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Asset Management

Balancing Act
Global Multi-Asset Quarterly (Q1 2026)

Q1 in review: underweight on both growth and defensives

By the Multi-Asset Team

May 2026

Snapshot

Global equities advanced in the early part of the January–March quarter before selling off sharply towards the quarter's end. After a strong start to the year, the MSCI All Country World Index added further gains in February, albeit with US markets lagging international peers, before seeing a significant decline of 7.4% in US dollar (USD) terms in March. The equity market weakness seen towards the end of the quarter was widespread, impacting the US, Europe and Asia. In fixed income markets, yields on US Treasuries (USTs) traded in a relatively tight range early in the quarter, declined in February and subsequently surged towards the end of the period. Benchmark 2-year and 10-year UST yields ended March significantly higher than at the start of the month.

Commodities showed mixed performances during the January–March quarter. Gold prices surged in the first month of the quarter, recovered after an initial pullback in February and fell sharply in March. Even so, the precious metal ended the quarter 8.0% higher overall. In contrast, crude oil (as measured by West Texas Intermediate crude oil) gained throughout the quarter, with prices spiking by 51.3% in the month of March. Global real estate (as measured by the FTSE NAREIT Global Real Estate Index) experienced modest gains in the first two months of the quarter before dropping towards the period's end, with the asset class ending marginally higher for the quarter.

As in the previous three-month period, market movements in the January–March quarter were largely shaped by economic data, central bank developments and geopolitical events. Early in the quarter, global equities were supported by stronger growth expectations and easing trade tensions. Towards the mid part of the quarter, fixed income markets were influenced by political developments in Japan and, subsequently, by soft inflation data and weaker-than-expected retail sales in the US. Towards the quarter's end, sentiment deteriorated as the US-Iran conflict intensified, energy costs surged and investors scaled back expectations for interest rate cuts, while hawkish signals from major central banks also pushed bond yields higher. Outside equity and fixed income markets, gold prices were driven upward in the first two months of the period by factors including geopolitical tensions and uncertainty over the US's tariff plans. However, the commodity came under pressure in March from profit-taking, rising real yields and a stronger US dollar. Crude oil prices were driven higher by geopolitical tensions and supply disruptions during the quarter.

Cross-asset[1]

For the January–March quarter, we began with an overweight in growth assets before shifting to an underweight by March, while maintaining an overall underweight allocation to defensives. Early in the quarter, improving global growth—led by the US, rising exports and sustained demand for AI infrastructure—supported a constructive view on risk assets. However, escalating geopolitical risks, particularly the intensifying Iran conflict and resulting spike in oil prices, prompted a reduction in risk exposure as the quarter progressed.

Within growth assets, positioning changed along with changing macro conditions. We initially increased allocations across both developed market (DM) and emerging market (EM) equities, with EM changed to an overweight on attractive valuations and the prospect of US dollar weakness. During February, we broadened exposure across DM equities and commodities while reducing infrastructure. By March, however, we neutralised most equity exposures as uncertainty rose, driven by geopolitical developments and energy price volatility. Within DM equities, the US remained supported by strong earnings expectations despite earlier valuation concerns.

