

APRIL 2026

# House View

## Q2 2026

Holding the line

This document reflects the views of Allianz Global Investor's investment leadership going into Q2 2026. Past performance does not predict future returns. The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. We assume no obligation to update any forward-looking statement.

# Our view of global markets

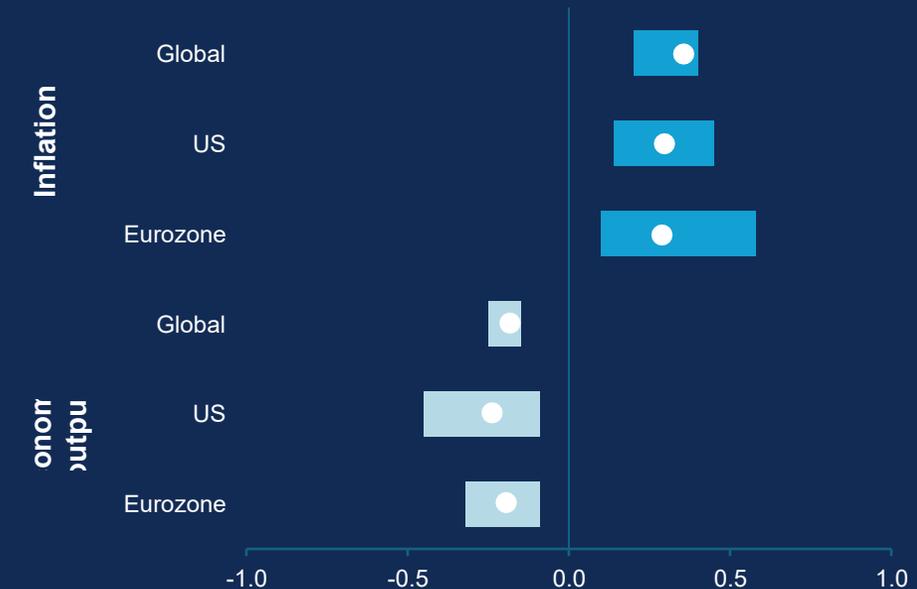
## Test of resilience

- **Global markets enter the second quarter navigating a more complex backdrop than many expected at the start of the year.** The conflict in the Middle East adds a fresh layer of geopolitical uncertainty that could prove a significant test for the global economy. Outcomes hinge on how long warfare persists and the scale of energy-market disruption. While effects are still unfolding, the conflict has already heightened risks to growth and inflation, particularly for energy-dependent economies in Europe and Asia.
- **Even so, our core view remains one of “bending but not breaking”.** The global economy still shows resilience, supported by strong investment in artificial intelligence – now a key pillar of growth, especially in the US. But higher energy costs may keep inflation above central bank targets in several major economies, limiting the scope for policy easing. We now expect the US Federal Reserve’s next cut in the second half of 2026, with the Bank of England likely to proceed cautiously. Higher energy prices are also a factor behind our downgrade to euro zone growth.
- **We see oil prices in the USD 90-110 range as manageable**– the greater risk comes if levels stay elevated for an extended period, raising the threat of a more stagflationary mix of higher inflation and weaker growth and challenging the consensus “Goldilocks” narrative. This backdrop favours resilience-building: diversified portfolios and a focus on long-term goals can help investors look through near-term volatility.
- **Against this backdrop, our asset class convictions emphasise selective duration, quality carry and equity themes aligned with strategic autonomy** – including defence – and the AI enablers driving the next phase of technological transformation. We remain structurally cautious on the US dollar, despite short-term gains as a safe haven.

## CHART OF THE QUARTER

### What is the economic impact of higher oil prices?

Crude oil underpins countless products and supply chains. The chart shows the range of estimates of how every supply-driven 10% increase in oil prices would affect GDP and inflation, with the dots representing the average estimated impact.



Source: AllianzGI Economics & Strategy. Note: Sensitivities based on 68 individual estimates by central banks (US Federal Reserve, European Central Bank, Bank of Canada, Oesterreichische Nationalbank, Banco de España), international organisations (IMF, OECD, World Bank, World Economic Forum), and academic and financial institutions (JPMorgan, Goldman Sachs, Morgan Stanley, BNP Paribas, Société Générale, Deutsche Bank, UBS, HSBC). Estimates exclude second-round effects from higher natural gas prices, particularly in the euro zone, as well as potential non-linearities.



# Energy risks cloud outlook

## Regional breakdown

### US

- We think US growth will slow in the second and third quarters as vulnerabilities linger after a robust start to the year. Higher energy costs are likely to keep inflation hovering around 3%, above the US Federal Reserve's 2% target for the sixth consecutive year, prompting the central bank to delay its next interest rate cut to the second half of 2026 and take policy rates to around 3.5% by the end of 2026.

