Global Asset Allocation: The View From Europe

June 2026

Outlook

- Despite heightened geopolitical tensions that continue to fuel inflation pressures and weigh on growth, markets have remained remarkably resilient.
- The global economy continues to be supported by fiscal spending and ongoing investment, particularly in artificial intelligence (AI) infrastructure, although growth is moderating and higher energy prices are creating additional headwinds.
- The monetary policy outlook has become increasingly complex as central banks, including the European Central Bank (ECB) and the Federal Reserve, balance persistent inflation pressures stemming from geopolitical conflict against signs of slowing economic activity and a soft labour market.
- Key risks include a further escalation of the conflict with Iran, a sustained rise in energy prices, greater reliance on a narrow set of growth drivers, and signs of deterioration in labour markets and private market liquidity.

Themes driving positioning

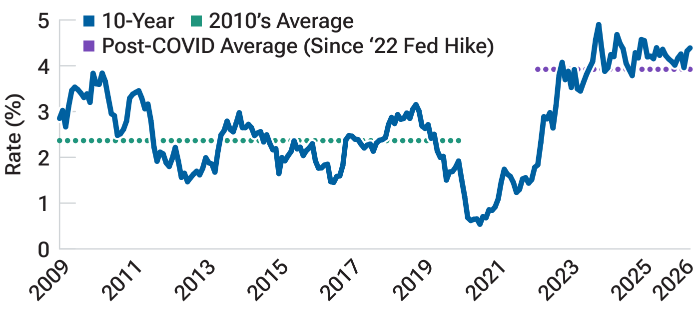
Higher-for-ever?

The Iran war and resulting energy shock have pushed oil prices higher, adding to input costs, headline inflation, and inflation expectations. As a result, global interest rates have moved higher and central banks, including the Federal Reserve, have become more cautious about easing policy. More concerning, however, is that even if the current energy shock eventually fades, several structural forces suggest that the floor for interest rates could remain higher than it was over the previous decade. The global economy is requiring greater investment, with spending needs rising across AI infrastructure, defence, energy security, and grid resilience. At the same time, persistent fiscal deficits and elevated debt issuance are likely to keep pressure on government bond markets. Longer-term yields also appear to reflect a higher term premium, as investors demand greater compensation for inflation volatility, fiscal uncertainty, and geopolitical risk. Taken together, these forces suggest that interest rates may remain structurally higher than many investors expect, supporting our shorter-duration stance.

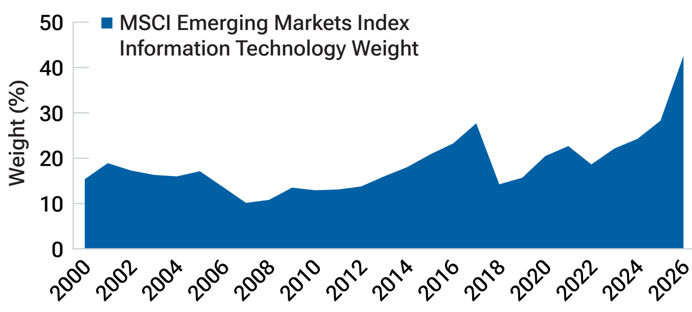
From commodities to code

The MSCI Emerging Markets Index has changed meaningfully, with technology rising from 24% of the benchmark at the end of 2024 to roughly 42% today, shifting the nature of emerging market (EM) equity exposure. Investors may still view EM as a play on regional economic growth, commodities, Chinese consumer demand, and global trade, but the asset class is increasingly tied to AI infrastructure, semiconductors, and digital platforms. This does not mean EM has become less cyclical; rather, the source of cyclicality has shifted. EM may now be more exposed to semiconductor cycles, hyperscaler capex, AI sentiment, and broader investor appetite for growth stocks. For cross-asset investors, EM allocations may be taking on more technology and growth exposure than many realise, bringing underappreciated concentration and correlation risks. However, this shift also improves EM's exposure to structural earnings growth, supporting our overweight to EM equities.

Leveling up[1]
As of 31 May 2026



Tech-ing over[2]
As of 31 May 2026



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

[1] '10-Year' represents the US Treasury 10-year bond. '2010's Average' represents the average US Treasury 10-Year month-end yield from 1 January 2010 through 31 December 2019. Source: Tullett Prebon Information via FactSet.
[2] Sources: FactSet and MSCI. Please see additional disclosures for more information.

