

Tactical Asset Allocation: Resilience begets risk-on – we lean in

- ▶ **Global economic growth is set to improve in H1 driven by revival in developed economies.**
- ▶ **Inflation moderation might slow in the next couple of quarters, but disinflation is intact.**
- ▶ **Interest rate cuts could come in H2, but they are not needed now for markets to deliver.**
- ▶ **We tilt our TAA to be more risk-on, and make changes to our cross-asset focus lists.**

Growth outlook: resilient, not roaring, but good enough for risk

Global economy has entered 2026 on a steady, resilient footing – with growth rate strong enough to support risk assets. The latest IMF update projects global growth at 3.3% in 2026, a slight upward revision from the funds' previous estimate, with AI related investment, fiscal support, and broadly accommodative financial conditions offsetting trade frictions. PMI data into year-end 2025 show the global composite still in expansion territory (52.0 in December), consistent with positive – if moderate – GDP growth. While momentum softened, the breadth of expansion across manufacturing and services remains intact, and muted price pressures are already feeding expectations of further policy support. Strength continued into January 2026 as the ISM US manufacturing PMI rose to 52.6 in January, its highest level since August 2022 and the first expansion in a year. New orders and production grew, while employment contracted and supplier deliveries slowed. Prices increased and inventories remained tight. Global manufacturing conditions also improved, with the J.P. Morgan Global Manufacturing PMI rising to 50.9 in January, supported by the strongest rise in new work in nearly a year and signs of stabilizing trade flows. We expect developed world growth to experience a mild slowdown in H2'26. Overall, growth is good enough, broad enough, and supported enough to justify turning more risk-on at this stage.

Inflation outlook: near term sticky, medium term convergent

Inflation is likely to prove sticky in the near term, especially in the US, but the medium term trajectory still points towards central bank targets. The IMF expects global headline inflation to fall from 4.1% in 2025 to 3.8% in 2026 and 3.4% in 2027, with the US returning to target "more gradually" than other major economies. This profile argues for persistence, not re-acceleration: enough stickiness to keep central banks cautious in H1, but not enough to derail the disinflation path. For instance, US, producer prices rose by the most in five months in December, driven by higher services costs, including trade margins, hotel rates, and airfares. Goods prices were unchanged. Services prices rose 0.7% m/m, the largest increase since July, while goods prices were up 2.5% y/y. German inflation edged up to 2.1% y/y in January, slightly above expectations. For asset markets, that means inflation is a manageable background variable, not a primary headwind, especially as real policy rates remain neutral to restrictive and growth is supported by productivity enhancing investment.

Monetary policy outlook: more cuts ahead, Warsh still a question mark

Market pricing and policy commentary continue to point towards additional Fed easing in the second half of 2026, even though Fed might go on pause in the coming meetings. Fed funds futures still embed a path of gradual reductions, consistent with inflation drifting lower and growth remaining resilient rather than collapsing. It is too early to anchor a strong view on the Fed policy path under the new nominated chair Kevin Warsh. His historical commentary suggests a bias towards financial stability vigilance and skepticism of prolonged ultra-easy policy, but the macro context he would inherit – disinflation with moderate productivity-driven growth and high public debt – will matter more than his priors. Moreover, markets in the past had surprises of how Fed Chairs delivered policy against perceptions (Ben Bernanke, Janet Yellen, and even more recently Jerome Powell). At this stage, our base case is continuity of the easing trajectory in H2, with the chair question a 2027–28 story rather than a 2026 pivot risk.

Liquidity outlook: easy, and with scope to ease further

Despite episodic volatility (like the most recent one in commodities and FX), global financial conditions remain broadly accommodative. Technology-driven investment, fiscal support, and broadly accommodative financial conditions are key tailwinds keeping global growth steady despite trade and geopolitical noise. With inflation trending lower and policy rates falling further in most advanced economies, the balance of risks for liquidity is towards further easing, not tightening. Credit spreads have widened modestly on recent risk-off episodes but remain far from stress levels; funding markets are orderly; and in our view the policy reaction function is asymmetric – central banks are more willing to lean against downside growth shocks than upside inflation surprises at this stage of the cycle.

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Risks: key risk to our constructive view is a sharp rise in policy and market rates

A sharp rise in long-term bond yields or any increased expectations for a rise in policy rates remains a key risk to our constructive view on markets. While long-term bond yields can increase due to fiscal concerns contributing to rising risk premiums, any rise in inflation could contribute to a significant repricing of market implied central bank policy impacting rates across the curve. The other risk is a sharp reversal in the recent trajectory of central bank balance sheet expansions.

