Allianz Global Investors

JANUARY 2026

House View

Q1 2026

Discipline and diversification

This document reflects the views of Allianz Global Investor's investment leadership going into Q1 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

Bending not breaking

- **The global economy enters 2026 bending but not breaking.** Growth should remain near trend, supported by easier fiscal and monetary policy, healthy private-sector balance sheets, and structural tailwinds from AI. Inflation is uneven and sticky – largely due to the US – but trending lower elsewhere. While fundamental and political uncertainty stays elevated, we believe it has passed its peak – although investors should monitor any market volatility in anticipation of the US midterms or Fed chair transition.

- **This backdrop is favourable for risk assets,** even as we acknowledge that we are in a late-cycle expansion where potential rewards may be lower and potential risks higher than in previous quarters. Geopolitical risk cannot be ignored – as the US intervention in Venezuela at the start of the year reminds us.

- **For investors, AI remains a critical theme – but one to approach with discipline and diversification.** We do not believe the sector is in bubble territory, and missing out on further upside could be costly. However, concentration risk is real. The opportunity set is broadening to applications driving demand for computing power, energy, and enabling tech. This calls for a diversified approach: across tech subsectors, geographies and adjacent innovation themes. At the same time, investors should monitor credit default swap spreads for major AI firms, which could signal emerging credit risks.

- **Overall, we have raised our pro-risk stance, favouring diversification across asset classes and geographies.** Europe offers selective opportunities despite fading momentum in some markets, while Asia remains undervalued in both equities and FX. Pairing exposure to structural growth drivers like AI with positions in emerging markets, precious metals, and undervalued currencies can help balance risk and reward in what we expect to be a resilient yet complex year where active management will be critical.

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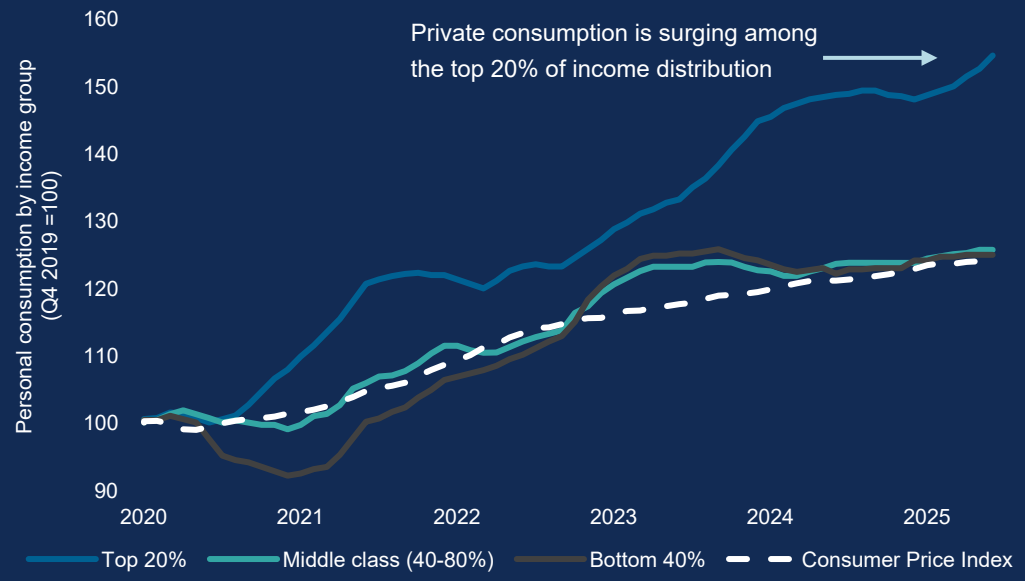
CHART OF THE QUARTER

Is US growth inclusive?

At first glance, the US economy looks resilient. But dig deeper, and the picture becomes more uneven. A “K-shaped” economy is taking hold: the upper arm of the K reflects higher-income households continuing to spend freely, while the lower arm shows lower-income Americans squeezed by persistent price pressures. If this divergence persists, questions could emerge about the durability of growth.



Note: Private consumption based on Moody’s calculations (through Q2 2025). Source: Moody's and Bloomberg.

