

Global Multi-Asset 2026 Outlook: Tailwinds fill the sails despite turbulent seas

Sebastian Mullins, Head of Multi-Asset and Fixed Income, Schroders Australia

Amid a surge in government spending, shifting politics, and persistent inflationary pressures, global markets face a new era of volatility – and opportunity. As US growth outpaces the world and other regions begin to regain momentum, investors must adapt. **Sebastian Mullins, Head of Multi-Asset and Fixed Income, Schroders Australia** explores why 2026 may bring both opportunity and instability, and how dynamic asset allocation and fresh thinking will be key to navigating the fiscal-driven landscape ahead.

Last year we predicted that 2025 would see continued US economic exceptionalism while the rest of the world stumbled out of their doldrums, but warned that Donald Trump would add increased volatility as investors wrestled with the question of whether growth would trump inflation. This broadly played out, with the US experiencing exceptional above-trend growth, while places like Europe, Emerging Markets and Australia saw growth recover from 2024 lows. However, as Trump’s focus oscillated between his pro-growth policies and protectionist agenda, we saw massive swings after Liberation Day, both in equity market performance and the global economic outlook.

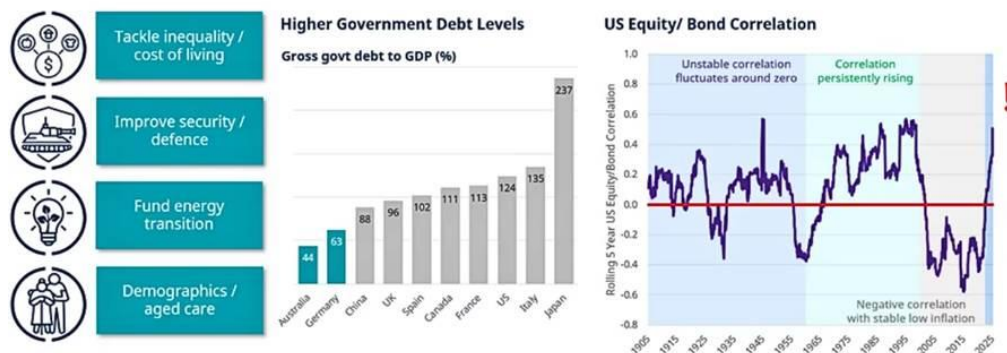
Investors keep asking us, is the wild ride over? Unfortunately, we think not.

A new market protagonist

As governments around the world shift from a decade of fiscal constraint, we’re truly in a regime where fiscal policy plays a leading role in economic outcomes. This is a 180 degree change from a period of fiscal austerity, where loose monetary policy was boosting inflation up towards central bank targets, to a period of fiscal largesse, where central banks will be forced to keep rates higher for longer to try and get inflation back down towards their target.

Governments will be forced to spend on defence, upgrade infrastructure, realign supply chains, and secure access to critical resources, on top of dealing with increasing inequality and delivering on the populist policies they promised in order to get into government. This fiscal spending will lead to higher debt levels, which will require higher growth and inflation to inflate the debt away. Higher inflation will likely lead to higher economic volatility, but also positive equity-bond correlations, leading to more asset price volatility.

Chart 1 – Government spending is not stopping, they will have to inflate the debt away



Source: Schroders, TradingEconomics as at Dec 2024. Correlations as of June 30th 2025.

We've been warning about a more heavy-handed approach from governments for the last few years. Fiscal expansion has continued with the passing of Trump's One Big Beautiful Bill, which will add \$3.3tn to the national debt over the next decade. This is not a US-centric shift. Germany has released its fiscal brake and can now borrow an additional €1tn for defence and infrastructure spending. The US also expanded its industrial policy by starting a 'nuclear renaissance' but also directing capital towards preferred industries, buying direct equity stakes in Intel and MP Materials. Critical mineral access remains a key part of the current China/US tariff negotiations.

