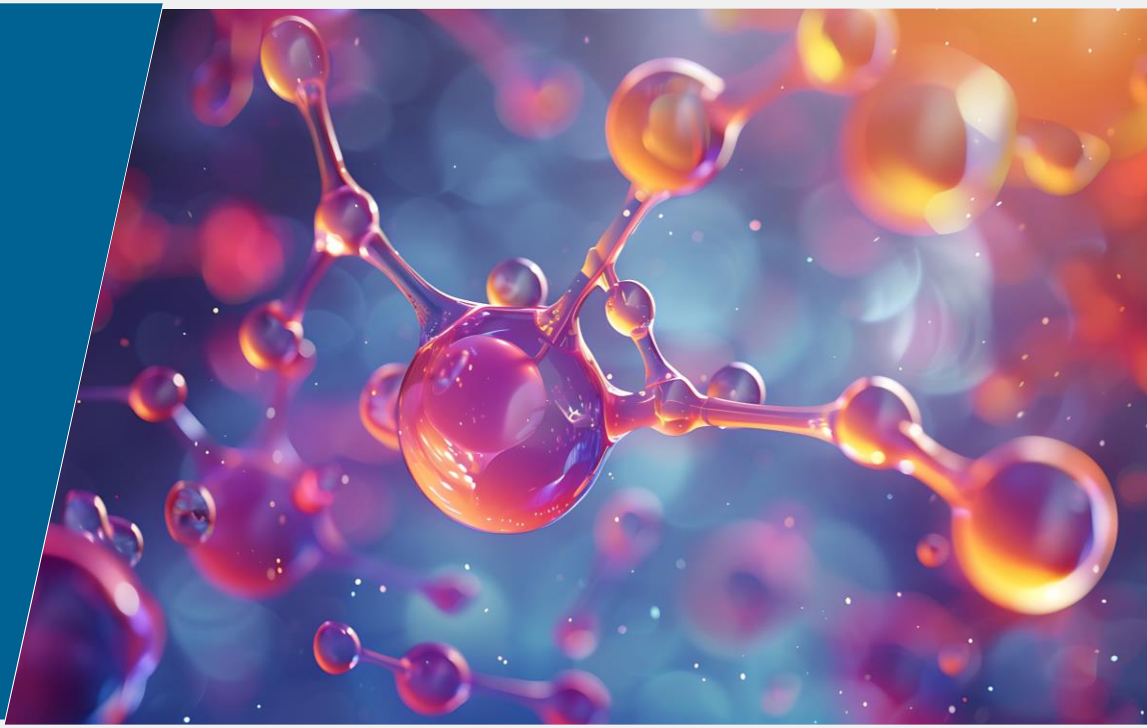
Global Asset Allocation Insights

Fidelity Multi Asset



January 2026

Summary

3	**Big picture** Growth continues to hold up across major regions, financial conditions remain loose, and earnings momentum is proving resilient. The global cycle remains in positive but slower expansion, with the balance of risks improving into 2026 and fiscal stimulus a key tailwind for markets in 2026. While inflation remains above target in some regions, it is unlikely to derail easing cycles. Against this backdrop, we maintain an overweight to equities, and we turn positive on government bonds, as growth concerns increasingly outweigh inflation risks, though we remain selective across regions. Downside tail risks have reduced, but with much good news already priced in, selectivity remains important, meaning we maintain our preference for regional and more focused positions. We broadly prefer EM over DM, in equities, FX, and local currency bonds, however the path of the US dollar will be an important factor to watch.
8	**Equities** We retain the positive view of equities with a preference to add on pullbacks. The global cycle remains in positive but slower expansion, with the balance of risks improving into 2026. Fiscal stimulus is acting as a tailwind, and while inflation remains above target in some regions, it is unlikely to derail easing cycles. Within equities, we express our highest conviction through Japan mid-caps, German mid-caps, and a broadening set of emerging-market opportunities including China Tech, Korea, South Africa and Greece. The technical picture has broadly improved with breadth expanding beyond the tech sector and some of the frothy positioning coming off, however, risk appetite is looking more neutral.
9	**Credit** We remain underweight credit overall, driven by exceptionally tight investment-grade spreads and a limited margin for error. High yield continues to offer better carry, with default expectations benign and fundamentals still solid. We prefer short-dated HY as an income expression. We remain neutral on emerging-market hard currency debt, but opportunities in local currency are more appealing, particularly in Brazil, Mexico, South Africa and Peru.
10	**Government bonds** We continue with an overweight to government bonds. Growth concerns are increasingly outweighing inflation risks, and government bonds should offer more reliable diversification. Selectivity is essential: New Zealand bonds and Gilts remain our highest-conviction long, while Bunds and JGBs remain preferred funding sources.
11	**Cash / Currencies** We have neutralised our short USD stance in the near term given reduced visibility caused by the data void, but we continue to expect medium-term weakness. We have turned more negative on GBP as fiscal tightening and weak macro momentum weigh on the currency. We remain constructive on EUR, supported by German fiscal spending and the end of ECB cuts, while we stay neutral on JPY as cautious BoJ policy offsets valuation support.