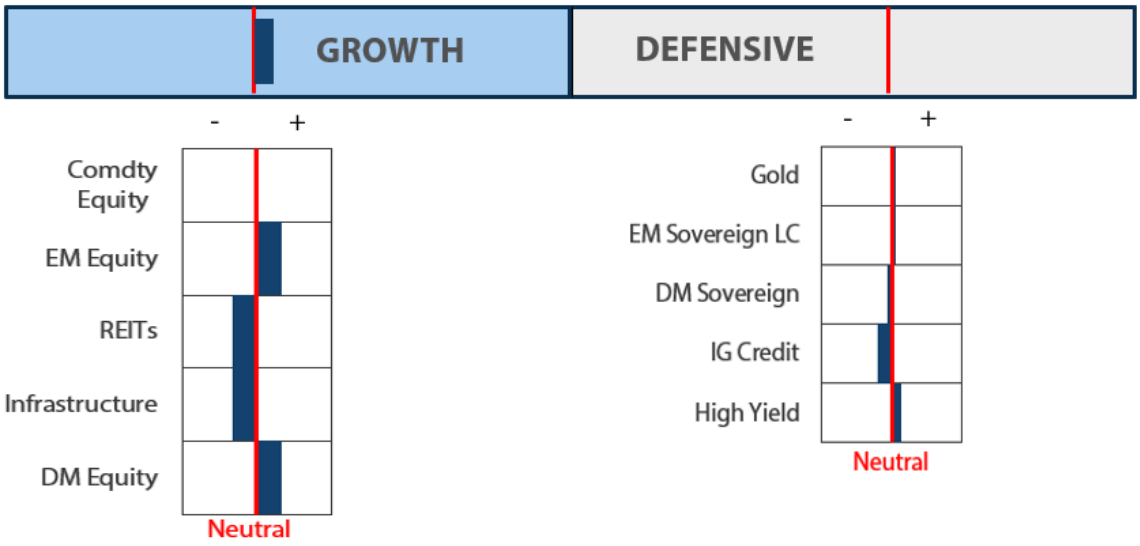
In EM, we maintained a constructive stance for most of the quarter, supported by favourable valuations and improving growth dynamics. However, positioning was moderated towards the end of the period as part of a broader reduction in portfolio risk. While the medium-term outlook remains supported by potential US dollar weakness and resilient global demand, we became more cautious on near-term positioning amid heightened volatility in energy markets and global risk sentiment.

On the defensive side, we maintained an overall underweight allocation, although positioning shifted within asset classes. DM sovereign bonds were initially reduced but later increased to an overweight as yields became more attractive and geopolitical risks rose. Investment grade (IG) credit remained underweight throughout, reflecting tight spreads and limited scope for further compression. Exposure to high yield was progressively reduced to underweight as risk-reward dynamics deteriorated, particularly in the context of geopolitical uncertainty and historically tight spreads.

We held emerging market local currency (EMLC) bonds consistently at an overweight, with the assets supported by attractive carry, improving growth conditions and the potential for US dollar weakness. Gold was upgraded earlier in the quarter as a hedge against rising inflation and geopolitical risks amid stronger commodity prices. Overall, the quarter was characterised by a shift from optimism around strengthening growth to a more cautious stance in response to geopolitical developments, as we adopted a more nimble approach to asset allocation as risks increased.

[1] The Multi Asset team's cross-asset views are expressed at three different levels: (1) growth versus defensive, (2) cross asset within growth and defensive assets, and (3) relative asset views within each asset class. These levels describe our research and intuition that asset classes behave similarly or disparately in predictable ways, such that cross-asset scoring makes sense and ultimately leads to more deliberate and robust portfolio construction.

Asset Class Hierarchy (Team View)[2]



[2]The asset classes or sectors mentioned herein are a reflection of the portfolio manager's current view of the investment strategies taken on behalf of the portfolio managed. The research framework is divided into 3 levels of analysis. The scores presented reflect the team's view of each asset relative to others in its asset class as at 30 June 2025. Scores within each asset class will average to neutral, with the exception of Commodity. These comments should not be constituted as an investment research or recommendation advice. Any prediction, projection or forecast on sectors, the economy and/or the market trends is not necessarily indicative of their future state or likely performances.

Research views

Growth assets: summary of score changes in Q1

Entering 2026, growth assets remained appealing, as global economic growth was expected to stay resilient and earnings growth continued its US driven upward trajectory. However, high equity valuations globally warranted caution in the near term, and we preferred to deploy capital in markets where valuations were less stretched. Market sentiment remained broadly positive, supported at times by expectations of Federal Reserve (Fed) rate cuts. Inflation remained benign overall but could pose upside risks if geopolitical tensions persist, particularly with the spike in oil prices linked to the Middle East conflict. As the quarter progressed, we adopted a more cautious and defensive posture in light of evolving macro and geopolitical dynamics, while still maintaining a constructive stance on risk assets.

However, March saw the first meaningful bout of volatility since early 2025, driven by heightened geopolitical tensions, prompting a neutralisation of equity allocations amid ongoing uncertainty. The upcoming reporting season will be key to reassessing the trajectory of earnings growth, with early signals—particularly from tech—remaining strong. While cheaper P/E ratios now provide some room for error compared to the beginning of the year, risks from prolonged geopolitical conflict and changing Fed policy expectations could present headwinds. Nonetheless, with the underlying earnings backdrop still solid, we believe the outlook can brighten quickly should uncertainties ease.

