Bloomberg Adria

Markets Report

Unlocking regional potential: Adria and beyond

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Key messages

Global equity markets remained resilient despite another year of elevated geopolitical uncertainty, with investors once again looking through short-term shocks and refocusing on fundamentals. While the conflict between the U.S. and Iran triggered periods of heightened volatility, equity markets broadly recovered as corporate earnings remained resilient. Sector performance diverged significantly across regions, with European technology outperforming on the back of AI-related investment and semiconductor demand, while energy benefited from elevated oil prices. In contrast, consumer discretionary remained under pressure on both sides of the Atlantic due to weaker consumer demand, persistent inflation and continued competitive pressures from China.

The Adria region continues to offer an attractive combination of earnings growth, dividend income and regional diversification, although valuation expansion has become a more important driver of returns this year in Croatia and Slovenia. **CROBEX10 and SBITOP once again outperformed regional peers, supported by both strong corporate fundamentals and a meaningful market re-rating**, while markets such as Serbia and North Macedonia continued to lag due to political uncertainty in one, and weaker liquidity and valuation compression in other. Despite higher valuations than in previous years, the region remains attractive relative to many developed markets, with dividend yields continuing to provide an important source of total return. **Beyond the core Adria markets, Poland, Romania and increasingly Hungary stand out as compelling opportunities** supported by attractive valuations and improving macroeconomic and political dynamics.

Fixed income markets remained highly sensitive to inflation and central bank expectations, with geopolitical developments amplifying yield volatility throughout the year. Markets shifted from expecting further monetary easing towards pricing a more restrictive policy path as persistent inflation and energy-related pressures complicated the outlook for both the ECB and the Federal Reserve. Although regional spreads have temporarily stabilised following last year's compression, we continue to expect gradual convergence towards developed European markets over the medium term. **Assuming inflation continues to moderate, Adria sovereign bond yields are likely to decline modestly by year-end, although geopolitical risks remain the key upside risk for yields.**

Macro-driven assets continued to reflect changing monetary policy expectations, leading us to adopt a more cautious outlook for both Bitcoin and the U.S. dollar. Bitcoin experienced a sharp correction as tighter monetary conditions, ETF outflows and weaker institutional risk appetite weighed on sentiment, reinforcing its role as a macro-sensitive risk asset. At the same time, expectations for sustained U.S. policy tightness have supported the dollar and prompted us to revise our EURUSD outlook lower. We now expect the pair to remain within a 1.10–1.16 range through the remainder of 2026, while Bitcoin is likely to remain under pressure unless monetary policy or institutional flows become materially more supportive.

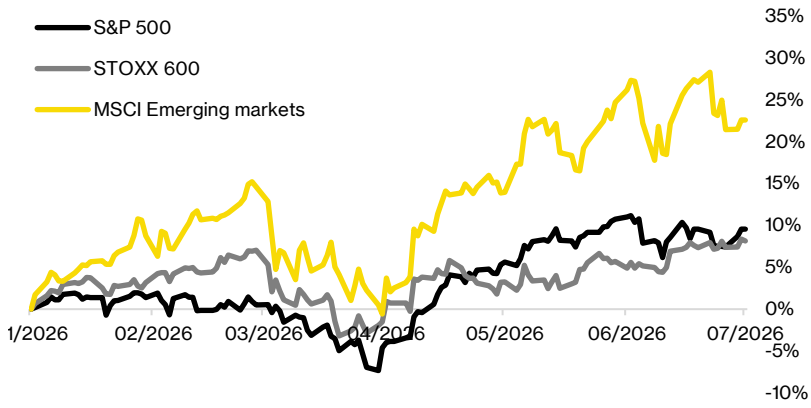
Source: BBA Analytics, Bloomberg

Volatility driven by geopolitics

The first half of 2026 has in many ways mirrored the pattern seen a year earlier. **Much like 2025, global markets entered the year under pressure**, with investor sentiment deteriorating sharply amid geopolitical uncertainty and renewed macroeconomic concerns. Despite a volatile start, **equity markets once again demonstrated remarkable resilience, recovering quickly as investors looked through near-term risks and refocused on the broader economic and corporate outlook.**

