

Global Asset Allocation: The View From Europe

May 2026

Outlook

- Markets have remained largely resilient despite ongoing geopolitical tensions continuing to threaten higher inflation and weigh on growth, leading us to modestly trim European equities, because Europe may be more sensitive to global energy prices on a relative basis.
- The global economy continues to show pockets of resilience, supported by a steady consumer, fiscal spending, and ongoing investment, particularly in artificial intelligence (AI), though growth is moderating and becoming more uneven across regions.
- Monetary policy remains steady with central banks largely in a holding pattern as they assess the path of inflation, while near-term inflation pressures persist in some areas, longer-term expectations remain relatively contained.
- Key risks include a further escalation in geopolitical tensions, renewed inflationary pressures, greater reliance on a narrow set of growth drivers, potential labour market deterioration, and emerging liquidity concerns in parts of private markets.

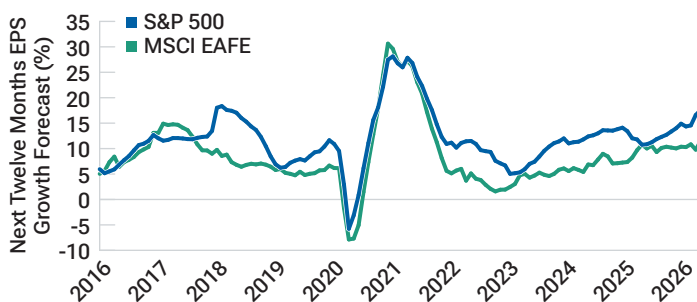
Themes driving positioning

America's market moat

We have neutralised our US equity underweight, as stronger earnings momentum, economic resilience reinforced by AI leadership, better energy insulation, and supportive fiscal policy improve the relative case. Earnings revisions are accelerating more quickly in the US, with earnings per share (EPS) growth expected to reach its strongest pace since the COVID-19 rebound. AI leadership remains US-centred, but its depth extends beyond semiconductor demand and into power generation, data centre construction, supporting infrastructure, and broader capital goods, strengthening the domestic capital spending backdrop. The US is also better insulated from a Strait of Hormuz shipping disruption, given its status as an energy exporter and lower risk of shortages relative to Europe, Australia, and parts of Asia. Fiscal policy, including measures under the 'One Big Beautiful Bill,' should continue to support domestic demand. While non-US equities benefit from cheaper valuations and increased defence spending, the US 'moat' of stronger earnings momentum, AI leadership, energy insulation, and policy support is increasingly compelling.

Earnings edge¹

As of 30 April 2026

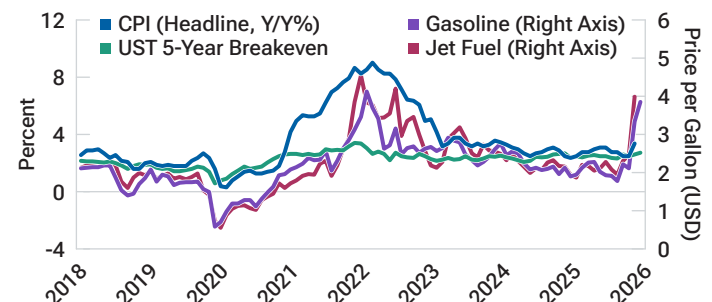


Blind spot

Inflation risks represent a potential market blind spot, given uncertainty around the persistence of the energy supply shock. Two months into a near-complete shutdown of the Strait of Hormuz, oil movement remains severely disrupted, creating regional shortages and broader price pressures reflected in gasoline, jet fuel prices, and utility bills, which feed through to consumers and businesses. Gulf states are also major fertiliser suppliers; shortages could add another layer of pressure through higher food prices. While markets are hopeful for a quick resolution, oil flows may still take several months to return to pre-war levels, suggesting this shock may not fade quickly. At the same time, energy, defence, and infrastructure spending, as well as AI-related demand for more power, data centres, equipment, and labour are additional inflationary forces in the US. Despite these risks, longer-term inflation expectations remain in line with pre-war trends. Barring a recession, inflation prints could surprise higher and weigh on activity. Against this backdrop, we have retained our inflation protection positioning.

Fuelling inflation risk²

As of 30 April 2026



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

¹ Sources: FactSet, MSCI and S&P. Please see additional disclosures for more information.

² Sources: Macrobond/U.S. Bureau of Labor Statistics.

Asset class positioning

Equities



- We remain modestly overweight on equities, reflecting a balanced view between decent fundamentals, including a constructive earnings outlook and fiscal stimulus, against elevated valuations and ongoing geopolitical tensions in the Middle East.
- Within equities, we increased the underweight to Europe ex-UK because Europe is more sensitive to global energy disruptions. We neutralised the US from an underweight and added to emerging markets because the US and China are in a relatively better position to withstand the disruption and continue to benefit from AI spending.

Fixed income



- We maintain a short duration profile through underweights to European government bonds and US core bonds, along with an overweight to high yield.
- Within fixed income, we remain overweight emerging market local currency because of compelling yields and expectations for continued US dollar weakness.

Cash



- We still find cash yield levels reasonably attractive, and maintain a modest overweight position given our negative view on government bonds and duration.

Equity market views

	Underweight Neutral Overweight			
Change	Regions			▼ or ▲ Month-Over-Month Change
US ▲		N		Despite elevated valuations, earnings and fiscal stimulus remain supportive. However, if energy prices remain elevated, inflation and policy risks could rise.
Europe ex-UK	U			Fiscal support and attractive valuations offer tailwinds, though if energy prices stay elevated, supply risks could meaningfully weigh on growth.
UK			O	Valuations remain attractive and cyclical improvement is emerging, though fiscal constraints persist as well as political uncertainty. If energy prices rise further, stagflation risks increase.
Japan			O	Positive 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 help bolster 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.
Style and Market Capitalisation				
Global Growth vs. Value ¹			O	Tailwinds are increasing due to the shift to agentic AI, but scepticism over the sustainability of massive capex spending should limit valuation expansion. The sector is supported by fiscal policy, reshoring and capex. However, the prospect for Fed cuts has weakened and the duration of the Iran conflict could weigh on growth.
Global Small-Cap vs. Large-Cap ¹			O	Small-cap earnings are improving due to deregulation, fiscal stimulus and broadening AI benefits. However, cyclical strength could be impacted by higher energy costs. Fundamentals are strong and accelerating among AI infrastructure beneficiaries. However, scrutiny over 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					Elevated energy prices and rising inflationary pressures are likely to push the European Central Bank (ECB) to hike interest rates. A rise in bond supply, the prospects of positive data surprises due to German fiscal policy expansion, and upward pressure on global bond yields all further support an underweight to euro government bonds.
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					Rising inflation expectations and fewer Fed cuts are 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 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, geopolitical tensions 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			O			We remain overweight on the euro given continued US dollar weakness, German fiscal expansion, and a likely more hawkish ECB than the Fed. 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. Speculation on foreign-exchange intervention by Japanese authorities to stem weakness in the currency adds to uncertainty. 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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European Investment Committee



Matt Bance
Portfolio Manager,
Multi-Asset Division



Elias Chrysostomou
Associate Portfolio Manager,
Equity Division



Andrew Keirle
Portfolio Manager, Emerging
Markets Local Currency Bonds



Yoram Lustig
Head of Global Investment
Solutions, EMEA



Tobias Mueller
Director of Research,
International Equities



Ken Orchard
Head of International
Fixed Income



Toby Thompson
Portfolio Manager,
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Michael Walsh
Portfolio Manager,
Multi-Asset Division



Tomasz Wieladek
International Economist

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