### Europe

- In our view, the euro zone remains broadly on track for growth of 1-1.5% this year, but upside risks are now limited to Germany due to fiscal support. We have raised our inflation expectations for both the euro zone and the UK, given Europe's significant exposure to higher energy costs, particularly natural gas. We now expect euro zone inflation to overshoot the European Central Bank's 2% target, with no further rate cuts this year and a low bar to hikes.

### Asia

- As China's economy rebalances, we expect growth to slow after receiving a boost from front-loaded fiscal stimulus early in 2026. We forecast full-year output of around 4.3-4.8%. In Japan, higher fiscal spending under Prime Minister Sanae Takaichi is likely to support growth in the region of 0.6 to 1.1%. We expect the Bank of Japan to raise rates by a further 50 basis points before year-end.

## ECONOMIC GROWTH: Subdued in the US and euro zone

Real GDP, year-on-year %

Location	2025 Bloomberg consensus	2026 Bloomberg consensus	2026 AllianzGI forecast
World	3.2	3.1	=
US	2.2	2.4	=
Euro zone	1.4	1.2	=
Germany	0.3	1.0	↑
UK	1.4	1.1	=
Japan	1.2	0.8	=
China	5.0	4.6	↑

## INFLATION: Europe most vulnerable

Inflation, year-on-year %

Location	2025 Bloomberg consensus	2026 Bloomberg consensus	2026 AllianzGI forecast
World	3.4	3.3	=
US	2.7	2.6	↑
Euro zone	2.1	1.8	↑
Germany	2.2	2.0	=
UK	3.4	2.4	↑
Japan	3.2	1.9	=
China	0.0	0.7	↓

Data as at 4 March 2026.

# View on valuations: opportunities from equity repricing?

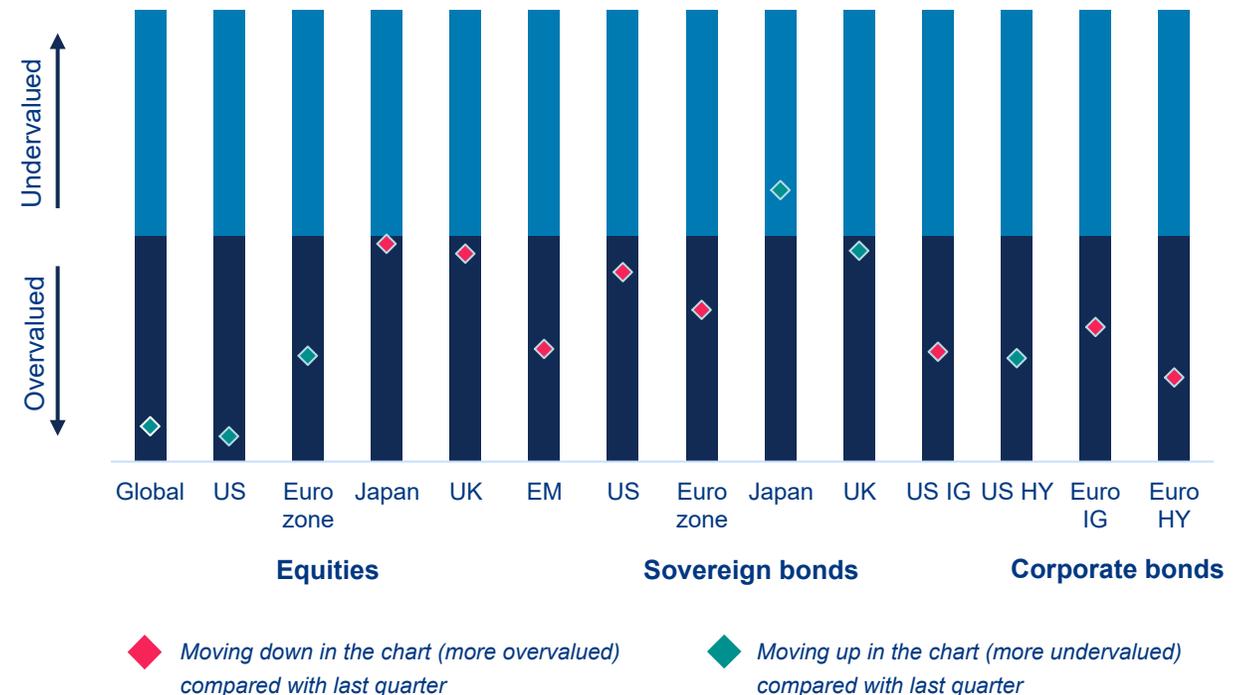
## US and euro zone stock market valuations fall

- **US, euro zone and global equity market valuations edged down over the past three months**, according to our analysis. While valuations – especially in the US – still look relatively elevated, **the repricing may create entry points** in areas we favour, such as European autonomy, AI enablers and HALO (heavy assets, low obsolescence) stocks.
- **Japan and the UK remain the cheapest equity markets on our metrics**, even after small increases in valuation. **Sovereign bonds from those countries also screen as the best value**, followed by US Treasuries.
- **Within corporate fixed income, euro investment grade bonds continue to screen as the best value**, although US investment grade has narrowed the gap compared with the previous three months.