Source: Fidelity International, December 2025. Views reflect a typical time horizon of 12–18 months and provide a broad starting point for asset allocation decisions. However, they do not reflect current positions for investment strategies, which will be implemented according to specific objectives and parameters.

Big picture

Navigating a slower but still supportive cycle

What has changed?

- Financial conditions have eased and the Fed is now more clearly leaning toward further cuts as labour-market data softens.
- Earnings momentum has broadened beyond US mega-caps, supporting risk appetite.
- Early signs of fiscal traction in Germany and improving sentiment across several EM markets.

What has stayed the same?

- US exceptionalism remains in question as valuations stay full and policy uncertainty persists.
- The medium-term outlook for a weaker dollar remains intact despite recent tactical strength.
- Inflation trends are uneven: US services inflation is sticky, while Europe benefits from disinflation and a stronger euro.

What are we watching?

- Incoming US labour-market data and how the Fed's reaction function evolves under a shifting leadership mix.
- The durability of broadening earnings growth and the resilience of AI-linked investment.
- The timing and scale of European fiscal deployment, alongside China's stabilisation path and EMFX sensitivity to a USD rebound.

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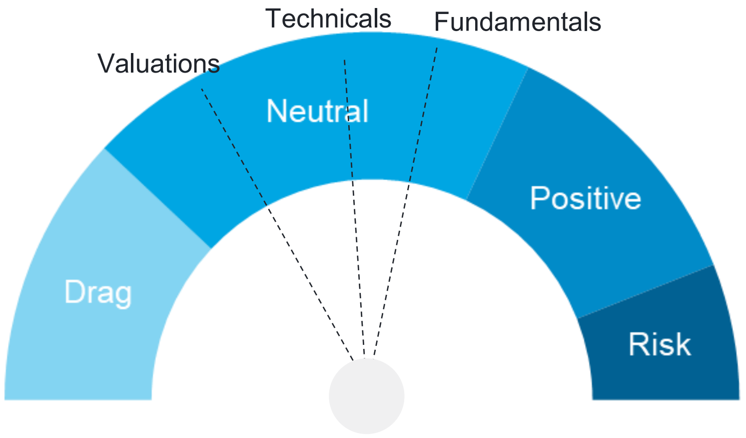
Big picture themes

1	**AI-driven growth will remain the main engine of US expansion**, but market leadership will continue to be narrow. The concentration of equity ownership and consumer spending amongst the wealthy raises the potential harm if the AI trade were to unwind.
2	**Geopolitical fragmentation and trade tensions are likely to persist**, increasing volatility and driving further divergence between regions and sectors. We believe the outlook for the US dollar is likely to be structurally weaker, while questions about the Federal Reserve's independence and reaction function will be on investors' minds.
3	**Policy support and fiscal expansion will continue to underpin growth** in the US, Europe, and Japan, but the benefits will be uneven and policy uncertainty will remain high.
4	**Correlations between equities and bonds will remain elevated**, making traditional diversification less effective and increasing the need for alternatives.

