



Overview

Earnings Strength and Three Risks

- *Global earnings remain robust, supported by accelerating AI-related investment and resilient economic activity. While higher energy prices and supply disruptions present risks, the broader growth backdrop remains constructive for pro-cyclical assets.*
- *A resumption of USD weakness should continue to support non-US equities and commodities, although inflation and bond market volatility warrant close monitoring.*
- *We maintain an equity overweight, remain neutral on rates, and stay underweight high yield credit. We also maintain an overweight in commodities through metals exposure.*

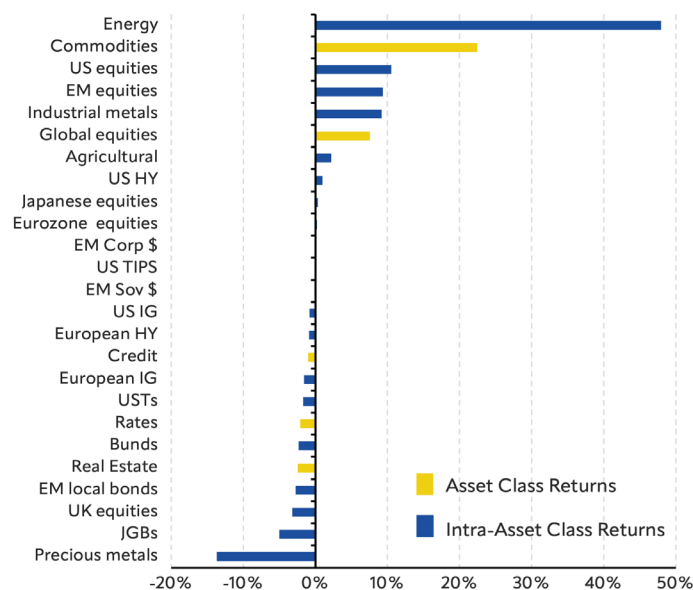
Our allocations continue to favour pro-cyclical exposure despite emerging risks. In our last update in early March, we highlighted several indicators that pointed to a broad global growth upswing. Our call has been somewhat complicated by the ongoing energy supply shock, which has persisted longer than anticipated and is negatively impacting some countries and sectors. However, our optimistic outlook has so far been validated by robust global earnings growth.

Global earnings have continued to support equities (Chart 1), driven in large part by ongoing demand for AI hardware. Chart 2 highlights positive signals from Asian export data, which typically lead trailing earnings. We attribute this strength to two factors. First, US hyperscaler capex continues to grow and appears to be somewhat price-insensitive to higher energy prices (see Chart 3). Second, demand for compute remains strong and is currently accelerating. Chart 4 highlights that token expenditures have more than doubled over the past six months as agentic AI becomes increasingly widespread, driving greater demand for AI-related hardware. These trends have provided a major tailwind for the tech hardware sector. We acknowledge some short-term concerns about the sharp price appreciation in certain large technology firms; however, Chart 5 suggests that risks remain skewed to the upside, as share prices have lagged earnings upgrades.

While we continue to favour equity exposure relative to bonds, we can identify several risks that require close monitoring. The first remains the ongoing disruption to energy markets and the closure of the Strait of Hormuz. Our baseline view remains that tanker traffic will eventually normalise, preventing a severe shock. However, risks remain as oil inventories continue to decline and negotiations are ongoing. In addition, even a full reopening of the Strait of Hormuz would likely require months for tanker traffic and refinery activity to return to pre-war levels.

The second risk is inflation and the arrival of a new Fed Chair. Higher energy prices are feeding directly into headline inflation, and if they persist, second-order effects become more likely. Chart 6 highlights the recent rise in the US 10-year Treasury yield, which has coincided with reduced expectations for Fed rate cuts and higher energy prices. Our base case is that yields remain stable or potentially move lower in 2H as the energy market gradually stabilises. However, we cannot rule out a disruptive rise in bond yields. The bond market will likely test the credibility of incoming Fed Chair Warsh. Persistent above-target inflation and a healthy labour market could support politically unpopular rate hikes aimed at anchoring long-term inflation expectations. Any significant increase in rate volatility or policy uncertainty would be a headwind for markets.

