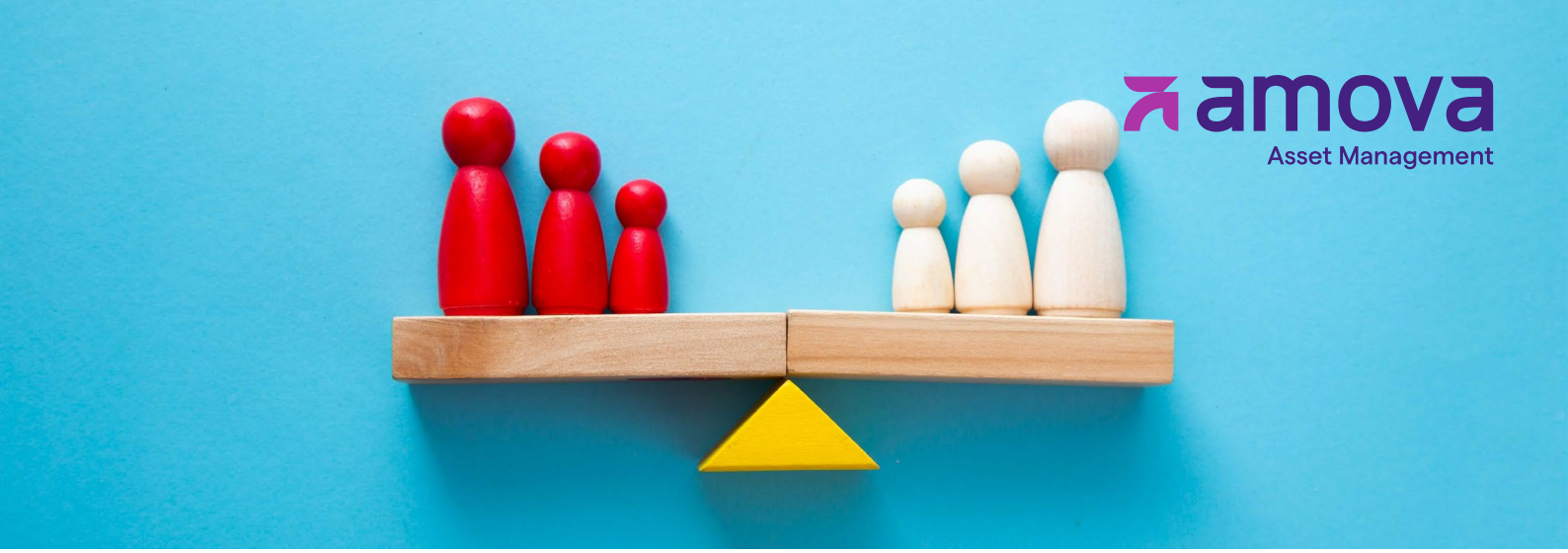


Global multi-asset outlook 2026

Balancing caution and opportunity amid sticky inflation

By the Multi-Asset Team

27 November 2025

- As the Federal Reserve (Fed) may not cut interest rates as aggressively as the markets expect, we take a more cautious view on risk assets into 2026.
- Valuations remain historically high, raising long-term return concerns despite strong near-term growth signals.
- We are wary of long-dated government bonds due to resurgent inflation; we are focused on sovereigns with steep yield curves.
- Positive bond-equity correlation may amplify volatility, making mid-curve bonds and US dollar exposure key diversifiers.
- The US dollar is expected to stand out as a diversifier, benefiting from positive carry and negative correlation to risk assets.

