

# Global Macro Outlook

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Diversification in a fragmenting world

Fidelity Multi Asset  
Global Macro and Strategic Asset Allocation Team  
February 2026



# Global Macro Outlook

## Diversification in a fragmenting world

- **Rebuilding equity diversification in a fragmenting world:** Equity market risk today is increasingly **driven by concentration, policy-driven macro volatility, and the interaction between equity returns and FX**, especially for non-USD investors. We favour rebuilding the equity sleeve within a clear active-risk budget using four levers: **broaden regional exposure** beyond the US; **add systematic factor sleeves** to diversify return drivers without wholesale sector bets; use **active management where market dispersion is highest**; **currency hedging should be treated as an explicit choice**, with hedge ratios reviewed as the dollar's defensive behaviour and hedging costs change. The four levers are modular building blocks, but when used together, they aim to reduce reliance on single market themes, increase diversification, manage overall tracking error and widen the set of return drivers available to the equity sleeve.
- **US:** We expect the US to run hot in 2026, driven by strong investment and a front-loaded fiscal impulse from the One Big Beautiful Bill. **The AI-led capex boom remains central to our reflation view**, with spillovers into other sectors and wealth effects supporting consumption. This is now becoming clear in the data, **with the labour market now showing a clear inflection higher since Q4 2025**. Growth will also broaden as fiscal easing and state intervention focus on affordability ahead of mid-terms. A more dovish Fed leadership, led by Chair Warsh, and FOMC voter rotation, should support further easing – **we expect three cuts in H2**.
- **Implications of Fed Chair Warsh:** Warsh is likely to combine **pragmatic easing with structural hawkishness on the balance sheet**, seeking a Treasury–Fed accord that gradually shrinks reserves while avoiding a disorderly tightening in funding conditions. Given Warsh's long-held view that the modern Fed over-communicates, we expect less reliance on forward guidance, which **should raise policy uncertainty, interest rate volatility, and term premia**.
- **Europe:** **Euro area growth has picked up and is showing resilience from a soft base**. German fiscal is supportive, but trade tensions with the US and China are key risks. We see continued resilience and solid growth in the former “peripheral” European economies. **Inflation risks are skewed to the downside** due to excess goods supply from East Asia, and wage-tracker signals support continued services disinflation. **We expect the ECB to hold near term, then cut as an inflation undershoot becomes sustained**. For the UK, we expect three BoE cuts, more than priced, as labour weakness meets faster disinflation.
- **Asia:** **China should sustain steady momentum in 2026**, with resilient exports and a still-divergent growth mix until domestic sentiment improves. We expect “controlled stabilisation”, with growth ~4.5% supported by incremental, reactive fiscal support, rather than a large stimulus. **In Japan, Takaichi's supermajority means more fiscal expenditure over the medium term**, with expansionary policy plus wage-led reflation likely to push the **BOJ to normalise faster**. **The rest of Asia will continue to experience divergence in AI and non-AI related recovery**, but the gap will likely close as the recovery broadens.
- **Tactical Asset Allocation (TAA) views:** We have a positive outlook for risk assets due to resilient earnings and policy support. Downside tail risks have reduced, but with much good news already priced in, selectivity remains important. **We are overweight equities and government bonds, and cautious on credit**. We prefer emerging market assets broadly.

## 2026 Growth forecasts

We remain optimistic on the US outlook vs consensus and shift to a balanced view on China and Japan as consensus catches up to our initial upside view

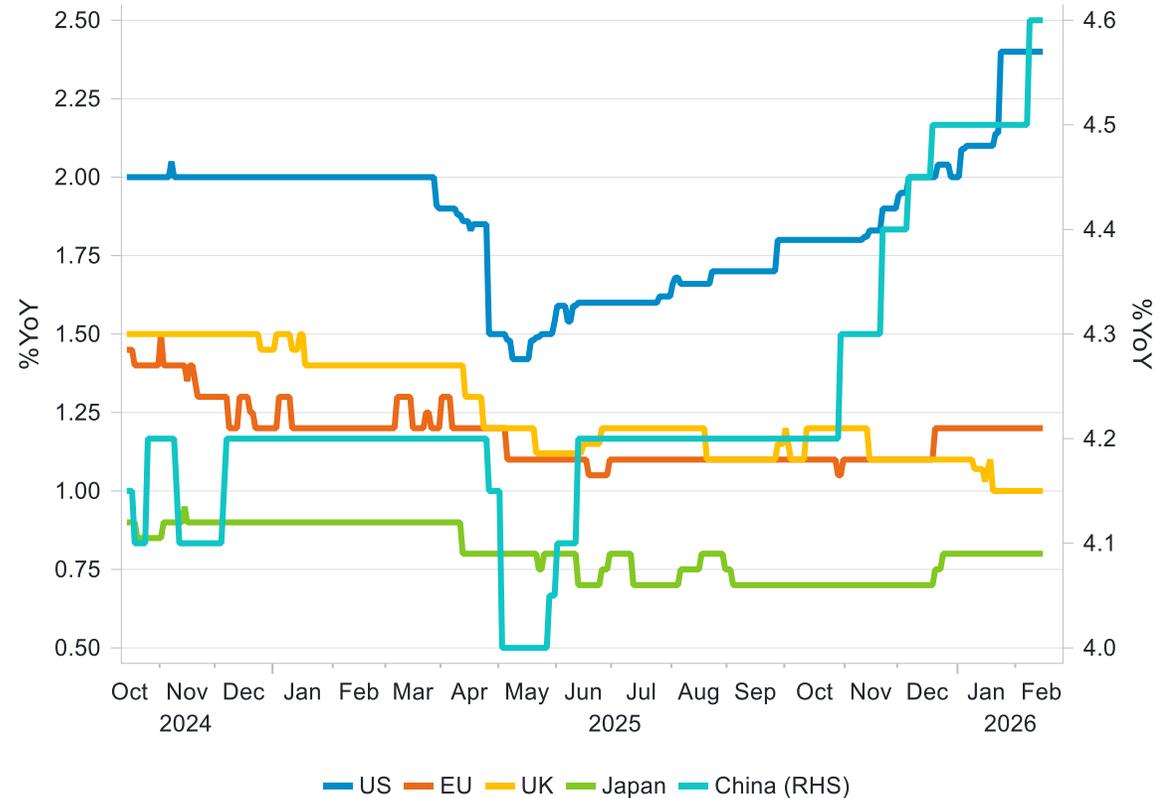
2026 Growth (%YoY)	BBG Consensus*	Fidelity Upside Case	Fidelity Downside Case	Risk Assessment vs Consensus
<b>Global</b>	<b>3.5</b>	<b>3.9</b>	<b>2.6</b>	<b>Balanced</b>
<b>Developed markets</b>	<b>1.7</b>	<b>2.1</b>	<b>0.8</b>	<b>Balanced</b>
US	2.4	2.8	1.5	Upside
Eurozone	1.2	1.7	0.6	Balanced
UK	1.1	1.4	0.5	Downside
Japan	0.8	1.3	0.5	Balanced
<b>Emerging markets</b>	<b>4.7</b>	<b>5.1</b>	<b>3.8</b>	<b>Balanced</b>
China	4.6	5.0	3.5	Balanced
India	6.6	7.2	6.0	Balanced
Brazil	1.8	2.8	1.5	Upside
Mexico	1.4	1.5	1.0	Downside
Turkey	3.5	3.5	2.5	Upside
Indonesia	5.1	5.1	4.3	Balanced

Source: Fidelity International, Bloomberg, February 2026. Note: these scenarios and risk assessment are not intended to be exact growth forecasts, but rather illustrations of potential outcomes based on particular assumptions about a number of variables, including supply side risks, monetary and fiscal policies and associated multipliers, corporate and consumer behaviour. Given significant uncertainties related to how the cycle might evolve, these scenarios are subject to change. DM, EM and global aggregates are calculated including only countries that appear in the table, giving rise to potential differences vs aggregate consensus numbers quoted on Bloomberg, which include a wider universe. For India we use Fiscal year 2027 numbers. We will be revising growth numbers and risk assessment continuously, as signals evolve, and more information becomes available \*BBG consensus as of 16 February 2026.

