



Overview

Let's Get Cyclical

- Global activity data are improving, with manufacturing indicators rebounding and cyclical sectors regaining leadership. While risks remain, the macro backdrop is becoming more supportive for pro-cyclical assets.
- Once Middle East geopolitical risks fade, a renewed USD downtrend should ease global financial conditions, favouring non-US equities and commodities.
- We maintain an equity overweight, move to neutral in rates, and remain underweight high yield credit. In commodities, we stay overweight metals while rotating modestly from precious into industrial exposure.

Our update this quarter highlights the improvement in global economic data and the asset implications of an improving cyclical backdrop. Investors' threat detector (or amygdala) can always identify risks, some of which may evolve into more persistent market headwinds. This list might include geopolitical conflicts, US political uncertainty and tariffs, or disruptions linked to AI (e.g., software stock declines). Given these factors, some volatility spikes and a "wall of worry" are reasonable assumptions over the coming months. At the time of writing, the US-Iran conflict is the dominant theme supporting volatility. However, the improving trend in several activity measures may prove the more dominant driver beyond the next few weeks, supporting pro-cyclical assets (Chart 1 highlights recent cross-asset trends).

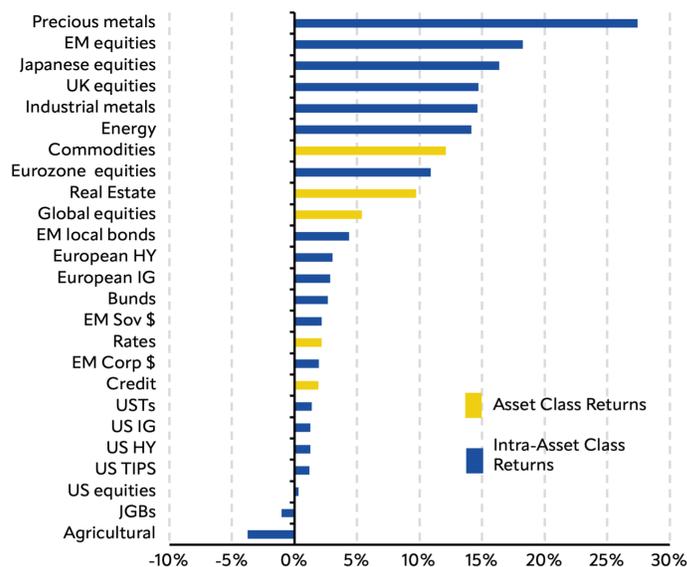
Global Growth

The global manufacturing PMI improved to 51.9 as of February. The US ISM manufacturing survey has also seen a sharp rebound, with the new orders component at 55.8. These recent upticks are consistent with our leading indicators, which have strengthened alongside global monetary and fiscal support. Historically, a rising manufacturing PMI supports cyclical assets. Chart 2 highlights this relationship, although it weakened in recent years as global manufacturing growth remained subdued while large-cap technology stocks supported global equity prices. A reacceleration in non-tech growth should help re-establish this historical correlation as activity broadens across sectors.

We were generally cautious on global growth last year while emphasising upside from the AI capex cycle—a "K-shaped" economy. We continue to expect large-scale AI investment to support advanced hardware producers and manufacturers. Chart 3 shows that Taiwan export orders continue to provide a positive signal for

future earnings growth. There is also scope for activity to broaden into non-technology sectors in 2026, allowing productivity gains to become more self-sustaining as AI use cases become more visible. Chart 4 highlights one example: US software stocks have come under pressure, while the broader market has reached new all-time highs this year as cyclical sectors have outperformed.

Chart 1: Dec-Feb Performance (%)



Source: Bloomberg

US Dollar

A weaker US dollar typically contributes to easier global financial conditions and supports cyclical assets such as global equities and commodities. Chart 5 highlights how a weaker USD has coincided with a rise in global trade. Previously, we argued that USD weakness was widely seen as a consensus view yet remained an uncrowded and compelling trade (see our special report *US Dollar Weakness: A Crowded Idea, Uncrowded Trade*, July 2025). Once Middle East geopolitical risks fade, we expect the dollar depreciation trend to re-establish itself.

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 10% 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 Fed Chair. Structural factors currently represent the primary downside risk for the greenback.

