CITY OF LONDON
Investment Management Company Limited

Global Macro Quarterly Outlook

August 2026*

Overview

Balancing Strong Fundamentals with Uncertainty and Volatility

- *Global growth remains supportive of risk assets, underpinned by improving manufacturing activity, resilient earnings revisions and continued AI-related capex. While inflation and Fed uncertainty have increased, our base case remains one of continued expansion.*
- *We remain overweight equities and commodities, favouring AI-linked sectors, metals and selected non-US markets.*
- *Across other asset classes, we remain neutral on duration and investment-grade credit, underweight high yield credit, and retain a weaker medium-term USD view.*

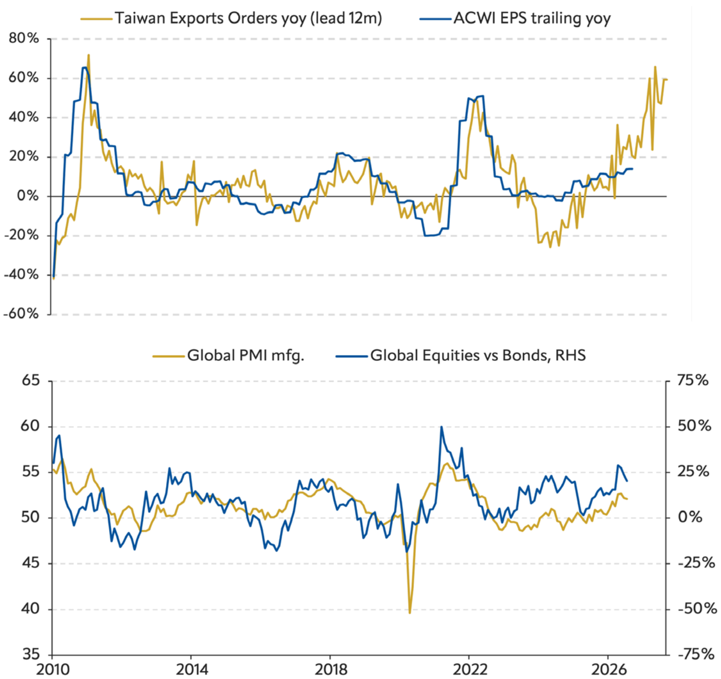
The Global Markets Quarterly (GMQ) Outlook is a new publication highlighting the Macro Strategy team's top-down research and current views on global markets. It replaces our previous Cross-Asset Quarterly and Developed Market Quarterly publications. The GMQ also expands our coverage to include ACWI sector research, alternative assets, and thematic baskets. Our current views are summarised in the allocation table on page 6.

Global Outlook

Our characterisation of the global macro environment for the second half of 2026 is one of improving fundamentals alongside rising uncertainty and risks. Our cyclical indicators continue to support pro-cyclical exposure: global manufacturing surveys are improving (see Chart 1), Asian export data remain robust, global earnings revisions are positive, and US hyperscaler capex remains a tailwind (see Chart 2). Many of these indicators are closely linked to the AI investment cycle, and we therefore continue to favour exposure to the AI hardware supply chain and associated commodities.

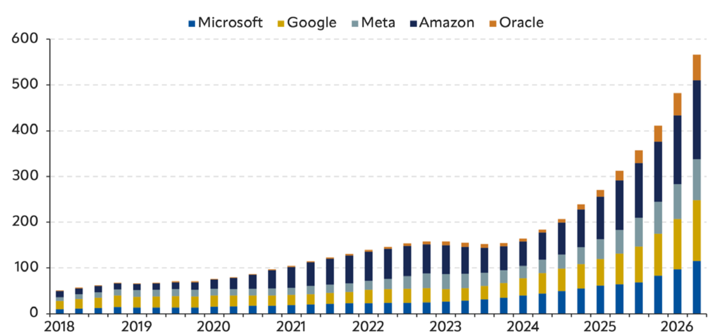
While we view AI as a structural theme that remains supportive of the hardware supply chain, growing risks and uncertainties require careful monitoring. The most prominent risk is the sustainability of the AI capex cycle. Growth in large-scale capex spending will eventually slow, a concern frequently highlighted in market commentary and reflected in declining forward multiples (see Chart 3). The main market risk is not whether AI capex growth will slow (it will eventually), but when and how quickly. Our current assessment is that capex spending and demand for AI-related products continue to grow and remain supportive of earnings growth in 2026.

Chart 1: Global Cyclical Indicators



Source: Bloomberg

Chart 2: US Hyperscaler Trailing 12m Capex ($bn)



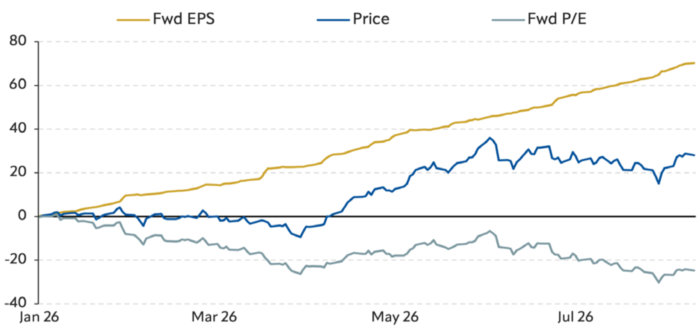
Source: Bloomberg

A more immediate risk is inflation and the possibility that the Fed pivots towards a rate-hiking cycle. Historically, tighter monetary policy has typically preceded economic downturns and market peaks. We do not think it is a coincidence that the loss of market momentum and increased technology stock volatility have coincided with the arrival of a new Fed Chair and a hawkish shift among several Fed speakers. Chart 4 highlights the negative correlation between movements in US Treasury yields and equity

**The publication reflects asset performance up to 31 July 2026 and macro events and data releases up to 11 August 2026 unless indicated otherwise.*

multiples. At the July FOMC meeting, three committee members dissented in favour of a rate hike, and markets are now pricing in rate hikes this year.