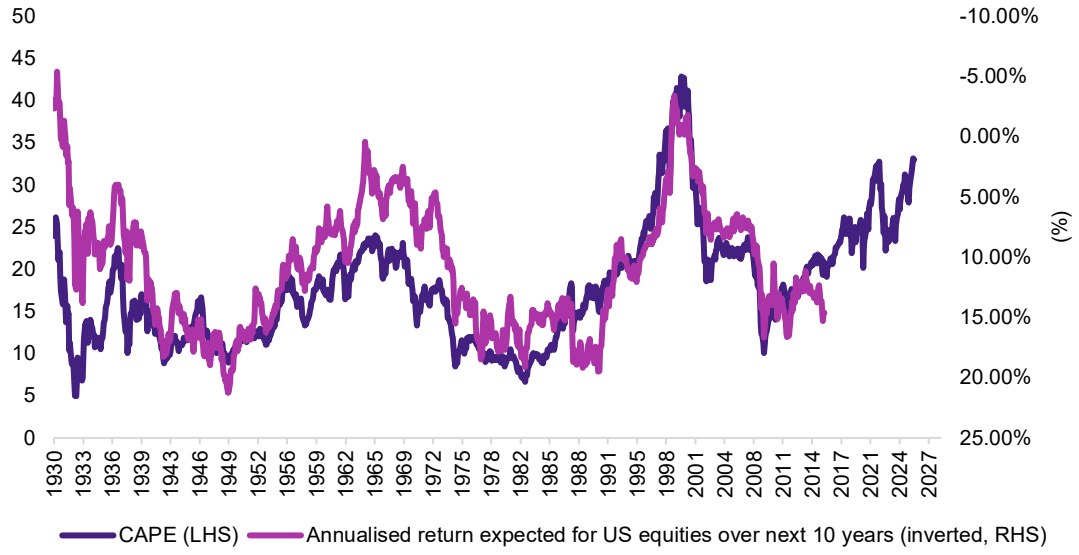
Our outlook for 2026

With 2025 drawing to a close, a turbulent yet strong year of financial market performance falls behind us. Despite the introduction of global tariffs threatening to upend growth, earnings increased and equity multiples rose in 2025. With equity valuations becoming stretched, the outlook for 2026 is somewhat clouded as the chorus of analysts stating that the market is overvalued is set against what appears to be strong economic growth. We are not fully convinced whether the Fed will cut rates as far as the market expects, and as such have begun to take a more cautious view on risk assets.

Growth assets: when equity valuations meet earnings

Despite the volatility following April's Liberation Day tariffs, equities have registered strong performance in 2025, with the MSCI All Country World Index rising over 19% at the time of writing. Price-earnings (P/E) ratios have expanded, taking equity market valuations to lofty levels. The US has been at the centre of the action, with the S&P 500 now trading at 22 times forward earnings—a level exceeded only a handful of times in history. Many pundits use this metric to describe a market that is overvalued and prone to shocks or bubble-like conditions reminiscent of the dot-com era. Whether artificial intelligence (AI) is headed for a similar reckoning remains to be seen. However, from a historical perspective, the justification for these calls is easy to understand: the higher the valuations, the more likely that returns will languish over the coming decade.

Chart 1: US cyclically adjusted price-to-earnings (CAPE)-Shiller valuation vs 10-year annualised equity returns

