CITY OF LONDON
Investment Management Company Limited

Developed Markets Quarterly Outlook

May 2026*

Overview

2026 Themes Remain on Track

While the Iran conflict and disruption to the Strait of Hormuz have increased geopolitical risks, global activity and earnings data remain broadly constructive. We expect a resumption of USD depreciation to support international equity outperformance. We continue to favour exposure to AI-linked markets, particularly EM, Japan, and the Netherlands. This quarter, we upgraded Canada to neutral to reflect a more constructive commodities outlook and downgraded Switzerland to underweight.

In our last Developed Market Quarterly update, we highlighted evidence of a global cyclical upturn and a strong setup for international equities (ACWI ex-US) in 2026. The conflict in Iran has partially muddied that narrative, and there are clear risks to the cycle from oil and supply-chain disruptions. However, despite these geopolitical developments, our outlook remains broadly on track. Non-US equities are outperforming the US year-to-date following some partial retracement (see Chart 1). We attribute this trend to expectations for further USD weakness, alongside resilient global growth and corporate earnings.

US Dollar

The dollar is typically referred to as a "safe haven" currency and modestly appreciated in March as geopolitical tensions rose. This strength has since reversed as negotiations continue, and the dollar (USTWBGD Index) is down 1.1% year-to-date. Beyond the short-term volatility, we continue to see downside pressure for the greenback over the course of the year, driven by the valuation, structural, and cyclical factors we have outlined previously.

In particular, the real broad effective exchange rate (REER) remains around 12% above its long-term average, while US real rate differentials have declined relative to the rest of the world over the past year, implying a weaker USD trend (see Chart 2). Over the longer term, we believe the US will remain the world's reserve currency. However, continued diversification into non-USD assets should exert downward pressure on the dollar and support non-US markets.

Global Growth and Earnings

Despite the ongoing closure of the Strait of Hormuz and elevated energy prices, global growth appears resilient. The global composite PMI remains above trend, while global earnings growth continues to be positive. Similar to the Liberation Day shock in April 2025, calls for an imminent recession once again appear premature.

We believe the "K-shaped" economy is continuing to support growth. While some sectors and countries are already being negatively impacted by higher energy prices, the AI capex buildout continues to progress, supporting areas linked to the AI supply chain. Chart 3 highlights Taiwan export orders year-on-year relative to ACWI trailing earnings. The data include March—the peak of the Middle East conflict—and technology exports accelerated during the period. Korean export data provide a similar signal, while rising capex guidance from US hyperscalers suggests these trends may persist for some time.

While the tech hardware sector appears less sensitive to higher energy costs, it is also important to note that the broader global economy consumes significantly less oil per unit of GDP than in previous decades (see Chart 4). We expect supply disruptions to weigh on growth and add to inflation; however, materially higher energy prices may be required to derail the cycle.

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.
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

The publication reflects asset performance up to 30 April 2026 and macro events and data releases up to 8 May 2026 unless indicated otherwise.

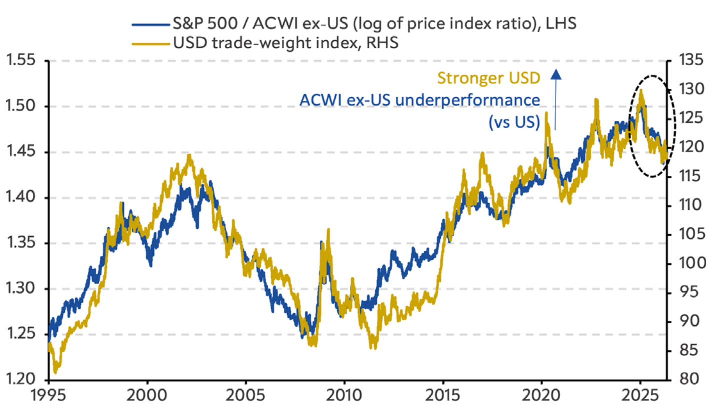
Market Strategy:

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. We expect global growth and earnings to remain buoyant under the assumption that the Strait of Hormuz is eventually reopened, at least partially, preventing a further escalation in energy prices. However, some damage to supply chains has already occurred and will take time to repair. This quarter, we adjust our allocations to reflect a slightly more constructive view on commodities:

