strategies in 2026.
- The BBVA Asset Allocator Strategy is currently our third preferred strategy. This strategy has shown historic resilience in both bull and bear market environments, underscoring the 'all-weather' nature of this strategy, which was designed with this exact purpose in mind.

# FX carry strategies lead the pack

## BBVA QIS RISK-PREMIA MONITOR

Source: Bloomberg and BBVA Global Markets Strategy

	Performance					Volatility	Correlation 3M					Correlation percentile					Sharpe ratio			
	1M	3M	6M	YtD	1Y		SPX	US10Y	60/40	US IG	USD	VIX	SPX	US10Y	60/40	US IG	USD	VIX	10Y	1Y
FX Global Carry	1.0	1.7	5.6	0.8	5.9	4.5	12%	-25%	1%	-24%	28%	-13%	7%	72%	14%	50%	16%	93%	0.71	1.22
FX Global Trend	0.9	1.5	3.3	0.5	0.2	4.5	20%	-21%	10%	-17%	9%	-16%	36%	60%	40%	58%	40%	64%	0.35	0.05
FX LatAM Trend	0.9	1.5	3.6	0.5	2.8	4.1	22%	-18%	13%	-18%	8%	-17%	33%	54%	33%	49%	47%	67%	0.42	0.99
FX LatAm Carry	0.9	1.9	6.4	0.9	9.5	5.3	15%	-20%	5%	-25%	23%	-15%	7%	72%	13%	50%	25%	94%	0.46	1.63
Credit Trend	0.5	1.0	2.1	0.1	-1.6	2.0	62%	-7%	52%	26%	-3%	-48%	21%	52%	21%	36%	58%	81%	0.28	-0.71
Credit Carry	0.4	0.7	2.0	0.0	1.8	1.6	67%	-6%	54%	17%	-1%	-51%	0%	65%	1%	33%	64%	99%	0.56	1.00
Asset Allocator	0.5	0.6	3.6	0.2	4.2	3.8	49%	9%	44%	31%	-11%	-28%	5%	15%	4%	2%	84%	97%	0.75	1.50
FX Global Value	-0.0	0.4	0.5	-0.3	3.6	1.9	18%	-20%	6%	-6%	-4%	-19%	14%	36%	14%	25%	81%	84%	0.28	0.87
FX LatAm Value	0.3	1.0	3.0	-0.5	6.6	4.8	20%	-4%	20%	2%	-38%	-10%	20%	48%	20%	35%	75%	77%	0.51	1.78
Bond Trend	0.0	-0.9	-0.2	-0.2	-5.6	2.7	11%	61%	24%	50%	-18%	-14%	76%	34%	72%	35%	43%	25%	0.41	-1.79

- FX carry remained the best-performing strategy in 2025:** the recent drop in FX volatility suggests the strategy should continue to provide the best Sharpe ratios going forward and we thus remain constructive on the FX carry strategies in 2026. We believe the credit trend could be the best diversifier to our positive view on FX carry strategy this year. BBVA Credit QIS strategies have historically been the best-performing risk premia strategy over the last 15 years when the FCI index has been at similar levels to now. Credit trend remains one of the QIS strategies that has performed the worst over the past year, although it has improved recently. Furthermore, our leading trend score suggests that credit trend could perform well this year.
- The bond trend is still the worst-performing strategy over the past year. Given the uncertainty surrounding the next Fed chairman, inflation and labour markets we believe the bond trend could remain under pressure in the near term. We see the FX trend as the next-best strategy to the credit trend as encompassed in our QIS framework and macro views.

# QIS allocation using BBVA macro indicators

## QIS allocation using BBVA macro indicators

**BBVA macro indicators:** BBVA's dynamic allocation framework is built on two core tools: first, the BBVA US Macro Cycle Indicator, which accounts for both growth and inflation phases; and second, our BBVA US Financial Conditions Index (FCI), which aims to capture the prevailing financial conditions. A more granular eleven-phase approach is created by overlaying both the Macro Cycle and the FCI, which is designed to capture asset and risk premia rotation during periods of growth, inflation and monetary policy shifts.

### ALLOCATION WEIGHT

Source: Bloomberg and BBVA Global Markets Strategy

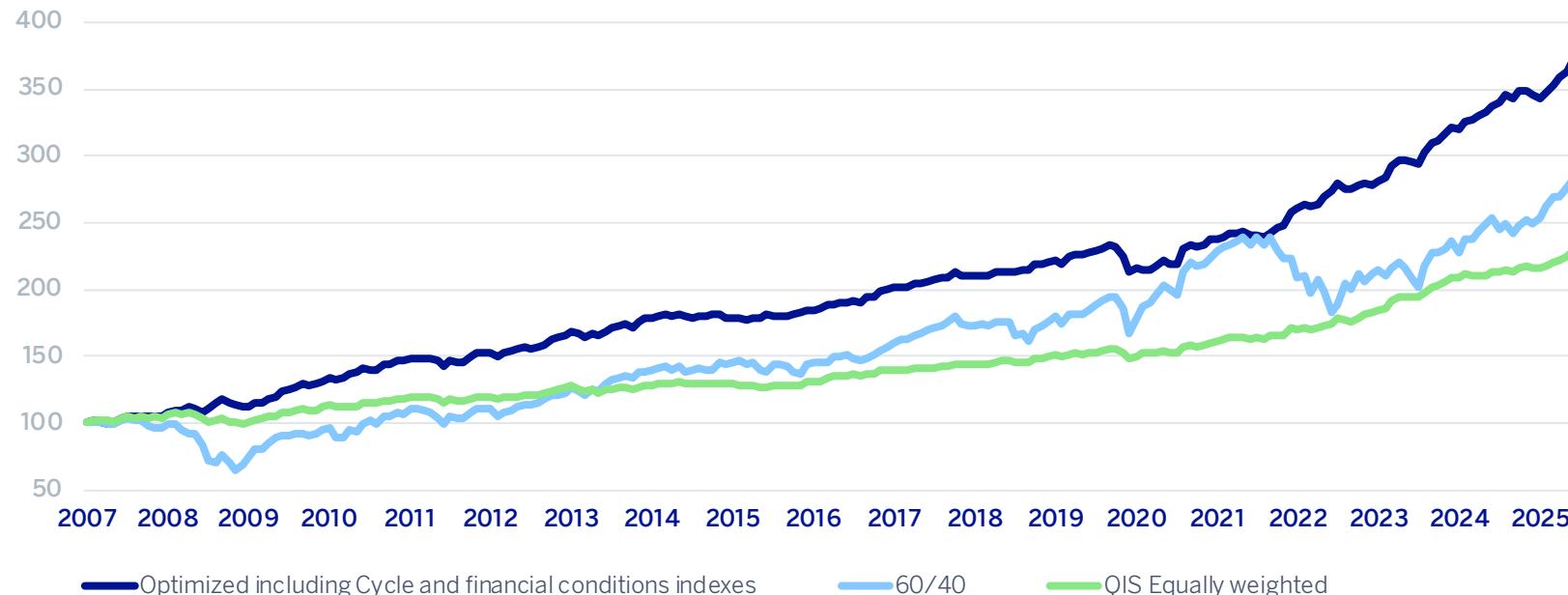
		FX	LatAm	FX	LatAm	FX	Global	Govern	ment		
		LatAm	Relativ	FX	LatAm	Macro	Macro	Bond	Credit	Credit	Credit
		Carry	e Value	Globa	Trend	Tren	Tren	Futures	Carry	Trend	
Recession	00	25.0%	5.0%	5.0%	20.0%	5.0%	5.0%	5.0%	25.0%	5.0%	
Recession + Tightening	00T	5.0%	5.0%	5.0%	5.0%	5.0%	20.0%	25.0%	25.0%	5.0%	
Recovery	01	25.0%	20.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	25.0%	
Recovery + Tightening	01T	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	
Expansion	11	25.0%	5.0%	5.0%	20.0%	5.0%	5.0%	5.0%	5.0%	25.0%	
Expansion + Tightening	11T	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	
Expansion + CPI	11+	5.0%	5.0%	5.0%	20.0%	5.0%	5.0%	5.0%	25.0%	25.0%	
Downturn	10	5.0%	25.0%	5.0%	5.0%	25.0%	5.0%	5.0%	5.0%	20.0%	
Downturn + Tightening	10T	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	
Downturn + CPI	10+	5.0%	25.0%	5.0%	5.0%	25.0%	5.0%	5.0%	20.0%	5.0%	
Downturn + Tightening + CPI	10+T	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	

The current environment of recovery combined with loose financial conditions is still favourable for FX LatAm strategies, followed by the credit trend strategy, in line with our BBVA QIS framework highlighted on slide 11. See the next slide for historic performance.

