

# HouseView

Q3 2026: Shock absorption

# Our view of global markets

## Selectivity matters

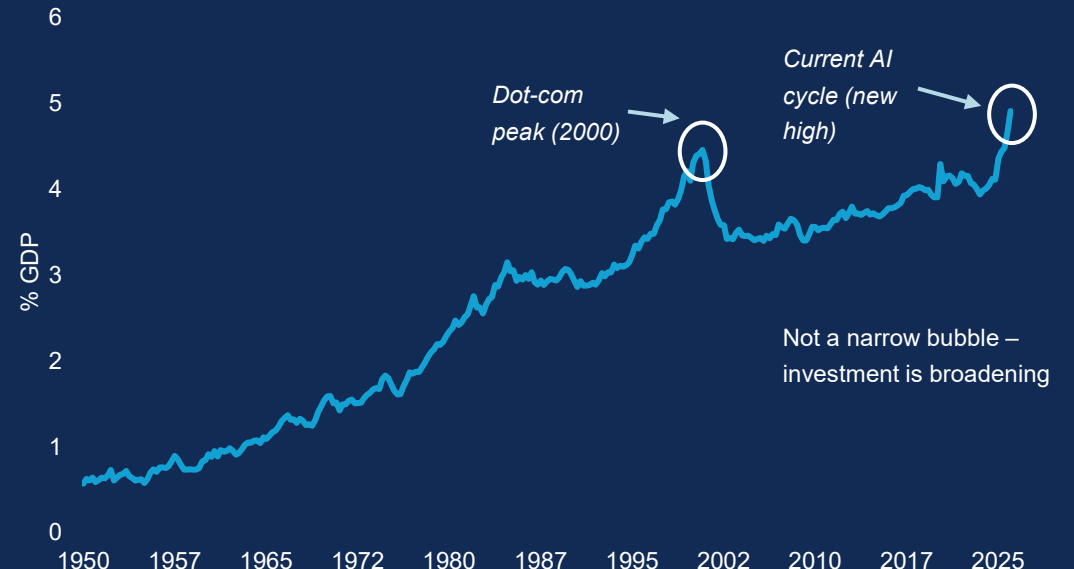
- **The global economy is bending under successive shocks, but not breaking.** Following the disruption from US tariffs, the Middle East crisis now appears to be stabilising. But oil prices remain elevated, inflation is still above target in most major economies, and the macro backdrop remains vulnerable to renewed volatility ahead of the US mid-term elections.
- **What matters for investors is not just market direction, but the range of possible outcomes.** Gaps across regions, asset classes and narratives are widening: the US remains relatively resilient, while Europe and parts of Asia are more sensitive to shifts in energy supply and prices. Markets are sending conflicting signals, with bonds pointing to a more stagflationary path while equities reflect a more optimistic growth backdrop.
- **This divergence is playing out within asset classes.** Elevated inflation risk and higher-for-longer rates are shifting attention towards value, income and quality, while AI-led investment supports growth and valuations in parts of the market. Correlations between equities and bonds have risen, making diversification less straightforward and reinforcing the case for a broader toolkit.
- **In this environment, beta alone is unlikely to be sufficient.** Returns will depend on careful choices – across countries, sectors and instruments – and the ability to adapt.
- The durability of any relief rally depends on sustained normalisation of energy flows through the Strait of Hormuz and a credible political settlement. **Our base case remains one of resilience – but markets are pricing a reduction in risk, not its removal.**



## CHART OF THE QUARTER

## US tech investment reaches new highs

US IT investment has exceeded its dot-com era peak as a share of GDP, underlining how the AI cycle is strengthening rather than fading. As this investment broadens beyond a narrow group of firms, identifying the winners becomes more critical for investors – and more challenging.