*The publication reflects asset performance up to February 27, 2026, and macro events and data releases up to March 4, 2026, unless indicated otherwise.

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. 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 and fraying external relations with both allies (e.g., the EU) and competitors (e.g., China) further encourage diversification away from USD assets. The dollar is likely to remain the world's reserve currency for the foreseeable future, given the lack of credible alternatives. 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.

Rates & New Fed Chair

A risk to our more upbeat view is a hawkish Fed or an unanchored US 10-year yield. A Fed that becomes less tolerant of inflation overshoots or “irrational exuberance” in certain market segments typically ends cycles with a series of rate hikes. We expect the Fed to remain accommodative this year based on current data. The unemployment rate fell in the most recent print, but at 4.3%, it has steadily risen since 2023. Inflation, while still above target, appears to be moderating despite earlier tariff concerns. This may prompt some hawkish policymakers to reconsider their stance (see Chart 6).

A new Fed Chair adds uncertainty for markets. For brevity, we will avoid adding to speculation regarding whether nominee Kevin Warsh will prove hawkish or dovish, independent from presidential influence, or committed to a significantly smaller balance sheet. Between now and his first June meeting, incoming data will likely guide the existing FOMC toward either maintaining a pause or resuming cuts. In future updates, we expect greater clarity on Warsh's influence over the 12-member committee and his broader policy priorities. Regardless of potential changes, we expect the new Chair to remain sensitive to long-end yields for financial stability reasons.

Market Strategy:

Our macro outlook has become more constructive; however, valuations vary across markets. Our allocations focus on positioning for a cyclical upturn, sustained AI capex spending, and a weaker USD, while maintaining some defensive exposure to respond to volatility spikes. This quarter, we make the following adjustments:

- Maintain an **equity overweight**. A renewed dollar downturn favours non-US equities, particularly in Japan and emerging markets (EM).
- Move to **neutral in rates**. Fixed income typically underperforms in manufacturing upcycles. We move Bunds and US TIPS to neutral and upgrade EM local bonds to overweight to position for further USD depreciation and stable EM inflation.
- Remain **underweight in credit**, particularly high yield (HY). We see limited value in HY spreads; however, spreads typically tighten in periods of rising PMIs. Accordingly, we move European HY to neutral while maintaining a US HY underweight.

- Keep a **neutral** allocation in **real estate**. Economic conditions have improved, but rates need to fall further to support valuations.
- Maintain an overweight in commodities through exposure to metals. Following the strong rally in precious metals, we reallocate some exposure towards industrial metals (see Chart 7).

Justin Kariya**
March 4, 2026

**This document includes contributions from Tom Trull and Yasemin Engin.

Asset Allocation

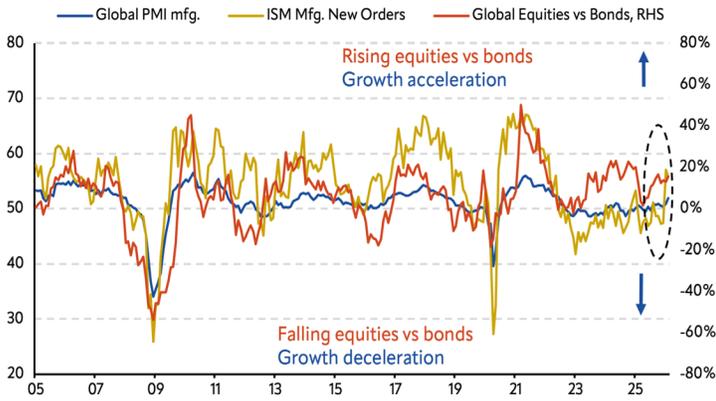
	Chg	-3	-2	-1	0	+1	+2	+3
Equities	-							
Rates	↓							
Credit	-							
Real Estate	-							
Commodities	-							

	Chg	-3	-2	-1	0	+1	+2	+3
US equities	-							
Eurozone equities	-							
UK equities	-							
Japan equities	-							
EM equities	-							
USTs	-							
TIPS	↓							
Bunds	↓							
JGBs	-							
EM local bonds	↑							
US IG credit	-							
US HY credit	-							
European IG credit	-							
European HY credit	↑							
EM Sov \$ credit	-							
EM Corp \$ credit	-							
Energy	-							
Industrial metals	↑							
Precious metals	-							
Agricultural	-							

Note: Up/down arrows indicate a positive or negative change in our asset allocation compared to the previous quarter. A dash indicates no change.