# QIS allocation using BBVA macro indicators

## QIS ALLOCATION PERFORMANCE

Source: Bloomberg and BBVA Global Markets Strategy





Corporate &  
Investment Banking

BBVA Global Risk Premia Strategy

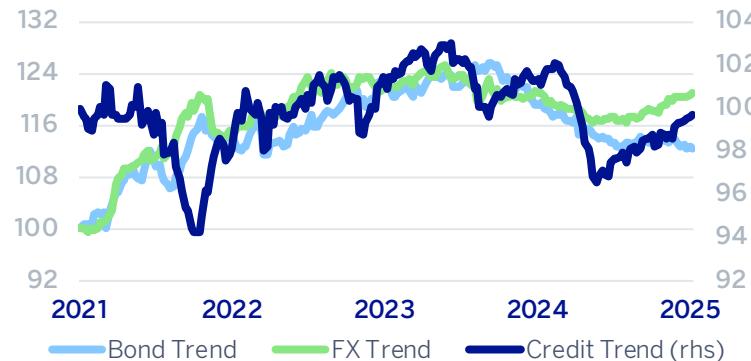
# 2. Credit Focus

# Trend back in focus

**Trend back in focus:** the performance of CTA strategies is beginning to recover after a difficult period around the US elections. The Bloomberg CTA benchmark index peaked in April 2024 and has been on a downtrend since then through to August of last year. Similar to the rebound seen in the performance of the CTA strategies, the BBVA FX and Credit trend strategies have seen a sharp rebound over the last six months. The bond trend strategy remains under pressure as the government bond markets continue to grapple with the uncertainty surrounding the next Fed chairman, as well as fiscal, inflation and labour market concerns. As a result, the bond trend has remained the worst-performing strategy over the past year. On the flipside, the credit trend has become the second-best strategy based on our framework. The rise in the ranking has been driven by an improving trend score. The recent drop in credit volatility combined with continued positive inflows into credit markets have made credit trend risk premia an attractive proposition in the medium term.

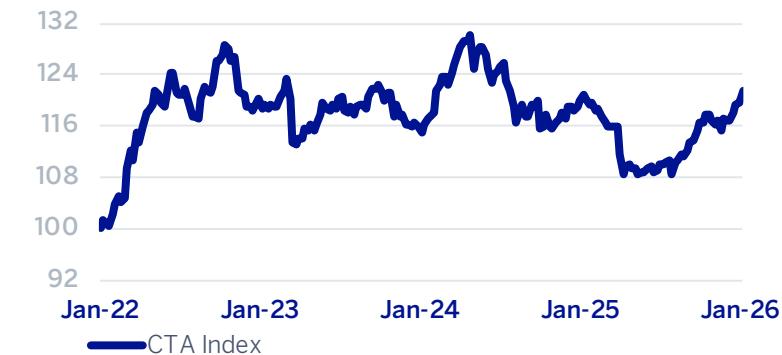
## BBVA TREND RISK PREMIA PERFORMANCE

Source: Bloomberg and BBVA Global Markets Strategy



## CTA PERFORMANCE

Source: Bloomberg and BBVA Global Markets Strategy

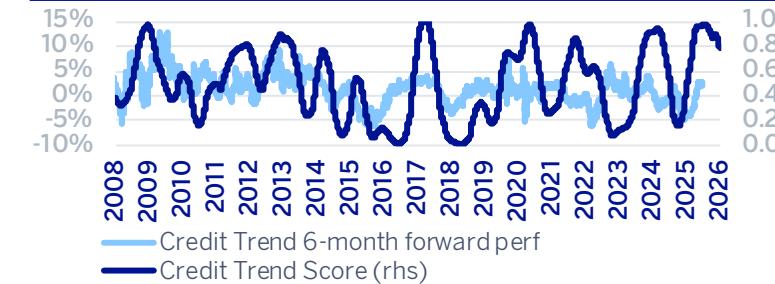


# BBVA Trend Indicator

**BBVA Trend Indicator:** in recent months we have seen a cross-asset improvement in the trend score across FX, Bonds and Credit markets. The BBVA trend indicators are based on a blend of 1, 3, 6 and 12-month absolute risk-adjusted returns of underlying used in the trend index. Trend strategies tend to have a self-reinforcing effect, as well-correlated historic trends tend to be a good predictor of future trends. While we see the outlook for the FX and Credit markets as stable and attractive at the moment, there is still a lot of uncertainty in the bond markets, which warrants caution. Given the improving cross-asset trend score we have increased our allocation to trend risk premia using the BBVA credit trend strategy, to take advantage of improving market dynamics for such trades.

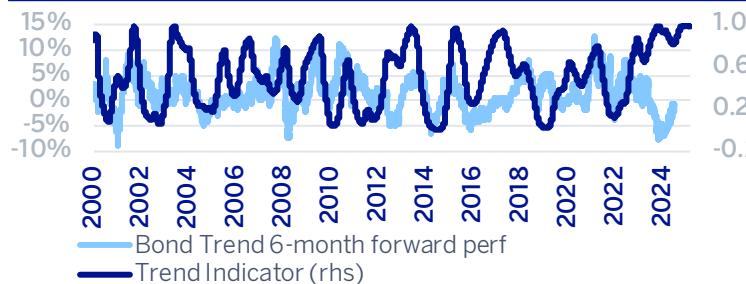
## CREDIT TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



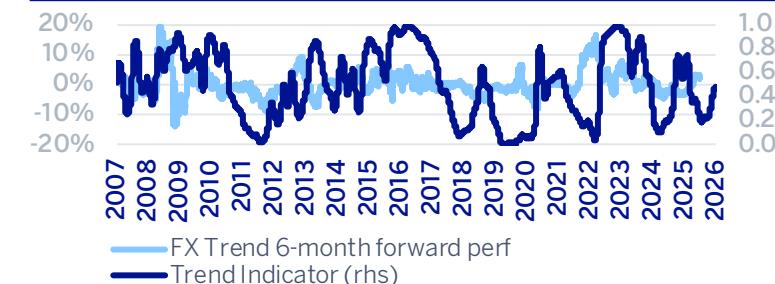
## BOND TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