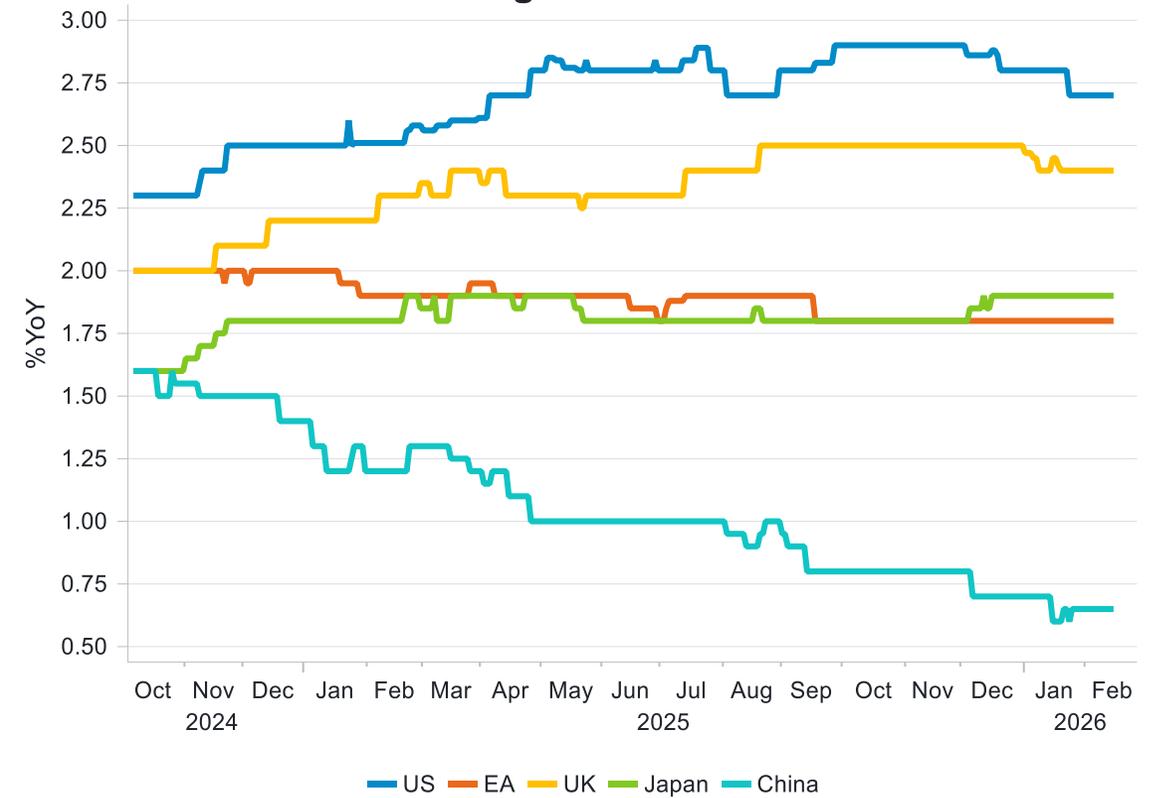
# Global growth and inflation consensus forecasts for 2026

Global growth outlook is turning more constructive on balance, while inflation paths remain uneven

### 2026 real GDP growth Bloomberg consensus forecast



### 2026 CPI inflation Bloomberg consensus forecast



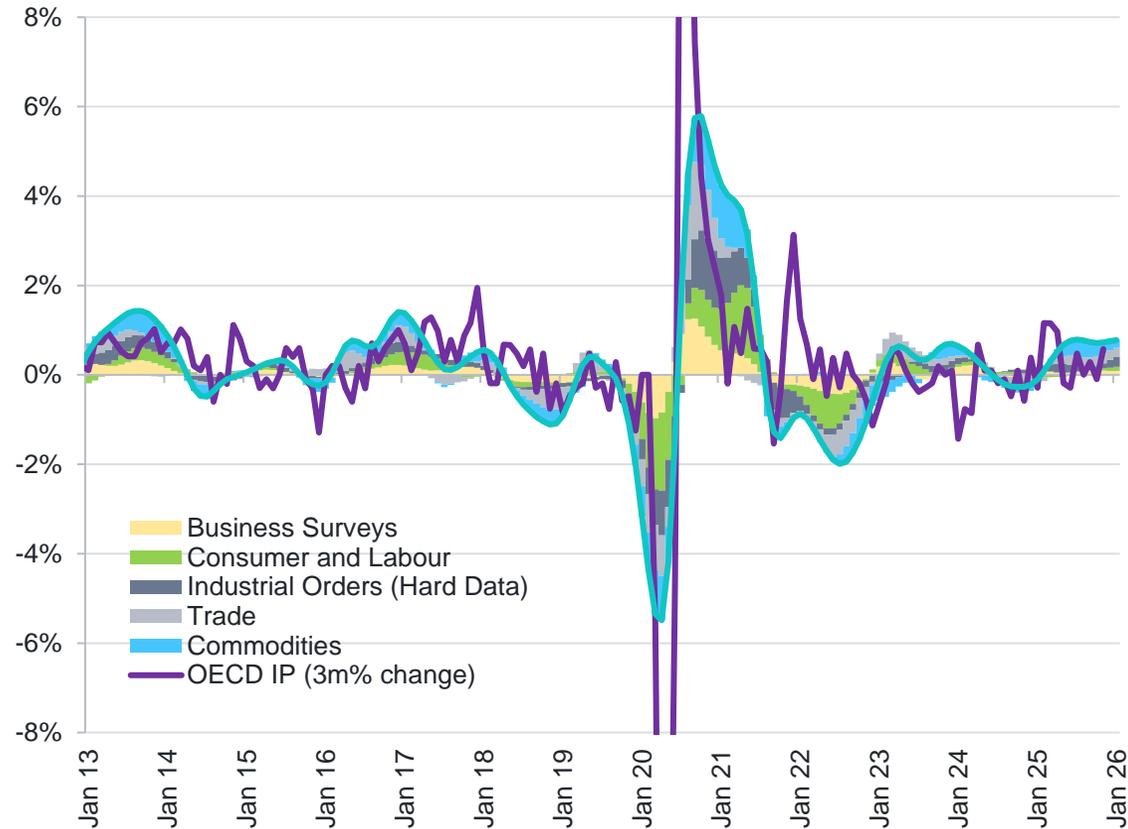
Source: Fidelity International, Macrobond, Bloomberg, February 2026.

Source: Fidelity International, Macrobond, Bloomberg, February 2026.

# Global leading indicators

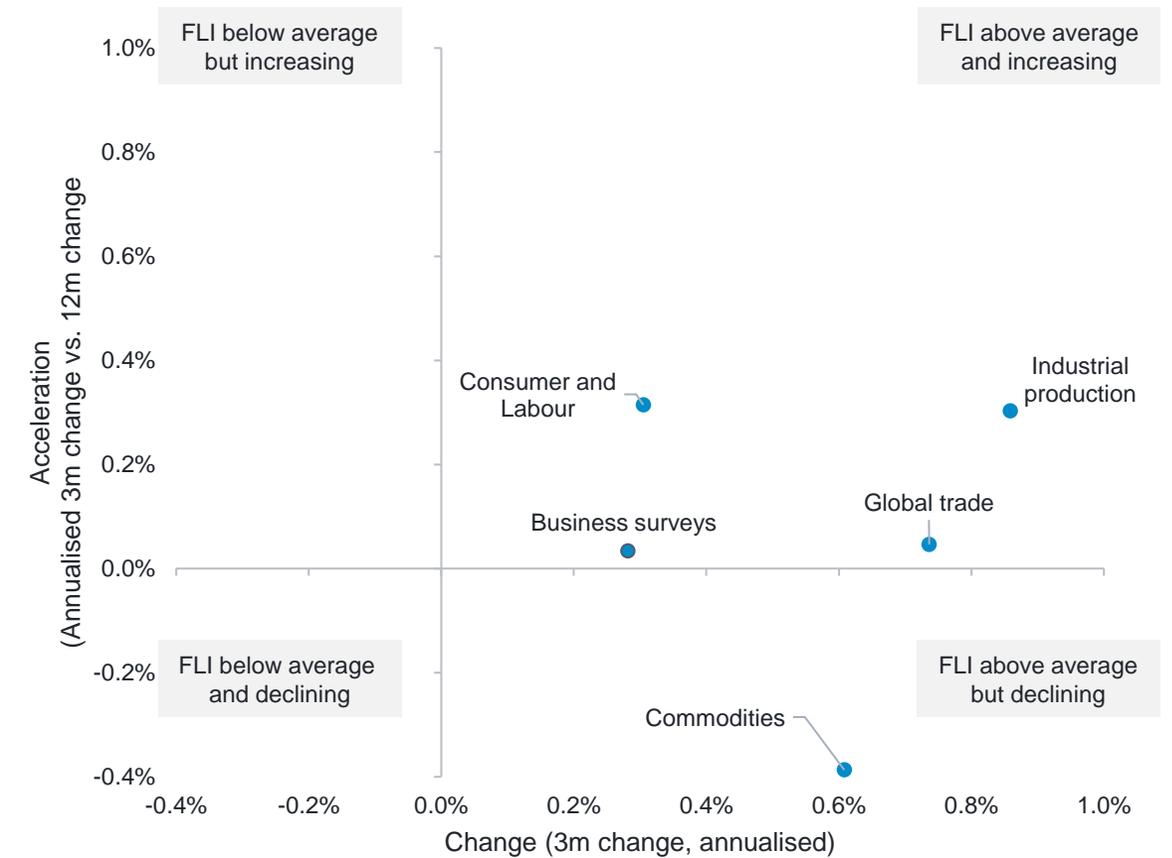
FLI remains upbeat indicating resilience in global industrial cycle

