SETTING THE SCENE

A new regime calls for a new mindset

A spirit of endurance has characterised the market rally of the past year and looks set to persist in 2026. So will some of the asset price paradoxes that are emerging as **the global economy transitions to a new innovation-led regime and as geopolitics enters a phase of controlled disorder.**

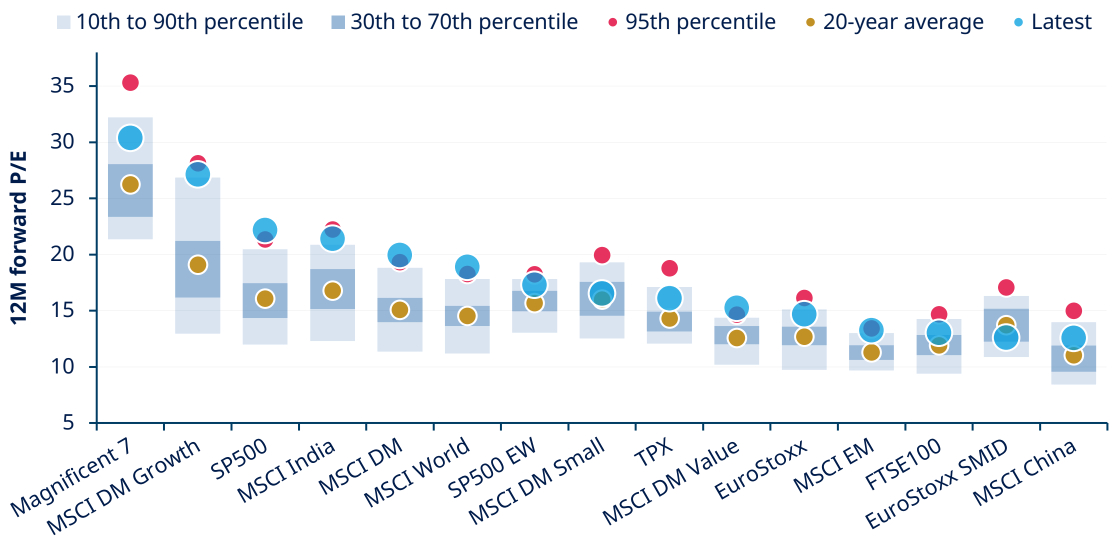
These shifts will alter the way that economic and investment cycles unfold. **Longer term, Artificial Intelligence (AI) may boost productivity and fundamentally transform economic and fiscal dynamics.** More immediately, we expect further massive capital expenditure on AI and related sectors, including data centres and the energy that powers the technology, even if the current pace may not be sustainable for too long.

Such investment will support global growth and ensure that a US slowdown next year does not turn into a downturn. **There are also reasons for optimism about Europe's outlook**, even if growth may be modest in 2026. German public spending on defence and infrastructure is a game changer, while the European Union is making progress on reforms and fiscal discipline that will help the continent surmount shocks. We also expect growth in China, India and emerging markets overall to continue to be resilient. And a Middle East push into AI will also generate investor interest.

This macroeconomic backdrop, easy financial conditions, AI enthusiasm and a decent earnings outlook suggest equity valuations could remain elevated for longer than might have previously been anticipated. **We will, however, be keeping a close eye on any signs that profits may start falling short of the lofty expectations that have fuelled equity gains**, especially given the risk that a spike in volatility could see market liquidity suddenly dry up.

