



Overview

The Case for International Equities to Remain Great Again in 2026

International equities outperformed in 2025, marking a potential inflection after a decade of US dominance. We expect this trend to extend into 2026, supported by a weaker US dollar, improving global cyclical momentum, and continued investment in AI-related capital expenditure. This quarter, we adjusted positioning to reflect a more pro-cyclical backdrop, upgrading Eurozone equities to overweight and downgrading Switzerland to neutral.

2025 Recap

Last year was notable for international (non-US) equity outperformance and a potential shift in regional trends. The MSCI ACWI ex-US Index rose 32%, outperforming the US index by 15 percentage points. In addition, Chart 1 highlights that US outperformance - a persistent trend since 2011 - appeared to end in early 2025. These developments were consistent with a weaker US dollar and global investors diversifying toward more attractively valued non-US markets.

The natural question for investors is whether these trends will persist in 2026. Our baseline expectation is that international equities will continue to outperform, supported by USD weakness, an improving global cyclical environment, and corporate governance reform in selected markets (e.g., Japan and South Korea).

US Dollar

Previously, we argued that USD weakness was widely seen as consensus view yet remained an uncrowded and compelling trade (see our special report *US Dollar Weakness: A Crowded Idea, Uncrowded Trade*, July 2025). The depreciation trend appears to be re-establishing itself, with the US trade-weighted index (USTWB-GD Index) down 1.5% year-to-date - a supportive development for non-US stocks.

Our original thesis focused on three core drivers: valuations, cyclical factors, and longer-term structural headwinds. Valuations remain stretched, with the real broad effective exchange rate (REER) around 12% above its long-term average. Cyclical drivers, such as rate differentials, remain broadly consistent with last year's weakness and could drive further depreciation if the Fed continues to cut rates later this year. Our conviction on the Fed's rate path is low over the coming months, particularly with a new incoming Fed Chair. Structural factors currently represent the primary downside risk for the greenback.

Our previous note highlighted that the dollar is likely to remain the world's reserve currency for the foreseeable future, given the lack of credible alternatives (e.g., EUR and RMB). However, this does not preclude a gradual erosion of USD dominance and a

more fragmented monetary system - with gold emerging as the clearest beneficiary to date. Treasury Secretary Scott Bessent's recent reiteration of the "strong dollar policy" has done little to lift the currency, following President Trump's comment that a falling dollar was "great".

We have argued that efforts by the Trump administration to narrow the current account deficit should eventually result in weaker portfolio inflows and capital repatriation from countries with net international investment surpluses (see Chart 2). To date, the evidence does not point to a meaningful slowdown in US capital inflows. However, foreign investors can hedge FX exposure in anticipation of future developments, which likely explains the recent resumption of USD depreciation amid rising FX hedge ratios among global pension funds. Domestic challenges (e.g. Fed independence) and fraying external relations with both allies (e.g., the EU) and competitors (e.g., China) further encourage diversification away from USD assets.

Global Equity Allocation Breakdown

	Chg	-2	-1	0	+1	+2
US	-					
Canada	-					
Eurozone*	↑					
Switzerland	↓					
UK	-					
Japan	-					
Australia	-					
EM	-					

*Eurozone is overweight via the Netherlands, the other countries are neutral.
Note: Up/down arrows indicate a positive/negative change in our asset allocation compared to the previous quarter. A dash indicates no change.

Source: CLIM

International Equity Allocation Breakdown

	Chg	-2	-1	0	+1	+2
Canada	-					
Eurozone*	↑					
Switzerland	↓					
UK	-					
Japan	-					
Australia	-					
EM	-					

*Eurozone is overweight via the Netherlands, the other countries are neutral.
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Source: CLIM

*This publication reflects asset performance up to 31 January 2026, and macro events and data releases up to 5 February 2026, unless indicated otherwise.

Global Growth

In April 2025, concerns around a global recession were widespread. Since then, investor sentiment has rebounded across several measures, and recession expectations have fallen sharply according to the latest Bank of America Fund Manager Survey. The global manufacturing PMI remains subdued at 50.9 as of January, but it has improved over the past year. Historically, a rising manufacturing PMI supports cyclical assets such as small caps and non-US equities. Chart 3 highlights this relationship, although the relationship weakened in recent years as global manufacturing growth remained anchored lower. A reacceleration should help reestablish its historical correlation.