Chart 1: Mar-May performance (%)



Source: Bloomberg

Finally, we view mega-IPOs as an additional market risk. The SpaceX IPO is pending at the time of writing, while Anthropic and OpenAI may also pursue public listings later this year. Chart 7 shows the historical relationship between IPO activity and market performance. The correlation is far from perfect, but there are multiple instances of elevated IPO activity preceding market sell-offs. IPO issuance in 2026 is expected to set a record in aggregate dollar terms. Furthermore, lock-up expiries could encourage existing investors to sell shares later this year and into 2027. Goldman Sachs recently estimated that upcoming IPOs could result in approximately \$500 billion of shares becoming eligible for sale in

*The publication reflects asset performance up to May 29, 2026, and macro events and data releases up to June 4, 2026, unless indicated otherwise.

2026, with an even larger amount in 2027. While large-scale equity issuance would represent a drag on markets, Goldman Sachs also estimates that share buybacks will continue to outpace issuance in 2026. In addition, we continue to view the policy and earnings cycle as important tailwinds for the broader market.

Market Strategy:

We maintain pro-cyclical equity and commodity exposure as AI remains a powerful tailwind for earnings and markets. However, risks are emerging that warrant some downside protection, which we express through our underweight position in HY credit. There are no changes to our view this quarter:

- Maintain an **equity** overweight. We continue to favour Japan and emerging markets (EM).
- Remain neutral in **rates**. The outlook for government bonds is uncertain, with higher yields providing a more attractive entry point. Still, renewed inflationary pressures remain a headwind.
- Remain underweight **credit**, particularly high yield (HY). We see limited value in HY spreads; however, spreads typically tighten during periods of rising PMIs. Should growth falter later this year, our underweight position would provide some downside protection.
- Maintain an overweight in **commodities** through metals exposure.

Justin Kariya**
June 4, 2026

**This document includes contributions from Yasemin Engin.

Asset Allocation

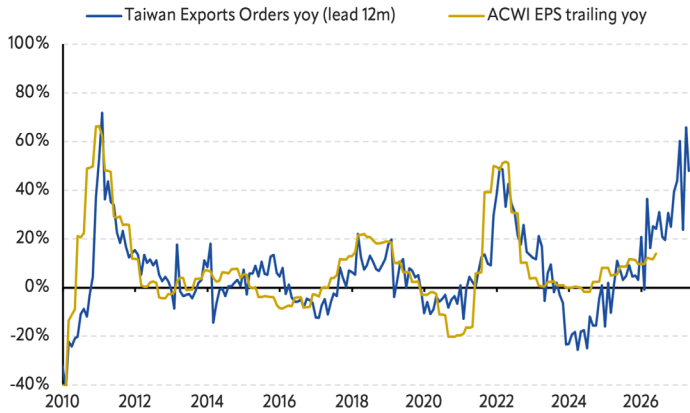
	Chg	-3	-2	-1	0	+1	+2	+3
Equities	-							
Rates	-							
Credit	-							
Real Estate	-							
Commodities	-							

	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.

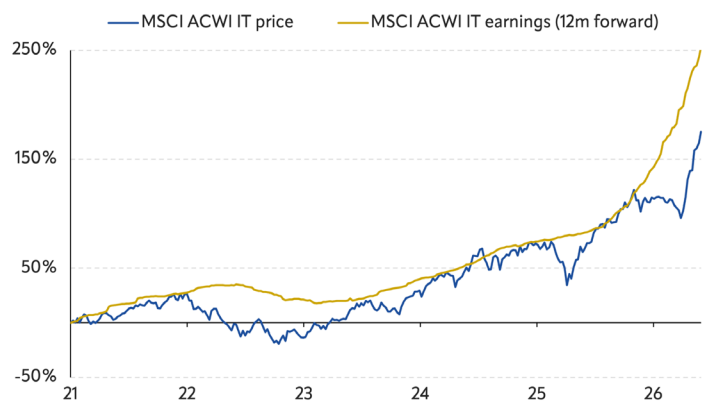
Source: CLIM

Chart 2: Taiwan Export Orders and ACWI EPS trailing growth



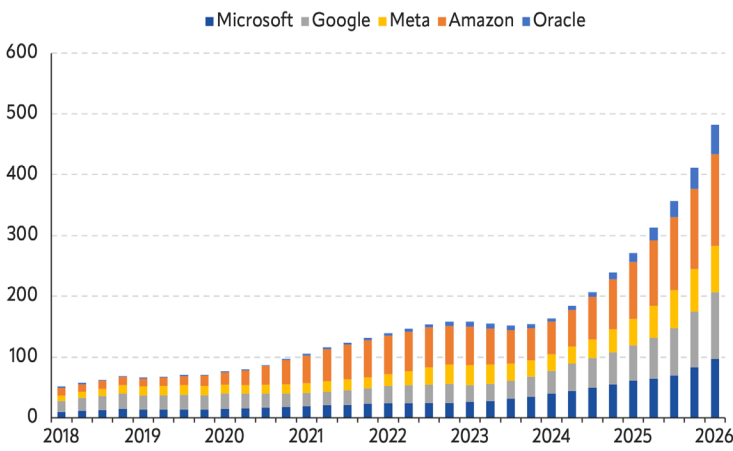
Source: Bloomberg

Chart 5: ACWI IT Price and Earnings Growth (% chg from Jan 2021)



