

# Market Outlook and Asset Allocation

January 2026

# Agenda

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# 1 Synthesis

# Synthesis

## MACRO



The beginning of 2026 has been eventful, particularly from a geopolitical standpoint. Nevertheless, we maintain a positive outlook on the global economy and financial markets in 2026. While geopolitical risk can indeed generate noise and short-term volatility, its impact remains limited over the medium to long term as long as it does not significantly affect oil prices. As a result, the risks for this year remain more skewed to the upside than to the downside.

## FINANCIAL CONDITIONS



The year 2025 was marked by a clear paradox: central banks cut rates while long-term yields continued to rise. This divergence was partly driven by fiscal and political stress in several countries, as well as uncertainty surrounding Donald Trump's more aggressive trade agenda. These forces are likely to remain in play in 2026, even if the end of QT at major central banks could somewhat ease the pressure.

## INFLATION



After slowing at the beginning of 2026, U.S. inflation picked up again, as goods inflation, driven by tariffs, offset the deceleration in housing. We believe that inflation will gradually converge toward its target over the course of 2026, supported by a decline in services inflation. In Europe, inflation remains at target. Base effects, the rerouting of certain Chinese products, and declining wage pressures should lead inflation to undershoot the target in the first quarter of 2026.

## RISKS



Few main risks that we are monitoring in the medium term:

- Multiplication of geopolitical events driven by American imperialism and escalation of tensions between Europe and the US
- The battle between Trump and the Fed with a new chair on the way.
- AI stock slump(disruptions from new players, increased regulation, and underwhelming results)

## CENTRAL BANKS



At the start of the year, both the Fed and the ECB are in somewhat delicate positions. While the former is managing the risk balance of its dual mandate relatively well, it is facing growing domestic political pressure that could interfere with the effective conduct of its monetary policy. The ECB, for its part, considers its monetary policy to be in a "good place," yet it still appears overly hawkish in our view. This stance does not seem justified either by inflationary risks or by an economic growth dynamic that would warrant such a tone.

## TACTICAL ALLOCATIONS



We start 2026 with an overweight position in equities, with a preference for emerging markets. Given the current geopolitical environment, as well as the sharp increase in spending following Europe's strategic "awakening," we introduce a relative overweight exposure to the defense theme. We remain underweight in bonds and maintain a constructive view on high yield and emerging market debt, which overall increases the portfolio's beta while benefiting from attractive carry.

## IN A NUTSHELL

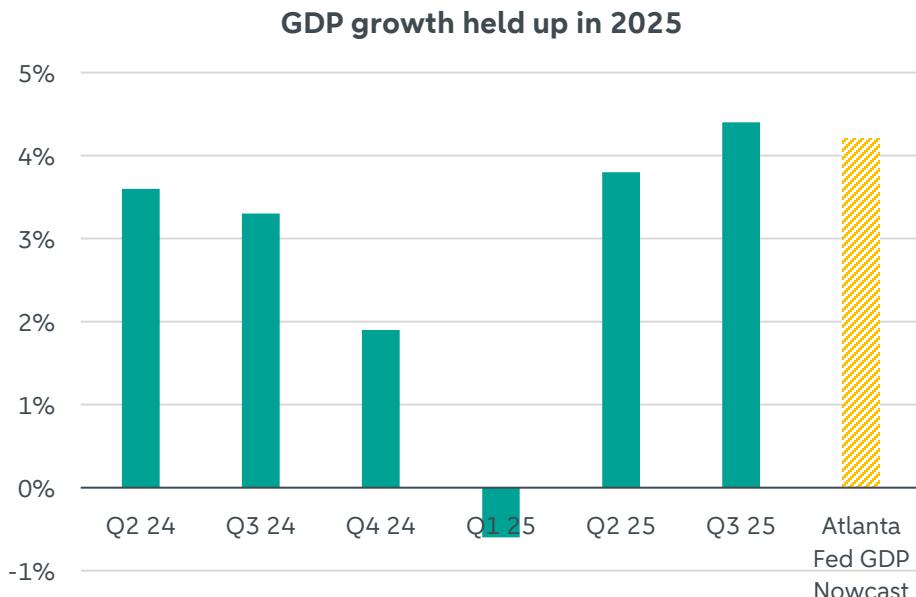
Despite Donald Trump's erratic policy approach, the United States continues to post solid growth, supported in particular by rising productivity gains, resilient consumption, and robust capital expenditures. At the same time, the Federal Reserve appears to be on track to achieve its objective: the labor market is cooling without collapsing, while inflation remains above target but is expected to gradually normalize over the coming months.

Europe, by contrast, remains on a more moderate growth trajectory, weighed down by structural weaknesses and persistent political uncertainty. The region will need to implement a de-risking strategy, as both its technological dependence on the United States and its industrial dependence on China could prove costly. Nevertheless, we expect a cyclical rebound in the first half of 2026, driven by a recovery in consumption and an easing of financial conditions.