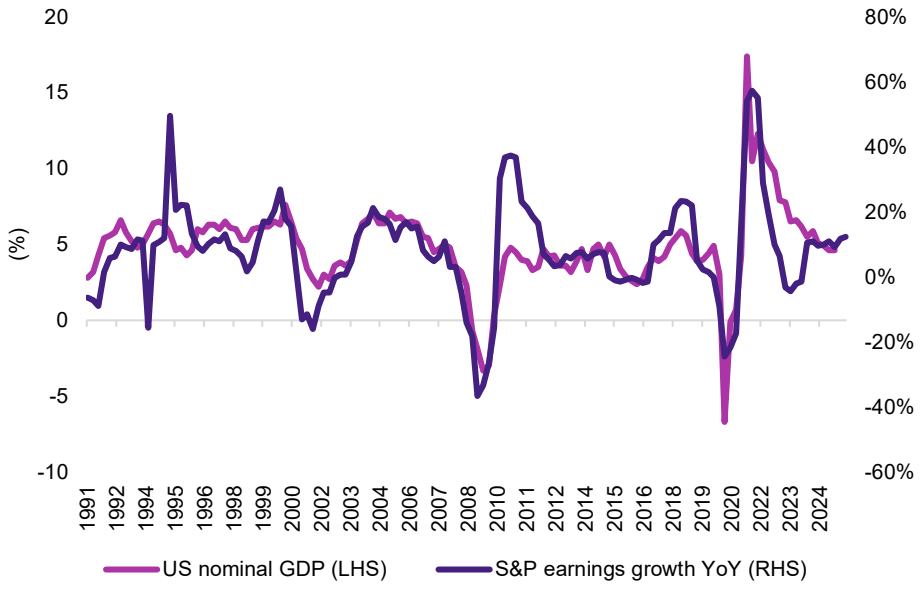


Source: Amova AM, Bloomberg, November 2025

However, it should be remembered that this is a long-term valuation metric, while markets and the media typically operate on a far shorter time horizon with a "what have you done for me lately" attitude. And while valuations are expensive, the shorter term macro environment still appears supportive of risk taking. The US economy has several positives which should support earnings growth: the recent Fed rate cut aimed at sustaining momentum; tax cuts set to improve consumption at the beginning of 2026; and rising odds that the Supreme Court will deem President Donald Trump's tariffs illegal, potentially supporting trade.

Real-time indicators reinforce this view, with the Atlanta Fed's GDPNow model now pointing to 4% growth in the current quarter. Inflation remains firm at 3%, setting up the backdrop of robust nominal GDP growth not seen since the mid-2000s. Chart 2 below shows the relationship between nominal GDP and US earnings growth, with strong nominal GDP often accompanied by earnings growth in the double digits. This makes using valuations alone a tricky proposition, as a strong macro environment would be supportive of equity prices, reflective of the fact that earnings growth over the long term typically drives equity market performance.

Chart 2: S&P earnings growth vs nominal GDP



Source: Amova AM, Bloomberg, November 2025

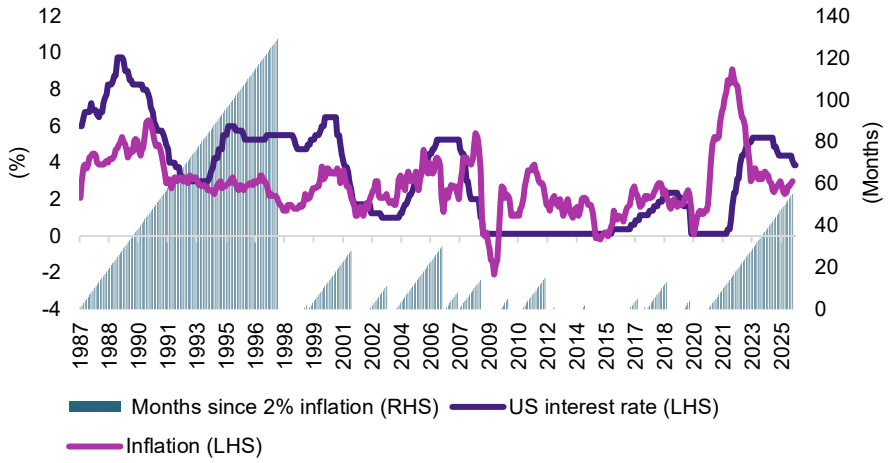
This leaves the Fed as the swing factor (discussed below) to our equity decision making, as high valuations argue for a reduction in equity exposure, while strong GDP growth supports increasing positions. Should the Fed cut rates as aggressively as the market expects, we will likely become more favourable towards equities in 2026. However, this scenario does not seem likely as inflation could be stickier than expected. Accordingly, we have taken a more cautious view towards risk, waiting for cues from the Fed on whether financial conditions will be eased decisively despite persistent inflationary pressures.

Outside of the US, valuations are generally less extreme, with sectors such as European utilities, along with Singapore and UK equities, providing lower valuation and beta exposure, allowing for more defensive positioning and dividend yields.