## Fidelity Leading Indicator (3m% change) vs OECD IP



Source: Fidelity International, FIL Global Macro Team calculations, Haver Analytics, February 2026.

## Fidelity Leading Indicator: Components split

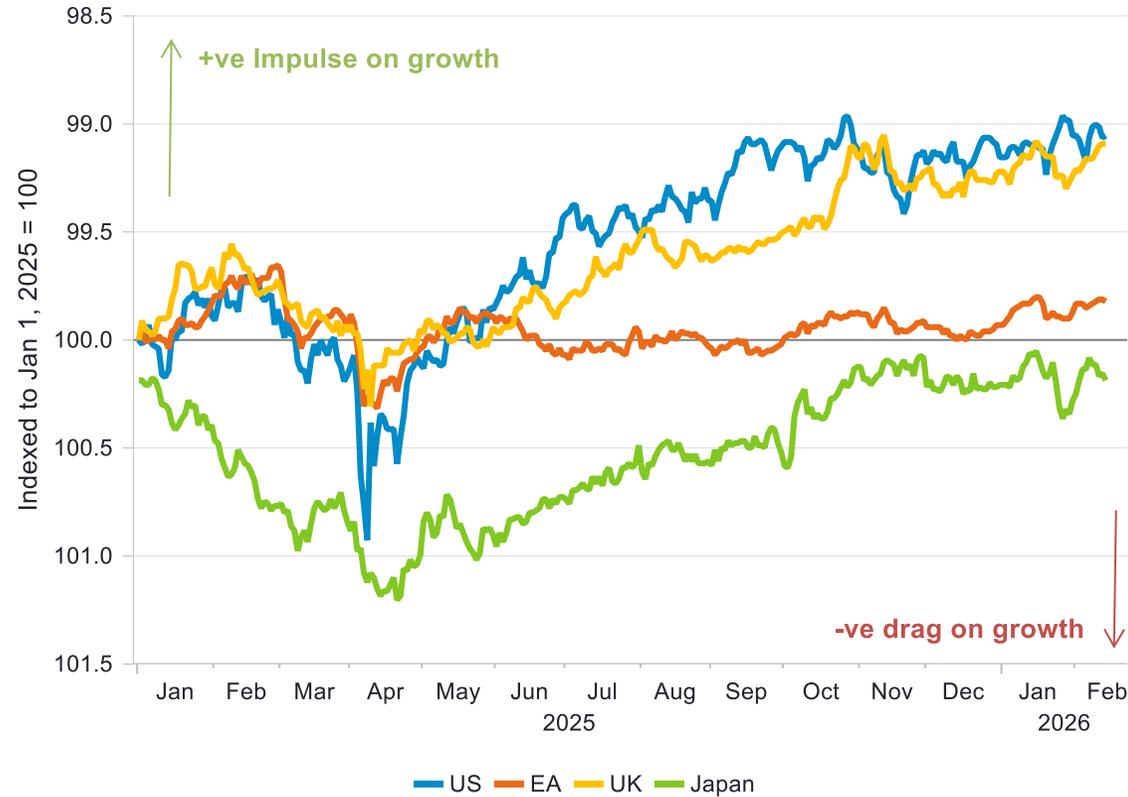


Source: Fidelity International, FIL Global Macro Team calculations, Haver Analytics, February 2026.

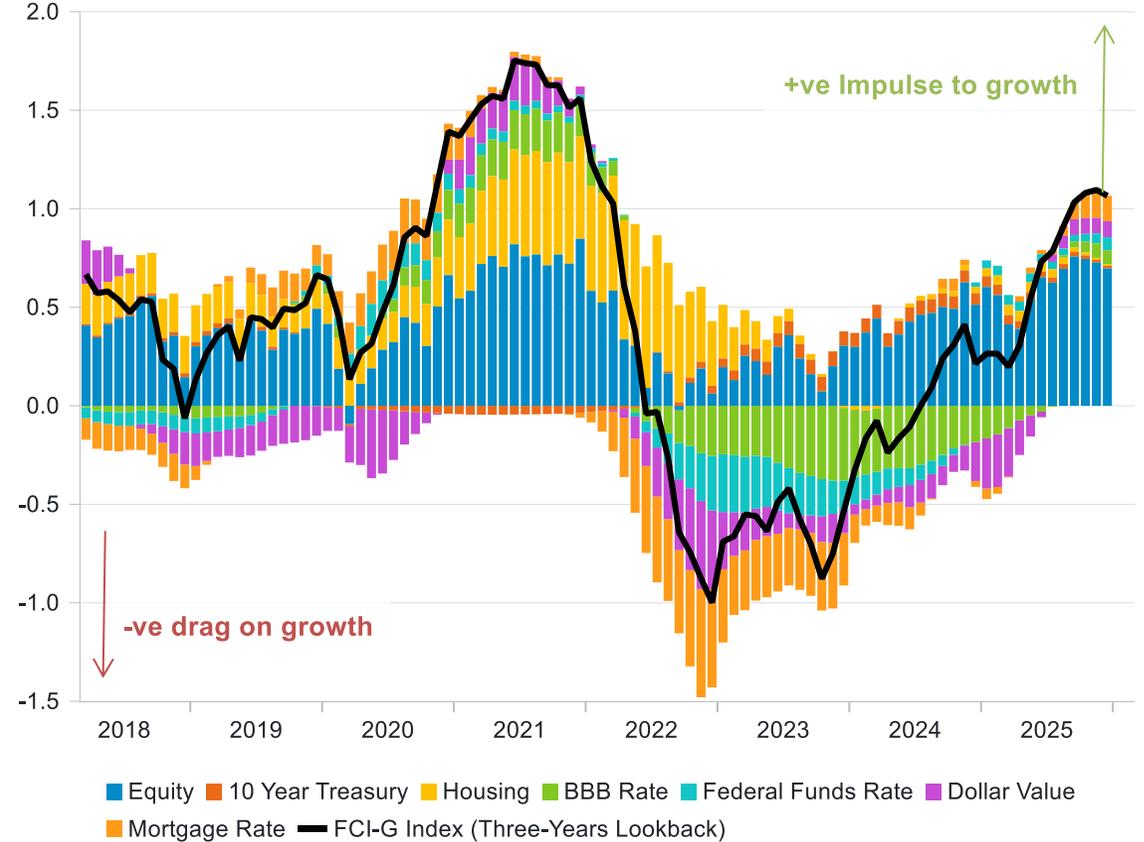
# Financial conditions continue to act as a tailwind...