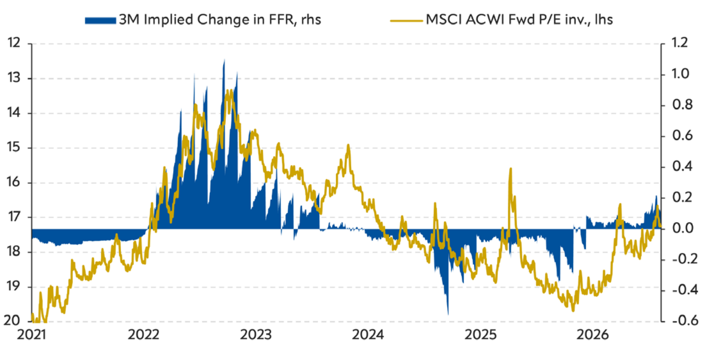
Chart 3: ACWI Tech Index Multiples Have De-Rated*



**Percent change since January 2026.*

Source: Bloomberg

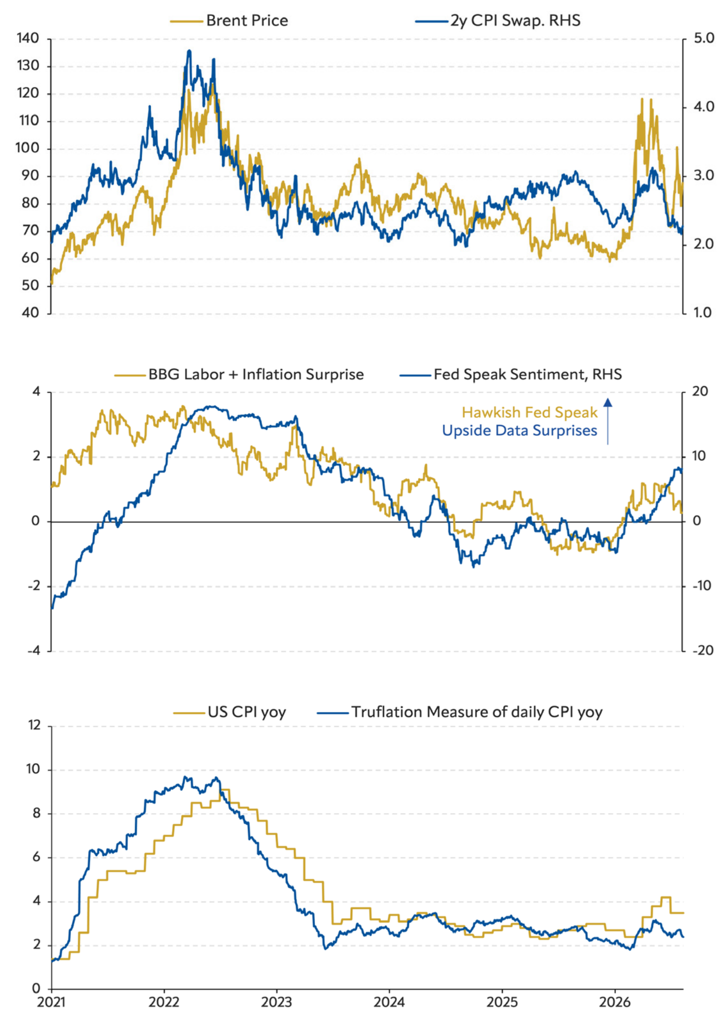
Chart 4: 3m Implied Change in Fed Funds Rate vs. ACWI Fwd P/E



Source: Bloomberg and Piper Sandler

If the Fed were to raise rates this year, this would be a headwind for equities. We cannot rule out this possibility, and the threshold for a hike appears relatively low if the energy shock persists or core inflation surprises to the upside. However, our baseline scenario remains that the Fed stays on hold. Inflation expectations remain relatively contained, while energy prices, although still elevated, appear to have passed the worst of the shock (see Chart 5, top panel). Although market commentators will continue to critique Fed Chair Warsh's lack of forward guidance, the committee should become less hawkish if inflation data continue to soften (see Chart 5, middle panel). Alternative inflation measures continue to indicate that the disinflationary trend remains on track (see Chart 5, bottom panel). Longer term, we expect AI to have a disinflationary impact, although we acknowledge that current supply bottlenecks in AI-related hardware are contributing to near-term inflationary pressures.

