T. Rowe Price

Global Asset Allocation: The View From Europe

July 2026

Outlook

- Markets have continued to push higher despite geopolitical uncertainty, supported by resilient earnings and ongoing artificial intelligence (AI)-driven investment, even as inflation and policy risks remain.
- The global economy continues to benefit from fiscal spending and investment in AI infrastructure, though growth is becoming more uneven across regions and the path of energy prices remains uncertain.
- The policy outlook remains uncertain as central banks balance lingering inflation pressures against concerns about moderating growth and a gradually softening labour market, leaving the path for interest rates increasingly data dependent.
- Key risks include a renewed rise in energy prices and inflation, further geopolitical escalation, continued reliance on a narrow set of market leaders, and signs of deterioration in labour markets or private market liquidity.

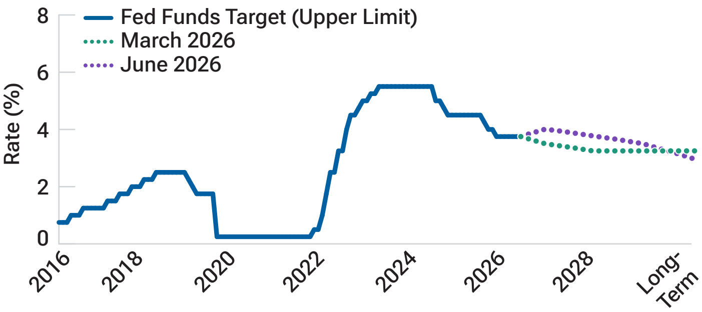
Themes driving positioning

Fed gets less chatty

The arrival of a new Fed chair appears to have changed the policy backdrop, though not necessarily by putting rates on a meaningfully different near-term path. The bigger shift may be in communication: Kevin Warsh appears less inclined to guide markets towards a specific policy outcome, placing greater emphasis on incoming data and making the path of policy less predictable. This matters because inflation remains the Fed's primary constraint. While signs of labour market softening could increase pressure to ease policy, they may no longer be enough on their own to prompt rate cuts, particularly with inflation still above target. In other words, while inflation remains above target, investors may not be able to count on the Fed to respond quickly to every bout of market or economic weakness, as policymakers place greater weight on maintaining inflation credibility. Importantly, this shift extends beyond the new chair. The latest Fed projections showed a broader committeewide move away from cuts and towards the possibility of hikes, despite political pressure for easier policy. For investors, that points to continued rate and yield curve volatility and reinforces the case for a cautious stance on duration.

The dot plot thickens[1]

As of 30 June 2026

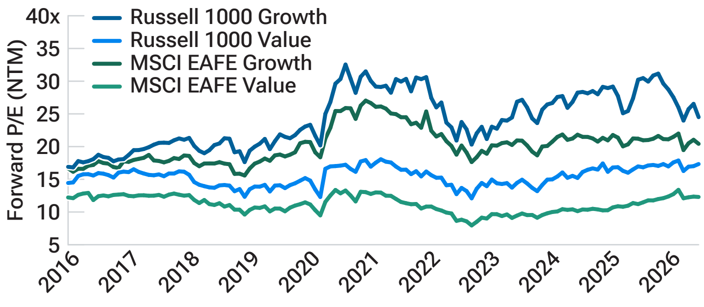


A tale of two styles

Style leadership is becoming increasingly regional. In the US, we remain modestly overweight Growth over Value. Continued AI investment, positive earnings revisions, strong free cash flow, and healthy balance sheets continue to support the Growth complex. A high-profile initial public offering (IPO) pipeline could also support interest in US Growth by bringing more innovation-led companies into public markets. Valuations and concentration remain risks, so this is not a call to chase Growth indiscriminately, but the earnings engine remains compelling and has been supported by strong return on equity. That leadership is not universal. In developed markets outside the US, Growth does not have the same depth of AI exposure, while Value benefits from a more attractive mix of valuations and improving fundamentals. Positive interest rates continue to support financials, fiscal expansion is benefiting cyclicals, and rising defence spending is creating a multiyear tailwind for industrials and infrastructure. The takeaway: We favour Growth where earnings leadership remains strongest, and Value where improving fundamentals and supportive policy have the potential to drive the next leg of earnings growth.

