

**Investment
Institute**

Adapting to ruptures

CAPITAL MARKET ASSUMPTIONS

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Monica Defend
Head of Amundi
Investment Institute

Rupture is the new regime

We are living through a regime of ruptures — geopolitical, technological and energy-related — and adaptation will define the next five years. Strategic autonomy and AI-driven productivity gains can make growth more resilient, but not structurally much stronger. Inflation, meanwhile, is becoming more embedded, driven as much by energy demand, geopolitics and climate risk as by the cycle itself.

Debt is reshaping markets

Debt dynamics are moving to the centre of the investment backdrop. They imply structurally higher long-end rates and a greater role for fiscal dominance, reshaping the appeal of US debt and the US dollar. Over the next few years, this should reinforce the case for tilting bond allocation back toward domestic markets, with Europe and Japan best placed to benefit.



Vincent Mortier
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Diversification must build resilience

Resilient portfolios now require more than broad market exposure. Gold has become a strategic allocation tool as geo-economic fragmentation raises demand for a politically neutral store of value. Private assets — especially infrastructure and private equity — still add value, but with greater selectivity.

Asset allocation must adapt

Strategic asset allocation must adapt to a world of higher dispersion. As differences widen across time horizons, regions and currencies, investors need to position portfolios more actively in line with their risk appetite, using a broader mix of bonds, equities, gold and private assets.



John O'Toole
Global Head - CIO
Solutions, Amundi

KEY INSIGHTS

Adapting to ruptures

Main convictions for 2026 CMA

1

Rupture is no longer a shock to the system — it is the system

The global economy is moving through a structural regime shift. Trade rewiring, weaker policy coordination, the push for strategic autonomy, a delayed energy transition and uneven AI diffusion are making volatility more endogenous, rather than the by-product of external shocks. Growth can remain resilient, supported by fiscal spending and selective productivity gains, but fragmentation and demographic drag are unlikely to allow for a sustained acceleration in GDP. Inflation is becoming stickier too, increasingly shaped by commodity demand, geopolitics and climate risk. Policymakers and investors must now adapt to a world where resilience matters as much as efficiency.

2

Structural deficits come with fiscal dominance and debt reshoring

Governments will continue to prioritise defence, industrial policy, AI reskilling, energy autonomy and social protection. As the current energy shock is showing, strained fiscal positions are no longer a hard constraint on intervention, keeping debt high and long-end rates structurally elevated. Fiscal dominance is likely to be a defining feature of the next decade.

Rising sovereign supply, higher domestic rates and a potential regulatory push toward captive financing may push investors to allocate more into their domestic markets. Financial flows will also affect currency dynamics, with the US dollar's dominant role likely to be eroded gradually rather than lost abruptly.

3

A fragmented opportunity set across regions and time horizons

The 2026 CMA points to appealing long-term expected returns across most asset classes, with bonds slightly upgraded and equities still offering potentially solid return, between 6.5% and 7.5%. Private assets continue to offer higher return potential, in particular private equity. Return dispersion is likely to rise across regions over the next five years, while over the long run sector dispersion and climate adaptation will create new opportunities. The broader backdrop calls for balancing exposure to higher-returning assets, such as EM, Indian and private equities, with asset classes that can add greater resilience, including global government bonds, global investment grade credit and EM debt.

4

Private and alternative require more selectivity

Private assets can help enhance long-term returns, but the drivers of their performance are changing. Higher nominal discount rates are likely to cap valuation multiples, making returns less dependent on multiple expansion. Instead, they will be driven more by income and operational value creation.

At the asset class level, infrastructure and private credit should benefit from rising investment needs, while European private equity looks more compelling than its US counterpart due to lower valuations and investment linked to strategic autonomy.

5

Strategic asset allocation mixing global and local tilts

Investors must diversify to build resilience. Over the next decade, Aggregate bonds and EM bonds are increasingly relevant as a key anchor for portfolios, particularly for allocations with a moderate risk profile. In equities, Emerging Markets are gaining relevance, supported by higher long-term expectations. Within private assets, private equity is favoured as the main growth engine, while infrastructure and private debt play a stronger role as income-generating assets. Gold will be a key strategic allocation tool, supporting both diversification and return potential.

As a result, a global diversified dynamic allocation with a 12% volatility target is expected to deliver annual returns between 6.4% and 7.4% for EUR and USD investors, with Euro investors particularly benefiting from an improved reward-to-risk trade-off.

From 2025 to 2026: what's changed

Higher nominal growth, stickier inflation, and a higher bar for selectivity

Macro

Stronger nominal growth with stickier inflation

Compared with last year, our 2026 CMA reflects a firmer nominal backdrop. Growth has been revised up in several regions, supported by a more delayed transition path, earlier AI-related productivity gains and continued fiscal support. Inflation has also been revised up and is becoming structurally stickier.

