

Macro Matters: Is It Time to Price in Geopolitical Risk?

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 is likely to slow despite robust consumer spending. International growth is deteriorating fast, with higher energy prices weighing more heavily on non-U.S. economies. We believe Europe and parts of Asia look especially vulnerable to further downgrades. Ongoing uncertainty in the Middle East and a more cautious Federal Reserve (Fed) remain headwinds to global growth.
- **Inflation**
With global central banks on hold, inflation expectations remain relatively anchored, but high-frequency indicators point to building inflationary pressures. International central banks may reassess their response if elevated prices persist alongside continued wage growth.
- **Rates**
Rates are range-bound for now. The growth-dampening effects of higher commodity prices are being offset by rising inflation pressures and the likelihood of looser fiscal policy aimed at softening the economic impact.
- **Geopolitics**
Tensions between Iran and the West are in a stalemate. The positive news is that the military conflict is on hold and negotiations are ongoing, but both sides remain far apart in their demands. In the meantime, the critical Strait of Hormuz remains closed to commodity exports.

Updates to our economic outlook:

Global growth expectations continue to cool as the effects of a prolonged closure of the Strait of Hormuz trickle through the global economy. A sequence of supply shocks is increasing uncertainty and weighing on sentiment. High-frequency indicators, like purchasing manager's indexes or the Atlanta Fed's gross domestic product (GDP) tracker, point to a further slowing of growth. While U.S. growth is also slowing, it is relatively cushioned by continued strong artificial intelligence (AI) spending and loose fiscal policy. In contrast, parts of Asia and Europe are much more dependent on Middle Eastern oil and gas and lack comparable domestic growth tailwinds, worsening the growth/inflation trade-off in those regions. Under normal circumstances, this type of environment would naturally lead to higher fiscal spending if not for already-stretched government balance sheets. We have seen more fiscal spending on the margin through energy subsidies, and additional spending is likely should the situation deteriorate further.

Inflation is rising globally, though most of it remains concentrated in headline measures. Core inflation has stayed well behaved so far, and it would require further tightening in commodity markets for companies to pass higher input costs through more broadly into core prices. In the U.S., core prices remain supported by a weaker housing market, and the tariff impact from last year is fading. Internationally, however, inflation is experiencing stronger upward pressure despite weaker growth.

Rising inflation and the lack of progress in Iran negotiations have left central banks and governments in a difficult spot. Central banks are on hold for now, though we can't rule out a short-term overreaction—particularly in Europe, where central banks tend to focus more on prices. The Fed remains on hold, focused on balancing the dual mandate of inflation and growth. The Fed is likely to be cautious about any further upward pressure signaled by higher-frequency survey indicators. Inflation has stayed above the 2% target for five years, and it currently looks unrealistic to expect prices to return to that target level within the next year.

Our base case remains a data dependent Fed on hold, but Europe faces a higher risk of policy error, where rate hikes in a weak growth environment would likely tip the economy into recession.

Prospective changes to asset allocation:

- **Equities**

We currently favor U.S. equities and Asian markets over European equities. The information technology sector continues to deliver strong earnings growth, while European equities are impacted by slowing global growth, rising input costs, and higher interest rates. The U.S.'s position as a net exporter of energy, combined with a stronger USD, should provide the economy greater insulation from higher energy prices. We believe developed ex-U.S. and emerging market (EM) equities remain cheaper and attractively valued over the long term, but weaker currencies, more hawkish central banks, and greater reliance on energy imports are likely to cause higher market volatility. Short-term sentiment shifts will likely lead to plenty of market noise.

- **Fixed income**

We remain neutral on U.S. duration overall, with a preference for the intermediate part of the curve while underweighting the long end. Yields in developed ex-U.S. markets remain elevated and volatile, but we see increasingly attractive longer-term entry levels given compelling all-in yields.

