



Market Compass

FEBRUARY 2026

MARKET OUTLOOK

- Global equity markets entered the new year with further advances. New US foreign and economic policy uncertainty triggered only temporary setbacks – but lasting damage to the US dollar.
- A massive dollar sell-off is unlikely amid solid US growth and a lasting AI boom. Yet US policy crosscurrents, an eroding yield gap and continued investor diversification still keep the USD's outlook to the weaker side for the rest of 2026.
- Advanced valuations, high index concentration and more bullish investor positioning make risk sentiment vulnerable to setbacks.
- That said, with the overall macro backdrop still benign (Euro Area green shoots, solid US growth, eased inflation risks) and cost-of-living concerns taming Trump's appetite for a broad trade conflict into the mid-terms, we keep a pro-risk bias in our portfolios.

Edited by
**MACRO & MARKET
RESEARCH TEAM**

A team of 13 analysts based in Paris, Cologne, Milan and Prague runs qualitative and quantitative analysis on macroeconomic and financial issues.

The team translates macro and quant views into investment ideas that feed into the investment process.

US

- + Fiscal boost to lift growth to 2.5%...
- ...but core inflation remains high and will end the year well above 2%
- Despite strong growth the labour market remains fragile, affecting consumption
- ! The Fed takes a pause and will not cut before June

EUROZONE

- + Loose fiscal policy (Germany) to boost growth
- + ...with inflation falling to below 2%
- ! Global tensions put exports at risk
- ! ECB to stay at 2.0%

CHINA

- + GDP growth reached the official 5% target in 2025
- Growth is due to slowdown at a moderate pace
- + Some modest fiscal support but still a focus on quality growth

JAPAN

- ! Snap election could lead to a small and fragmented majority
- + Capex data point to a rebound in GDP
- + Inflation drifting down, but at risk from YEN weakness
- ! Fiscal expansion and largesse may trigger faster and stronger BoJ rate hikes

EMERGING MARKETS (EM)

- + Still positive macroenvironment with resilient growth
- + Monetary easing cycle coming to an end
- + EM fixed income supported by a weaker USD

- + Positive
- Negative
- ! Topic to watch

DIRECTION OF TRAVEL

- Keep moderate overweight (OW) in Equity diversify outside US tech
- Remain cautious on underweight (UW) EUR on Govies, slight short EUR duration, risk to yields from strong net issuance
- Strong OW EUR IG Corporates benefitting from cyclical upswing. Prefer non – financials
- Keep strong UW Cash

Equity

Bonds

Duration

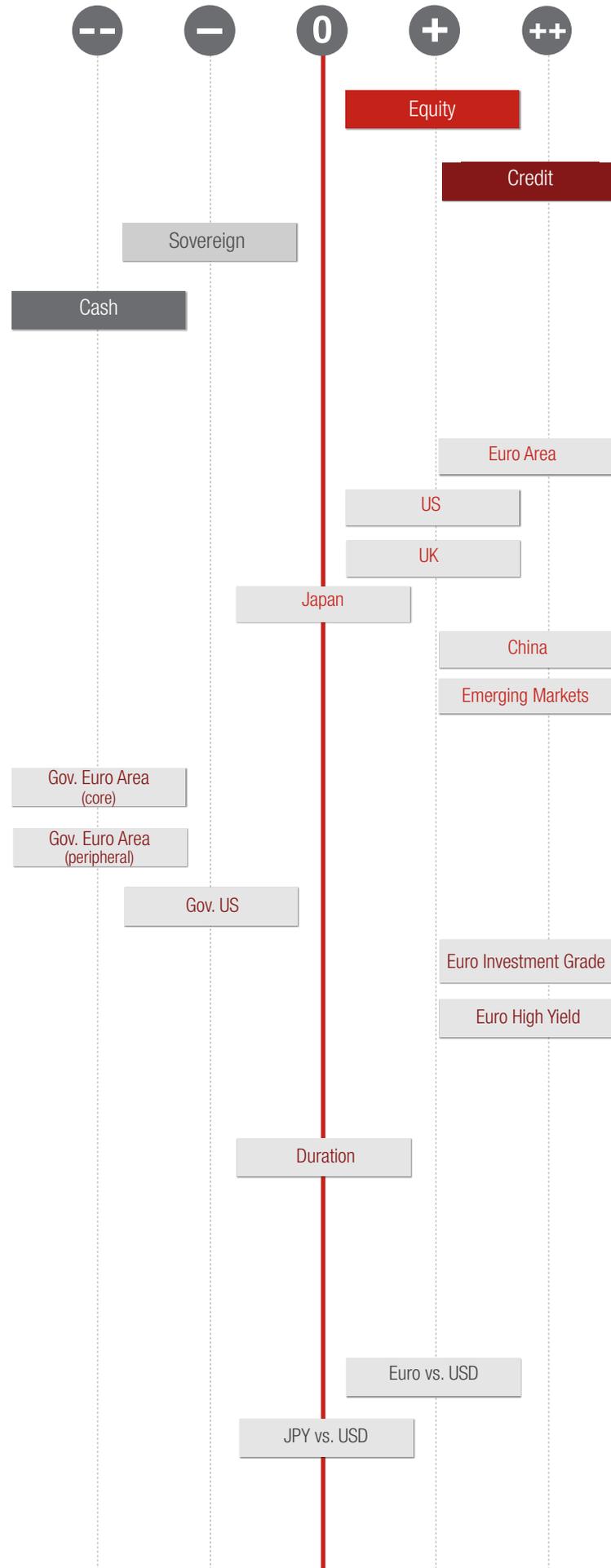
Currencies

- Markets are supported by resilient earnings, improving macro conditions – including fiscal expansion – and a favourable financial backdrop.
- Risks come from geopolitical tensions, pressure on government yields and higher-than-average valuations.
- Neutral on Japan as fiscal worries offset better growth outlook.

- Given the expected economic recovery some upside potential for Euro Area (EA) core yields.
- US yields remain range-bound, with upside risks prevailing amid expansionary fiscal policy and uncertainties over the Fed's direction.
- Despite geopolitical swings, bond market volatility decreased further supporting EA non-core government bonds.

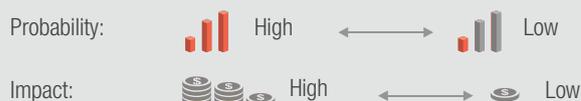
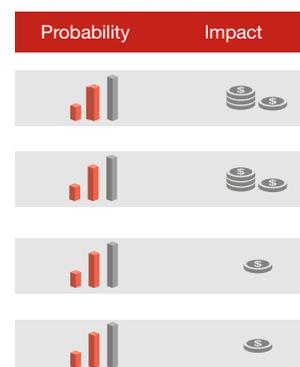
- Neutral duration EA.

- High US policy uncertainty keeps burdening the US dollar and fundamentally the USD remains dear.
- EUR/USD may struggle to sustainably pass the 1.20 threshold for now given uncertainty on the strength of the Euro Area recovery.
- We remain cautious on JPY into the February 8 snap elections but we see scope for a recovery later in the year.



TOPICS TO WATCH

- AI downturn amid high valuations, elevated earnings expectations, and the heavy market weights of large technology stocks.
- Synchronized sell-off in USTs and USD on rising US policy risk, including Fed appointments.
- Trade tensions re-escalating (esp. US/China) but also chances of partial reversal of US tariffs.
- French political and fiscal worries, with risks of contagion and renewed concerns about EMU integrity.



GLOSSARY

INDEX CONCENTRATION

The extent to which an equity index's performance is driven by a small number of large constituents, reducing diversification and increasing sensitivity to movements in those dominant names.



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