Asset class assumptions

Government bonds appeal is increasing and FX matters more

The most significant upgrade versus 2025 is for government bonds. Higher starting yields, steeper yield curves and improved term-premia assumptions support higher long-term return expectations, with Japan standing out most clearly. Bonds are regaining a more meaningful role not only as sources of income, but also as anchors of diversification and portfolio resilience. At the same time, FX matters more strategically as the gradual erosion of the USD's dominance that we anticipated in 2025 is set to continue.

Credit is less compelling than a year ago

Credit spreads tightened over 2025, especially in the US and emerging markets, reducing future return potential. Carry remains supportive, but much of the easy spread compression is now behind us, while medium-term default risks are more visible. Credit still has a role in portfolios, but one that is more selective and more sensitive to starting valuations.

Equity returns remain attractive, but more differentiated

Equity earnings assumptions have improved, helped by stronger macro support, AI-related capex and sector tailwinds. But valuation headwinds now offset more of that benefit than they did a year ago. **The result is a more uneven regional picture:** EM remain preferred to DM, while within developed markets **Europe and Japan look more compelling** than the US, where concentration and valuations remain the key constraints.

Private assets still matter, but selectivity matters more

Private and alternative assets remain **important enhancers of long-term returns, but less than in the era of multiple expansion and ultra-low rates**. Income, operational value creation and manager selection now matter more. This year's private asset assumptions are also presented on a net-of-fees basis, making comparisons with 2025 less direct, but more realistic from an investor perspective.

Portfolio implications

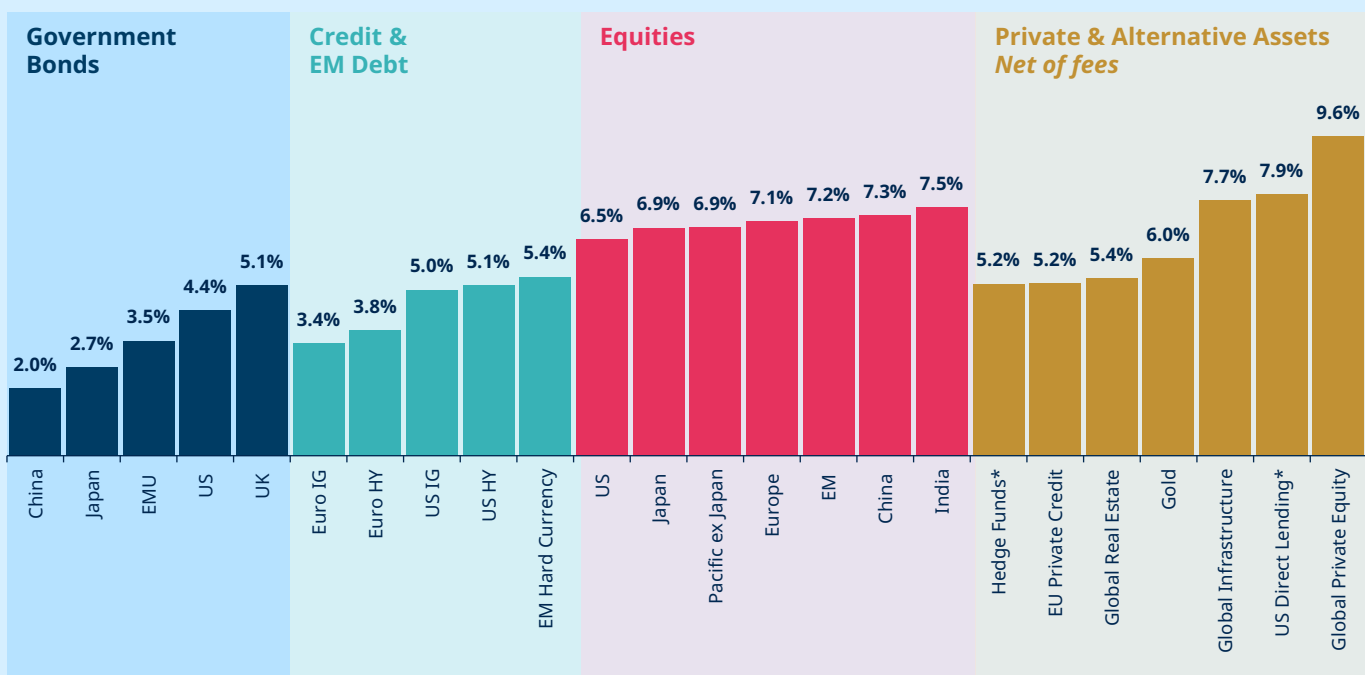
Portfolio takeaway

Relative to 2025, the message is clear: bonds deserve a stronger place in portfolios, credit calls for greater selectivity, equity returns remain attractive but more uneven, and private assets should be approached with a more disciplined lens. In a world of rupture, strategic asset allocation becomes less about broad market exposure and more about combining return potential with resilience.

