

Global Asset Allocation: The View From Europe

April 2026

Outlook

- Continued conflict in the Middle East and energy supply shock threaten higher inflation and weaker growth, particularly in energy-import-dependent economies.
- Despite elevated risk to growth and inflation, 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), consumer spending, and supportive fiscal policy; however, weakness in the labour market warrants monitoring.
- Markets outside the US have been benefitting from firmer domestic demand, where fiscal initiatives and improving corporate profitability are supportive. However, sustained higher energy prices pose a risk, particularly in Europe.
- 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.

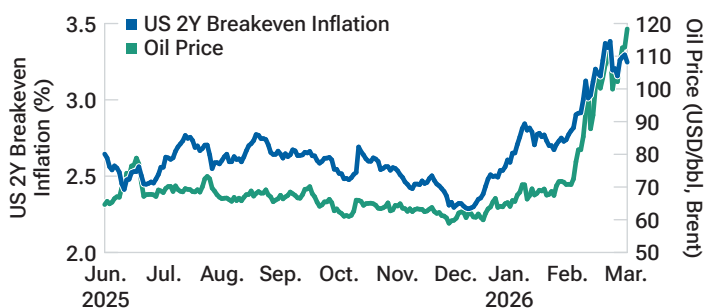
Themes driving positioning

War premium

While the recent truce has temporarily brought relief to energy prices, the conflict in Iran remains unresolved, with the parties still far apart on their demands. This is raising concerns over continued uncertainty, with further escalation not off the table. While energy-importing countries remain the most vulnerable, the US is not immune to the impacts, despite its energy independence. Higher global energy prices still filter into domestic costs, from fuel to transportation and beyond. And while the energy impacts could be fleeting with a durable end to the conflict, there are longer-term costs to be paid as seen in the recently proposed nearly 50% year-over-year increase of the 2027 US defence budget ask, with a large portion to fund the conflict in Iran. This comes on the back of increased fiscal spending related to the One Big Beautiful Bill, estimated to add nearly USD 4 trillion in debt, which had already raised concerns over US spending and inflation. While the timetable remains uncertain with the conflict, the combination of energy supply constraints and higher debt levels is bringing inflation concerns back to the forefront, having us lean into inflation hedges.

Crude awakening¹

As of 31 March 2026

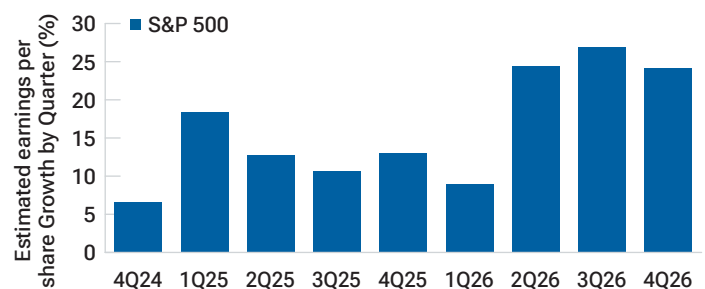


The stalwart

In the face of heightened geopolitical tensions in the Middle East, it has been surprising to see the relative resilience of most equity markets across the globe. Some suggest it reflects an optimistic view that the US–Israel war with Iran will be short-lived. But as the conflict drags on and the stakes rise, it is becoming a more uncertain bet. Where we are finding more certainty is in earnings resilience, continuing to prove a stalwart amid heightened geopolitical risk over recent years, with this year's earnings expectations accelerating from already strong levels supported by fiscal spending, capex, tax incentives, and AI-related broadening. Now with the earnings season about to kick off, investors will be eager to hear if the current risks are beginning to weigh on outlooks. But at least for now, earnings momentum seems to be helping underpin the market and supporting our view that broadening can continue, provided the conflict does not materially worsen.

Keeping hopes alive²

As of 31 March 2026



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

¹ Source: Bloomberg Finance L.P. Please see additional disclosures for more information.

² Sources: Factset and S&P. Quarterly figures represent year-over-year earnings comparisons.

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Asset class positioning

Equities



- We moderated the overweight to equities, reflecting a balanced view with a supportive earnings backdrop and fiscal support against expensive valuations and ongoing tensions in the Middle East.
- We also moderated the overweight to small-caps given reasonable valuations, coupled with a supportive environment reflected in a constructive earnings outlook, and tailwinds from deregulation.
- While remaining modestly overweight risk, we reduced both absolute and relative risk levels due to the uncertainty stemming from the conflict in the Middle East and its impact on global energy prices.

Fixed income



- We moderated our underweight to Euro government bonds and US investment grade bonds to add resilience to portfolios and to take some profits following the surge in yields. We remain underweight government bonds because of upward pressure on interest rates, given fiscal funding and inflation concerns.
- We reduced the overweight to emerging market (EM) debt, moving to neutral on both EM dollar sovereigns and EM corporates, to reduce the risk levels, especially as the duration of the conflict in the Middle East and its impact on energy prices remain uncertain.

Cash



- We increased the overweight to cash as we expect continued headwinds to fixed income due to continued upward pressure on bond yields because of higher energy prices and expansionary fiscal policy.
- Cash still provides attractive yields and liquidity to take advantage of market opportunities amid expected volatility.

Equity market views

Change	Underweight Neutral Overweight			▼ or ▲ Month-Over-Month Change
	Underweight	Neutral	Overweight	
<i>Regions</i>				
US	U			Valuations remain stretched as hyperscaler capex pressures sentiment, though AI demand supports earnings. If energy prices remain elevated, inflation and policy risks could rise.
Europe ex-UK ▼	U			Fiscal support and improving growth aid cyclicals and financials, though if energy prices stay elevated, liquefied natural gas supply risks could weigh on growth.
UK			O	Valuations remain attractive and cyclical improvement is emerging, though fiscal constraints persist. If energy prices rise further, stagflation risks increase.
Japan			O	Improving global growth and fiscal support aid equities, though if energy costs remain elevated, import pressures and tighter policy could weigh on momentum.
Australia	U			Attractive valuations and resource demand support equities, though if energy prices remain elevated, regional demand risks and policy constraints may weigh.
Emerging Markets (EM)			O	Global growth and stable currencies support equities, though if energy prices remain elevated, inflation and external pressures could increase.
China		N		Policy support and improving activity aid sentiment. Anti-involution efforts bode well for profit growth over the medium term. However, rising energy costs and structural housing market weakness will be headwinds.
<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 remains supported by fiscal policy, reshoring and capex. However, prospect for Fed cuts has weakened.
Global Small-Cap vs. Large-Cap ¹ ▼			O	Small-cap earnings are improving due to deregulation, fiscal stimulus and broadening AI benefits. Upswing in manufacturing activity is also supportive. Scrutiny over rising capex coinciding with mounting competitive risks. However, fundamentals remain strong especially among AI infrastructure spending beneficiaries.

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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

Asset Class	Change	Underweight Neutral Overweight			▼ or ▲ Month-Over-Month Change
		U	N	O	
Euro Government Bonds	▼	U			The spike in energy prices, a large rise in bond supply, the prospects of positive data surprises due to German fiscal policy expansion and a negative view on global bonds all support an underweight to euro government bonds. The European Central Bank (ECB) is expected to hike interest rates twice.
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 and rising inflation expectations placing 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	▼		N		Attractive yields, room for spread compression and improving fundamentals, though geopolitical uncertainty could weigh on sentiment.
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	▼		N		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 remain overweight 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 periods of heightened geopolitical uncertainty. Higher energy costs could push up inflation in Japan, in turn increasing the likelihood that the Bank of Japan would raise interest rates.

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