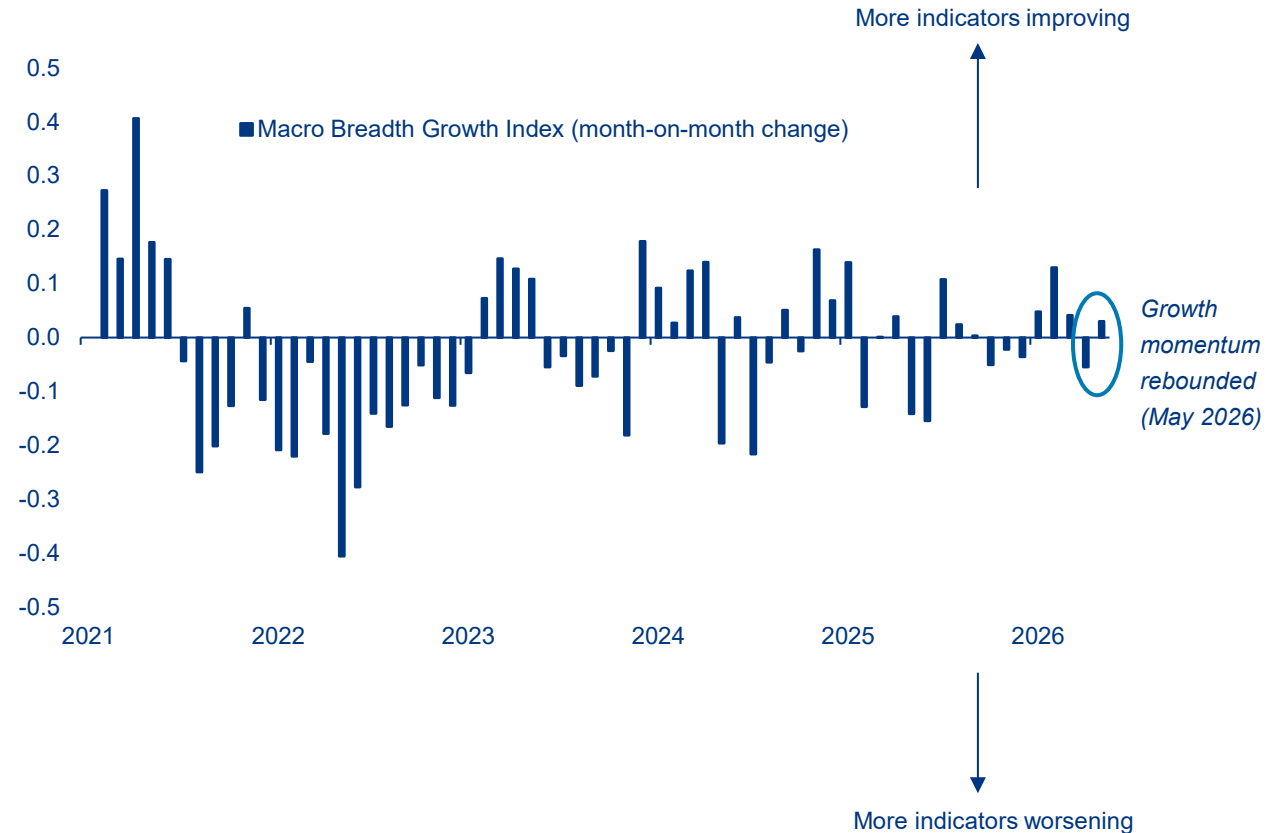


Source: Bloomberg and AllianzGI Economics & Strategy (data as at May 2026).

# Growth holds amid headwinds

Our Macro Breadth Growth Index points to a surprisingly resilient global economy – for now

- **Our index of global growth recovered in May**, despite persistent geopolitical headwinds. Ongoing AI investment, supportive financial conditions, and resilient consumers and businesses have kept the global economy on track.
- **Regionally, AI exposure is becoming a key determinant of economic performance amid the energy shock** – with the US outperforming Europe and Japan. Momentum in China faded as the effects of stimulus from earlier in the year waned.
- By sector, **weakness in services has been offset by manufacturing strength** during the Middle East war, driven by AI-related investment and a precautionary “dash for supplies”.
- Taken together, the mixed signals suggest a global economy **that is bending, not breaking, in the face of elevated risks**.



