

Fundamentals

March, 2026

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Local Markets: Yield, Risk, Resilience

As we look toward 2026, the Maltese financial landscape presents a compelling picture of economic resilience. The macroeconomic backdrop remains supportive, with real GDP growth projected to stabilise at 3.7% for the year. This performance, which continues to outpace the broader Eurozone average, is underpinned by robust private consumption and a strong tourism sector. With inflation forecast to settle near 2.3% for 2026, the economy offers a predictable foundation for investors. However, beneath these steady headline numbers lies a complex capital market environment characterized by significant technical challenges that demand a hands-on investment approach.

In 2026, the local fixed income market will be characterised by a "maturity wall". Over €300 million in corporate bonds are set to mature this year, creating significant supply for the market to absorb. This wave of redemptions coincides with funding requirements from the government to cover refinancing and fiscal deficits, with over €860m of Malta Government Stocks maturing this year. This heavy supply of sovereign paper is likely to keep yields elevated and attractive relative to European benchmarks, but it also crowds out liquidity for corporate issuers. Consequently, a sharp divergence is emerging between high-quality corporate issuers, who will easily refinance their debt, and weaker companies that may face struggles. In this environment, active credit selection allows for the avoidance of potential distress while capturing higher yields from secure issuers.

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On the equity side, the narrative for 2026 is shifting towards capital efficiency and shareholder returns. The banking, tourism and telecommunication sectors remains a pillar of strength. However, the defining theme for the year is the increasing use of share buyback programs by major listed companies.

For investors, this signals an evolution of Maltese corporate governance, moving beyond simple dividend payouts to more comprehensive total return strategies

These programs provide a vital technical support level for share prices. For investors, this signals an evolution of Maltese corporate governance, moving beyond simple dividend payouts to more comprehensive total return strategies.

The Maltese equity and corporate bond market show a notable concentration in real estate-related issuers, which can increase sector-specific risk and reduce diversification. This exposure must be closely monitored to ensure financial stability and investor protection. The divergence between winning and losing issuers means that capital preservation and growth will depend heavily on professional selection. ●

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UCITS VI: For Funds and Investors

The EU's latest update to its flagship retail funds regime—popularly dubbed UCITS VI—arrives through Directive (EU) 2024/927, which amends the UCITS Directive to align more closely with AIFMD in areas such as delegation, liquidity management, supervisory reporting, and depositary oversight. Most provisions must be transposed by early 2026, with the new reporting framework applying from the first quarter of 2027. For existing UCITS and their investors, the package is evolutionary rather than revolutionary, but it will reshape governance, liquidity practices, disclosures and, potentially, portfolio construction.

A central thrust of UCITS VI is governance and substance. Management companies must be able to objectively justify their entire delegation structure, documenting who does what, where, and with what resources—mirroring long-standing AIFMD expectations. In addition, UCITS VI puts on a legislative footing the requirement that at least two EU-domiciled full-time employees effectively conduct the business and directs firms to detail human and technical infrastructure in their programs of activity, including how they comply with SFDR obligations. These elements had already been embedded in several national regimes, notably Luxembourg and Ireland, but are now harmonized at EU level. For existing UCITS, this means more formalization and potential operating cost uplift; for investors, it reduces operational and oversight risk by curbing “letter-box” models.

From 2027, UCITS management companies will need to submit standardized reporting covering instruments traded, market memberships, exposures and assets, liquidity management arrangements and tools selected, current risk profile, stress-testing outcomes, and details of delegation.

This is designed to create parity with AIFMs and to improve supervisory convergence across the EU. Existing UCITS should expect upgraded data architecture and controls; investors benefit indirectly from stronger oversight and richer disclosures that typically accompany such reporting regimes.

If there is one area where the reforms will touch day-to-day fund operations most visibly, it is liquidity risk management

If there is one area where the reforms will touch day-to-day fund operations most visibly, it is liquidity risk management. UCITS must select at least two appropriate liquidity management tools from a harmonized menu and set detailed activation/deactivation procedures. Some jurisdictions that previously required prior regulator consent to limit redemptions will shift to a regime where UCITS managers can act more swiftly in extraordinary conditions, while still notifying authorities. For investors, this improves the fund's ability to protect remaining investors during stress events, but it also means investors should carefully read fund documentation to understand which liquidity management tools may be used and under what circumstances.