Bonds, inflation and the Fed

On the defensive side of the portfolio, similar questions cloud the outlook. While Trump has pressured the Fed to cut rates, economic conditions suggest caution is warranted. Inflation has proven to be stickier than previously expected, and with commodity prices rising again, goods prices rising on tariffs and the US government running a fiscal deficit of roughly 6%, it seems appropriate to question whether inflation has indeed been stopped. Chart 3 shows that the Fed hasn't seen inflation at its 2% target for 55 months, proving that perhaps it isn't as transitory as previously believed. This level of persistent inflation has not been seen since the mid-90s, when real cash rates remained restrictive until the dot-com crash.

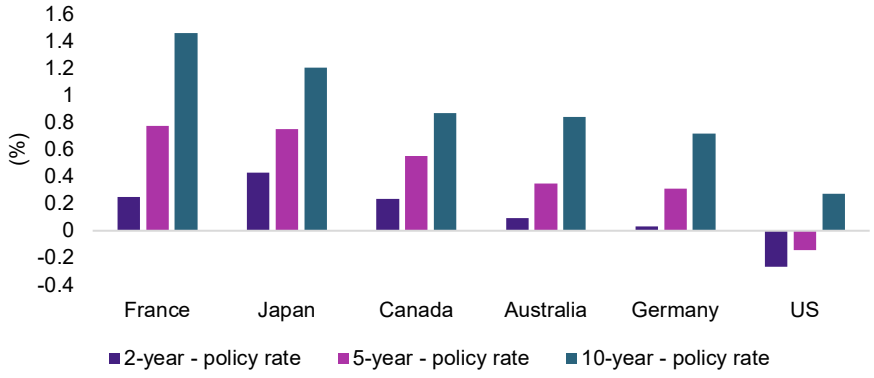
Chart 3: Number of months since inflation was at 2% in the US



Source: Amova AM, Bloomberg, November 2025

Additionally, outside of the US, several central banks now appear to be reaching a pause in additional easing. The market is forecasting stable policy rates in 12 months' time across Canada, the Eurozone, Australia and New Zealand, with cuts only priced in for the UK and the US. While conditions should prove to be easier and support growth globally, any repricing of the Fed would be negative for rates markets globally. We continue to focus on mid-curve bond allocations (5–7 years), in countries where curves have steepened to avoid the risk of inflation rising in the next 6–12 months. We are currently focusing on countries such as Canada and Japan.