Conviction views on growth assets

- **Neutral on total equity allocations:** We moved our DM equity allocation back to neutral. While the recent ceasefire between the US and Iran raises the odds that an agreement can be reached, the binary outcome of the negotiations and the distance between acceptable outcomes makes taking a directional view hard to hang onto. As such, we retain a neutral position and are waiting for more clarity on the situation.
- **Neutral position on US**: We continue to like the US for its secular long-term earnings growth driven by technology and healthcare innovations. We also expect the US to benefit from increasing energy demand from data centres with the significant artificial intelligence (AI) capex outlay over the next few years. There remains potential for positive surprises in the market, such as responses from central banks and import tariff relief. Valuations have turned attractive again given recent earnings upgrades and equity yields compressing back to historical means. That said, we remain cautious about moving the US meaningfully overweight. This is because an extended Middle East conflict could weigh on equities, with events in 2022 demonstrating how elevated oil prices—and consequently higher interest rates—can undermine tech earnings.
- **Overweight position on EM equities**: While we lowered the score for EM equities to neutral at the end of March (as shown in the asset class hierarchy), we have upgraded it back to an overweight as valuations have become attractive; if the US dollar were to weaken, it would also support EM equities. A weaker dollar benefits EM assets as central banks would be able to cut rates to boost economic activities and there is less pressure to defend the local currency. Within EM, we like Latin America (LatAm) for its exposure to commodities and high real rates amid falling inflation. We also like Taiwan for its exposure to the technology sector, as it is a key supplier of semiconductors for the secular growth trend of AI capex rollout.
- **Overweight on commodity-linked equities**: We continue to believe that commodity-linked equities will keep providing good diversification against inflation in the longer term. Likewise, the asset class offers protection from the ongoing conflict in the Middle East. The fundamentals of the sector remain compelling due to both cyclical and secular factors.

Growth assets topic: NASDAQ—are we there yet?

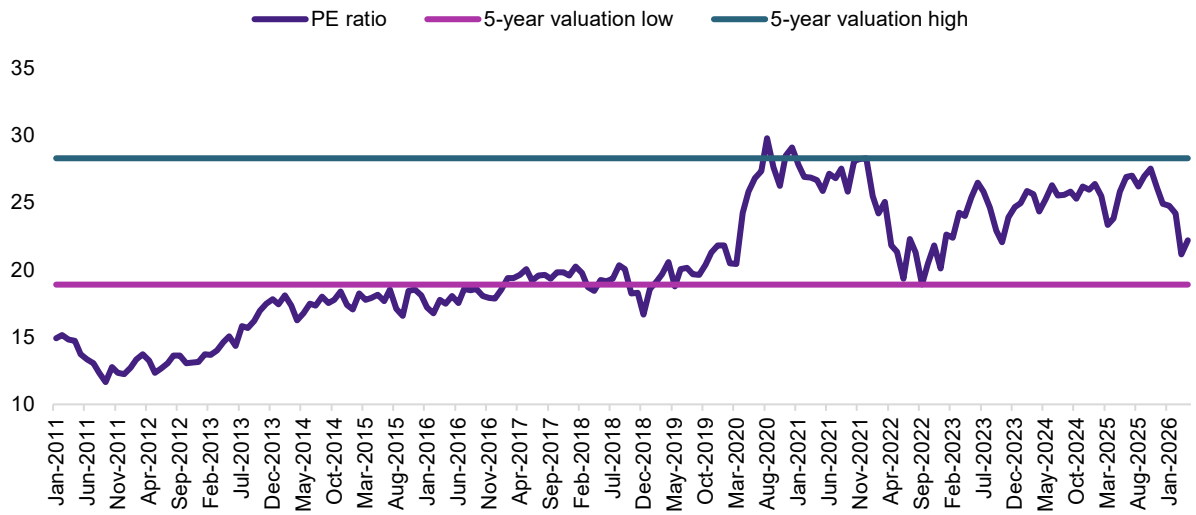
We have argued for some time now since the middle of 2025 following Liberation Day, that the impact of the import tariffs would not be as bad as some analysts had predicted. When we started to look at the progression of analyst earnings estimates, we expected the earnings progression of the subsequent two quarters to be a low bar to beat. Since then, profits of S&P 500 firms were better than expected, leading to analysts' upgrades through the months (see Chart 1). By the end of 2025, the earnings for both quarters had already surpassed the earlier market estimates on Liberation Day, leading to a strong performance by the S&P 500.

