

# Pension funds letter

Building together smart solutions to face a challenging environment



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## Executive summary

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- **P7** Europe's pension transition: from retirement challenge to capital-market opportunity
- **P10** Adapting to Ruptures - Capital Market Assumptions 2026

## Funding autonomy & accelerating reform in a ruptured world



While the world faces another international geopolitical crisis, the global economy is moving through a structural shift. The many, continued ruptures we are seeing in trade and policy coordination, together with the fragmented approaches to the energy transition and AI deployment, have led to persistent volatility. Volatility has become embedded in this new regime. Rupture has become the system.

For Europe, these repeated shocks have left the continent at a strategic crossroads. Economic security has become inseparable from national security. An urgent need to fill capability gaps, rethink spending and accelerate innovation has been identified. Underlying the challenge of strategic autonomy is the question of funding. How can Europe unlock the investment necessary to support this ambition? In the first article of this edition, our active fixed income teams lay out the case for European fixed income and the vital role it plays in strengthening European autonomy.

Another area of Europe's eco-system that is undergoing structural re-evaluation is the European pension systems. This shift, driven by demographics and rising pension costs, represents a significant challenge for policymakers. However, it can also be seen as a way of mobilising significant long-term capital to support the European economy. Our second article explores the different reforms being considered, and why, and looks at the potential implications of these reforms on Europe capital markets and asset allocation.

Finally, we wrap up with a summary of the main convictions from Amundi's 2026 Capital Market Assumptions. We explore the forces driving this new regime, the risks at play, and what this new system of rupture means for our macro scenarios and asset class assumptions.

## What's new & coming up?



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Amaury D'ORSAY

Head of Fixed Income, Amundi

## The vital role of fixed income in strengthening European autonomy

*In an uncertain market environment, fixed income is once again taking centre stage. With inflation expectations, policy paths and regional divergences shifting rapidly, investors are increasingly looking for solutions that can deliver both **stability and income**. In this context, an active fixed income approach can offer a compelling answer: one that combines **discipline, flexibility and the ability to respond quickly** to changing market conditions.*

*The **European fixed income spectrum offers a broad range of opportunities**. We take a tour of the European fixed income universe to see the different contributions to portfolio construction and the vital role of fixed income in **strengthening European autonomy**.*

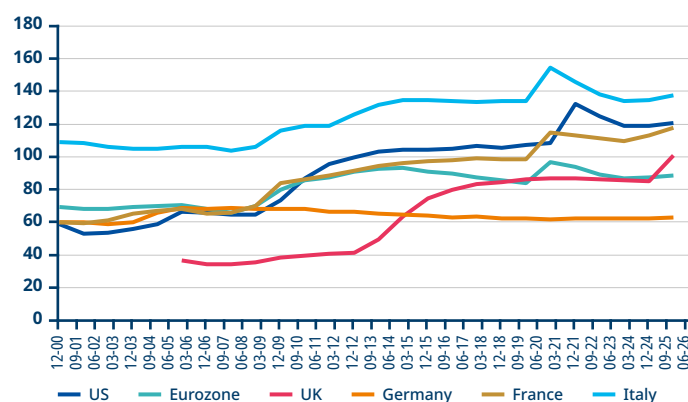
### Structural changes in the Euro sovereign market

*Anne Beaudu, Senior Portfolio Manager, Euro & Global Aggregate strategies*

After many years of disinflation, zero to negative interest rates and quantitative easing (QE), bond markets have experienced dramatic shifts since the Covid pandemic. To face the post-Covid inflation surge, amplified by rising commodity prices following the Ukraine war, central banks were forced to **rapidly tighten their monetary policies**, just as fiscal policies were expanded dramatically to cushion any economy shock. This led to an abrupt rise in yields, with curves first flattening, and even inverting, before steepening again as central banks were able to normalize back down towards neutral as inflation slowly drifted down. The steepening was amplified by a renewed market focus on fiscal policies and debt paths, as **fiscal dominance became a theme** and term premium normalized after years of compression due to QE policies.

In the meantime, eurozone debt to GDP ratio went from 85% in 2019 to 97% in 2021, but drifted back down towards 88% in 2025 (Figure 1). It is now expected to rise again as German fiscal plan kicks in. Overall, the debt path of the whole Eurozone seems more reasonable than big economies like the US (126% in 2020), UK (112% in 2020) or Japan (215% in 2020). But **great dispersion** between countries remains and **the margin of manoeuvre is very limited** for some. Germany was able to announce a much needed fiscal plan in 2025, triggering a sharp move at the long end of the curve and a relative repricing of all other European assets vs Germany.

Figure 1: Government Debt as % of GDP



Source: Bloomberg, Amundi Investment Institute

The eurozone faces many challenges in the years ahead: higher **defence spending**, much needed investments to increase **productivity** and tackle **climate transition**, and **rising social spending** in a deteriorating demographic context. The required investment will add more pressure on sovereign debt in a time of higher yields. As the geopolitical situation becomes ever more complex, with tangible negative impacts on growth prospects, pressure on fiscal deficits and the long end of the curve will remain elevated.

**Pension reform** is one issue that could have a big impact on the European bond market (see also "Europe's pension transition: from retirement challenge to capital market opportunity"). Pay-as-you-go pension plans divert a large share of savings to finance current pension expenditures. This limits the build-up of assets invested in the real economy. Furthermore, existing funds have limited

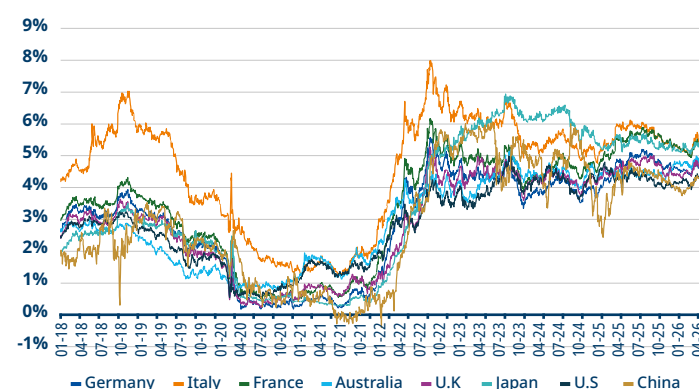
exposure to equities. These funds are governed by prudential rules and capital guarantees, forcing managers to adopt very conservative profiles. As a result, European households' financial assets are not invested to their full efficiency, despite a very high saving rate.