Chart 5: Inflation Indicators



Source: Bloomberg

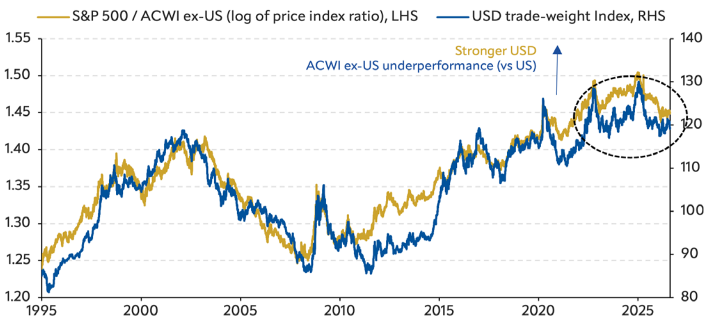
Equities

We maintain a positive view on global equities, as earnings projections remain upbeat and consistent with our broader set of cyclical indicators. Our country and sector allocations are tilted towards pro-cyclical markets exposed to the ongoing strength of the AI capex cycle.

Our country views have favoured non-US equities alongside our weaker USD view since 2025. Chart 6 highlights the close relationship between the dollar and the relative performance of international equities versus the US. This year, the performance of non-US markets has been mixed. Emerging markets and Japan have benefited from strength in technology stocks, while European and

Chinese equities have lagged the US. FX market performance has also been mixed, with the US trade-weighted index slightly higher year-to-date. We maintain a small preference for ACWI ex-US alongside our weaker US dollar bias. A risk to this view is that the Fed embarks on a rate-hiking cycle, as several committee members have become more hawkish following a period of higher energy prices.

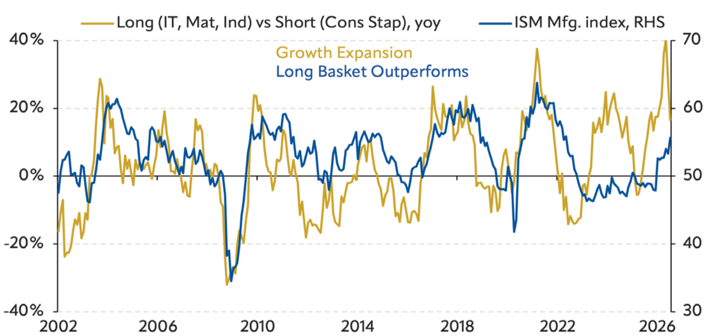
Chart 6: US Equities (vs RoW) and the US Dollar



Source: Bloomberg

In addition to our existing country views, we are introducing our ACWI sector views in this publication. These reflect our top-down macro assessment, which currently favours pro-cyclical beta and exposure to the AI capex cycle. We expect Information Technology, Materials, and Industrials to capture these themes. Chart 7 highlights the historically pro-cyclical nature of this basket relative to Consumer Staples. One could argue that the strongest returns have already passed; however, the acceleration in manufacturing data continues to support a positive trend.

Chart 7: ACWI Sector Basket vs. US ISM Manufacturing Index



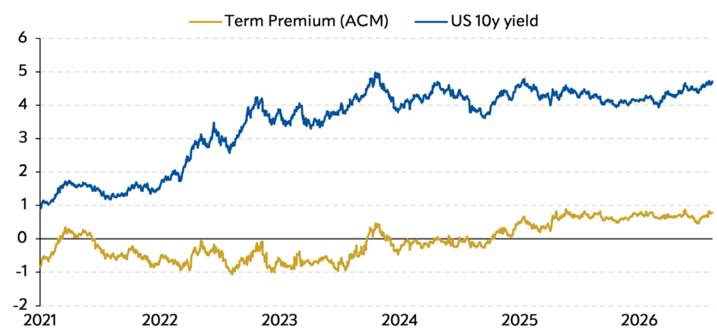
Source: Bloomberg

Communication Services also provides significant exposure to AI but has recently been a less reliable proxy, as some telecom companies have weighed on the broader sector index. We also prefer Industrials to Consumer Discretionary, as household savings rates have declined to cyclical lows, reducing the likelihood of a further acceleration in consumption. Health Care is historically counter-cyclical and does not align perfectly with our top-down view. However, given the risks highlighted earlier, it provides some diversification within our allocation. Health Care may also be a longer-term beneficiary of AI adoption, given the potential for significant innovation and productivity gains across the sector.

Fixed Income

At the time of writing, the 10-year US Treasury yield is near the top of its four-year range, while the 30-year yield is reaching cycle highs. Some commentators have been quick to attribute these moves to the new Fed Chair's lack of forward guidance and perceived commitment to containing inflation. Like other market participants, we are still learning how to respond to a new Fed Chair and a potentially less cohesive FOMC. The available evidence suggests that inflation expectations have not risen and have, in fact, declined recently. While the current FOMC is rightly concerned about above-target inflation, we see some evidence that disinflation could become the dominant theme if the current energy shock is contained.

Chart 8: US 10y Term Premium Estimate and Treasury Yield

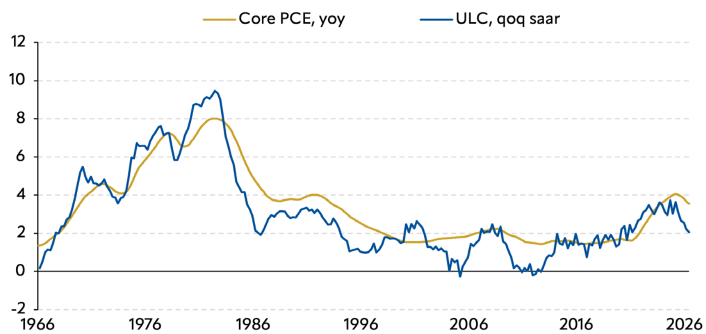


Source: Bloomberg

Term premia are more likely to rise than fall over the short term as markets adjust to reduced forward guidance. Chart 8 highlights the recent upward trend in term premia. Over the longer term, we believe fixed income and longer-duration bonds could provide attractive portfolio diversification once a disinflationary trend becomes more evident in the data. Chart 9 shows unit labour cost inflation continuing to trend lower, which has historically been associated with core PCE disinflation.