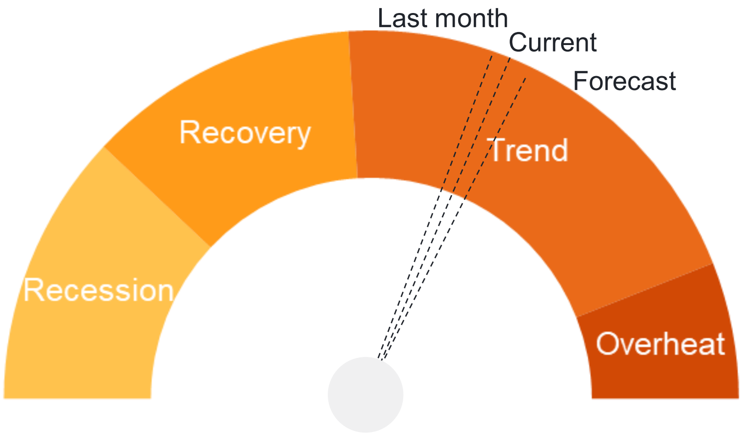
Source: Fidelity International, December 2025.

Cycle gauges

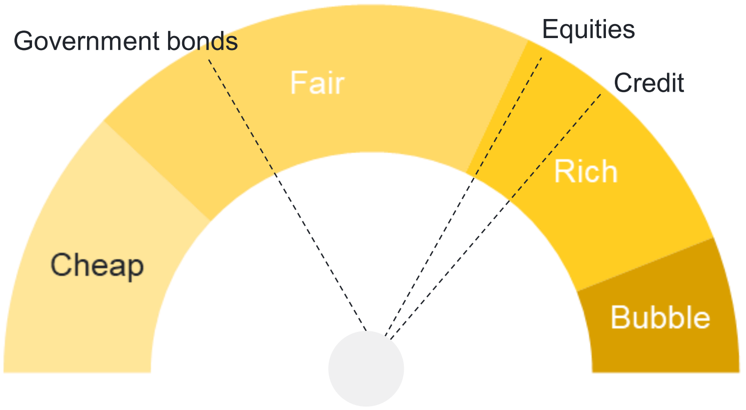
Fundamentals, valuations, technicals



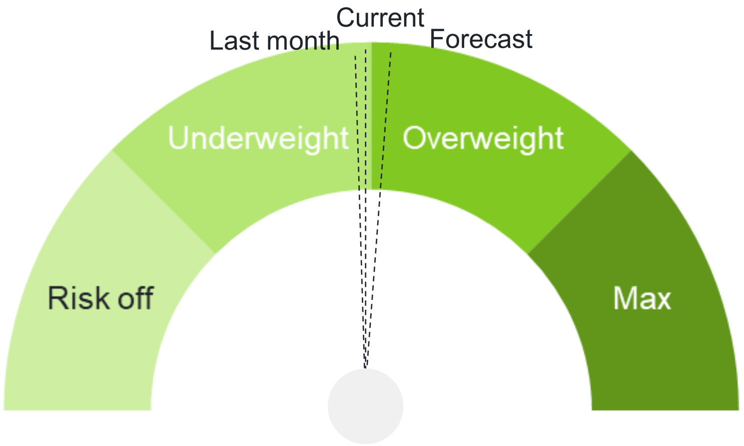
US business cycle



Valuations



Risk appetite



Source: Fidelity International, December 2025.