KEY INSIGHTS

Appealing long-term expected returns across the board

10-year expected returns in local currency, excluding alpha



Bonds

Balance local and global

- **Japan:** The strongest improvement in returns, making them more attractive globally.
- **Euro:** A core allocation for EUR investors, with improved expected returns and risk-return profile.
- **US:** Attractive carry, though a weak USD makes them less compelling for international investors.
- **Investment grade credit:** Offers among the best risk-return trade-offs within fixed income.
- **High yield:** Still offers carry, but tighter spreads leave less room for error and require greater selectivity.
- **EM:** Best return potential in fixed income, with an attractive mix of carry and diversification.

Equities

More EM, Europe & Japan

- **US:** Resilient but constrained by high valuations and concentration risk.
- **Japan:** Best risk-return profile across currencies, driven by governance reform, buybacks and capital efficiency.
- **Europe:** Attractive returns, supported by reforms, AI and industrial momentum.
- **EM:** Preferred over developed markets, with growth in technology, digital services and advanced manufacturing.
- **China:** More selective, with upside from tech and policy support.
- **India:** Strong structural growth story, with solid earnings potential.

Private & Alternative

Time for selectivity

- **Hedge funds*:** Well-suited for a high-dispersion world, where unstable correlations create more opportunities.
- **Private debt:** Attractive carry but requires high selectivity.
- **Real estate:** Income-led recovery, with logistics and industrials in focus.
- **Gold:** Remains a preferred asset class during geopolitical shifts with strong arguments for sustained demand in the medium to long term.
- **Infrastructure:** Favoured for EUR investors, supported by digitalisation, energy transition and security needs.
- **Private equity:** Strong returns, with Europe preferred over the US.

Source: Amundi CASM Model, starting date is 31/12/2025. Returns are nominal and gross of fees, except private and alternative assets which are net of management and admin fees. The expected returns consider the market beta and the alternative assets risk premium. Alpha return component generated by portfolio management, strategy selection or specific value creation programs, that is significant above all for private and alternative assets, is not considered in any form. Fixed income assets expectations are based on average duration aligned with market cap indices. For further information see the "Sources and Assumptions" section.

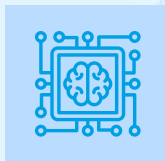
*US Direct Lending is considering leverage on the fund. Hedge Funds refer to Fund of Hedge Funds. Forecast returns are not necessarily indicative of future performance, which could differ substantially.

Turning fragmentation into sustainable growth



Opportunities amid rupture

Rupture can be an opportunity if policymakers rise to the challenge. Governments can encourage reshoring and boost capital formation and productivity through targeted industrial policy, building up buffers of strategic resources, and renewed investment in education, health and retraining.



AI could delay demographics' effect on growth

Technological advancement is accelerating. AI should boost productivity, address labour shortages, and enable large scale reskilling. However, progress hinges on countries' ability to innovate and ensure the swift diffusion of AI. Success will bring productivity gains that may temporarily offset the negative impact of ageing populations on growth.



A delayed path towards Net Zero

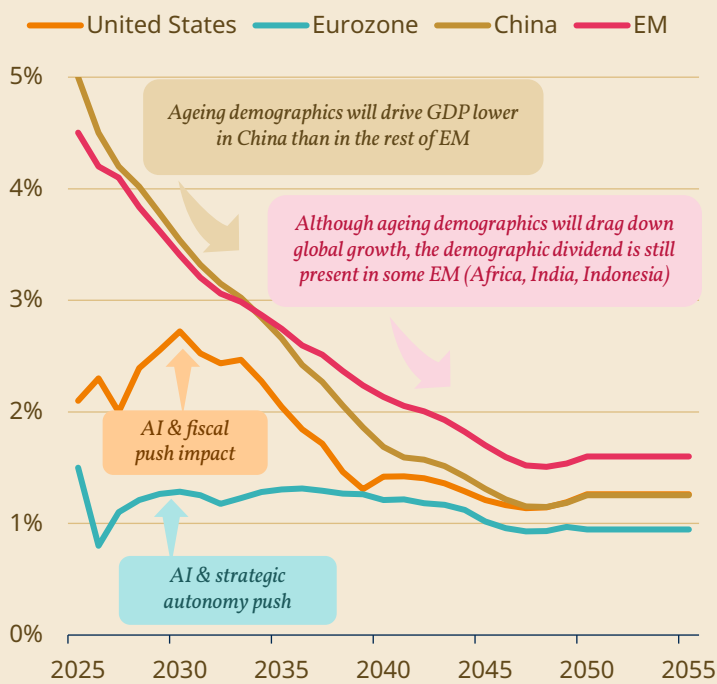
We have further downgraded the probability of the Net Zero pathway in favour of a delayed transition. In the short term, the US administration's stance on energy transition is establishing a precedent that others may be tempted to follow. That said, energy-dependent countries may be forced to accelerate their deployment of more sustainable options.