In credit, we view cyclically compressed spread levels as consistent with improving economic data. However, current valuations leave limited room for disappointment. Chart 10 illustrates the divergence between high-yield spreads and the ACWI P/E ratio, which is one reason we favour equities over global high-yield bonds. We are neutral on global investment-grade credit, although this market will become increasingly sensitive to developments in AI as US hyperscalers increase bond issuance.

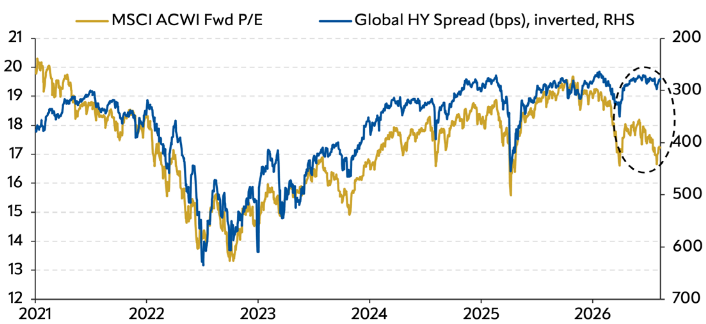
Chart 9: Core PCE and Unit Labor Cost Inflation



Note: 16q moving average.

Source: Bloomberg. Based on a chart originally published by former Fed Governor Richard Clarida.

Chart 10: ACWI Fwd P/E and Global HY Spread



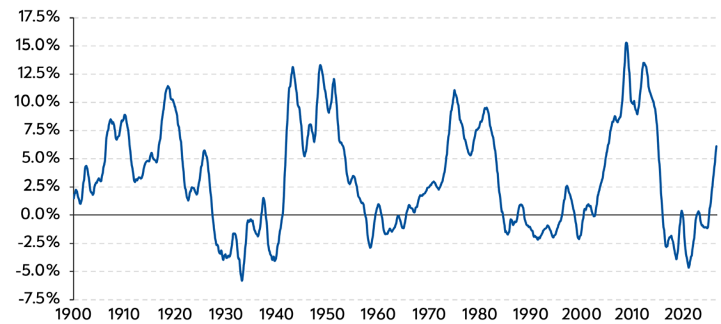
Source: Bloomberg

Commodities

We continue to favour commodity exposure, with a preference for precious and industrial metals. Chart 11 highlights evidence of what could be a new commodity upcycle. Beyond simple trend extrapolation, we expect AI data centres and investment in new energy infrastructure to support industrial commodity demand. Citi commodity research estimates that around 20% of end-use copper consumption is now driven by data centres and the energy transition, with these sectors accounting for virtually all recent demand growth.

Traditional cyclical drivers have contributed little in recent years, largely because of persistent weakness in the Chinese property market. This weakness has also contributed to subdued mining capex, which is likely to leave industrial metals such as copper undersupplied as AI- and energy-transition-related demand continues to expand.

Chart 11: Long-term Commodity Price Trend



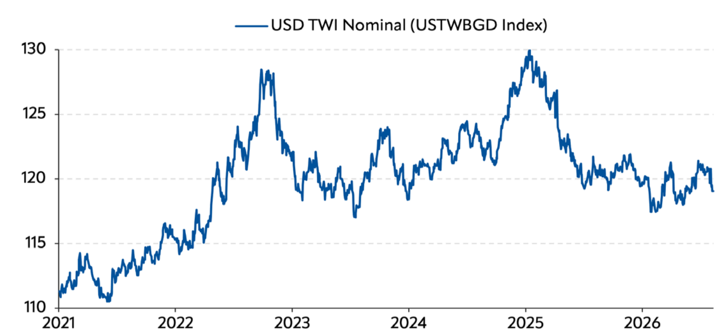
Source: AQR 1900-1969, GSCI Price Index 1970-present. 12ma of 10y annualised change

FX and the US Dollar

As outlined in our note *US Dollar Weakness: A Crowded Idea, Uncrowded Trade* (July 2025), our structural view remains that the USD will weaken and that the US trade-weighted index likely peaked in 2025 (see Chart 12). This year's performance has been mixed, as several underlying drivers have shifted in favour of the dollar. The US terms of trade have improved because of higher oil prices, while US rate expectations have shifted from pricing rate cuts to pricing rate hikes. As a result, the DXY Index is up 1.5% year-to-date.

However, this modest appreciation has not been broad-based, with major currencies including the AUD, CNY, MXN, BRL, ZAR, and KRW strengthening against the USD this year. If oil prices continue to moderate and rate hikes are priced out later this year, we expect dollar weakness to resume.

Chart 12: Nominal US Trade-Weighted Index



Source: Bloomberg

The recent coordinated US Treasury intervention in the JPY market is also notable. Historically, yen interventions have often been ineffective without additional policy measures, such as rate hikes by the Bank of Japan. Consistent with past experience, intervention may provide only a brief reprieve from yen weakness. We are monitoring for signs that the US is willing to play a more active role in supporting the yen, which would place additional downward pressure on the dollar if USD/JPY were to decline. In an August 4th CNBC interview, US Treasury Secretary Scott Bessent specifically described the yen as "undervalued" and used the phrase "whatever it takes" when discussing how the US would support Japan in ways consistent with US economic interests.