...with equity markets driving gains across the globe

## GS financial conditions indices (FCI)



## Federal Reserve's financial conditions index



FCI – Financial Conditions Index

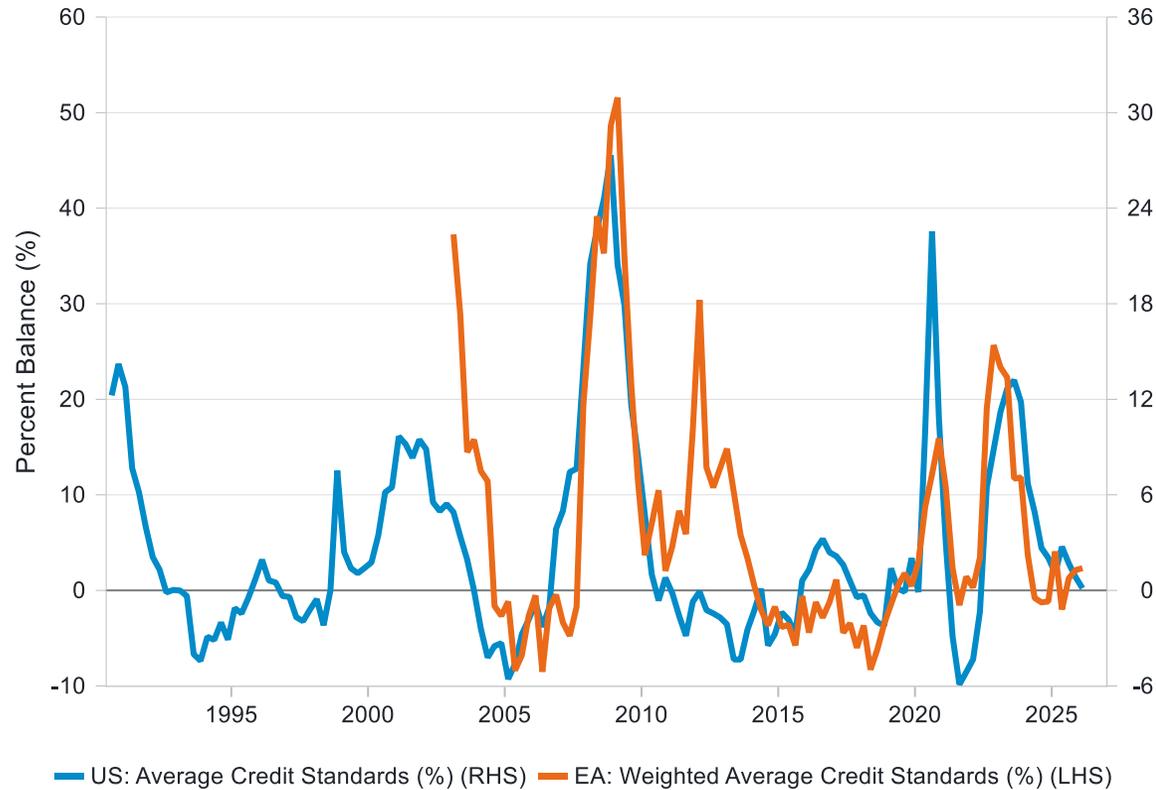
Source: Fidelity International, Macrobond, Bloomberg, GS, February 2026.

Source: Fidelity International, Macrobond, Fed, February 2026.

# Monetary easing in US is translating into easier credit standards and pick up...

...in loan demand conditions. Progress on Euro area has stalled with signs of re-tightening

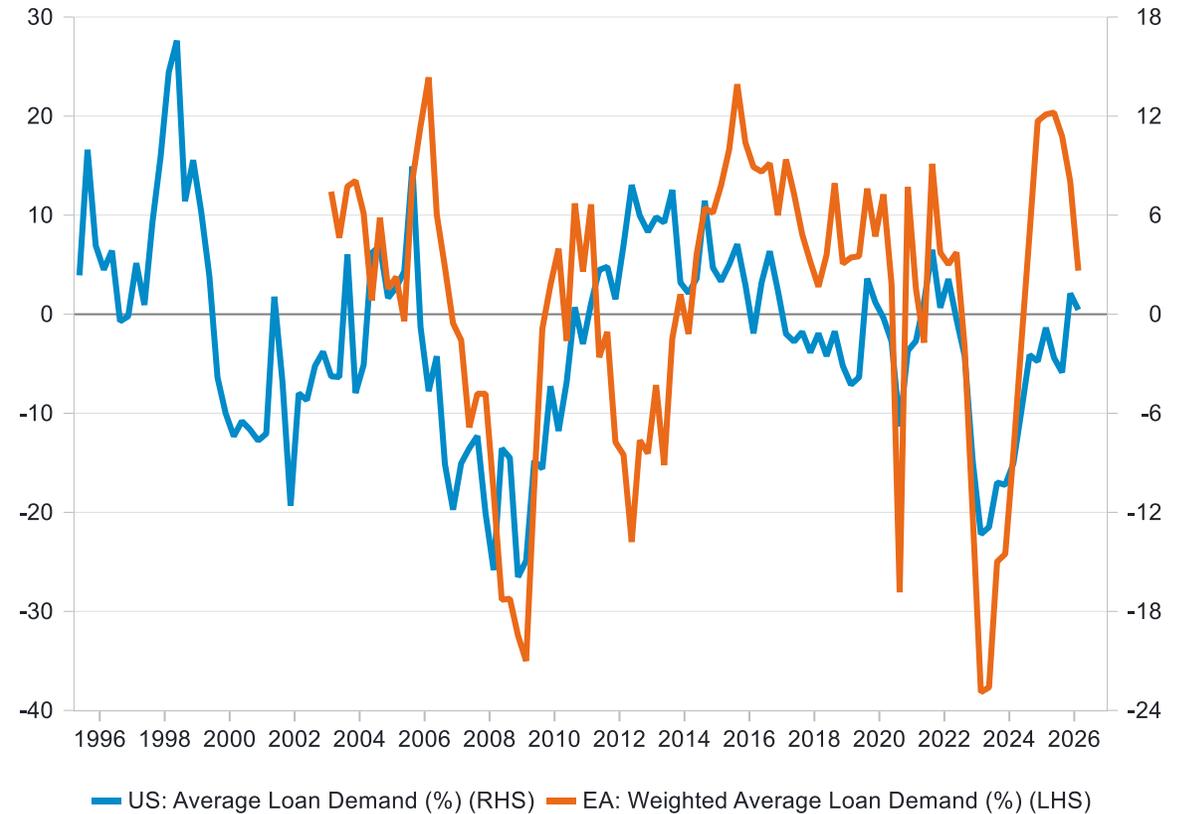
### DM Credit standards (net percent)



Notes: For US, we use a weighted average of sub-components: C&I loans, residential mortgages, commercial real estate and consumer loan. For Euro area, we use a weighted average of sub-components based on their share of the total stock of outstanding euro area lending: business loans, residential mortgages, and 'consumer credit & other lending'.

Source: Fidelity International, Macrobond, ECB, February 2026

### DM Loan demand (net percent)



Notes: For US, we use a weighted average of sub-components: C&I loans, residential mortgages, commercial real estate and consumer loan. For Euro area, we use a weighted average of sub-components based on their share of total outstanding stocks of loans: business loans, residential mortgages, and 'consumer credit & other lending'.

Source: Fidelity International, Macrobond, ECB, February 2026

# Investment Strategy

Rebuilding equity diversification

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# A macro-based framework for equity portfolio diversification

A risk-budget approach to reducing concentration and macro sensitivity in the global equity sleeve

- Key **investment challenges** - geoeconomic fragmentation, fiscal sustainability risks, AI theme dominance, and the high concentration of market-cap weighted indices
- We believe there are **four key levers** that could help investors to meet these challenges:
  1. **Regional breadth** reduces reliance on US mega-cap leadership and can improve the balance of equity return drivers.
  2. **Factor exposure** offers a transparent route “off market cap”, diversifying return drivers across styles and risk premia, while allowing to keep sector exposures within tight ranges.
  3. **Active management** complements regional and factor tilts by capturing tactical opportunities across stocks, sectors and regions as leadership rotates, alongside security selection.
  4. **Currency hedging** is no longer a background decision, it can materially shape realised outcomes for non-USD investors.