For this reason, the **Dutch pension fund reform**, shifting from defined benefit to defined contribution was closely monitored as it entered its first major phase in January 2026. Dutch pension funds, which account for half of euro area pension fund assets, have primarily been invested in bonds, mainly domestic, German and French issues, and especially long dated maturities (>30 years). The shift is expected to trigger a **radical change in their investment strategy** with a structural reduction in the demand for long term government bonds, implying some 10Y-30Y steepening, especially on the swap curve. These changes had been largely anticipated and the cohort of pension funds due to transition in January 2026, finished 2025 with higher funding and hedging ratios, while some widening of swap spreads on 30Y maturities was visible during the second part of 2025. No big flows were observed in the first two months of 2026, while March was entirely dominated by the reaction to the Iran conflict.

In this volatile and fast changing world, the **European Bond market is the largest alternative to the US Treasury market**, at a time when diversification trades out of USD are expected to continue. Once hedged into USD (Figure 2), German 10y yields are equivalent to US 10y yields<sup>1</sup> and higher than Australia, Norway and some EM local 10y yields like China, Colombia or India. French 10y bonds yield 65 basis points above US Treasuries, above UK, Canada, South Korea or Indonesia, and Italy 10y yields are equivalent to Japanese 10 yields.

As inflation regimes, geopolitical events and more structural forces can trigger dramatic changes in curve shape and correlations, **actively managing risk exposure is essential**. Where duration risk is placed on the curve, or between countries, can significantly change the performance of a euro sovereign fund. But this environment also opens up **many interesting opportunities** for actively managed strategies.

Figure 2: 10Y treasury yields hedged into USD



Source: Bloomberg, Amundi

## Strong Supply & Demand in the Euro Credit market

*Anne Nguyen, Senior Portfolio Manager, Euro Credit Investment Grade*

Since the withdrawal of central banks from markets and the end of the QE era, interest rates have become more **volatile** and **increasingly responsive to macroeconomic developments**. As a result, fixed income markets have returned to more traditional dynamics. European companies have demonstrated their **ability to adapt** across different phases of the economic cycle. Corporate balance sheets are generally well-managed, with debt maturities well distributed over long horizons.

Within the euro credit index<sup>2</sup>, approximately one third of the market is composed of financial institutions. In a higher-rate environment, margins have improved, supporting stronger returns on equity. Moreover, **bank balance sheets** have been **significantly strengthened** over the past decade. From a relative fundamental perspective, while public debt sustainability remains a concern given rising fiscal pressure, corporates—particularly investment-grade issuers—appear more disciplined and, in some cases, **more robust than sovereigns**. Rating trends reinforce this view, with upgrades outpacing downgrades since the Covid-19 pandemic.

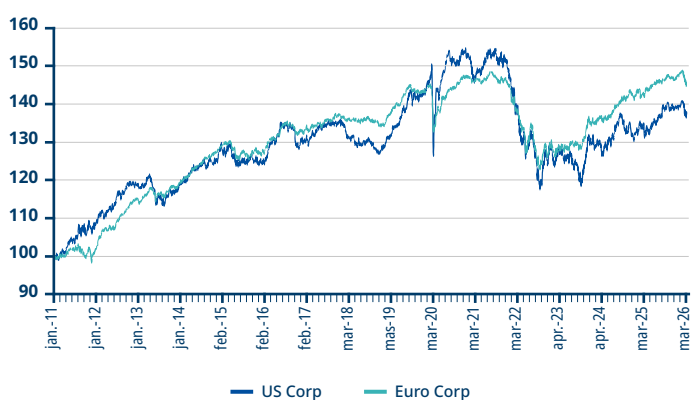
This improvement in fundamentals, combined with higher yields, has led to the emergence of the target maturity fund market. These funds have gained rapid traction by offering attractive yields while maintaining diversified exposure to high-quality issuers. This search for yield has, in turn, contributed to the stabilization of credit spreads during periods of market volatility. Although spreads remain tight by historical standards—leading some investors to question the attractiveness of credit risk—the picture is more compelling when viewed through the lens of absolute yield. Current yield levels continue to provide adequate compensation for the underlying credit risk in European corporates.

1. As of 03/04/2026

2. Benchmark : Bloomberg Euro Aggregate Corporate (E)

This **emphasis on absolute yield** is not new: it has long shaped investor behaviour in the US credit market, where investors have traditionally been driven more by yield than spread. In this respect, the EUR and USD investment-grade markets are broadly comparable, although they differ in structure. The **EUR IG market offers attractive diversification** benefits due to its distinct sector composition, shorter maturities, and valuation opportunities. After accounting for hedging costs, EUR IG and USD IG have delivered very similar performance over the past 15 years, with cumulative returns of around 80% since 2010 (Figure 3). This supports **EUR IG as a credible diversification option** for USD-centric fixed income portfolios.

**Figure 3: Total return (Hedged in EUR)**



Source: Bloomberg, Amundi

Investors are increasingly turning back to active management to enhance returns in credit markets. In an environment characterised by heightened geopolitical uncertainty and rapidly evolving new flows, technical factors and investor positioning have become **key drivers of valuation**. Market demand is often neither fully rational nor immune to behavioural biases, creating inefficiencies. **These dislocations present opportunities for long-term investors to generate alpha**.