## FX TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy

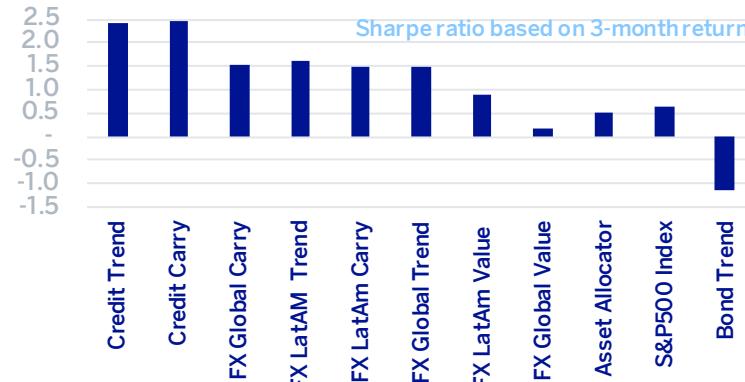


# Why to look at credit?

**Credit strategies look the most attractive at the current levels of our BBVA FCI:** BBVA Credit QIS strategies have historically been the best-performing risk premia strategy over the last 15 years when the FCI index has been at similar levels to now. The BBVA credit strategy team continues to see all-in yield as attractive in credit markets, which we expect to drive inflows into credit markets and, as a result, BBVA credit QIS strategies look attractive for 2026. As macro volatility subsides in a stable growth and inflation environment, we could see investors increasing their allocation towards carry strategies. Furthermore, we have seen a sharp decline in credit volatility over the last three months (as evidenced by the volatility of the US High Yield ETF: HYG). This decline in volatility has meant that the Sharpe ratios of our credit strategies have looked extremely attractive over the past three months. While past performance is not indicative of future results, the healthy balance sheet in the corporate sector combined with abundant liquidity could mean that the low volatility environment is here to stay, suggesting the outperformance of Sharpe ratios for such trades could continue.

## BBVA QIS STRATEGY SHARPE RATIOS OVER THE LAST 3M

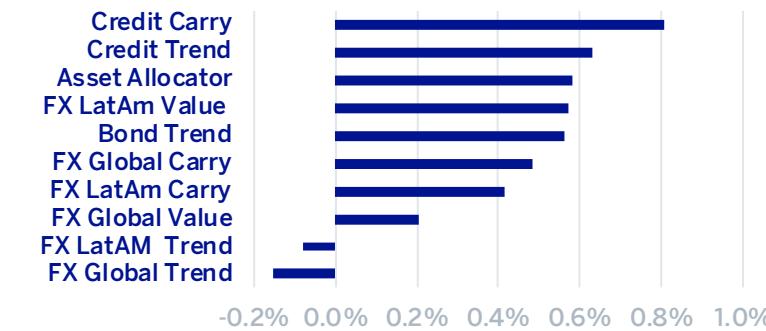
Source: Bloomberg and BBVA Global Markets Strategy



## QIS RETURNS BASED ON CURRENT FCI

Source: Bloomberg and BBVA Global Markets Strategy

QIS strategy returns when FCI is between -0.2 and -0.4

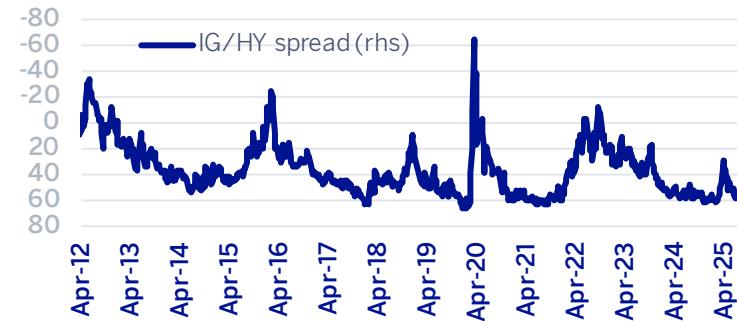


# Credit views for 2026

**Credit view for 2026:** in our House View publication ([see link](#)) the credit strategy team published a cautiously optimistic view for credit markets in 2026. The credit cycle is shifting from the "good times" of 2025 into a more leveraged yet resilient stage in 2026. While rising leverage increases market sensitivity, it is not yet fostering fragility. Private credit has become a critical marginal provider of capital, preventing a credit crunch and extending the cycle's runway. For 2026, the credit cycle enters a more mature phase characterised by "**re-leveraging without fragility.**" As global growth plateaus, we see credit markets as resilient but increasingly sensitive to valuation extremes. The central theme is the transition to a liquidity-neutral environment, where the end of Quantitative Tightening (QT) provides a stable backdrop for private sector credit expansion. Our house view remains overweight European Credit, specifically favouring Financials over Corporates. European banks are identified as a "sweet spot," benefiting from robust capital buffers and attractive relative value compared to their US peers. Within the corporate space, our credit strategy team has moved towards "Quality High Yield," preferring BB-rated issuers over lower-tier B or CCC credits, as tight spreads leave little margin for earnings misses.

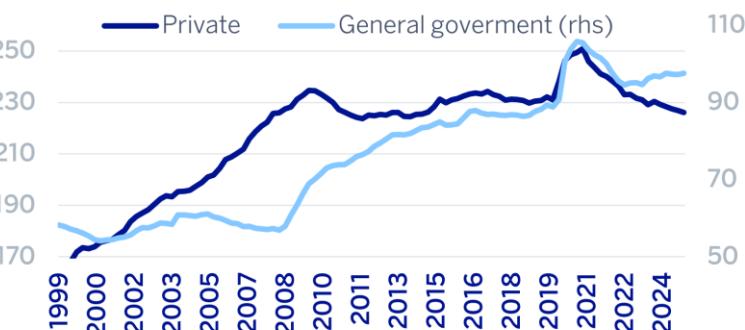
## CREDIT COMPRESSION AT TIGHTS

Source: Bloomberg and BBVA Global Markets Strategy



## PUBLIC VS. PRIVATE DEBT (% GDP)

Source: Bloomberg and BBVA Global Markets Strategy



# BBVA Credit Trend Index (BBCITREU Index)

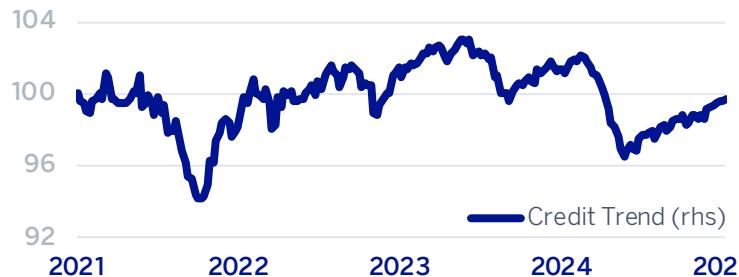
This trend-following credit strategy aims to capture the trend risk premia generated by changing macro- and micro-economic conditions, by taking long/short positions in credit markets via iTraxx and CDX Indices. The top features are as follows:

- Uncorrelated market returns notably in a risk-on environment.
- Forward-looking indicator captures significant changes in macroeconomic conditions.
- Efficient and transparent way to improve the Sharpe ratio of a portfolio.

- Long/Short time series trend investment strategy with forward-looking indicator to capture significant changes.
- Investment universe: four most liquid 5Y credit default swap indices iTraxx EU Main, iTraxx EU Xover, CDX NA HY and CDX NA IG.
- Short- and medium-term technical indicators (1M SMA, 3M SMA) are used to determine trend and trigger Risk-ON / NEUTRAL / OFF position.
- Forward-looking indicator based on a volatility indicator (VIX).
- Constituents are equally risk weighted.