We also saw the erosion of central bank independence, with Federal Reserve (Fed) Governor Adriana Kugler unexpectedly resigning to be replaced by a more dovish Stephen Miran, along with Trump's continued efforts to remove Fed Governor Lisa Cook and even oust Fed Chair Jerome Powell. This has also seen the Fed prioritise their employment mandate, cutting rates on job concerns, while inflation has remained above target for over five years. I do not highlight these points to criticise these decisions, but more to illustrate the fact that we're continuing to tick off the checklist for a higher inflation world.

Table 1 – Further confirmation we're heading towards a higher inflation regime

	Muddle through (<2% inflation)	2 4	2 5	Higher for longer (3-4% inflation)	2 4	2 5	Big(ger) government (4%+ inflation)	2 4	2 5
Monetary	Hold firm on inflation target of 2%	—	—	Hints that CBs are increasing inflation targets to inflate away govt debt	—	✓	Loss of central bank independence – back stops like YCC to help govt finance	✗	—
	Prioritise inflation mandate over employment or liquidity	—	✗	Prioritise employment mandate and market liquidity over inflation	—	✓	Focus on financial repression with inflation, not government austerity	—	—
Fiscal	Push for fiscal conservatism (Tea Party 2.0?)	✗	✗	Growth of populism but with constrained fiscal capacity	—	✓	Return of unconstrained populism	✗	✗
	China focused on manufacturing - exporting goods disinflation	✓	✓	Continued support for climate initiatives	✓	—	Climate 'emergency' forcing stronger response	—	—
	Debt load constrains growth/inflation	—	—	Infrastructure initiatives	✓	✓	Politicisation of credit – govt loan g'tees	—	✓
Business	Smaller companies suffer during downturn, increasing unemployment	—	—	Evidence of increased "friend-shoring"	✓	✓	Industrial policy – increased govt involvement	✓	✓
				Sign of capex super cycle	✓	✓	Vertical mergers to preserve margins	—	—
Consumer	Labour markets remain constrained, no appetite for unionisation	✗	—	Wage inflation more important than price inflation – "inflation is a societal good"	—	—	Increase in wage share	✗	✗
	Participation rate increases	✓	—	Retirees continue to spend, savings rate fall	✓	✓	Industrial action, growing union movement	✓	—
	Savings rates stay high	✗	✗	Millennials 'grow up' (kids, houses etc)	—	—	Not enough immigration or technological innovation to offset increased dependents	—	—
Geopolitics	Evidence of a geo-political reset	✗	✗	Growing 'cold-war' amongst superpowers	—	—	Larger geopolitical fracturing – hot war?	—	—
	Immigration to curb wage growth	—	✗	Anti-immigration policies	—	✓	Formation of trading blocs	—	✓

Source: Schroders. Coloured text indicates changes from last year. Dash colour indicates whether it's likely heading towards either a tick (green) or a cross (red). Purely subjective. For illustrative purposes only.

These regimes are inherently more unstable, and volatility is therefore likely to continue in 2026. Policy driven economies are far more susceptible to economic or market jolts, as the economy realigns with the will of the government. However, the good news is that we believe global growth will remain resilient in 2026. Policy makers will be doing everything they can to keep the economy humming along. We have updated our global growth and inflation forecasts for 2026.

Table 2 – Schrodgers global growth and inflation forecasts

Real GDP										
y/y %	Wt (%)	2024	2025	Prev.	Consensus	2026	Prev.	Consensus	2027	
World	100.0	2.8	2.6	↑ (2.5)	2.5	2.6	↓ (2.7)	2.4	2.6	
Advanced*	60.4	1.8	1.7	↑ (1.6)	1.6	1.9	↓ (2.0)	1.5	2.0	
US	29.1	2.8	2.1	↑ (2.0)	1.9	2.4	↑ (2.3)	1.9	2.4	
Eurozone	16.4	0.8	1.4	↑ (1.3)	1.3	1.7	↓ (2.1)	1.1	2.1	
Germany	4.6	-0.5	0.3	↑ (0.2)	0.2	1.8	↓ (2.3)	1.2	2.2	
UK	3.6	1.1	1.4	↑ (1.3)	1.3	1.1	↓ (1.2)	1.1	1.4	
Emerging	39.6	4.3	4.0	↑ (3.9)	3.9	3.7	↓ (3.8)	3.7	3.6	
BRIC	26.9	5.0	4.7	↑ (4.5)	4.5	4.2	↓ (4.3)	4.1	4.0	
China	18.7	5.0	4.9	↑ (4.6)	4.8	4.5	↑ (4.4)	4.3	4.0	