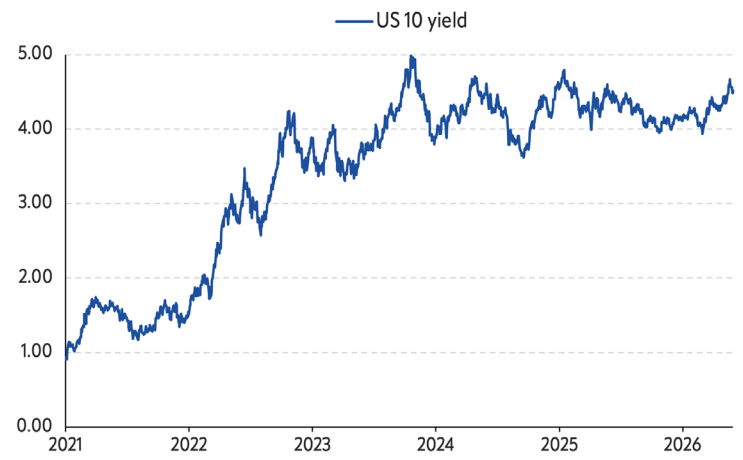
Source: Bloomberg

Chart 3: US Hyperscaler Trailing 12m Capex (\$bn)



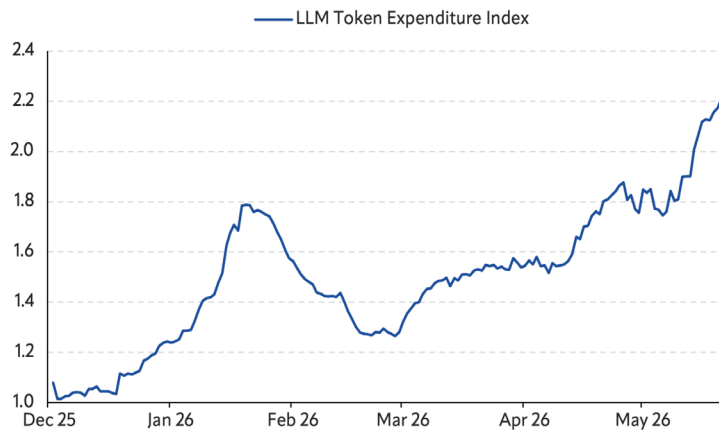
Source: Bloomberg

Chart 6: UST 10y Yield



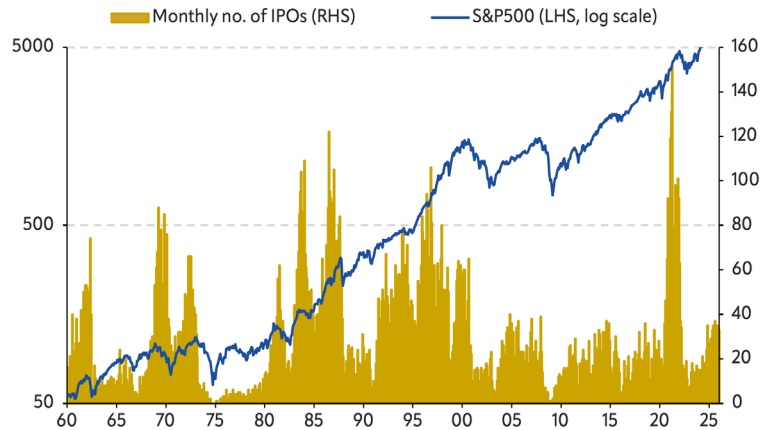
Source: Bloomberg

Chart 4: LLM Token Expenditure Index



Source: Bloomberg and Silicon Data

Chart 7: Historical IPO Activity and S&P 500









Source: Bloomberg, Jay R. Ritter database

Equities

Overweight

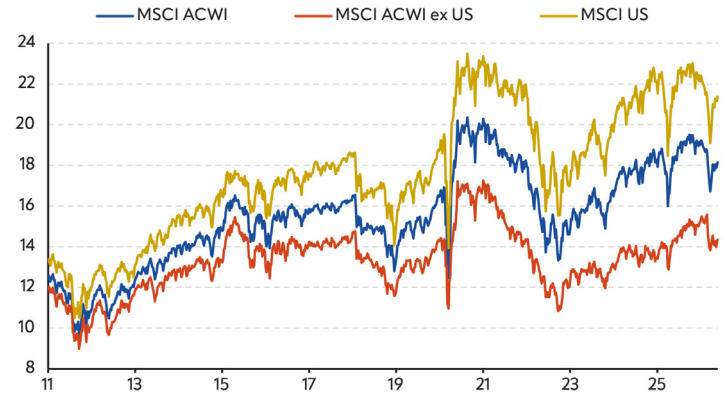
International equities are set to outperform on the back of AI-related investment, ongoing corporate reforms, and a weaker dollar.

Global Equity Indicators

	3Y history	Latest	
Global P/E		24.0	May
DM P/E		24.9	May
US P/E		28.3	May
Europe P/E		17.7	May
Japan P/E		20.1	May
EM P/E		19.0	May

Source: Bloomberg, MSCI

Chart 8: 12m Forward PE Ratios



Source: Bloomberg

Asset	View	Chg	Commentary
Global equities	+1	-	Global activity and earnings have held up well amid disruptions in the Strait of Hormuz. We continue to expect further softening of the US dollar to support international equity performance, while favouring exposure to AI-linked markets, namely EM and Japan.
US equities	-1	-	The US economy is relatively better insulated from the conflict in the Middle East, while earnings expectations are robust. However, the magnitude of AI-related spending poses a risk if it does not translate into revenue growth. Meanwhile, the USD is on a downward trend, which has historically been associated with US equity underperformance. We keep a small <i>underweight</i> .