## Mapping themes to diversification strategies

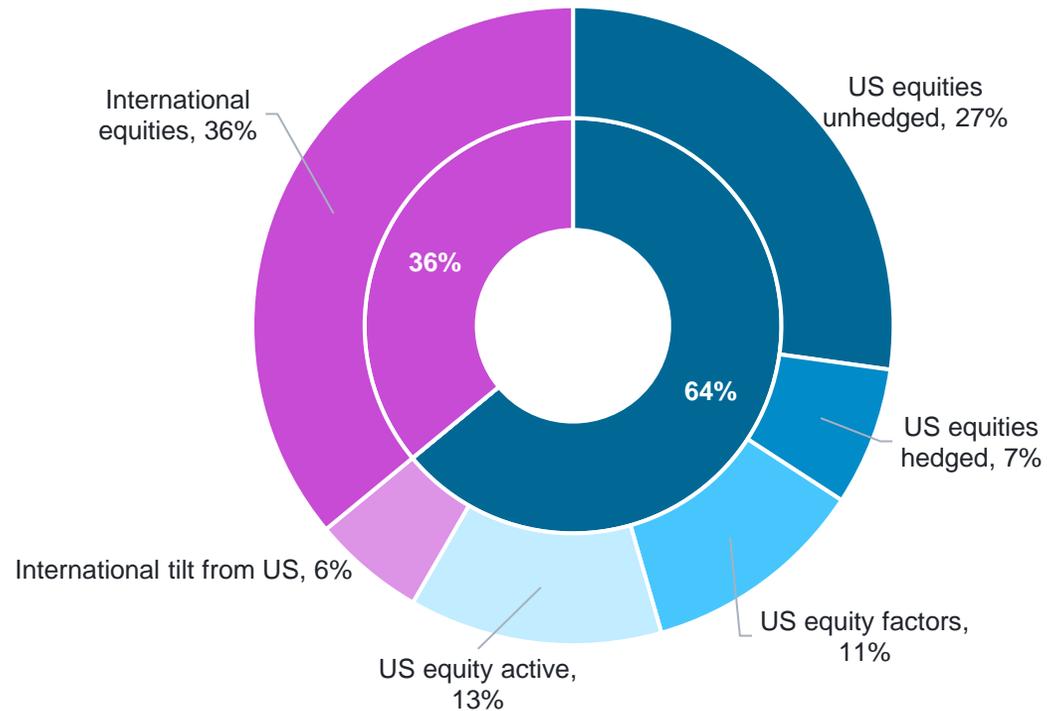
<i>Primary concern</i>	Geoeconomic fragmentation	Fiscal sustainability	Thematic concentration (AI buildout)	Company-level concentration
Regional tilts				
(US) Factor exposure				
Active management				
Currency hedging				

Source: Fidelity International, 2026. For illustrative purposes only

# Four diversification levers, one risk budget

Investors can tilt across the four levers based on thematic conviction

**Example: Investment strategy with a 2% tracking error to US equities**



**Blending the four diversification levers into a single portfolio**

	Tracking error	Risk parity portfolio	Capital allocation within US equity	Total equity portfolio (initial)
Global ex-US	-	-	-	42% (36%)
US Equity index-tracker	-	-	42%	27% (64%)
Regional tilts	9.0%	15%	9%	<i>Added to Global ex-US</i>
Factor exposure	4.5%	31%	18%	11% (0%)
Active management	4.0%*	35%	20%	13% (0%)
Currency hedging	7.3%**	19%	11%	7% (0%)
<b>Tracking error vs US index</b>		<b>3.5%</b>	<b>2.0%</b>	<b>~1.0%</b>

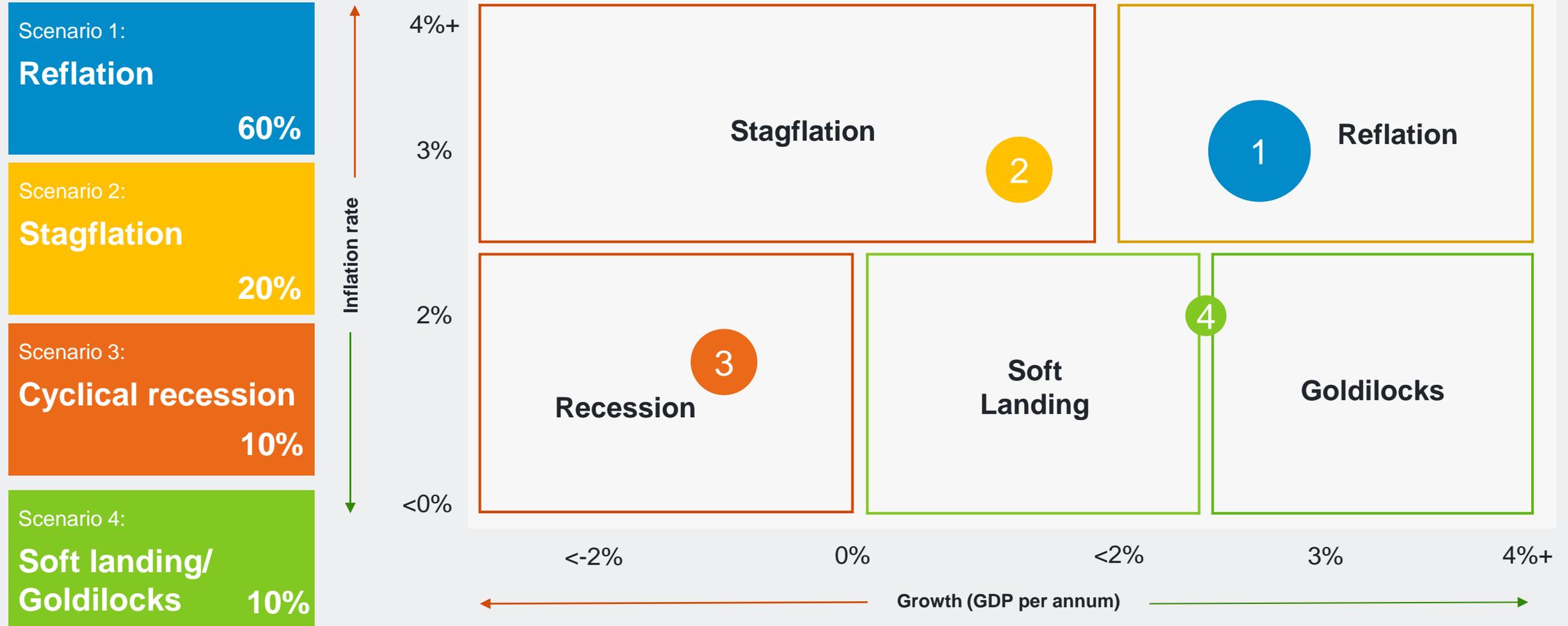
Source: Fidelity International, 2026. For illustrative purposes only

# US Macro Outlook

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# US 2026 outlook

We expect the US Economy to run hot this year with above trend growth and inflation

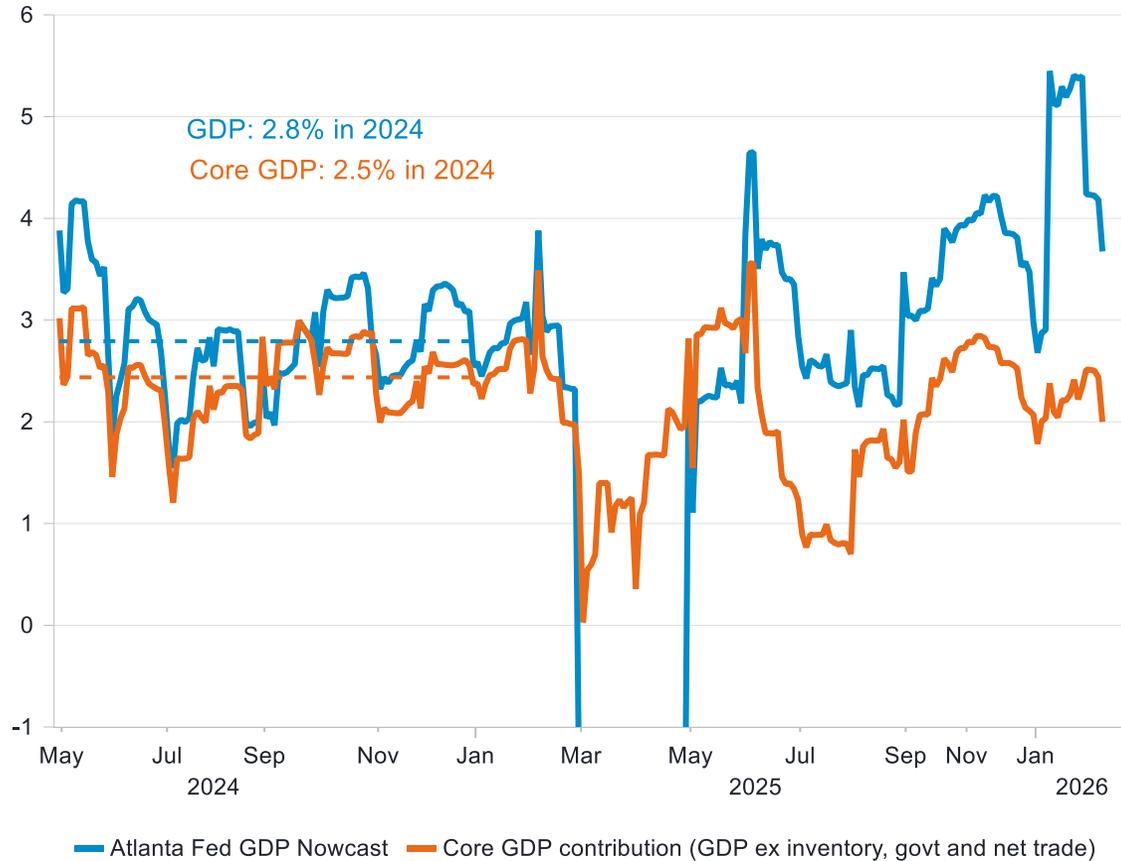


Note: Brackets reflect previous probabilities. Inflation rate measured by US Core Personal Consumption Expenditures Price Index.  
Source: Fidelity International, February 2026.