Mind the valuation gap[2]

As of 30 June 2026



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

[1] Sources: Macrobond/Federal Reserve.

[2] Sources: FactSet, FTSE Russell and MSCI. Please see additional disclosures for more information.

Asset class positioning

Equities

Under **Weighting** Over

- We remain overweight on equities overall, predicated on a constructive earnings outlook and fiscal stimulus, balanced against elevated valuations and the uncertain geopolitical backdrop.
- Within equities, we continue to favour US growth, US small-caps, the UK, Japan and emerging markets.

Fixed income

Under **Weighting** Over

- We maintain a cautious stance on duration reflected through underweights to European government bonds and US bonds, along with an overweight to high yield and cash.
- We also maintain a long position in emerging market local currency bonds.

Cash

Under **Weighting** Over

- We still find cash yield levels reasonably attractive and maintain an overweight position, reflective of our negative view on government bonds.

Equity market views

▼ or ▲ Month-Over-Month Change

	Underweight	*Underweight*	*Neutral*	*Overweight*	*Overweight*	
Change						
	Regions					
US				O		Valuations remain elevated, but strong earnings, AI capex, and mergers and acquisitions support fundamentals. Inflation and policy uncertainty remain risks.
Europe ex-UK		U				Fiscal support, improving manufacturing, and moderated energy risks improve the outlook, but economic growth remains modest.
UK				O		Attractive valuations and healthy earnings remain supportive, but budget concerns, inflation, and policy uncertainty weigh on sentiment.
Japan				O		Fiscal stimulus, capex tailwinds, and improving earnings revisions support sentiment, while tighter monetary policy remains a risk.
Australia		U				Commodity exposure supports earnings, but restrictive monetary policy, softer labour markets, and energy-sensitive demand keep the outlook cautious.
Emerging Markets (EM)				O		Reasonable valuations and AI-infrastructure scarcity support further strength, but crowded positioning and earnings cyclicality pose risks.
China			N			Policy support and anti-involution efforts may aid margins, but housing weakness and soft demand keep gains uneven.
	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. IPO pipeline and Russell rebalance likely boost momentum and volatility further. Value supported by continued strength in cyclically oriented sectors. However, Fed cuts unlikely and valuation has become less attractive.
Global Small-Cap vs. Large-Cap[1]				O		Small-cap momentum is currently driven by expectations of broadening economic growth and attractive valuations for higher quality small-cap names. However, rising rates could become a headwind. For large-caps, fundamentals are strong and accelerating among AI infrastructure beneficiaries. However, mega-cap tech companies could be held back by heavy capex spending.

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

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					Yield levels are attractive and the economy is likely to weaken. However, the energy shock, fairly tight labour markets, German fiscal expansion and hawkish European Central Bank (ECB) are likely to weigh on government bonds.
Euro Inflation Linked			N			Inflation expectations as reflected in breakeven rates remain anchored, while inflation pressures driven by elevated and volatile energy prices remain a risk.
Euro Investment-Grade (IG) Corporates			N			Persistent inflation pressures, slowing but not contracting economic growth and the ECB on a tightening path are likely to keep upward pressure on rates. Credit fundamentals still supportive, with spreads expensive relative to history.
US IG Aggregate		U				Persistent inflation pressures, stable growth, and Fed on pause will likely keep rates elevated. Credit fundamentals are still supportive, with spreads expensive relative to history.
Global High Yield				O		Tight spreads may limit further upside potential, 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 weigh on sentiment.
EM Local Currency				O		Compelling yields, however, recent dollar strength and war in Iran could continue to pose headwinds for the asset class.
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 remain neutral 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.

Past performance is not a guarantee or a reliable indicator of future results.
The specific securities identified and described are for informational purposes only and do not represent recommendations.

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