Eurozone equities	0	-	Stagflationary risks are looming over the eurozone economy. The ECB is expected to tighten policy in response, providing some support to the euro, which is typically a headwind for large-cap exporters. A positive is that the push for higher defence spending, as the bloc seeks to reduce reliance on the US, could boost the industrial sector. We remain <i>neutral</i> .
UK equities	-1	-	Positive spillovers to the UK's stock market from the conflict have been limited despite its exposure to energy. Earnings projections remain strong, while valuations have derated significantly. We stay <i>underweight</i> , however, as the market is poorly positioned in a post-conflict environment where global activity is holding up.
Japan equities	+1	-	Prime Minister Takaichi's strengthened mandate should pave the way for greater fiscal stimulus. Corporate reforms are progressing, and there are signs that corporate profitability is improving. Earnings growth projections are muted but could be revised higher once energy prices moderate. We remain <i>overweight</i> .
EM equities	+2	-	Higher energy prices are a short-term headwind, but many of the supportive factors behind the 2025 rally remain in place. Further USD depreciation and structural themes such as AI and supply-chain realignment should continue to drive EM stocks higher, particularly as relative valuations continue to screen cheap. We keep our <i>overweight</i> allocation.

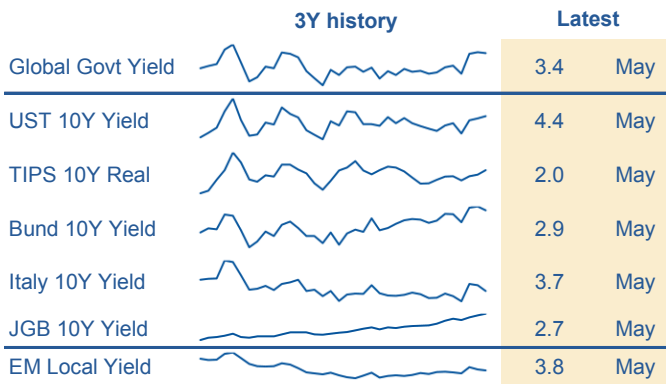
Note: Up/down arrows indicate a positive or negative change in our asset allocation compared to the previous quarter. A dash indicates no change.

