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Global Asset Allocation: The View From the UK

August 2026

Outlook

- Markets have continued to demonstrate resilience, supported by stronger-than-expected corporate earnings and sustained artificial intelligence (AI)-related investment, although geopolitical developments have contributed to volatility.
- The global economy remains supported by fiscal spending and technology investment, though growth is becoming more uneven across regions as higher energy costs and geopolitical uncertainty weigh differently across economies.
- The policy outlook remains highly data dependent as central banks continue to balance persistent inflation pressures, particularly those related to energy, with continued signs of stable economic growth.
- Key risks include renewed geopolitical escalation and commodity price volatility, persistent inflation, continued reliance on a narrow set of market leaders, and signs of deterioration in labour markets.

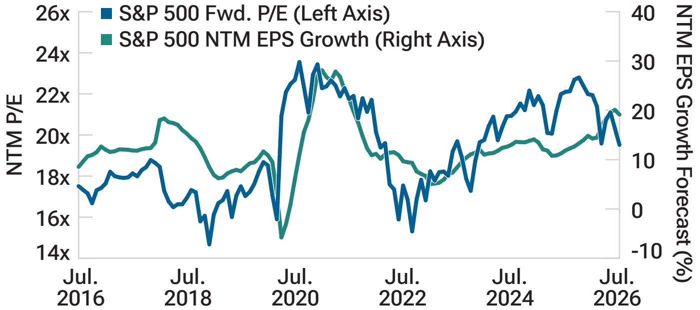
Themes driving positioning

From AI spark to earnings fire

We remain overweight equities versus bonds, reflecting confidence in the durability of earnings rather than a broad risk-on view. Economic growth has remained resilient despite geopolitical disruptions, higher energy costs, and tighter financial conditions, reducing the risk of a near-term earnings downturn. More importantly, earnings momentum is broadening beyond the largest technology companies, with more sectors reporting stronger orders, improving margins, and upward revisions to guidance. AI-related investment is also extending into power, data centres, industrial equipment, automation, and connectivity, supporting a broader private sector capital-spending cycle as fiscal support fades. Disinflation provides an important secondary tailwind. Softer inflation reduces the likelihood of further Federal Reserve (Fed) tightening, creating a more supportive environment for stocks. At the same time, long duration US bonds in particular remain exposed to heavy issuance, persistent fiscal deficits, and resilient nominal growth. With corporate balance sheets healthy, capital markets open, and investor positioning not excessively bullish, we believe equities offer a better balance of upside participation and relative risk.

Earnings up, multiples down[1]

As of 31 July 2026

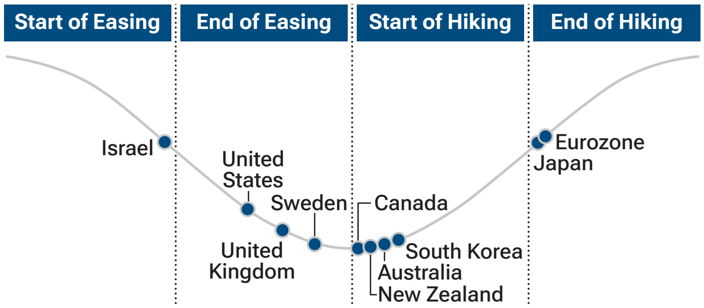


Hiking, holding, cutting

The global policy cycle is becoming increasingly fragmented as central banks respond to different combinations of growth and inflation conditions, fiscal policies, and government measures to cushion energy shocks. In the US, softer inflation supports the case for the Fed to remain on hold, but resilient growth, AI-related investment, and continued fiscal support argue against a rapid shift toward easing. That leaves the Fed caught between upside and downside risks, with policy uncertainty likely to keep interest rate volatility elevated. Elsewhere, policy paths are more distinct as central banks face different trade-offs. The European Central Bank (ECB) may face renewed tightening pressure as higher energy costs combine with German fiscal expansion and resilient growth in parts of the euro area, including Spain and Italy. Australia and the UK may stay on hold as softer growth offsets lingering inflation pressures. Japan could still need to raise rates as temporary subsidy-driven relief masks underlying inflation pressures, while China may remain comparatively dovish given ongoing growth concerns. For investors, varying inflation trends and domestic growth conditions are likely to drive greater divergence across policy-rate paths, currencies, and regional markets.