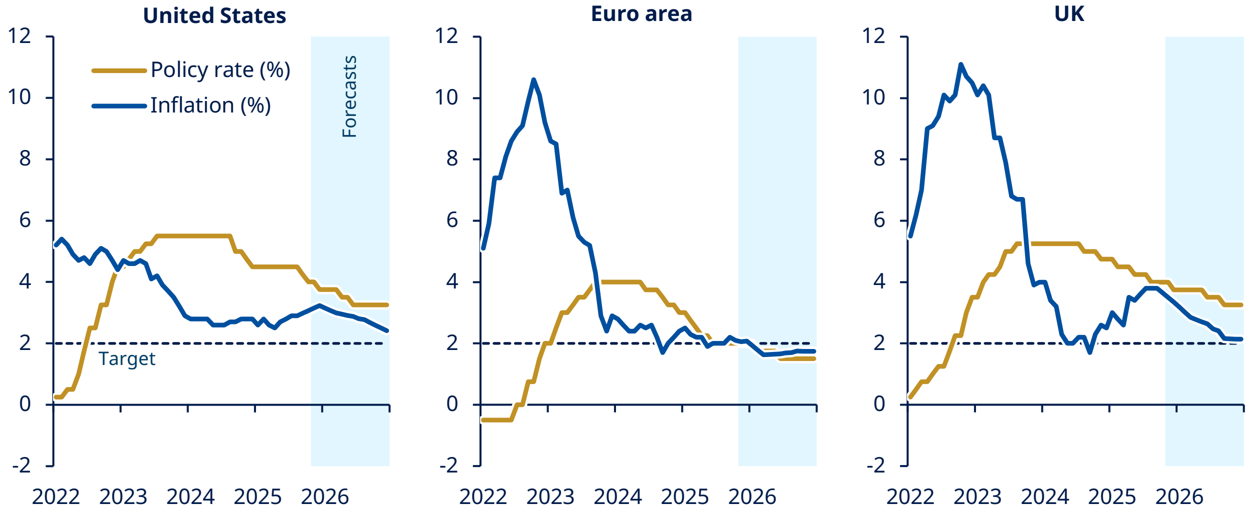
Monitoring such risks is vital given some of the companies that have driven the rally are vulnerable in the medium term to shocks from a new geopolitical order. **The hallmarks of this era are rivalry in a range of domains, including technology, but cooperation on select issues**, such as climate change or safeguards around artificial intelligence. And while the trade and financial connections that are the lifeblood of the global economy may be re-routed, there is little chance they will break down entirely. **Geopolitical risk will therefore be chronic but manageable**.

Equity valuations edge closer to historical high



Sources: Amundi Investment Institute, Bloomberg, data as of 06 November 2025. Analysis on a 20-year horizon.

Central banks' inflation dilemma



Sources: Amundi Investment Institute, LSEG Datastream. US Core CPE, Euro area HICP & UK CPI.

This backdrop will complicate the outlook for inflation. Global medium-term trends such as reshoring and the energy transition will generate price pressures even as the impact of shorter-term forces, including tariffs and wage pressures, filters through the economy. This is less of a problem in the euro zone, where we expect the European Central Bank to hit its inflation target. But **US inflation will remain higher for longer, with levels of around 3% expected in 2026.**

Inflation expectations have so far remained anchored due to the credibility that central banks built up over decades. But the independence of monetary policy can no longer be taken for granted in a world where politicians, even in major developed countries such as the United States, feel freer to advocate unorthodox policies.

Any sign that central bankers are bending to political pressure would jolt all asset classes, especially benchmark bond yields. But even without such a shock, **investors may have to rethink the benchmarks they use for asset allocation.** Real rates could stabilise at higher levels than was the norm over the last couple of decades. This may also be the case for valuations of any blue-chip indices that have a heavy weighting of innovation-related stocks.

Asset allocation will also have to adapt if the breakdown in some traditional market relationships persists. One of the most eye-catching of the past year was the simultaneous surge in gold prices and rally in equities. And the US dollar has moved more in tandem with riskier assets than other traditional safe havens. **We expect the dollar to continue to weaken.** This will benefit emerging market assets and we therefore continue to take a firmly global approach to equity investing. **The trend in gold also has scope to rise further given the structural shift towards a multipolar system and the need for portfolio diversifiers**.

These market trends will also be driven by concern about high debt levels in the United States and other major developed countries. These worries will show up in the fixed income market, though the US administration's desire to prevent government yields rising too far or too fast means that **investors may need to be as wary of fighting the US Treasury as they are of taking on the Federal Reserve.**

As a result, **we favour US breakevens and expect any further steepening of the Treasury yield curve to occur only later in 2026.** Investment grade credit may also be attractive on both sides of the Atlantic, even though spreads against benchmark government bonds have already shrunk this year. By contrast, both US and European high-yield credit could be vulnerable. This will be particularly true if there is a loss of momentum in the forces that have kept the economy and markets turning so far.

That, however, is no reason to avoid risk exposure as long as AI and fiscal policy are providing a buffer for economies. Proceeding with confidence amid such uncertainty requires a shift in investors' mindset but is likely to be the most worthwhile approach.

"Diversification and hedging will allow investors to mitigate risks while making the most of the opportunities that new technology will bring next year."

DYNAMIC ASSET ALLOCATION

Still risk on, balancing risks

For 2026, the cross-asset stance remains **moderately pro-risk yet increasingly diversified**. The late cycle continues to reward quality and profitability mainly. However, stretched valuations and rising policy and geopolitical risks call for **selectivity and hedging**.

Within our regional equity ranking framework, **profitability and leverage are the key differentiators** — consistent with an AI-led investment supercycle, where **capital intensity and monetisation capacity define leadership.** The US and EMs lead, supported by superior profitability and balanced leverage, while Japan and Europe lag slightly. In adjusting relative valuations for profitability and debt quality, the US premium versus EMU remains, though it is more aligned with the structural profitability gap. That said, **sector and style allocation will drive performance in 2026**. We are positive **on financials, industrials, defence and green-transition sectors, complemented by small and mid-caps in Europe,** which show renewed activity in capital goods and defence-related segments.