## BBVA CREDIT TREND INDEX (BBCITREU Index)

Source: Bloomberg and BBVA Global Markets Strategy



## KEY METRICS (net of charges)

Source: Bloomberg and BBVA Global Markets Strategy

BBCITREU Index	
Avg Ret	2.58%
Total Return	60.40%
Volatility	4.57%
Maximum Drawdown	-9.70%
Sharpe Ratio	0.6



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# 3. FX Latam Carry

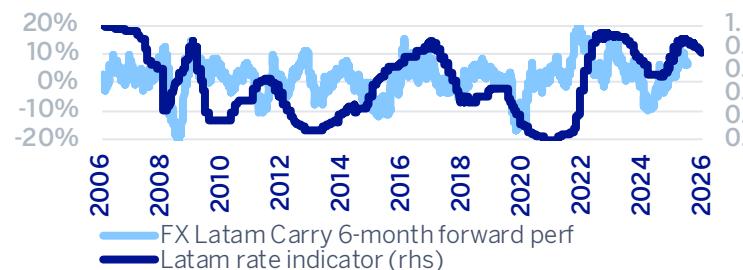
# FX LatAm carry

**FX LatAm carry** – we highlighted our preference for the BBVA FX Carry strategy in multiple publications last year. We still believe that the strong momentum in carry strategies, and in particular FX carry strategy, should continue this year. The popularity of EM has increased in sell side outlooks for 2026, helped by the continued expectation that US assets will underperform the RoW. We see the current environment of strong flow momentum into emerging markets combined with loose financial conditions and a stable global growth outlook as providing extremely supportive conditions for this trade.

**Rate differential:** the interest rate differential remains one of the main reasons we prefer the LatAm FX carry strategy. The rates differential between LatAm economies and the rest of the world is still elevated and is only slowly coming down. This suggests to us that, despite the strong performance since the trough in April, there is still potential for such strategies to perform well. Considering the elevated valuations in equity markets, we see FX carry strategies as a potential diversifier in terms of returns. Of particular note, the drop in FX volatility is currently making FX carry look attractive. The BBVA FX Carry LatAm rate indicator remains above its 80th percentile, and when combined with the drop in volatility the expected Sharpe ratio of this trade looks even more attractive.

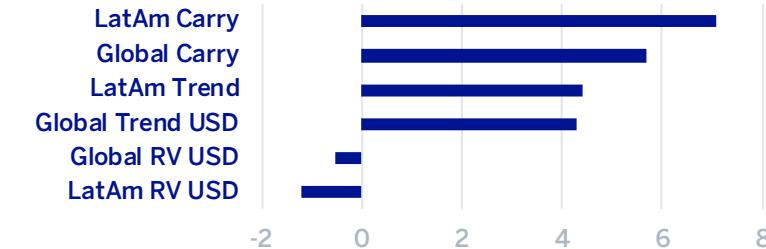
## LATAM RATE INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



## BBVA FX CARRY (%)

Source: Bloomberg and BBVA Global Markets Strategy

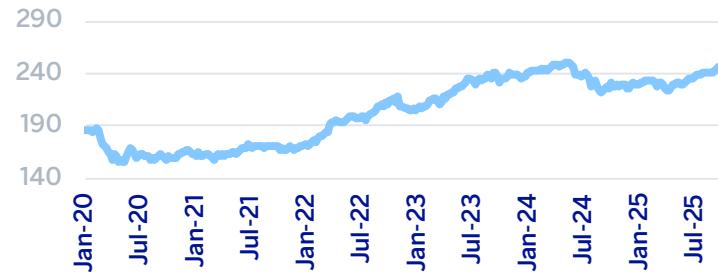


# The BRL is catching up after recent weakness

- The BRL is catching up after recent weakness:** LatAm currencies have started the year by continuing the trend seen in 2025: increasingly loaded but maintaining momentum on sustained risk appetite and high metal prices, and with local idiosyncrasies such as seasonal flows and politics generating some differences. Liquidity was limited in the first trading session of the year. Nevertheless, the MXN reached a new 12-month high. Meanwhile, the fading of dividend outflows led to a step-down in USDBRL back below the 200DMA. [See our Global FX Daily for more details.](#)
- Swift rebound in BBVA FX LatAm carry:** because of a weaker BRL in 4Q25 on the back of seasonal flows we saw our FX LatAm Carry Index drop by c.2% from its mid-November highs. The rebound in the BRL has led to a swift recovery in our carry index back near its all-time highs. While the weak USD momentum has stalled, US rate cuts and easy financial conditions should remain supportive for emerging markets, in our view.
- EM FX has room to run against non-USD FX:** while EM FX carry has gained popularity of late, we see USD bearishness as the key driver. While the BRL and MXN appreciated substantially against the USD last year, the performance of LatAm currencies vs. our basket of lowest-yielding currencies has only shown a marginal appreciation. We see the EM vs. DM carry trade as an attractive theme for 2026 on the back of still-elevated rate difference.

## BBVA FX LATAM CARRY CONTINUES ITS 2025 MOMENTUM

Source: Bloomberg and BBVA Global Markets Strategy



## THE MXN AND BRL VS. A BASKET OF THE LOWEST-YIELDING CURRENCIES

Source: Bloomberg and BBVA Global Markets Strategy





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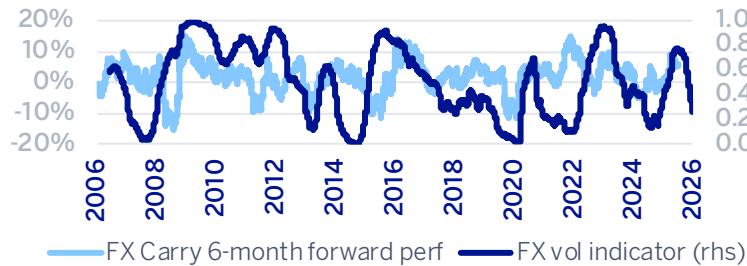
BBVA Global Risk Premia Strategy

# 4. FX risk premia

# FX carry – global

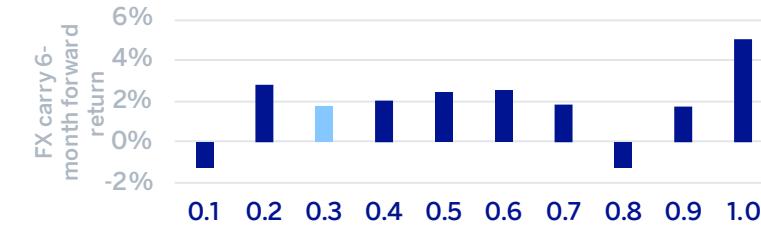
## FX VOL CARRY INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



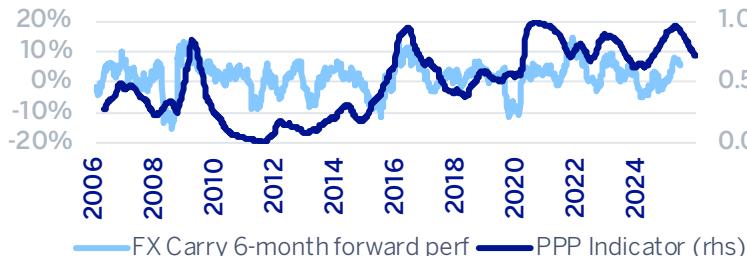
## THE FX VOL INDICATOR SUGGESTS AVERAGE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



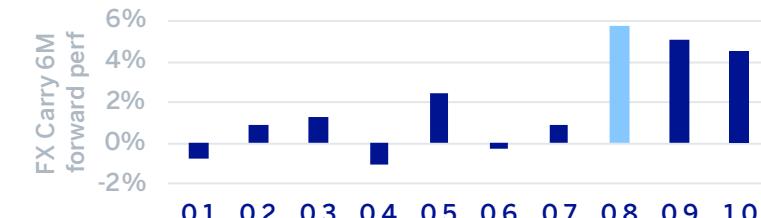
## PPP INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