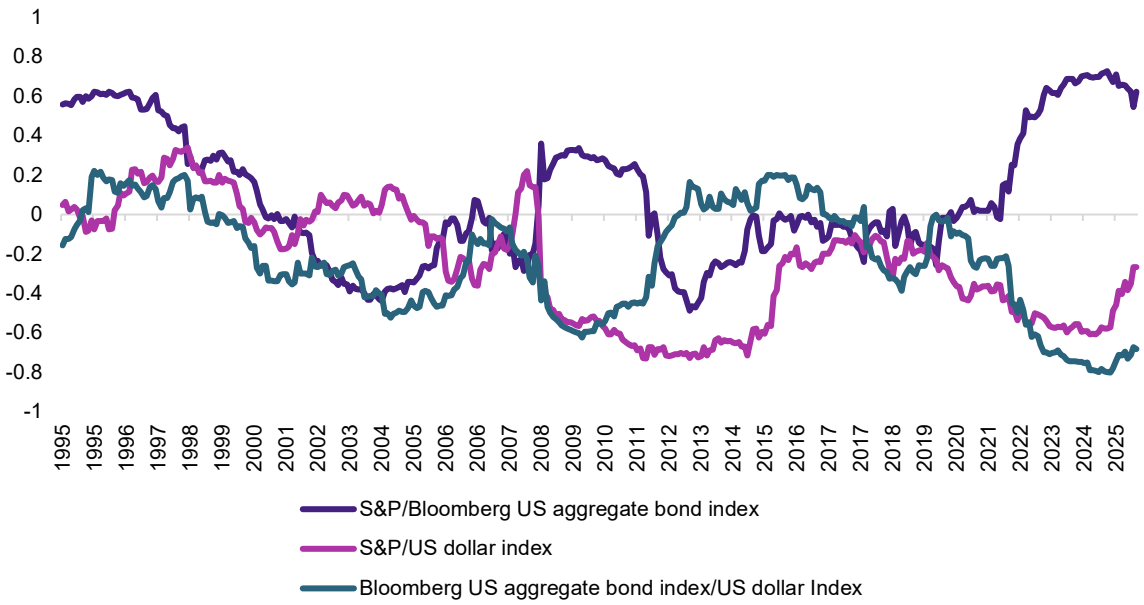
Chart 4: Global yield curves



Source: Amova AM, Bloomberg, November 2025

In addition to these less dovish policy rate outlooks, the correlation between bonds and equities remains positive. For multi-asset portfolios, this has amplified volatility when using long-dated bonds, reducing their effectiveness as diversifiers. While this correlation between bonds and equities can be positive when markets are rising, any market downturn will be felt quickly. Alternatively, a long US dollar position has provided diversification against both bonds and equities, making it a strong candidate to help provide protection against any hawkish policy rate movements which may slow equities as well as bonds.

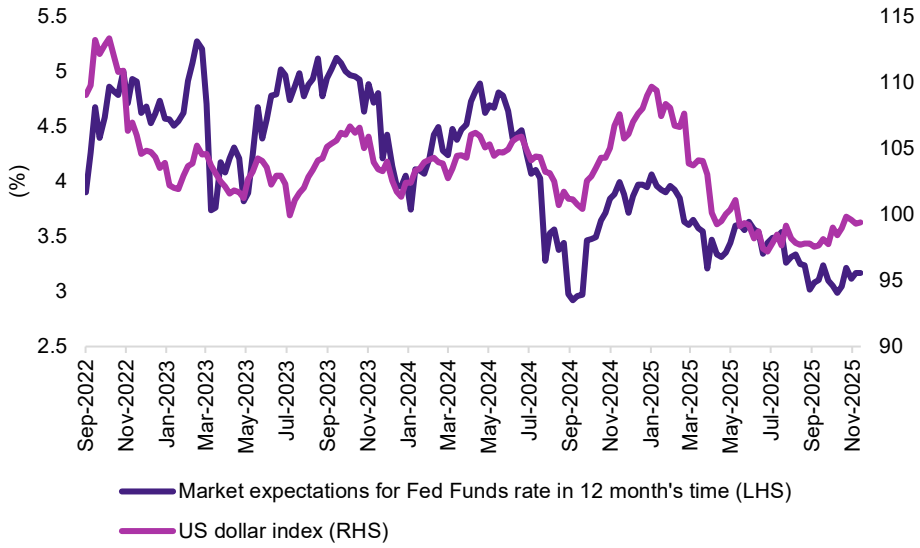
Chart 5: US bond-equity correlation remains positive



Source: Amova AM, Bloomberg, November 2025

Since the Fed's last hike in 2022, the dollar has been broadly following the market's expectations for the policy rate in 12 months' time. As the market forecasted aggressive cuts, the dollar weakened (Chart 6), which provided some support to global growth. Should inflation hold above 3% in the US and the policy rate remain above that level, the dollar will continue to benefit from positive carry against other currencies. Coupled with its negative correlation to broader financial assets, the dollar remains a compelling component in portfolio construction.

Chart 6: Will the dollar rise again?



Source: Amova AM, Bloomberg, November 2025

Conclusion

Overall, we have adopted a more cautious stance from a multi-asset portfolio perspective, reducing our long-held equity overweight to neutral. While the early indicators of economic growth appear strong for 2026, which will be supportive of earnings growth, stretched valuations keep us in a wait-and-see mode. Should the Fed deliver cuts to the extent expected by the market, conditions will likely favour both bonds and equities. However, if inflation persists and forces a more hawkish central bank response, greater market volatility could be the story of 2026.

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