

Global Asset Allocation: The View From Europe

February 2026

Outlook

- We modestly increased the overweight to global risk assets, funded from cash. Though valuations are extended, earnings momentum and economic growth remain favourable, underpinned by still-accommodative fiscal policies across most regions.
- US economic growth remains resilient, fuelled by artificial intelligence (AI)-driven capital spending and supportive fiscal policy, although the labour market data continue to reflect a softening.
- Markets outside the US continue to benefit from improving fundamentals, supported by fiscal spending, notably in Europe and Japan.
- Key risks to global markets include any threat to AI-driven growth, sticky inflation, a sharper-than-expected deterioration in labour markets, shifting policy expectations and persistent geopolitical tensions.

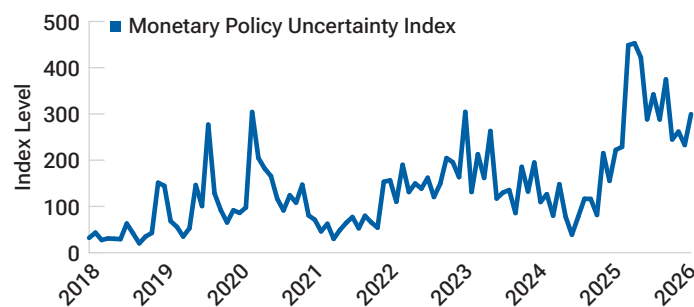
Themes driving positioning

A surprising Fed nomination

The nomination of Kevin Warsh as Federal Reserve chair has introduced fresh uncertainty into an already delicate monetary policy backdrop. Markets initially recoiled on the news, seeing Warsh as more hawkish given his past criticism of quantitative easing and the zero interest rate policy adopted after the global financial crisis. Given the ongoing pressure from the administration to lower rates, Warsh seemed like an odd choice, given he was perceived to be the most hawkish amongst the potential candidates. And whilst he may have had hawkish views in the past, his recent comments on deflationary impacts of artificial intelligence (AI)-related productivity and tariffs being a one-time hit to inflation suggest a more dovish view. However, those softening inflation views could be challenged as fiscal policy tailwinds begin to hit what appears to be an already resilient economy. With this still clouded backdrop and even more division expected among the Federal Open Market Committee, we think the new Fed chair may surprise the market.

Fed up with the uncertainty¹

As of 31 January 2026



Past performance is not a guarantee or a reliable indicator of future results.

¹ Source: Bloomberg L.P. The data are represented by the US Categorical Economic Policy Uncertainty Monetary Policy Index.

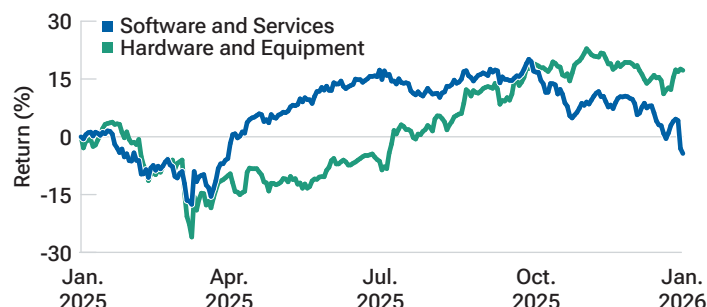
² Sources: Bloomberg L.P. and S&P. Please see Additional Disclosures for more information. Both datasets represent subsectors of the S&P 500 Index.

Resistance

Despite still broadly positive AI-related news, market sentiment has turned more cautious. Large-scale capex commitments to fund AI growth that had been cheered last year are now being met with greater scepticism as investors question the return on investment. Whilst the AI theme has broadened to support different parts of the market, other sectors that might be disrupted by AI—notably software companies—have found themselves in the crosshairs. The sector has been hit by fears that AI technology could displace software services and data analytics firms, with companies potentially developing their own in-house solutions using AI. The combined concerns over AI spending and potential disruption have pressured the technology sector, leaving it trailing most sectors of the market. As valuations continue to reset, we would expect investors to reengage given the still powerful growth potential for AI. However, perhaps we've reached a healthy point of resistance where investors are becoming more selective in distinguishing potential winners and losers.

Getting picky²

As of 31 January 2026



Asset class positioning

Equities



- We increased the overweight to equities, reflecting a balanced view between decent fundamentals, including fiscal support and potential for deregulation against expensive valuations.
- We continued to increase our overweight to small-caps given reasonable valuations, a constructive earnings outlook, falling interest rates and tailwinds from deregulation as well as mergers and acquisitions (M&A)/initial public offerings (IPOs).

