Global Asset Allocation: The View From the UK

September 2026

Outlook

- Markets have remained resilient, supported by strong and broadening corporate earnings and sustained artificial intelligence (AI)-related investment, although elevated valuations and geopolitical uncertainty remain sources of volatility.
- The global economy remains supported by technology investment and fiscal spending, though growth is increasingly uneven across regions as higher energy costs, interest rates, and geopolitical uncertainty create divergent pressures.
- The policy outlook remains highly data dependent as central banks balance persistent inflation pressures against resilient growth, while fiscal concerns and strong investment demand are contributing to upward pressure on longer-term yields.
- Key risks include renewed geopolitical escalation and commodity price volatility, persistent inflation and higher interest rates, earnings sustainability, and signs of deterioration in labour markets.

Themes driving positioning

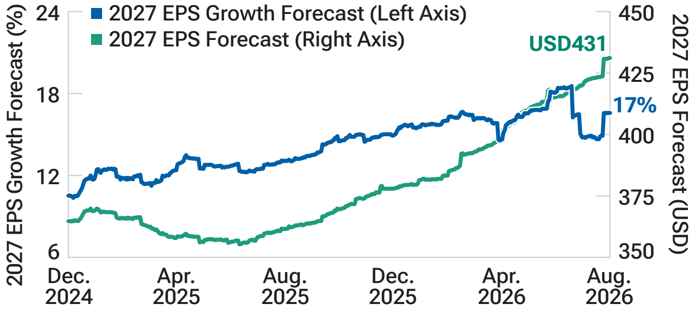
A broader earnings engine

The latest earnings season provided compelling evidence that the profit cycle is broadening. Results were strong across the market, with roughly 78% of S&P 500 companies beating earnings estimates and positive revisions spreading across industries. Those beats are lifting 2026 earnings expectations, yet 2027 estimates continue to rise and still imply robust growth—an encouraging sign that earnings momentum is strengthening even off a higher base. Recent market behaviour offers another encouraging signal. Despite a de-rating in parts of the AI complex, broader markets proved resilient as strength elsewhere helped pick up the slack. AI remains an important earnings driver, with hyperscaler results reinforcing the investment runway, but it no longer needs to carry the market alone. Robust mergers and acquisitions (M&A) and healthy capital markets provide additional support. This increasingly diversified earnings backdrop reinforces our constructive view on equities, while elevated valuations and expectations argue for selectivity and disciplined positioning.

Emerging markets' next act

We remain overweight to emerging market (EM) equities as improving fundamentals converge with compelling valuations. Following the recent sell-off, some froth has come out of EM markets, while earnings remain supportive. At roughly 10x forward earnings versus more than 15x for developed markets, EM offers an increasingly attractive entry point. Importantly, the opportunity is extending beyond the technology story we previously highlighted. Broader capital spending on infrastructure, manufacturing, energy security and digital capacity is creating new sources of growth, while AI infrastructure remains an important tailwind in Taiwan and Korea. A weaker US dollar could provide another boost by easing financial conditions and supporting capital flows, with persistent US fiscal deficits reinforcing our expectation for intermediate-term dollar weakness. Together, solid earnings, expanding investment and attractive valuations provide a more diversified foundation for EM returns, supporting our overweight while remaining mindful of technology concentration, cyclical risks and elevated energy prices.

A higher bar, still higher earnings[1]
As of 31 August 2026



A wider gap, a bigger opportunity[2]
As of 31 August 2026

Past performance is not a guarantee or a reliable indicator of future results.
There is no guarantee that any forecast made will come to pass.
[1] Sources: FactSet and FTSE Russell. Data is represented by the Russell 3000 Index. Please see additional disclosures for more information.
[2] Sources: FactSet and MSCI. Emerging and Developed Markets data is represented by the MSCI Emerging Markets and MSCI EAFE indices, respectively. Please see additional disclosures for more information.

Asset class positioning

Equities

Under **Weighting** Over

- We maintain a modest overweight to equities, supported by broadening corporate earnings momentum, resilient economic growth, and continued tailwinds from AI-related investment, while elevated valuations and higher interest rates warrant some caution.
- Within equities, we continue to favour US growth and small caps, the UK, Japan, and emerging markets.