Furthermore, active management enables a more **granular allocation across risk factors**—such as duration, credit quality, and subordination—allowing investors to adjust exposures dynamically in response to changing market conditions. Even traditionally stable relationships, such as the correlation between interest rates and credit spreads, can shift over time, offering additional opportunities to express tactical views, hedge risk, or enhance returns.

## Why Europe needs its high yield market more than ever

*Thierry Lebaupain, Senior Portfolio Manager, Euro High Yield*

The sovereignty debate in Europe tends to begin with defence budgets and end with public borrowing. That leaves out a **critical link: corporate finance**. Europe’s next phase will not be funded by sovereigns alone. The European Commission estimates additional investment needs at €750bn-€800bn a year by 2030, before any

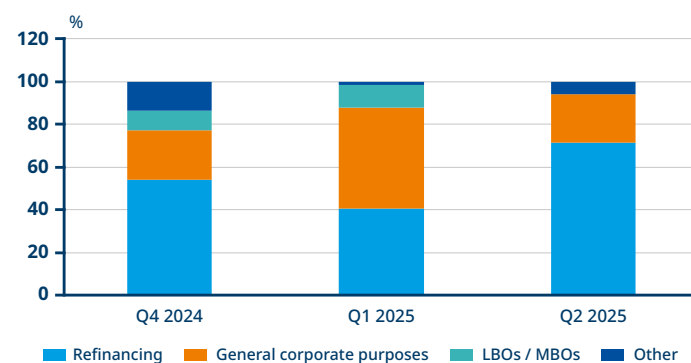
extra defence allowance. Yet market-based finance still accounts for only 13% of EU corporate funding, (vs ~30% in the US). This gap matters because the companies that keep the continent moving, connected and supplied do not all sit in the sovereign or investment-grade universe. Many sit below it, and always will. Telecom and fibre platforms, transport operators, industrial suppliers, healthcare services, environmental infrastructure and a large part of Europe’s mid-cap corporate base live naturally in leveraged structures. **If Europe wants greater autonomy in infrastructure, industry and strategic capacity, it needs a deeper market for borrowers too.**

The backdrop has become more compelling, or at least more pressing. Germany’s €500bn infrastructure fund marks a **genuine fiscal turn** after years of restraint. The ECB’s latest bank lending survey shows euro-area banks tightening credit standards for companies again. Dutch pension reform is also beginning to unsettle one of European fixed income’s old certainties: the structural bid for ultra-long bonds and swaps. None of this means money will simply wash into high yield bonds. It does mean, however, that Europe has better reasons than before to value **deep domestic credit markets** that can finance real companies and real assets, instead of heavy dependence on banks, foreign capital and the public sector. This is all the more true – and healthy – at a time when public debt burdens are already high, and sovereign stress is no longer a theoretical risk.

This is where European high yield comes in. The case for the asset class is not ideological; it is practical. A **functioning high yield market** gives access to capital to businesses that are too leveraged for investment grade but still **central to the economy’s plumbing**. Financing these companies allows essential improvement to freight corridors, telecom networks and sovereign communications capacity.

European high yield does not merely finance discretionary consumption or private-equity churn (Figure 4). It also finances the less glamorous but more consequential layers of the economy — suppliers, networks and service operators without which Europe’s ambitions in reindustrialization, resilience and infrastructure renewal remain largely rhetorical.

**Figure 4: Lately, Euro HY Issuance is 80%+ refinancing and funding General corporate purposes, not private equity LBOs (in %)**



Source: AFME

For pension investors, the appeal is straightforward. European high yield **offers carry** and, in the right hands, a **compelling risk-reward profile**; but it is more than a riskier cousin of investment grade. It is one of the few listed, liquid and transparent fixed income markets that gives **exposure to the productive middle of the European economy**: companies below the blue-chip layer, but still important to how the continent builds, moves, powers and adapts. That matters in a Europe where savings exist but routing remains weak: around 70% of EU household savings, roughly €10tn, still sit in bank deposits.

This is also why active management is essential. The goal for European high yield is not to fund everything with a European flag attached; it is to fund viable, productive businesses while allotting capital away from weak structures, poor incentives and bad management. In high yield, **deep analysis and selection are not optional**. Documentation, refinancing risk, sponsor behaviour, asset quality and strategic relevance all matter. A strong active high yield strategy therefore does more than seek performance, it imposes discipline on capital allocation itself.

So the investor case is twofold. European high yield can offer **attractive income and differentiated spread exposure**, while also giving long-term capital access to a part of the European corporate landscape that other fixed income segments often miss. A Europe that is serious about financing its own priorities cannot rely only on states, banks and national champions. It also **needs a robust market of active investors for the companies in between**.

## Boosting the European securitisation market- a path to growth

*Hubert Vannier, Head of Securitised Assets*

The USA is moving from the Pax Americana regime to America First foreign policy. The motive is economic dominance, with the USA choosing protectionism, racing to seize natural resources in Venezuela, and potentially in Iran and even Greenland. Amid these geopolitical uncertainties, European economic weaknesses come under the spotlight. **Insufficient investments in technology**, notably AI, in **energy transition**, or more recently, in **defence** are acute. **Financing these investments is one of the main challenges of European policy makers**. Regulation changes to support the financing of the economy are already happening. European institutions have adopted Solvency 2 improvements and are in a trilogue process for banking and securitisation regulations.

Securitized externalizes risk from the asset seller's balance sheet, potentially providing not only funding but capital relief as well, allowing the seller to lend again, in a virtuous cycle. Because they support financing autonomy and directly rely on European assets, **securitizations are viewed as a key instrument for economical sovereignty**.

Currently the largest securitizations, representing half of the market, are not sold to investors but retained by sellers and

used as collateral with central banks. In our view, this means the **market could double its size** should economic conditions be met, i.e. should spreads tighten.