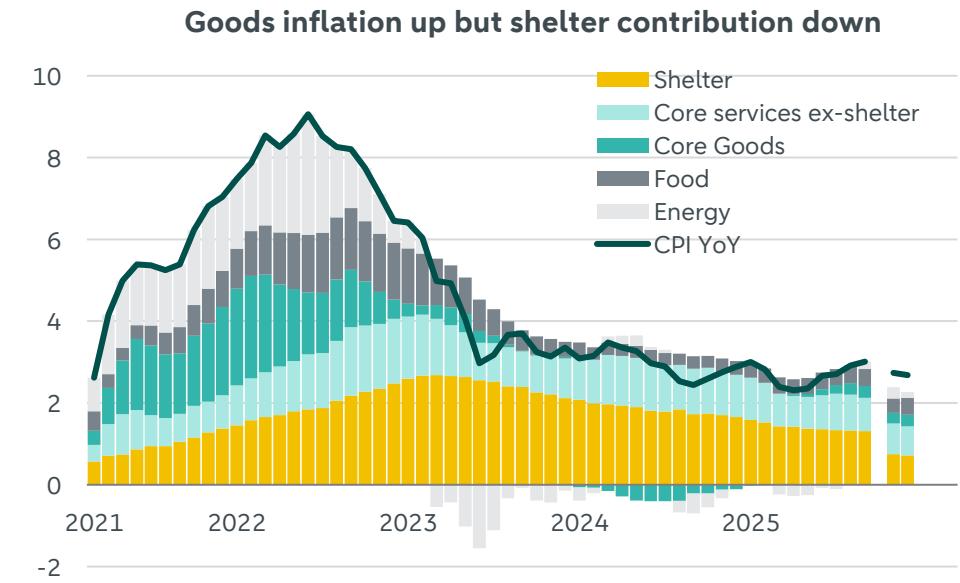
## 2 Economic and market outlook

# The Fed is in a better place now...

- The Fed faced a dilemma in 2025: Concerns about tariffs filtering through into consumer goods prices emerged, while the labour market weakened, affected by Trump's crackdown on immigration.
- Later in the year, the economy proved to be quite resilient in the face of persisting political uncertainty, with both profit margins and consumer spending keeping pace, even though growth was rather *k-shaped*. After picking up in late 2025, durable goods inflation is expected to fade considering tariffs a one-off hike, and the shelter component, the biggest driver of inflation since years, has been steadily decelerating.



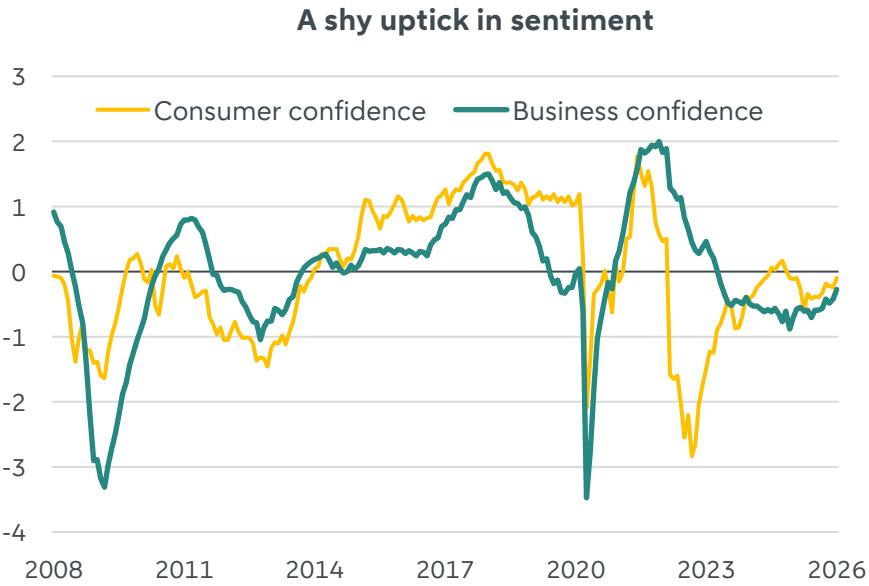
Sources: Bloomberg, Atlanta Fed, GDP Nowcast for Q4 25 is as of 29/01/26, Quarterly data (QoQ%) from Q2 24 to Q3 25, ABN AMRO Investment Solutions.