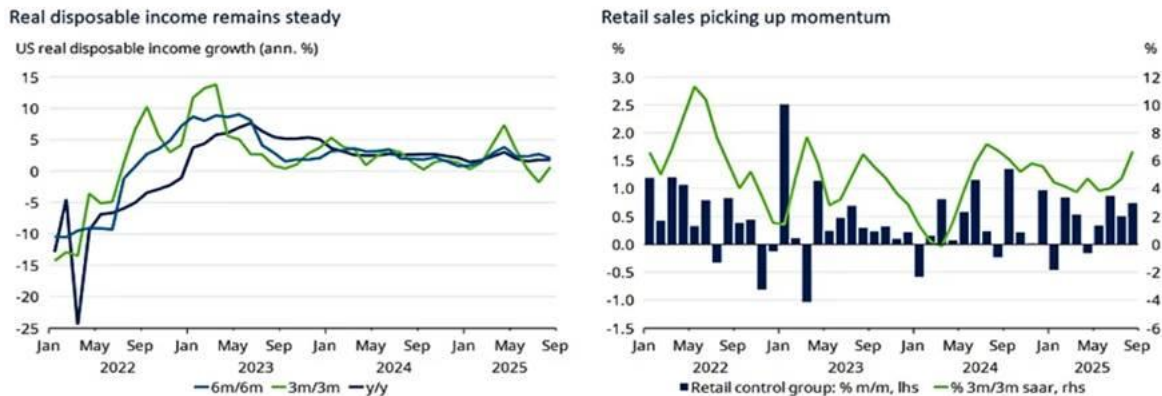
Inflation CPI										
y/y %	Wt (%)	2024	2025	Prev.	Consensus	2026	Prev.	Consensus	2027	
World	100.0	3.3	2.7	(2.7)	2.7	2.3	↓ (2.5)	2.5	2.2	
Advanced*	60.4	2.7	2.5	(2.5)	2.6	2.6	(2.6)	2.3	2.2	
US	29.1	2.9	2.8	(2.8)	2.8	3.3	(3.3)	2.8	2.3	
Eurozone	16.4	2.4	2.0	(2.0)	2.1	1.7	(1.7)	1.8	2.0	
Germany	4.6	2.5	2.2	↑ (2.1)	2.1	1.9	(1.9)	1.9	2.4	
UK	3.6	2.5	3.4	↓ (3.6)	3.4	3.0	(3.0)	2.6	2.4	
Emerging	39.6	4.2	2.9	(2.9)	3.0	1.9	↓ (2.5)	2.9	2.2	
BRIC	26.9	1.9	1.3	↓ (1.4)	1.5	0.5	↓ (1.3)	1.9	0.9	
China	18.7	0.2	-0.1	↓ (0.0)	0.1	-1.2	↓ (-0.1)	0.7	-0.8	

Source: Schrodgers Economics Group as at 10 November 2025. Forecasts included are not guaranteed and should not be relied upon.

US growth is strong, but hinges on jobs

The US economy continues to be strong, with recent second quarter real GDP coming in at 3.8%, well above trend growth. This was supported by 2.9% private final sales, suggesting the consumer remains resilient and is spending. Household spending remains strong, despite a tick up in the savings rate, as real wage growth remains positive. Real disposable income is resilient and retail sales are picking up. The Atlanta Fed GDPNow GDP forecast for the third quarter remains resilient at 4%. This does not show a weak consumer, in fact it shows very strong growth potential in the US.