## THE PPP INDICATOR SUGGESTS STRONG RETURNS

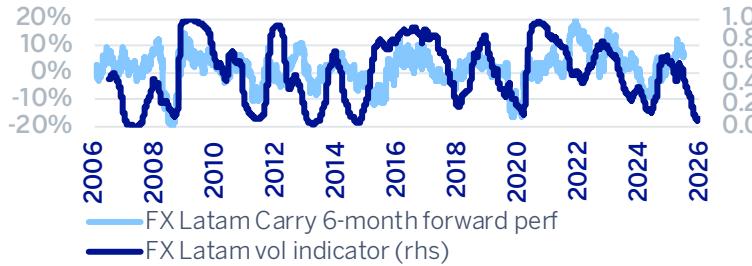
Source: Bloomberg and BBVA Global Markets Strategy



# FX carry – LatAm

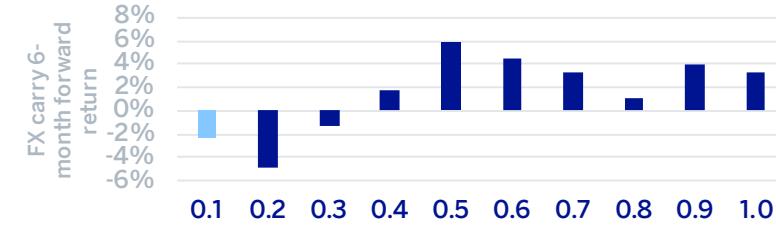
## FX LATAM VOL CARRY INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



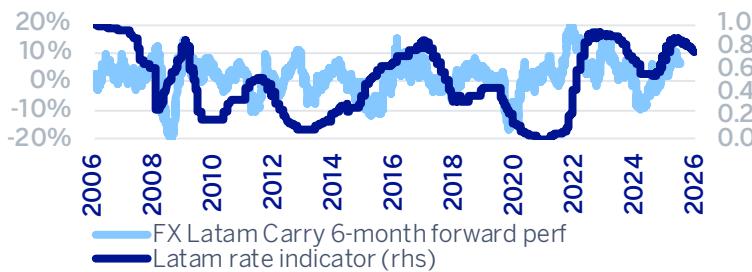
## THE FX LATAM VOL INDICATOR SUGGESTS NEGATIVE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



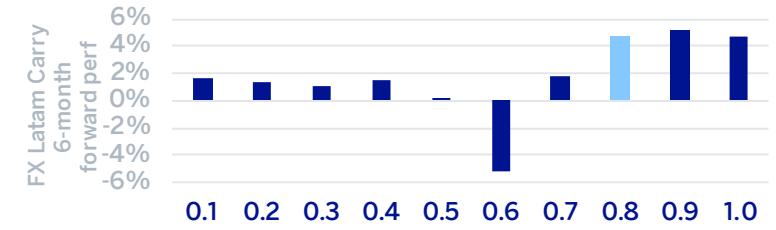
## LATAM RATE INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



## THE LATAM RATE INDICATOR SUGGESTS STRONG RETURNS

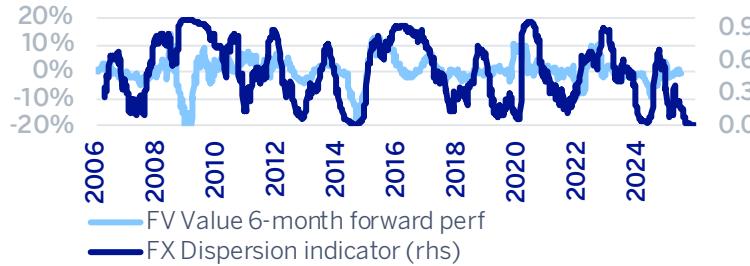
Source: Bloomberg and BBVA Global Markets Strategy



# FX value – global

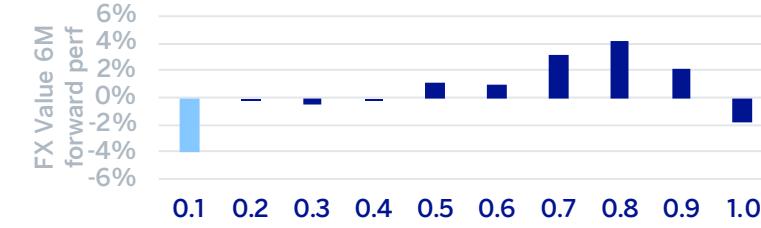
## FX DISPERSION INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



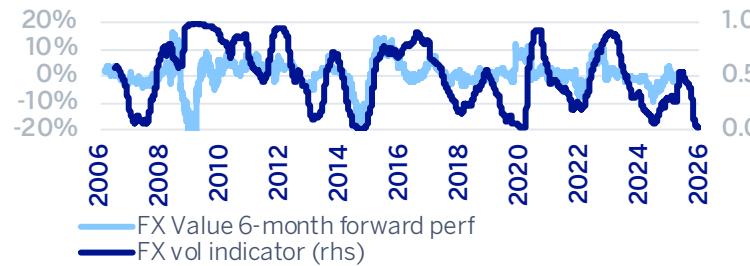
## THE FX DISPERSION INDICATOR SUGGESTS NEGATIVE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



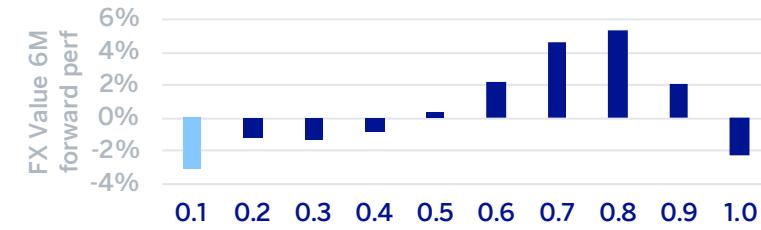
## FX VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



## FX VOL INDICATOR SUGGESTS NEGATIVE RETURNS

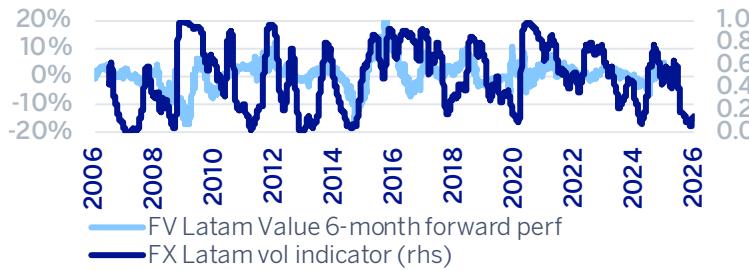
Source: Bloomberg and BBVA Global Markets Strategy



# FX value – LatAm

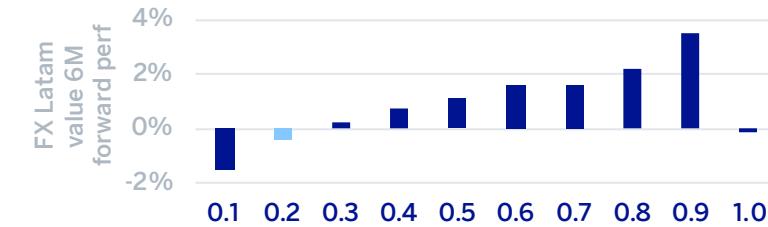
## FX LATAM VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