We were generally cautious on global growth last year while emphasising upside from the AI capex cycle. We continue to expect large-scale AI investment to support advanced hardware producers and manufacturers. Chart 4 shows that Taiwan export orders continue to provide a positive signal for future earnings growth. There is also scope for growth to broaden into non-technology sectors in 2026. Global policy easing operates with a lag and is now gradually feeding into activity data, a process that should continue this year.

Corporate Governance Reform

A slower-moving but important pull factor for several major non-US markets is corporate governance reform. One pillar of “US exceptionalism” has been strong corporate governance and a focus on maximising shareholder returns - attributes that have historically been less prominent in some international markets. Japan and South Korea have taken meaningful steps to address valuation discounts, improve capital productivity, and strengthen shareholder alignment. China has also revised its Company Law to support domestic capital markets. Continued progress represents an upside opportunity for these markets and an area we continue to monitor closely.

Commodities

International equities outperformed over a multi-year period in the early 2000s, partly driven by broad commodity strength. Chart 5 shows how commodity-exposed markets such as Australia and Canada closely tracked the rising CRB commodity index between 2000 and 2011. We are not currently positioned for a repeat of this period, given China’s growth has slowed to mid-single digits and global crude oil supply (the largest index component) is projected to remain in surplus based on the latest EIA estimates.

That said, a weaker USD and above-trend global growth remain supportive for commodities. In addition, geopolitical considerations and rising AI-related energy demand have increased the importance of specific materials, including precious metals, industrial metals, rare earths, and uranium. A broader upswing in commodity demand would reinforce our positive EM view and could prompt an upgrade to commodity-heavy markets such as Canada and Australia.

Risks To Our Outlook

Year-ahead consensus GDP forecasts have been revised higher globally over the past six months (see Chart 6), with the largest upgrades concentrated in the US. At face value, this could signal a reversion to US outperformance. Productivity data in the US have also continued to improve, suggesting not only that last year’s recession fears were overstated, but that the US remains a key engine of global growth.

We do not discount US economic resilience. Further strength could support the dollar and US earnings growth. However, we view recent US growth upgrades as partly reflecting easier monetary policy, which also contributes to USD weakness and improved international USD-based returns. Moreover, the exact drivers of US productivity gains remain debated, with limited evidence that AI is yet the primary contributor. AI-related efficiency gains are likely to broaden over time into non-tech sectors (e.g., manufacturing, healthcare, and hospitality), but we assume the US will struggle to monopolise these benefits – much as US hyperscalers have struggled to monopolise large language models (LLMs). In addition, elevated capex by US mega-cap technology firms poses a growing headwind to medium-term earnings as spending intensifies and debt financing grows.

Market Strategy:

Our global allocation continues to favour international outperformance amid USD depreciation. Within international equities, we maintain a preference for AI-related hardware exposure via EM, Japan, and the Netherlands. This quarter, our assessment of global growth has improved, leading us to reflect greater upside risk to pro-cyclical equities:

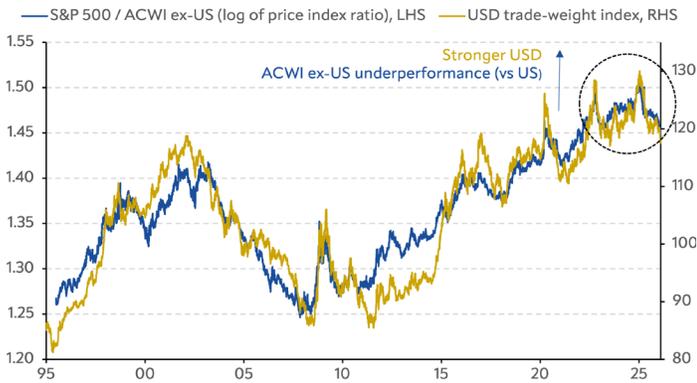
- Upgrade **Eurozone** to overweight (the Netherlands remains overweight; Eurozone ex-Netherlands is upgraded to neutral). We remain positive on the Netherlands given its direct exposure to the ongoing AI capex cycle. Eurozone equities more broadly are higher-beta and have historically outperformed during periods of rising global growth. As global manufacturing PMIs improve and Eurozone capex recovers, a neutral allocation outside the Netherlands appears more appropriate.
- Downgrade **Switzerland** to neutral. Switzerland was previously upgraded for defensive exposure. With global activity data improving, we see less scope for the market to outperform more pro-cyclical peers over the coming quarters.

