

Global Asset Allocation: The View From Europe

March 2026

Outlook

- Ongoing geopolitical conflict and a more pronounced energy supply shock leading to higher inflation and rates could challenge risk assets, with valuations remaining somewhat elevated.
- While recent developments in the Middle East pose risks to inflation and growth, earnings momentum and economic growth still remain favourable, underpinned by accommodative fiscal policies across many regions.
- US economic growth continues to show resilience driven by artificial intelligence (AI)-driven capital expenditures (capex) spending, consumer spending, and supportive fiscal policy, although weakness in the labour market warrants monitoring.
- Markets outside the US continue to benefit from firmer domestic demand and policy, particularly in Europe and Japan.
- Key risks to global markets include escalating geopolitical tensions, a resurgence in inflation, reliance on AI-driven growth, further deterioration in labour markets, and a widening of liquidity concerns within private credit.

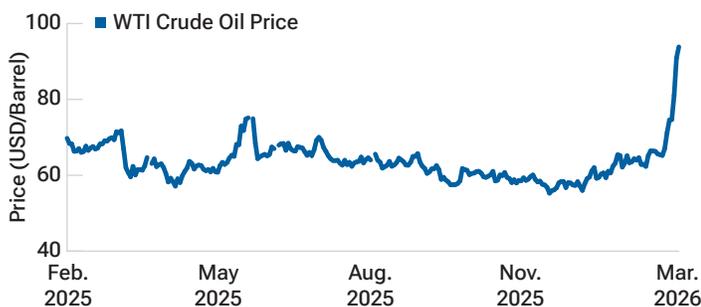
Themes driving positioning

Drumbeat

Equity markets have been rallying around expectations of stronger economic and earnings growth supported by fiscal spending this year. However, there has been an increasing drumbeat of negative headlines that may challenge that outlook. The latest being the US and Israeli attack on Iran, which has led to a spike in energy prices, with no clear end in sight. This comes on the heels of rising concerns over AI, including the disruptive impacts on some business models and the magnitude and ultimate payoff of AI capex spending. There has also been a notable rise in headlines surrounding private credit market liquidity and exposures to some vulnerable sectors of the market. And while we don't see any of these leading to a systemic risk today, the culmination, particularly as we move closer to midterm elections and new leadership at the Fed, could lead to much louder drumbeats. For now, we maintain hedges to some of these risks, particularly inflation, and will look to market volatility for opportunities given our still constructive view.

The hits keep coming¹

As of 9 March 2026

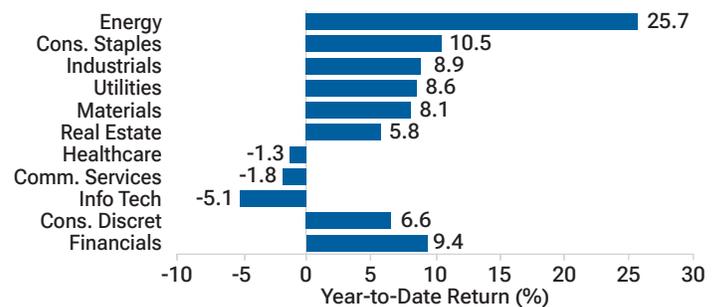


Heavy metal

Markets have seen a notable shift in performance toward 'asset-heavy' sectors, with the likes of natural resources, energy, utilities, and defence companies coming into vogue. Over recent weeks, investors have become increasingly concerned over the prospects for AI displacing certain business models, including software development and asset management companies. And while the concerns initially sent investors into more asset-heavy sectors presumed to be less vulnerable to AI disruption, many of these companies are actually seeing improving fundamentals. The expansion of AI and related infrastructure build is raising demand for energy, metals, and materials, and global fiscal spending should also provide a boost. Notable changes to tax policy now allowing for accelerated expensing of capex could also drive increased demand within these sectors. So, while asset-lite companies, many of which are tech-related, have been the darlings for years, markets may be tuning into a new genre, with 'heavy metals' making a comeback.