Securitization markets have followed the same pattern during the various crisis of the last 15 years, but the recent widening of securitization spreads has been much smaller than expected considering their pre-crisis absolute levels. This moderate widening can be explained by three main factors, which make the European securitisation market especially resilient:

- First the **credit risk of collateral is limited**, and the structures have been designed to absorb such shocks. ABS and RMBS rely on loans to households. They are not directly affected by sovereign, financial or corporate risks but are more sensitive to unemployment. CLOs are more sensitive, especially high yield tranches, but benefit from reinforced structures. High yield mezzanine tranches spreads have significantly widened but there is no downgrade trend or default.
- Securitization spreads benefit from a **widening investor base** as regulation changes allow insurance companies and banks to access the asset class.
- Finally, the **nature of market participants** is key: weak hands no longer invest in securitizations since the global financial crisis and there are no forced sales of securitizations.

European securitizations spreads **react moderately to market shocks**, and the recent regulation changes are expected to provide long-term support. This **rare asymmetry**, with a reduced sensitivity to crises and the benefit of spread tightening in times of normalization should attract investors interest. Other assets with higher beta may provide higher returns, should a favourable scenario occur, but such investments incur significantly higher geopolitical or macro risk, particularly as a stagflation scenario becomes more probable. Securitizations, as floating rate notes are **not exposed to interest rate volatility**. They provide investors with **moderate credit exposure**, which has a low correlation with other fixed income assets and **benefit from higher spreads**.

## Blended Finance & Credit Continuum: A Structuring Solution for European Strategic Autonomy

*Adnane Lekhel, Head of Institutional Structuring*

Beyond the individual merit of each fixed income segment discussed in this article, the most compelling opportunity for pension funds committed to European Strategic Autonomy may lie in a **cross-spectrum, structurally engineered approach** that deliberately mobilises the full credit continuum, from sovereign and supranational paper through investment-grade corporate credit, high yield, and structured finance, within a single, coherently managed framework. The rationale is not diversification for its own sake, but rather the recognition that European strategic assets do not map neatly onto a single rating bucket or instrument type: a critical infrastructure project may carry quasi-sovereign

characteristics in its senior tranche while its subordinated layers exhibit high-yield risk profiles; a defence supply chain SME aggregation vehicle may be most efficiently accessed through ABS mechanics; a transitioning industrial champion requires the flexibility of a covenant-rich high-yield structure with embedded sustainability step-ups. A fund architecture spanning the full credit spectrum, with active allocation across sovereign bonds, investment-grade corporate credit, high yield, and securitization, is therefore not a compromise between asset classes but the **structurally appropriate response** to the heterogeneity of the underlying strategic investment universe. Crucially, this framework allows the portfolio manager to position capital dynamically along the green credit continuum, from fully taxonomy-aligned senior instruments to transitioning assets carrying binding KPIs, ensuring that ESG integrity is maintained without artificially restricting the investable universe to only the greenest quartile of European strategic needs.

The blended finance<sup>3</sup> dimension adds a further layer of precision to this architecture. By incorporating catalytic capital (i.e. public and/or philanthropy first-loss layer), the structure can present pension fund investors with a senior fixed income exposure that is credit and yield-enhanced, investment-grade rated, and aligned with Solvency II capital efficiency requirements and IORP II, while still financing assets that would not otherwise reach institutional capital markets unaided. This is structuring as a policy instrument: the role of the portfolio manager and structurer here is not simply to select securities but to design the risk transfer architecture that

**makes European strategic priorities financeable at scale.** For a pension fund already considering allocations across high yield, ABS, sovereign bonds, and euro credit as discrete building blocks, the integrated blended finance solution offers something **qualitatively different**, not a fifth bucket, but a unifying investment framework that deploys all four instruments with **strategic intentionality**, concessional **risk mitigation**, and a **measurable contribution** to European autonomy embedded in its mandate from inception.

## Conclusion

Today's fixed income environment rewards **selectivity, discipline** and **flexibility**. With yields back at more compelling levels and market conditions becoming increasingly differentiated, investors have a wider set of tools than ever to build portfolios that **combine income generation with risk management**.

In a world where uncertainty is likely to persist, fixed income remains a powerful allocation for investors seeking both resilience and performance. **A high-quality, actively managed approach can help navigate volatility, adapt to shifting inflation and policy dynamics, and capture opportunities** created by regional and idiosyncratic divergences.

In this new backdrop, fixed income is not just about preserving capital — it is about using active management to turn dispersion and volatility into a **source of opportunity for Europe**.

3. <https://www.amundi.com/institutional/article/framework-structuring-blended-finance-fund>  
<https://www.amundi.com/institutional/article/scaling-blended-finance-credit-enhancement-strategies>  
<https://research-center.amundi.com/article/blended-finance-scaling-capital-sustainable-impact>



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## Europe's pension transition: from retirement challenge to capital-market opportunity

*Europe's pension systems are undergoing a structural change. Demographic ageing, tighter public finances and the evolution of retirement provision are reshaping the way pensions are financed and how savings are allocated. What is emerging is not only a pension challenge, but also a significant opportunity: as Europe adapts its retirement systems, it can mobilise more long-term capital to support investment, productivity and competitiveness.*

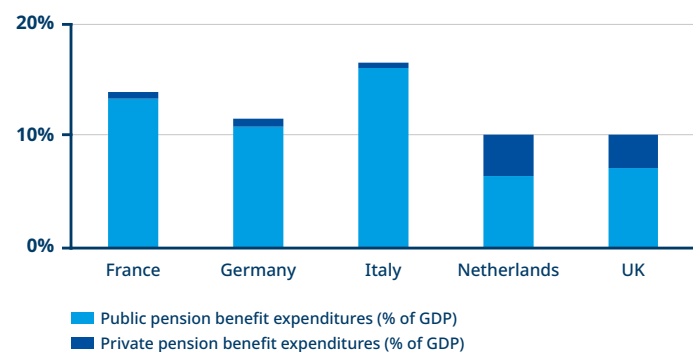
*For pension funds and institutional investors, this transition matters on several levels. It affects the sustainability of retirement systems, the adequacy of future retirement income and, increasingly, the structure of European capital markets themselves.*

### Setting the scene: Europe's retirement challenge

Three structural forces are driving the change.