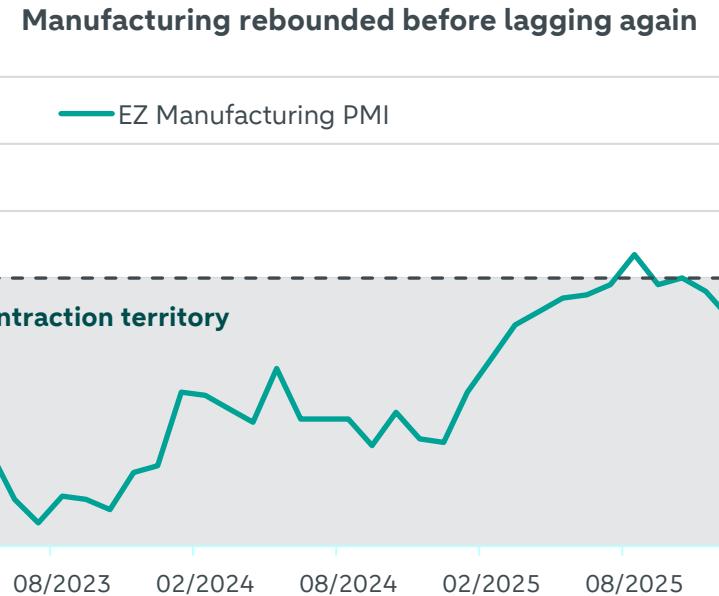
Sources: Bloomberg, % YoY contributions, monthly data from Mar 2021 to Dec 2025, missing data point in October due to shutdown, ABN AMRO Investment Solutions.

# And Europe is showing signs of a shy rebound ...

- Growth in Europe persisted as well but remains weak. The cyclical rebound hoped for is taking too long to materialize. Manufacturing activity continued to contract, and structural problems still weigh on growth: Historically high savings rate, low productivity and pressure on the export sector competitiveness with Chinese rerouting of goods and a potential EUR appreciation in 2026.
- Hopes hinge on the German stimulus plan and past ECB cuts making their way through to the real economy. Optimism has been improving slightly among businesses and consumers but remains below the long-term average.



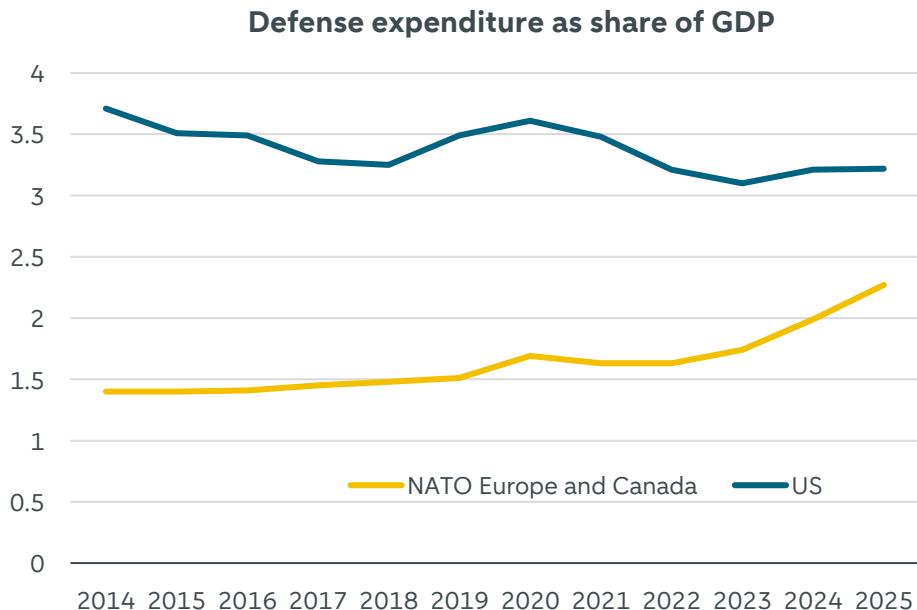
Sources: European commission, Z-scores for the consumer and industry sentiment indexes computed over average and standard deviation of the period from 2008 to 2025, ABN AMRO Investment Solutions.



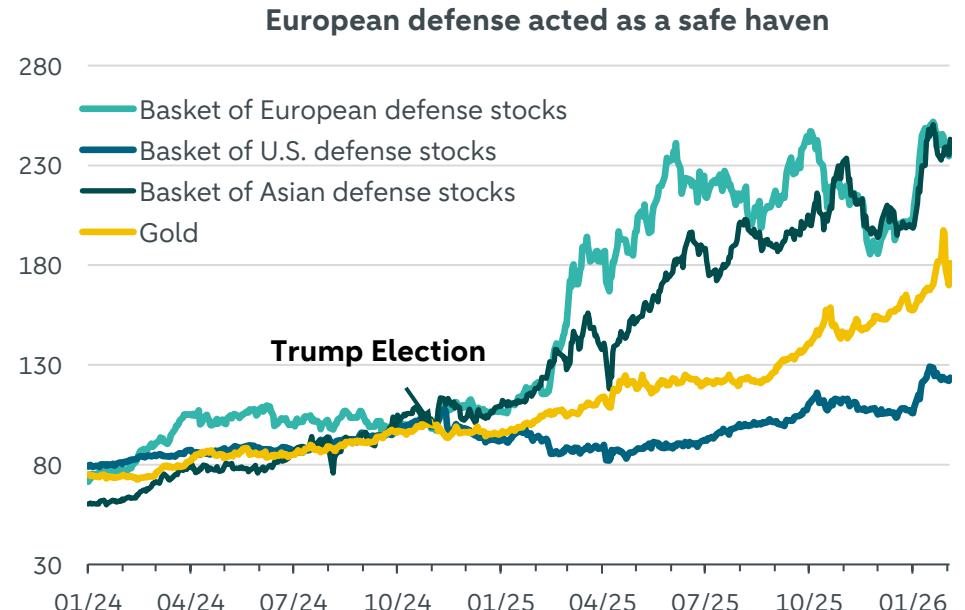
Sources : Datastream, Up/Down ratio (2-month analyst revisions) of 12-month forward earnings (MSCI World), 01/06/1990-24/10/2025, ABN AMRO Investment Solutions.