Fixed Income

Neutral Rates and Underweight Credit

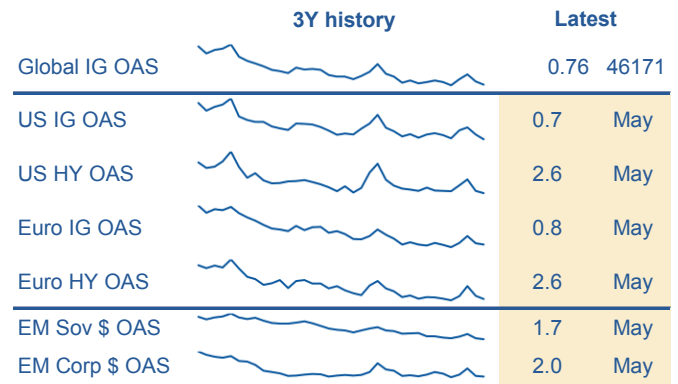
Higher inflation is currently weighing on fixed income assets.

Global Rates Indicators



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

Global Credit Indicators:



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

Asset	View	Chg	Commentary
Global Rates	0	-	<ul style="list-style-type: none"> Global government bonds typically underperform equities during cyclical upturns. Despite the recent energy shock, we still see evidence of resilient global growth, supporting equities over bonds. However, the risk of a more severe energy shock remains, potentially supporting fixed income later in the year. Above-target inflation is currently a headwind for fixed income. We expect inflation to eventually fall, albeit remaining above central bank targets in 2H. This backdrop may improve the case for more cheaply priced rate markets, particularly if Fed rate hikes are priced out. We remain <i>neutral</i> on government rates. Within rates, we continue to favour EM local debt in anticipation of a resumption of USD weakness. We remain underweight JGBs, expecting the Bank of Japan to gradually hike rates.
Global IG Credit	0	-	<ul style="list-style-type: none"> IG credit spreads have tightened as global and US growth remain buoyant. Spread levels appear close to fair value; however, therefore we see limited value. Longer term, US technology companies are increasingly turning to credit markets to help fund capex. This additional issuance has the potential to place upward pressure on IG spreads.
Global HY Credit	-3	-	<ul style="list-style-type: none"> High-yield spreads remain narrow, offering little protection against the risk of rising defaults. A mean reversion to historical default rates would likely weigh on returns. Some companies remain vulnerable as they refinance debt at higher rates. We see limited value in HY relative to equities and commodities and continue to favour HY as a funding source.






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Commodities

Overweight

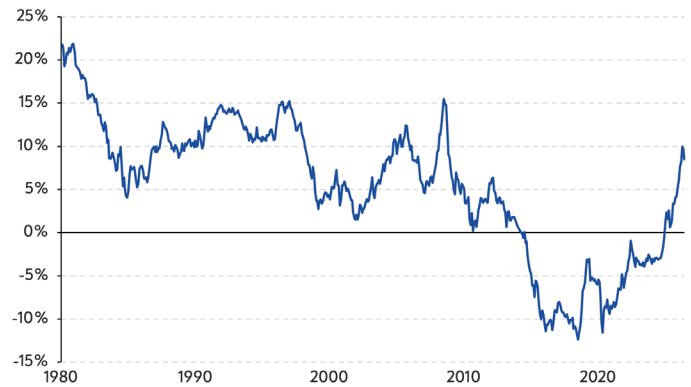
Our positive view on gold and industrial metals prices is underpinned by structural themes such as dedollarisation, the energy transition and AI-related spending.

Global Commodity Indicators:

	3Y history	Latest	
Commodities*		22.4	May
Brent Oil		27.0	May
Copper		2.2	May
Aluminum		16.8	May
Gold		-14.0	May

Source: Bloomberg. 3M % return is shown in "Latest". *S&P GSCI Total Return Index.

Chart 9: S&P GSCI Total Return Index (10-year annualised returns, %)



Source: Bloomberg

Asset	View	Chg	Commentary
Energy	0	-	<ul style="list-style-type: none"> Crude oil prices have been supported by tightening supply, as the closure of the Strait of Hormuz has led to sharp withdrawals from global inventory, bringing levels close to operational stress thresholds. The market looks set to remain tight even after a US-Iran deal to reopen the Strait of Hormuz, given limited tanker availability and the fact that the US and Iran still have the nuclear issue to resolve, which should keep some geopolitical risk premium in the price. However, Gulf production could recover relatively quickly, and the spread between crude spot and 12-month futures prices has narrowed. The highly uncertain outlook and fast-moving geopolitical environment mean that we stay <i>neutral</i>.
Industrial Metals	+2	-	<ul style="list-style-type: none"> A softer US dollar and relatively steady economic activity paint a positive picture for industrial metals. Beyond the near term, structural demand linked to electrification and AI-related data centres should provide support for copper prices. Meanwhile, given that the Gulf is a significant producer of aluminum, the closure of the Strait of Hormuz points to a market deficit and should therefore continue to boost prices. Accordingly, we keep our <i>overweight</i> allocation.
Precious Metals	+1	-	<ul style="list-style-type: none"> Gold prices have struggled since the onset of the conflict amid hawkish repricing in rates and expensive valuations. Valuations have improved considerably, while our weaker US dollar view and structural factors such as dedollarisation, concerns around US fiscal sustainability and geopolitical uncertainty should help lift prices. We maintain our <i>overweight</i> allocation.