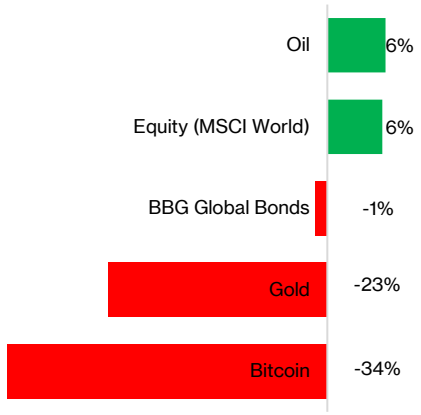
Geopolitics has been the primary driver of investor sentiment, with the escalation of tensions in the Middle East, particularly the conflict between the United States and Iran, triggering periods of heightened volatility and a temporary shift toward risk-off positioning. **The impact was most visible in energy markets, as oil prices experienced sharp swings. Monetary policy has also remained in focus.** In the United States, expectations have shifted toward a more accommodative Federal Reserve, although **inflationary pressures partly driven by higher energy prices have complicated the outlook for interest rate cuts**. In Europe, markets have similarly reassessed the policy outlook after an actual rate hike, as persistent inflation risks forced central banks back into a more restrictive stance. **This shift in expectations, alongside rising real yields, has weighed on non-yielding assets such as gold and Bitcoin.**

Global market indices year to date performance



Source: BBA Analytics, Bloomberg

Asset class performance since the start of the Iran war (27/02/26)



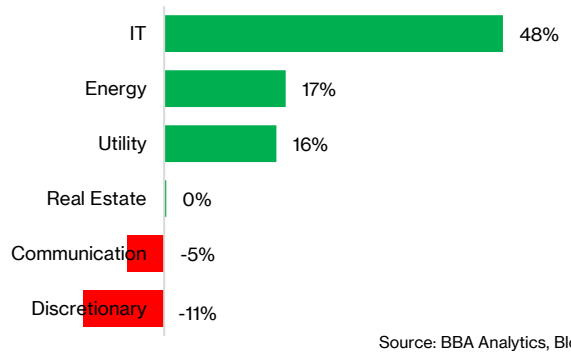
Source: BBA Analytics, Bloomberg

Diverging sector performance across Europe and the US

Sector performance across global equity markets has been notably divergent this year, reflecting differences in regional growth dynamics, policy environments and sector-specific drivers. **In Europe, technology has been the clear outperformer, with the sector rising by roughly 50%,** supported by strong earnings momentum, increased capital spending on digital infrastructure which benefited large-cap technology names like Arm Holdings (+170% YTD) and ASML (+60% YTD), which have benefited from continued AI-related demand and semiconductor investment. Energy has also performed strongly, supported by elevated energy prices and periodic geopolitical disruptions that kept supply conditions in focus. On the other hand, **European consumer discretionary has lagged meaningfully.** Weak demand from China, continued pressure on the automotive sector from increasingly competitive Chinese manufacturers, and still-elevated inflation weighing on real purchasing power have all contributed to margin compression and subdued earnings growth.

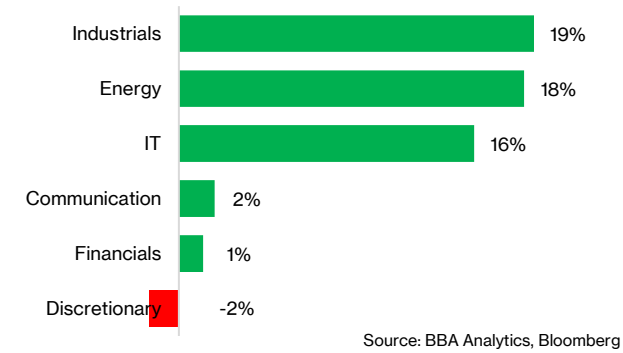
In the United States, sector performance has been broadly led by industrials, energy and information technology, while consumer discretionary stands out as the only sector in negative territory year-to-date. Industrials have benefited from strong infrastructure-related investment, with particular support coming from the ongoing expansion of data centers. Energy has been supported by higher and more volatile energy prices, with geopolitical uncertainty keeping supply risks elevated and supporting sector earnings. In contrast, consumer discretionary has underperformed due to similar reasons as in Europe.