Market Strategy:

We maintain pro-cyclical equity and commodity exposure, as AI remains a powerful tailwind for earnings and markets. However, risks are emerging, warranting some diversification, which we express through our underweight position in high-yield credit. Our views table is presented on the next page.

We made the following adjustments this quarter:

- **Equity Sectors**: Sector allocations are a new addition to this publication, with our views outlined in the equity tables.
- **Equity Countries:** We downgrade the Eurozone to neutral and upgrade Australia and Switzerland to neutral, while increasing Canada to overweight.

These changes reflect our more constructive view on commodities and the Health Care sector.

*Justin Kariya***
August 11, 2026
*** The document includes contributions from Yasemin Engin.*

Asset Allocation

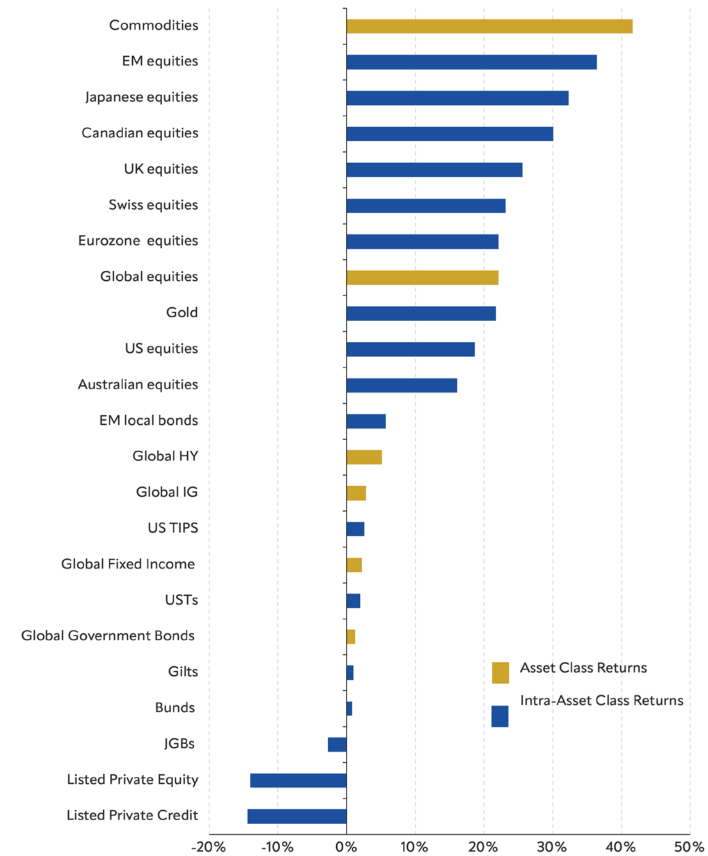
Asset Class	Chg	-2	-1	0	+1	+2
Equities	–				■	
Rates	–			■		
Credit	–		■			
Commodities	–				■	
Alternatives	–			■		
Global Equities (Region)*						
US	–		■			
Euro Area†	↓			■		
UK	–		■			
Japan	–				■	
EM	–					■
Canada	↑				■	
Australia	↑			■		
Switzerland	↑			■		
Global Equities (Sectors)*						
Communication Services	–		■			
Consumer Discretionary	–		■			
Consumer Staples	–	■				
Energy	–			■		
Financials	–			■		
Health Care	–				■	
Industrials	–				■	
Information Technology	–				■	
Materials	–				■	
Real Estate	–		■			
Utilities	–			■		
Global Fixed Income**						
Government	–			■		
Investment Grade	–			■		
High Yield	–	■				
Commodities & Alternatives***						
Commodities	–				■	
Gold	–				■	
Listed Private Markets	–			■		
Currencies****						
USD	–		■			

Note: Up/down arrows indicate a positive or negative change in our asset allocation compared to the previous quarter. A dash indicates no change.
**Relative to MSCI ACWI (FX unhedged). †OW Netherlands and UW other EZ countries. Note changes reflect adjustments from our Developed Markets Quarterly views.*
***Relative to Bloomberg Global Aggregate (FX hedged)*
****Relative to S&P GSCI Total Return Indices (Commodities), S&P List PE TR Index (Private Equity), and Cliffwater BDC Index (Private Credit).*
*****Relative to Bloomberg Dollar Index BBDXY.*