TAA views summary

		– –	–	=	+	++	Snapshot of views
Equities	**Equities**				●		Resilient earnings, easing financial conditions and reduced downside risks support a continued pro-risk stance.
	US			●			Earnings remain strong, but valuations are full and policy uncertainty keeps US exceptionalism in question. We continue to prefer structural stories such as the “grid upgrade”.
	Europe			●			Valuations are no longer cheap and political risks persist, but German fiscal spending supports selective opportunities.
	UK			●			Earnings momentum is subdued and growth remains weak, though valuations and currency weakness offer some support.
	Japan				●		Positive earnings momentum, rising dividends and domestic reforms outweigh trade and policy uncertainty.
	Emerging markets				●		Improving growth momentum, attractive valuations and a weaker medium-term dollar underpin select EM opportunities.
	Asia Pacific ex. Japan			●			Australia’s outlook has improved, particularly for materials, but valuations keep us cautious.
Credit	**Credit**		●				Tight spreads, especially in investment grade, limit upside despite still-solid fundamentals.
	Investment grade		●				Spreads are exceptionally tight and offer poor compensation for duration and liquidity risk.
	High yield				●		Fundamentals remain robust and all-in yields still look attractive, especially as rates are coming down. We prefer short-dated HY.
	Emerging market debt (hard)				●		Fundamentals remain solid here too; spread levels favour a selective focus on local currency opportunities.
Government bonds	**Government bonds**			→	●		Duration is becoming more attractive as growth concerns rise, though valuation selectivity remains key.
	US Treasuries			●			Yields look fair value, but deficit concerns and inflation risks limit strong conviction.
	Euro core (Bund)		●				Fiscal expansion and less room for ECB cuts make Bunds a preferred funding source.
	UK Gilts				●		Gilts offer decent value and fundamentals are starting to look supportive as inflation shows signs of loosening, allowing the BOE to cut.
	Japanese gov. bonds			●			Yields are more attractive on a currency-hedged basis, but BOJ normalisation limits upside.
	Emerging market gov. bonds (local)				●		There are several EM markets, especially LatAm, with attractive valuations and high real yields. A bounce in the dollar is a key risk to monitor though.
	Inflation linked bonds (US TIPS)			●			Linkers are still a decent hedge against stagflation but are less attractive given budget deficit concerns in the US.
Cash / currencies	**Cash**			●			Cash remains a useful buffer but offers limited return as easing cycles progress.
	US dollar			●			We are bearish on USD over the medium term given institutional challenges and the Fed’s more dovish stance. However, we are tactically neutral due to the possibility of near-term strength.
	Euro				●		German fiscal support and an ECB near the end of its easing cycle underpin the euro.
	Japanese yen			●			BOJ pivot could be positive as JPY has lagged rate differentials, but fiscal risk following recent elections keeps us neutral for now.
	Sterling		●				Weak growth and fiscal consolidation continue to weigh on the pound.
	Emerging markets FX				●		Attractive carry and improving fundamentals support EM currencies despite some USD volatility. We continue to prefer currencies like ZAR and BRL.

Source: Fidelity International, December 2025. Views reflect a typical time horizon of 12–18 months and provide a broad starting point for asset allocation decisions. However, they do not reflect current positions for investment strategies, which will be implemented according to specific objectives and parameters. Regional equity views use universes defined by MSCI indices.

Best ideas for investment outcomes

Growth

- **EM equities, particularly Korea, South Africa, and Greece** with re-rating potential; Japanese equities more broadly, but also mid-caps in Japan and Germany.
- **Thematic equities related to the grid upgrade** benefit from idiosyncratic return drivers as the US and EU look to accommodate greater demand and more renewable energy.
- **Global multi asset strategies** taking a flexible approach, accessing growth opportunities across the capital structure.

Income

- **Emerging market bonds** in certain markets continue to look attractive given elevated yields and should also benefit from a weaker dollar over the medium term.
- **Quality income equities** provide relative defensiveness and stability.

Capital preservation

- **Gold** is effective diversifier in an environment of unstable bond-equity correlations and the role of the dollar is challenged, although we are cautious of how far it has run this year. We are **positive on real assets more generally**, particularly **commodities such as copper,** as a hedge against inflation re-accelerating.
- Selectively allocating to **structural growth themes** can increase portfolio resilience alongside traditional defensives.

Uncorrelated returns

- **Absolute return** strategies, driven by active investment decisions and incorporating idiosyncratic sources of risk – particularly those with a focus on tail risk mitigation.