Chart 2 – Households are still spending

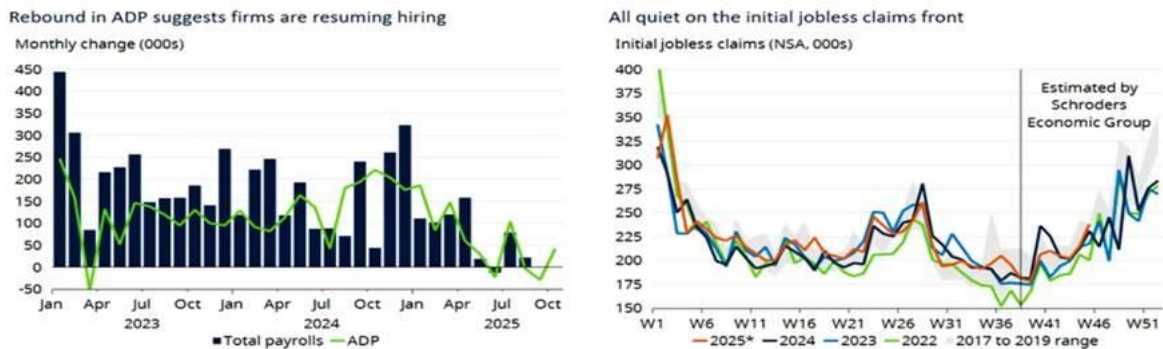


Source: Schrodgers, Macrobond, 14 October 2025.

However, consumers will only spend if they keep their jobs. Much of the market's concern over US growth is because non-farm payrolls came in well below expectations. Previously, monthly new farm payrolls above 100k were required to keep the unemployment rate unchanged. However, Lorie Logan, President of the Federal Reserve Bank of Dallas, estimates that breakeven payroll growth has probably fallen to 30k per

month, reflecting lower immigration and a declining participation rate as the population ages. Given the government has not yet released October jobs data, a rebound in the ADP report suggests that firms are resuming hiring. It makes sense that hiring was weak post Liberation Day, but we believe that firms will have resumed hiring given we now have more certainty over trade. Another way to look at employment is to track initial jobless claims against their seasonal averages. Based on this, jobless claims are well within recent historical averages and shows no sign of a deteriorating jobs market.

Chart 3 – Too early to claim that unemployment should be rising



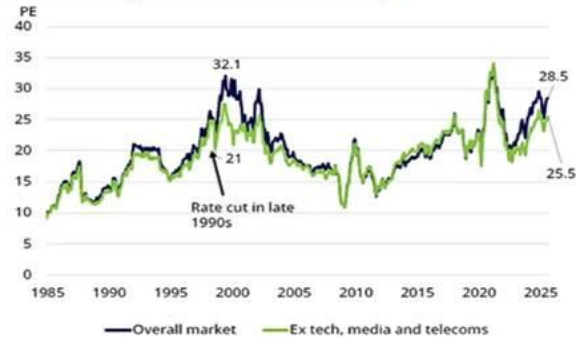
Source: Schrodgers Economic Group, Macrobond, 17 November 2025. *Assumes no weekly change for the US Virgin Islands.

That leads us to believe that the job market is not as weak as some believe and therefore the Fed may be cutting into a recovering economy. However, if this weakness persists, the Fed seem ready to cut rates, despite inflation remaining above their target. Currently, our recession model shows no signs of recession. We therefore continue to believe the US economy will remain strong in 2026, with GDP expected to be around 2.4%.

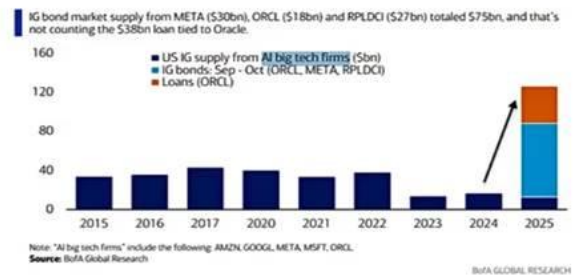
One concern that lingers is whether the strong performance in US tech stocks is a sign of an AI bubble. According to Moody's Analytics, the top 10% of wealthy American's drive 50% of US spending. If we were to see a large equity market sell-off, this would impact the wealth effect of wealthy Americans, likely leading to reduced consumption. This in turn means the stock market may lead the economy as opposed to the other way around. While there are definite pockets of concern, with unprofitable new AI startups popping up left right and centre, the hyperscalers remain profitable. Valuations are looking stretched, but still below the dot com or 2021 unprofitable tech rally. The Magnificent Seven remain high quality companies with significant earnings and free cash flow. Microsoft is not Pets.com.