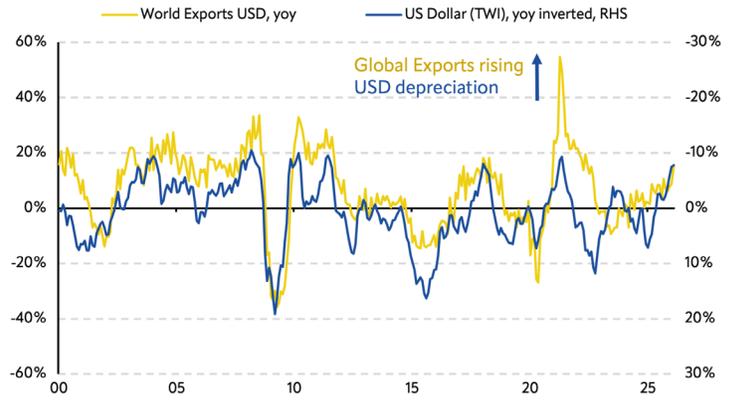
Source: CLIM

Chart 2: Global Manufacturing Surveys (ISM+PMI)



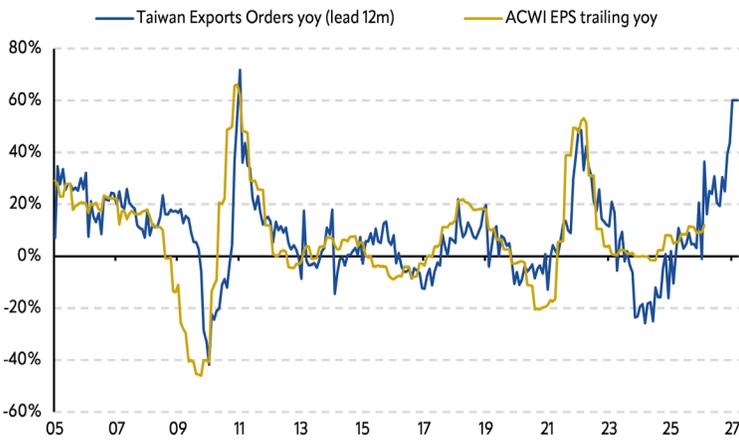
Source: Bloomberg

Chart 5: World Exports and the US Dollar



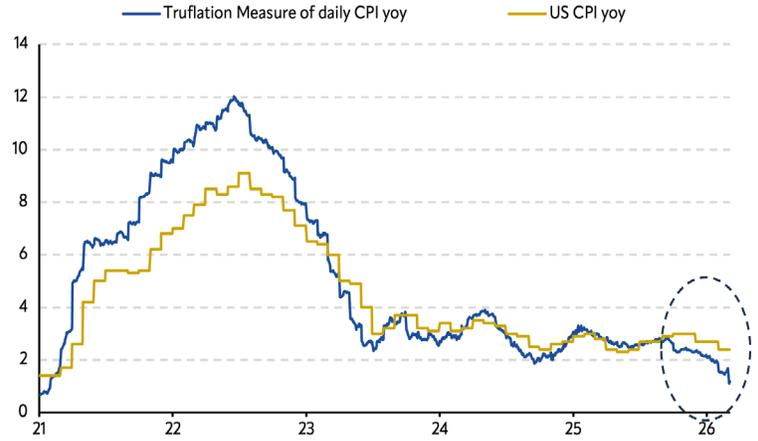
Source: Bloomberg

Chart 3: Taiwan Export Orders and ACWI EPS Trailing Growth



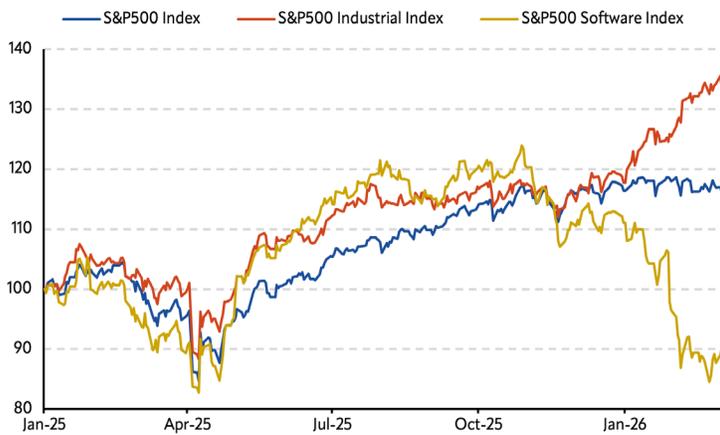
Source: Bloomberg

Chart 6: US CPI yoy and Truflation Measure (%pa)



