

# Macro Matters: Inflation Path and Investment Implications

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

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## Topic

Market Events

## Key takeaways

- **Growth**

U.S. growth is likely to accelerate in the first half of 2026, supported by fiscal policy, a weaker USD, and lower real yields. The eurozone is stabilizing at a low level, though confidence remains fragile. Emerging markets (EM) benefit from stronger currencies, healthy balance sheets, and rising commodity prices.

- **Inflation**

Inflation continues to slowly trend lower, but the sharp rise in commodity prices might make inflation stickier and the U.S. Federal Reserve's (Fed's) job a bit trickier to cut interest rates further.

- **Rates**

Policy divergence remains a defining theme. We expect gradual easing from the Fed but probably less than expected by the market, with the European Central Bank on hold for now while the Bank of Japan continues very careful tightening.

## Our economic outlook:

The macro environment continues to improve as global growth is reaccelerating, supported by looser fiscal and looser monetary policy. That said, the inflation-versus-growth trade-off could worsen for the U.S. as the USD continues to weaken and global commodity prices rise sharply. Rising growth and sticky inflation would make it harder for the Fed to cut interest rates this year.

The impact from **U.S. fiscal stimulus** is likely to peak in the second quarter, with gradual monetary easing expected absent a significant labor market deterioration. Despite gains in real income, the U.S. consumer remains pessimistic on the economy and the labor market. Distortions in economic data from the shutdown will continue to be felt until at least April of this year. On the positive side, the latest inflation print showed an ongoing moderation in headline inflation, though stronger growth could offset some of the progress going forward. While this would mean less rate cuts than currently expected, not necessarily negative news for markets as long as stronger growth rather than stronger inflation is the reason for holding rates stable. The Fed upgraded its growth assessment in its last meeting, showing increased confidence in previous rate cuts supporting the labor market while mentioning further progress on the inflation front.

In the **eurozone**, the latest Purchasing Manager's Index numbers point to a stabilization in manufacturing, though at a low level. Services continue to drive growth, though business

sentiment remains weak. We need to see how much fiscal stimulus can change the situation as rising energy prices raise input prices and make the industrials sector less competitive. The Bank of Japan is busy in talking the currency up while avoiding raising interest rates too aggressively. China continues to employ fiscal measures aimed at stabilizing sentiment. EM ex-China, in particular in Latin America, remain attractive with solid growth and inflation outlooks.

U.S. **growth** remains supported by policy, with 2025's artificial intelligence (AI)-driven productivity gains offering a buffer. Japan should also stay resilient, while eurozone expectations appear toward the upper bound of what is achievable. EM continues to demonstrate growth resilience.




Inflation in the U.S. has moved closer to target, though a moderately restrictive rate is needed to bring it from 2.7% year over year to the 2% target. Internationally, inflation seems under control, with the U.K. expected to be closer to target toward summer this year while China continues to struggle with deflation. Policy, growth, and inflation divergence will remain key sources of opportunity in 2026.


## Prospective changes to asset allocation:

- **Equities**  
We remain constructive on equities and maintain an overweight, particularly in Asia EM, more broadly, and in the U.S. The U.S. earnings season has been strong so far, with both revenue and profit results exceeding expectations across most sectors. Historically, periods of growth recovery have tended to favor cyclical equities, commodities, and EM. While this environment is supportive to U.S. equities, ongoing USD weakness provides investors with ample international opportunities.
- **Fixed income**  
We stay neutral on U.S. duration, preferring curve steepeners and duration in developed ex U.S. markets and spreads in EM debt.
- **Commodities and foreign exchange (FX)**  
We continue to favor commodities with a particular focus on precious metals, industrial metals, and energy. The recent rally looks overextended in the short term and we might see profit-taking, though the longer-term trend supported by strong demand and elevated geopolitical risk remains in place. Currency wise, we remain positive on EM and select developed countries benefiting from the commodity boom, like the Australian dollar or the Brazilian real.