**First, demographics.** Europe is ageing, and the ratio of workers to retirees is declining in many countries. Lower birth rates and longer life expectancy mean more people are drawing retirement income for longer, while fewer active workers are contributing to the system. In several large European countries, pension expenditure already represents a double-digit share of GDP and is expected to rise further (Figure 1). OECD projections suggest that combined public spending on pensions, health and long-term care could increase by around five percentage points of GDP between 2021 and 2060 in median terms, with meaningful variation across countries.

**Figure 1: Pension benefits as % of GDP**



Source: OECD, *Pensions at a Glance 2025*

**Second, fiscal constraints.** Public debt remains elevated across much of Europe, and higher interest rates have made that debt more expensive to service. This reduces governments' ability to absorb demographic pressure through higher transfers or more generous public pensions.

### Third, the changing structure of retirement provision.

Traditional defined benefit (DB) arrangements continue to play an important role in many markets, while defined contribution (DC) schemes and individual savings are taking on greater importance in others. At the same time, retirement systems are increasingly expected not only to accumulate assets, but also to provide reliable income throughout retirement. This shifts attention toward decumulation, longevity protection and income generation.

Taken together, these forces are encouraging a gradual move toward more funded retirement provision and a stronger role for long-term capital.

### Europe's broader macro context

The pension issue cannot be separated from Europe's wider macroeconomic backdrop. Higher debt burdens and higher yields reduce fiscal flexibility precisely when ageing societies require continued spending on health, pensions, defence and social protection.

At the same time, Europe faces a clear need for stronger productivity and capital formation. This makes the way savings are organised increasingly important. Pensions are not only a social policy mechanism; they are also one of the main channels through which long-term savings can be channelled into the economy and markets.

## Productivity, investment and the Draghi report

The Draghi report<sup>4</sup> has helped sharpen the debate by highlighting Europe's productivity challenge and the scale of investment required to address it.

Europe continues to require substantial investment in infrastructure, digitalisation, energy transition and industrial renewal. Yet the euro area's gross investment rate remains around 2% of GDP, well below the roughly 3.5% observed in the United States. Productivity growth has also lagged: between Q4 2019 and Q2 2024, labour productivity per hour worked rose by only 0.9% in the euro area, compared with 6.7% in the US<sup>5</sup>.

In that context, the structure of pension systems matters: if too many savings are absorbed by low-risk or immediately consumptive channels, less capital is available for innovation-oriented investment. The Draghi report estimates that Europe needs around €800 billion of additional annual investment, or roughly 4.5% of GDP, to close the gap and support the twin transition to a digital and decarbonised economy. Given the intensifying geopolitical instability, more recent estimates have increased this to €1.2 trillion<sup>6</sup>.

For pension funds, this is a relevant backdrop. Europe's investment requirements are large and long-term, while pension liabilities are also long-term. That natural match is one reason pension capital is likely to become more important in Europe's financing model.

## Common denominators of pension reform

In this context, pension reform is crucial in addressing Europe's fiscal and productivity-related challenges. Although execution remains national, several common themes are emerging.

**Broader participation.** Policies such as auto-enrolment are powerful because they make saving for retirement the default option. Experience in the UK, the US and Australia shows that automatic participation can materially expand coverage and assets under management. In Europe, the Irish and Italian push towards auto-enrolment further embodies this trend.

**A gradual evolution in retirement provision.** Across markets, there is a broad trend toward greater reliance on funded arrangements, while preserving the important role that existing defined benefit schemes continue to play. We see this clearly in the pension reforms currently taking place in the Netherlands, shifting from DB to funded arrangement in the pillar 2 system. In many cases, the question is less about replacing one model with another than about building systems that can better balance collective promises, individual savings and long-term sustainability.

**Greater scale and consolidation.** Larger pension pools can invest more efficiently, access private markets more easily and build stronger governance and risk-management frameworks.

**A stronger focus on decumulation.** As pension systems mature, the question becomes not only how to save, but how to convert savings into durable income in retirement. This increases demand for annuities, drawdown solutions, longevity-aware products and income-oriented portfolios.

These are not identical reforms, but they point in the same direction: pension systems are being redesigned to be more resilient, more strongly funded and better adapted to longer lifespans.

## What an increase in pension assets means for European capital markets

As pension reforms increase the overall pool of retirement assets, the implications for capital markets become clearer. A larger funded pension base should support more persistent flows of long-term capital into retirement vehicles. Automatic enrolment and broader participation typically generate stable inflows, which are well-suited to long-horizon investment strategies.

It should also contribute to deeper capital markets and financialisation of the economy. For example, a stark contrast exists when comparing Europe to the US. Where the capitalization of EU companies represented 65% of GDP in the EU, this represents 177% of GDP in the US. A larger, domestic institutional investor base broadens the demand for market assets and improves the capacity of European markets to finance growth. Over time, this can support liquidity and capital formation.

Just as importantly, more pension assets should increase demand for long-duration and income-generating assets. Pension funds are natural holders of equities, infrastructure, private credit, mortgages and selected real assets, particularly where these assets can deliver stable cash flows and inflation sensitivity.

For pension funds, this has two implications. First, the opportunity set may broaden over time. Second, the role of pension capital in market development may become more visible, especially where domestic savings are increasingly channelled into long-term investment vehicles.