Source: CLIM

Cross-Asset Performance, 1-year Net TR USD, %

End-July 25-End-July 26 performance, %

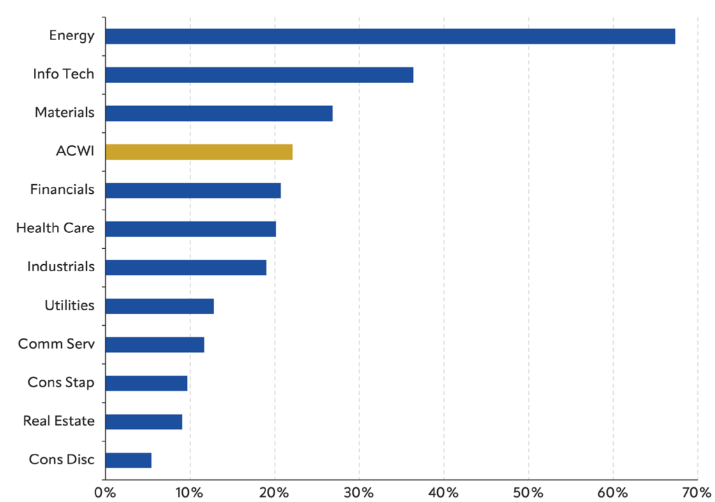


Bond indices are FX hedged into USD

Source: Bloomberg

ACWI Sectors, 1-year Net TR USD, %

End-July 25-End-July 26 performance, %



Source: Bloomberg

Equities

Global Country Indicators

	3Y history	Latest	
Global P/E		17.0	Jul
Global ex-US P/E		13.5	Jul
DM P/E		18.6	Jul
EM P/E		10.2	Jul
US P/E		19.9	Jul
Euro Area P/E		15.2	Jul
UK P/E		13.1	Jul
Japan P/E		16.6	Jul
Canada P/E		16.5	Jul
Australia P/E		18.5	Jul
Switzerland P/E		18.9	Jul

Source: Bloomberg, MSCI. Forward P/E measure.

Global Sector Indicators

	3Y history	Latest	
Comm. Serv. P/E		16.8	Jul
Cons. Disc. P/E		19.8	Jul
Cons. Stap. P/E		19.7	Jul
Energy P/E		12.5	Jul
Financials P/E		13.4	Jul
Health Care P/E		18.2	Jul
Industrials P/E		21.8	Jul
Info. Tech. P/E		17.8	Jul
Materials P/E		14.4	Jul
Real Estate P/E		24.0	Jul
Utilities P/E		16.3	Jul

Source: Bloomberg, MSCI. ACWI Sectors. Forward P/E measure.

Asset	View	Chg	Commentary
US equities	-1	-	Earnings growth is positive, and the market's larger technology weighting is supportive as AI-related demand continues to expand. However, US hyperscalers' capex spending introduces some risk and reduces the scope for share buybacks. The USD has strengthened moderately in recent months but could resume its downtrend if expectations for rate hikes are priced out.
Eurozone equities	0	↓	Stagflationary risks are weighing on the Eurozone outlook. The recent improvement in manufacturing data is typically supportive; however, tighter ECB policy should temper any broad-based acceleration in growth. We therefore favour a neutral allocation. Within the Eurozone, we maintain a small overweight in the Netherlands relative to other markets due to its exposure to the AI theme.
UK equities	-1	-	The UK is a lower-beta market and is likely to lag other major equity markets during a cyclical upturn or technology-led rally. Higher energy and commodity prices provide some support. We expect earnings growth to remain moderately positive but to lag the global benchmark. Small & mid-caps offer better long-term value.
Japan equities	+1	-	Prime Minister Takaichi's strengthened mandate should pave the way for additional fiscal stimulus. Corporate reforms continue to progress, and there are signs that profitability is improving. Earnings growth projections remain muted but could be revised higher once energy prices moderate.
EM equities	+2	-	EM technology remains the main driver of earnings growth. Despite recent volatility, we expect earnings to remain a tailwind as AI demand continues to support EM semiconductor manufacturers. If USD weakness resumes, market strength could broaden to commodity-exposed regions, including LATAM.
Australia	0	↑	Valuations remain unattractive for the index, which is dominated by Financials. However, we expect the Materials sector to benefit over the longer term from stronger commodity demand, supporting a neutral allocation.
Canada	+1	↑	We expect Canada's commodity exposure to provide a longer-term tailwind. Energy should benefit from Canada's position as a more geopolitically secure alternative to Gulf producers, as well as from rising uranium demand. We expect Canada's Materials sector, and miners in particular, to re-rate.
Switzerland	0	↑	Health Care is the largest sector, and we expect it to re-rate. We expect other parts of the index, particularly Consumer Staples, to lag the global benchmark.

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

Note changes reflect adjustments from our Developed Markets Quarterly views.

Source: CLIM

Equities (Continued)

Global ACWI Sector	View	Chg	Commentary
Communication Services	-1	-	The sector has not been an effective proxy for AI-driven growth, having underperformed in 2026, while earnings growth has slightly lagged the ACWI. We do not currently see attractive value.
Consumer Discretionary	-1	-	A broader economic recovery may favour Consumer Discretionary stocks. However, we see more attractive pro-cyclical opportunities in sectors such as Industrials. Earnings growth and revisions are lagging the broader market, while low US household savings rates should limit any consumer-led recovery.
Consumer Staples	-2	-	Defensive sectors have lagged the broader market and AI-related sectors. We expect this trend to continue as global earnings growth remains robust.
Energy	0	-	Trailing earnings have benefited from geopolitical tensions and higher oil prices. Above-average crude prices and an elevated geopolitical risk premium may persist, supporting the sector in the near term. Longer term, we expect the sector to remain under pressure from the energy transition and the potential for an oil supply glut.
Financials	0	-	Forward earnings projections remain positive but continue to lag sectors with greater exposure to AI investment. Deregulation and higher net interest margins could support stronger earnings growth over time, in which case we would consider an upgrade.
Health Care	+1	-	Historically, the sector has been counter-cyclical and is therefore less likely to outperform in a stronger growth environment. However, we believe this relationship could weaken as AI-driven innovation and productivity gains support a re-rating in pharmaceutical and biotechnology stocks. Health Care also provides an attractive diversifier to more crowded AI hardware trades.
Industrials	+1	-	Above-trend global growth has historically favoured pro-cyclical sectors such as Industrials. We expect the AI capex buildout and related infrastructure investment to support the sector. Valuations have already re-rated, but this has been accompanied by strong earnings upgrades.
Information Technology	+1	-	Demand for AI hardware remains robust. Hyperscaler capex continues to drive this trend, while additional sources of demand are likely to emerge as AI use cases broaden. Technology valuations have de-rated as earnings have continued to grow. Software multiples may continue to lag hardware.
Materials	+1	-	Mining and metals provide an attractive opportunity to gain structural exposure to AI and electrification. Both themes require substantial investment in industrial metals to support expanding energy infrastructure.
Real Estate	-1	-	The earnings outlook is expected to lag the broader market. We do not see a near-term catalyst, as Fed and global rate cuts are not part of our baseline outlook.
Utilities	0	-	Historically, the sector has been counter-cyclical and would typically underperform during periods of accelerating earnings growth. However, utilities should benefit from rising electricity demand associated with AI data centre expansion.