Chart 4 – Valuations are getting stretched and now debt is entering the equation

Price-to-earnings ratio almost at dot com highs



Tech company's debt has increased 3-4x



Source: LHS: LSEG, 26 September 2025. RHS: BofA Global Research, October 2025.

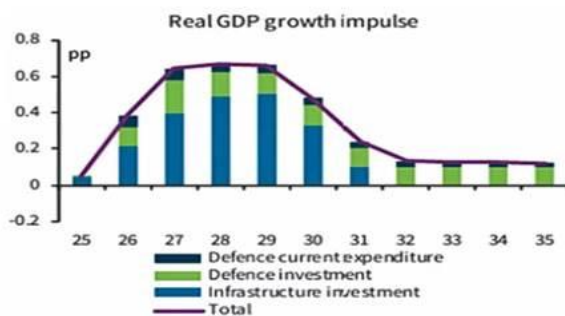
However, the recent introduction of debt into the equation is a concern. Historically, AI investment was made from free cashflow, but given the extensive investment into physical infrastructure, companies like Oracle and Meta have started to use debt to fund their expenditure. According to Bank of America Global Research, US investment grade corporate issuance from AI big tech firms has risen from less than \$40bn p.a. over the last 10 years to over \$120bn year-to-date. If more debt starts to enter the system, this would likely lead to a bubble that could pop. However, we believe in the short-term any weakness will come from a valuation unwind or increase in credit spreads, rather than us approaching the end game for a AI bubble pop.

Europe plays catch up

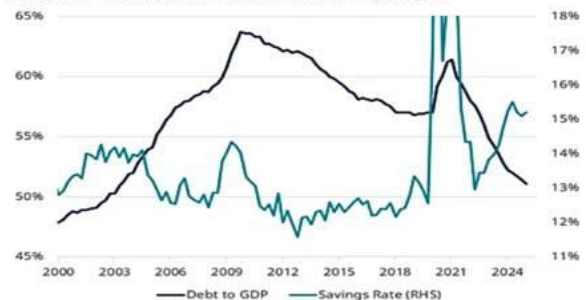
We believe the Eurozone will continue to play catch up, with growth expected to rise to 1.4% this year from 0.8% last year, to 1.7% in 2026. The European Central Bank (ECB) has cut rates eight times this cycle, which should support activity. In an age of fiscal spending, Germany finally released its debt brake and has announced €1tn for defence and infrastructure spending. This starts in 2026 at half pace, before the full impact comes through in 2027 onwards. This huge amount of spending will help buoy the economy. The Eurozone has also seen debt to GDP fall and household savings rates rise. If lower rates and fiscal stimulus manage to unlock animal spirits in Europe, the EU could be see a tailwind from a consumer credit cycle, which we haven't seen since the 2008 financial crisis.