- **Commodities and foreign exchange**

We continue to favor commodities through a broad-based allocation. Energy commodities remain supported by the lasting damage to energy infrastructure in the Middle East and the ongoing geopolitical deadlock. Beyond energy, we favor agricultural commodities and have become more constructive on industrial commodities supported by the AI boom and continued infrastructure build-out. From a currency perspective, we remain positive on select countries that benefit from the commodity boom, reduced geopolitical exposure, and stronger domestic economies, such as the Brazilian real and the Mexican peso.

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

Global equities	Overall	+
	U.S. large cap	Overweight
	U.S. mid cap	Neutral
	U.S. small cap	Neutral
	Eurozone	Underweight
	Japan	Overweight
	U.K.	Neutral
	EM	Neutral
Global rates*	Overall	⊞
	U.S. government-related	Underweight
	U.S. inflation-linked	Overweight
	Eurozone	Neutral
	Japan	Underweight
	U.K.	Underweight
	Australia	Neutral
	Canada	Neutral
Global credit	Overall	⊞
	Global investment grade	Neutral
	Global high yield	Neutral
	EM debt	Neutral
Currencies	Overall	+
	USD	Overweight
	CHF	Neutral
	JPY	Neutral
	EUR	Underweight
	EM	Overweight
Commodities	Overall	+
	Oil	Overweight
	Precious metals	Neutral
	Industrial metals	Overweight

For illustrative purposes only. Source: Allspring Multi-Asset Solutions, as of 04-May-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. *For global rates, an overweight tilt relative to individual targeted neutral portfolio views, indicates a broad expectation for lower rates in the asset class

or underlying sectors. Conversely, a relative underweight tilt would indicate a broad expectation for rising rates, respectively.

Forward investment implications:

Equities		Sector-specific commentary
Overall:	A more quality- and sentiment-focused approach may be needed as market sentiment remains fragile and the impact on fundamentals less clear.	
	EM	We continue to be selectively positive in commodity- and tech-sensitive areas.
	Eurozone	We remain cautious given rising yields, hawkish central banks, and higher input costs impacting an already-cautious consumer.
	Japan	We favor tech-sensitive sectors here over the broader Japanese market, also supported by loose monetary and fiscal policy.
	U.S.	We prefer U.S. equities on a relative basis with a focus on tech- and AI-relevant sectors. Growth equities benefit from the current AI capital expenditure cycle.
Fixed income		Sector-specific commentary
Overall:	We favor avoiding the long end of interest rate curves in the U.S., and we selectively like European bonds after the recent sell-off.	
	U.S.	We prefer the intermediate part of the curve, which may be less sensitive to growth and inflation revisions.
	Eurozone	Eurozone bonds have underperformed and may represent longer-term better value.
	Japan	We remain underweight Japanese bonds as Bank of Japan monetary policy remains very loose.
	EM	We continue to favor EM debt as attractive in the longer term but remain cautious of shorter-term fragile investor sentiment.
Currencies (FX)		Sector-specific commentary
	USD	We continue to favor long USD positions as a diversifier, but also based on stronger projected U.S. growth over international growth
	EUR	Despite the repricing of interest rates to rate hikes, now we expect the EUR to be under pressure from very low growth.
	EM	We remain selectively positive on commodity-export-focused EM currencies.
Commodities		Sector-specific commentary

	Oil	We maintain a constructive view on energy in the medium term and actively risk manage the exposure across the commodity forward curve.
	Precious metals	We are neutral on precious metals, as higher rates and geopolitics dominate the prospect of lower growth.
	Industrial metals	We remain positive on industrial metals, driven by AI related demand and a global growth recovery.
	Agriculture	We remain positive on agriculture, as the closure of the Strait of Hormuz is putting upward pressure on fertilizer prices.

The **Atlanta Fed GDP tracker** (formally called GDPNow) is a real-time estimate of U.S. economic growth produced by the Federal Reserve Bank of Atlanta. It is a model-based, continuously updated forecast of real U.S. GDP growth for the current quarter, expressed at an annualized rate.

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.

Purchasing Manager's Index (PMI) is an economic indicator that measures the health of a country's manufacturing or services sector.

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