## THE FX LATAM VOL INDICATOR SUGGESTS NEGATIVE RETURNS

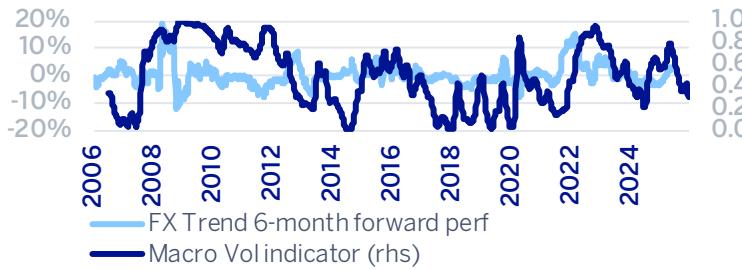
Source: Bloomberg and BBVA Global Markets Strategy



# FX trend – global

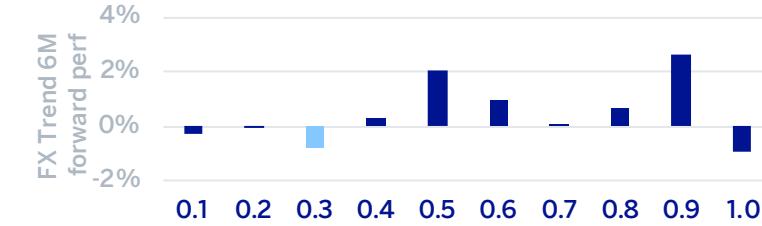
## MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



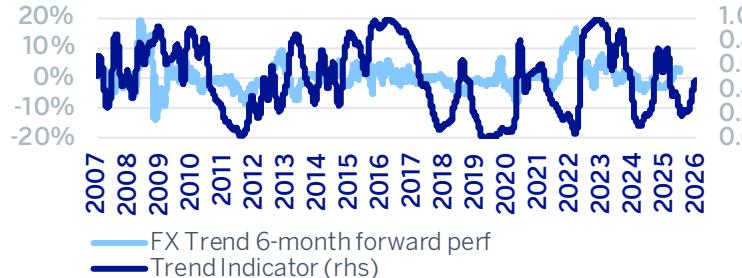
## THE MACRO VOL INDICATOR SUGGESTS NEGATIVE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



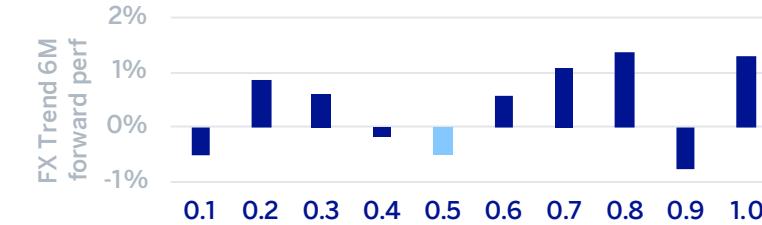
## FX TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



## THE FX TREND INDICATOR SUGGESTS NEGATIVE RETURNS

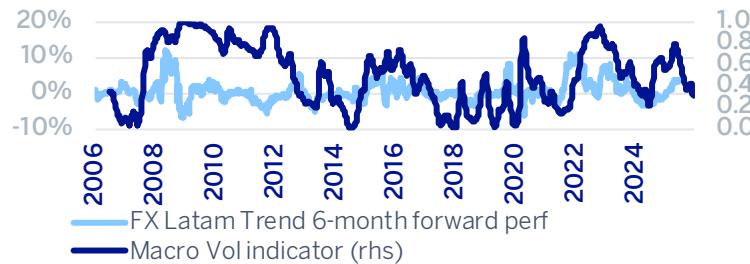
Source: Bloomberg and BBVA Global Markets Strategy



# FX trend – LatAm

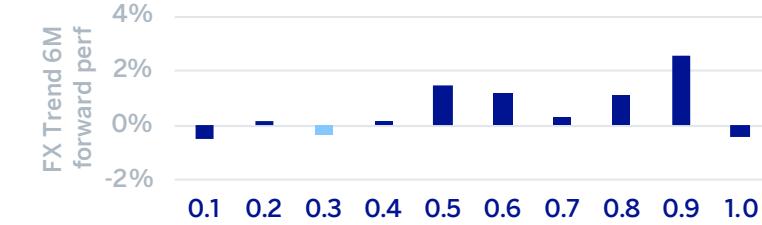
## MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



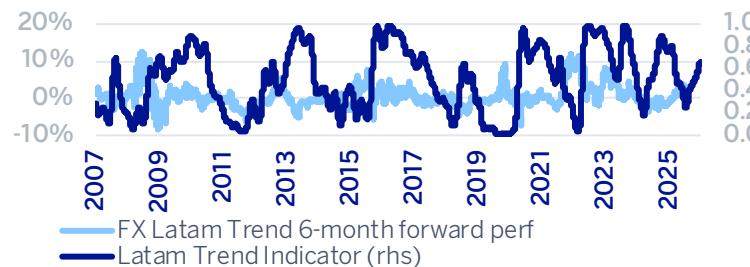
## THE MACRO VOL INDICATOR SUGGESTS NEGATIVE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



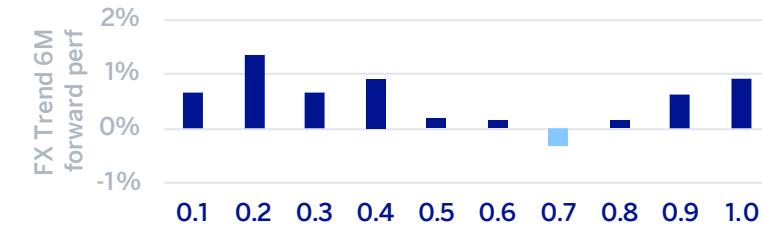
## FX LATAM TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



## THE FX LATAM TREND INDICATOR SUGGESTS NEGATIVE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy

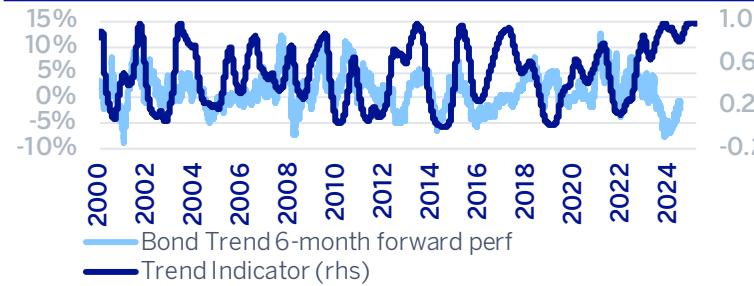


# 4. Bond and credit risk premia

# Bond trend

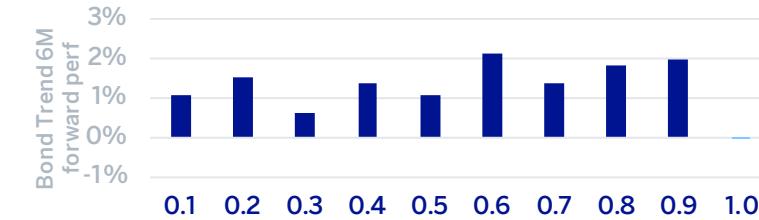
## BOND TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



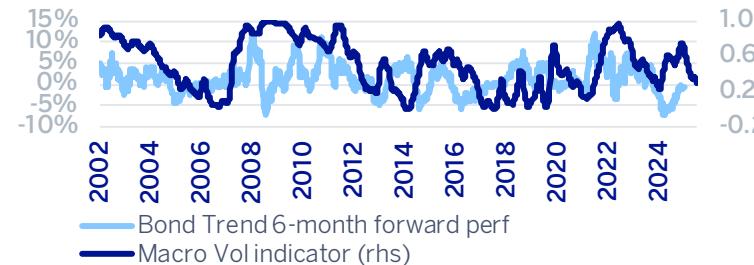
## THE BOND TREND INDICATOR SUGGESTS MUTED RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



