

Snapshot Q2 2026

This is a summary of
our House View Q2 2026

What's our outlook for Q2?

When uncertainty builds, conviction is key

Global markets are facing a tougher environment than many expected.

The Middle East conflict has added new uncertainty, raising risks to growth and inflation – especially for economies sensitive to higher energy costs.

Even so, we believe the global economy will hold up. Strong investment in AI continues to support growth, particularly in the US, though higher energy prices may slow progress on inflation and delay interest rate cuts.

In our view, oil in the range of USD 90-110 is manageable for now, but if prices stay high for a sustained period, both growth and inflation could come under pressure.

In this environment, we favour diversified portfolios and a long-term approach. We see opportunities in quality bonds and selective equities – including defence and AI themes – while staying cautious on the US dollar.



Why oil underpins all

Because of its role in countless supply chains, crude oil has been described as almost as vital to human existence as water. If conflict in the Middle East pushes oil prices higher for longer, global inflation would likely rise and growth come under pressure.

3.1%¹

Consensus expectation for global growth in 2026

¹ Data: Bloomberg as at 4 March 2026.

What's our regional outlook?

US: slowdown ahead

US growth is expected to slow mid-2026 after a strong start to the year.

Higher energy costs will likely keep inflation around 3% – above the official 2% target for the sixth consecutive year.

We expect the US Federal Reserve to cut interest rates later than planned, reaching around 3.5% by end-2026.

Europe: inflation ticks up

We believe the euro zone is on track for modest growth of 1-1.5% this year.

Germany alone might exceed expectations due to government spending.

Higher energy costs – especially natural gas – are likely to push up inflation across Europe and the UK.

Euro zone inflation is likely to overshoot the European Central Bank's 2% target, with no further rate cuts likely this year. Rate increases are possible.

Asia: fiscal boost

China's economy is expected to slow after an early boost from fiscal policy.

Japan is likely to see modest growth of around 1%, supported by increased government spending.

The country's central bank is expected to raise interest rates by a further 50 basis points before year-end.

3.3%¹

Consensus expectation for global inflation in 2026

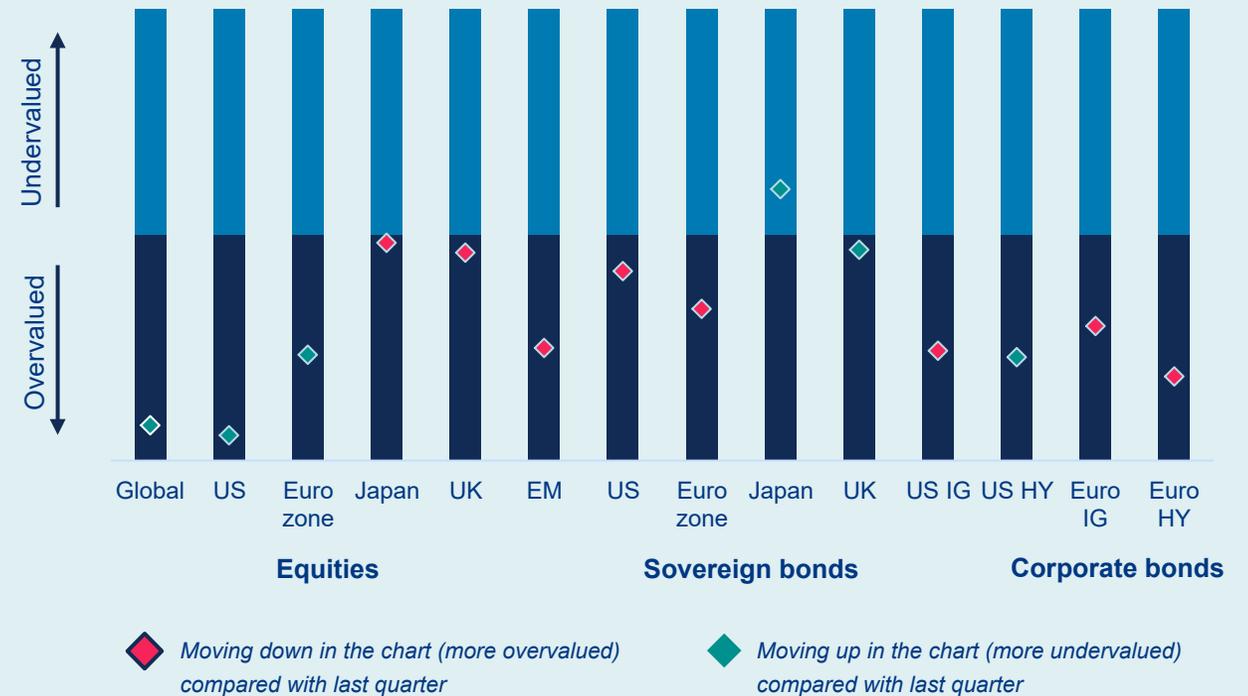
¹ Data: Bloomberg as at 4 March 2026.

Where do we see value?

US and euro zone stock valuations fall

- Global stock market valuations dipped in the last quarter, in our analysis. While some markets – particularly the US – still look expensive, recent price moves may create selective buying opportunities.
- Japan and the UK remain the most attractively valued equity markets in our assessment, and their government bonds also offer the strongest value – followed by US Treasuries.
- In corporate bonds, we believe euro investment grade continues to offer the best value, although the gap with US investment grade has narrowed recently.

End of February 2026



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.

Where are the potential investment opportunities?

Equities

- **Europe is accelerating its push for strategic autonomy** in defence and other areas – a theme that is increasingly global.
- **Middle East tensions highlight energy vulnerabilities and could support related sectors**, even as high oil prices risk slowing global growth.
- AI remains a powerful global equity theme, with China accelerating adoption and semiconductor demand recovering.
- Rising power needs from electrification and AI are driving investment in energy grids, data centres and critical industrial materials.

Fixed Income

- In an increasingly volatile environment, **markets are rewarding selectivity**.
- As oil-driven inflation and risk aversion create mixed signals for bonds, look for **quality carry, balance-sheet strength and active duration management**.
- Credit has shown its ability to **offer stability, despite equity volatility**, but careful security selection is essential to avoid potential defaults.
- **Emerging market debt** may offer resilient returns; **Asian credit** stands out for lower volatility.

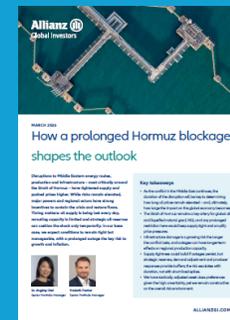
Multi Asset

- We remain **constructive on equities over the long term**, but more cautious in the short term: we favour **emerging markets, Japan and Europe over the US**.
- Bond markets face inflation and rate risks from Middle East tensions, though we see selective opportunities in **the UK, euro zone and emerging market debt**.
- We favour commodities overall, **with gold a core long-term conviction** and copper supported by supply shortfalls.
- Conflict-driven US dollar strength calls for a **flexible and tactical approach** to the currency.

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