Fixed income



- We maintain an underweight to bonds as inflation and funding requirements associated with Eurozone and US fiscal stimulus and continued deficits could keep upward pressure on rates, particularly at the long end.
- We increased the overweight position in emerging market bonds as fundamentals continue to improve, supported by easing financial conditions associated with a weaker US dollar (USD), funded from global high yield.

Cash



- While we reduced the overweight position in cash, we maintain it due to reasonable yields and limited duration risk.
- The sector offers liquidity to take advantage of opportunities amidst market dislocations.

Equity market views

Underweight Neutral Overweight					▼ or ▲ Month-Over-Month Change
Change					
Regions					
US	U				Valuations remain stretched as hyperscaler capex pressures sentiment, yet AI infrastructure demand supports earnings breadth. Labour market weakness and persistent inflation remain concerns.
Europe ex-UK		N			Benefitting from fiscal support, easing inflation and improving global growth backdrop. Cyclical and financials remain notable areas of strength as sentiment improves.
UK			O		Valuations are attractive, and evidence of cyclical improvement is emerging. Fiscal constraints and labour market softness remain headwinds, but the Bank of England is moving towards a cutting bias.
Japan			O		Equity strength has been driven by global growth acceleration combined with a high likelihood of fiscal stimulus following the election's results. However, monetary policy is expected to tighten further.
Australia	U				Following underperformance over the last year, valuations are relatively attractive, and natural resources demand is trending higher. However, monetary policy could remain a headwind.
Emerging Markets (EM)			O		Accelerating global growth, stable currencies, improving policy and AI infrastructure demand provide multiple tailwinds.
China		N			Policy support and improving activity aid sentiment, though weak labour markets, property stress and subdued domestic demand persist.
Style and Market Capitalisation					
Global Growth vs. Value ¹			O		Mega-cap tech underlying fundamentals remain strong, but growing capex budgets are facing heavier scrutiny. Extended valuations make risk/reward less attractive. The economic growth outlook for 2026 is supported by deregulation, fiscal policy, reshoring and potential Fed cuts. However, thus far, strength has been largely limited to AI infrastructure build-out.
Global Small-Cap vs. Large-Cap ¹	▲			O	Small-cap earnings are improving sharply due to lower rates, deregulation, fiscal stimulus and broadening AI benefits. Stronger M&A and IPO activity could lead to improving valuations. Very strong and improving fundamentals, particularly within technology, have justified valuations thus far. However, rising hyperscaler capex is coinciding with mounting competitive risks.

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These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.

¹ For pairwise decisions in style and market capitalisation, positioning within boxes represents positioning in the first-mentioned asset class relative to the second asset class.

Fixed income market views

Underweight Neutral Overweight					▼ or ▲ Month-Over-Month Change
Change					
Euro Government Bonds	U				Large issuance, partially because of German fiscal stimulus, is expected to put upward pressure on yields. Euro government bonds tend to react to US Treasuries, on which we maintain a negative view, expecting that euro government bonds will participate in any US Treasury-driven sell-off.
Euro Inflation Linked			N		Euro-area inflation fell further below the European Central Bank's 2% goal in January. We expect inflation to continue to ease in 2026 due to a weaker US dollar, lower oil prices and goods deflation. Tensions in the Middle East pose a risk due to the potential impact on oil prices.
Euro Investment-Grade (IG) Corporates			N		Credit fundamentals are still supportive, with spreads expensive.
US IG Aggregate	U				Concerns around sticky inflation and fiscal deficits could keep upward pressure on long-end yields, with limited recession risk.
Global High Yield ▼				O	Tight spreads may limit further potential upside, but the sector continues to offer a healthy yield, measured default expectations and a low duration profile.
EM Dollar Sovereigns				O	Attractive yields and regional improvements are supportive, though higher US rates could weigh given the sector's longer-duration profile.
EM Local Currency				O	Compelling yields combined with improving growth environment and expectations for a weaker US dollar point to a favourable outlook.
EM Corporates				O	The sector offers a shorter duration than that of EM dollar sovereigns. Spreads are tight, but total yields remain attractive relative to some other fixed income sectors.
Currency Market Views					
EUR vs. USD			N		The dollar has already depreciated against the euro so far this year because of unresolved tariff issues, questions about the Fed independence and the US federal budget deficit. A robust US jobs report can support a dollar firming, although the dollar remains under pressure over the medium term. The interest rate differential continues to support the dollar.
EUR vs. JPY			N		The yen is a safe-haven currency. Prime Minister Takaichi's fiscal policies will either leave the Bank of Japan (BoJ) further behind the curve or require it to hike more than markets expect. Current yen valuations are attractive. However, given recent yen volatility and uncertainty about BoJ policy, we remain neutral.

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