- Upgrade **Canada** to *neutral*. Canada was the strongest market over the past three months (see Chart 5), and we see scope for tailwinds to persist. Higher energy prices may fade once the Strait of Hormuz reopens, but Canada's more geopolitically secure oil reserves, and other critical commodities, remain a long-term strategic asset. In addition, the country recently elected a majority government through by-elections, which may provide the political capital required to pursue strategic reforms and investment.
- Downgrade **Switzerland** to *underweight*. With global activity data remaining buoyant, we see less scope for Switzerland to outperform more pro-cyclical peers over the coming quarters. If higher energy prices continue to weigh on global growth, we expect European markets, including Switzerland, to be negatively impacted.

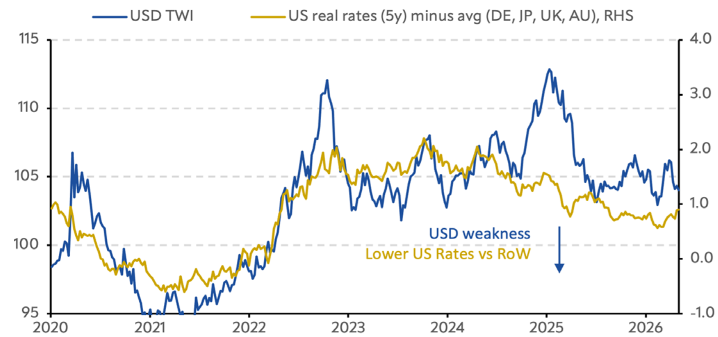
Justin Kariya
*May 8, 2026***
*** The document includes contributions from Yasemin Engin.*