# But one European sector killed it last year...

- Defense budgets have surged in Europe since the war in Ukraine and under pressure from Trump. The number of NATO countries meeting the 2% of GDP defense spending target rose from 10 in 2023 to 18 in 2024 and 31 in 2025.
- In response to geopolitical tensions in 2025, European and Asian defense stocks significantly outperformed, and instead of the traditional *flight to safety* we typically see during times of uncertainty, i.e. flight to USD and US Treasuries, we saw a *flight to arms* phenomenon, one of a kind !



Sources: Nato, annual data from 2014 to 2025, ABN AMRO Investment Solutions.

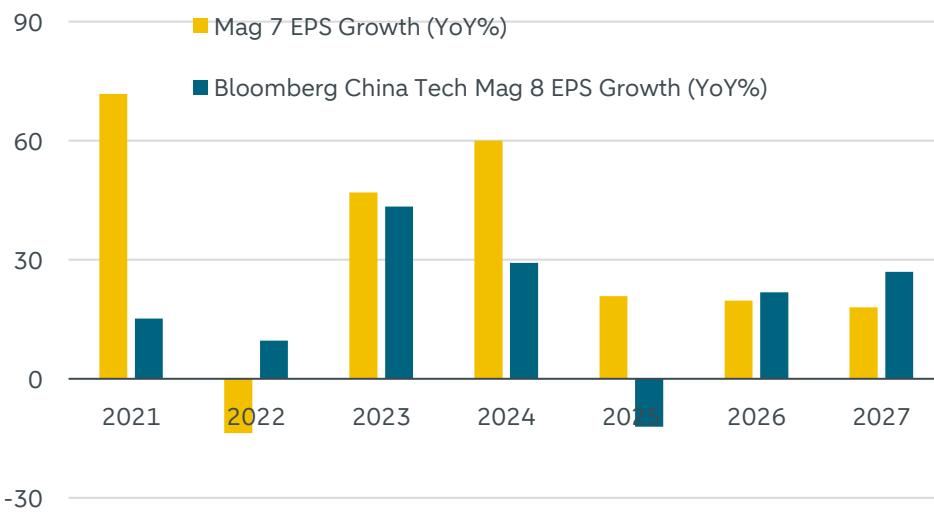


Sources: Bloomberg, daily data from 01/11/2023 to 12/01/2026, EUR . Normalized 100=11/05/2024, ABN AMRO Investment Solutions.

# And guess what ? there are new “cheap” Mag 7 (8) on the way ..

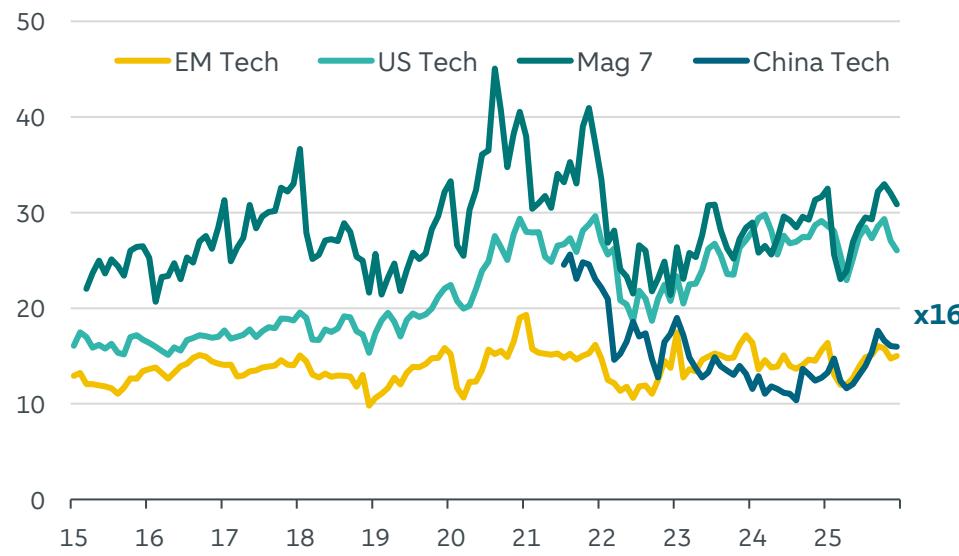
- Expected earnings growth for the Mag 7 seems to have peaked and is expected to slow, while earnings growth for a basket of equivalent China Tech giants starts from a low base (negative growth in 2025) and is expected to accelerate in the next couple of years.
- Chinese Tech shows attractive valuations in terms of forward P/E, trading at x16, lower than their peers elsewhere, with a x30 multiple for the Mag 7. These relatively low valuations justify the reallocation of capital towards Chinese Tech amid concerns over expensive US Tech valuations.