Chart 5 – Structural shift in European fiscal policy

Fiscal impulse improving from 2026 onwards



Eurozone – debt to GDP lower, while savings higher

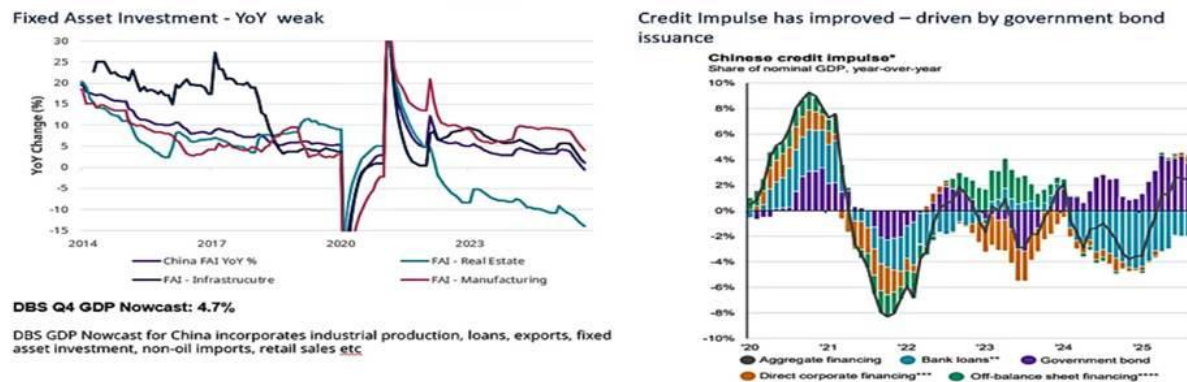


Source: LSEG Datastream, Schroders Economics Group, Barclays Economic Research, 26 September 2025. Forecasts included are not guaranteed and should not be relied upon.

EMs, ex-China, poised for recovery

China continues to show weak growth and we are expecting GDP to fall to 4.5% next year. Fixed asset investment continues to fall and while the Peoples Bank of China (PBoC) have cut rates, there is no demand for loans in the economy. The government has increased fiscal spending through local government bond issuance, but it is still not enough to turn the economy around. We want to see more fiscal stimulus, focusing on domestic consumption, before turning more positive on the Chinese economy.

Chart 7 – China activity is weakening and requires more government stimulus to improve



Source: DBS, Morgan Stanley, JPMorgan, LSEG, Schroders

However, other emerging markets are poised for recovery. EM central banks have kept their cash rates high to defend their currencies against persistent US dollar appreciation. Now that the US dollar has fallen and the Fed has cut rates, this frees central banks to adjust policy if required. With real rates very high in emerging markets and inflation falling, this provides cover to start a rate cutting cycle to stimulate their domestic economies. Countries in north Asia continue to benefit from AI investment (not just TSMC but the whole AI supply chain), Latin America is seeing some political shifts towards more market friendly policies, and emerging Europe continues to benefit from a relatively cheap but well-educated workforce. While China's economy will have ramification across the emerging space, we still remain positive emerging economies overall.

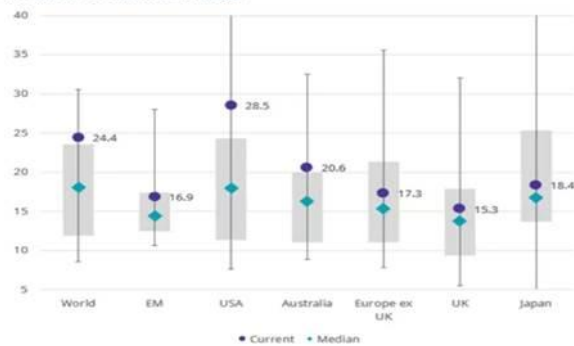
How does this translate into asset class views?

Global equities:

Valuations continue to be stretched in the US. Other markets look more reasonable, but very few would be called cheap. Earnings remain strong and beating expectations, with earnings revision ratios improving globally, but led by the US. While we're not at the end game of a potential AI bubble, valuations and positioning are a short-term concern. We are more neutral on equities overall, but will be looking to buy the dip in US equities on any valuation or positioning unwind.

Chart 8 – Equities remain expensive but earnings are being revised higher

P/E Ratio vs historical range



Earnings revision ratios are turning higher globally



Source: Schroders, Macrobond, Refinitiv Datastream, IBES, Bloomberg, P/E ratio is estimated as at 7 November 2025. RHS is to 10 October 2025.

We believe that regions like Europe and emerging markets will continue to shine into 2026. Within Europe, we continue to like the periphery over the core. The economic strength of Italy and Spain has been remarkable, with France and Germany falling behind. Despite the economic strength and recent stellar rally, Italy and Spain remain cheap relative to the rest of the EU while also seeing strong positive earnings revisions, especially compared to the rest of the bloc. Last year we said that the PIIGS are flying, and we expect them to continue in 2026.

Chart 9 – The ‘PIIGS’ are flying!

Forward P/E Ratio



Earnings Revisions Ratio (3-month average)



Source: Schroders, Refinitiv, September 30th 2025. PIIGS stands for Portugal, Italy, Ireland, Greece and Spain, a famous acronym from the Euro Crisis in 2013.