Justin Kariya

*February 5, 2026***

*** The document includes contributions from Tom Trull.*

Chart 1: US Equities (vs RoW) and USD



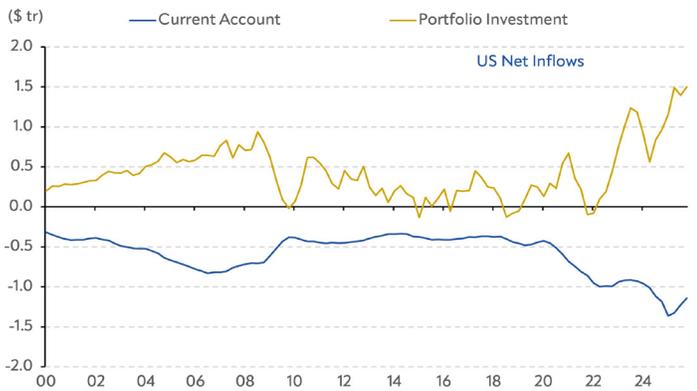
Source: Bloomberg

Chart 4: Taiwan Export Orders and ACWI EPS Trailing Growth



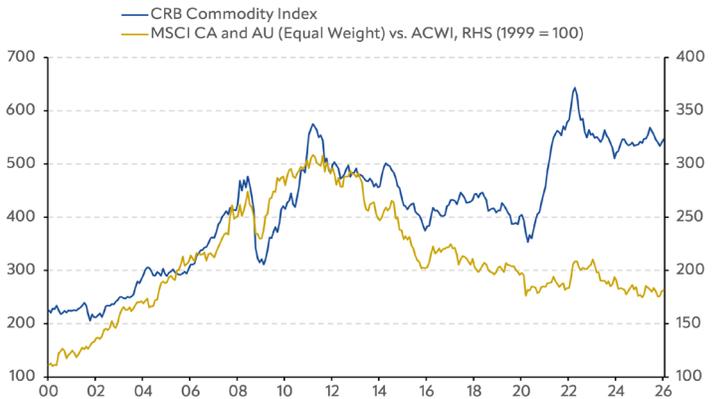
Source: Bloomberg

Chart 2: US Current Account and Portfolio Flows (USD trn)