Chart 1: US Equities (vs RoW) and USD



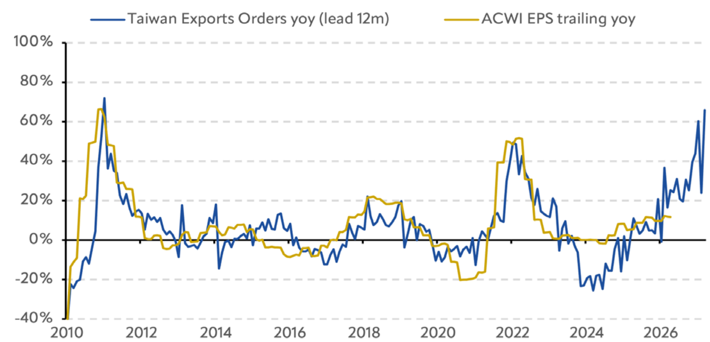
Source: Bloomberg

Chart 2: Real rate differentials and USD



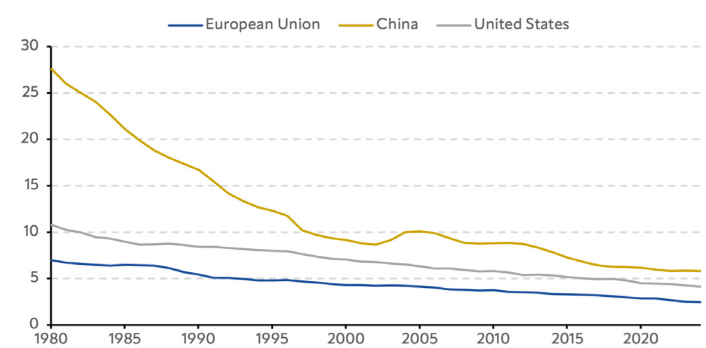
Source: Bloomberg

Chart 3: Taiwan Export Orders and ACWI EPS trailing growth



Source: Bloomberg

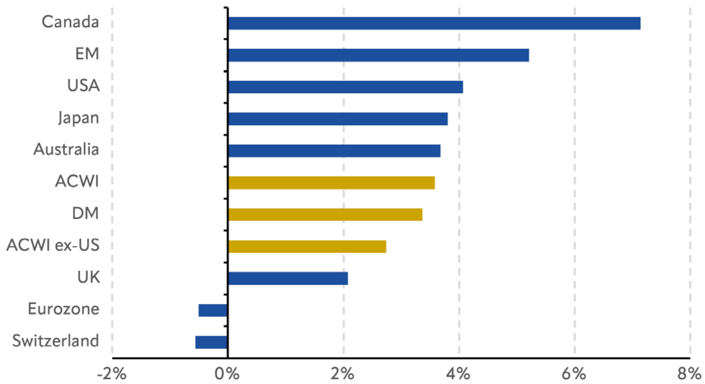
Chart 4: Global Energy Dependency



**Energy consumption per GDP (1000 Btu/2015$ GDP PPP)*

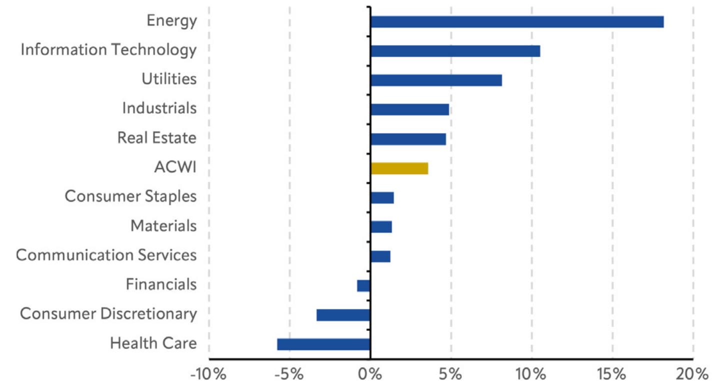
Source: EIA

Chart 5: ACWI, Net TR USD, Feb-Apr, %



Source: Bloomberg

Chart 6: ACWI Sectors, Net TR USD, Feb-Apr, %



Source: Bloomberg

United States

UW (Global Index)

	3Y history	Latest	
GDP, % qoq saar		2.0	Q1
PMI, index		52.7	Apr
CPI, % yoy		3.3	Mar
Policy rate, %		3.63	Apr
MSCI USA*		0.5%	Apr
EPS, % yoy		11.3	Apr
Trailing P/E		28.6	Apr

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

Source: Bloomberg

- The US appears relatively sheltered from the conflict in the Middle East compared with its DM peers given its role as a net energy exporter. Moreover, the US economy was in a strong position ahead of the conflict, supported by robust AI-related capex spending.
- While the US economy and earnings appear resilient, we see evidence that the US equity market may lag non-US stocks for the remainder of the year. First, the USD appears to be resuming a depreciation trend as geopolitical risks fade. Historically, a weaker dollar implies US equity underperformance versus non-US stocks. Second, large-scale capex spending and AI present risks for US hyperscalers' future profits if the spending does not translate into revenue growth. Furthermore, software companies, which are highly concentrated in the US, remain under pressure from potential AI disruption.
- While earnings growth projections are robust, the MSCI USA Index remains richly valued. Combined with our bearish US dollar view, we stay *underweight*.

Eurozone

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

	3Y history	Latest	
GDP, % yoy		0.8	Q1
PMI, index		52.2	Apr
CPI, % yoy		3.0	Apr
Policy rate, %		2.15	Apr
MSCI Eurozone*		-3.9%	Apr
EPS, % yoy		5.7	Apr
Trailing P/E		16.1	Apr

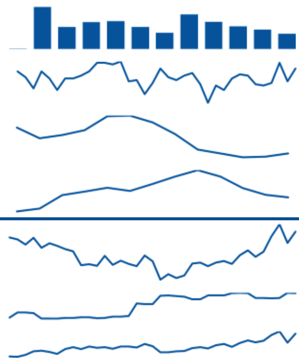
**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

- The eurozone faces stagflationary risks, as activity was muted prior to the outbreak of conflict, while the bloc remains heavily reliant on energy imports from the Gulf. As such, futures market pricing points to two ECB rate hikes this year, which should provide some support to the euro. A stronger euro is typically a headwind for large-cap exporters.
- Beyond the short term, higher defence spending could support the industrial sector. The eurozone is in a relatively stronger fiscal position than its peers and is therefore better placed to support ambitious fiscal plans.
- Projections suggest a recovery in earnings growth this year, with much of the strength concentrated in the Netherlands. We maintain our *overweight* position in the Netherlands due to its exposure to growth in AI-related hardware spending, while we stay neutral on the rest of the bloc given signs that Euro area activity is slowing amid higher energy prices.

