T. Rowe Price

Global Asset Allocation: The View From the UK

January 2026

Outlook

- We maintain a modest overweight position across global risk assets. Despite extended valuations, earnings trends and economic growth remain favourable, with the latter supported by fiscal and monetary policies across most regions.
- US economic growth remains resilient fuelled by artificial intelligence (AI)-driven capital spending and supportive fiscal and monetary policies, although the softening labour market warrants monitoring.
- Markets outside the US are supported by fiscal spending (notably in Europe and Japan), lower inflation (notably in the UK over the medium term) and moderating trade risks.
- Key risks to global markets include narrowness of AI trends supporting earnings, economic growth and markets, sticky inflation, potential for quickening labour market declines and ongoing geopolitical tensions.

Themes driving positioning

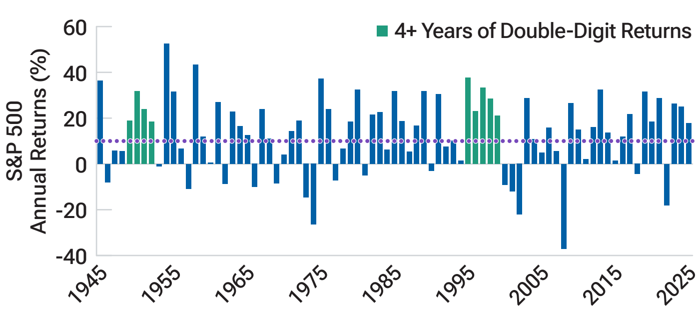
Four-peat?

The US equity bull market is now entering its fourth year, having put up double-digit returns in each of the past three, leaving investors wondering whether it can keep the streak alive. While multiyear stretches of positive equity market returns are common, delivering double-digit returns four years in a row is rare. The naysayers point to elevated valuations, narrowness of the market, uncertainty around Fed policy amid leadership change, a softening labour market and US midterm election risk. Yet history has shown bull markets don't die of old age alone, and while valuations are elevated, they're below prior cycle extremes. Bulls can also point to still robust earnings expectations, a broadening of artificial intelligence (AI) beneficiaries, fiscal support, increased capex spending, deregulation, rising mergers and acquisitions (M&A) activity and easing trade tensions. With the risks reasonably balanced and momentum still intact, the path of least resistance for the equity market may continue to be higher for now. The question is: Can it reach double digits for the four-peat?

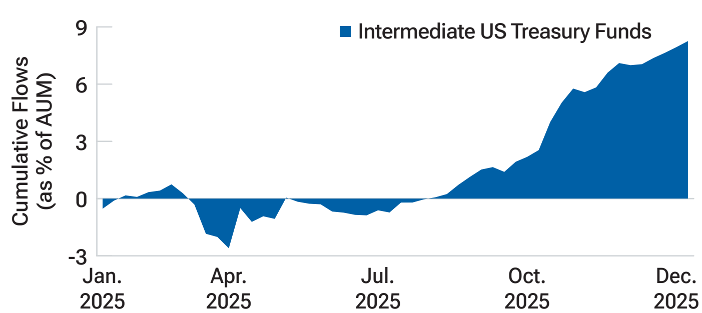
That was then, this is now

The US bond market delivered surprisingly strong performance last year, ending up more than 7%. US investors with overseas bond exposure fared even better, gaining close to 9% thanks to a weaker US dollar. While many investors had expected higher inflation—driven by tariffs and global fiscal spending plans to pressure bonds—yields ultimately ended the year lower. Fed easing in the latter part of the year—in response to softer labour market data and easing inflation—helped cement a winning year for bonds. Demand also contributed as investors finally moved from cash into short and intermediate parts of the yield curve. As we start this year, risks to the bond market appear tilted to the downside once again, with upward pressure on rates from still above target inflation, strong growth supported by fiscal spending and a flood of supply expected from sovereigns as well as corporations funding AI spending. The added uncertainty around monetary policy under a new Fed chair may also bring with it much higher volatility, leaving bond investors wishing they were back in 2025.

Shooting for double digits[1]
As of 31 December 2025



Moving out[2]
As of 31 December 2025



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

[1] Sources: Bloomberg L.P. and S&P. Please see additional disclosures for more information. The dotted line represents the double-digit threshold (10%).
[2] Source: EPFR Fund Flows and Allocation Data.