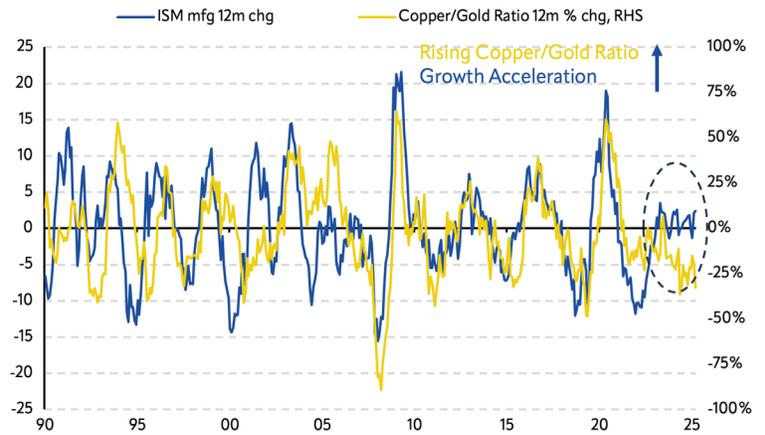
Source: Bloomberg

Chart 4: S&P500, Industrial Sector and Software Sector



Source: Bloomberg

Chart 7: ISM Mfg. Index and Copper/Gold Ratio



Source: Bloomberg

Equities

Overweight

AI hardware demand, ongoing corporate reforms, and a weaker dollar favour international equities.

Global Equity Indicators

	3Y history	Latest	
Global P/E		23.4	Feb
DM P/E		24.3	Feb
US P/E		27.3	Feb
Europe P/E		18.3	Feb
Japan P/E		20.8	Feb
EM P/E		19.6	Feb

Source: Bloomberg, MSCI

Chart 8: 12m Forward PE Ratios



Source: Bloomberg

Asset	View	Chg	Commentary
Global equities	+1	-	Investor sentiment has rebounded across several measures, and cyclical indicators point to robust earnings growth. We continue to expect large-scale AI investment to support advanced hardware producers and manufacturers. We anticipate further dollar weakness, which typically favours international stocks.
US equities	-1	-	The US economy and earnings expectations remain robust, and although the equity market remains richly valued, leadership among stocks has broadened out in recent months. A weakening dollar means that the US is unlikely to outperform. We keep a small <i>underweight</i> .
Eurozone equities	0	-	The Eurozone economy is improving, and earnings growth is picking up in USD terms. There is a push for greater investment by European governments seeking to reduce reliance on the US. While a weaker dollar typically benefits international stocks, a stronger euro may create headwinds for European exporters. We remain <i>neutral</i> .
UK equities	-1	-	As global activity data improve, we prefer to reduce defensive exposure. 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, though it may rise in absolute terms. We continue to hold an <i>underweight</i> position.
Japan equities	+1	-	Prime Minister Takaichi has a strong mandate and a relatively pro-market agenda. Japanese corporate reforms are ongoing and encouraging more buybacks and returning capital to shareholders. Valuations are undemanding. We remain <i>overweight</i> .
EM equities	+2	-	AI and the associated hardware remain in a structural growth phase, which EM are well positioned to benefit from. Some of these companies have significant market power and are relatively attractively valued. EM earnings growth is expected to be robust, and the index is also likely to benefit from a weaker dollar. We continue to hold an <i>overweight</i> position.