One cycle, different stops[2]

As of 31 July 2026



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

[1] Sources: FactSet and S&P. Please see additional disclosures for more information.
[2] Sources: IMF, CB Rates, with analysis by T. Rowe Price.

Asset class positioning

Equities

Under **Weighting** Over

- We remain somewhat overweight equities predicated on a constructive corporate earnings outlook with continued tailwinds from AI-related capex and fiscal stimulus though the uncertain geopolitical backdrop warrants some caution.
- Within equities, we continue to favour US growth, US small caps, the UK, Japan, and emerging markets.

Fixed income

Under **Weighting** Over

- While we have added to bond holdings, we maintain a cautious stance on duration. This is reflected through underweights to gilts, European 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 have reduced our cash position. However, yield levels remain reasonably attractive and we remain overweight, reflecting our negative view on government bonds.

Equity market views

Underweight Neutral Overweight

▼ or ▲ Month-Over-Month Change

Change	Underweight	Underweight	Neutral	Overweight	Overweight	
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		Wage growth, capex tailwinds, attractive valuations, and returns on equity support sentiment. However, the yen's weakness is fuelling FX risk, and Japan remains vulnerable to an oil supply shock.
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			AI hardware and equipment exports remain the clearest growth engine as Asia's capex cycle strengthens. GDP growth is slowing as private demand, household credit and investment decelerate.
Style and Market Capitalisation						
Global Growth vs. Value[1]				O		Attractive valuations after momentum-driven sell-off in growth. Earnings remain exceptional, but concerns about the sustainability of AI capex remain. Strength in cyclically oriented sectors continuing to support value. However, valuation has become less attractive, and catalysts may be peaking.
Global Small-Cap vs. Large-Cap[1]				O		Expectations for continued broadening of economic growth and increased capital market activity remain supportive. However, rising rates could become a headwind. For large-caps, fundamentals continue to be exceptionally strong. However, mega-cap tech could be held back by increased caution around 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

	Underweight		*Neutral*	*Overweight*		
Change						
UK Gilts		U				The Bank of England may prefer slightly higher inflation to further weakness in economic activity and therefore be more dovish than market expectations. However, fiscal and political risks, as well as a negative view of global bonds, support an underweight position in gilts.
UK 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.
UK Investment-Grade (IG) Corporates			N			Persistent inflation pressures, fiscal pressures and slowing but not contracting economic growth are likely to keep upward pressure on rates. Credit fundamentals remain supportive, with spreads expensive relative to history.
US IG Aggregate		U				Rates have moved higher on the back of persistent inflation pressures, solid growth and Fed uncertainty. Credit fundamentals still supportive, with spreads expensive relative to history.
European IG Aggregate	U					Yield levels are attractive but spreads are expensive and the economy is likely to weaken. The energy shock, fairly tight labour markets, and German fiscal expansion will raise inflation. Further ECB hiking is now expected by markets.
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 any progress toward resolution in Middle East conflict could boost sentiment.
EM Local Currency				O		Yields remain compelling, however, dollar strength and war in Iran could continue to pose headwinds for the asset class. Sentiment could see improvement if progress is made toward resolving tensions in the Middle East.
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					
GBP vs. USD			N			We remain neutral because of the risk of a prolonged conflict in Iran and continued flight-to-quality to the US dollar.
GBP vs. EUR			N			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.
GBP 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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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, Multi-Asset Division

Michael Walsh
Portfolio Manager, Multi-Asset Division

Tomasz Wieladek
International Economist

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