### Calculations by our Economics & Strategy team.

Valuation score = current score relative to historical distribution of scores. Equity valuation based on Shiller-PE, price/book, 12-month forward PE. Sovereign valuation based on 10-year real interest rate and term premium. Corporate bond valuation based on implicit default probability and respective sovereign valuation. Source: Allianz Global Investors Global Economics & Strategy, Bloomberg, Datastream (data as at 28 February 2026. Past performance does not predict future returns. The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. We assume no obligation to update any forward-looking statement. Valuations are based on the latest assumptions about the economic growth outlook.

## End of February 2026



# Asset class convictions

## Equities

- **Europe's push for strategic autonomy continues to be reinforced by expansive fiscal policy that is mobilising private capital.** The theme is also becoming more prominent globally as countries seek to reduce dependence on volatile fossil fuel prices or increase independence in defence and other areas.
- **Recent developments in the Middle East have highlighted both the urgency and limits of existing energy stockpiles.** Energy dependence and vulnerable infrastructure have also come into sharper focus. This could boost demand in related sectors, even as elevated oil prices weigh on global growth if they remain high for a prolonged period.
- **Despite rising geopolitical tensions, AI will remain a key theme in global equity markets.** China is entering the first wave of broad AI diffusion, supported by deep supply chains and innovation across hardware, models and robotics. Analogue semiconductors are beginning an early-cycle recovery, driven by improving end markets, tighter capacity discipline and strong earnings revisions.
- **Electrification and AI-driven power demand are underpinning investment in generation, grids and related equipment.** Data centre growth means power and grid assets will likely be key bottleneck beneficiaries. These growth areas will also continue to drive demand for critical minerals and related industrial commodities.

## Fixed Income

- **Volatility has re-emerged as markets reassess prior complacency and certainty.** The market is no longer rewarding indiscriminate risk-taking; **it is rewarding selectivity.**
- For fixed income, oil-driven inflation risks compete with risk aversion flows. Duration performance will hinge on how persistent higher energy prices prove to be, while **credit risk is asymmetric**, with certain countries in emerging and frontier markets most exposed.
- This environment favours **quality carry, balance-sheet strength and active duration management** over broad beta exposure.
- Re-emerging inflation risks present a **more challenging backdrop for headline duration.**
- Despite elevated equity volatility, **credit markets continue to trade in a historically tight and orderly range.** We prefer to be selective and keep powder dry as defaults re-enter the headlines; security selection needs to do the heavy lifting.
- **Emerging market debt offers diversification, but also resilience.** We favour a fundamentals-driven approach, with a focus on country-specific improvement stories.
- Asian credit may offer a sweet spot, with local markets trading with **lower volatility than broader emerging markets**, reinforcing Asia's role as a supportive allocation within global fixed income portfolios.

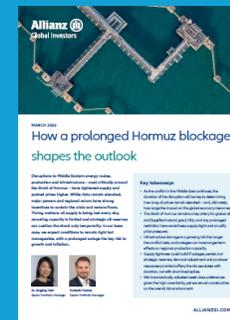
## Multi Asset

- **We remain constructive on global equities over the long term, but are more cautious in the short term** as the risk premium from the Middle East conflict tempers our conviction.
- **Within equities our preference is for emerging markets, Japan and the euro zone;** we are more cautious on the US.
- In fixed income, the Iran conflict has **increased the duration premium in bonds** by raising the risk of higher inflation and fewer central bank rate cuts.
- **But we are a notch more optimistic on UK Gilts, euro zone sovereigns and emerging market hard currency bonds**, while remaining nimble given geopolitical and inflation risks.
- We hold an **overall positive view on commodities**, with geopolitical friction keeping energy prices elevated and undersupply supporting metals.
- **Gold remains a core long-term conviction;** we **stay overweight on copper** as supply lags robust demand.
- In FX, **our expectation for a lower US dollar has been tempered** by conflict-driven dollar strength and we remain tactically flexible.
- Overall, we have **increased our "dry powder"** to capture entry points created by volatility in the coming months.

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**[PLUS: Q2 2026 House View Summary Version](#)**

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