**Earnings growth for Chinese Mag 8 expected to outpace that of US Mag 7**



Sources: Bloomberg basket of 8 China Tech giants include Alibaba, Baidu, Tencent, NetEase, PDD, Xiaomi, JD.com and Meituan, ABN AMRO Investment Solutions

**China Tech trades at a 40% discount vs the US**



Sources: MSCI Indexes, Bloomberg monthly data from 30/01/2015 to 31/12/2025, ABN AMRO Investment Solutions

# Business cycle – Leading indicators (PMI surveys)

► In advanced economies, all composite PMIs are now in expansion, and that of France is at the threshold. Manufacturing in the Euro Area remains in contraction in all 3 major economies of the region while services is above the 50 mark for all developed countries.

► In emerging economies, Brazil and Russia have a contracting manufacturing PMI while the services and composite indexes are in expansion territory.

	Composite						Manufacturing						Services					
	07-25	08-25	09-25	10-25	11-25	12-25	07-25	08-25	09-25	10-25	11-25	12-25	07-25	08-25	09-25	10-25	11-25	12-25
Global	52.5	52.9	52.5	53.0	52.7	52.0	49.7	50.9	50.7	50.9	50.5	50.4	53.5	53.3	52.9	53.5	53.2	52.4
USA	55.1	54.6	53.9	54.6	54.2	52.7	49.8	53.0	52.0	52.5	52.2	51.8	55.7	54.5	54.2	54.8	54.1	52.5
Euro area	50.9	51.0	51.2	52.5	52.8	51.5	49.8	50.7	49.8	50.0	49.6	48.8	51.0	50.5	51.3	53.0	53.6	52.4
France	48.6	49.8	48.1	47.7	50.4	50.0	48.2	50.4	48.2	48.8	47.8	50.7	48.5	49.8	48.5	48.0	51.4	50.1
Germany	50.6	50.5	52.0	53.9	52.4	51.3	49.1	49.8	49.5	49.6	48.2	47.0	50.6	49.3	51.5	54.6	53.1	52.7
UK	51.5	53.5	50.1	52.2	51.2	51.4	48.0	47.0	46.2	49.7	50.2	50.6	51.8	54.2	50.8	52.3	51.3	51.4
Japan	51.6	52.0	51.3	51.5	52.0	51.1	49.0	49.7	48.5	48.2	48.7	50.0	53.6	53.1	53.3	53.1	53.2	51.6
Spain	54.7	53.7	53.8	56.0	55.1	55.6	51.9	54.3	51.5	52.1	51.5	49.6	55.1	53.2	54.3	56.6	55.6	57.1
Italy	51.5	51.7	51.7	53.1	53.8	50.3	49.8	50.4	49.0	49.9	50.6	47.9	52.3	51.5	52.5	54.0	55.0	51.5
Brazil	46.6	48.8	46.0	48.2	49.6	52.1	48.2	47.7	46.5	48.2	48.8	47.6	46.3	49.3	46.3	47.7	50.1	53.7
Russia	47.8	49.1	46.6	50.2	50.1	50.0	47.0	48.7	48.2	48.0	48.3	48.1	48.6	50.0	47.0	51.7	52.2	52.3
China	50.8	51.9	52.5	51.8	51.2	51.3	49.5	50.5	51.2	50.6	49.9	50.1	52.6	53.0	52.9	52.6	52.1	52.0
India	61.1	63.2	61.0	60.4	59.7	57.8	59.1	59.3	57.7	59.2	56.6	55.0	48.0	48.3	50.7	49.4	49.4	50.1
South Korea							46.2	47.4	46.8	47.7	48.8	50.9						
Taiwan							45.9	47.3	46.7	46.5	48.0	48.9						
Turkey																		



Source: Bloomberg, final Markit PMI published at the beginning of each month following the survey, monthly data from 07/25 to 12/25. Note: The Composite Activity Index is a weighted average of the Manufacturing Activity Index and the Services Activity Index. ABN AMRO Investment Solutions