Strategic autonomy may enhance resilience

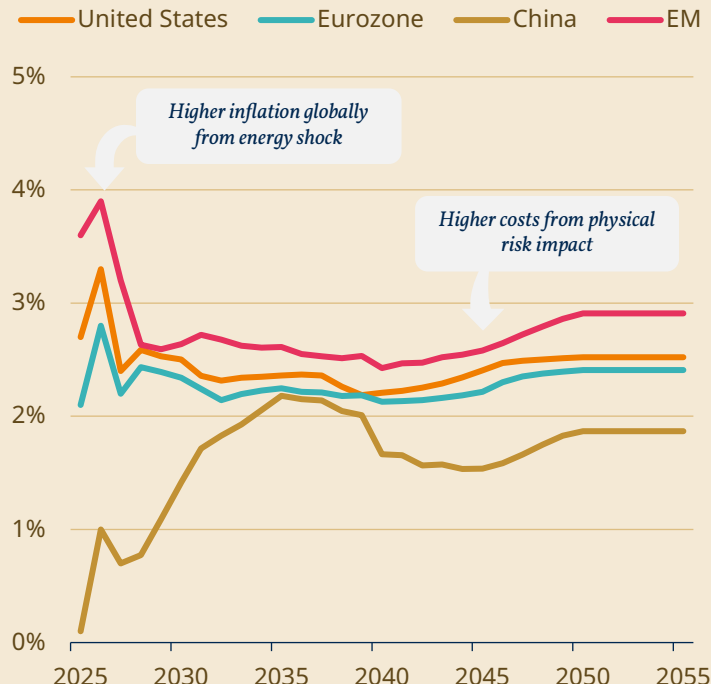
Strategic autonomy has emerged as a matter of national security and could help dampen the volatility of economic swings even if it does not boost growth rates. Industrial and trade policies are refocusing on national security priorities and financial flows will follow. Such shifts will raise short term costs, but support sustainable growth in the long term.

Growth outlook



Source: Amundi Investment Institute 2026 Capital Market Assumptions.

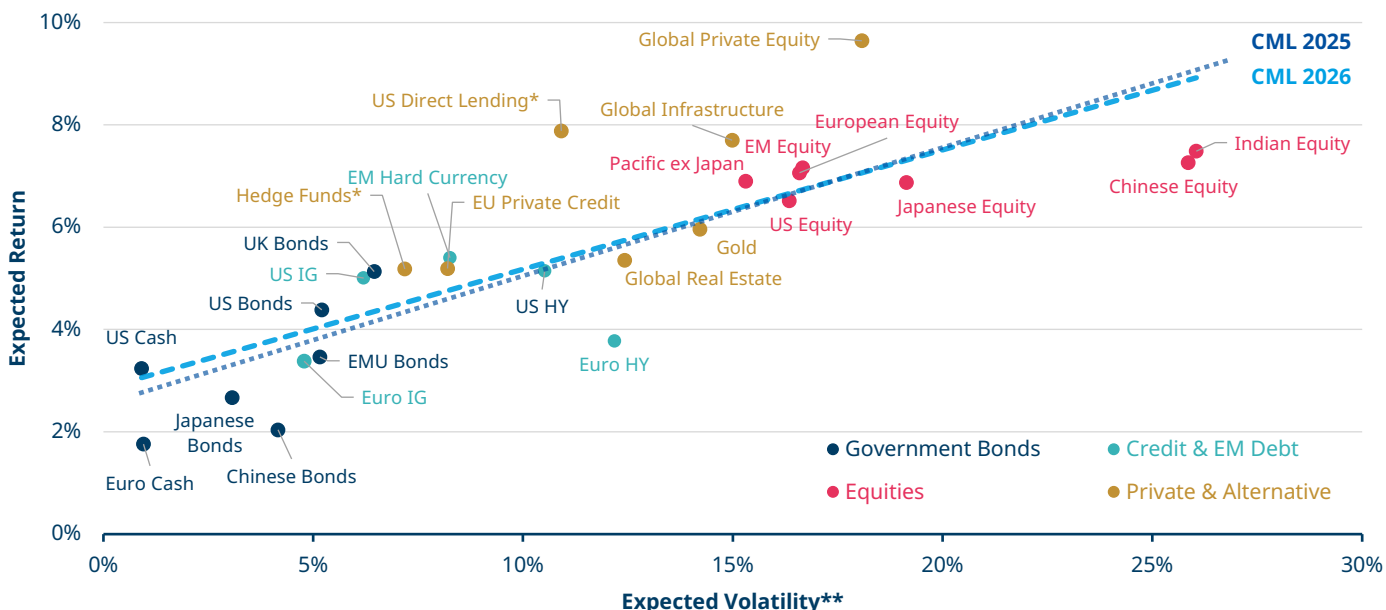
Inflation outlook



Source: Amundi Investment Institute 2026 Capital Market Assumptions.