3 best and worst performing sectors in Europe YTD (EUR)



Source: BBA Analytics, Bloomberg

3 best and worst performing sectors in US YTD (USD)



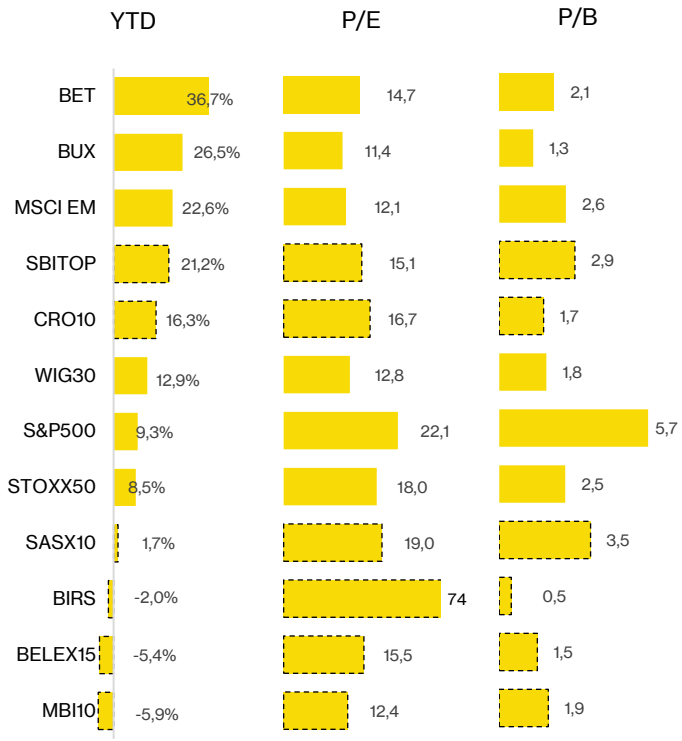
Source: BBA Analytics, Bloomberg

Adria equities split between double-digit gainers and negative markets

The first half of 2026 has been relatively mixed across the Adria region equity indices. The regional performance is clearly led by the two largest and most liquid indices, **SBITOP and CROBEX10, both posting double-digit gains since the beginning of the year**, extending another strong period of performance, at least so far.

SASX10 is trading broadly in neutral territory, while BIRS, BELEX15 and MBI10 are all in negative territory. **BIRS remains somewhat of an outlier within the region when it comes to valuation**, largely due to its heavy concentration in hydropower companies, which account for more than half of the index. Given that hydropower generation and earnings are highly dependent on hydrological conditions, the resulting earnings volatility tends to have a disproportionate impact on the index's overall valuation and performance. The **weakness in BELEX15 can be attributed not only to overall regional sentiment but also to lower liquidity and a higher perceived political risk**, which continues to limit foreign investor interest. In contrast.

MBI10 has also been under pressure, with nearly all constituent companies in negative territory year-to-date, reflecting a clear multiple contraction from around 16x P/E last year to roughly 12.4x currently. This stands in contrast to Croatia and Slovenia, where valuation expansion has supported index performance. The correction in Macedonia can partly be explained by investor enthusiasm following the strong rally in 2024 gradually normalising.