Our proprietary Macro Breadth Growth Index tracks the direction of 354 global, regional and country macroeconomic data on a monthly basis. The monthly change of the index is scaled from -1 to 1, with a value of 1 (-1) implying an increase (decrease) of all underlying indicators. By focusing on the direction rather than the magnitude of change, the indexes enable the evaluation of the broadness of underlying macro trends and are less prone to any historical revisions of the underlying data. Source: Allianz Global Investors Global Economics & Strategy, Bloomberg, Refinitiv (data as at 31 May 2026).

# Uneven impact regionally

## US

- **Technology and AI-related investment continues to propel growth**, with the contribution from information processing equipment and software investment surpassing the peak of the dot-com bubble in late 2000. We do not expect incoming Fed Chair Kevin Warsh to push for immediate rate cuts given the resilience in growth. A sustained drop in energy prices could eventually reopen the door to rate cuts, but inflation remains high enough to keep the Fed cautious.

## Europe

- **Europe is particularly exposed to recent shocks, given its geographic proximity and dependence on energy imports.** However, fiscal stimulus – particularly in Germany – should provide a stabilising offset, and Europe could benefit disproportionately from de-escalation. Central banks remain alert to inflation: the ECB may follow its June hike with another one in September unless oil prices normalise, while the BoE is likely to remain on hold at 3.75%.

## Asia

- **We expect China's growth to slow after receiving a boost from front-loaded fiscal stimulus earlier in 2026.** Elsewhere, Taiwan and South Korea are benefiting from strong demand linked to the US's AI investment cycle. Japan continues to benefit from fiscal stimulus, and we expect the BoJ to stay on a gradual normalisation path, with 50 bps of hikes in 2026.

## ECONOMIC GROWTH: Subdued outlook on both sides of the Atlantic

Real GDP, year-on-year %

Location	2025 Bloomberg consensus	2026 Bloomberg consensus	2026 AllianzGI forecast
World	3.2	3.0	↓
US	2.2	2.2	↓
Euro zone	1.5	0.8	↓
Germany	0.3	0.7	↓
UK	1.4	0.8	↓
Japan	1.2	0.7	↓
China	5.0	4.6	=

## INFLATION: Europe most vulnerable

Inflation, year-on-year %

Location	2025 Bloomberg consensus	2026 Bloomberg consensus	2026 AllianzGI forecast
World	3.4	4.0	↑
US	2.7	3.3	↑
Euro zone	2.1	2.9	↑
Germany	2.2	2.8	↑
UK	3.4	3.2	↑
Japan	3.2	2.1	↑
China	0.0	1.0	=

Data as at 21 May 2026.

↑ = AllianzGI above consensus    ↓ = AllianzGI below consensus    = = AllianzGI in line with consensus.