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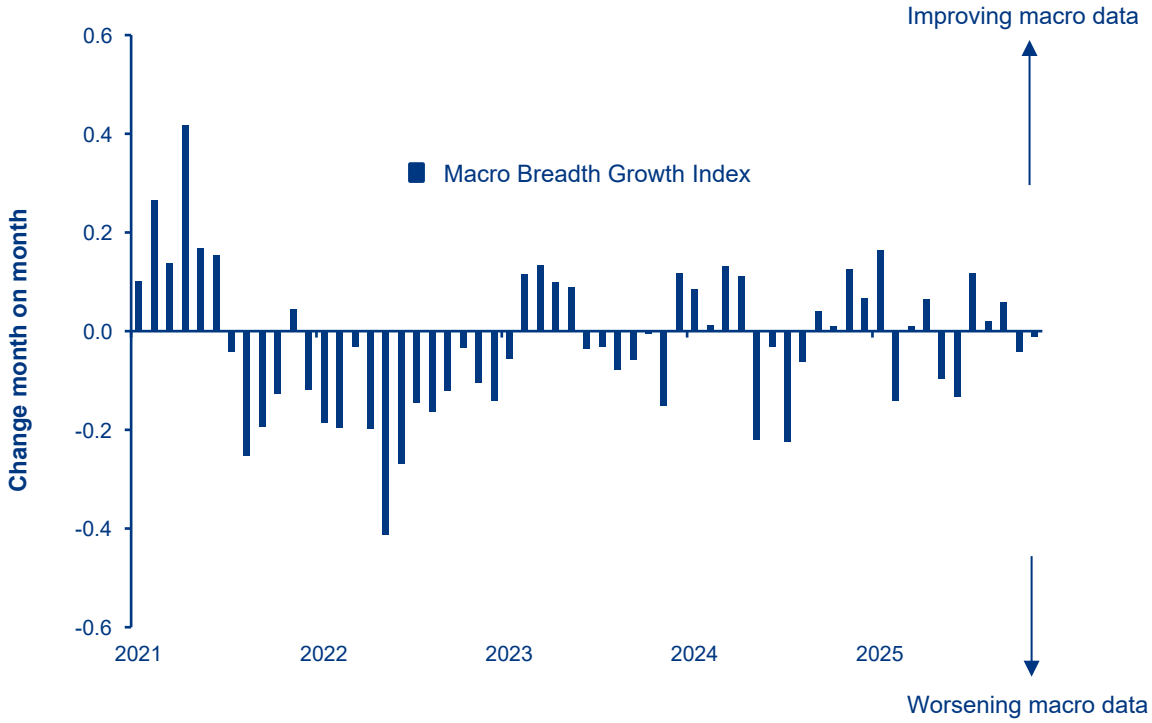
Economic growth: Resilient overall – but unevenly spread

Our Macro Breadth Growth Index[1], measuring the direction of global macroeconomic data, stabilises

- **Our index of global growth indicators was roughly stable in the latest reading.** Beneath the surface, activity data slipped in November for a third consecutive month, while sentiment improved, reflecting a gap between more upbeat business confidence and more cautious consumer sentiment.
- **Growth slowed in emerging markets, driven by China,** which posted slowing momentum for the seventh consecutive month.
- **Conversely, advanced economies – especially Japan but also the Eurozone – posted stronger figures.** The UK was an outlier and US data was scarce due to the shutdown.
- **By sector, manufacturing growth showed signs of stabilisation** but remained modest compared to services.



[1] Our proprietary Macro Breadth Growth Index tracks the direction of 354 global, regional and country macroeconomic data on a monthly basis. The monthly change of the index is scaled from -1 to 1, with a value of 1 (-1) implying an increase (decrease) of all underlying indicators. By focusing on the direction rather than the magnitude of change, the indexes enable the evaluation of the broadness of underlying macro trends and are less prone to any historical revisions of the underlying data. Source: Allianz Global Investors Global Economics & Strategy, Bloomberg, Refinitiv (data as at 30 November 2025).

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From a fragile to balanced outlook

Regional breakdown

US

- **The economy has proved surprisingly resilient, but underlying growth remains fragile. As a result, we think output will fall short of potential in 2026, at around 1.4-1.9%.** Consumer price inflation is likely to exceed the US Federal Reserve's 2% target for the sixth consecutive year, reaching about 3%. To support growth, the Fed may cut rates by an additional 25 basis points, bringing the target range to 3.25-3.5% by mid-2026.

Europe

- **We expect a more balanced cyclical outlook for the euro zone in 2026, supported by well-behaved inflation – likely dipping below the European Central Bank's 2% target – and greater fiscal support, led by Germany.** Growth should stabilise at around 1-1.5% in 2026, with the ECB delivering a final 25 basis-point rate cut in the spring. Meanwhile, the Bank of England is set to continue its gradual easing, totalling 75 basis points by June.

Asia

- Chinese GDP is set for a temporary rebound in the first half of 2026, supported by front-loaded fiscal stimulus. **However, growth will return to its structurally slower trajectory, with full-year output around 4.2-4.7% amid subdued consumer spending.** In Japan, anticipated higher fiscal spending under Prime Minister Sanae Takaichi could force the Bank of Japan (BoJ) to tighten more aggressively than the 25 basis-point hike we currently expect by mid-2026.