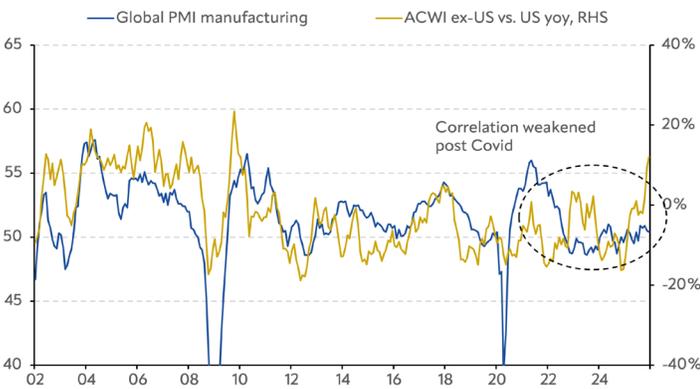
Source: Bloomberg and BEA

Chart 5: Commodity Prices vs AU and CA Relative Performance



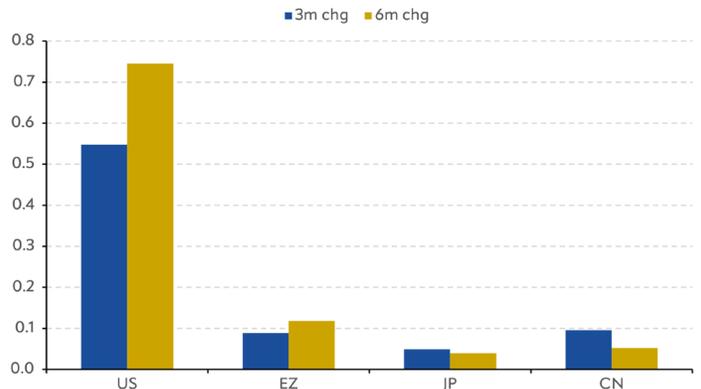
Source: Bloomberg

Chart 3: Global Mfg. PMI and ACWI ex-US Relative Performance



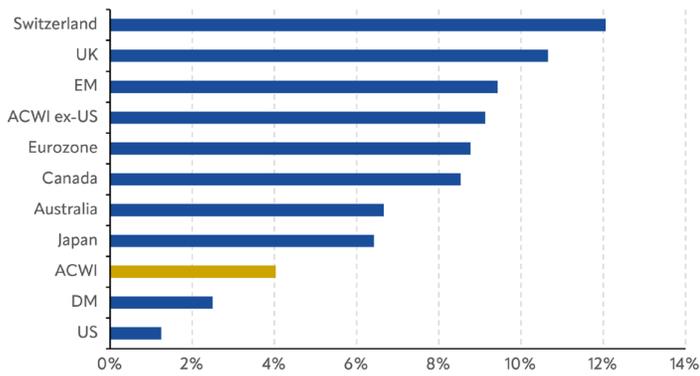
Source: Bloomberg

Chart 6: Consensus 12m Ahead GDP Forecast Revisions (%pts)



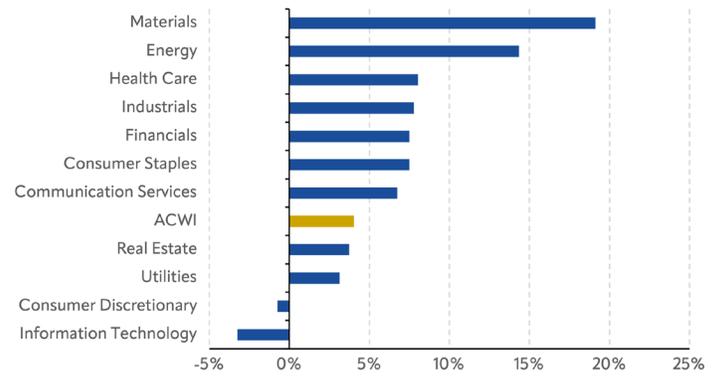
Source: Bloomberg

Chart 7: ACWI, Net TR USD, Nov-Jan, %



Source: Bloomberg

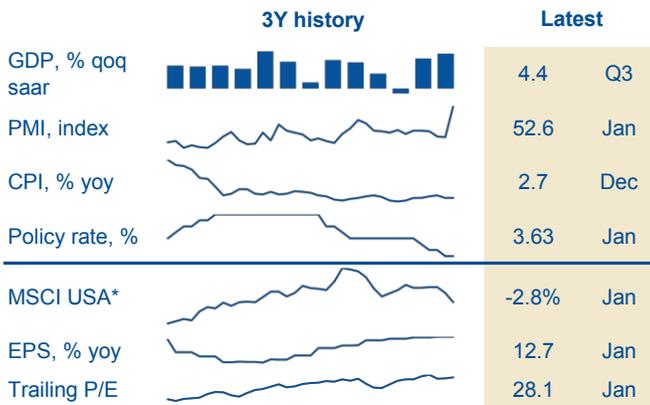
Chart 8: ACWI Sectors, Net TR USD, Nov-Jan, %



Source: Bloomberg

United States

UW (Global Index)



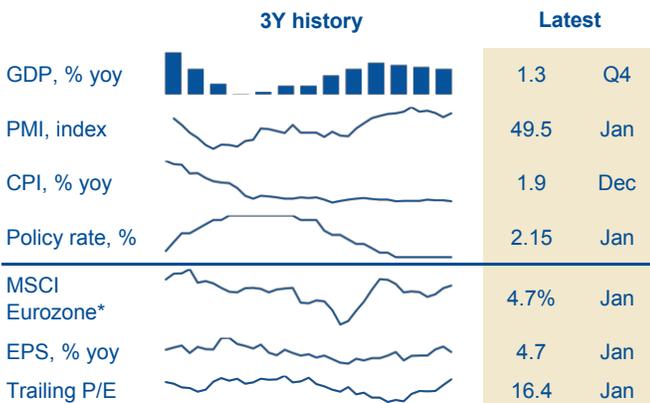
*US\$ total return relative to MSCI ACWI. Latest is three-month return.