# US economy continues to grow at a solid pace

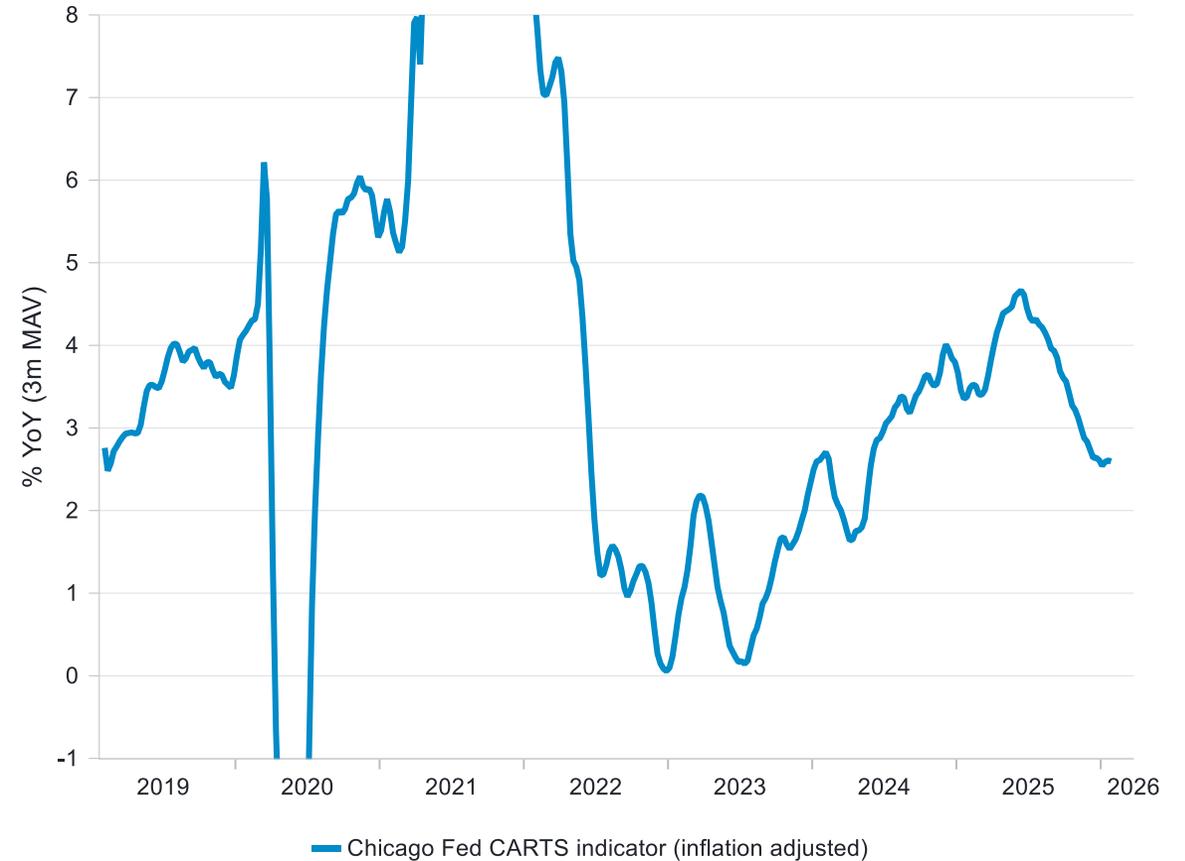
Consumption demand appears to have slowed in Q4 2025; however we expect stimulus from OBBB to support recovery in H1 2026

## US Atlanta Fed GDP and Core GDP Nowcast



Source: Fidelity International, Macrobond, Federal Reserve Bank of Atlanta, February 2026.

## US Real Goods Consumption (proxy by CARTS Weekly indicator)

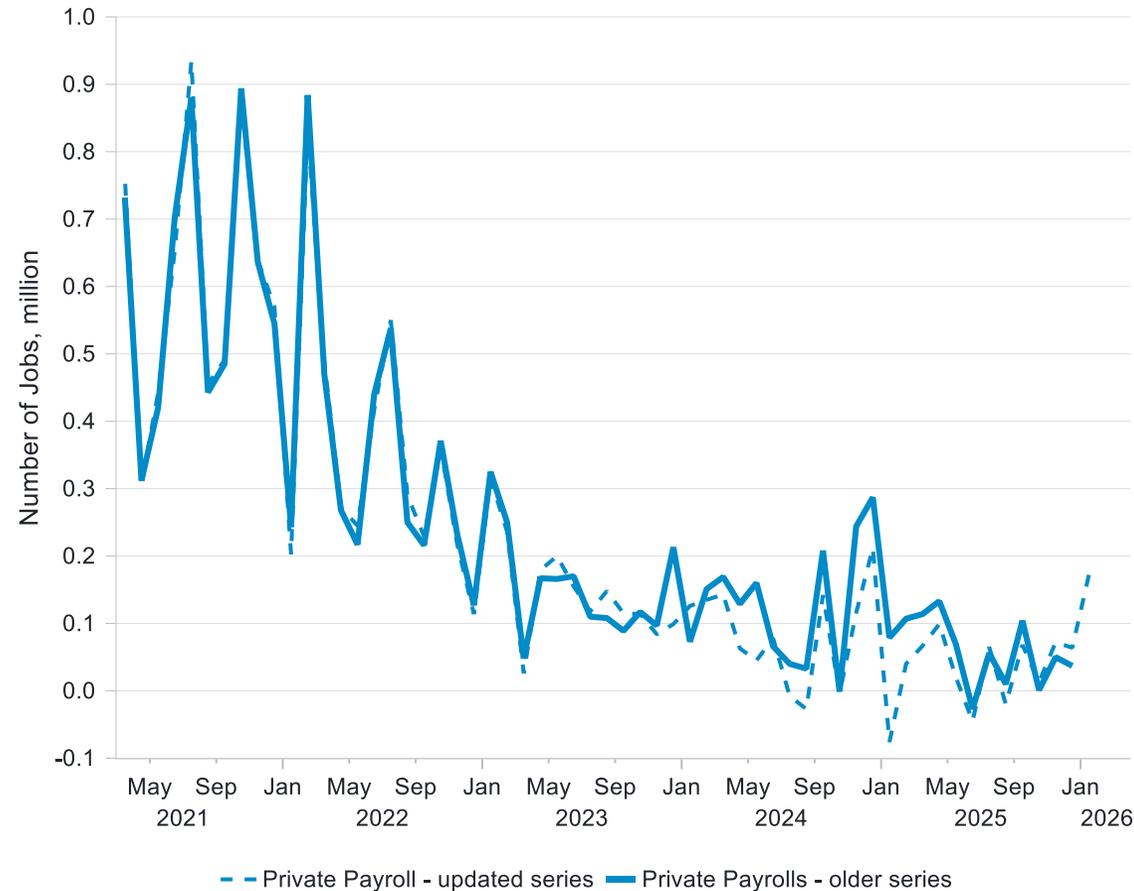


Source: Fidelity International, Macrobond, Chicago Fed, February 2026.

