Macro Matters: Carry On

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

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Topic
Market Events

Key takeaways

- **Growth:** U.S. growth is supported by fiscal policy and lower rates, despite a drag from trade. Eurozone growth expectations appear optimistic given delays in fiscal stimulus transmission. Fiscal policy is broadly expansionary, with China likely to deliver additional measures in early 2026.
- **Inflation:** Inflation continues to converge toward targets globally, though U.S. trade dynamics pose downside risk. Japan remains an outlier on the upside, while we see eurozone inflation pricing as too hawkish.
- **Rates:** Policy divergence remains a defining theme. We expect gradual easing from the Federal Reserve (Fed) and Bank of England, a near-term pause from the European Central Bank, and continued tightening from the Bank of Japan.

Our economic outlook

The macro environment remains delicately balanced as growth and inflation move into better alignment. We are focused on the labor market in the U.S. and Chinese fiscal developments as potential catalysts to tweak our outlook.

In the **U.S.**, **fiscal stimulus** may peak in early 2026, with gradual monetary easing expected absent significant labor market deterioration. Continued weakness—whether from immigration restrictions, federal layoffs, or labor-saving artificial intelligence (AI) adoption—could prompt additional Fed cuts if tariff-driven inflation proves short-lived.

In the **eurozone**, **fiscal support** is likely to take longer to flow through the economy than markets anticipate, raising the risk of inflation undershooting. Japan is progressing toward a higher-rate regime, supported by firm inflation, strong growth, and potential fiscal easing. Other economies could also see rate hikes as policy becomes less restrictive and recession risks recede. China continues to employ fiscal measures aimed at stabilizing sentiment.

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

As **inflation** moves closer to central bank targets, risks remain—particularly from tariff pass-throughs. We see greater downside inflation risk in the eurozone and China, while U.S. inflation appears more accurately priced. Policy, growth, and inflation divergence will remain key sources of opportunity in 2026.

Prospective changes to asset allocation

- **Equities**
  We remain constructive on equities and maintain an overweight, particularly in Japan and the U.S. We have adjusted exposures to EM (becoming more country-specific) and the eurozone given optimistic pricing and slower expected fiscal transmission in Europe.
- **Fixed income**
  We stay neutral on U.S. duration, preferring curve steepeners and duration in developed ex-U.S. markets and spreads in EM debt.
- **Commodities and foreign exchange (FX)**
  We are turning moderately overweight the USD versus developed markets while retaining selective EM FX carry exposures. We continue to favor precious metals while emphasizing tactical risk management.

Multi-asset allocation views

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

+ (Overweight on overall asset class)

= (Neutral on overall asset class)

− (Underweight on overall asset class)

Primary asset class allocations relative to individual targeted neutral portfolios		Overweight/neutral/underweight
Global Equities	Overall	+
	U.S. large cap	Neutral
	U.S. mid cap	Neutral
	U.S. small cap	Neutral
	Eurozone	Overweight
	Japan	Overweight
	U.K.	Underweight
	EM	Slight overweight
Duration	Overall	=
	U.S.	Underweight
	U.S. inflation-linked	Slight overweight
	Eurozone	Overweight
	Japan	Underweight
	U.K.	Overweight
	Australia	Underweight
	Canada	Neutral
Credit	Overall	−
	Global investment grade	Underweight
	Global high yield	Underweight

	EM debt	Overweight
Currencies	Overall	+
	USD	Overweight
	CHF	Neutral
	JPY	Underweight
	EUR	Underweight
	EM	Overweight
Commodities	Overall	+
	Oil	Overweight
	Precious metals	Overweight
	Industrial metals	Overweight

For illustrative purposes only. Source: Allspring Multi-Asset Solutions, as of 12-Jan-26. Based on the team's analysis of current data and trends for each category of assets. Weights are based on client-specific asset allocation target and may vary based upon defined specific neutral allocation weightings.

Forward investment implications

Equities		Sector-specific commentary
Overall:	We expect earnings and monetary and fiscal policy to continue providing a tailwind to risk assets, supporting a positive stance on equities overall. We have moderated our preference for non-U.S. markets—refining our exposures to EM and the eurozone.	
	EM	We have refined our exposure to EM equities from broad-based to more country-specific views, as we see macro and idiosyncratic risks as elevated for the sector. Furthermore, we find compelling secular trends in regions such as Korea and Brazil.
	Eurozone	In Europe, optimism around fiscal stimulus is already reflected in valuations, while the real economic impact is likely to materialize more slowly.
	Japan	We maintain a relative overweight to Japan, supported by structural reforms and currency weakness.
	U.S.	In the U.S., elevated valuations leave limited room for disappointment, as evidenced in the fourth quarter, prompting a tilt toward more value-oriented areas. AI-related capex remains a key swing factor for equity performance.
Fixed income		Sector-specific commentary
Overall:	We remain broadly neutral on credit and duration exposures. With spreads tight, we prefer to avoid adding new credit exposure. Longer-dated bonds in developed markets remain unattractive given persistent concerns around fiscal credibility.	

	U.S.	U.S. Treasuries appear fairly priced, and we see the U.S. labor market as central to the rates outlook and find curve steepeners attractive at current levels.
	Eurozone	The eurozone presents opportunities as inflation risks tilt lower and growth momentum lags.
	Japan	Japan stands apart as an underweight from other developed markets due to continuing its transition toward higher rates.
	EM	We continue to favor EM debt for its carry characteristics, with EM central banks having led the easing cycle.
Currencies (FX)		**Sector-specific commentary**
	USD	We are turning moderately constructive on the U.S. dollar, supported by U.S. equity leadership in AI-linked sectors, ongoing fiscal stimulus, and a resilient labor market.
	EUR	The euro appears overvalued given the optimistic fiscal narrative, despite improving external balances.
	EM	We continue to prefer selective EM carry FX where yield cushions remain robust.
Commodities		**Sector-specific commentary**
	Oil	The oil oversupply story is largely baked into markets. We continue to find West Texas Intermediate below $60 attractive from a portfolio perspective. The expected impact from recent geopolitical shifts is far from certain—current barrels will shift from China to the rest of the world and new supply will take much longer to realize (and require a security backstop).
	Precious metals	We maintain a positive stance on precious metals, managed tactically for portfolio impact.
	Industrial metals	We also see emerging opportunities in industrial metals, driven by AI-related demand, with tariff-related volatility largely behind us.

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

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

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

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