Capital market line remains stable compared to last year with private and alternative assets in focus

10-year expected returns vs expected volatility scatter plot in local currency, excluding idiosyncratic alpha



Asset classes with the best risk-return payoff in local currency

		10-year expected returns	10-year simulated volatility**	Reward to risk	
Best asset class in the high volatility space (Simulated Volatility >14%)	Global Private Equity	9.6%	18.1%	53.4%	
	Global Infrastructure	7.7%	15.0%	51.4%	
	Pacific ex Japan Equity	6.9%	15.3%	45.1%	
	EM Equity	7.2%	16.7%	43.0%	
	European Equity	7.1%	16.6%	42.6%	
	Private equity, Infrastructure, EM equity, Pacific ex Japan and European Equity	US Equity	6.5%	16.3%	39.9%
		Japanese Equity	6.9%	19.1%	35.9%
		Indian Equity	7.5%	26.0%	28.7%
		Chinese Equity	7.3%	25.9%	28.1%
		Gold	6.0%	14.2%	41.9%
Best asset class in the mid volatility space (Simulated Volatility 7-14%)	US Direct Lending*	7.9%	10.9%	72.2%	
	Hedge Funds*	5.2%	7.2%	72.2%	
	EM HC Debt	5.4%	8.3%	65.4%	
	EU Private Credit	5.2%	8.2%	63.3%	
	Hedge Funds, Global Private credit EM HC Debt, US HY	US HY	5.1%	10.5%	48.9%
		Global Real Estate	5.4%	12.4%	43.1%
		Euro HY	3.8%	12.2%	31.0%
Best asset class in the low volatility space (Simulated Volatility <7%)	Japanese Bonds	2.7%	3.1%	87.1%	
	US Bonds	4.4%	5.2%	84.2%	
	US IG	5.0%	6.2%	80.7%	
	UK Bonds	5.1%	6.5%	79.5%	
	Japan Bond, US Bond, US IG Bond, UK Bond	Euro IG	3.4%	4.8%	70.7%
		EMU Bonds	3.5%	5.2%	67.1%
		Chinese Bonds	2.0%	4.2%	49.0%

Source: Amundi CASM Model, starting date is 31/12/2025, returns are nominal and expressed in local currency, except EM HC Debt, Global Infrastructure and Hedge Funds which are in USD. The expected returns consider the market beta and the alternative assets risk premium. Alpha return component generated by portfolio management, strategy selection or specific value creation programs, that is significant above all for private and alternative assets, is not considered in any form. Fixed income assets expectations are based on average duration aligned with market cap indices. Reward to risk (expressed as expected returns divided by economic volatility) is generally descending when risk increases. For further information see the "Sources and Assumptions" section. *US Direct Lending is considering leverage on the fund. Hedge Funds refer to Fund of Hedge Funds. **Expected volatility for alternative assets is derived from unsmoothed return series. Hence, this measure of volatility will be different from the one obtained from realised IRR. The forecast returns are not necessarily indicative of future performance, which could differ substantially. 2026 CML assumptions are as of 31 December 2025, 2025 assumptions are as of 31 December 2024. Private and alternative asset assumptions for 2025 have been adjusted to net of fees to be consistent with updated assumptions.

ASSET CLASS VIEWS

Equities: regional dynamics drive returns

Over the next decade, US equities are likely to continue delivering the strongest EPS growth across developed markets, at around 7% a year. However, concentration and valuation risks will remain a key constraint on future returns, even if market moves since the start of 2026 — not reflected in our CMA — have already started to ease some of the excesses.

The case for diversification therefore remains central. Europe and Pacific ex-Japan are still favoured for dividend income, while Japan stands out as the most attractive market across currencies. Emerging markets, particularly India, remain a key source of opportunity, supported by stronger EPS growth. But the path will not be linear, and we expect repeated rotations between the US, EM and international markets as capital is reallocated, alongside higher dispersion across sectors as AI, strategic autonomy and energy reshape the opportunity set.