# Labour market has bottomed out and is recovering...

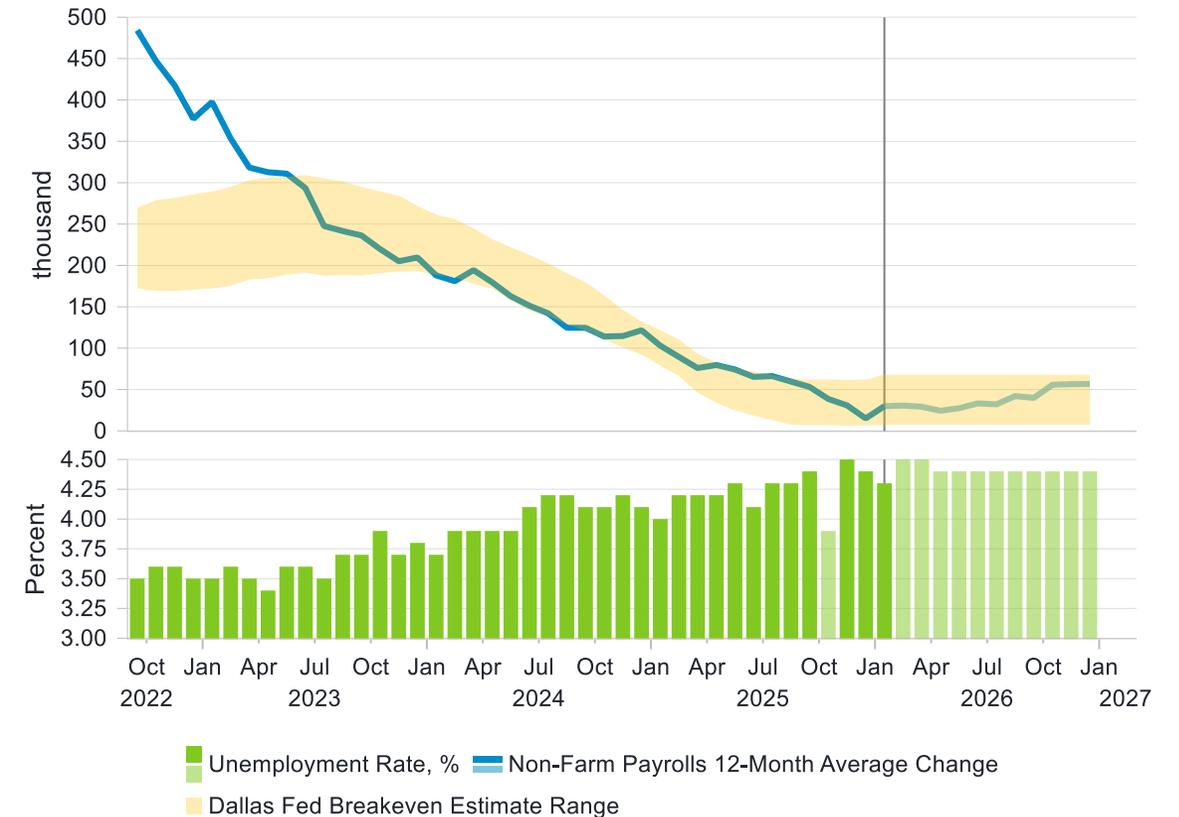
...with a low breakeven rate keeping a lid on the unemployment rate.

## US Private payrolls (1-Month Net Change), SA



Source: Fidelity International, Macrobond, BLS, February 2026.

## US Payrolls, Breakeven and Unemployment Rate

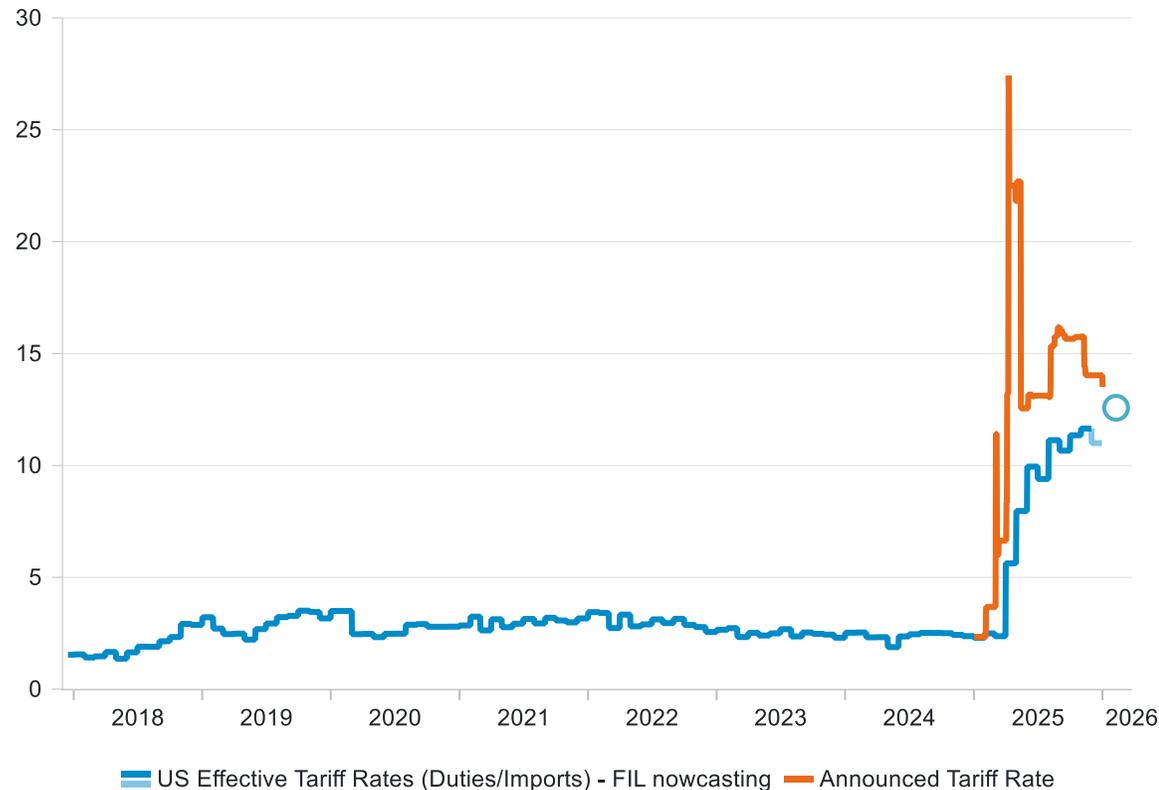


Note: we assume payrolls growth of 50K per month on average in 2026, and UR at 4.4% for 2026. We extrapolate Dallas Fed BE estimates into 2026 using CBO population growth estimates.  
Source: Fidelity International, Macrobond, Dallas Fed, BLS, CBO, February 2026.

# US effective tariff rates have been trading lower, with risks balanced on both sides

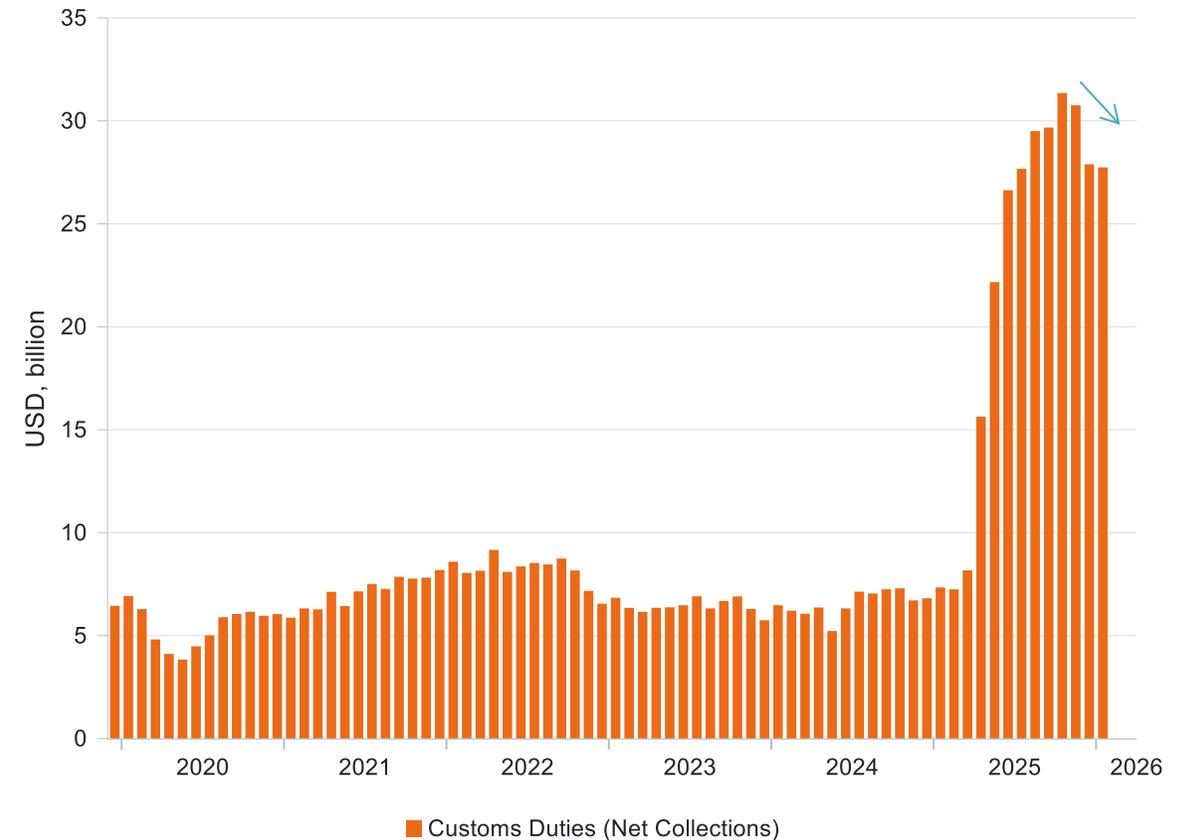
Tariff collections have also peaked implying less drag on growth and weaker fiscal revenues.