## Specific reforms and their impact on asset allocation

Some reforms are designed not only to increase the size of pension assets, but also to change how those assets are invested.

One example is the move toward generational or age-based investment structures, which shift younger savers toward higher-risk assets and reduce risk gradually as retirement approaches. Over time, this can materially influence aggregate demand for equities and other risk premia.

Another example is the transition toward collective DC models or more flexible DC frameworks, which may increase the use of credit, mortgages and income assets while reducing the emphasis on very long-dated hedging instruments.

The important point is that pension reform changes not only the quantity of capital, but also its composition and deployment.

4. *The future of European competitiveness: Report by Mario Draghi, November 2024* [https://commission.europa.eu/topics/competitiveness/draghi-report\\_en](https://commission.europa.eu/topics/competitiveness/draghi-report_en)

5. Amundi, December 2025

6. European Commission, July 2025

## Key opportunities for Europe

Europe's pension transition can support a more sustainable retirement framework and a more dynamic investment environment at the same time. If pension reform succeeds, it can help Europe improve retirement adequacy, strengthen fiscal sustainability and deepen capital markets.

For pension funds, the direction of travel is clear. Europe's retirement systems are moving toward a more funded and more market-based model, even if reform remains uneven across countries. This transition is likely to be gradual, but durable, and it will increasingly shape the way long-term savings are organized and invested. At Amundi, we see this as a central strategic theme: **better pension design can improve retirement outcomes and reinforce Europe's capital markets at the same time.**



**Vincent MORTIER**  
Group Chief Investment  
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**Monica DEFEND**  
Head of Amundi  
Investment Institute

## Adapting to Ruptures - Capital Market Assumptions 2026

### Rewiring the global economy in the age of ruptures

Throughout last year and into 2026, businesses and investors have seen what first looked like a cyclical scare evolve into a clearer structural shift. This is broadly consistent with the change in assumptions we introduced in last year's Capital Market Assumptions (CMA), when we moved toward a more fragmented socio-economic scenario and a delayed energy transition. Under Trump's second term, these forces have become more visible: regional rivalries have intensified, global cooperation has weakened, and the distribution of resources and opportunities has become more uneven.

We describe this environment as one of **"controlled disorder"**: a regime marked by the rewiring of trade, weaker coordination across alliances, and a stronger push for strategic autonomy.

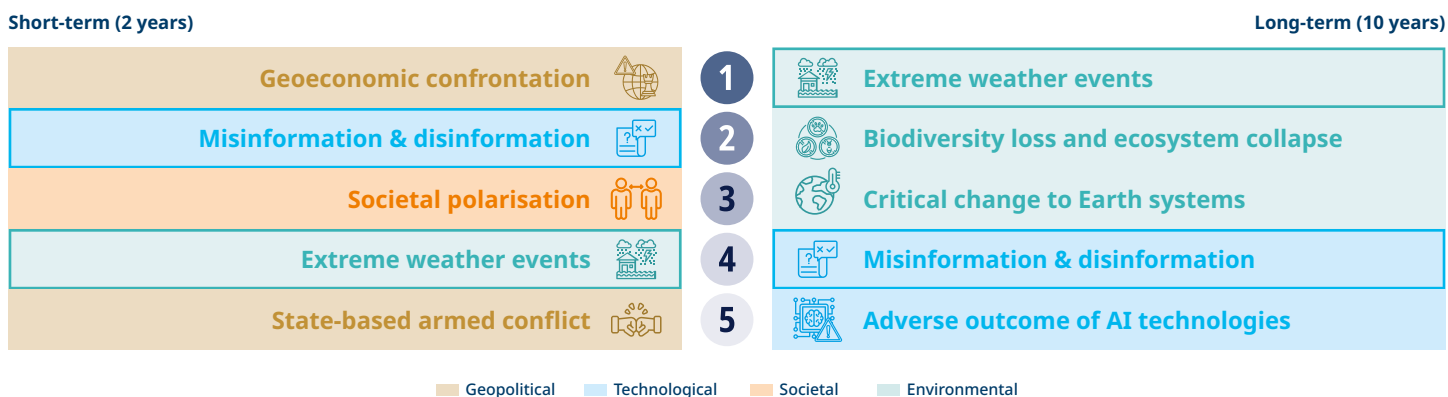
These forces are already producing tangible effects with long-term implications.

- The rewiring of trade is reshaping supply chains under security and political constraints. As tariffs rise and production networks adjust, volatility is becoming embedded in policy rather than appearing only as a symptom of exogenous shocks. This is particularly visible in strategic sectors, such as critical minerals, where resilience and access are increasingly prioritised over efficiency.

- At the same time, weaker policy coordination is making collective responses harder to sustain. Limited pragmatic deals may still emerge, but the broad cooperative bargains that once delivered mutual gains are becoming less common. This is also visible in the stalled green transition, as rising energy demand and fragmented policy priorities make coordinated progress more difficult.
- Meanwhile, the push for strategic autonomy is reinforcing higher defence and energy-related infrastructure spending. This may support growth in the near term, but it also adds to fiscal pressure. In countries already facing adverse demographic trends, higher spending and weaker fiscal flexibility are raising more persistent questions around debt sustainability.
- AI may help offset part of these pressures through productivity gains, but such gains are unlikely to be distributed evenly across countries, sectors or households.

This fractured yet interconnected adjustment is what we mean by "controlled disorder". It defines a macro regime of higher volatility, more uneven growth, higher debt and stickier inflation. In such a world, investing becomes less about forecasting the next shock and more about positioning for resilience, flexibility and building strategic buffers.

### Global risks ranked by severity on a short and long-term horizon



Source: World Economic Forum Global Risks Perception Survey 2025-2026. Global risks ranked by severity, short-term (2 years) and long-term (10 years).