# Reset in valuations – creating selective opportunities

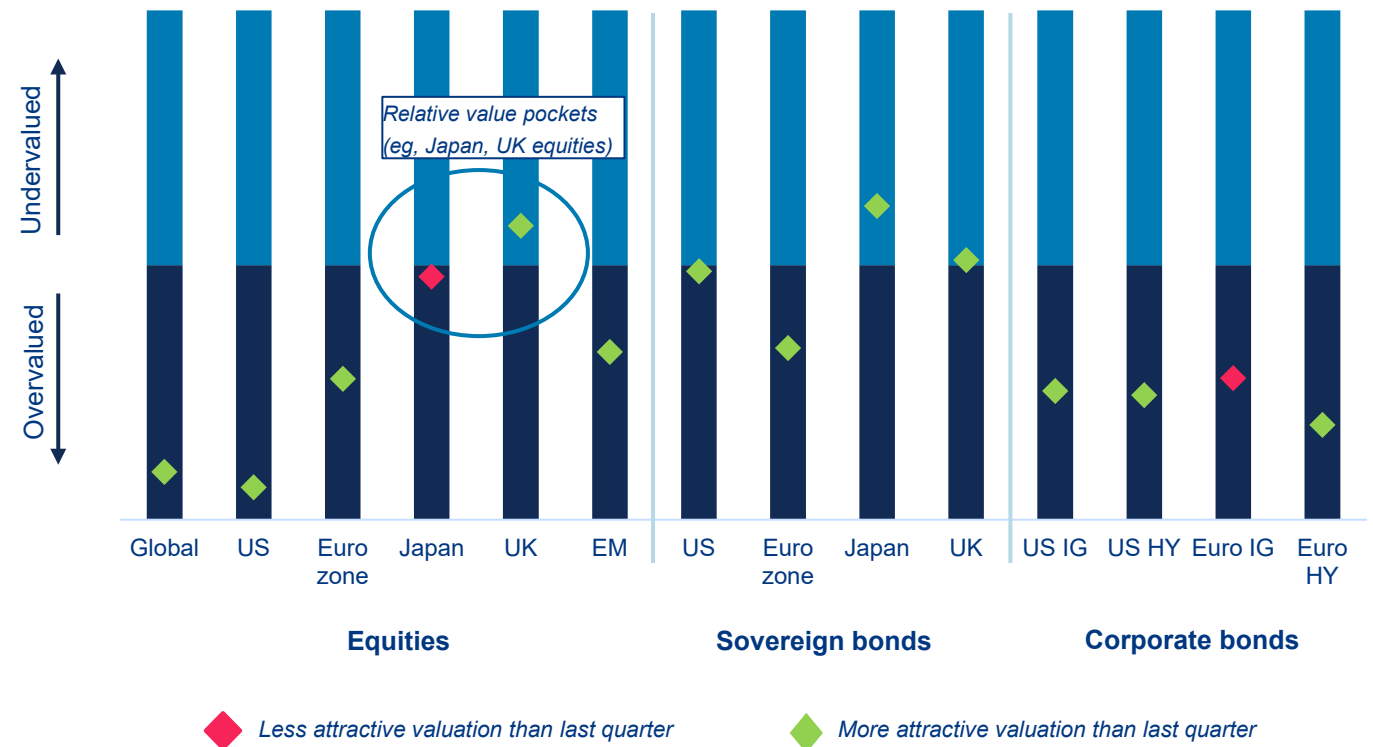
## Bond and equity valuations fall

- **Almost all of the asset valuations we monitor edged lower in our latest reading compared to three months ago** – according to our analysis.
- Worries about the Middle East conflict and resurgent inflation were the primary reasons for the repricing, leaving **around a third of the assets we survey either undervalued or close to fair value**.
- In an environment where value will be key, **the repricing may create opportunities** for investors who can leverage subtle market shifts and harness long-term trends such as AI.
- **Japan and the UK are still the cheapest equity markets on our metrics**, although Japan has seen some recent appreciation, while sovereign bonds from those countries – and the US – also screen as offering the best value.

### Calculations by our Economics & Strategy team.

Valuation score = current score relative to historical distribution of scores. Equity valuation based on Shiller-PE, price/book, 12-month forward PE. Sovereign valuation based on 10-year real interest rate and term premium. Corporate bond valuation based on implicit default probability and respective sovereign valuation. Source: Allianz Global Investors Global Economics & Strategy, Bloomberg, Datastream (data as at 31 May 2026). Past performance does not predict future returns. The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. We assume no obligation to update any forward-looking statement. Valuations are based on the latest assumptions about the economic growth outlook.

## About a third of assets are now near or below fair value – according to our analysis



# Asset class convictions

## Equities

- **AI infrastructure is shifting from training (building models) to deployment at scale.** This is broadening demand beyond graphics processing units (GPUs), pointing to diversified opportunities across semiconductors, data centre equipment, and enabling technologies.
- **Value stocks show promise, providing diversification in an AI-driven market and potentially benefiting from a different macro landscape.** After a long period of “Growth” and mega-cap dominance, greater volatility and the spectre of higher-for-longer rates are driving a rotation towards fundamentals.
- **Strategic autonomy continues to grow in importance, and not just in Europe.** This is evident from growing government spending on defence, energy and key infrastructure, supporting corporate activity across sectors. Beyond defence, the drive for autonomy is also evident in energy transition, digital and financial infrastructure, and manufacturing.
- **In Asia, equities are well positioned to benefit from global themes, particularly infrastructure, defence, and AI spending.** China stands out given the rapid diffusion of AI across its economy. A broad ecosystem is emerging, spanning hardware, software and infrastructure, supported by strong domestic supply chains and deep STEM talent.