# 3 Economic calendar

# Main economic releases published last weeks

Date	Zone	Event	Period	Consensus (Median)	Actual	Prior
05-Jan-26	China	RatingDog China PMI Composite	Dec	--	51.3	51.2
07-Jan-26	Euro Area	CPI Estimate YoY	Dec P	2.00%	2.00%	2.10%
09-Jan-26	China	CPI YoY	Dec	0.80%	0.80%	0.70%
09-Jan-26	United States	Change in Nonfarm Payrolls	Dec	70k	<b>50k</b>	64k
09-Jan-26	United States	Unemployment Rate	Dec	4.50%	4.40%	4.60%
09-Jan-26	United States	U. of Mich. Sentiment	Jan P	53.5	54.0	52.9
13-Jan-26	United States	CPI YoY	Dec	2.70%	2.70%	2.70%
14-Jan-26	United States	Retail Sales Advance MoM	Nov	0.50%	0.60%	0.00%
19-Jan-26	China	GDP YoY	4Q	4.50%	4.50%	4.80%
19-Jan-26	China	Retail Sales YoY	Dec	1.00%	<b>0.90%</b>	1.30%
19-Jan-26	China	Industrial Production YoY	Dec	5.00%	5.20%	4.80%
20-Jan-26	China	1-Year Loan Prime Rate	Jan	3.00%	3.00%	3.00%
21-Jan-26	United Kingdom	CPI YoY	Dec	3.30%	3.40%	3.20%
22-Jan-26	United States	GDP Annualized QoQ	3Q T	4.30%	4.40%	4.30%
22-Jan-26	Euro Area	Consumer Confidence	Jan P	-13.0	-12.4	-13.1
22-Jan-26	United States	Personal Spending	Oct	0.30%	0.50%	0.30%
22-Jan-26	United States	Personal Income	Oct	0.40%	<b>0.10%</b>	0.40%
22-Jan-26	United States	PCE Price Index YoY	Oct	2.70%	2.70%	2.80%
22-Jan-26	United States	Personal Income	Nov	0.40%	<b>0.30%</b>	0.10%
22-Jan-26	United States	Personal Spending	Nov	0.50%	0.50%	0.50%
22-Jan-26	United States	PCE Price Index YoY	Nov	2.80%	2.80%	2.70%
23-Jan-26	Euro Area	HCOB Eurozone Composite PMI	Jan P	51.9	<b>51.5</b>	51.5
23-Jan-26	United Kingdom	S&P Global UK Composite PMI	Jan P	51.5	53.9	51.4
23-Jan-26	United States	S&P Global US Composite PMI	Jan P	53.0	<b>52.8</b>	52.7
26-Jan-26	Germany	IFO Business Climate	Jan	88.2	<b>87.6</b>	87.6
28-Jan-26	United States	FOMC Rate Decision (Lower Bound)	Jan	3.50%	3.50%	3.50%
30-Jan-26	Euro Area	GDP SA QoQ	4Q A	0.20%	0.30%	0.30%

Sources: Bloomberg and AAIS from 01/01/26 to 01/31/26. P for Preliminary; F for Final. | 12  
Some data appearing twice because of shutdown delay

The opinions expressed above are current as of the date of this presentation and are subject to change.