## 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.

Advertising

## 2026 Capital Market Assumptions

[Read the full paper](#)


### Discover this year's updates to our framework:

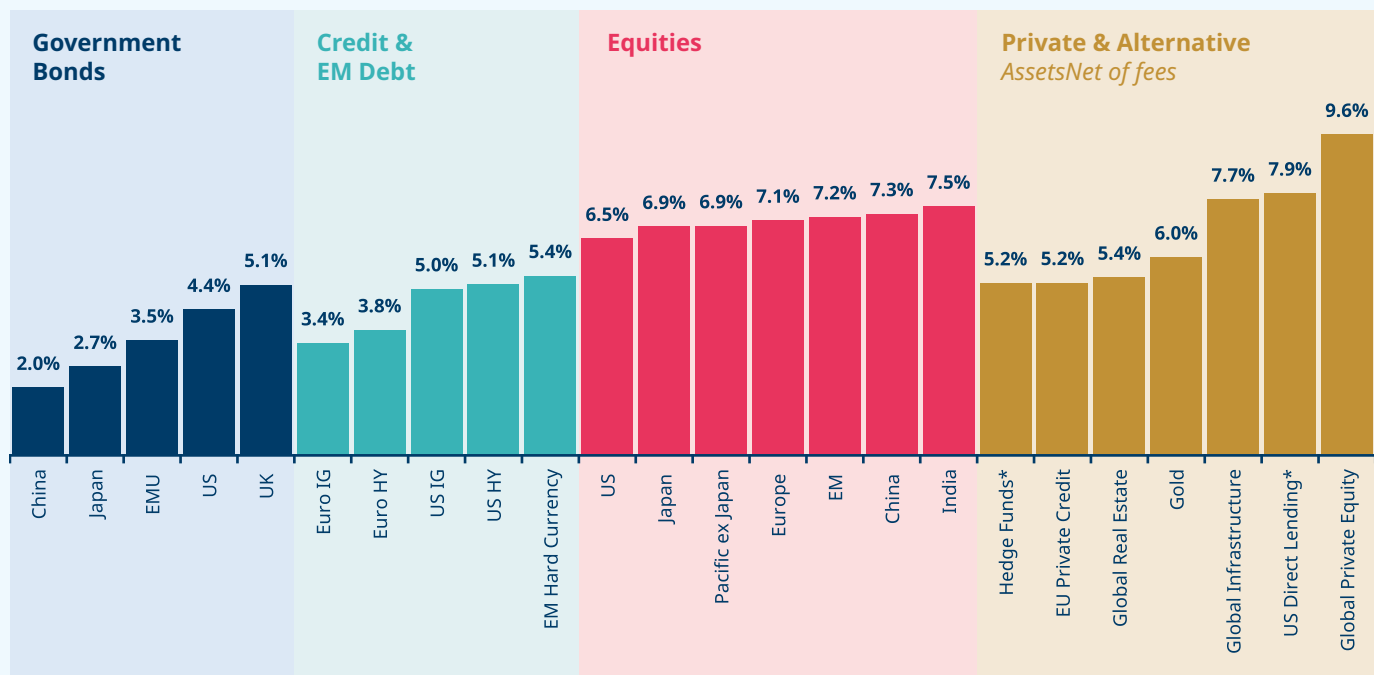
- We have revised our macro scenarios to better reflect this new socio-economic configuration, including growth and inflation patterns as well as natural capital and climate-related risks.
- We have added gold to our assumptions set, reflecting its expanding role in a more fragmented reserve environment and its value as a strategic diversifier.
- We have broadened our analysis across horizons, from 5 to 30 years, moved to a more targeted currency-based assessment, and refined our private-asset modelling with greater emphasis on net-of-fee returns and evolving liquidity assumptions.

This year's CMA is not just an update. It is a framework for adapting portfolios to a world in which rupture is becoming the system.

## 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 &amp; 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 &amp; ALTERNATIVE

## Time for selectivity

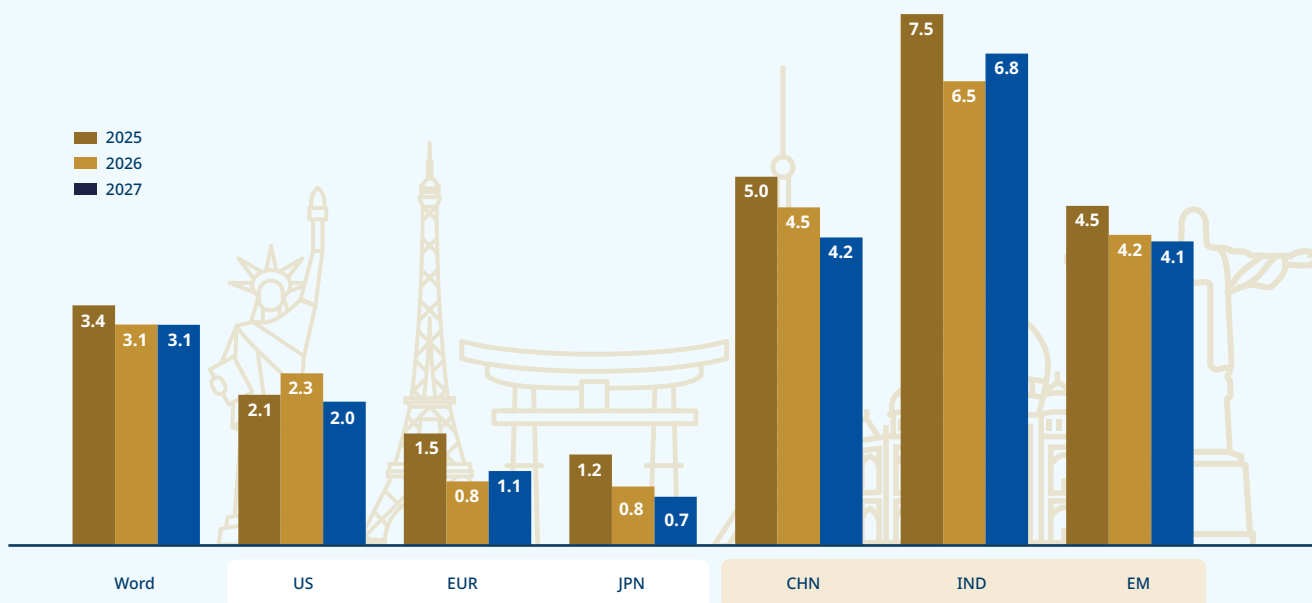
- **Hedge funds\*:** Well-suited for a high-dispersion world, where unstable correlations create more opportunities.
- **Private debt:** Attractive carry but requires high selectivity.
- **Real estate:** Income-led recovery, with logistics and industrials in focus.
- **Gold:** Remains a preferred asset 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.