Emerging Markets

OW (Global and Global ex-US index)



	3Y history	Latest	
GDP, % yoy		4.5	Q4
PMI, index		51.6	Apr
CPI, % yoy		3.0	Mar
Policy rate, %		6.44	Apr
MSCI EM*		1.6%	Apr
EPS, % yoy		14.2	Apr
Trailing P/E		18.9	Apr

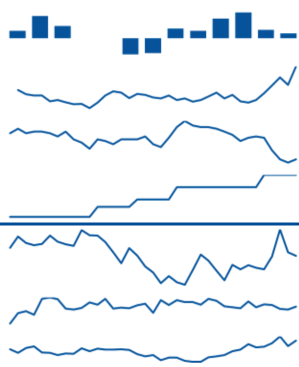
**US$ total return relative to MSCI ACWI. Latest is three-month return. Economic indicators are GDP-weighted with the exception of PMI, which is value-added-weighted.*

Source: Bloomberg

- The Middle East conflict and the associated surge in energy prices have softened the near-term outlook, however many of the tailwinds that supported EM equities in 2025 remain in place. We continue to expect the US dollar to depreciate on the back of expensive valuations and a relatively more dovish Fed. Periods of US dollar weakness have historically been associated with EM outperformance.
- Structural themes such as AI and supply chain realignment should continue to support EM stocks. On the former, the ongoing AI capex buildout is favourable for hardware producers such as South Korea and Taiwan, which together account for around 40% of the MSCI EM Index. Markets such as Mexico and Vietnam offer exposure to the friend-shoring theme.
- Earnings growth has broadly kept pace with price gains, leaving relative valuations for the MSCI EM Index still screening as cheap. Projected earnings growth for this year is also robust. As such, we maintain an *overweight* position.

Japan

OW (Global and Global ex-US index)



	3Y history	Latest	
GDP, % yoy		0.4	Q4
PMI, index		55.1	Apr
CPI, % yoy		1.5	Mar
Policy rate, %		0.75	Apr
MSCI Japan*		0.2%	Apr
EPS, % yoy		5.1	Apr
Trailing P/E		19.8	Apr

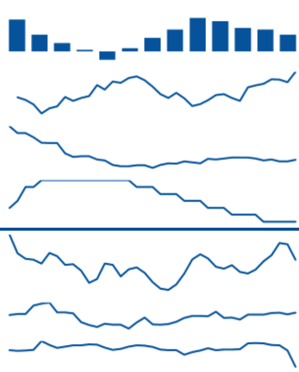
**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

- The strengthening of Prime Minister Takaichi's mandate following February elections paves the way for greater fiscal stimulus, albeit at the risk of higher bond yields and a weaker yen. Japan is also exposed to the Middle East conflict given its role as a large energy importer. While the BoJ is widely expected to continue normalising policy, providing some support to the yen, rate hikes could be paused should the economic drag from higher energy prices prove significant.
- Corporate reforms led by the Tokyo Stock Exchange are progressing, and there are signs of improving corporate profitability. Corporate buybacks are also accelerating, while a rise in the minimum market capitalisation for index inclusion has been proposed.
- Earnings growth projections for this year are not particularly strong, but could see upward revisions once energy prices moderate. We stay *overweight*, as we think corporate reforms should provide a tailwind to the equity market.

United Kingdom

UW (Global and Global ex-US index)



	3Y history	Latest	
GDP, % yoy		1.0	Q4
PMI, index		53.7	Apr
CPI, % yoy		3.3	Mar
Policy rate, %		3.75	Apr
MSCI UK*		-1.5%	Apr
EPS, % yoy		4.8	Apr
Trailing P/E		6.2	Apr

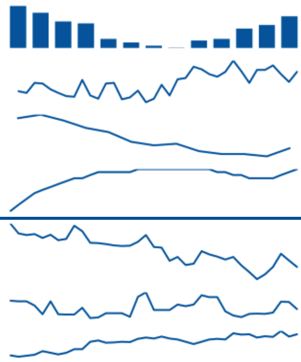
**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

- The MSCI UK Index's exposure to Energy means that it could benefit if energy prices remain elevated, however, positive spillovers from the conflict have so far been limited. Earnings projections for 2026 are relatively robust, while valuations against the ACWI have derated significantly since the start of the year.
- The UK equity market's defensive characteristics mean that it is relatively poorly positioned in a post-conflict environment, particularly as global activity has held up well. Meanwhile, increased domestic political risk, alongside the inflationary impact of the conflict, has resulted in a sharp sell-off in the gilt market.
- We keep our *underweight* position as we expect the UK's low market beta to hold back relative performance.