Source: Bloomberg

- The US economy continues to grow and concerns over a tariff-induced recession have eased. There are some signs of weakness in the labour market, but these should be viewed in the context of reduced net migration and productivity gains. We expect further USD weakness, which is typically a headwind for US equities' relative performance.
- Having benefited from strong tech-sector performance in recent years, the US market struggled over the past three months, as equity leadership broadened. There remains a risk that some mega-cap stocks may struggle to translate elevated capital expenditure into earnings growth. We remain structurally positive on AI, but these dynamics pose a threat to US large-cap 'moats' and divert capital away from buybacks.
- The MSCI USA Index valuation remains elevated, but the US administration appears reluctant to pursue policies that would put equity markets at risk ahead of the US midterms. We expect US equities to continue rising in absolute terms; however, if the dollar continues to weaken, US equities are unlikely to outperform non-US markets. We maintain an *underweight* position.

Eurozone

OW↑ (OW Netherlands, NW Eurozone ex-Netherlands in Global and Global ex-US index)



*US\$ total return relative to MSCI ACWI. Latest is three-month return.

Source: Bloomberg

- The Eurozone economy remains weaker than the US, but there are indications that the data are accelerating. In addition, earnings growth is improving in USD terms, which may attract renewed interest and capital inflows. There is also a push for greater investment by European governments seeking to reduce reliance on the US. Private capex is picking up, and German fiscal stimulus is a potential medium-term tailwind.
- While a weaker dollar typically benefits international stocks, a stronger euro may create headwinds for the large-cap exporters. By contrast, small-caps are likely to outperform if euro appreciation continues. We continue to favour the Netherlands within Europe given its direct exposure to rising global AI hardware spending.
- We make one change to our Eurozone allocation, resulting in a net *overweight* position. We remain *overweight* the Netherlands and upgrade our position for the rest of the bloc to *neutral*.

Emerging Markets

OW (Global and Global ex-US index)



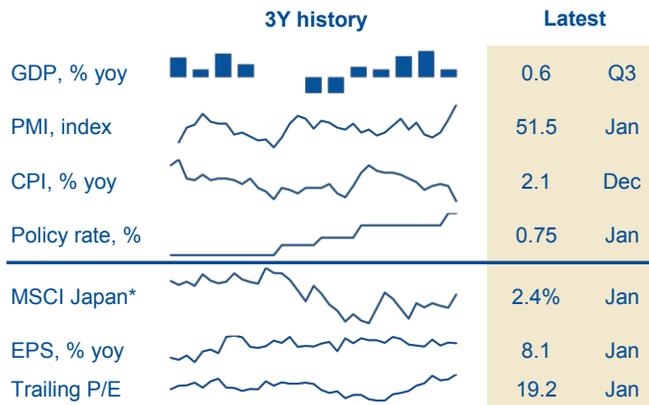
*US\$ total return relative to MSCI ACWI. Latest is three-month return. Economic indicators are GDP-weighted with the exception of PMI, which is value-added-weighted.

Source: Bloomberg

- AI and the associated hardware remain in a structural growth phase. EM – particularly South Korea and Taiwan – are leading manufacturers of both semiconductors and high-bandwidth memory chips and are well positioned to benefit from ongoing demand in this area. Memory prices are currently rising sharply. Some of these companies have significant market power and are relatively attractively valued compared to their US counterparts.
- Although US tariffs seem likely to remain elevated, measures of policy uncertainty have eased, and there is scope for exemptions and deals. Easing US monetary policy, combined with structural and cyclical factors, traditionally helps weaken the dollar, creating conditions that typically favour EM.
- EM earnings growth is expected to be robust, driven in part by the strength of the tech sector. The index is also likely to benefit from a weaker dollar. We continue to hold an *overweight* position.