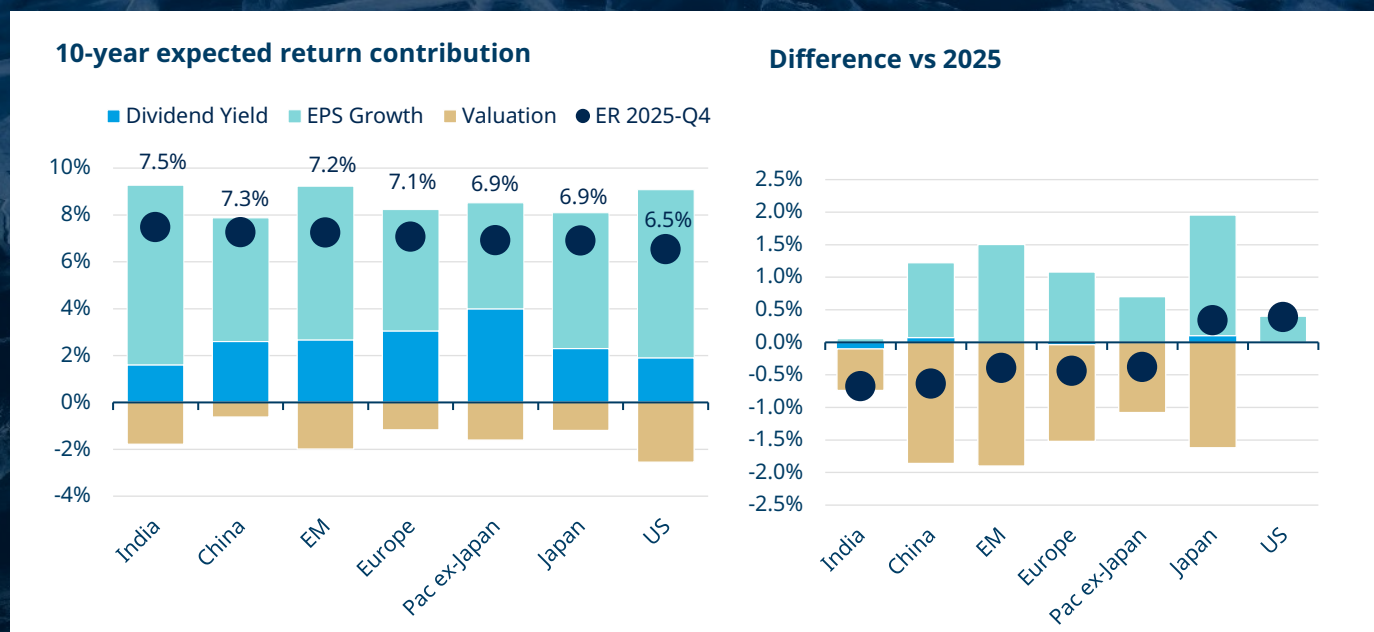
The next 10 years will be less about making a single directional call and more about capturing opportunities across and within regions, also considering the local context (cash and local bond opportunities). In the following table we represent the equity and local bond premium versus cash for the main four main FX regions.

Equity & FX Premium - G4

Currency	USD	EUR	GBP	JPY
Cash Return	3.2%	1.8%	3.1%	1.2%
10-year Premium vs Cash				
Local Government	1.1%	1.7%	2.0%	1.5%
US Equity	3.3%	4.2%	2.3%	1.4%
European Equity	4.6%	5.5%	3.6%	2.7%
Japanese Equity	7.7%	8.6%	6.7%	5.7%
Emerging Markets Equity	4.7%	5.6%	3.7%	2.8%
Chinese Equity	5.0%	5.9%	4.0%	3.1%
Indian Equity	4.0%	4.9%	3.0%	2.2%
Global Equity	3.8%	4.9%	2.9%	2.3%
AC Global Equity	4.0%	5.1%	3.1%	2.4%

Source: Amundi CASM Model. Data as of 31 December 2025. For additional information see 'Sources and Assumptions' at the end of this document. The forecast returns are not necessarily indicative of future performance, which could differ substantially. Equity premium are unhedged.

10-year expected returns decomposition for equity, local currency



Source: Amundi CASM Model. Data as of 31 December 2025. For additional information see 'Sources and Assumptions' at the end of this document. Buybacks yield (if significant) is included in the EPS Growth component. The forecast returns are not necessarily indicative of future performance, which could differ substantially.

ASSET CLASS VIEWS

Regional long-term themes and sector views

AI matters not only because it may lift productivity eventually, but because it is already reshaping capex, sector leadership and regional market opportunities today.

US : AI revolution: from software to industrial capex

The US remains the largest and most mature AI ecosystem, but the next phase matters because **the transmission mechanism is changing**. The story is no longer only about software, models and digital adoption. It is increasingly about **physical AI, data centres, power demand, semiconductor capacity, automation, robotics and industrial capex**. In other words, the timeline through which AI affects growth and earnings is being brought forward by investment, before the full productivity dividend is visible in aggregate macro data. This matters for markets because it **broadens the set of beneficiaries**. The latest wave of AI is likely to support not only large-cap technology but also **capital goods, industrials, selected materials, utilities, energy infrastructure and parts of financials**. The move from **“bytes to bricks”** means more spending on equipment, networks and physical infrastructure, allowing sectors linked to capex and deployment to participate more meaningfully in the AI cycle.

Overall, this supports a constructive medium- to long-term outlook for US equity returns, even from a demanding valuation starting point. But it also means the US equity story is becoming **less about index-level multiple expansion and more about internal dispersion**. AI will not lift all sectors equally: it should reinforce leadership in some segments while challenging business models in others.

Europe : AI deployment, defence, and industrial renewal

Europe is well-positioned to benefit from the same broadening of the investment cycle. The importance of AI is not only in software adoption, but in the fact that **its industrial spillovers favour regions with strong engineering, capital-goods and manufacturing capabilities**. This is one reason why the “why now” matters for Europe as much as it does for the US: the monetisation of AI increasingly runs through equipment, infrastructure and industrial upgrading, not only through platforms.