Australia

UW (Global and Global ex-US index)



	3Y history	Latest	
GDP, % yoy		2.6	Q4
PMI, index		51.3	Apr
CPI, % yoy		3.2	Sep
Policy rate, %		4.35	Apr
MSCI Australia*		0.1%	Apr
EPS, % yoy		-6.5	Apr
Trailing P/E		20.9	Apr

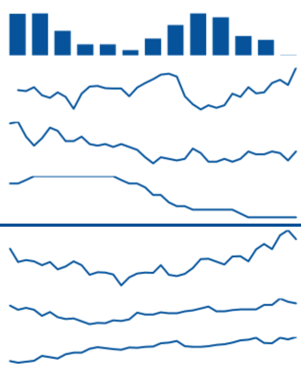
**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

- The MSCI Australia Index's large weighting to Financials (c.40%) means that the index should benefit from the RBA's aggressive tightening cycle. The RBA has raised rates by 75 bps across the past three consecutive meetings, and futures market pricing suggests a further rate hike.
- Valuations, however, remain unattractive for Financials following their outperformance. The MSCI Australia Index also appears expensive, particularly when set against projections of soft earnings growth for this year. Meanwhile, the price outlook for iron ore and coal, Australia's two key commodity exports, is mixed. We currently prefer Canada for adding commodity exposure.
- The combination of stretched valuations and weak earnings projections lead us to remain *underweight*.

Canada

NW↑ (Global and Global ex-US index)



	3Y history	Latest	
GDP, % yoy		0.7	Q4
PMI, index		53.3	Apr
CPI, % yoy		2.4	Mar
Policy rate, %		2.25	Apr
MSCI Canada*		3.6%	Apr
EPS, % yoy		11.5	Apr
Trailing P/E		22.1	Apr

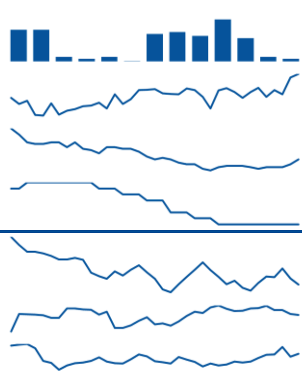
**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

- Higher energy prices have driven Canada's relative performance over the past three months, as the sector accounts for nearly a fifth of the MSCI Canada Index. Ongoing ceasefires and US-Iran negotiations suggest that energy prices may have peaked. However, we think that Canada is well placed to benefit from the push for energy diversification, given its large oil reserve, uranium, and LNG resources.
- Valuations for the MSCI Canada Index are stretched, however, valuations have derated considerably since the start of 2026. Moreover, elevated valuations can partly be justified by strong projected earnings growth for this year. The upcoming USMCA review presents a risk
- We view Canada as a way to gain exposure to the energy diversification theme, which has regained relevance in light of the Middle East conflict. Valuations, while still elevated, have improved, and we therefore upgrade our allocation to *neutral*.

Switzerland

UW↓ (Global and Global ex-US index)



	3Y history	Latest	
GDP, % yoy		0.5	Q4
PMI, index		54.5	Apr
CPI, % yoy		0.6	Apr
Policy rate, %		0.00	Apr
MSCI Switzerland*		-4.1%	Apr
EPS, % yoy		11.3	Apr
Trailing P/E		20.9	Apr

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

Source: Bloomberg

- A robust economic backdrop and fading geopolitical risk argue against exposure to equity markets with a defensive bias, such as Switzerland. The global composite PMI remained above 50 in April, signalling expansion, while the VIX volatility index has returned to pre-conflict levels. If the oil shock persists, European markets such as Switzerland will be negatively impacted.
- Following a period of cheap valuations, the MSCI Switzerland Index's 12m forward P/E premium to the ACWI is now close to its five-year average. Earnings growth projections for 2026 are among the weakest in the universe, implying limited scope for further rerating.
- We reduce the portfolio's defensive tilt by downgrading Switzerland to *underweight*. We recycle this allocation by upgrading Canada, reflecting its more pro-cyclical exposure and capacity to benefit from the energy diversification theme.