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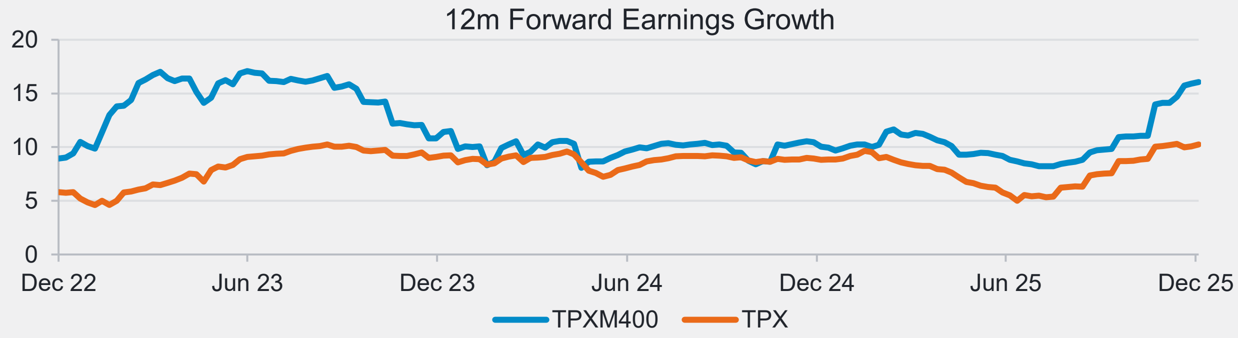
Equities

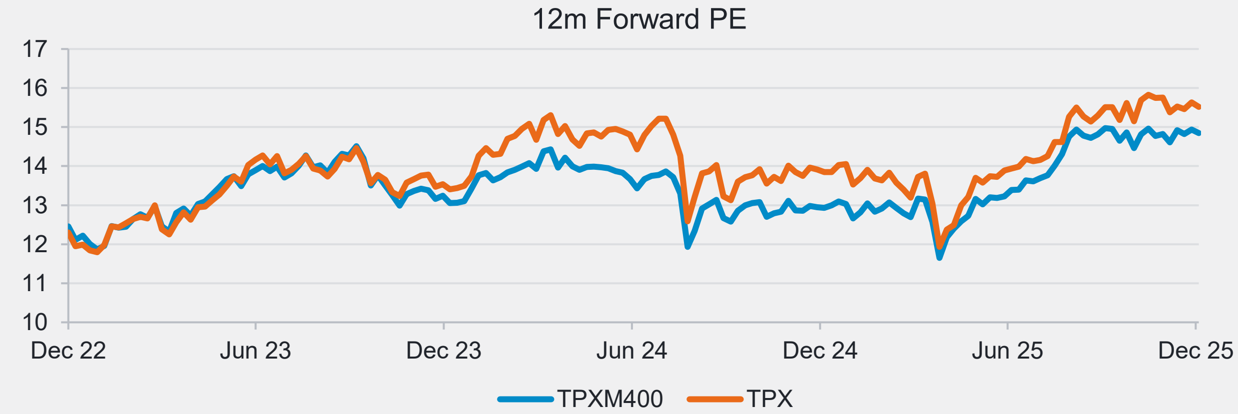
	−−	−	=	+	++
Equities				●	
US			●		
Europe			●		
UK			●		
Japan				●	
Emerging markets				●	
Asia Pacific ex. Japan			●		

Key views

- **Maintain positive view of Japanese equities, especially mid-caps** due to strong corporate earnings growth, higher domestic exposure, and ongoing corporate reforms under the Takaichi administration.
- **US earnings continue to surprise positively, with some signs of broadening out.** However, valuations are full. We prefer selective exposure to underlying themes such as the grid upgrade in place of traditional defensives.
- **Continue to be overweight select EM markets. Our top picks include Korea, South Africa, and Greece,** with attractive re-rating stories due to stimulus, governance reforms, and sector-specific tailwinds.
- **German midcaps:** With fundamentals improving and earnings growth better than large caps, the backdrop looks favourable. Fiscal is key. As it materialises, German mid-caps can outperform given a higher domestic exposure.

Japan mid-caps offer more attractive earnings growth at lower multiples vs large caps and should benefit from domestic stimulus