Note: Up/down arrows indicate a positive or negative change in our asset allocation compared to the previous quarter. A dash indicates no change. Sector allocations are a new addition to this publication.

Source: CLIM

Fixed Income and FX

Global Rates Indicators

	3Y history	Latest	
Global Govt Yield		3.6	Jul
UST 10Y Yield		4.7	Jul
TIPS 10Y Real		2.4	Jul
Bund 10Y Yield		3.2	Jul
Gilts 10Y Yield		5.0	Jul
JGB 10Y Yield		2.8	Jul
EM Local Yield		3.9	Jul

Source: Bloomberg. Local yield in %.

Global Credit Indicators

	3Y history	Latest	
Global IG OAS		0.8	Jul
US IG OAS		0.8	Jul
US HY OAS		2.8	Jul
Euro IG OAS		0.8	Jul
Euro HY OAS		2.7	Jul
EM Sov $ OAS		1.7	Jul
EM Corp $ OAS		2.1	Jul

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

Asset	View	Chg	Commentary
Global Rates	0	-	Global government bonds typically underperform equities during cyclical upturns. Despite the recent energy shock, we continue to see evidence of resilient global growth and stable inflation expectations, supporting equities over bonds. Above-target inflation remains a headwind for fixed income. We expect inflation to moderate, although it is likely to remain above central bank targets in 2H. More attractively valued rates markets could become increasingly compelling, particularly if expectations for Fed rate hikes are priced out. We remain neutral on government rates. Within rates, we continue to favour EM local debt in anticipation of renewed USD weakness. We remain underweight JGBs, as we expect the Bank of Japan to continue raising rates.
Global IG Credit	0	-	Investment-grade credit spreads have tightened as global and US growth remain buoyant. While we see limited scope for further spread compression, current levels appear broadly consistent with the stronger economic backdrop. Over the longer term, US technology companies are increasingly turning to credit markets to fund capex. This additional issuance could place upward pressure on investment-grade spreads.
Global HY Credit	-2	-	High-yield spreads remain narrow, offering limited protection against the risk of rising defaults. A return towards historical default rates would likely weigh on returns. Improving activity data are consistent with tight spread levels; however, global equities and commodities appear to offer better relative value.
US dollar	-1	-	The secular dollar bull market that began in 2011 is likely over. Valuations remain elevated, real rate differentials have narrowed, and structural diversification away from US dollar assets is increasing at the margin. However, there is no credible replacement for the dollar, and safe-haven demand remains intact. We therefore expect a gradual rather than disorderly depreciation over the next 12 months. Uncertainty surrounding the Fed's upcoming rate decisions presents two-sided risks.

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

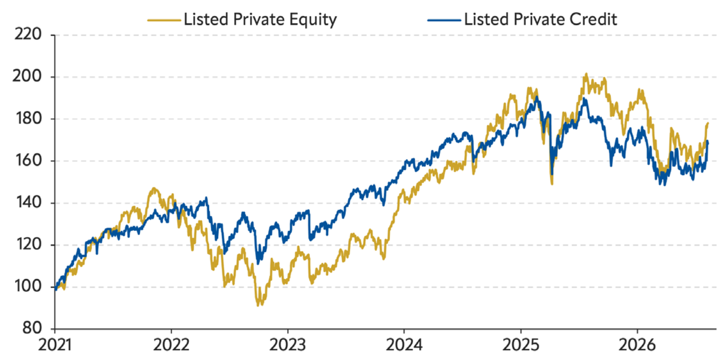
Commodities and Alternatives

Global Commodity Indicators:

	3Y history	Latest	
Commodities*		-6.3	Jul
Brent Oil		-21.0	Jul
Copper		6.2	Jul
Aluminum		-8.3	Jul
Gold		-12.4	Jul

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

Chart: Private Market Performance (Index, 31/12/2020=100)



Source: Bloomberg.