Source: BBA Analytics, Bloomberg

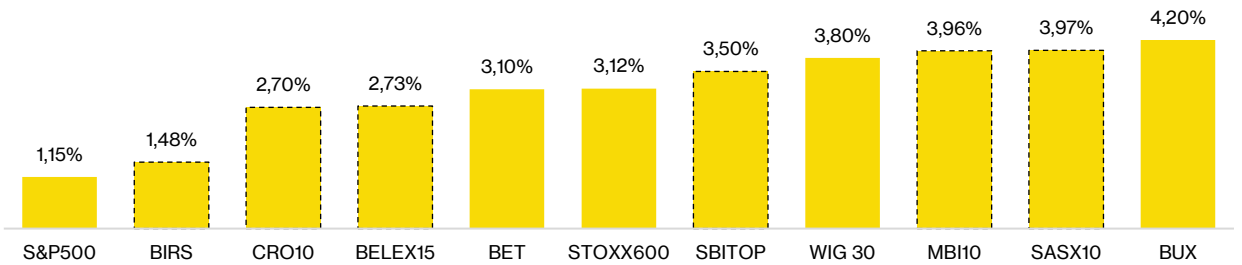
Broader regional opportunities emerge

What is particularly interesting is that SBITOP and CROBEX10 have historically been driven primarily by strong earnings growth, while this year we are also seeing a meaningful contribution from multiple expansion. **As a result, part of the performance can be attributed to a broader re-rating of the market rather than purely fundamental earnings improvements. Although valuations are now somewhat higher when it comes to PE, with CRO10 already trading close to Euro Stoxx levels, given their balance sheet structures, these indices still remain attractive for regional diversification within global portfolios.**

At the same time, dividends continue to be one of the key characteristics of the region. While SBITOP has traditionally been among the highest-yielding indices, after the strong rally it now sits somewhat lower, with MBI10 and SASX10 currently leading at around 4%. SBITOP, however, remains appealing with a dividend yield still above the STOXX Europe 600, which stands at approximately 3.5%.

Looking at the broader region, several markets are increasingly standing out, including Romania's BET, Poland's WIG, and more recently Hungary's BUX, although ETF accessibility for the latter remains limited. Particularly notable are valuations in Poland and Romania, where indices trade at forward P/E ratios of roughly 12x to 14x, appearing attractive relative to both regional and global peers. Poland benefits from a strong and fast-growing economy, while Romania, despite political stabilisation, still faces macroeconomic challenges such as elevated inflation and a high fiscal deficit, although the quality of listed companies remains solid. Hungary's BUX has also been among the top performers this year, driven largely by political expectations and the potential for a shift towards a more EU-aligned policy direction which supports a more constructive outlook for the index.

Global and regional market indices dividend yield



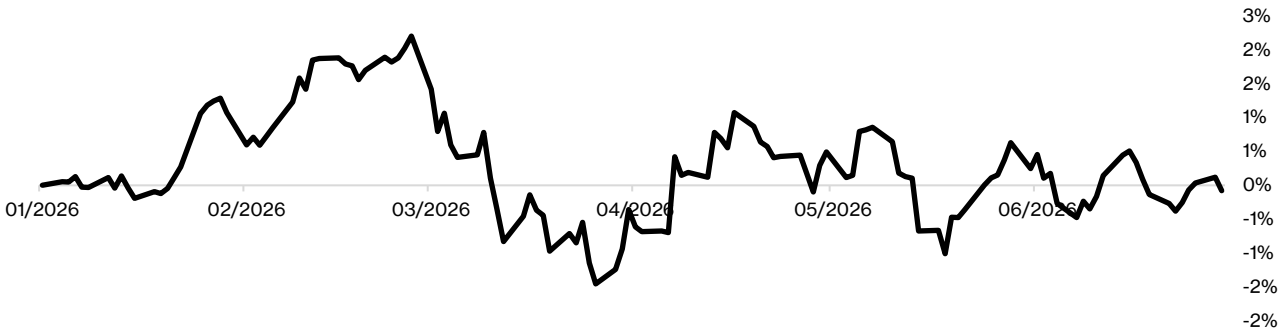
Source: BBA Analytics, Bloomberg

Global bond market marked by shifting sentiment

Throughout 2026, global bond markets have been characterised by elevated volatility, **driven by a combination of geopolitical developments and shifting central bank policy expectations, broadly in line with the dynamics observed in equity markets.** Geopolitical tensions, particularly in the Middle East, have periodically triggered risk-off moves, leading to sharp but short-lived declines in yields before macro and policy expectations reasserted themselves. Monetary policy has been the other key driver of volatility.