Heavy hitters topping the charts²

As of 28 February 2026



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

Cons. Staples = Consumer Staples, Comm. Services = Communications Services, Cons. Discret = Consumer Discretionary.

¹ Sources: Bloomberg L.P. and S&P. Please see additional disclosures for more information.

² Source: Bloomberg L.P. and S&P. The chart references S&P 500 GICS sectors.

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Asset class positioning

Equities



- We remain modestly overweight on equities reflecting a balanced view between decent fundamentals, including fiscal support, and the lagged impact of Fed rate cuts against expensive valuations and ongoing geopolitical tensions.
- We maintain our overweight to small-caps given reasonable valuations, coupled with a supportive environment reflected in constructive earnings outlook, falling interest rates, and tailwinds from deregulation.

Fixed income



- We maintain our short duration position, reflected in underweights to euro government bonds, as well as US high-quality bonds, and overweights to high yield and cash.
- We also have an emphasis on inflation sensitivity reflected in overweight positions in equities and high yield, as well as a strategic allocation to inflation-linked bonds.

Cash



- Though we still find cash yield levels reasonably attractive, we have moderated the overweight position, adding some exposure to equities.

Equity market views

	Underweight	Neutral	Overweight	
Change				▼ or ▲ Month-Over-Month Change
<i>Regions</i>				
US	U			Valuations remain stretched as hyperscaler capex pressures sentiment, yet AI infrastructure demand supports earnings breadth. Higher oil prices add to inflation uncertainty.
Europe ex-UK ▲			O	Fiscal support and improving growth support cyclicals and financials, though higher energy prices and liquefied natural gas supply risks are increasing uncertainty.
UK			O	Valuations remain attractive and cyclical improvement is emerging. However, fiscal constraints, labour market softness, and energy price risks remain headwinds.
Japan			O	Equity strength has been supported by improving global growth and fiscal stimulus prospects, though higher energy costs and tighter policy may temper momentum.
Australia	U			Attractive valuations and stronger resource demand provide support, though higher energy prices and restrictive policy may limit upside.
Emerging Markets (EM)			O	Global growth momentum and stable currencies remain supportive, though higher oil prices and energy import exposure are significant near-term concerns.
China		N		Policy support and improving activity aid sentiment, though weak labour markets, property stress, and higher energy costs weigh on demand.
<i>Style and Market Capitalisation</i>				
Global Growth vs. Value ¹			O	Mega-cap tech facing a more challenging period due to increased competition and capital intensity. However, underlying fundamentals remain strong. The economic growth outlook for 2026 is supported by deregulation, fiscal policy, reshoring and potential Fed cuts. However, valuation has moved ahead of fundamentals.
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. Upswing in manufacturing activity is also supportive. Strong fundamentals, particularly within AI infrastructure beneficiaries have justified valuations thus far. However, rising 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

Change	Underweight Neutral Overweight					▼ or ▲ Month-Over-Month Change
	U	N	O			
Euro Government Bonds	U					The spike in energy prices is likely to be exacerbated as a result of fairly tight labour markets and German fiscal expansion. The European Central Bank (ECB) is likely to react in a hawkish manner and hike rates.
Euro Inflation Linked		N				The war in the Middle East introduces uncertainty about the direction of inflation because of its impact on energy prices and fears of an inflationary shock.
Euro Investment-Grade (IG) Corporates		N				Credit fundamentals are still supportive, with spreads expensive and geopolitical uncertainty potentially weighing on the asset class.
US IG Aggregate	U					Resilient growth amid sticky inflation places upward pressure on rates. Credit fundamentals are still supportive, with spreads expensive relative to history.
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 and geopolitical uncertainty could weigh on the asset class.
EM Local Currency				O		Compelling yields combined with expectations for a weaker US dollar and lower rate volatility 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 ▲				O		We move to a positive position on the euro given current valuations, German fiscal expansion and a likely hawkish ECB. One risk to our position is an escalation of the war in Iran and continued flight-to-quality to the US dollar.
EUR vs. JPY		N				We remain neutral on the yen. Being considered a safe-haven currency can support it during a period of heightened geopolitical uncertainty.

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