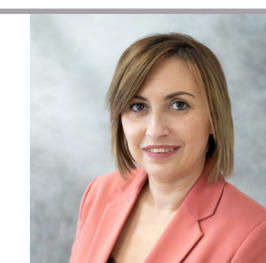
Although not yet binding law, ESMA's technical advice on the UCITS Eligible Assets Directive (EAD) proposes applying a look-through to at least 90% of a UCITS portfolio, ensuring exposures are ultimately backed by UCITS-eligible assets.

A revised “trash bucket” would still allow up to 10% indirect exposure to non-eligible assets, subject to stringent liquidity and valuation tests. If adopted, this could require meaningful portfolio re-engineering for UCITS with structured or index-based strategies.

UCITS VI also tightens depositary and custody expectations and further harmonizes them with AIFMD, reinforcing liability for safekeeping failures and sharpening oversight obligations. In parallel, structures such as white-label “fund hotels” will face more granular conflict-of-interest frameworks and scrutiny to ensure the appointed manager is not a de-facto letter-box entity. Finally, UCITS fund names are explicitly treated as pre-contractual information, and must be fair, clear and not misleading—an area where ESMA is expected to issue guidance, dovetailing with broader EU efforts on product fairness and ESG claims. For investors, these measures should reduce mis-selling risks.

The amending directive entered into force in March 2024, and member states have roughly two years to transpose, targeting April 2026 for most changes, with reporting live from the first quarter of 2027. Cross-border and EEA/EFTA contexts may see uneven pacing, so companies managing funds across jurisdictions will need careful sequencing. For investors in existing UCITS, one should expect prospectus and KID updates, re-papered delegation and liquidity policies, possible tweaks to fee structures reflecting new operational burdens, and, in some strategies, measured portfolio rotations to accommodate any eventual eligible asset changes.

UCITS VI strengthens the plumbing of Europe's most successful retail fund regime. The near-term effects include heavier compliance lifts and documentation refreshes, along with clearer and more agile liquidity playbooks. The medium-term prize is greater resilience, transparency and investor protection. If ESMA's EAD proposals advance, some UCITS will recalibrate exposures to remain firmly within the spirit of eligible-asset rules. Investors, in turn, should gain from improved clarity on what they own, how their fund can respond in stress, and who is truly accountable for managing their savings. ●



Avalon Abela
Lead, Compliance, BOV Asset Management

A Year of Solid Performance for the BOV Asset Management Funds

Year 2025 was an exceptionally volatile for investors, characterized by sharp market swings and elevated uncertainty; yet despite this turbulence, both global equity and fixed-income asset classes delivered positive returns over the period.

The resilient market backdrop was mirrored in the performance of the Funds managed by BOV Asset Management (BOV AM), with positive outcomes across all fund strategies.

Among the standout performers was the Vilhena Global Themed Fund – USD Share Class, which achieved a positive return of 18.40% for 2025. The Fund is classified within the growth category, with its performance supported by a research driven selection of thematic and growth-focused underlying equities.

The Vilhena European Multi-Manager Fund also delivered a strong return of 15.54% for the year 2025. The Fund invests in a diversified pool of managed funds operated by European fund houses, with a sector-focused strategy.

Adopting the same multi-manager strategy, the Vilhena US Multi-Manager Fund – USD Share Class invests across the United States and recorded a return of 15.53%.

All BOV Investment Funds performed positively in 2025. The BOV Growth Portfolio Fund, the BOV Balanced Portfolio Fund and the BOV Conservative Portfolio Fund recorded returns of 13.24%, 9.27% and 5.65% respectively.

The BOV Investment Funds suite comprises three distinct investment propositions, each tailored to match an investor's objectives and risk appetite throughout the various stages of their financial lifecycle.

Among the standout performers was the Vilhena Global Themed Fund – USD Share Class, which achieved a positive return of 18.40% for 2025

Income oriented strategies performed well in 2025, as the Vilhena Sterling Income Fund recorded a 5.42% return, while the Vilhena High Yield Fund delivered a 4.88% return. Both funds cater to investors who prioritise income generation as part of their investment strategy.