In Europe, the narrative shifted meaningfully from an already-implemented and finished cutting cycle towards rate hike and further discussions around additonal potential rate hikes, as persistent inflationary pressures and energy-related shocks proved more resilient than initially expected. In contrast, the United States moved from strong expectations of a clear easing cycle towards a more uncertain outlook, **with markets increasingly pricing out aggressive cuts and even considering the possibility of one to two additional hikes depending on inflation dynamics**. Overall, bond markets in 2026 have remained highly sensitive to both macro data and central bank communication, with rapid repricing episodes continuing to define performance.

Bloomberg global bond index change year to date



Source: BBA Analytics, Bloomberg

Mixed credit dynamics in the region

The narrowing of spreads in the region observed last year did not continue in the first half of this year; however, **we still view the longer-term trend as intact**, with spreads expected to continue compressing and yields gradually converging towards the risk-free rate as the region moves closer to more developed Western economies.

Looking more specifically, S&P delivered a positive surprise by upgrading Croatia's credit rating by one notch to 'A', with the outlook revised back to stable. This extends a remarkable upgrade cycle of six notches over the past decade, bringing the rating to a new record high. Despite the upgrade, Croatian yields have increased more than those in Slovenia this year, driven by a still-elevated inflation compared to other eurozone countries.

The Federation of Bosnia and Herzegovina issued a new eurobond on the London market at a yield of around 5%, which is in fact lower than its previous issuance. This is notable given the generally higher global yield environment and suggests some stabilisation in risk perception within this segment.

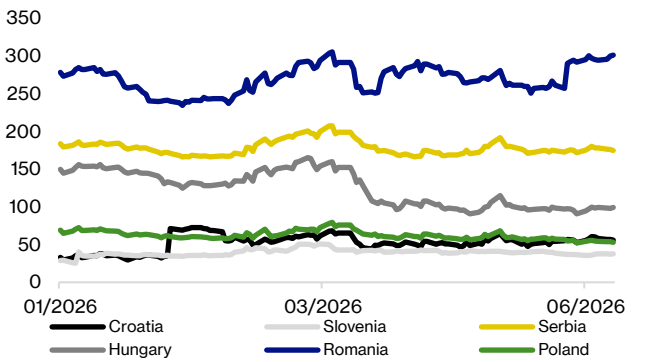
What clearly stands out in the broader region is **Hungary**, where, similar to Romania last year, **a shift in the political environment perceived as more aligned with EU policies has contributed to a significant compression in yields and credit spreads.**

Regional government bond indicators

10Y EUR gov. bond	Yield		Spread		S&P rating
	current (%)	ΔYTD (bp)	current (bp)	ΔYTD (bp)	
Germany	2,90	2	0	0	AAA
Austria	3,16	3	26	1	AA+
Croatia	3,44	25	56	23	A
Slovenia	3,25	11	38	9	AA
Serbia	4,63	-7	175	-9	BBB-
Romania	5,89	25	301	23	BBB-
Poland	3,41	-14	53	-16	A-
Hungary	3,87	-48	99	-51	BBB-

Source: BBA Analytics, Bloomberg

Regional government bond spreads this year (EUR)