With the market entering a risk-off tone as the standoff between Iran and the US drags on, it begins to raise the question of whether NASDAQ's fundamentals offer an attractive proposition. While the risk of the global economy slowing due to high oil prices remains substantial, our internal indicator on the Equity Risk Premium is now as cheap as it was during Washington's tariff announcement in early 2025. As a simple example to illustrate this positivity, the NASDAQ's forward P/E ratio (based on next one-year earnings expectations) has now fallen close to its five-year lows after rising near five-year highs over the past three years. Within this universe, the forward valuation multiples of the Magnificent Seven—such as Nvidia (21x P/E), Microsoft (20x P/E) and Amazon (24x P/E)—are also at five-year lows. This comes at a time when we

still believe that the AI theme is continuing to forge ahead strongly, offering potentially strong growth for the companies that can harness its momentum.

In considering the strength in these P/E ratios, it should also be noted that a large part of this reflects market estimates for earnings growth over the next 12 months. As described in Chart 1, the P/E ratios shown use the market's 12-month forward estimate for earnings, which arguably could be extremely volatile in the wake of the Middle East conflict.

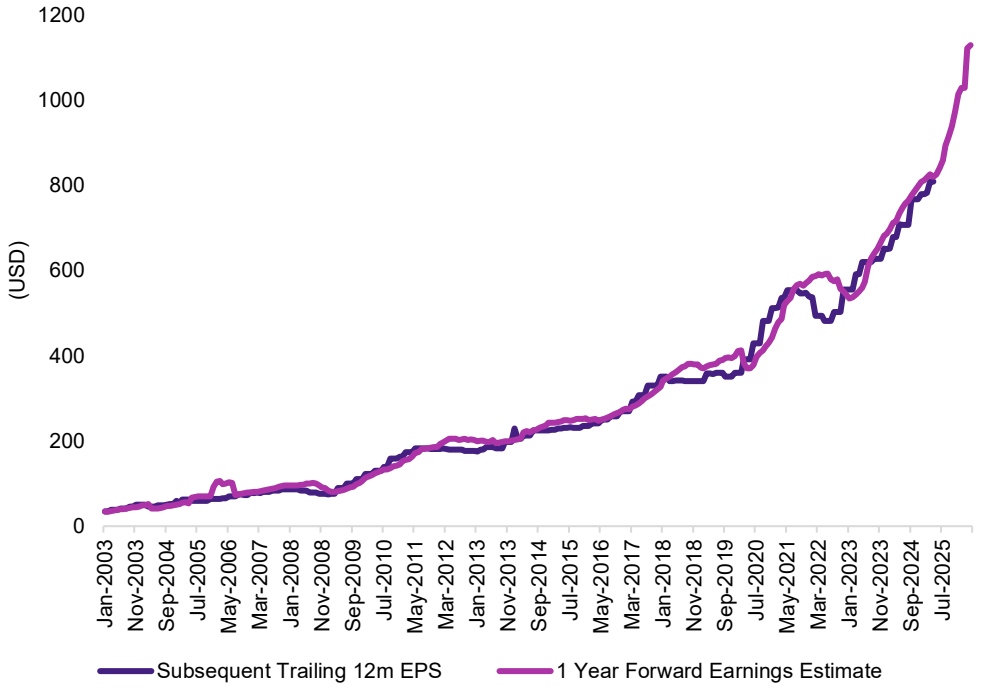
Chart 1: NASDAQ forward P/E ratio near five-year valuation low



Source: Bloomberg, April 2026

As Chart 2 below shows, the market's estimates for the NASDAQ earnings remain extremely bullish, with growth of over 30% in the next 12 months being called by the market. We note that the earnings estimates are typically very accurate for the US market, with the main period of misses coming during periods of economic disturbance such as 2008, 2012, 2018 and 2022. Clearly, the Iran–US conflict could be the latest disturbance; however, should an agreement between Washington and Tehran be reached soon, we expect this strong trend to remain intact. Given the relatively cheap P/E ratios and strong earnings growth, any resolution in the Middle East could become a very bullish signal for the US equity market.