BOV Asset Management is the asset management arm of Bank of Valletta (BOV). BOVAM currently manages over one billion euros of assets under management, ranging from international and domestic UCITS funds and bespoke institutional mandates. ●

**Performance figures period from 31st December 2024 to 31st December 2025 for the Vilhena Funds and 27th December 2024 to 29th December 2025 for the BOV Investment Funds. Source: BOV Asset Management*

Fund Performances 2025

↑ Global Themed Fund - USD 18.40%	↑ European Multi-Manager Fund 16.54%
↑ US Multi-Manager Fund - USD 14.53%	↑ BOV Growth Portfolio Fund 13.24%
↑ BOV Balanced Portfolio Fund 9.27%	↑ BOV Conservative Portfolio 5.65%
↑ Sterling Income Fund 5.42%	↑ High Yield Fund 4.88%
↑ Maltese Opportunities Fund 2.19%	↑ Malta Fund 1.82%
↑ Euro Income Fund 1.40%	↑ Malta Bond Fund 0.45%



Tara Borg
Manager, BOV Asset Management

BOV Asset Management Hosts Strategic Seminar at Trident House



BOV Asset Management recently held a comprehensive seminar at Trident House in Mriehel, bringing together leadership, portfolio managers, and industry experts to review the company's 2025 performance and outline priorities for 2026. The session provided a detailed look at market developments, fund performance, and the strategic direction shaping the year ahead.

The seminar opened with remarks from Mr Geoffrey Ghigo, Head of Personal Banking Channels, who highlighted the Bank's robust performance over the past year. He noted that 2025 marked the Bank's best results in nine years, driven by disciplined execution and strong teamwork across all channels. Mr Ghigo underscored that the client remains at the centre of every strategic decision. The Bank is entering a period of accelerated transformation by BOV is refining its operating and branch model to enhance client experience.

Market Outlook

The BOV AM Portfolio Management team delivered an in depth review of global market trends in 2025 and expectations for 2026.

Equities: Strong Yet Volatile

Equity markets delivered a third consecutive year of strong returns, despite heightened volatility. Key drivers included:

Structural shifts linked to AI, which boosted optimism but increased valuation sensitivity

Trade tensions and political surprises early in the year

A decisive Q4 rally triggered by Federal Reserve rate cuts and resilient global growth

Looking ahead, the equity environment remains constructive, though high valuations mean markets are increasingly dependent on continued AI driven growth—an area that may introduce further volatility.

Fixed Income: A Year of Recovery

- Fixed income markets also performed strongly, supported by easing monetary policy:

- German 10 year bund yields reached 2.85%, signalling ECB stability

- Credit markets outperformed sovereigns, with spreads tightening to historic lows

- Segment performance included:

- European Investment Grade: +0.35% (Q4), +3.14% (2025)
- Global High Yield: +2.24% (Q4), +12.06% (2025)

Inflation moderated across major economies, with the ECB projecting Eurozone inflation to stabilise between 1.8% and 2.0% through 2028.

AI Insights

Professor Alexei Dingli delivered a thought provoking session on the realities and misconceptions surrounding artificial intelligence. His key messages included:

- AI continues to learn, but its outputs must always be verified
- AI systems are designed to satisfy users, not validate accuracy
- China is rapidly advancing in AI, challenging US dominance
- Different models have different strengths—ChatGPT represents only a small part of the AI ecosystem
- AI can produce incorrect information with confidence, making user validation essential

His session reinforced the importance of responsible and informed AI usage.

The team highlighted several factors to monitor:

- Elevated valuations
- AI related volatility
- Central bank policy shifts
- Geopolitical risks

Even so, moderating inflation, supportive monetary policy, and solid fundamentals provide a strong foundation for the year ahead.

The team also reviewed the performance of BOVAM's fund range—including foreign equity, fixed income, local funds, and BOV Investment Funds—showing exceptional results across categories.



Mr Peter Paul Cilia, Head of BOV Asset Management provided an update on the BOV AM product suite, noting growth compared to previous years. In his closing address, Mr Simon Azzopardi, Chief Wealth & Personal Officer, stressed the importance of sustaining momentum and preparing for a transformative year. He stated that BOV remains a trusted institution, reflected in rising customer numbers and improved profitability. He also reiterated that BOV AM's actively managed Investment Funds continue to offer clients peace of mind.



Therese Azzopardi
Manager, BOV Asset Management

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5.96% annualised Income
Yield as at 2nd February 2026



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