## Fixed Income

- In the current environment, where the distribution of possible scenarios is unusually wide, **security selection increasingly outweighs beta as a driver of return.**
- Yields have risen significantly in core rates markets, yet credit markets have not adjusted, revealing shocks are being absorbed differently across asset classes. **Looking across regions and asset types, actively managing duration and focusing on higher-quality credit can help smooth out volatility in stocks and interest rates.**
- **Emerging markets (EM) offer opportunities but demand a selective approach,** such as favouring oil exporters over importers. We also like long 15-year Peruvian and 10-year Brazilian local rates.
- **Early signs of a reflationary trend in China could make the renminbi one of the best diversifiers.** Consider a structural long renminbi over the US dollar.
- **In credit, we prefer financials and consumer non-cyclicals** with a tilt towards investment grade, and we are cautious on consumer cyclicals.
- Despite noise around private credit, overall credit fundamentals remain solid across public credit markets with low default rates. **Any spread widening could be a buying opportunity.**

## Multi Asset

- Despite a fragile geopolitical backdrop, **we remain positive on equities, more so from a systematic than fundamental perspective,** with a preference for the US and EM over Europe and Japan.
- **With AI also becoming an important driver of EM performance,** concentration risk should be managed within a broadly diversified portfolio.
- **In fixed income, we see fundamental value in bonds,** even though the market cycle remains challenging. **We prefer EM bonds and, within credit, favour US and European investment-grade bonds over high yielders.**
- **In FX, we have returned to a neutral view on the US dollar** after its recent decline. Over the medium term, we see scope for renewed weakness as safe-haven demand eases and valuation and rate headwinds reassert themselves.
- **We are constructive on gold** in an environment where questions about central bank independence and the US dollar may return to the fore. **We continue to be long commodities as a key diversifier,** with our preference for gold balanced by a more neutral stance on gas, oil, copper and silver. Given the uncertainty, **we also use option strategies to enhance diversification** in many portfolios.

# Private markets – mid-year outlook

- **Resilience and return potential:** Private markets are well positioned to deliver attractive risk-adjusted returns, supported by higher base rates, tighter bank regulation and wider spreads, which continue to create opportunities relative to public markets.
- **Focus on fundamentals:** Recent headlines have heightened scrutiny around valuations, redemptions and late-cycle risks, reinforcing a focus on fundamentals, greater transparency and more conservative structures.
- **Diversification remains essential:** Allocating across strategies, vintages, geographies and primary and secondary investments helps manage uncertainty, smooth deployment and avoid concentration risks.
- **Rising importance of selectivity:** Greater dispersion across assets and managers increases the need for robust underwriting, strong covenants and platforms with deep origination and workout expertise.
- **Secondaries as a core allocation:** In our view, LP- and GP-led secondaries provide access to seasoned portfolios, enhanced liquidity and potentially attractive entry points.
- **Infrastructure driven by secular themes:** Geopolitical volatility strengthens the case for energy security and independence, while digitalisation and decarbonisation drive demand, particularly in areas such as data centres, grids and storage.
- **Private credit remains compelling:** Its growing role in mid-market financing, alongside rising demand for infrastructure credit, direct lending across Europe and Asia, and low-correlation impact strategies, underpins continued growth.
- **Private equity gradually recovering:** Improving exit activity may support a recovery, while liquidity constraints continue to drive demand for secondaries.

