

Macro Matters: Geopolitics Dominates Narratives— for Now

Which macroeconomic trends do we think matter the most? Read through the investment implications in this month's issue of Macro Matters.

Authors	Date	Topic
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Key takeaways

- **Growth**
U.S. growth for the first quarter is expected to remain robust though moderated from being above trend. Geopolitics and a more careful Federal Reserve (Fed) have led to some downward revisions. The international picture looks more fragile before accounting for the impact of the “stop” or loss of momentum to business activity in March and subsequent higher energy import dependency.
- **Inflation**
Global central banks have upgraded their inflation forecasts. The most aggressive, such as the European Central Bank (ECB), primarily focus on an inflation target, whereas the Fed has a dual mandate around inflation and growth and has been less aggressive.
- **Rates**
The sharp rise in energy prices has largely priced out U.S. rate cuts for this year while market expectations have moved to hikes in Europe. To what degree this is realistic, given weaker growth internationally, remains to be seen.
- **Geopolitics**
The situation between Iran and the West remains fragile. One thing is clear: current predictions are likely to be trivial. A lengthy and broadening conflict can't be ruled out—along with a potential deescalation. Both scenarios could have a bigger impact on risk sentiment and, ultimately, growth and inflation dynamics. For now, it's worth looking through the noise and focusing on the medium-term impact.

Our economic outlook:

Global growth expectations have been trending lower from a high base since late 2025, with rising geopolitical tensions in the Middle East driving a further rerating and sharper regional divergence. A prolonged conflict will likely weigh on activity through higher energy and broader commodity prices, with spillover from agriculture to semiconductor inputs. Purchasing Manager's Index numbers have softened—particularly in services—while higher bond yields are tightening financial conditions and pressuring public balance sheets. Increased equity and rates volatility are likely to dampen consumer sentiment via negative wealth effects, as emerging stress in private credit markets raises the risk of tighter liquidity if spreads widen. While governments may provide limited fiscal support to offset energy costs, strained public finances could cap the response. Europe and parts of Asia are most exposed given weaker starting points, while the U.S.—despite being a commodity producer—is also losing momentum. Unlike

2022, the current shock is largely supply driven and hits against a weaker consumer backdrop, raising the risk that high prices ultimately undermine demand.

Inflation remains uncomfortably sticky. The U.S. Core Personal Consumption Expenditures (Core PCE) Price Index has moved back above 3%, with limited progress in core goods inflation—partly tariff related—while higher producer prices and energy costs have pushed near term inflation expectations higher. Rents are gradually easing, but after five years of above target inflation, the Fed’s appetite to cut rates is low. Outside the U.S., the ECB and Bank of England have turned more hawkish, revising inflation paths upward, while the Bank of Japan remains the key dovish outlier. Rate markets have repriced sharply: from multiple expected cuts to none in the U.S., and from cuts to potential hikes in Europe. While long term inflation expectations remain relatively anchored, shorter term expectations have ratered meaningfully higher. Our base case remains a Fed on hold and data dependent, but we believe Europe faces a higher risk of policy error, where rate hikes in a weak growth environment would likely tip the economy into recession.

Prospective changes to asset allocation:

- **Equities**

We’ve been moderating our broader exposure to equities for some time, getting more nuanced in our choices. We take a more cautious approach of overweighting U.S. equities over international equities—a shift from our long-held view. The U.S. being a net exporter of energy (though there is nuance here), combined with a stronger U.S. dollar, should help shield the U.S. economy from higher energy prices. Developed ex-U.S. and emerging market (EM) equities remain cheaper and attractive in the long-term, though weaker currencies, more hawkish central banks, and higher reliance on energy imports are likely to cause higher market volatility. However, short-term sentiment shifts will likely lead to plenty of noise in these markets.

- **Fixed income**

We remain neutral on U.S. duration overall, with a preference for the medium part of the curve while underweighting the long end of the curve. Rates in developed ex-U.S. markets have risen sharply, and we see the prospect of longer-term attractive entry levels given attractive all-in yields. We also reduced the majority of our underweight views on duration, as we favor moving to neutral while realizing profits.

- **Commodities and foreign exchange (FX)**

We continue to favor commodities, with a particular focus on energy. Energy commodities remain supported by the lasting damage of energy infrastructure in the Middle East. From a currency perspective we remain positive on selected countries benefiting from the commodity boom, insulation from tensions, and broader strength in the underlying economies, including the Brazilian real and Mexican peso.

Multi-asset allocation views:

These multi-asset views reflect tilts to our strategic asset allocation models and are based on a 6- to 12-month time horizon, driven by both quantitative and fundamental research.