## Cross Asset Investment Strategy Main and alternative scenarios

### Revising growth outlook amid energy shock impact - Amundi Investment Institute Projections



### Macro/Financial scenarios and probabilities

#### BASE SCENARIO

**55%**

#### Long-term transition continues; energy shock clouds the outlook

We are in a transition phase, driven by AI capex, defence and industrial policies that reallocate capital and reshape trade, raising costs and moderating activity without collapsing globalisation. Inflation risks are becoming more structural due to reshoring, the energy transition and tighter supply conditions.

The energy shock clouds this outlook: the longer it lasts, the more the impact shifts deeper into the economy, from logistics to production, increasing the risk of supply-chain disruptions, uneven cost pressures, and more entrenched inflation.

The world must contend with higher commodity prices. In the absence of broader stimulus, this would translate into softer growth in the near term and, by widening existing vulnerabilities, into a more fragile outlook.

#### Market implications:

Mildly post risk, diversified across regions and sectors and with increased selectivity and hedges in place.

#### UPSIDE SCENARIO

**10%**

#### Lower tensions, tariffs lift sentiment

In a context of heightened fragility linked to geopolitics, de-escalation, lower tariffs, contained fiscal sustainability concerns, evidence of productivity gains and of greater supply-chain resilience to external shocks could improve outlook.

#### Market implications:

Increase risk, favour cyclicals, Europe, Asia and energy importers; bond supported as inflation fears recede.

#### DOWNSIDE SCENARIO

**35%**

#### Geopolitical risks, inflation concerns

A downturn triggered by instability, de-anchoring inflation expectations, supply-chain disruptions, tighter liquidity, credit events, and earnings or capex disappointments and worsening confidence.

#### Market implications:

Risk-off move, favour cash, short term rates in the US and safe haven currencies (CHF).

Source: Amundi Investment Institute. The chart presents the Amundi Investment Institute's reference projections based on information available as of 13 April 2026, and incorporates tariffs implemented up to that date in 2026. The base scenario oil shock scenario based on the assumption of ongoing conflict and production disruption, with oil and gas prices expected to remain elevated. Year-end Brent is now projected closer to \$80, reflecting a "higher for longer" environment. The scenario isolates the oil and gas shock transmission channel and does not fully capture the broader strategic evolution of the conflict beyond energy disruption. Scenarios are just illustrations not forecasts because no policy adjustment is included. These figures are for illustrative purposes and are subject to revision, in case of a protracted oil shocks.

## Cross Asset Investment Strategy Amundi Asset Class Views

Equity Views										
DM Equities	Change vs M-1	---	--	-	-/=	=	=/+	+	++	+++
US						◆				
<i>US Growth</i>				◆						
<i>US Value</i>							◆			
Europe	▼					◆				
<i>Europe SMID</i>	▼						◆			
Japan	▼					◆				
EM Equities	Change vs M-1	---	--	-	-/=	=	=/+	+	++	+++
EM	▼					◆				
<i>EM Asia</i>	▼					◆				
<i>Latin America</i>								◆		
<i>Emerging EMEA</i>								◆		
EM-ex China	▼					◆				
China						◆				
India							◆			
Fixed Income Views										
Duration	Change vs M-1	---	--	-	-/=	=	=/+	+	++	+++
US	▲				◆					
EU							◆			
UK							◆			
Japan						◆				
Overall	▲						◆			
Credit	Change vs M-1	---	--	-	-/=	=	=/+	+	++	+++
US IG						◆				
US HY				◆						
EU IG								◆		
EU HY						◆				
Overall							◆			
EM Bonds	Change vs M-1	---	--	-	-/=	=	=/+	+	++	+++
China govt.						◆				
India govt.								◆		
EM Sovereign HC								◆		
EM LC	▼							◆		
EM Corpo. HC								◆		
Overall								◆		

▼ Downgrade vs previous month    ▲ Update vs previous month

Source: Summary of views expressed at the most recent global investment committee (GIC) and discussions after. Views as of 16 April 2026. The table shows absolute views on each asset class and are expressed on a 9 scale range, where = refers to a neutral stance. This material represents an assessment of the market at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. FX table shows absolute FX views of the GIC. \* Represents a consolidated view of multiple EM currencies.

# To go further: The Amundi Research Center



## Amundi Investment Institute, our story

The Amundi Investment Institute was created to enhance strategic dialogue with clients and to cement Amundi's leadership in economic and financial research. Positioned at the core of the global investment process, the Investment Institute collaborates seamlessly with Amundi's investment platforms. It produces analysis on economic and market developments, including their implications for investors. Our goal is to help clients navigate an increasingly complex and rapidly changing world.

To find out more, please visit: [research-center.amundi.com](https://research-center.amundi.com)

### ESG and Net zero

### 2026 Capital Market Assumptions

### Thematic Papers

## IMPORTANT INFORMATION

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Date of first use: 30 April 2026

Doc ID no. 5443075

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