# Main economic releases to watch in the coming weeks

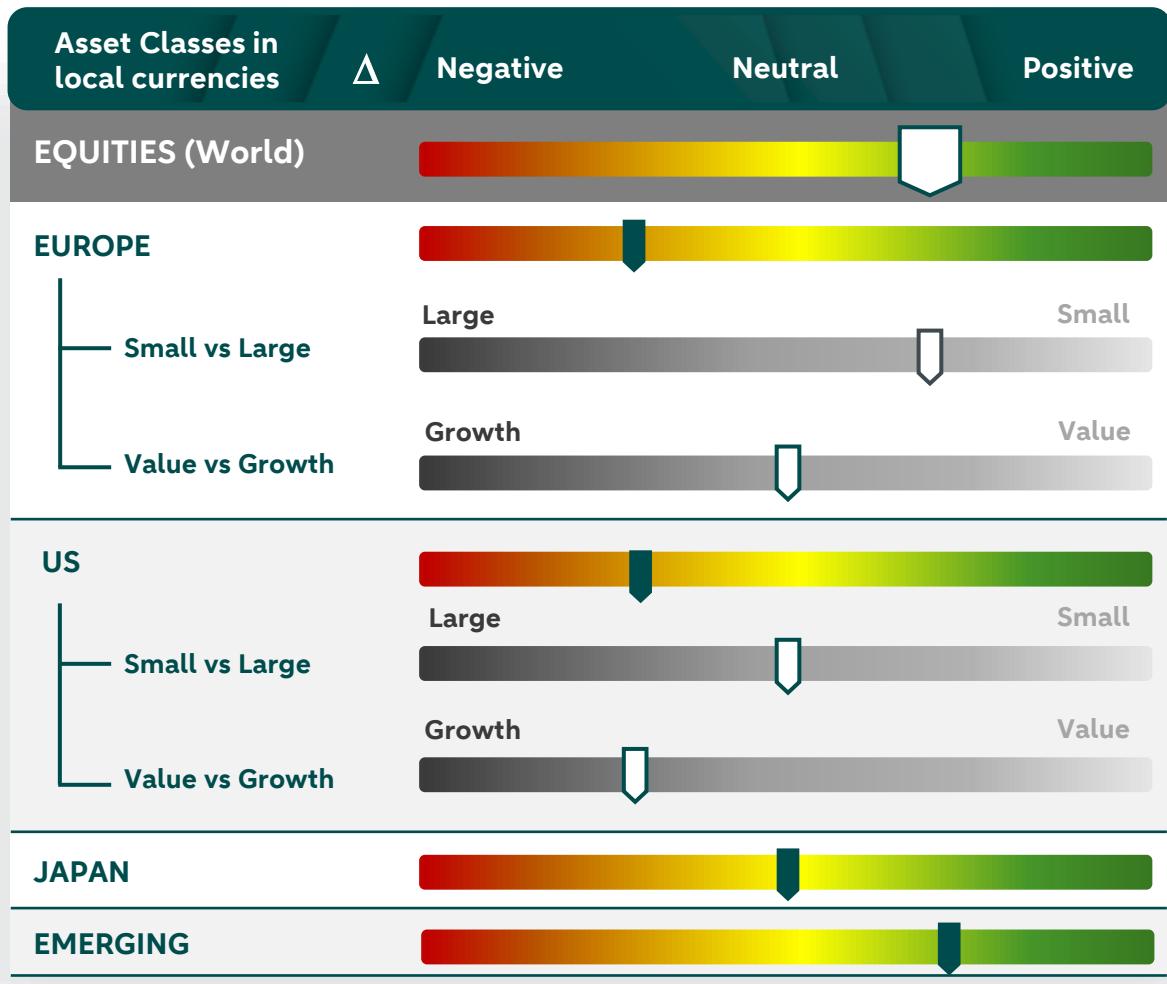
Date	Zone	Event	Period	Consensus (Median)	Prior
04-Feb-26	China	RatingDog China PMI Composite	Jan	--	51.3
04-Feb-26	Euro Area	CPI Estimate YoY	Jan P	1.70%	1.90%
05-Feb-26	Euro Area	Retail Sales YoY	Dec	1.70%	2.30%
05-Feb-26	United Kingdom	Bank of England Bank Rate	Feb	3.75%	3.75%
05-Feb-26	Euro Area	ECB Deposit Facility Rate	Feb	2.00%	2.00%
06-Feb-26	United States	U. of Mich. Sentiment	Feb P	55.0	56.4
10-Feb-26	United States	Retail Sales Advance MoM	Dec	0.40%	0.60%
11-Feb-26	China	CPI YoY	Jan	0.40%	0.80%
11-Feb-26	United States	CPI YoY	Jan	2.50%	2.70%
12-Feb-26	United Kingdom	GDP QoQ	4Q P	--	0.10%
13-Feb-26	Euro Area	GDP SA QoQ	4Q S	--	0.30%
13-Feb-26	United States	Change in Nonfarm Payrolls	Jan	71k	50k
13-Feb-26	United States	Unemployment Rate	Jan	4.40%	4.40%
17-Feb-26	United States	Retail Sales Advance MoM	Jan	--	--
18-Feb-26	United Kingdom	CPI YoY	Jan	--	3.40%
19-Feb-26	Euro Area	Consumer Confidence	Feb P	--	-12.4
20-Feb-26	Euro Area	HCOB Eurozone Composite PMI	Feb P	--	--
20-Feb-26	United Kingdom	S&P Global UK Composite PMI	Feb P	--	--
20-Feb-26	United States	Personal Income	Dec	--	0.30%
20-Feb-26	United States	Personal Spending	Dec	0.50%	0.50%
20-Feb-26	United States	PCE Price Index YoY	Dec	--	2.80%
20-Feb-26	United States	GDP Annualized QoQ	4Q A	--	4.40%
20-Feb-26	United States	S&P Global US Composite PMI	Feb P	--	--
23-Feb-26	Germany	IFO Business Climate	Feb	--	87.6
24-Feb-26	China	1-Year Loan Prime Rate	Feb	--	3.00%
25-Feb-26	Germany	GfK Consumer Confidence	Mar	--	-24.1

Sources: Bloomberg and AAIS from 02/03/2026 to 02/28/2026. P for Preliminary; F for Final.