We continue to like emerging market equities. Despite our concerns in China, the recent rally of Chinese tech companies makes sense. They were too cheap for too long while China was deemed 'uninvestable', but ever since Chinese president Xi Jinping shook hands with Alibaba co-founder Jack Ma and announced an equal playing field for private and public companies, valuations re-priced higher. We think this trend can continue. But for now, it is a re-rating trade as opposed to belief that the Chinese economy is reaccelerating. We would need to see more fiscal stimulus out of China to get bullish on a broader Chinese equity rerating. We do, however, like Latin America. LatAm remains cheap relative to other emerging market regions, but also cheap compared to its own history. At the same time, we are seeing improved earnings in the region. While far from certain, election polls seem to be moving to more market friendly candidates in both Brazil and Chile. Mexico has been under attack by Trump, but it still stands to benefit the most from the US's plan to bring more manufacturing back onshore.

Chart 10 – We like EM equities, particularly LATAM



Source: Schroders, Refinitiv, September 30th 2025.

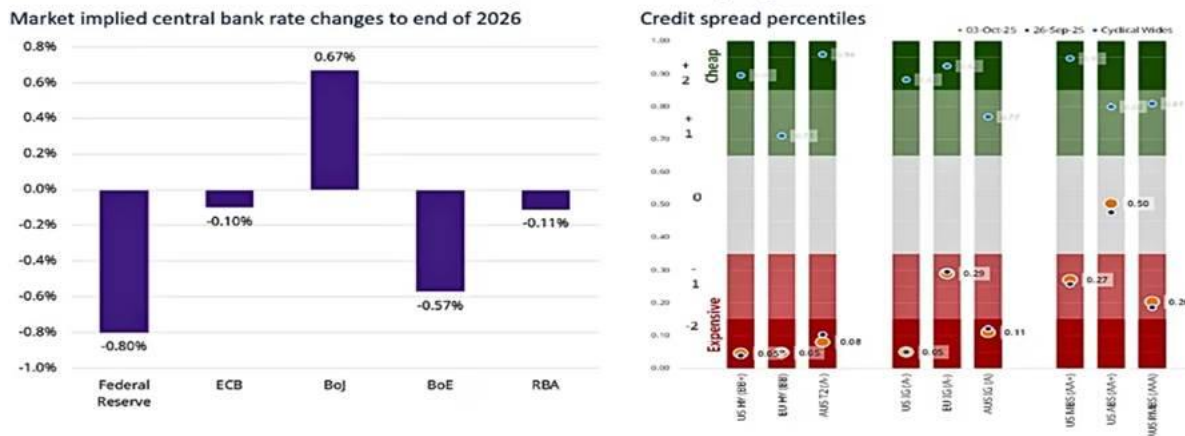
Japanese stocks have also re-rated with the election of Sanae Takaichi. Her pro-reform agenda will help continue the corporate reform gains from Abenomics, and combined with her push towards more fiscal stimulus should help see the economy continue to recover. We like Japanese stocks, although they are no longer cheap, as we believe they can still benefit from further re-ratings.

Therefore, despite being short-term neutral on positioning and valuations, we continue to be positive on equities into 2026. While we do not believe the US AI bubble will pop next year, we do believe that the rest of the world stock markets can start to play catch up.

Global bonds

There is still attractive, high-quality income on offer to investors in the bond market. However, given our higher growth and higher inflation view in the US, we believe too many rate cuts are priced in the US bond market. This seems excessive, and we believe the stronger economy will see rate cuts being taken out of market pricing, along with fiscal and central bank independence worries potentially keeping long-end US Treasury yields on an upward trajectory. Credit spreads are also looking extremely tight, especially in the US. We find better value in Europe, Australia and securitised credit. We are not expecting a new default cycle, so we believe investors can take carry in credit, but there is not much margin of error in US credit.