Japan

OW (Global and Global ex-US index)



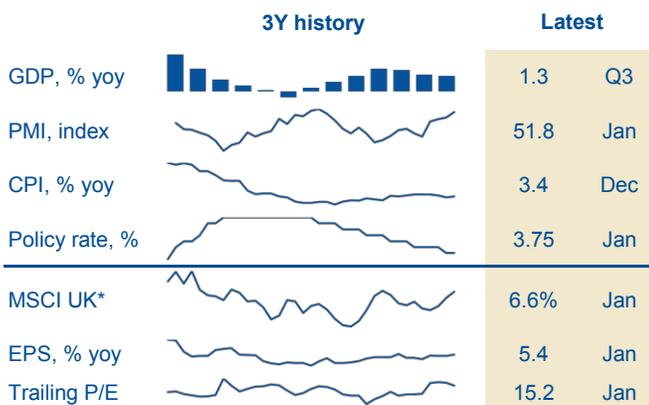
*US\$ total return relative to MSCI ACWI. Latest is three-month return.

Source: Bloomberg

- The upcoming election in Japan is expected to strengthen Prime Minister Takaichi's mandate, enabling further action on her relatively pro-market agenda. Japanese corporate reforms, led by the Tokyo Stock Exchange, are ongoing and having success. One tangible aspect is that Japanese companies are doing more buy-backs and returning capital to shareholders. Further corporate reform legislation is scheduled for later in 2026.
- A cheap yen could become a headwind for the MSCI Japan Index's local currency earnings, given its exposure to large-cap exporters. We are less concerned about returns in USD terms. Japanese small-caps should benefit from improving domestic conditions, corporate governance reform, and potential yen appreciation.
- We remain *overweight*, as ongoing corporate reforms and undemanding valuations continue to support our position.

United Kingdom

UW (Global and Global ex-US index)



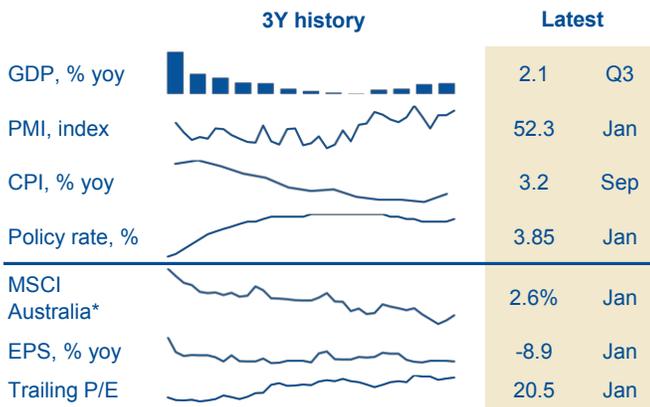
*US\$ total return relative to MSCI ACWI. Latest is three-month return.

Source: Bloomberg

- The MSCI UK Index has a larger exposure to Energy and defensive sectors. A conflict involving Iran could lead to an oil price shock, supporting UK Energy stocks in the short term. However, we expect oil prices to remain contained by a large net global oil surplus, based on the latest EIA forecasts.
- As global activity data improve, we prefer to reduce defensive exposure, such as Consumer Staples. The UK is historically a lower-beta equity market and is therefore more likely to lag other major non-US markets, such as Japan and the Eurozone.
- We continue to hold an *underweight* position in the UK. Cheaply valued UK small-caps could benefit from a broader rally in ACWI ex-US small-caps, supported by a weaker USD and improving global manufacturing PMIs. However, the UK economy continues to lag other major DM economies, which remains a headwind for domestically oriented stocks.

Australia

UW (Global and Global ex-US index)



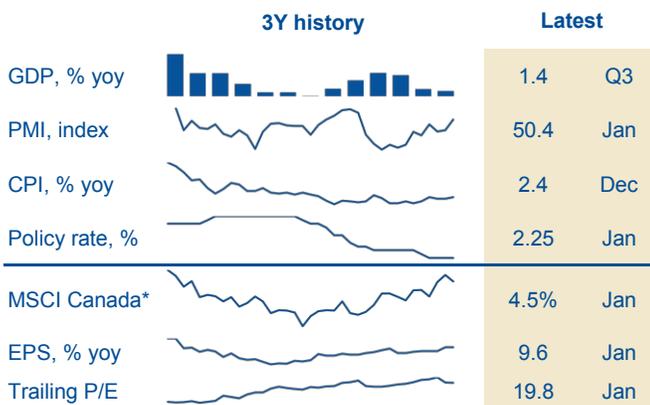
*US\$ total return relative to MSCI ACWI. Latest is three-month return.