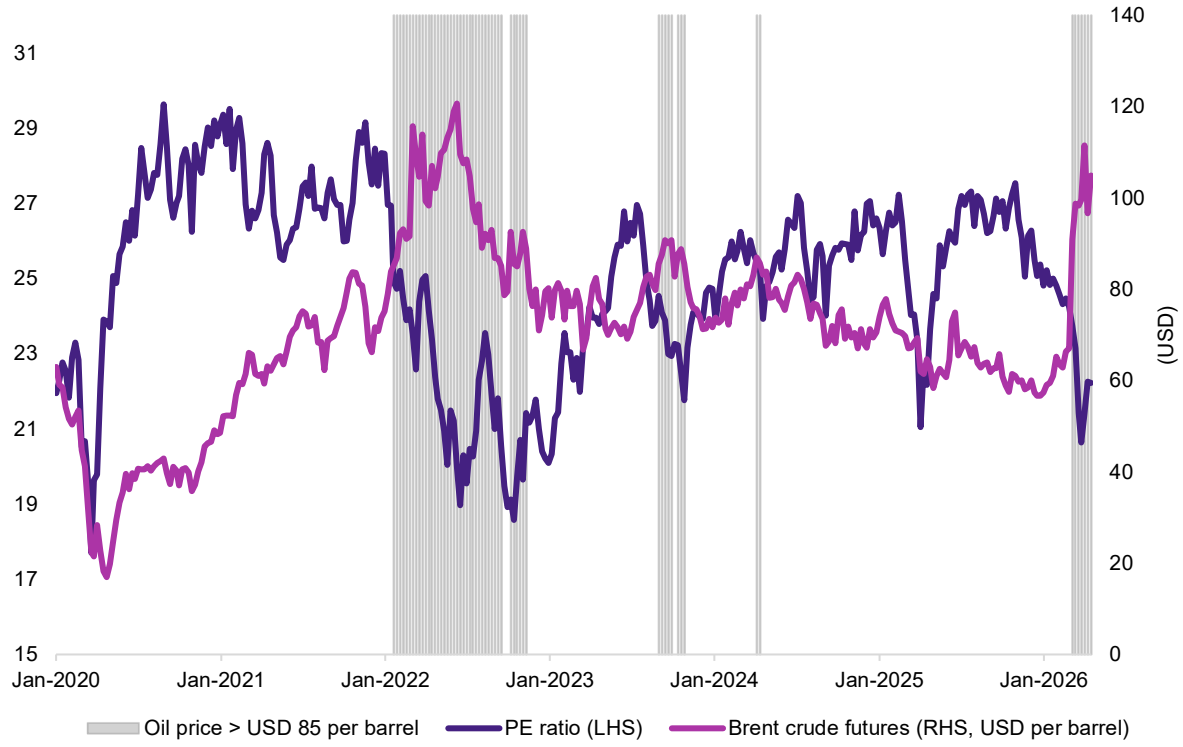
Chart 2: NASDAQ 1-year forward EPS estimates and subsequent trailing EPS



Source: Bloomberg, April 2026

While we have been adding NASDAQ positions back into the portfolios in place of the S&P 500, we are yet to really push the US position overweight versus neutral. Chart 3 below shows how a prolonged conflict in the Middle East can weigh on this position, as the experience in 2022 serves as an example of how higher oil prices—and in turn, higher interest rates—can weigh on tech earnings. Over the past five years, each time oil prices have risen above USD 85 a barrel, NASDAQ's P/E ratio has contracted substantially. Accordingly, once the Strait of Hormuz reopens, it stands to reason that P/E ratios should expand quickly. When that occurs remains anyone's guess, but with the strength of the underlying fundamentals, we think now could be the time to begin adding back to US tech allocations.

Chart 3: NASDAQ P/E ratio and periods when Brent crude futures exceed USD 85 per barrel



Source: Bloomberg, Amova Asset Management, April 2026

Defensive assets: summary of score changes in Q1

Defensive assets started off 2026 on a positive note, reflecting ongoing demand for diversification amid policy and geopolitical uncertainty. Bond markets were supported by weak US payrolls and somewhat subdued inflation, as investors priced in a greater likelihood of Fed rate cuts. However, this constructive backdrop shifted as the quarter progressed. Rising oil prices, driven by escalating tensions in the Middle East, stoked concerns over renewed inflationary pressures and prompted central banks to adopt a more hawkish stance, with earlier expectations of Fed rate cuts being gradually priced out.