GLOBAL EQUITY - KEY ECONOMIC AND FINANCIAL INDICATORS

		Macroeconomic Data													Market Performance				Forecast†	
		% change on year ago				Latest 12 months														
	Developed Markets	Annual GDP Growth	Quarterly GDP Growth QoQ*	Industrial Production Growth	Consumer Price Index	Budget Balance % of GDP 2026F**	Trade Balance	Current Account Balance	Foreign Reserves 2026 Latest	Foreign Reserves 2025 Year ago	Currency vs $ 2026 Latest	Currency vs $ 2025 Year ago	Short-Term Interest Rates	Sovereign Rating S&P	% MSCI ACWI Net***	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 $ +/-
		%	%	%	%		$ Bn	$ Bn	$ Bn	$ Bn			%		Apr. 30, 2026	Apr. 30, 2026	%	%		
Overweight	EMERGING MARKETS****	4.5	n.a.	5.5	3.0	-4.6	1326.3	1065.0	8322.0	7854.9	1880.65	1808.93	6.44	n.a.	11.83	877.83	14.52	15.66	12.2	n.a.
	JAPAN	0.4	1.3	2.3	1.5	-2.9	-12.0	223.2	1177.8	1119.0	156.76	145.73	0.88	A+	5.01	11882.11	10.65	10.62	18.3	+
	EUROZONE#	0.8	0.4	-0.6	3.0	-3.3	2.0	4.1	396.1	310.6	1.18	1.12	0.68	n.a.	7.67	641.98	3.60	3.72	15.5	+
Neutral	CANADA	1.0	-0.6	2.0	2.4	-2.3	-28.4	-22.1	97.1	97.8	1.36	1.39	2.35	AAA	3.08	12902.36	8.34	7.58	16.6	+
	DENMARK	3.3	0.8	20.9	1.2	0.9	50.9	59.4	112.6	96.8	6.35	6.65	1.60	AAA	0.37	43076.62	-6.32	-6.16	15.0	+
	HONG KONG	5.9	12.1	5.7	1.7	-1.5	-68.0	52.2	438.9	416.2	7.83	7.77	2.83	AA+	0.43	83383.65	9.49	10.14	15.1	+
	ISRAEL	4.1	3.3	16.6	1.9	-5.5	-41.1	8.5	223.7	214.4	2.91	3.58	4.44	A	0.24	308.08	13.11	6.97	14.8	-
	NEW ZEALAND	1.3	0.8	4.8	3.1	-3.2	-1.8	-9.5	31.4	22.6	0.60	0.59	0.00	AA+	0.04	618.17	4.28	1.85	38.3	-
	NORWAY	2.2	1.6	3.2	3.6	10.2	65.1	76.0	81.5	78.7	9.19	10.42	4.50	AAA	0.15	17034.68	30.19	20.07	11.9	-
	SINGAPORE	4.6	8.7	10.1	1.8	0.8	215.7	101.7	403.8	365.9	1.27	1.30	1.48	AAA	0.36	2052.11	2.10	1.28	15.7	+
	SWEDEN	2.1	2.0	3.5	-0.1	-2.5	4.5	41.8	45.4	43.2	9.21	9.72	2.01	AAA	0.77	43296.53	2.24	2.57	19.4	+
Underweight	AUSTRALIA	2.6	3.2	-0.8	3.2	-1.3	24.4	-48.5	42.0	41.1	0.72	0.64	3.30	AAA	1.45	6999.87	10.56	2.54	20.9	-
	SWITZERLAND	0.5	0.4	-0.7	0.6	0.1	60.0	74.2	923.6	815.0	0.78	0.83	-0.04	AAA	2.01	24171.23	2.07	0.75	18.9	-
	UK	1.0	0.4	-0.4	3.3	-3.9	-39.6	-98.6	126.5	106.3	1.36	1.33	3.98	AA	3.25	12333.41	7.34	6.30	13.2	-
	UNITED STATES	2.7	2.0	0.7	3.3	-6.3	-700.5	-1116.0	38.1	36.6	1.00	1.00	3.58	AA+	63.40	20775.97	5.39	5.39	21.9	uc

*Note: All data shown are as at May 8, 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. ****IP 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 countires in the bloc are neutral.

Source: Bloomberg, CLIM

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Investment Management Company Limited

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Disclosures