Source: Bloomberg

- The MSCI Australia Index is trading at a premium to its historical P/E ratio, while earnings growth is expected to lag the global aggregate in 2026 and 2027. We see a risk that the index could de-rate, with the financial sector (around 40% of the index) richly valued relative to its recent history.
- The weaker USD environment tends to favour commodity strength, a backdrop that has historically benefited Australia. Copper – historically correlated with the Australian index – is expected to be in demand, driven by increased global electrification. However, Australia's main commodity exports (iron ore and coal) may lag relative to previous cycles due to ongoing weakness in Chinese property demand.
- Given weak earnings expectations and the richly priced financial sector, we maintain our *underweight* position.

Canada

UW (Global and Global ex-US index)



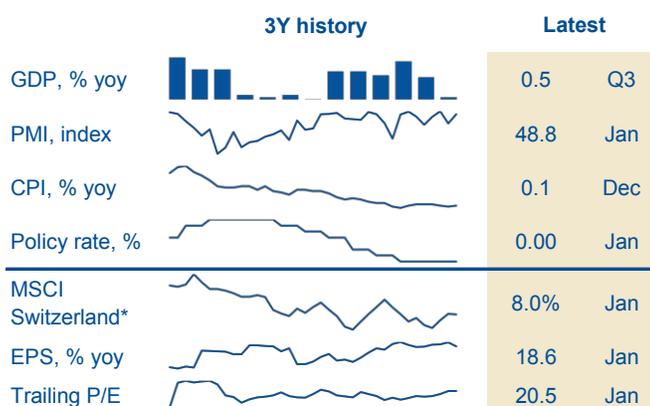
*US\$ total return relative to MSCI ACWI. Latest is three-month return.

Source: Bloomberg

- Recent Canadian equity returns have been supported by gold exposure within their Materials sector. While the sector is potentially an attractive area, Financials are roughly twice as large and trading at an elevated P/E multiple. Energy could see some near-term support from firmer prices, but ample global supply should cap upside and limit the impact of geopolitical shocks.
- Tensions with the US remain an ongoing risk and may be subject to flare-ups, such as the recent threat of tariffs on aircraft. However, the USMCA currently exempts much of bilateral trade from tariffs, providing an important buffer. This trade agreement is scheduled for review in the summer of 2026, which could reintroduce uncertainty as negotiations approach.
- Valuations are elevated and earnings growth is expected to lag the global aggregate. Despite select areas of strength – most notably within Materials – we maintain our *underweight* position.

Switzerland

NW↓ (Global and Global ex-US index)



*US\$ total return relative to MSCI ACWI. Latest is three-month return.

Source: Bloomberg

- Swiss equities have a defensive sectoral bias, backed by a counter-cyclical currency. This exposure is particularly attractive in periods of slower global growth. However, recent data point to some improvement in global activity, which could see more pro-cyclical markets outperform Switzerland.
- Over the past three months, Switzerland has been the best-performing major developed market. This period of strength has meant that MSCI Switzerland Index has moved back towards its five-year average P/E multiple relative to ACWI. One reason for the Swiss markets becoming less cheap is the Health Care sector, to which the index has a large weighting. While this exposure was attractive at earlier valuations and has performed well, the sector has re-rated to less appealing levels.
- We reduce our Swiss allocation to *neutral*. Our outlook on global equities has turned more constructive, diminishing the appeal of maintaining a defensive tilt.