ECONOMIC GROWTH: Slowing in the US, improving in the euro zone

Real GDP, year-on-year %

Location	2024*	2025 Bloomberg consensus†	2026 Bloomberg consensus	2026 AllianzGI forecast
World	3.0	3.0	2.9	=
US	2.8	2.0	2.1	↓
Euro zone	0.7	1.4	1.2	↑
Germany	-0.2	0.3	1.0	↑
UK	0.8	1.4	1.1	=
Japan	0.1	1.2	0.8	=
China	5.0	4.9	4.5	↑

INFLATION: Still high in the US, more contained elsewhere

Inflation, year-on-year %

Location	2024*	2025 Bloomberg consensus†	2026 Bloomberg consensus	2026 AllianzGI forecast
World	4.2	3.4	3.3	=
US	3.0	2.8	2.8	↑
Euro zone	2.4	2.1	1.8	=
Germany	2.5	2.3	2.0	=
UK	2.5	3.4	2.5	=
Japan	2.7	3.1	1.9	=
China	0.2	0.0	0.7	↓

*2024 data from IMF. Data as at December 2025. † For 2025, our forecasts are mostly aligned with consensus.

↑ = AllianzGI above consensus ↓ = AllianzGI below consensus = = AllianzGI in line with consensus.

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View on valuations: Earnings justify US equity valuations?

Japan and UK equities still appear undervalued

- **US stocks' large weighting in global indexes has pushed overall equity valuations higher.** While US equities still appear richly valued, the headline numbers obscure a more nuanced picture. A handful of large US tech names exert an outsized influence on the data. Even so, we think earnings support growth, and valuations remain below levels seen in previous bubbles.
- By contrast, **Japan and UK equities remain undervalued by our metrics, despite modest gains.** Other options for investors looking to diversify away from US dollar assets include euro corporate bonds.
- **Developed market sovereign bonds in our survey are not far from fair value,** with Japan sovereign bonds becoming more undervalued compared with the last quarter.

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 30 Novrember 2025. 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.

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Asset class convictions

Equities

- **While US valuations appear high, especially in the concentrated larger-cap segment, there remain opportunities**, in part due to the return of manufacturing capex.
- **Europe's drive for strategic autonomy persists**, with expansive fiscal policies providing significant stimulus. Meanwhile, efforts to further mobilise private capital via the nascent EU Savings and Investment Union will continue.
- **A wave of AI diffusion in China is dovetailing with the depth and breadth of domestic supply chains,** as well as a flourishing ecosystem of innovative start-ups. Alongside a surge in biotech out-licensing, and ongoing pensions and insurance reform, China should provide fertile ground for investors in 2026.
- **India's aspiration economy – fuelled by rising digital penetration, income growth, and increasing formalisation – continues to build momentum.**
- **In terms of sectors, life sciences seem to be turning a corner** with the headwinds of recent years transforming into more positive momentum. For instance, destocking in the wake of Covid has ended, while the overhang from US spending cuts has mitigated. **The long-term case for AI's transformative effects remains solid** despite short-term frothiness; growing power demands are supportive of utilities.

Fixed Income

- Divergence in global bond markets favours an **active approach to duration management**.
- In core markets such as the US, **we favour shorter-dated government bonds**. We still expect the **US yield curve to steepen** given insufficient term premia in longer-dated bonds.
- Some markets are approaching the end of monetary easing cycles; **favour yield curve flatteners in markets such as Canada.**
- For longer-dated exposure, **consider emerging market sovereign debt issued by Brazil, Peru and South Africa**, where real rates are attractive and central banks have leeway to cut rates.
- In foreign exchange, we see building tailwinds for **deeply undervalued Asian currencies** given a supportive policy backdrop and abating trade uncertainty.
- In investment grade credit, pricing is fair, supported by solid fundamentals and strong technicals; we prefer **more senior parts of the capital structure**, favouring financials and utilities over cyclical industrials.
- Although default risk is broadly manageable, **high yield bonds demand a diversified and selective approach** in a late cycle. Emerging market corporates and Asia high-yield provide credit cycle diversification and decent risk-reward.

Multi Asset

- **We are optimistic on risk assets despite recent market volatility** – and uncertainty around US data and the Fed's interest rate path.
- **Equities are our preferred asset class, supported by resilient AI-driven earnings.** We maintain balanced regional exposure, with stronger convictions especially on emerging markets. We also rebalance from US tech into Asia. In Europe, we prefer Spain and small caps.
- **In fixed income, we're most constructive on steepeners and moderately positive on duration**. We think interest rate cuts in Europe and the US will continue to support government bonds, except in Japan, where fiscal expansion and a hawkish BoJ could lead to even higher interest rates.
- **Emerging market bonds remain a core conviction for their attractive carry and resilience** and complement the high-quality credit in our portfolios. Underlying fundamentals in the form of strong growth and improving fiscal positions should continue to drive performance.
- **We maintain our long-term conviction on gold, underpinned by central bank demand and inflows** into exchange-traded funds. **We've upgraded our view on copper, with supply stagnating as demand grows** to support infrastructure needed for the green transition and the AI boom.

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