Source: BBA Analytics, Bloomberg

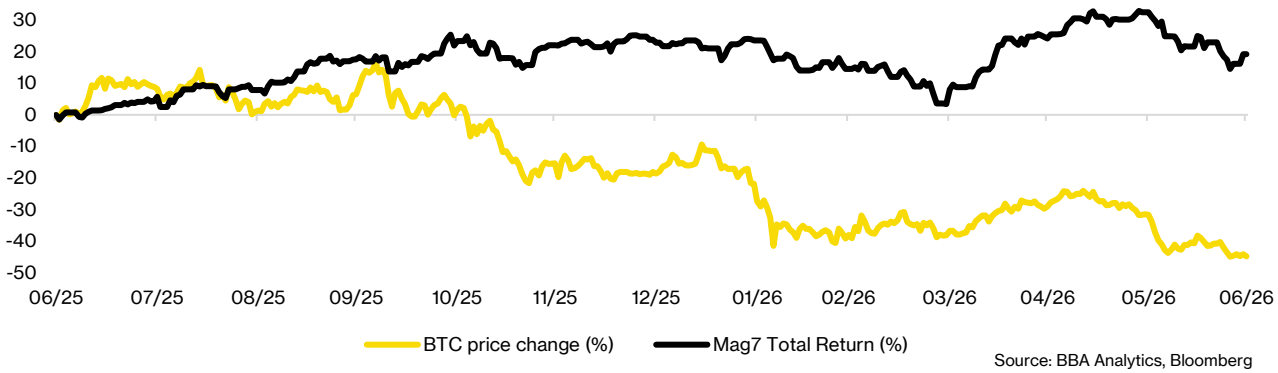
Bitcoin tests investor confidence

Bitcoin's performance in 2026 has so far been defined by a **significant shift** in market dynamics. After reaching a **record high** of around USD 126,000 in **late 2025**, Bitcoin **declined sharply and fell below USD 60,000 in June 2026**, marking its lowest level since the end of 2024. The correction reflects **broader changes** in the **investment environment**, including a more **restrictive Federal Reserve outlook**, reduced institutional **risk appetite**, sustained **outflows from spot Bitcoin ETFs and increasing competition from artificial intelligence-related investments** for capital allocation. Bitcoin has continued to trade increasingly like a macro-driven risk asset, with liquidity conditions, interest-rate expectations and investor positioning amplifying both upward and downward moves.

Looking ahead through the remainder of 2026, Bitcoin's outlook remains closely tied to three main factors: **monetary policy**, **institutional demand** and **regulatory developments**. A prolonged **period of higher interest rates** could continue to pressure non-yielding assets such as Bitcoin, while renewed ETF inflows and long-term investor accumulation **could provide support**. **Regulatory progress** in the U.S. could become a long-term catalyst for broader institutional adoption, although timing remains uncertain. Overall, Bitcoin is expected to **remain under pressure**, making a further **decline** by the end of 2026 the more likely scenario.

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Bitcoin 1Y price change and Mag 7 1Y total return (%)



Source: BBA Analytics, Bloomberg

Dollar strength returns in a higher-rate regime

EURUSD's outlook in 2026 has **shifted** as expectations for a **weaker dollar have faded**. After trading around 1.2 at the end of January, the pair moved lower toward the 1.14 area as **resilient U.S. economic data, persistent inflation pressures and a more restrictive Federal Reserve stance supported the U.S. dollar**. Markets have increasingly focused on monetary policy expectations and broader macro conditions, with **higher-for-longer rates** and stronger U.S. growth keeping demand for the currency elevated.

Looking ahead, EURUSD is likely to remain **highly sensitive** to **Fed policy**, **inflation developments** and **global risk sentiment**. A renewed slowdown in U.S. growth or a faster shift toward monetary easing could create room for **euro appreciation**, while geopolitical uncertainty and demand for safe-haven assets may continue to **support the dollar**. Longer term, gradual **diversification** away from the dollar in **global reserve portfolios** could provide some structural support for the euro, although the **dollar remains dominant** due to its liquidity and market depth. Overall, we revise our previous EURUSD outlook of 1.20 and now expect the pair to trade within a **range of 1.10–1.16** through the remainder of 2026, with the pair **likely to remain near the lower end of the range** if the Federal Reserve maintains a restrictive monetary.

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EURUSD exchange rate



Source: BBA Analytics, Bloomberg

Adria equity outlook

Looking ahead to the year end 2026, we expect continued growth across most equity indices in the Adria region. The outlook remains supported by solid corporate earnings, healthy order books and resilient dividend profiles across the region. Key performers such as CROBEX10 and SBITOP have also benefited in part from multiple expansion in addition to fundamental earnings growth, but we continue to view them as attractive regional indices and remain constructive on their outlook.