## 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                | Overweight        |
|             | Japan                   | Neutral           |
|             | U.K.                    | Neutral           |
|             | EM                      | Overweight        |
| Duration    | Overall                 | =                 |
|             | U.S.                    | Underweight       |
|             | U.S. inflation-linked   | Slight overweight |
|             | Eurozone                | Overweight        |
|             | Japan                   | Underweight       |
|             | U.K.                    | Overweight        |
|             | Australia               | Neutral           |
|             | Canada                  | Neutral           |
| Credit      | Overall                 | -                 |
|             | Global investment grade | Neutral           |
|             | Global high yield       | Underweight       |
|             | EM debt                 | Overweight        |
| Currencies  | Overall                 | +                 |
|             | USD                     | Overweight        |
|             | CHF                     | Neutral           |
|             | JPY                     | Underweight       |
|             | EUR                     | Neutral           |
|             | EM                      | Overweight        |
| Commodities | Overall                 | +                 |
|             | Oil                     | Overweight        |
|             | Precious metals         | Overweight        |
|             | Industrial metals       | Overweight        |

For illustrative purposes only. Source: Allspring Multi-Asset Solutions, as of 03-Feb-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.

## Forward investment implications:

| Equities |   | Sector-specific commentary   |
|----------|---|--|
| Overall: | Strong earnings, loose fiscal policy, and a weaker USD created further support for equities with an overweight in emerging markets. |  |
|          | EM  | We continue to favor a more refined approach with an overweight in |

|                        |  |  |
|------------------------|--|--|
|                        |  | regions such as Korea and Brazil.  |
|                        | <b>Eurozone</b>  | In Europe, optimism around fiscal stimulus is already reflected in valuations, while the real economic impact is likely to materialize more slowly.                                      |
|                        | <b>Japan</b>   | We moved to neutral given the volatility in the FX and rates market created by uncertainty around the financing of further fiscal stimulus.  |
|                        | <b>U.S.</b>  | Earnings are coming in strongly, the information technology sector is expected to continue to do the heavy lifting, and a broadening toward mid- and small-cap stocks is still possible. |
| <b>Fixed income</b>    |  | <b>Sector-specific commentary</b>  |
| <b>Overall:</b>        | We remain broadly neutral on duration exposures. With spreads tight, we prefer to avoid adding new credit exposure. Longer-dated bonds in developed markets remain unattractive given persistent concerns around fiscal credibility. |  |
|                        | <b>U.S.</b>  | U.S. Treasuries appear fairly priced; continued fiscal spending and a weaker USD should result in further curve steepening.  |
|                        | <b>Eurozone</b>  | The eurozone presents opportunities as inflation risks remain low and growth is sluggish.  |
|                        | <b>Japan</b>   | Japan stands apart as an underweight from other developed markets due to continuing its transition toward higher rates.  |
|                        | <b>EM</b>  | We continue to favor EM debt for its carry characteristics, with EM central banks having led the easing cycle.   |
| <b>Currencies (FX)</b> |  | <b>Sector-specific commentary</b>  |
|                        | <b>USD</b>   | Despite the recent weakening, we believe in a stronger USD medium-term as less rate cuts materialize because of stronger U.S. growth.  |
|                        | <b>EUR</b>   | The euro appears overvalued given the optimistic fiscal narrative and weak consumer confidence.  |
|                        | <b>EM</b>  | We continue to prefer selective EM carry FX where yield cushions remain robust.  |
| <b>Commodities</b>     |  | <b>Sector-specific commentary</b>  |
|                        | <b>Oil</b>   | We maintain a constructive view on energy in the medium term but manage this exposure fairly tactically. OPEC is unlikely to expand production further from here.                        |
|                        | <b>Precious metals</b>   | We maintain a positive stance on precious metals longer-term, though we started to trim positions given higher volatility.   |

|  |                          |  |
|--|--------------------------|--|
|  | <b>Industrial metals</b> | We remain positive on industrial metals driven by AI-related demand. |
|--|--------------------------|--|

**Curve steepener** refers to a change in the yield curve where the difference between long-term interest rates and short-term interest rates increases, making the yield curve steeper.

**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.

The **Purchasing Manager’s Index (PMI)** is an economic indicator that measures the health of a country’s manufacturing or services sector.

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