

MAY 2026

House View Update: Still bending – not breaking

Two months on from the start of the Iran conflict, we continue to see a resilient global economic outlook.

Although we have adjusted some forecasts – notably to reflect lower growth, higher inflation and no further interest rate cuts – our **House View Q2 2026**, published at the start of April, has held up well, even against a backdrop of elevated geopolitical uncertainty.

- We had warned that the market backdrop would become more complex than anticipated at the start of the year, reflecting renewed

geopolitical uncertainty now exacerbated by the war in Iran.

- We argued that oil prices in the USD 90-110 range would be manageable for some time and that our core macro view – reinforced by the global economy’s resilience through the Ukraine war and successive tariff increases – remained one of an economy that is “bending but not breaking”.
- We concluded that asset class convictions should adopt a more cautious overall risk profile than earlier in the year, emphasising selective duration exposure, quality carry, and equity investments linked to sovereignty-related themes.

Our assumption that the war in Iran would persistently raise energy risk premiums – pushing inflation higher and growth lower, particularly in energy-importing economies in

Europe and Asia – continues to hold. Yet the prolonged disruption to traffic through the Strait of Hormuz requires revisions to the economic outlook.

Higher inflation

At the time of writing, hostilities in Iran have been suspended for several weeks and energy prices have stabilised within a range tolerable for the global economy, both in spot markets and forward curves. Yet, euro area consumer price inflation jumped by 0.7 percentage points (pp) to 2.6% year-on-year (y/y) in March, while US inflation rose by 0.9pp to 3.1% y/y (see Exhibit 1, overleaf). Both may move higher again in the coming months. If current energy prices continue, we project European inflation to hover around 3% y/y for much of 2026, and US inflation around 3.5% (see Exhibit 2, overleaf).



Christian Schulz,
Chief Economist

No more central bank cuts

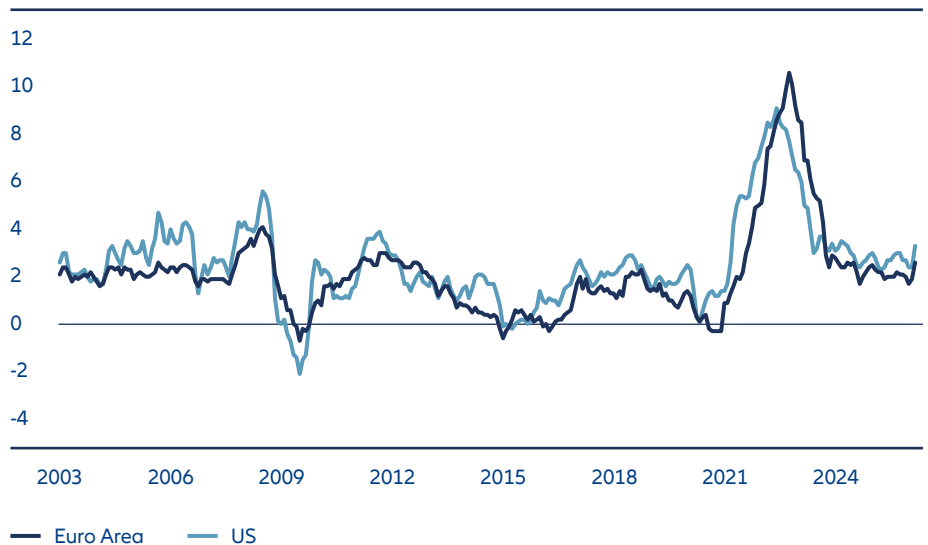
Persistently higher inflation relative to central banks' 2% targets will likely eliminate the rate cuts previously expected by the US Federal Reserve (Fed) and the Bank of England, before the outbreak of war. The European Central Bank – the only major central bank to have returned inflation to target and policy rates to neutral – now appears likely, in our base case, to deliver one or even two additional rate hikes, in June and September.

Lower, but resilient growth

Rising energy prices and uncertainty around the trajectory of the Middle East conflict have also begun to weigh on business confidence. Economic activity may cool temporarily over the summer months. That said, the overall growth picture remains resilient (see Exhibit 3). Support continues to come from the ongoing AI investment cycle and renewed fiscal stimulus – notably in Germany and Japan, but also in the US and China. We expect US GDP growth to remain in the 1.75-2.25% range in 2026, with the euro area growing by around 0.75-1%. China started the year on a solid – if bifurcated – footing and should expand by 4.5-5%. Even so, we expect consensus growth forecasts for most economies to edge lower.

Exhibit 1

US and euro area consumer price inflation has risen (y/y %)



Sources: BLS, Eurostat and AllianzGI E&S (Data as of 22 April 2026)

Exhibit 2

Higher inflation forecasts for 2026

Inflation, year-on-year %

	2025 Bloomberg consensus	2026 Bloomberg consensus	2026 AllianzGI forecast
World	3.4	3.6	↑
Germany	2.2	2.5	↑
Euro area	2.1	2.5	↑
UK	3.4	2.9	↑
US	2.7	3.1	↑
Japan	3.2	2.0	↑
China	0.0	0.9	=

↑ = AllianzGI above consensus
 ↓ = AllianzGI below consensus
 = = AllianzGI in line with consensus

Data as at 23 April 2026.