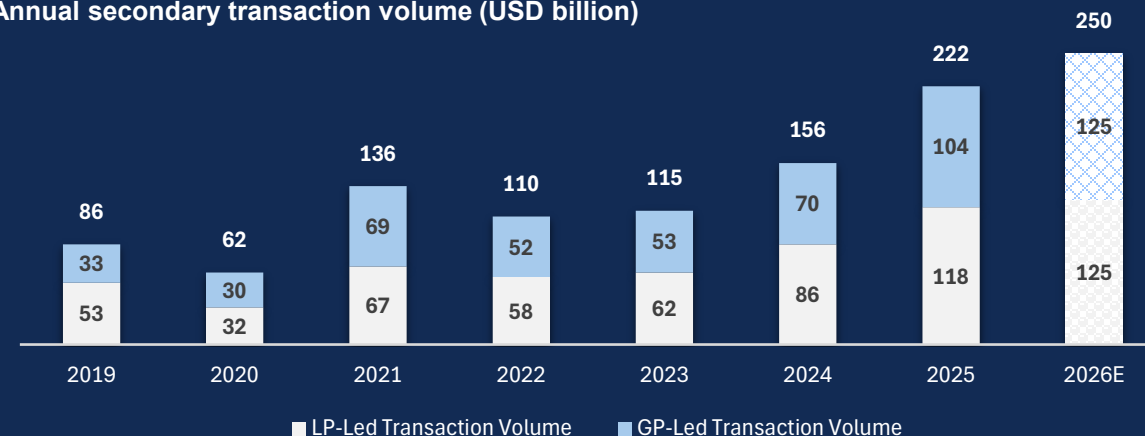
## Secondaries: from liquidity tool to strategic allocation

Private markets have historically delivered attractive long-term excess returns relative to public markets, supported by illiquidity premia, operational value creation, and differentiated sourcing capabilities. According to Preqin, private equity generated 13.7% annualised returns over the 10 years through Q3 2025, while infrastructure and private credit returned 9.5% and 8.6%, respectively.

Against this backdrop, investors are increasingly turning to secondaries to gain exposure to mature assets while enhancing portfolio flexibility and liquidity management. The secondaries market surpassed USD 200 billion in 2025 for the first time, marking a second consecutive year of record volumes. LP-led transactions reached USD 118 billion, driven by portfolio rebalancing and liquidity needs, while GP-led volumes rose around 50% year-on-year to USD 104 billion, supported by demand for continuation vehicles and structured liquidity solutions.

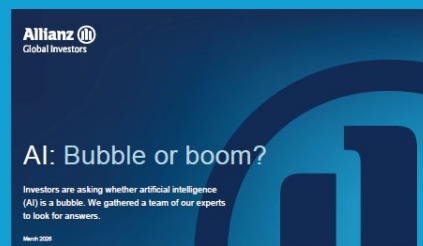
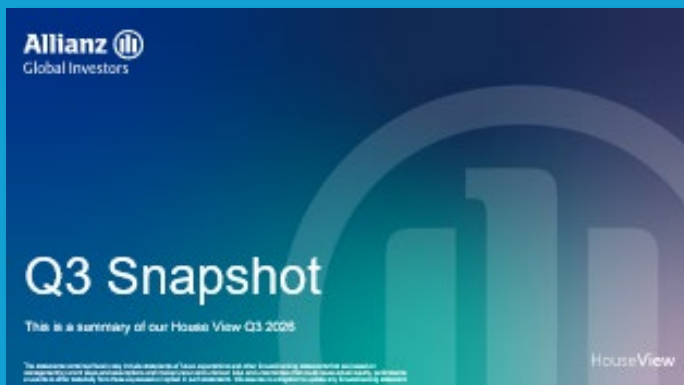
GP-led transactions are now established as a “fourth exit option” alongside sponsor sales, strategic sales and IPOs, with continuation funds accounting for over 10% of sponsor-backed exits for three consecutive years. While buyout remains the largest segment, GP-led activity is increasingly expanding across credit, venture/growth and infrastructure, reflecting broader adoption across private markets. We expect total market volumes to exceed USD 250 billion in 2026.

### Annual secondary transaction volume (USD billion)



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