From an asset allocation perspective, **we remain agile on duration and selective within fixed income**, maintaining a neutral stance on sovereigns, but with a **clear preference for investment grade credit, where risk-adjusted returns remain attractive**. For real-return resilience, we favour a greater allocation to **alternative income and inflation hedges — including private credit, infrastructure and a broader commodities exposure**.

Finally, **diversification should structurally include selected currencies such as JPY, EUR and gold, alongside selective emerging FX**. Overall, the 2026 allocation balances risk-seeking with prudence: **participation in the tech-led recovery but meaningfully hedged against high downside risks.**

COMMODITY FOCUS

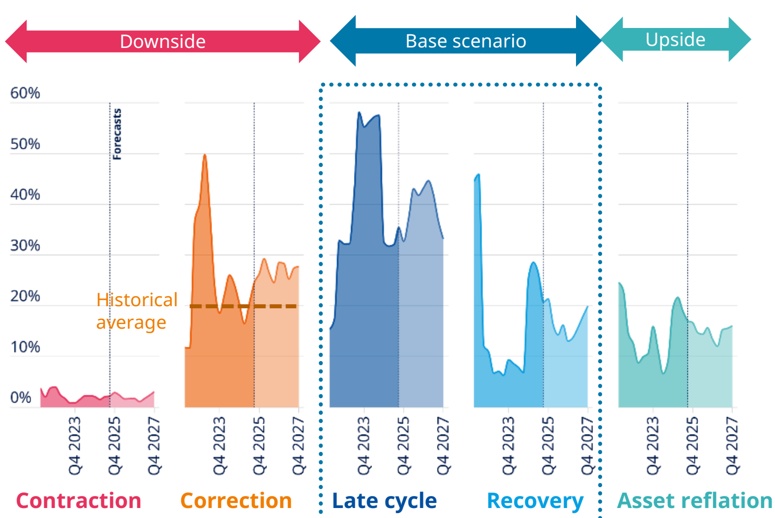
A constructive stance
Under the assumption of no economic recession in 2026, we reiterate a constructive view for commodities, which help to diversify asset allocation and provide some hedging against inflationary spikes.

Oil anchored by fundamentals
We maintain our targets of $63–68 for Brent and $60–65 for WTI based on current supply dynamics. Despite geopolitical escalation in the Middle East and tariff retaliations on Russian oil exports to Asia, oil prices remain relatively quiet and anchored to fundamentals, according to our expectations. Without a supply disruption or recession, oil should remain within these ranges.

Selective base metals
The base metals sector — at least some specific segments related to AI energy infrastructure, defence, and the green transition — will remain long-term winners.

Gold as a structural hedge
Gold serves as a key hedge against US fiscal and monetary policies, potential dollar debasement, and an excess supply of US assets. Gold prices could remain supported, even above our 2026 target of $4,200, as our three-year horizon is around $5,000.

Potential cycle evolution, with probability of correction above historical average



The probability of adverse market phases (contraction and correlation) remains significant moving into 2026, at around 30%.

The base scenario is for a late cycle with some recovery features, which supports a risk on stance.

The probability of higher upside is around 10% moving into H2.

Historical Parallels: The current environment represents a hybrid of historical episodes: 1970s macro complexity fused with 1990s technological disruption, layered on a post-2008 debt overhang and geopolitical fragmentation with relevant exceptions. The geopolitical picture today has more important players than in the past; USD or US assets in general are less exceptional, like the 70s; High tech spillovers seem broader and more profound in global economic penetration than in the 90s revolution; New commodities and metals are replacing the traditional base metals universe.

Source: Amundi Investment Institute. Probabilities derived from Amundi proprietary models "Advanced Investment Phazer". For phases definition see our paper "Advanced Investment Phazer: a guide to dynamic asset allocation".

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DEFINITION ABBREVIATIONS

Currency abbreviations: USD – US dollar, BRL – Brazilian real, JPY – Japanese yen, GBP – British pound sterling, EUR – Euro, CAD – Canadian dollar, SEK – Swedish krona, NOK – Norwegian krone, CHF – Swiss Franc, NZD – New Zealand dollar, AUD – Australian dollar, CNY – Chinese Renminbi, CLP – Chilean Peso, MXN – Mexican Peso, IDR – Indonesian Rupiah, RUB – Russian Ruble, ZAR – South African Rand, TRY – Turkish lira, KRW – South Korean Won, THB – Thai Baht, HUF – Hungarian Forint.

IMPORTANT INFORMATION

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