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Credit

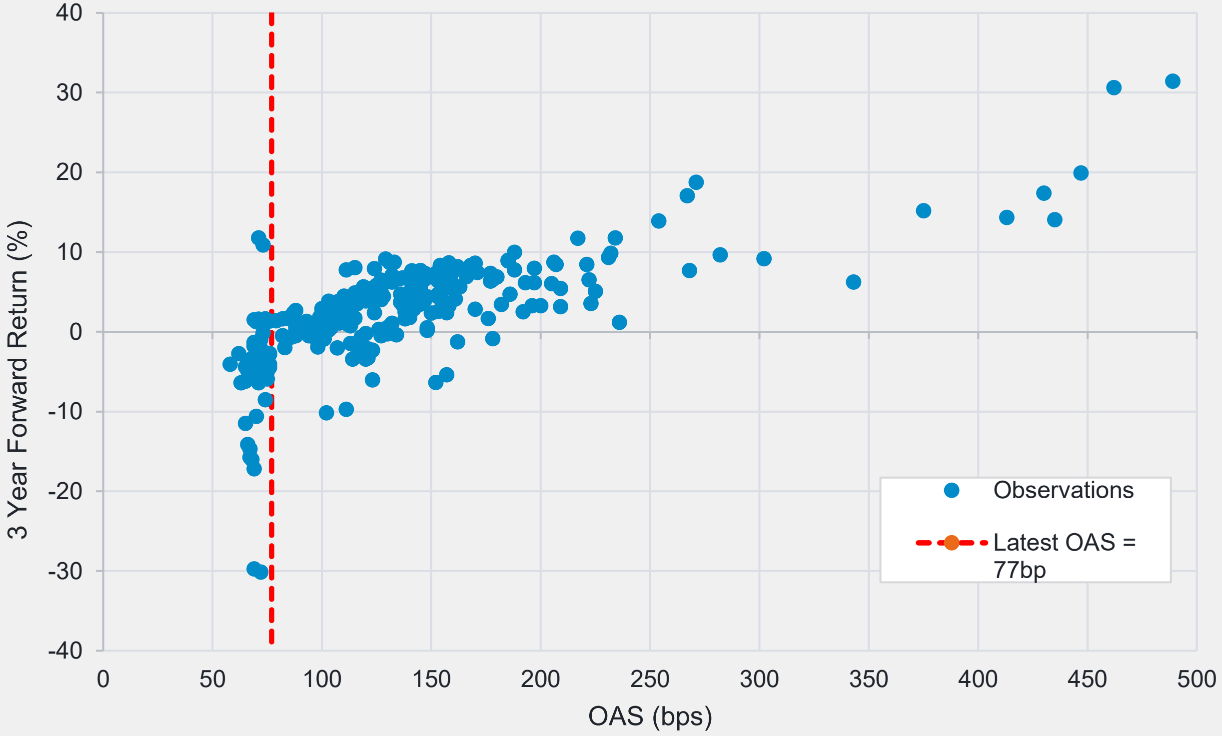
	−−	−	=	+	++
Credit		●			
Investment grade		●			
High yield				●	
Emerging market debt (hard)				●	

Key views

- **Prefer HY to IG: Spreads this tight often lead to poor forward returns from credit risk.** High yield benefits from shorter spread duration, resilient balance sheets and still-attractive all-in yields, with default expectations remaining benign. Our preference is to treat high yield as a carry opportunity rather than a source of spread tightening.
- **Retain positive view of emerging market credit:** Spreads have remained resilient though the recent risk wobble, giving us further confidence in our positive view. This remains a supportive environment to extract carry, albeit with greater selectivity.

IG spreads this tight often lead to poor forward returns from credit risk; we prefer the carry of HY

Global IG: Option adjusted spread vs 3Y Forward Spread Return



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Government bonds

	––	–	=	+	++
Government bonds			→	●	
US Treasuries			●		
Euro core (Bund)		●			
UK Gilts				●	
Japanese gov. bonds			●		
Emerging market government bonds (local)				●	
Inflation linked bonds (US TIPS)			●		

Key views

- **We have become more constructive on duration** as growth concerns increasingly outweigh inflation risks, and government bonds are regaining some diversification value in portfolios. While valuations are not uniformly compelling, selective opportunities exist across regions and tenors.
- **Maintain preference for EMD local currency** given several bottom-up ideas with attractive real yields and/or steep curves (South Africa, Brazil, Mexico). We are watching EMFX closely for a tactical rebound in USD which could weigh on broad EMD though. Tactically profit-taking or hedging some FX may be timely.
- In DM, our highest conviction duration view **continues to be in New Zealand** given attractive real yields, a steep curve, and clearer reasons to cut given at-target inflation and low growth. We continue to like Gilts and prefer Bunds as the funding source.