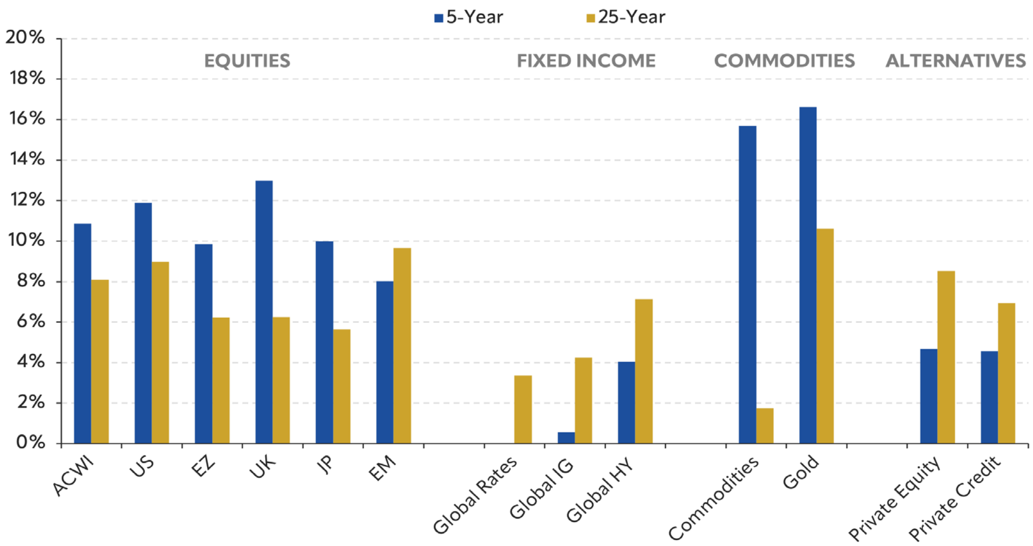
Asset	View	Chg	Commentary
Commodities	+1	-	Crude oil prices have been supported by tightening supply following the closure of the Strait of Hormuz, which has triggered sharp drawdowns in global inventories, bringing stock levels close to operational stress thresholds. The market is likely to remain tight even if a US-Iran agreement leads to the reopening of the Strait, given limited tanker availability and the unresolved nuclear issue, which should preserve a degree of geopolitical risk premium in oil prices. However, Gulf production could recover relatively quickly, while the spread between spot crude and 12-month futures has narrowed. Given the highly uncertain outlook and rapidly evolving geopolitical environment, we remain neutral on oil. A softer US dollar and resilient economic activity provide a constructive backdrop for industrial metals. Beyond the near term, structural demand from electrification and AI-related data centre investment should continue to support copper prices. Meanwhile, the Gulf is a significant producer of aluminium, and the closure of the Strait of Hormuz points to a market deficit that should continue to support prices. Accordingly, we maintain our overweight allocation to commodities.
Gold	+1	-	Gold prices have struggled since the onset of the conflict as hawkish repricing of interest rate expectations and elevated valuations weighed on performance. Valuations have since improved considerably, while renewed US dollar weakness, concerns over US fiscal sustainability and persistent geopolitical uncertainty should provide support for prices.
Private Markets	0	-	Our top-down macro model suggests listed private equity should outperform in an environment of rising economic growth and positive equity beta. However, year-to-date performance has diverged sharply from the model, reflecting ongoing concerns over the valuation of underlying private credit assets and the prospect of structurally higher interest rates. Should these concerns begin to fade, listed private market assets offer compelling value.

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

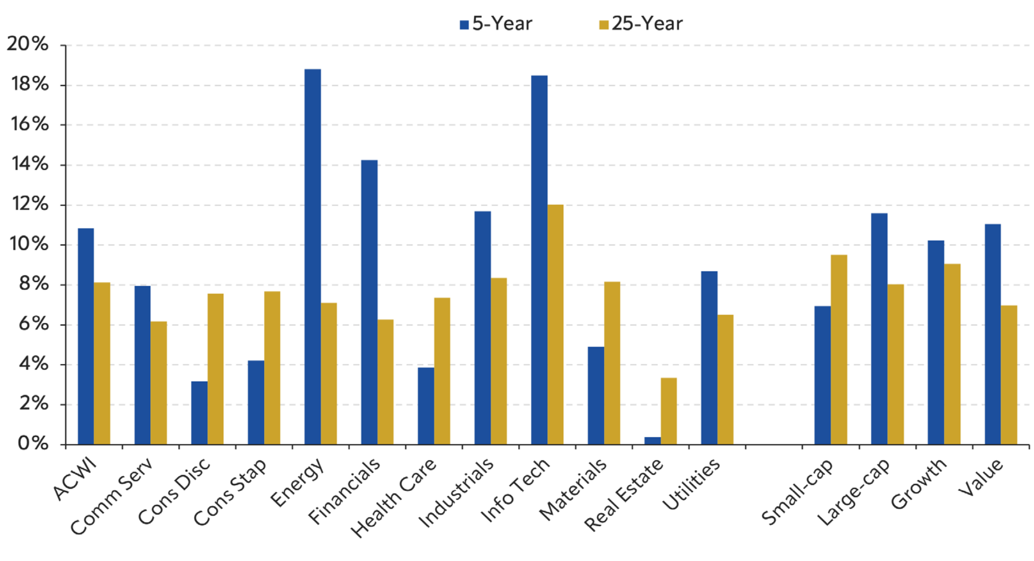
Global Market Historical Returns

Cross-Asset Historical Returns (Total Returns, annualized, USD):



Source: Bloomberg. Note: The 25-year return bars for private equity and private credit show annualised returns from November 2003 and September 2004, respectively, due to the shorter available time series.

Equity Sector and Style Historical Returns (Total Returns, annualized, USD):



Source: Bloomberg

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