# 4   Tactical allocation grids

# Tactical Equity Allocation Grid: January 2026

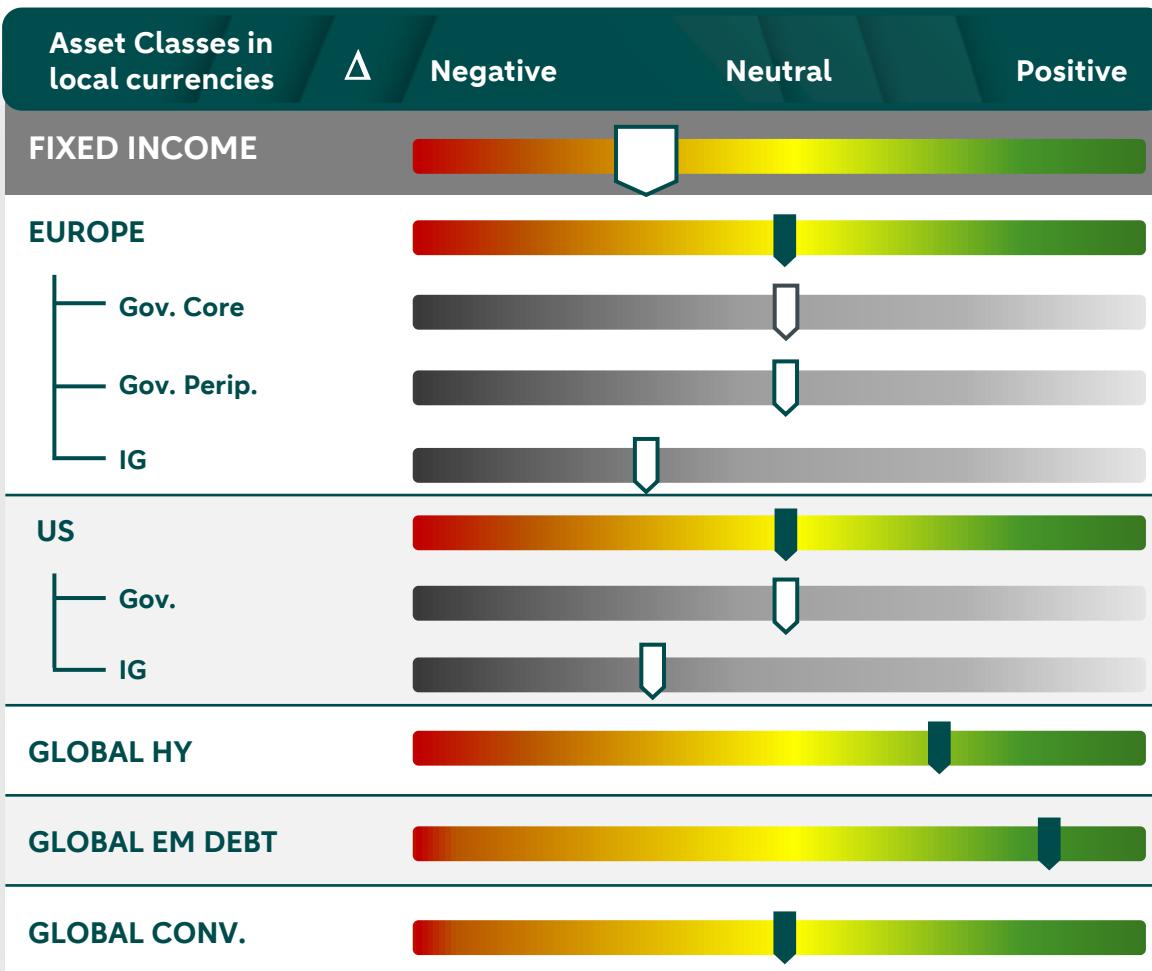
- We maintain our simple overweight position on equities as well as our overweight to emerging markets. Particularly, China Tech stocks are well positioned to benefit from the AI theme while also providing exposure to other Tech industries, and the shift towards the services sector provides a favorable macroeconomic backdrop for Chinese digital platforms.
- We hold a relative underexposure to U.S. and European equities, but still an overweight position in absolute terms. US corporate balance sheets are robust, and tariffs have not eroded profit margins and in some cases, businesses have even taken advantage of them to increase their margins. In parallel, there is no exuberance in valuations, which actually reflect different dynamics: the tech sector shows high but justified levels, while other sectors remain at reasonable valuations.
- In Europe, structural problems remain and much of the good news is already priced-in (stimulus German plan, ECB cuts). But we increase our exposure to European defense stocks to benefit from the structural uptrend in defense spending amid persistent geopolitical uncertainty.



Note: ↑ Upgrade; ↓ Downgrade

# Tactical Bond Allocation Grid: January 2026

- We maintain our underweight in fixed income with an overweight on emerging market debt, which offers attractive carry. Emerging economies have been less affected than expected by trade tensions, while benefiting from resilient growth and improved financial stability compared to the past.
- We maintain a constructive view on the high yield segment, particularly in Europe. The asset class continues to offer attractive carry, supported by stronger credit quality relative to the U.S. market and persistently low default rates. At the same time, the elevated dispersion of spreads within the European HY universe increases selection risk but also provides opportunities for active managers to generate alpha.
- We remain cautious on sovereign bonds, as the risk-reward profile appears not so attractive at current yield levels. Term premia are compressed, leaving limited scope for further capital appreciation, particularly in the U.S., where inflation remains sticky and growth data continue to show resilience. On top of that, uncertainties surrounding the Fed's independence, fiscal stress in several countries, and Donald Trump's aggressive trade policy are set to maintain pressure on LT yields. In this context, duration risk is not adequately compensated, and we prefer to stay neutral to core government bonds.



Note:  Upgrade;  Downgrade

# Disclaimer

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