Chart 11 – US rate cut expectations look excessive, while credit spreads are very tight



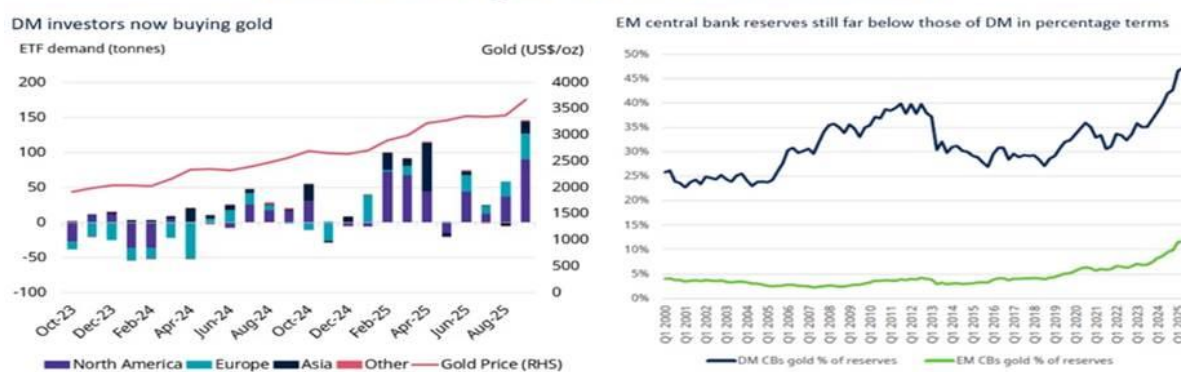
Source: Schroders, Refinitiv, September 30th 2025.

Hedging options when the equity-bond correlation flips

With governments spending around the world and inflation likely staying elevated in the developed world, investors often ask us how to hedge when equity-bond correlation has turned positive. Our solution is to be dynamic in our asset allocation, adjusting the portfolios when valuations, the cycle, or liquidity change. For those who are unable to dynamically adjust their asset allocation, they may want to reassess how they invest their defensive assets. As an active house, there is always plenty of money to be made in fixed income, even if we're more cautious structurally. Country and curve selection can continue to add value and protect equity allocations even when the overall duration benchmark is weak.

But there are also other hedges investors can use. We utilise cash as part of our dynamism, but also put options when valuations are attractive. We also like using currencies and commodities to help insulate portfolios in case of drawdowns. Historically we have used the US dollar as a risk off currency, but with the recent weakness, we have shifted towards the Japanese yen, Swiss Franc and Euro. In commodities, we have favoured gold given our worry over currency debasement. The shiny metal has done very well in 2025, so it would make sense for there to be some consolidation around \$4000 before another bull run. But structurally we remain positive. Central bank buying continues, with emerging market countries striving to increase their gold holdings as a percent of reserves. They still have a long way to go. We've also seen a pick-up in Western investor demand. Gold allocations in portfolios are at best 0-2%, we believe this could rise over the coming years. We therefore remain structurally bullish gold.

Chart 12 – Can gold be a new defensive asset?



Source: Schroders, World Gold Council, 15 October 2025.

Continued volatility means opportunity for dynamic asset allocators

We believe we are in a fiscally driven world, which comes with higher pressure economies, higher GDP growth, but also higher inflation and higher volatility. This volatility will create opportunities for those who are more dynamic in their asset allocation. With equity-bond correlations remaining positive, investors have to be active when it comes to adjusting their portfolio positioning but also look harder for other diversifiers. We believe the economy will remain strong in 2026, led by US growth but also with other regions like Europe playing catch up. We think equities will outperform bonds given our view on growth and inflation but believe valuations and positioning will cause shorter-term digestion. We would be buyers on dips. While we believe the US growth story will continue, it's time for other countries to play catch-up. We like Europe (especially the PIIGS), Japan and Emerging Markets (including LatAm). In duration, we think bonds remain expensive but prefer curve steepeners in the US – we like to be long front end of the curve to benefit from a move dovish Fed, but short the back end of the curve due to worries over fiscal largess and the loss of central bank independence. We think EM central banks will cut rates in 2026, so like emerging market local currency bonds. We take carry in credit but are worried about tight spreads in US corporates and prefer to allocate to corporates in Europe and Australia, along with securitised credit. Finally, we like to diversify our hedges, and like to use currencies, options and gold to hedge portfolios, along with active duration management.

Read all our other [Investment Outlooks for 2026 here.](#)