Fixed income

Under **Weighting** Over

- We remain underweight bonds and maintain a cautious stance on duration, reflected through underweights to UK gilts, US Treasuries, and European bonds, as resilient growth, inflation uncertainty and fiscal pressures keep upward pressure on longer-term yields.
- We remain constructive on high yield given healthy fundamentals, attractive income and its relatively short-duration profile, as well as on EM local currency, given compelling yields and potential for EM currency appreciation.

Cash

Under **Weighting** Over

- Cash yields remain reasonably attractive. We maintain an overweight position, reflecting a negative view on government bonds.

Equity market views

▼ or ▲ Month-Over-Month Change

	Underweight	*Underweight*	*Neutral*	*Overweight*	*Overweight*	
Change						
	Regions					
US				O		Broadening earnings strength, AI-related investment and robust M&A activity support fundamentals. Higher interest rates along with political and inflation uncertainty remain key risks.
Europe ex-UK		U				Fiscal expansion and improving manufacturing support the outlook, but modest growth, higher energy costs and tighter monetary policy continue to constrain the upside.
UK				O		Attractive valuations and healthy earnings remain supportive, while fiscal concerns, inflation and policy uncertainty continue to weigh on sentiment.
Japan				O		Fiscal stimulus, capital spending and improving earnings revisions remain supportive, while tighter monetary policy, higher rates and elevated valuations present an offsetting risk.
Australia		U				Commodity exposure remains supportive, but recent policy changes affecting residential property and financials have weakened the relative outlook.
Emerging Markets (EM)				O		Compelling valuations, supportive earnings and continued AI-infrastructure investment strengthen the outlook, while technology concentration and sensitivity to the global semiconductor cycle remain key risks.
China			N			Policy support and anti-involution efforts may improve corporate margins, but persistent housing weakness and soft domestic demand are likely to keep the recovery uneven.
	Style and Market Capitalisation					
Global Growth vs. Value[1]				O		For growth, earnings growth is exceptional, supported by continued AI investment and adoption. Improved relative valuations are supportive, though elevated expectations and questions around the returns on AI capital expenditure remain risks. For value, broadening earnings and cyclical strength remain supportive, including some beneficiaries of AI investment. However, valuations have become less compelling.
Global Small-Cap vs. Large-Cap[1]				O		For small-caps, broadening growth, fair valuations and capital-markets activity remain supportive. Higher rates remain the key risk for smaller, more leveraged companies. For large-caps, fundamentals remain very strong and are broadening outside mega-cap leaders, but elevated valuations and expectations leave less room for disappointment.

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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	Underweight	Neutral	Overweight	Overweight	
UK Gilts			U				Weak growth, loose labour markets, weak pricing power of corporations and tight fiscal policy should all help mitigate the transmission of energy prices to UK inflation. UK rates also remain high relative to other core rate markets. While inflation is likely to rise, the Bank of England (BoE) is likely to stay on hold, with its next move potentially a cut. Nevertheless, our negative view on global bonds supports an underweight position on 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			Yields are attractive and credit fundamentals are supportive, but tight spreads and continued upward pressure on long-term rates warrant a cautious stance.
US IG Aggregate	▼	U					Yields attractive and credit fundamentals supportive, but tight spreads and continued upward pressure on longer-term rates from resilient growth, inflation and fiscal concerns warrant a cautious stance.
European IG Aggregate		U					The energy shock, German fiscal expansion and corporate pricing power are likely to raise inflation. The economy, however, is likely to weaken more than expected. The European Central Bank (ECB) must balance the risks of higher inflation against those of weaker activity, and may hike once more following the September hike.
Global High Yield					O		Healthy fundamentals, attractive income and a relatively short-duration profile remain supportive, though tight spreads and rising data-center issuance may limit further upside.
EM Dollar Sovereigns				N			Attractive yields and generally supportive fundamentals remain constructive, although higher US rates and geopolitical risks could contribute to volatility.
EM Local Currency					O		Compelling yields remain supportive, while local currencies could benefit from an eventual softer US dollar; elevated global rates remain a near-term risk.
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 heightened geopolitical uncertainty and potential for a flight-to-quality to the USD during periods of stress.
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 and currency intervention.

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