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Rates

Overweight

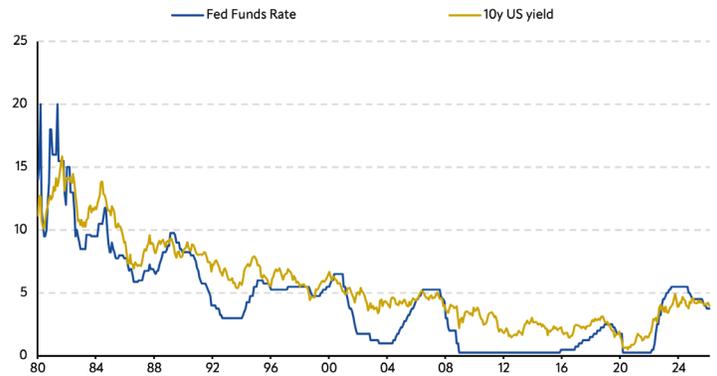
A brighter economic outlook supports pro-cyclical exposure, reducing the appeal of government bonds.

Global Rates Indicators

	3Y history	Latest	
Global Govt Yield		3.1	Feb
UST 10Y Yield		3.9	Feb
TIPS 10Y Real		1.8	Feb
Bund 10Y Yield		2.6	Feb
Italy 10Y Yield		3.3	Feb
JGB 10Y Yield		2.1	Feb
EM Local Yield		3.7	Feb

Source: Bloomberg Barclays Indices, US Federal Reserve. Yield in %

Chart 9: US 10y Yield and Fed Funds Rate (%pa)



Source: Bloomberg

Asset	View	Chg	Commentary
USTs	0	-	A falling dollar, combined with ongoing budget deficits, reduces the appeal of USTs. Although the traditional safe-haven appeal is likely to endure, we are less concerned about an economic slowdown than we were last year. However, USTs should benefit from any reductions in the policy rate, which may be accelerated if labour market and inflation data support additional cuts. We remain <i>neutral</i> .
US TIPS	0	↓	Long-run inflation expectations remain anchored, in part due to a well-supplied energy market. However, the situation in Iran is ongoing, and could change the picture if the conflict is prolonged (not our base case). In addition, the dollar looks likely to resume its downtrend, favouring non-US exposure. We downgrade TIPS to <i>neutral</i> .
Bunds	0	↓	German fiscal loosening could prove to be a headwind for Bunds, yet a weaker dollar typically benefits Euro-denominated assets. We reduce our Bunds exposure to <i>neutral</i> , given our more pro-cyclical view, rotating the exposure into European credit.
JGBs	-1	-	Unlike most developed market central banks, the Bank of Japan is expected to continue its gradual hiking cycle. Inflation has fallen in recent months, so the pace of hikes may be slow. The currency is cheap relative to the dollar but has been so for some time. We remain <i>underweight</i> .
EM local bonds	+1	↑	After moving sideways for the second half of 2025, we believe there are several factors that suggest the dollar is likely to continue weakening, which should benefit EM local bonds. Although the yield is already comparatively low relative to history, FX is historically the dominant driver of total returns. We upgrade our allocation to <i>overweight</i> .

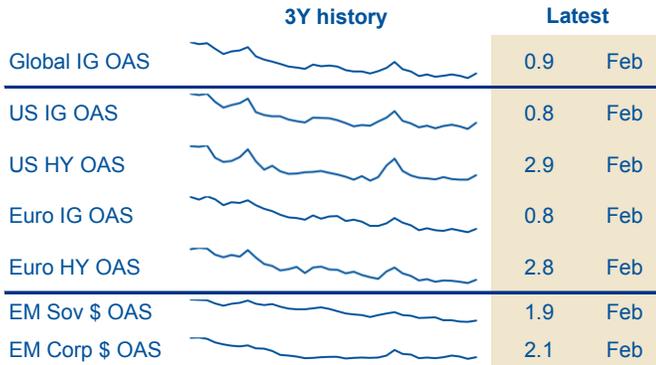
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Credit

Underweight

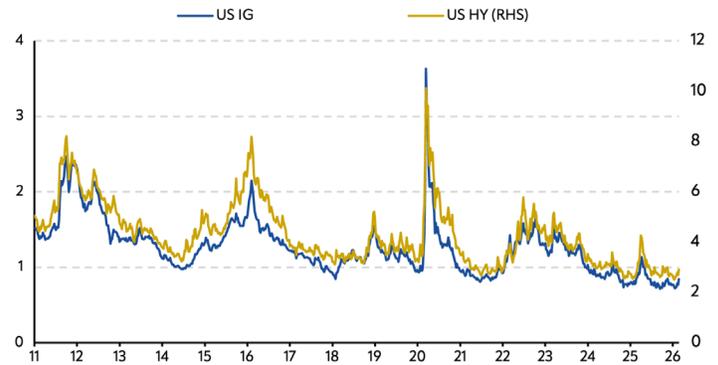
Spreads are tight, but the global economy appears to be reaccelerating.