+ (Overweight on overall asset class)

= (Neutral on overall asset class)

- (Underweight on overall asset class)

Primary asset class allocations relative to individual targeted neutral portfolios Overweight/neutral/underweight

Global equities	Overall	=
	U.S. large cap	Overweight
	U.S. mid cap	Neutral
	U.S. small cap	Neutral
	Eurozone	Underweight
	Japan	Underweight
	U.K.	Neutral
	EM	Neutral
Global rates*	Overall	=
	U.S. government-related	Underweight
	U.S. inflation-linked	Overweight
	Eurozone	Neutral
	Japan	Underweight
	U.K.	Overweight
	Australia	Neutral
	Canada	Neutral
Global credit	Overall	-
	Global investment grade	Neutral
	Global high yield	Underweight
	EM debt	Neutral
Currencies	Overall	+
	USD	Overweight
	CHF	Neutral
	JPY	Neutral
	EUR	Underweight
	EM	Overweight
Commodities	Overall	+
	Oil	Overweight
	Precious metals	Neutral
	Industrial metals	Neutral

For illustrative purposes only. Source: Allspring Multi-Asset Solutions, as of 31-Mar-26. Based on the team's analysis of current data and trends for each category of assets. Weights are based on client-specific asset allocation target and may vary based upon defined specific neutral allocation weightings. *For global rates, an overweight tilt relative to individual targeted neutral portfolio views, indicates a broad expectation for lower rates in the asset class or underlying sectors. Conversely, a relative underweight tilt would indicate a broad expectation for rising rates, respectively.

Forward investment implications:

Equities		Sector-specific commentary
Overall:	A more quality- and sentiment-focused approach may be needed as financial conditions have tightened in the short term.	
	EM	We moved to favor a more cautious approach given higher FX and equity volatility in EM. Within EM equities, we expect a difficult road ahead for Asian markets ex-China, relative to markets in Latin America.
	Eurozone	In Europe, optimism has faded with higher energy prices.
	Japan	Equity risk has picked up as the Japanese yen continues to weaken and amid Japan's heavy reliance on Middle Eastern oil imports.
	U.S.	We prefer U.S. equities on a relative basis as the geopolitical impact is less severe and the Fed has more flexibility given its dual mandate on inflation and growth.
Fixed income		Sector-specific commentary
Overall:	We favor avoiding the long end of interest rate curves as rate cut expectations have been trimmed.	
	U.S.	We prefer the middle part of the curve, which may be less sensitive to growth and inflation revisions.
	Eurozone	Eurozone bonds have underperformed and may represent better value longer term.
	Japan	We remain underweight Japanese bonds as the Bank of Japan monetary policy remains very loose.
	EM	We continue to favor EM debt in the long term, but we're also watching for higher risk and wider spreads in the short term as investor sentiment remains fragile.
Currencies (FX)		Sector-specific commentary
	USD	We continue to favor long USD positions as we expect U.S. growth to outperform international growth.
	EUR	Despite the repricing of interest rates and potential rate hikes, we expect the EUR to be under pressure from very low growth.
	EM	We remain selectively positive on commodity export-focused EM currencies.
Commodities		Sector-specific commentary
	Oil	We maintain a constructive view on energy in the medium term but expect to manage this exposure tactically as geopolitical tensions

		remain high. Our new “floor” on the price of oil is moving from US\$60 to US\$80, at least for now.
	Precious metals	We are neutral on precious metals, having been both long and short gold position views at various times this year, as risks to the downside from a stronger USD and higher interest rates have increased.
	Industrial metals	We remain positive on industrial metals driven by demand related to artificial intelligence and a global growth recovery, but we favor neutral exposure for now given increased volatility.

Duration is a measurement of the sensitivity of a bond’s price to changes in Treasury yields. A fund’s duration is the weighted average of duration of the bonds in the portfolio. Duration should be interpreted as the approximate change in a bond’s (or fund’s) price for a 100-basis-point change in Treasury yields. Duration is based on historical performance and does not represent future results.

Hedging a bond means using a separate investment to offset the potential risks of the bond.

Core Personal Consumption Expenditures (Core PCE) Price Index

The Core Personal Consumption Expenditures (Core PCE) Price Index reflects changes in the prices of goods and services purchased by consumers in the U.S. but excludes food and energy. The Core PCE Index is a subset of the Personal Consumption Expenditures (PCE) Price Index but is intended to provide a smoother view of underlying, long term inflation trends by removing food and energy prices, which can swing widely due to weather, geopolitics, or commodity shocks. You cannot invest directly in an index.

Personal Consumption Expenditures (PCE) Price Index

The Personal Consumption Expenditures (PCE) Price Index reflects changes in the prices of goods and services purchased by consumers in the U.S. It is part of the Personal Income and Outlays Report issued by the Bureau of Economic Analysis of the U.S. Department of Commerce. You cannot invest directly in an index.

Purchasing Manager’s Index

The Purchasing Managers’ Index is an economic indicator that gauges sentiment in manufacturing, based on monthly surveys of purchasing managers. You cannot invest directly in an index.

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