

Macro Matters: Geopolitics and Tariffs, but With a Twist

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

Authors	Date	Topic
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Key takeaways

- **Growth**
U.S. growth was weaker than expected for the fourth quarter, though part of that miss might have been caused by the extended government shutdown. While some existing tariffs were struck down and other options remain possible, the overall outlook could be positive for the global economy.
- **Inflation**
Higher core goods inflation and persistent service price inflation kept the latest U.S. core inflation print for January elevated. Inflation is moderating in Europe and China, though not everyone is out of the woods, with Australia showing a rise again.
- **Rates**
Despite robust non-farm payrolls in the U.S., we still expect at least one more rate cut by the Federal Reserve (Fed), given a cautious U.S. consumer. Internationally, the picture is mixed with the U.K. cutting more, the eurozone on hold, and Australia hiking.
- **Geopolitics**
The situation between Iran and the West saw a major escalation. Investors reacted with an orderly correction—not panicking, for now. The USD strengthened, as did gold, while equities and bonds corrected. For now, it's worth keeping calm and focusing on the fundamentals.

Our economic outlook:

The macro environment was about to improve, with global manufacturing continuing to recover from tariff-induced costs and the service sector humming along, until investors got the latest tariff-related news from the Supreme Court. Large parts of the tariffs are deemed under the control of Congress which will force the U.S. administration to come up with alternatives. Those seem more limited but still powerful enough to make an impact on growth. Staying with the Supreme Court, there is another equally important ruling pending, namely on Fed Governor Cook and the implied consequence on Fed independence. While the recent court ruling has caused some short-term uncertainty, it does provide longer-term clarity on the ownership and extent of tariff measures. Countries that have been hit overly hard by previous tariffs, such as China or India, are likely to benefit on a relative basis. Trade uncertainty does, however, remain elevated as a result.

Uncertainty also remains the prevailing sentiment in the market's reaction to the conflict between Iran and the West. For financial markets, we believe much will depend on the duration and depth of the conflict in making further adjustments. A lengthy and broadening conflict can't be ruled out which would have a bigger impact on risk sentiment and, ultimately, growth and inflation dynamics. So far, the market correction has been orderly rather than panic driven. We will continue to look for opportunities by focusing on fundamentals across equity and fixed income markets, while we expect traditional currency havens, such as the USD, and commodity prices to move higher.

In the meantime, all eyes remain focused on potential U.S. monetary stimulus. With fiscal policy already loose and possibly loosening further ahead of the mid-term elections, the Fed faces added challenges. The latest Core Personal Consumption Expenditures (Core PCE) Index numbers have been trending back to 3% and, while rents are likely to put downward pressure on inflation, core goods and other services remain sticky. The latest gross domestic product (GDP) print was impacted by the government shutdown late last year, and we expect improvement over the coming quarters. A stable labor market, robust real earnings, and real GDP growth at 3% don't require lot of monetary stimulus. Artificial intelligence (AI) capex is still building up and demand seems robust. The latest Fed comments sounded more hawkish, refocusing on bringing inflation back to target while growth was judged as robust. The core of the Fed policy committee is leaning toward a hold until summer to see further inflation progress before cutting rates again.

In the eurozone, Purchasing Managers' Indexes for manufacturing has continued to improve as business sentiment slowly recovers from tariffs and higher interest rates. Consumers and investors remain cautious though, and the service sector has experienced some slowing in momentum. We wouldn't rule out a rate cut later this year to support growth should inflation undershoot the European Central Bank's 2% target. U.K. growth remains weak, and inflation is expected to fall further supporting more rate cuts by the Bank of England. While China is celebrating the New Year, investors see optimism in the latest tariff news despite the economy still struggling with a cautious consumer, falling house prices, and deflation. Beyond China, our growth outlook for international markets remains positive as many countries benefit from the AI boom (such as Korea or Taiwan) as well as from recovering commodity prices (like Brazil).

Prospective changes to asset allocation:

- **Equities**

We remain constructive on equities and maintain an overweight, particularly in Asia Emerging Markets (EM), Latin America, and cheaper valuation sectors in the U.S. AI capex spending and questions on how this will translate into earnings is holding U.S. technology companies back for now; international equities that leverage the AI ecosystem seem to offer better value. Part of the reason why broad U.S. equity benchmarks are underperforming international equities year-to-date is the higher dispersion among constituents—the broader market may be catching up with the big tech companies—as well as a sharper recognition of potential AI winners versus losers (e.g., the heavy underperformance of software-as-a-service stocks).