Global Credit Indicators



Source: Bloomberg Barclays Indices. Option-adjusted spreads in %

Chart 10: US Corporate Spreads (% points)



Source: Bloomberg

Asset	View	Chg	Commentary
US IG	0	-	Tech companies are increasingly turning to the credit markets to help fund their capex. This extra issuance has the potential to push up IG spreads. Resilient US growth should help support investment grade credit. We stay <i>neutral</i> .
US HY	-3	-	High-yield spreads remain narrow, thereby offering little protection against the risk of rising defaults – mean reversion to the historical average default regime would harm returns. Some companies remain vulnerable to the need to refinance at higher rates. We continue to be <i>underweight</i> .
European IG	0	-	European investment grade spreads remain low, thereby offering little potential upside relative to Bunds. Market pricing suggests that the ECB will keep rates unchanged for the rest of the year. We remain <i>neutral</i> .
European HY	0	↑	Spreads remain tight, but improving economic conditions support higher risk credit. Our more pro-cyclical view on the global economy means that we remove our underweight position, moving to <i>neutral</i> .
EM Sov \$ credit	0	-	Further weakness in the dollar – which may be aided by further Fed cuts – would traditionally support dollar-denominated debt. However, spreads remain unattractive, and therefore we stay <i>neutral</i> .
EM Corp \$ credit	0	-	Spreads remain tight with little room for further compression, and do not offer an appealing entry point. However, another move down in the dollar, and a lower Fed funds rate should help the asset class. We keep our <i>neutral</i> position.

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Real Estate

Neutral

Improving investor sentiment and a constructive economic backdrop are positive, but valuations remain stretched, keeping us neutral.

Asset	View	Chg	Commentary
Global Real Estate	0	-	A better economic backdrop is helping sentiment, with measures such as the RICS Global Commercial Property Sentiment Index rising to its best reading since Q1 2022. In addition, direct real estate transactions were 15% higher year-on-year in Q4. However, the real estate recovery is likely to prove gradual. The same RICS survey showed that nearly half of respondents reported that the market was either in a downturn or at the bottom of the cycle. On valuations, while further Fed rate cuts may help, valuations continue to look stretched relative to US Treasuries. As a result, we favour other pro-cyclical assets and remain <i>neutral</i> on real estate.

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Commodities

Overweight

Structural demand drivers continue to underpin our positive view on gold and industrial metals prices, and we are increasing our overweight in industrial metals to reflect the improving global economic outlook.

Asset	View	Chg	Commentary
Energy	0	-	The escalation of conflict in the Middle East has increased uncertainty, with the Trump administration's ultimate objectives in Iran remaining unclear. A prolonged disruption to the Strait of Hormuz would likely push oil and natural gas prices higher. Beyond the near term, the EIA is projecting a global oil surplus in both 2026 and 2027. In natural gas, a cold winter has meant that supply in both the US and European markets is tight. The fast-moving nature of geopolitical developments and high uncertainty mean that we stay <i>neutral</i> .
Industrial Metals	+2	↑	A better economic outlook and a softer US dollar provide a favourable backdrop for industrial metals. In the short term, a drawn-out conflict in the Middle East is a headwind as it weighs on risk sentiment. However, structural demand from electrification and AI-related data centres should support copper prices, with the market projected to move into a deficit over the coming years. Market balance projections for aluminium are less supportive but a supply disruption emanating from the Gulf, which produces nearly one-tenth of global supply, would push prices higher. Accordingly, we add to our <i>overweight</i> allocation.
Precious Metals	+1	-	Gold prices are set to continue to benefit from structural factors such as dedollarisation, concerns around US fiscal sustainability, and questions over Fed independence. However, the short-lived safe-haven rally in gold prices following the escalation in the Middle East suggests that valuations are stretched. We maintain our <i>overweight</i> allocation.
Agriculture	0	-	A prolonged disruption to flows through the Strait of Hormuz could support several agricultural commodity prices, particularly wheat and corn. Higher energy prices could also spill over into the soybean market. Beyond the short term, supply-demand balances do not appear especially tight. We stay <i>neutral</i> .