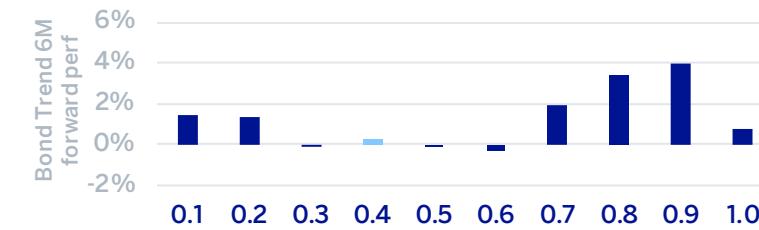
## MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



## THE MACRO VOL INDICATOR SUGGESTS MUTED RETURNS

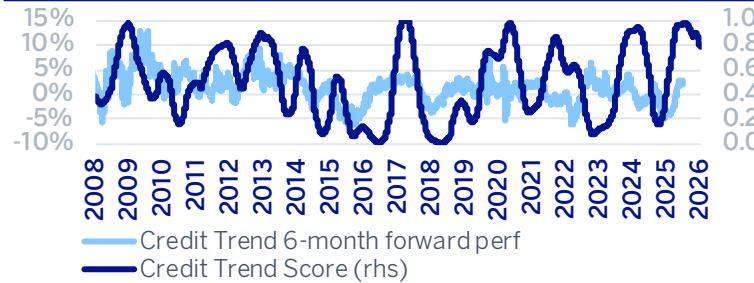
Source: Bloomberg and BBVA Global Markets Strategy



# Credit trend

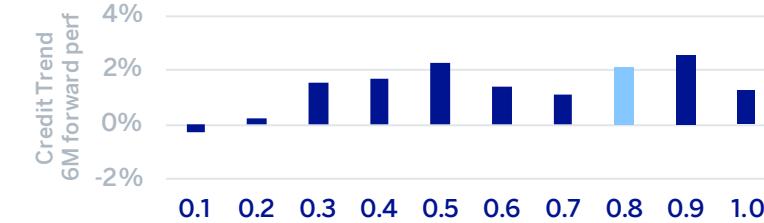
## CREDIT TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



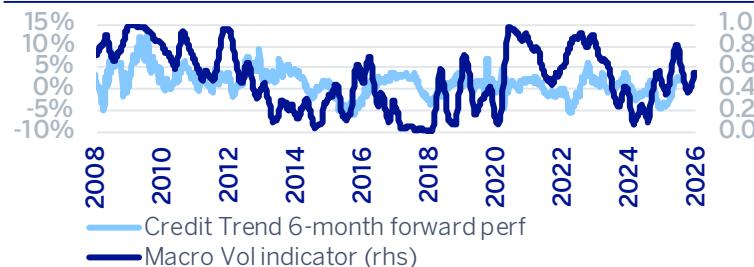
## THE CREDIT TREND INDICATOR SUGGESTS STRONG RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



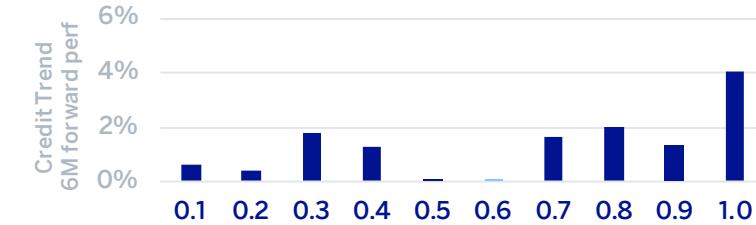
## MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



## THE MACRO VOL INDICATOR SUGGESTS MUTED RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



# Credit carry

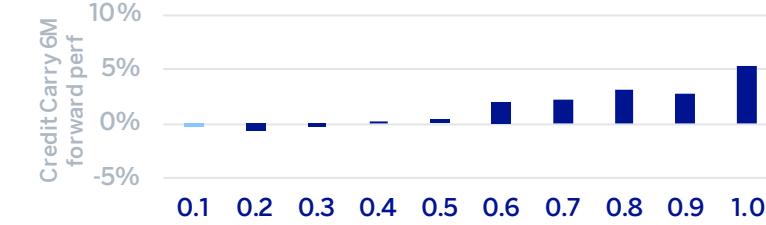
## CREDIT SPREAD INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



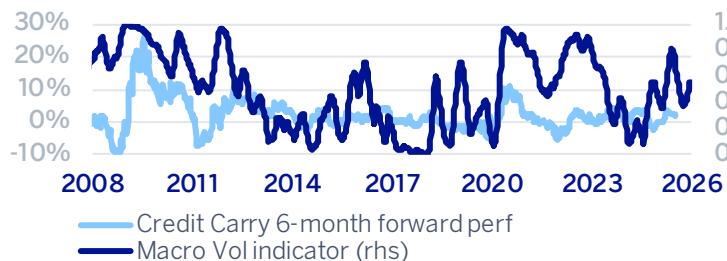
## THE CREDIT SPREAD INDICATOR SUGGESTS LIMITED RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



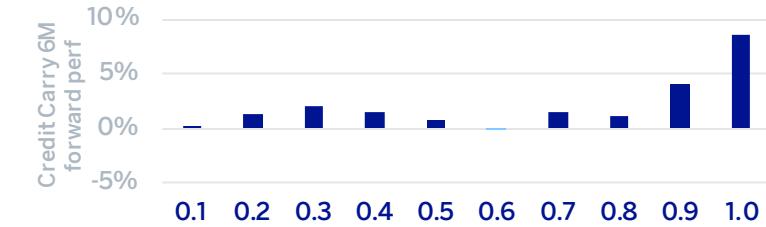
## MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



## THE MACRO VOL INDICATOR SUGGESTS ONLY MUTED RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



# 5. Asset allocator

# Asset allocator – SMART

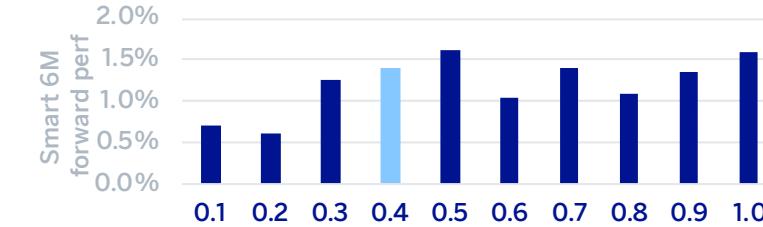
## MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



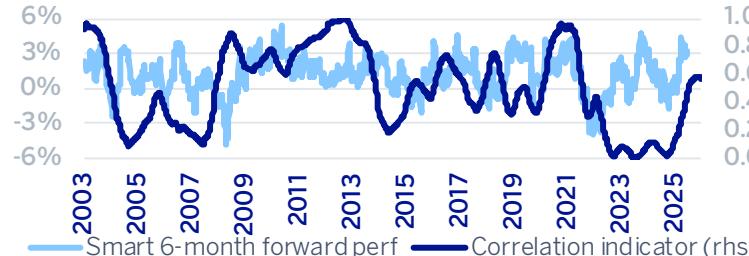
## THE MACRO VOL INDICATOR SUGGESTS AVERAGE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



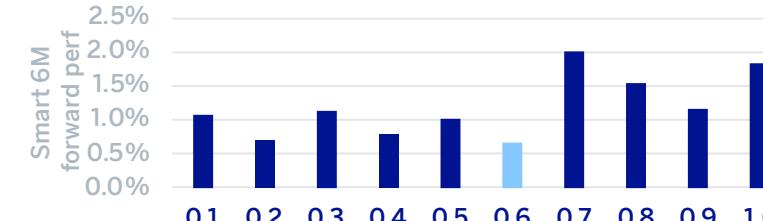
## CORRELATION INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