Compelling real yields are available in EM, especially Brazil and South Africa

Real Policy Rates (%)

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Cash / Currencies

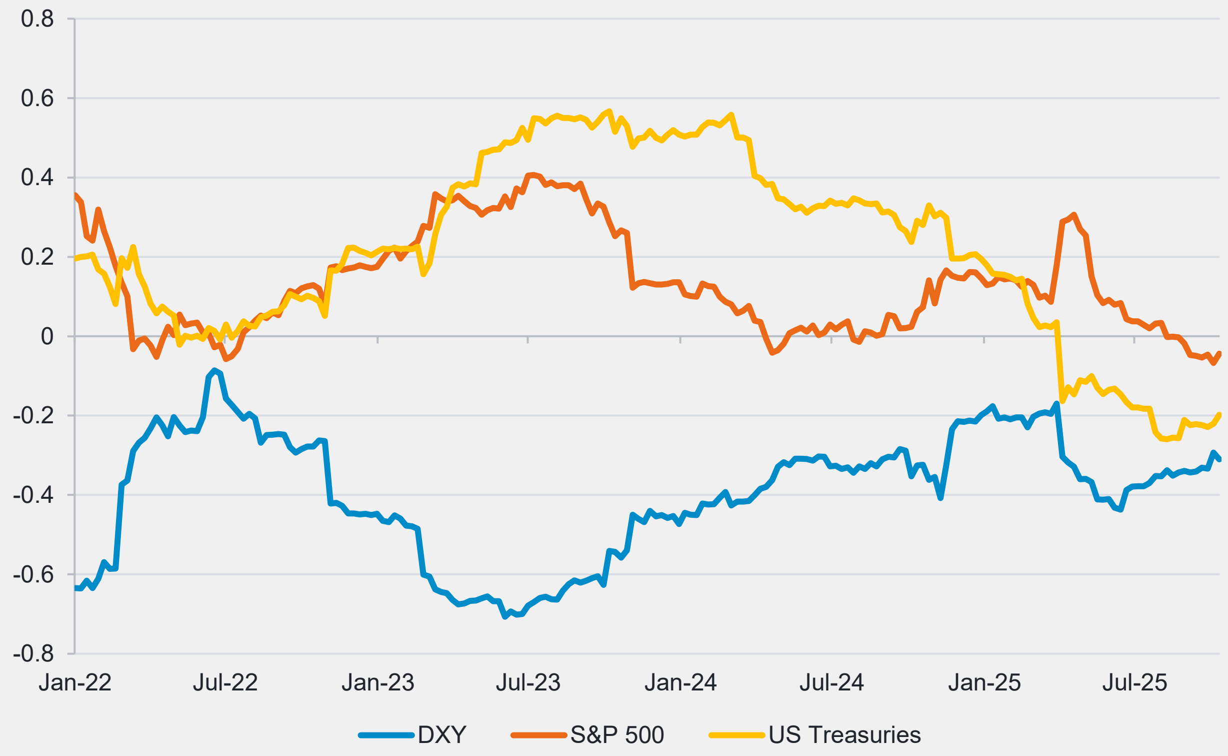
	– –	–	=	+	++
Cash			●		
US dollar			●		
Euro				●	
Japanese yen			●		
Sterling		●			
Emerging markets FX				●	

Key views

- **Tactically neutral USD:** We remain neutral on USD near-term given a cyclical bounce. However, the medium-term outlook for a weaker dollar still stands as the Fed cuts interest rates alongside institutional pressure.
- **Positive EUR, negative GBP:** We remain positive on the euro, supported by improving European data, German fiscal expansion and an ECB that is likely close to the end of its cutting cycle. Meanwhile consolidation and the BOE resuming rate cuts should continue to weigh on the pound.
- **Maintain long EM FX:** The current macro environment is still conducive for carry. We continue to prefer currencies like ZAR and BRL.
- **Stay long gold:** Gold remains a core diversifier as easing cycles continue, geopolitical risks persist and central-bank demand stays firm. We are looking for re-entry opportunities after some profit taking.