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

	ASSET ALLOCATION										PERFORMANCE					BENCHMARK INDEX & WEIGHTS	
	-3	-2	-1	0	+1	+2	+3	5Y	3Y	1Y	2025	Ytd	end Feb-end May				
EQUITIES								72.0	82.9	30.3	22.3	12.1	7.5	MSCI ACWI	50%		
US								86.3	87.1	28.9	17.3	10.9	10.5	MSCI USA	25%		
Eurozone								55.4	71.2	20.8	40.3	7.3	0.2	MSCI EMU	7%		
UK								73.5	69.9	23.0	35.1	7.0	-3.2	MSCI UK	3%		
Japan								57.4	73.7	31.7	24.6	16.1	0.3	MSCI Japan	5%		
EM								43.8	96.0	54.3	33.6	25.6	9.4	MSCI EM	10%		
RATES							-14.4	6.3	1.0	6.8	-0.1	-2.1	Bloomberg Barclays Global Treasury Total Return Index Unhedged	27%			
USTs							-1.7	8.7	3.7	6.3	0.0	0.0	-1.7	Bloomberg Barclays US Treasury Total Return Unhedged USD	10%		
US TIPS							6.3	12.6	4.9	7.0	1.6	0.0	0.0	Bloomberg Barclays US Treasury Inflation-Linked Bond Index	3%		
Bunds							-17.1	12.4	2.0	11.6	-0.1	-2.4	-2.4	Bloomberg Barclays Euro Aggregate Treasury Germany TR Index Unhedged USD	3%		
JGBs							-42.4	-24.1	-14.7	-6.0	-4.4	-5.0	-5.0	Bloomberg Barclays Asian-Pacific Japan Treasury TR Index Unhedged USD	5%		
EM Local							8.0	22.4	7.2	16.6	0.1	-2.7	-2.7	Bloomberg Barclays EM Local Currency Liquid Govt TR Index Unhedged USD	6%		
CREDIT							1.3	19.7	5.7	10.3	0.6	-1.0	Bloomberg Barclays Global Aggregate Credit Total Return Index Unhedged USD	13%			
US IG							3.2	17.0	6.1	7.8	0.7	-0.8	-0.8	Bloomberg Barclays US Corporate Statistics Index	4%		
US HY							24.0	30.8	7.6	8.6	1.7	1.0	1.0	Bloomberg Barclays US Corporate High Yield Statistics Index	3%		
European IG							-3.1	25.6	5.2	16.9	0.2	-1.6	-1.6	Bloomberg Barclays EuroAgg Corporate Statistics Index USD	2%		
European HY							11.3	36.2	7.1	19.4	0.6	-0.9	-0.9	Bloomberg Barclays Pan-European High Yield (Euro) Index Statistics USD	1%		
EM Sov \$							12.5	34.4	11.3	13.1	1.5	-0.1	-0.1	Bloomberg Barclays Emerging Markets Sovereign TR Index Value Unhedged USD	2%		
EM Corp \$							3.1	23.0	6.9	8.1	1.5	0.1	0.1	Bloomberg Barclays Emerging Markets Corporates TR Index Value Unhedged USD	1%		
REAL ESTATE							6.1	33.6	13.3	10.0	8.3	-2.5	-2.5	FTSE EPRA/NAREIT Global Index Net TRI USD	5%		
COMMODITIES							116.4	74.1	51.1	7.1	37.7	22.4	22.4	S&P GSCI Total Return Index	5%		
Energy							194.5	108.9	85.0	-5.1	76.3	47.9	47.9	S&P GSCI Energy Total Return Index	2%		
Industrial metals							42.4	61.8	46.5	29.4	16.0	9.2	9.2	S&P GSCI Industrial Metals Total Return Index	1%		
Precious metals							134.4	133.8	44.0	68.7	5.3	-13.7	-13.7	S&P GSCI Precious Metals Index Total Return Index	1%		
Agricultural							1.5	-8.8	-3.4	-8.3	2.2	2.2	2.2	S&P GSCI Agriculture Index Total Return Index	1%		

Source: Bloomberg, CLIM



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