- **Fixed income**

We have stayed neutral on U.S. duration, preferring curve steepeners and duration in developed ex U.S. markets and spreads in EM debt.

- **Commodities and foreign exchange (FX)**

We continue to favor commodities with a particular focus on precious metals, industrial metals, and energy. The continued uncertainty around U.S. trade policy is likely to propel precious metals higher. Energy commodities are supported by a potential conflict in Iran.

From a currency perspective, we remain positive on EM and selected developed countries benefiting from the commodity boom such as the Australian dollar or the Brazilian real.

Multi-asset allocation views:

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

+ (Overweight on overall asset class)

= (Neutral on overall asset class)

- (Underweight on overall asset class)

Primary asset class allocations relative to individual targeted neutral portfolios

Overweight/neutral/underweight

Global Equities	Overall	+
	U.S. large cap	Neutral
	U.S. mid cap	Overweight
	U.S. small cap	Overweight
	Eurozone	Neutral
	Japan	Neutral
	U.K.	Neutral
	EM	Overweight
Duration	Overall	=
	U.S.	Underweight
	U.S. inflation-linked	Overweight
	Eurozone	Overweight
	Japan	Underweight
	U.K.	Overweight
	Australia	Neutral
	Canada	Neutral
Credit	Overall	-
	Global investment grade	Neutral
	Global high yield	Underweight
	EM debt	Overweight
Currencies	Overall	+
	USD	Overweight
	CHF	Neutral
	JPY	Underweight
	EUR	Underweight
	EM	Overweight
Commodities	Overall	+

	Oil	Overweight
	Precious metals	Overweight
	Industrial metals	Overweight

For illustrative purposes only. Source: Allspring Multi-Asset Solutions, as of 03-Mar-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:		Loose fiscal policy and a global growth recovery support robust earnings growth.
	EM	We continue to favor a more refined approach with an overweight 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 stay neutral given volatility in the FX and rates markets created by uncertainty around financing of further fiscal stimulus.
	U.S.	We continue to see robust earnings growth in the U.S., with major upgrades to mid and small caps as well.
Fixed income		Sector-specific commentary
Overall:		We remain broadly neutral on duration exposures. With spreads tight, we prefer to avoid adding new credit exposure. Longer-dated bonds in developed markets remain unattractive given persistent concerns around fiscal credibility.
	U.S.	U.S. Treasuries appear fairly priced, as continued fiscal spending and sticky inflation result in stable yields.
	Eurozone	Eurozone presents opportunities as inflation risks remain low and growth sluggish.
	Japan	Japan stands apart as an underweight from other developed markets, as the Bank of Japan is continuing to normalize 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	Despite the recent weakening, we value a long USD position from a portfolio perspective.

	EUR	The euro appears overvalued given the optimistic fiscal narrative and weak consumer confidence.
	EM	We continue to prefer selective EM carry FX trades where yield cushions remain robust and government balance sheets robust.
Commodities		Sector-specific commentary
	Oil	We remain constructive on energy in the medium term but manage this exposure fairly tactically. OPEC is unlikely to expand production further from here.
	Precious metals	We maintain a positive stance on precious metals longer term as geopolitics, looser fiscal policy, and potentially looser monetary policy remain supportive.
	Industrial metals	We remain positive on industrial metals driven by AI related demand and a global growth recovery.

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.

Core Personal Consumption Expenditures (Core PCE) Price Index

The Core Personal Consumption Expenditures (Core PCE) Price Index reflects changes in the prices of goods and services purchased by consumers in the U.S. but excludes food and energy. The Core PCE Index is a subset of the Personal Consumption Expenditures (PCE) Price Index but is intended to provide a smoother view of underlying, long term inflation trends by removing food and energy prices, which can swing widely due to weather, geopolitics, or commodity shocks. You cannot invest directly in an index.

Personal Consumption Expenditures (PCE) Price Index

The Personal Consumption Expenditures (PCE) Price Index reflects changes in the prices of goods and services purchased by consumers in the U.S. It is part of the Personal Income and Outlays Report issued by the Bureau of Economic Analysis of the U.S. Department of Commerce. You cannot invest directly in an index.

Purchasing Manager's Index

The Purchasing Managers' Index is an economic indicator that gauges sentiment in manufacturing, based on monthly surveys of purchasing managers. You cannot invest directly in an index.

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