Gold continues to offer attractive diversification and has several supportive factors, however some profit taking is warranted

52wk Rolling Correlation With Gold



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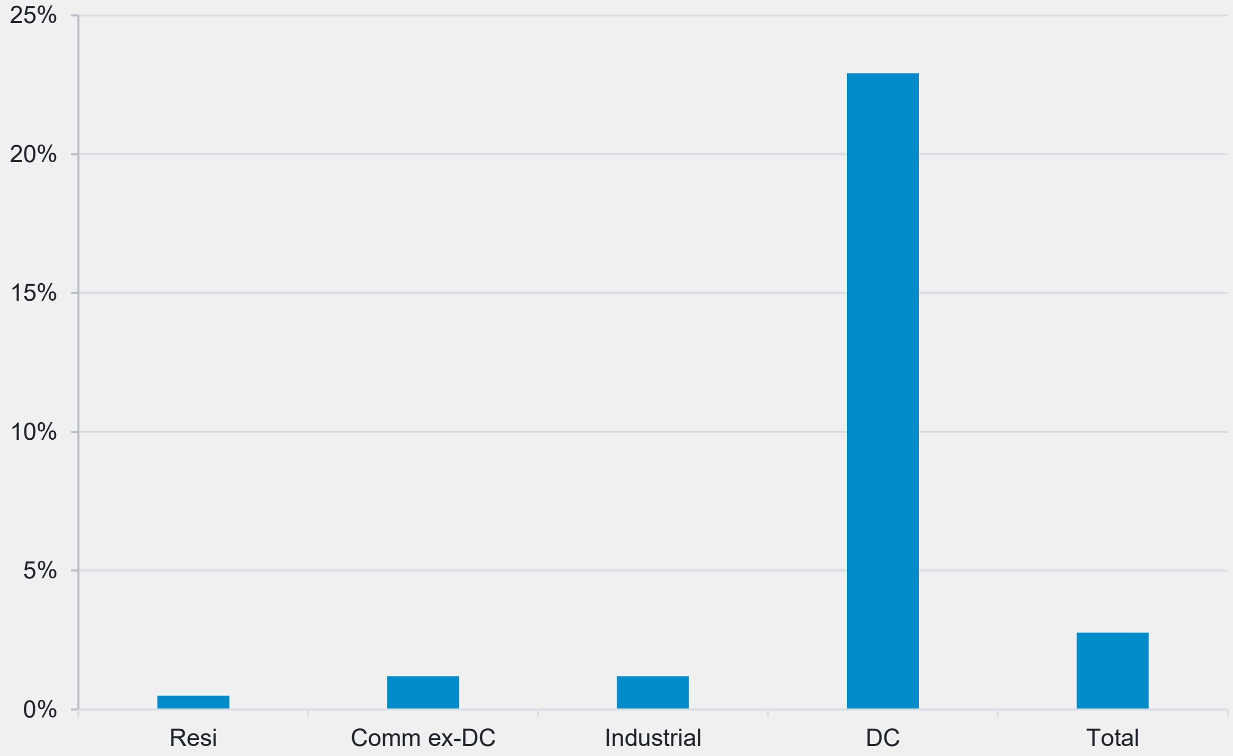
Other TAA views

- **Grid Upgrade:** We continue to expect resilience in structural growth stories rather than traditional defensives. As power consumption growth is set to accelerate, companies exposed to the grid upgrade continue to be particularly attractive.
- **Japanese banks and mid-caps**: Resilient domestic demand, above consensus Q2 GDP, and solid wage growth support a more hawkish BOJ, which is positive for banks. Continued strong domestic earnings, improving governance, and supportive policy dynamics make Japan mid-caps a high-conviction opportunity with more room to re-rate than large caps.
- **Korean equities**: Korean equities remain attractive despite recent consolidation. Reduced political uncertainty, progress on corporate-governance reforms and strengthening semiconductor demand continue to underpin the re-rating story.
- **Brazil bonds**: Brazilian government bonds continue to offer compelling value, supported by high real yields and moderating inflation. With the hiking cycle firmly over and external conditions improving, Brazil remains a preferred EM local-currency opportunity.
- **Real assets:** Selective materials exposure, such as copper miners, are underpinned by long-term structural growth drivers including US reshoring and electrification (including AI power demand) and the China recovery.

Power consumption growth set to accelerate from data-centre buildout, making the Grid Upgrade an attractive opportunity.

US power consumption CAGR 2025-2030 (TWh)



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