GLOBAL EQUITY - KEY ECONOMIC AND FINANCIAL INDICATORS

Developed Markets	Macroeconomic Data										Market Performance				Forecast†				
	% change on year ago					Latest 12 months					Sovereign Rating S&P	Short-Term Interest Rates	Currency vs \$ Year ago	Currency vs \$ Latest	Stock Market Index (MSCI ACWI Net) US\$	Change since 12/31/25 US\$	Change since 12/31/25 Local	2026 P/E Forecast	3-month Currency vs \$ +/-
	Annual GDP Growth QoQ*	Industrial Production Growth	Consumer Price Index	Budget Balance % of GDP 2026F**	Trade Balance	Current Account Balance	Foreign Reserves Latest	Foreign Reserves 2024 Year ago	Currency vs \$ 2025 Latest	Currency vs \$ 2024 Year ago									
EMERGING MARKETS****	4.6	n.a.	2.1	2.6	-4.7	1277	911	8215.93	7923.65	1741.00	6.49	n.a.	11.61	834.38	8.85	8.78	171	n.a.	
JAPAN	0.6	-2.3	2.6	2.1	-3.0	-17	216	1180.50	1092.31	15712	0.76	A+	5.03	11446.71	6.59	4.90	20.0	+	
EUROZONE#	1.3	1.2	2.5	1.7	-3.4	2	4	380.20	298.10	1.04	0.73	n.a.	8.03	645.27	4.13	2.81	177	+	
DENMARK	4.0	91	-1.8	1.9	0.9	48	54	112.15	97.01	716	1.60	AAA	0.45	49994.58	8.73	7.32	173	+	
HONG KONG	3.8	4.1	5.4	1.4	-1.4	-57	56	429.07	424.96	779	2.78	AA+	0.45	84032.03	10.34	10.68	16.9	+	
ISRAEL	3.1	11.1	19.0	2.6	-4.0	-39	7	224.83	210.17	3.54	4.44	A	0.25	29598	8.67	6.56	13.0	-	
NEW ZEALAND	1.3	4.5	7.4	3.1	-2.8	-1	-9	24.78	18.84	0.57	2.10	AA+	0.04	630.71	6.40	1.15	391	-	
NORWAY	2.2	0.4	4.4	3.2	10.1	63.4	76.1	76.55	72.85	11.21	4.13	AAA	0.14	14424.95	10.25	4.91	14.4	+	
SINGAPORE	5.7	98	8.3	1.2	0.2	195.6	101.9	387.15	363.57	1.35	1.38	AAA	0.38	2089.30	3.95	2.80	17.4	+	
SWEDEN	2.6	4.5	4.4	0.3	-2.3	7.4	41.2	45.36	41.56	10.88	2.02	AAA	0.84	45001.21	6.27	2.47	177	+	
SWITZERLAND	0.5	-2.0	2.4	0.1	0.1	65	91	914.66	808.03	0.90	-0.04	AAA	2.11	24308.61	2.65	-0.23	20.4	-	
AUSTRALIA	2.1	1.6	-0.8	3.2	-1.5	29	-42	44.96	39.58	0.63	2.85	AAA	1.45	6751.70	6.64	1.51	20.3	-	
CANADA	0.6	2.6	-2.2	2.4	-2.0	-21	-25	98.40	93.88	1.43	2.26	AAA	2.98	12042.72	1.12	-0.10	191	-	
UK	1.3	0.4	2.3	3.4	-3.7	-50	-10.6	123.79	102.68	1.25	3.79	AA	3.34	12082.87	5.16	3.08	15.3	+	
UNITED STATES	2.3	4.4	2.0	2.7	-6.3	-936	-1215	38.31	36.34	1.00	3.52	AA+	62.97	19963.76	1.27	1.27	26.6	uc	

Note: All data shown are as at February 5, 2026 unless otherwise stated. S&P credit rating shown is long-term foreign currency rating. * % change in GDP on previous quarter, annual rate. **Bloomberg consensus forecast.

MSCI All Country World Index Daily Total Return Net. *JP data from CPB; Currency level from MSCI EM Currency Index; GDP, CPI, budget and interest rate data from Bloomberg.

†Any forecasts are based on Bloomberg consensus forecasts, where available, and assumptions. Actual results may vary from any such statements or forecasts. Past performance is no guarantee of future results.

#Eurozone is overweight via Netherlands, the other countries in the bloc are neutral.

Source: Bloomberg, CLIM



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The MSCI ACWI Index is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 24 emerging markets.

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Overweight

Neutral

Underweight