## THE CORRELATION INDICATOR SUGGESTS AVERAGE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy





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BBVA Global Risk Premia Strategy

# 6. Appendix

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

# BBVA risk-premia framework

- **Fixed income risk premia:** this is our risk-premia publication covering risk-premia strategies in FX, bonds, credit and our asset allocator. The purpose of this publication is to analyse BBVA's risk-premia strategies and provide a framework for our readers to select the best risk premia in the current uncertain environment based on our macro framework. To rank the risk-premia strategies, we comply with the following framework.
  - For each risk-premia strategy, we have identified the one or two most relevant leading indicators that have historically predicted returns for the respective strategy. We have tested the plenitude of macro indicators and only selected the ones where we feel it makes the most macro sense and where we see evidence of high predictability in terms of forward returns.
  - Based on our leading indicators, we identify whether the current environment is favourable for “modest”, “average” or “strong” returns for each of our risk-premia strategies. This is driven by how successful each indicator has been in predicting the forward returns of each strategy.
  - See the index description slides for the details of each indicator that we have used to predict the performance of risk-premia strategies.
  - Lastly, we combine all the return predictions based on our selected leading indicators for each risk-premia strategy. We use this framework to select our preferred risk-premia strategy of the month. See slide 12 for the ranking in the current markets.
  - Our ranking is based on risk-adjusted returns.
- **Risk-adjusted returns:** we rank the strategies based on risk-adjusted returns. We believe the allocation to risk-premia strategies should be based on risk and the Sharpe ratio and, as a result, our model selects strategies that we believe are likely to deliver the best volatility-adjusted returns in the months ahead. We use the output of our model, which we overlay with the current macro environment, to regularly propose our preferred risk-premia strategy. This publication also helps readers monitor the recent trends in the key risk-premia strategies as well as the most relevant performance drivers.

# Indicator description

## INDICATOR DESCRIPTION

Source: Bloomberg and BBVA Global Markets Strategy

Strategy	Indicator	Description
<b>FX global carry</b>	FX vol indicator	The BBVA FX vol carry indicator is calculated based on realised US dollar volatility. We find USD vol tends to lead FX carry strategy performance over the next six months with weak performance just after a low vol regime. USD vol has climbed recently on tariff risks. Our indicator currently forecasts average returns.
<b>FX global carry</b>	PPP indicator	The BBVA PPP indicator is derived based on divergence from the PPP value for FX pairs. A high divergence tends to indicate a better environment for carry trades with strong momentum. Convergence to fair value tends to be a risk. Currently divergence remains high suggesting strong potential returns.
<b>FX LatAm carry</b>	FX LatAm vol indicator	The BBVA FX LatAm vol carry indicator is calculated based on realised MXN and BRL volatility. We find the MXN and BRL vol tends to lead FX LatAm carry strategy performance over the next six months. The FX vol has dropped recently on tariff risks, which suggests negative forward looking returns.
<b>FX LatAm carry</b>	LatAm rate indicator	The BBVA LatAm rate indicator is based on the differential between LatAm and global central bank interest rates. The current spread remains elevated; suggesting a positive outlook.
<b>FX global value</b>	FX dispersion indicator	The BBVA FX dispersion indicator is based on the dispersion of weekly returns between FX pairs. We find that a high dispersion tends to drive more dislocation opportunities for FX value indices. The dispersion has recently collapsed, suggesting negative returns.
<b>FX global value</b>	FX vol indicator	The BBVA FX vol value indicator is based on the realised volatility of the global FX pairs included in our index. A high FX vol tends to lead to more dislocations and, as a result, a strong performance over the next six months. The FX vol has dropped recently on tariff risks, which suggests negative forward looking returns.
<b>FX LatAm value</b>	FX LatAm vol indicator	The BBVA FX LatAm vol value indicator is based on the realised volatility of the BRL and MXN. A high FX vol tends to lead to more dislocations and, as a result, a strong performance over the next six months. LatAm FX vol has dropped recently on tariff risks, which suggests negative forward looking returns.
<b>FX global trend</b>	Macro vol indicator	The BBVA macro vol indicator is derived from a combination of the VIX, CVIX and MOVE index. A high vol tends to lead to strong performance over the next six months. The cross-asset vol has dropped recently, triggering a negative signal for trend strategies.
<b>FX global trend</b>	Trend indicator	The BBVA FX trend indicator is based on a blend of 3, 6 and 12-month absolute risk-adjusted returns of underlying FX pairs. Trend strategies tend to have a self-reinforcing effect, a strong historic trend tends to be a good predictor of the forward trend.
<b>FX LatAM trend</b>	Macro vol indicator	The BBVA macro vol indicator is derived from a combination of the VIX, CVIX and MOVE index. A high vol tends to lead to strong performance over the next six months. The cross-asset vol has dropped recently, triggering a negative signal for trend strategies.
<b>FX LatAM trend</b>	LatAm trend indicator	The BBVA FX LatAm trend indicator is based on a blend of 3, 6 and 12-month absolute risk-adjusted returns of underlying FX LatAm pairs. Trend strategies tend to have a self-reinforcing effect, a strong historic trend tends to be a good predictor of the forward trend.

# Indicator description

## INDICATOR DESCRIPTION

Source: Bloomberg and BBVA Global Markets Strategy

Strategy	Indicator	Description
<b>Bond trend</b>	Trend indicator	The BBVA bond trend indicator is based on a blend of 1, 3, 6 and 12-month absolute risk-adjusted returns of US and German 10-year bond futures. Trend strategies tend to have a self-reinforcing effect, a strong historic trend tends to be a good predictor of the forward trend.
<b>Bond trend</b>	Macro vol indicator	The BBVA macro vol indicator is derived from a combination of the VIX, CVIX and Move index. A high vol tends to lead to strong performance over the next six months. The cross-asset vol has dropped recently, triggering a neutral signal for trend strategies.
<b>Credit trend</b>	Credit trend score	The BBVA credit trend indicator is based on a blend of 3 and 6-month absolute risk-adjusted returns of the underlying credit indices. Trend strategies tend to have a self-reinforcing effect, a strong historic trend tends to be a good predictor of the forward trend.
<b>Credit trend</b>	Macro vol indicator	The BBVA macro credit vol indicator is derived from the VIX index. A high vol tends to lead to strong performance over the next six months. The VIX index has recently climbed, but still suggests a neutral signal for trend strategies.
<b>Credit carry</b>	Spread indicator	The BBVA spread indicator is based on the HY/IG spread. A high spread tends to drive interesting opportunities for credit carry strategies. Despite the recent spike in HY/IG spreads, the spreads remain low and hence the strategy is looking neutral from a spread perspective.
<b>Credit carry</b>	Macro vol indicator	The BBVA macro credit vol indicator is derived from the VIX index. A high vol tends to lead to strong performance over the next six months. The VIX index has recently climbed, but still suggests a neutral signal for trend strategies.
<b>Asset allocation</b>	Macro vol indicator	The BBVA macro vol indicator is derived from a combination of the VIX, CVIX and Move index. A high vol tends to lead to strong performance over the next six months. The cross-asset vol has dropped recently, triggering a neutral signal for trend strategies.
<b>Asset allocation</b>	Correlation indicator	The BBVA correlation indicator is based on US bond vs. equity correlation. A high positive correlation over recent years has been associated with weak returns across assets. We believe we are entering a regime of negative bond equity correlation, which should once again be favourable for this strategy.

# Contacts

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## Global Risk Premia Strategy

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