Note: Up/down arrows indicate a positive or negative change in our asset allocation compared to the previous quarter. A dash indicates no change.

KEY ASSET ALLOCATION INDICATORS (All data shown are as at end-Feb 2026 unless otherwise stated)

	ASSET ALLOCATION										PERFORMANCE					BENCHMARK INDEX & WEIGHTS				
	-3	-2	-1	0	+1	+2	+3	5Y	3Y	1Y	2025	Ytd	end Nov	Nov-end Feb	5.4	MSCI ACWI	50%			
EQUITIES								74.0	76.0	24.2	22.3	4.3	5.4							
US								85.1	78.5	16.1	17.3	0.3	0.3		MSCI USA	25%				
Eurozone								74.3	71.2	34.8	40.3	7.1	10.9		MSCI EMU	7%				
UK								99.9	71.6	37.1	35.1	10.5	14.7		MSCI UK	3%				
Japan								58.5	84.0	43.9	24.6	15.7	16.4		MSCI Japan	5%				
EM								35.8	79.5	50.0	33.6	14.8	18.3		MSCI EM	10%				
RATES							-12.7	10.2	6.9	6.8	2.1	2.2			Bloomberg Barclays Global Treasury Total Return Index Value Unhedged	27%				
USTs							-0.5	13.1	5.3	6.3	1.7	1.4			Bloomberg Barclays US Treasury Total Return Unhedged USD	10%				
US TIPS							8.9	14.6	5.1	7.0	1.6	1.2			Bloomberg Barclays US Treasury Inflation-Linked Bond Index	3%				
Bunds							-15.2	19.0	13.6	11.6	2.3	2.7			Bloomberg Barclays Euro Aggregate Treasury Germany TR Index Unhedged USD	3%				
JGBs							-40.4	-20.9	-8.0	-6.0	0.6	-1.0			Bloomberg Barclays Asian-Pacific Japan Treasury TR Index Unhedged USD	5%				
EM Local							12.5	29.6	16.7	16.6	2.9	4.4			Bloomberg Barclays EM Local Currency Liquid Govt TR Index Unhedged USD	6%				
CREDIT							2.9	23.4	9.6	10.3	1.6	1.9			Bloomberg Barclays Global Aggregate Credit Total Return Index Value Unhedged USD	13%				
US IG							4.1	20.4	6.6	7.8	1.5	1.3			Bloomberg Barclays US Corporate Statistics Index	4%				
US HY							24.6	31.0	7.2	8.6	0.7	1.3			Bloomberg Barclays US Corporate High Yield Statistics Index	3%				
European IG							-0.7	30.7	17.3	16.9	1.8	2.9			Bloomberg Barclays EuroAgg Corporate Statistics Index USD	2%				
European HY							14.7	39.3	18.6	19.4	1.5	3.1			Bloomberg Barclays Pan-European High Yield (Euro) Index Statistics USD	1%				
EM Sov \$							14.7	35.4	11.7	13.1	1.6	2.2			Bloomberg Barclays Emerging Markets Sovereign TR Index Value Unhedged USD	2%				
EM Corp \$							3.7	24.0	6.8	8.1	1.5	2.0			Bloomberg Barclays Emerging Markets Corporates TR Index Value Unhedged USD	1%				
REAL ESTATE							19.8	28.7	17.8	10.0	11.1	9.7			FTSE EPRA/NAREIT Global Index Net TRI USD	5%				
COMMODITIES							91.9	31.1	18.2	7.1	12.4	12.1			S&P GSCI Total Return Index	5%				
Energy							114.8	24.5	11.5	-5.1	19.2	14.2			S&P GSCI Energy Total Return Index	2%				
Industrial metals							45.2	34.4	32.4	29.4	6.2	14.7			S&P GSCI Industrial Metals Total Return Index	1%				
Precious metals							197.2	191.7	91.4	68.7	22.0	27.4			S&P GSCI Precious Metals Index Total Return Index	1%				
Agricultural							8.7	-12.5	-8.7	-8.3	0.0	-3.7			S&P GSCI Agriculture Index Total Return Index	1%				

Source: Bloomberg, CLIM



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