At the same time, we maintain a more cautious stance toward Serbia's BELEX and Bosnia's BIRS indices. In both cases, elevated political uncertainty continues to weigh on investor sentiment, while limited market liquidity further constrains near-term upside potential.

From a broader regional perspective, we also highlight **Poland's WIG30**, for which ETFs are now available on both the Zagreb and Ljubljana stock exchanges, alongside **Romania and Hungary as increasingly interesting opportunities within the region**, supported by more attractive valuations compared to core Adria markets.

Overall, the Adria region continues to offer compelling opportunities for investors, underpinned by attractive valuation levels, strong dividend yields and gradually improving macroeconomic and fiscal fundamentals. While short-term challenges persist, most notably political risks and liquidity constraints in select markets, we see scope for a gradual re-rating over the medium term as investor participation deepens.

CRO10 ↑

SBITOP ↑

MBI10 ↑

SASX10 ↑

BELEX15 ↔

BIRS ↔

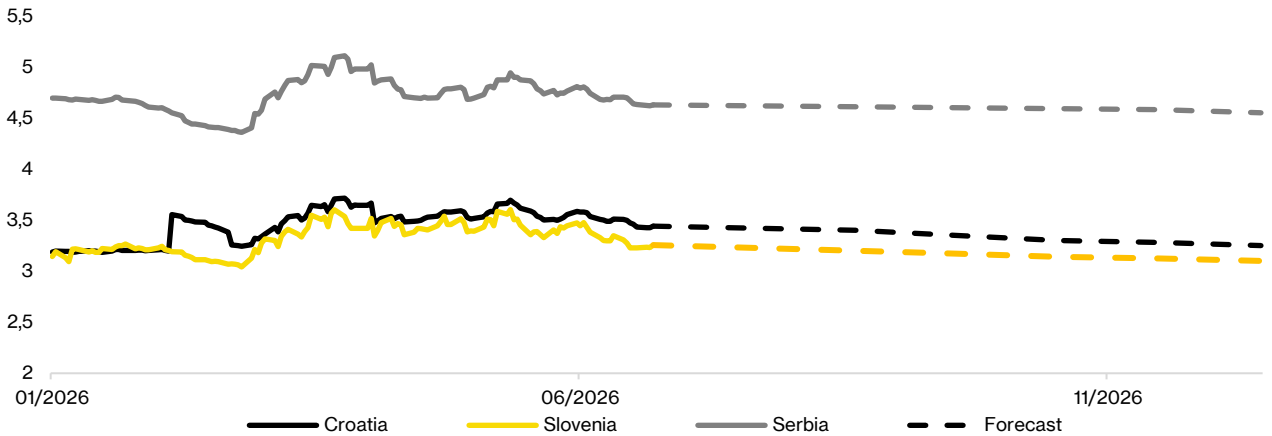
We remain bullish on most of the regional indices, with cautious stance on the BIRS and BELEX indices.

Regional bond yields in focus

Looking ahead, **the outlook for government bond markets across the Adria region will largely depend on the path of inflation and, consequently, the direction of monetary policy**. Assuming inflation continues to moderate over the coming quarters, we expect a gradual decline in Adria bond yields from current levels, although the scope for further compression is likely to remain limited to around 10–20 basis points. Such a scenario is contingent on a continued normalisation in energy prices, particularly oil, as a sustained escalation of geopolitical tensions in the Middle East would pose upside risks to inflation and delay any easing in financial conditions.

At present, the recent stabilisation in oil prices suggests that a gradual moderation in inflation remains the more likely outcome. Under this scenario, both the ECB and the Federal Reserve would have greater room to adopt a less hawkish policy stance, reducing upward pressure on long-term yields. While volatility is likely to remain elevated given ongoing geopolitical uncertainty, the balance of risks points towards a modest decline in regional sovereign yields rather than a continuation of the sharp upward repricing witnessed during the first half of the year.

Regional bond yields (%)



Source: BBA Analytics, Bloomberg

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