Asset class positioning

Equities

- We remain modestly overweight to equities, reflecting a balanced view between decent fundamentals, including fiscal support and potential for deregulation, against expensive valuations.
- We keep an underweight to the US and overweight to the UK, Japan and emerging markets because of less stretched valuations and expectations for a market broadening beyond US mega-cap technology-focused companies.
- We remain overweight to small-caps given reasonable valuations and a supportive environment reflected in a constructive earnings outlook, lower interest rates and tailwinds from deregulation as well as M&A and initial public offerings (IPOs).

Fixed income

- We maintain an underweight to bonds as inflation and funding requirements associated with fiscal stimulus and continued deficits could keep upward pressure on rates, particularly at the long end.
- We have a short duration position reflected in an underweight to gilts, and overweights to high yield and cash.

Cash

- We continue to maintain an overweight position in cash due to reasonable yields and limited duration risk.
- The sector offers liquidity to take advantage of opportunities amid market dislocations.

Equity market views

▼ or ▲ Month-Over-Month Change

Change	*Underweight*		*Neutral*	*Overweight*		
			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			Valuations are reasonable and the economic outlook is improving due to German fiscal stimulus. Financials offers a particularly attractive sector.
UK				O		Valuations are attractive, and the longer-term earnings growth outlook is healthy. However, budget concerns remain a significant headwind, and the inflation outlook remains volatile.
Japan				O		Governance progress and steady policy backdrop aid sentiment, though valuations and tighter monetary policy could temper near-term upside.
Australia		U				Economic and earnings growth remain modest, while monetary policy is unlikely to provide support over the near term.
Emerging Markets (EM)				O		Stable currencies, improving policy and strong AI infrastructure demand support EM equities—but weak global demand and inflationary concerns pose risks.
China			N			Government support and AI gains help stabilise sentiment, but labour weakness, property stress and credit uncertainty persist.
			Style and Market Capitalisation			
Global Growth vs. Value[1]				O		Expectations remain high for mega-cap tech as underlying fundamentals remain strong. However, extended valuations make risk/reward less attractive. The economic growth outlook for 2026 is supported by deregulation, fiscal policy, reshoring and Fed cuts. However, thus far, strength has been largely limited to AI infrastructure build-out.
Global Small-Cap vs. Large-Cap[1]				O		Fed cuts, deregulation, fiscal stimulus and stronger M&A and IPO activity could lead to improving small-cap earnings and—combined with favourable valuations—make the case for higher-quality small-cap companies. 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

▼ or ▲ Month-Over-Month Change

	Underweight		Neutral	Overweight		
Change						
UK Gilts	U					Inflation is likely to continue to come down in the medium term and the labour market may be weaker than expected, contributing further to disinflationary pressure and incentives for the Bank of England to eventually cut rates. However, gilt yields are close to the bottom of the recent trading range, and may rise in tandem with government bond yields worldwide.
UK Inflation Linked			N			A weak labour market should contribute to easing inflation in the medium term.
UK Investment-Grade (IG) Corporates			N			Credit fundamentals are supportive, with spreads expensive relative to history.
US IG Aggregate	U					Stable growth, sticky inflation and heavy issuance give the curve a steepening bias. Credit fundamentals are still supportive, with spreads rich relative to history.
European IG Aggregate	U					Large on-going issuance (still in the process of pricing) supports an underweight to euro government bonds. Economic activity and inflation surprised the European Central Bank to the upside, and its communications are becoming more hawkish. 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 selloff.
Global High Yield					O	Despite tight spreads, the sector continues to offer a healthy yield, measured default expectations and a low-duration profile.
EM Dollar Sovereigns				O		Yields are attractive, and many central banks have room to cut with lower inflation, although the potential for higher long-end US interest rates pose a headwind.
EM Local Currency				O		US dollar weakness has been a tailwind, and this is expected to continue; however, longer-term fiscal challenges from tariffs remain unclear.
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						
GBP vs. USD			N			The interest rate differential between the UK and the US is on par. The dollar may soften if US economic growth decelerates. However, US growth remains stronger than that in the UK.
GBP vs. EUR				O		The interest rate differential favours the GBP. The GBP is attractively valued relative to the EUR. However, the bar is lower for European data to surprise to the upside than for the UK. Essentially, we see German fiscal policy coming through. We also only need a slight improvement in the French political situation to push the EUR higher.
GBP vs. JPY			N			The yen is a safe-haven currency. Current valuations are attractive. However, given the recent volatility in the yen and uncertainty about Bank of Japan (BoJ) policy, we remain neutral.

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