Exhibit 3

Lower growth forecasts for 2026

Real GDP, year-on-year %

	2025 Bloomberg consensus	2026 Bloomberg consensus	2026 AllianzGI forecast
World	3.2	3.0	↓
Germany	0.3	0.8	↓
Euro area	1.5	1.1	↓
UK	2.5	0.8	↓
US	2.2	2.2	↓
Japan	1.2	0.8	↓
China	5.0	4.6	=

↑ = AllianzGI above consensus
 ↓ = AllianzGI below consensus
 = = AllianzGI in line with consensus

Data as at 23 April 2026.

House View asset class convictions: modest changes in positioning

The unpredictable economic backdrop favours an active approach, focused on diversification and long-term goals to help investors look through near-term volatility. In line with our main economic thesis, our asset class convictions – as outlined by our public market CIOs – have evolved only modestly since the launch of the House View Q2:

EQUITIES

Even stronger case for critical infrastructure and defence

Despite the clearly stagflationary impulse from the Iran conflict, equity markets have largely retraced their initial losses, underscoring their resilience. This has been supported by strong earnings in technology, energy and financials. Against this backdrop, our equity teams see an even stronger case for investments linked to critical infrastructure and defence, supporting strategic autonomy. The temporary closure of the Strait of Hormuz has broadened this theme from Europe to Asia and beyond. In the same vein, we reconfirm our conviction in “critical power, grid build-out and electrification”. Conversely, some caution is warranted towards more cyclical exposures such as analogue semiconductors, physical goods and discretionary consumption.

FIXED INCOME

Active rates and credit positioning in a shifting policy regime

We maintain a modest short headline duration bias, favouring a short to US Treasuries; in contrast, we stay

selectively long emerging market local rates in Peru and Brazil. We are long US five-year breakevens on upside inflation risks and favour a US seven-year to 30-year curve steepener as weak fiscal dynamics, higher inflation volatility, and a more patient Fed argue for higher long-end term premia. In Europe, we remain constructive on peripheral markets and see relative value in UK Gilts, retaining long positions in 30-year Spanish and UK rates versus the US. In credit, we keep a moderate allocation focused on quality carry and active selection, preferring financials and consumer non-cyclicals while remaining cautious on consumer cyclicals. We see selective opportunities in emerging markets after the repricing.

FX

Strategically bearish on the US dollar

We are strategically bearish on the US dollar, reflecting relative monetary policy expectations within G10 markets, large US fiscal and current account deficits, concerns around US institutional credibility, the potential for currency realignment in trade-surplus economies, and a historically overvalued US dollar. We favour being short the dollar against a G10 basket including the Norwegian krone, Japanese yen and euro, while also holding a strategic long Chinese yuan position versus the US dollar as China’s persistent trade and current account surpluses suggest the currency remains deeply undervalued.

MULTI ASSET

Cautiously positive on risk assets

Multi asset portfolios have followed the rebound in equity markets, allowing us to become more

constructive on risk assets again, although overall positioning remains more cautious than before the war. Indeed, agility remains key in this environment. Regionally, we see stronger recovery potential in emerging markets, with Europe and Japan also set to benefit. A more durable shift is our increasingly optimistic view on China equities relative to other emerging markets, reflecting its lower energy import dependence and its ability to absorb losses on public sector balance sheets. We remain cautious on government bonds, preferring European duration on a relative basis without taking a strong directional view. Our earlier option strategies were closed with a benefit amid market turmoil, and the latest phase of lower volatility has created scope for us to rebuild downside protection through options.

Deglobalisation and heightened risk premium risks

The medium-term consequences of the Iran conflict will become clearer over time, beginning with how the country’s domestic and regional posture evolves in the months ahead. Shifts in tone and emphasis suggest the potential for a more pragmatic approach to regional and international relations, but uncertainty remains high.

Were a more stabilising trajectory to emerge, it could help lay the groundwork for new security arrangements in the Middle East – a necessary condition for reviving more diversified growth models spanning not only energy, but also tourism,

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logistics and financial services. For now, however, regional revenues remain under pressure even as public spending rises. Military and infrastructure outlays are increasing, while tourism and transport activity remain subdued. Although large regional economies have sufficient buffers to absorb this shock, a sustained re-orientation towards domestic spending could reduce petrodollar recycling and weigh on global asset markets.

Still, in the nearer term, we continue to see a military stalemate or a gradual tapering of hostilities as the most likely outcome, with the current ceasefire potentially giving way to a more lasting de-escalation. In this scenario, the Strait of Hormuz would be expected to reopen, albeit with the ongoing risk of renewed disruptions – a dynamic likely to keep an elevated risk premium embedded in oil prices.

Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested.

Past performance does not predict future returns. If the currency in which the past performance is displayed differs from the currency of the country in which the investor resides, then the investor should be aware that due to the exchange rate fluctuations the performance shown may be higher or lower if converted into the investor's local currency.

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