Asset class positioning

Equities

Under **Weighting** Over

- We remain modestly overweight on equities reflecting a balanced view between decent fundamentals, including AI spending, a constructive earnings outlook and fiscal stimulus, against elevated valuations and the geopolitical backdrop.
- Within equities, we have recently trimmed our UK overweight, as the UK and Europe are relatively more sensitive to global energy markets, and shifted to a modest overweight to the US, which should be supported by its energy independence, AI spending, and fiscal policy. The US also tends to outperform during periods of market stress, should the geopolitical situation weigh on global equity markets.

Fixed income

Under **Weighting** Over

- We maintain a short duration profile through underweights to euro government bonds and US bonds, along with an overweight to high yield.
- We maintain a long position in global high yield and emerging market local currency as these asset classes offer attractive total yields.

Cash

Under **Weighting** Over

- Cash yield levels are reasonably attractive. We maintain an overweight position given our negative view on government bonds.
- Cash can be quickly deployed should there be an equity market correction, and we see it as a buying opportunity.

Equity market views

▼ or ▲ Month-Over-Month Change

	Change	*Underweight*		*Neutral*	*Overweight*		
				Regions			
US	▲				O		Valuations are elevated but supported by exceptionally strong earnings growth. AI infrastructure build-out remains the key driver. Inflation and monetary policy remain key sources of risk.
Europe ex-UK			U				Fiscal policy should continue to support economic growth, but elevated energy prices are likely to pose a significant headwind and push short-term rates higher.
UK					O		Valuations remain attractive and the longer-term earnings growth outlook is healthy. However, budget concerns, inflation, and political instability are headwinds.
Japan					O		Fiscal stimulus and a broadening capex cycle support earnings and investor confidence. However, tighter monetary policy and elevated energy prices could temper momentum.
Australia			U				Elevated commodity prices support earnings and exports, though restrictive policy, labour market softening, and slower domestic demand pose risks.
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 may support margins, though gains remain uneven. Housing weakness, soft demand, and sustained energy costs remain headwinds.
				Style and Market Capitalisation			
Global Growth vs. Value[1]					O		Tailwinds for growth are increasing due to the shift to agentic AI and earnings momentum. Looming initial public offerings and a Russell rebalance could further boost momentum and volatility. Value is supported by strength in energy and financials. However, Fed cuts are unlikely, and the duration of the Iran conflict could ultimately weigh on consumption.
Global Small-Cap vs. Large-Cap[1]					O		Small-cap momentum is currently driven by riskier companies primarily due to excitement over broadening AI benefits. Meanwhile, cyclical strength could be impacted by higher energy costs. For large-caps, fundamentals are strong and accelerating among AI infrastructure beneficiaries. However, valuations are stretched, and sentiment may be overly optimistic.

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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

	Change	*Underweight*		*Neutral*	*Overweight*		
Euro Government Bonds		U					The energy shock is likely to be exacerbated as a result of fairly tight labour markets, and German fiscal expansion. The economy, however, is likely to weaken. The ECB needs to balance the risks of higher inflation and weaker activity, and may hike at least twice over the next year in the base case scenario.
Euro Inflation Linked				N			Inflation expectations remain elevated due to energy price shocks, though they may not be fully reflected in breakevens.
Euro Investment-Grade (IG) Corporates				N			Rising inflation expectations for the ECB to hike interest rates keep upward pressure on rates. While credit fundamentals are still supportive, spreads, which are tight (expensive), may widen, driven by higher energy prices and rising inflation.
US IG Aggregate			U				Rising inflation expectations and a Fed on pause keep 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 is supported by healthy fundamentals, favourable sector exposures and low default expectations.
EM Dollar Sovereigns				N			Attractive yields and fundamentals are supportive, though the geopolitical backdrop could create a bifurcated environment.
EM Local Currency					O		Compelling yields combined with expectations for a weaker US dollar point to a favourable outlook. However, war in Iran could weigh on sentiment.
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	▼			N			We moved to neutral from overweight on the euro because of a risk of a prolonged conflict in Iran and continued flight-to-quality to the US dollar.
EUR vs. JPY				N			We remain neutral on the yen. Elevated energy costs could push up inflation in Japan, leading the Bank of Japan to adjust its monetary policy. As a safe-haven currency, the yen can find support during periods of heightened geopolitical uncertainty.

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