That dynamic comes on top of Europe’s own structural drivers. The need to strengthen **defence capabilities, energy security, digital infrastructure and strategic autonomy** is pushing investment higher and reinforcing the role of cyclical and industrial sectors. Further European integration and deregulation could add another leg to this process, widening the set of market beneficiaries beyond the largest exporters and global champions.

Over the next decade, this should support European equities through a combination of **industrial momentum, policy support and a more favourable sector mix**. The key point is that Europe does not need to lead in foundation models to benefit: it can capture value through deployment, industrial adaptation and capital spending. That makes the European story increasingly one of **AI application rather than AI invention alone**.

Japan: governance meets the capex cycle

Japan’s equity market continues to benefit from a structural regime change, but the earnings story is also becoming more favourable in the current phase of global transformation. A world shaped by **capex, industrial upgrading, automation and supply chain rewiring** plays to many of Japan’s strengths, including machinery, factory automation, components and high-end manufacturing. In that sense, the global AI and industrial cycle is reinforcing Japan’s domestic reform story rather than replacing it.

At the same time, the core Japanese equity narrative remains one of improving capital efficiency. As inflation becomes more durable and governance reforms continue to reshape corporate behaviour, firms are deploying excess cash more productively, lifting **ROE, payout discipline and balance-sheet efficiency**. This is why Japan increasingly looks like a **“quality of capital”** story rather than simply a cyclical reflation trade.

In CMA terms, Japan stands out because two forces are now working together: **external support from the capex and AI cycle, and internal support from governance and capital discipline**. The result should be greater differentiation between firms that adapt quickly and those that lag, but with a stronger long-term backdrop for the market overall.

ASSET CLASS VIEWS

Regional long-term themes and sector views

Across Asia and EM, the key message is the same: long-term returns will be driven less by broad market beta and more by composition, technology adoption and the ability to adapt to a more fragmented world

China: from macro beta to composition story

China's equity outlook is increasingly a **composition story**. The market is evolving into a more pronounced **two-gear structure**, with technology- and innovation-linked segments separating further from legacy sectors tied to real estate, excess capacity or weaker domestic demand. That divide matters because it means China's beta is becoming less informative: over the next decade, returns are likely to increasingly depend on sector and stock selection.

The "why now" is that the next phase of Chinese equity performance is likely to be shaped less by a broad cyclical rebound and more by the **speed and breadth of technology diffusion**, including AI adoption, automation, advanced manufacturing and digital infrastructure. These forces can lift productivity and earnings in selected segments even if aggregate macro growth remains more subdued than in the past.

In CMA terms, China is therefore becoming a market where **dispersion is rising structurally**. Tech and advanced manufacturing winners may continue to gain weight in index outcomes, while older-economy sectors remain constrained by lower pricing power, policy adjustment and weaker capital efficiency. The long-term opportunity remains real, but it is increasingly selective and less about broad-based exposure.

India: structural growth meets execution

India's medium- to long-term investment case continues to be supported by **strong structural growth drivers**. Favourable demographics, infrastructure build-out, industrial policy and supply chain diversification are reinforcing the country's domestic growth engine and improving its role within global manufacturing reallocation. This remains one of the clearest long-term growth stories in the CMA.

The "why now" is that India is no longer only a demographics story. It is also increasingly a story of **execution**: public and private capex, logistics and transport upgrades, digital infrastructure and policy continuity are making growth more investable. As global firms diversify production and capital allocation, India is well placed to attract a larger share of incremental investment flows over time.

That said, the equity story is not linear. Valuations still embed high expectations, leaving less room for disappointment than in other markets. But India remains compelling because the long-term case is supported by a strong combination of **domestic demand, reform momentum and global reallocation**, with earnings power likely to prove more durable than in many other emerging markets.

Emerging markets: broader opportunity, wider dispersion

The medium-term outlook for earnings in emerging markets remains constructive, but the broader EM opportunity set is also becoming **more differentiated**. Aggregate EM no longer behaves as a single macro block. Index composition is changing, sector weights are shifting, and the gap is widening between countries linked to innovation, domestic reform, and industrial upgrading and those still reliant on older commodity or external-financing models.

That shift is important for the next decade. Emerging markets should still benefit from long-run structural drivers — including **demographics, urbanisation, productivity catch-up and capital deepening** — but these advantages are unlikely to translate into a uniform equity premium. Returns will increasingly depend on sector mix, index composition, governance quality, and the ability of countries to position themselves within the next phase of global trade, energy and technology reconfiguration.

A key part of that change is sectoral in nature. Over time, EM indices are likely to see more weight in **technology, digital services, advanced manufacturing, automation, green energy, electric vehicles and digital financial services**, while the importance of more traditional sectors such as old-economy materials, energy and conventional financials may gradually decline. This should create **greater dispersion within EM**, including between "old commodity" exporters and those able to reposition toward new industrial trends and green energy.