Asset allocation: encouraged by resilient markets, we further add risk to our TAA positioning

Encouraged by resilience of markets and more benign macro outlook, we add to our risk positions but more selectively (see exhibits 1 and 2 for our TAA and SAA frameworks respectively). Equities continue to focus on earnings which remain strong. Within fixed income, while we want to be cautious on duration, we like credit risk where we expect spreads to remain tight. Against this backdrop, we are adding selectively to risk across both equities and fixed income:

- ▷ Equities moved to an outright Overweight (previously neutral with an overweight-bias); implies fixed income is now outright Underweight too.
- ▷ **Upgrades**
 1. Move Asia Pacific equities to Overweight from Underweight
 2. Move EM equities outside Asia to Neutral from Underweight
 3. Raise Overweight in US equities
 4. EM LCY to Overweight from Underweight
 5. EM Corporate IG to Neutral from Underweight
 6. Global HY to Overweight from Neutral
- ▷ **Downgrades**
 1. DM treasuries to Underweight from Neutral
 2. Closing the off-benchmark in US Homebuilders equities

Cross-asset focus list: we take profits on silver after having been cautious since start of the year; add gold after the recent pullback

We made the following changes (exhibits 3 and 4) to our focus lists since last publication.

1. We closed our long position in Silver at the end of 2025 and took profits, after which we have been cautious on the outlook for the metal. Despite the recent pullback, silver prices are up on a year-to-date basis. Nevertheless, we retain our cautious-to-neutral outlook on silver prices.
2. We now see opportunities to add gold positions after the recent pullback.

For our outlook on silver, gold and other commodities, see our investment strategy note [Commodities' contrasting outlook: Gold's momentum, metals' caution, oil's equilibrium, January 29, 2026](#).

Tactical Asset Allocation

Investment Strategy | February 03, 2026

Tactical Asset Allocation

Exhibit 1: Tactical Asset Allocation with a 3m-6m view

| Asset Class | Positioning | | | | | Balanced | | |
|----------------------|-------------|----|---|----|-----|-------------|-------------|-------------|
| | SUW | UW | N | OW | SOW | SAA | TAA | Active |
| Equities | | | | | | 41.2 | 45.1 | 4.0 |
| North America | | | | | | 25.8 | 28.0 | 2.2 |
| US Homebuilders | | | | | | 0.0 | 0.0 | 0.0 |
| Europe | | | | | | 7.0 | 7.0 | 0.0 |
| Japan | | | | | | 2.3 | 2.8 | 0.5 |
| APac ex Japan | | | | | | 5.0 | 6.3 | 1.3 |
| EM ex Asia | | | | | | 1.0 | 1.0 | 0.0 |
| Fixed Income | | | | | | 58.8 | 54.9 | -4.0 |
| DM Treasuries IG | | | | | | 32.9 | 28.0 | -4.9 |
| DM Corporate IG | | | | | | 12.5 | 12.5 | 0.0 |
| EM USD Sovereigns IG | | | | | | 0.8 | 0.8 | 0.0 |
| EM LCY IG | | | | | | 5.1 | 6.0 | 0.9 |
| EM Corporate IG | | | | | | 0.6 | 0.6 | 0.0 |
| Global HY | | | | | | 5.0 | 6.0 | 1.0 |
| Cash | | | | | | 2.0 | 1.0 | -1.0 |
| Alternatives | | | | | | 0.0 | 0.0 | 0.0 |

Colour legend

Current Previous

Source: Bloomberg, Bloomberg BGN, Bloomberg Indices, Hedge Fund Research, MSCI, Standard & Poor's, LSEG Workspace, and ADCB Asset Management | Notes: *Positioning recommendations: SUW = Significant Underweight; UW = Underweight; N = Neutral; OW = Overweight; SOW = Significant Overweight. **Based on balanced risk profile. SAA = Strategic Asset Allocation; TAA = Tactical Asset Allocation; Active weight = TAA weight – SAA weight. Weights may not sum to 100% due to rounding.