In March, defensive assets experienced a significant setback, with the Bloomberg Global Aggregate falling sharply and year-to-date returns turning negative. USTs sold off aggressively as oil prices rose above USD 100 per barrel following geopolitical developments, including the closure of the Strait of Hormuz, which intensified inflation concerns. The 10-year UST yield rose notably, reflecting both stronger inflation expectations and a repricing of the Fed policy path, with rate cuts by the Fed fully priced out by the market. Meanwhile, the US dollar has proven its defensive characteristics, as positive bond-equity correlations have shown yet again that little protection exists in the current environment.

Conviction views on defensive assets

- **Underweight exposure to IG credit spreads; more underweight on HY**: Credit spreads have continued to contract at the start of 2026, hitting levels not seen since the mid-2000s. While we cannot foresee what will shift spreads wider in the near term, the fact that spreads are a mean-reverting series means that we continue to maintain our underweight position in the asset class. We prefer to keep exposures short (in the 1–5 year maturities) to limit spread duration. We are also more underweight on high-yield (HY) bonds; valuations remain expensive, momentum is still positive but losing strength, and the macro backdrop is neutral.

- **Neutral interest rate duration:** With the sell-off that has come with rising oil prices, bond yields are now back at the top end of the range. We remain short US Treasury duration, however, offset with long positions across France and Canada, where steeper yields and weaker economies make for a stronger interest rate outlook.
- **Inflation-linked bonds**: With central banks easing aggressively, growth picking up and commodity prices rising, there are now signs that inflationary pressures are beginning to re-emerge. We see US Treasury Inflation-Protected Securities (TIPS) providing some protection against the notion that the inflation fight is unfinished.

Defensive assets topic: US dollar—the defensive asset for the conflict

As the Iran conflict has kept the Strait of Hormuz closed through March, the rise in energy prices has started to feed into the headline CPI numbers. US year-on-year (YoY) CPI jumped from 2.4% in February to 3.3% in March and other regions are expected to see similar rises as well. Prior to late 2025, fund managers would have instinctively bought gold to hedge against inflation and geopolitical risk, and it would have been one of the key defensive positions in their portfolios through the conflict. However, since late 2025, gold has proved to amplify broader risk moves, moving in the opposite direction to oil while having been more volatile than equities. Thus, we have shifted our focus to the dollar as the key defensive asset to hold through this period.

In the scenario that the Strait of Hormuz remains closed, oil prices are likely to remain high. Over time, the higher energy cost would feed through into prices in other sectors as well. Food prices are also expected to increase as fertiliser supplies are held up in the Strait. As inflation picks up, consumer demand would fall as consumers tighten their discretionary spending. Central banks like the RBA, ECB and the Bank of England have already signalled their determination to keep inflation under control, and the market has started pricing in rate hikes, suggesting that rates could remain high. This could in turn hurt the equity markets, as earnings come under pressure with the lower consumer demand and higher rates. Although the Fed has not shifted to a hawkish stance, the market has largely priced out rate cuts in 2026, and this is expected to cause the dollar to appreciate with interest rate differentials favouring the greenback. The oil and dollar correlation has also remained high (Chart 4) and thus holding dollars could help mitigate losses from other asset classes should the conflict drag on.

Chart 4: Brent crude oil futures vs USD (dollar index)



Source: Bloomberg, Amova AM, April 2026

Conversely, if the conflict stops, oil prices are likely to fall back to trend, and the markets will likely price out rate hikes as central banks may look through the energy price shock. Equity markets are also expected to trend upwards, especially in the US, where valuations look very attractive after the recent correction. As the markets start pricing in the rate cuts in the US, we expect the dollar to face headwinds; however, the gains from the risk assets may sufficiently offset the currency's losses.

While we expect the Strait of Hormuz to be reopened sooner rather than later—as the rest of the world has an incentive to find a solution before being pulled into the conflict—high market volatility driven by shaky US–Iran talks may keep pressure on risk assets in the near term. Where value opportunities emerge across broader risk assets (like the NASDAQ mentioned above), we also find merit in holding the dollar to mitigate portfolio risks as the US currency remains negatively correlated with other risk assets.

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