SOURCES AND ASSUMPTIONS

Sources and assumptions

Macroeconomic Assumptions are from Amundi Investment Institute and are based on internal models, Shared Socioeconomic Pathways and climate scenarios from The Network of Central Banks and Supervisors for Greening the Financial System.

Sources of CMA: Amundi Asset Management CASM Model, Amundi Asset Management Quant Solutions and Amundi Investment Institute Teams. Macro figures as of the last release. The starting simulation date is 31 December 2025. Equity returns based on MSCI indices. Reference durations are average figures. Returns on credit assets are comprehensive of default losses. If not otherwise specified, expected returns are geometric annualised average total returns at the specific horizon. EM debt HC, EM-GBI, global infrastructure and hedge funds are in USD, all other indices are in local currency. Returns are nominal and gross of fees, except private and alternative assets which are net of management and admin fees. US direct lending considers leverage on the fund. Real estate refers to all property unlevered real estate. Hedge Funds refer to fund of Hedge funds. The expected returns consider the market beta and the alternative assets risk premium. The alpha return component generated by portfolio management, strategy selection or specific value creation programmes, which can be significant above all for private and alternative assets, is not considered in any form.

The arithmetic average returns are derived using the price generated by our simulation engine. By definition, the arithmetic mean is always greater than or equal to the geometric mean. In particular, the higher volatility of returns and higher frequency of returns and/or a longer time horizon will increase the difference between the two measures. Simulated volatilities are calculated on simulated prices over a 10-year horizon. Simulated volatility for private and alternative assets is derived from unsmoothed return series. Hence, this measure of volatility will be different from the one obtained from realised IRR. Expected returns are calculated using Amundi central scenario assumptions, which include climate transition. Forecast and fair values up to a 3-year horizon are provided by the Amundi Investment Institute Research team (macro, yields, spread and equity). Forecasts for annualised returns are based upon estimates and reflect subjective judgments and assumptions. These results were achieved by means of a mathematical formula and do not reflect the effect of unforeseen economic and market factors on decision-making. The forecast returns are not necessarily indicative of future performance.

Data sources: Bloomberg, Cambridge Associates, Global Financial Data, Edhec Infra, MSCI and MSCI Burgiss, Pitchbook, Preqin.

Indices: Equity indices are MSCI regional indices TR, Credit indices are from BofA Merrill Lynch, Aggregate indices are from Bloomberg Barclays, Govies and EM bonds indices are from JP Morgan.

G10 FX fair valuation models: Academic literature is full of theoretical foundations at the basis of currency fair valuation. Our battery of models leverages two main concepts: 1) Purchasing Power Parity equilibria (which in turn expresses FX equilibria as a function of relative price dynamics across countries) and 2) Behavioural Exchange Rate equilibria (where we focus on short- to long-term fundamental drivers). Purchasing Power Parity models: Standard PPPs rely on CPI differential, we enrich our framework to take into account two additional variations: 1) PPP based on PPI differential (to take into account the differential in the costs of production) and 2) a standard PPP but adjusted for productivity (we proxy with CPI-PPI differentials, following the Balassa-Samuelson framework). Both CPI and PPI induce a negative contribution to the FX (i.e. higher inflation means a depreciation in the long run), while higher productivity (i.e. higher CPI-PPI differential) empirically translates into stronger FX. Behavioural Exchange rate models: Here, we leverage the theoretical findings of Clark and McDonald and estimate FX equilibrium based on short- to medium- and long-term fundamental drivers. On top of inflation (our longest-term driver, given the empirical convergence rate from spot), we do consider 1) interest rate differentials, 2) terms of trade, 3) fiscal spending, 4) productivity (GDP per capita) and 5) the degree of openness of each G10 economy.

Methodology for Strategic Asset Allocation optimisation: Our optimisation framework minimises the 95% CVaR at a 10-year horizon by targeting different levels of expected return, while respecting diversification constraints and the investor's liquidity preference. The 95% CVaR at horizon is a shortfall risk measure representing the average annualised simulated returns over a 10-year horizon that fall below the 5th percentile. The optimal allocations are presented alongside the average annualised expected returns, in both geometric and arithmetic terms, as well as volatility, Sharpe ratio, and the probability of a negative geometric return at horizon ($P(\text{Return} < 0)$ over 10 years). Our allocation framework for private and alternative assets includes a liquidity budget based on illiquidity scores assigned to all assets (more details can be found in [Strategic Integration of Private Assets in Multi-Asset Allocations](#)). We considered both a low and a moderate tilt toward less liquid exposures for USD and EUR investors. The low-risk appetite scenario corresponds to an investment universe without private or alternative assets. Compared to last year, we increased the illiquidity score for private debt to reflect its lower marketability and potential disruption which could materialise in the short to medium-term. CM lines and portfolio optimisations are based on fixed income assets, hedge funds, and private debt hedged, equities, gold and other private assets unhedged.

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