Exhibit 2: Strategic Asset Allocation

| | Cautious | Balanced | Aggressive |
|-----------------------------|--|-----------------|--------------------------|
| Investment objective | Capital Preservation & Moderate growth | Growth & Income | Growth & Moderate Income |
| Investor Suitability | Moderately Conservative | Moderate | Moderately Aggressive |
| Asset Allocation | | | |
| Equity | 20% | 35% | 65% |
| Fixed Income | 65% | 50% | 20% |
| Alternatives | 15% | 15% | 15% |

Source: ADCB Asset Management

Tactical Asset Allocation

Investment Strategy | February 03, 2026

Cross-asset focus lists

Exhibit 3: Our high conviction tactical investment themes – open positions

| New/Open positions | Asset class | RV? | Date opened | Current date | Performance | Target | Stop |
|-----------------------------|-------------|-----|-------------|--------------|-------------|--------|------|
| Gold | Commodities | | 2-Feb-26 | 2-Feb-26 | 0.0% | 20% | -10% |
| US Small Caps (Russel 2000) | Equities | | 6-Oct-25 | 2-Feb-26 | 6.2% | 20% | -10% |
| US Homebuilders | Equities | | 2-Sep-25 | 2-Feb-26 | -3.0% | 20% | -10% |
| Indian equities | Equities | | 11-Apr-25 | 2-Feb-26 | 3.5% | 20% | -10% |
| Average | | | | | 1.7% | | |

Source: Bloomberg, and ADCB Asset Management

Exhibit 4: Our high conviction tactical investment themes – closed positions

| Closed positions | Asset class | RV? | Date opened | Closed date | Performance | Target | Stop |
|---------------------------------|---------------|-----|-------------|-------------|--------------|--------|------|
| Silver | Commodities | | 15-Oct-25 | 31-Dec-25 | 35.1% | | |
| Silver | Commodities | | 22-Sep-25 | 15-Oct-25 | 20.4% | 20% | -10% |
| Copper | Commodities | | 15-Jun-23 | 15-Oct-25 | 26.5% | | |
| Silver | Commodities | | 10-Jun-25 | 22-Sep-25 | 20.6% | 20% | -10% |
| Gold | Commodities | | 14-Nov-22 | 14-Jun-23 | 10.4% | | |
| Commodities average | | | | | 22.6% | | |
| US Small Caps (Russel 2000) | Equities | | 6-Mar-24 | 6-Oct-25 | 20.2% | 20% | -15% |
| High dividend yielders index | Equities | | 6-Mar-24 | 10-Jun-25 | 15.1% | 15% | -10% |
| Gold miner equities | Equities | | 17-Mar-25 | 2-Jun-25 | 20.8% | 20% | -10% |
| SPW relative to SPX | Equities | Yes | 6-Mar-24 | 10-Apr-25 | -5.7% | 15% | -10% |
| Gold miner equities | Equities | | 25-Nov-24 | 17-Mar-25 | 22.3% | 20% | -10% |
| HK equities | Equities | | 14-Nov-22 | 13-Nov-24 | 13.3% | | |
| Chinese hotels & leisure | Equities | | 14-Nov-22 | 13-Nov-24 | -18.6% | | |
| Chinese semiconductors | Equities | | 22-Mar-23 | 13-Nov-24 | 9.0% | | |
| Dow Jones World Cons. Goods | Equities | | 25-Aug-23 | 6-Mar-24 | 1.5% | | |
| Indian equities | Equities | | 22-May-23 | 6-Mar-24 | 31.3% | | |
| Cybersecurity | Equities | | 22-Mar-23 | 6-Mar-24 | 26.9% | | |
| Gold miner equities | Equities | | 14-Nov-22 | 14-Jun-23 | 13.1% | | |
| US Div.banks over US Regional | Equities | Yes | 13-Mar-23 | 13-Jun-23 | 24.8% | | |
| Equities average | | | | | 13.4% | | |
| US Mortgage Backed Securities | Secur. credit | | 11-Apr-25 | 5-Sep-25 | 5.2% | 5% | -5% |
| UK gilts over other DM Sov. | Rates | Yes | 14-Nov-24 | 1-Sep-25 | -2.5% | 5% | -5% |
| UST (7Y-10Y) over other DM Sov. | Rates | Yes | 5-Jul-22 | 13-Nov-24 | -1.1% | | |
| EU IG Corp over US IG Corp | Credit | Yes | 9-Jan-23 | 13-Nov-24 | 6.0% | | |
| Asia investment grade credit | Credit | | 9-Jan-23 | 14-Jun-23 | 1.8% | | |
| Fixed Income average | | | | | 1.9% | | |
| USDJPY | FX | | 6-Mar-24 | 26-Apr-24 | -6.0% | | |
| GBPUSD higher | FX | | 15-Jun-23 | 20-Sep-23 | -3.4% | | |
| USDJPY lower | FX | | 9-Jan-23 | 14-Jun-23 | -6.1% | | |
| GBPEUR lower | FX | | 9-Jan-23 | 14-Jun-23 | -2.9% | | |
| FX average | | | | | -4.6% | | |

Source: Bloomberg, and ADCB Asset Management

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