## US Effective Tariff Rates expected to settle around 12-13%



Note: Current tracking of ETR takes into account the latest available advance import data for its calculations. Announced tariff calculations are based on latest announcements as of February 2026, new trade patterns in the US which includes falling share of China exports and rising share of other low tariffed regions, increased share of USMCA compliant goods since June 2025 that are exempt from tariffs. The blue circle denotes our resting estimate for ETR at ~12-13%, which incorporates the new trade deal with India and assumes some room for further desescalation ahead.  
Source: Fidelity International, Macrobond, Bloomberg, U.S. Treasury, USCB, February 2026.

## Peaking revenues goes together with less fiscal drag



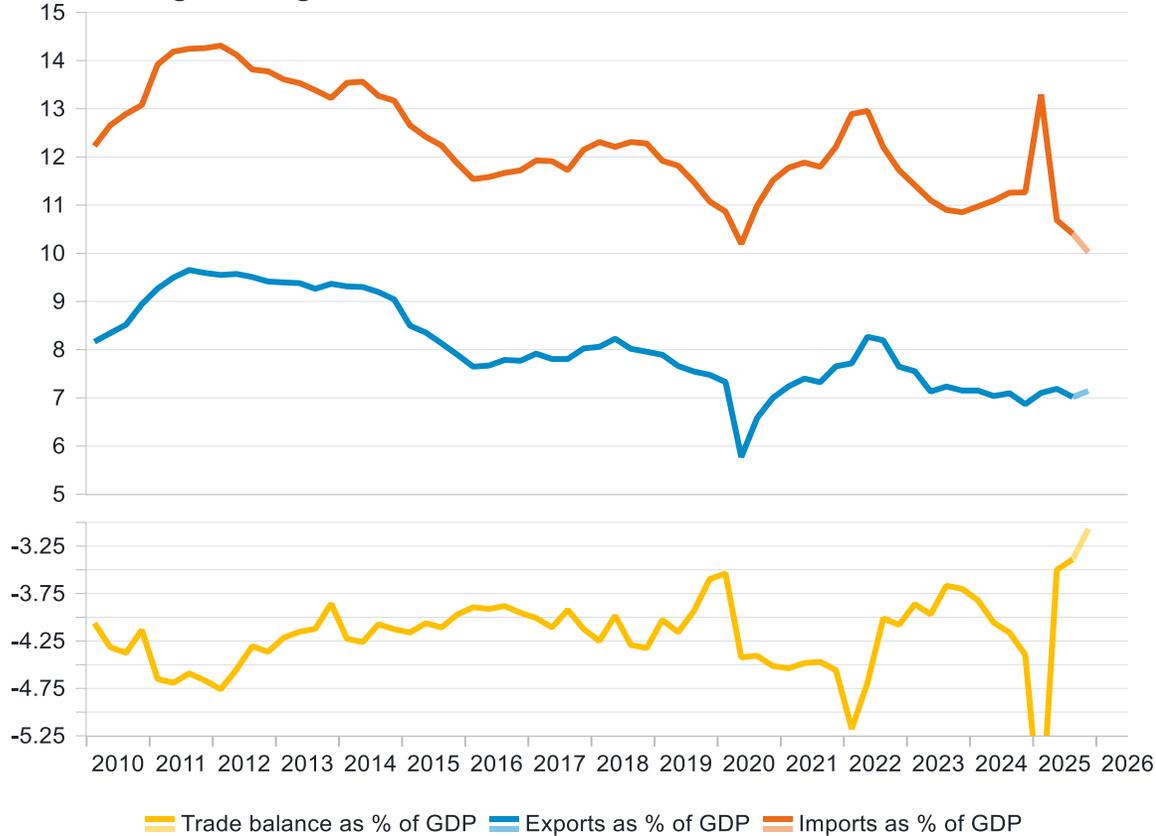
Note: January 2026 Collections are estimated based on daily gross tax collections from the Department of Treasury.  
Source: Fidelity International, Macrobond, U.S. Treasury, February 2026.

# New US trade regime compressing import share whilst leaving exports unaffected

Key point to watch will be how sustainable this US gain in global market export share is

## US goods trade deficit the smallest it's been since the GFC

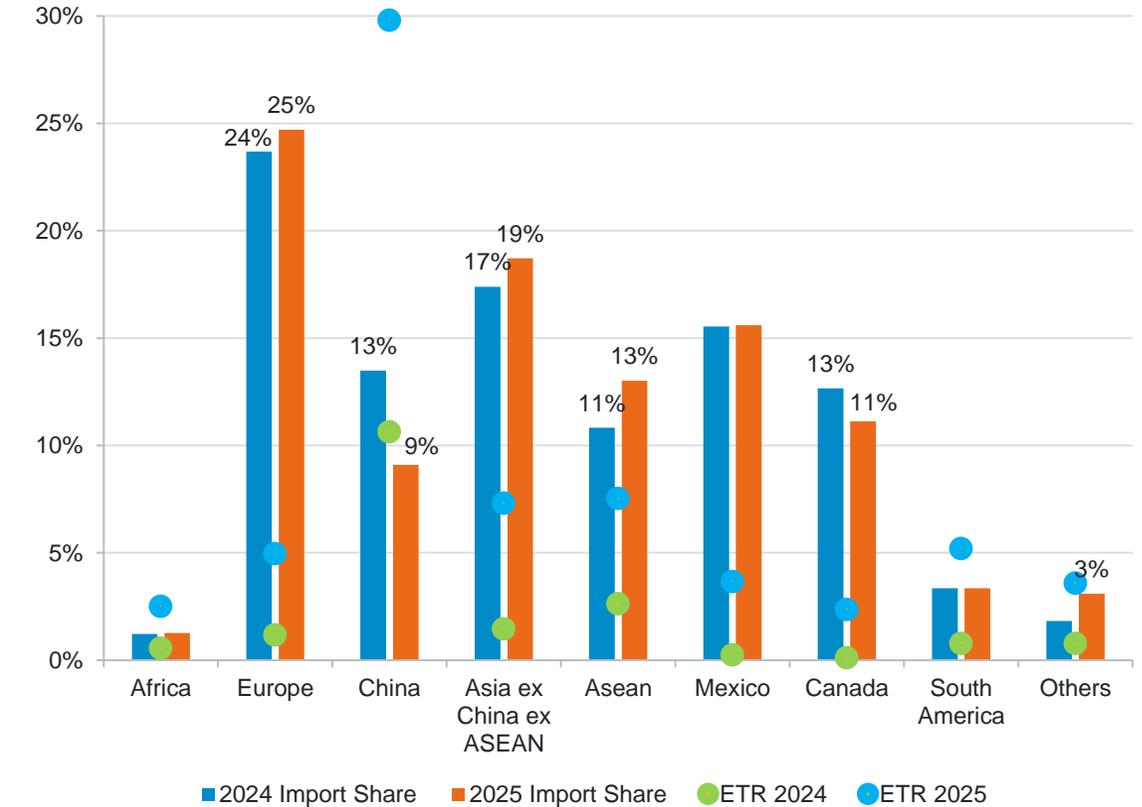
2Q moving average



Note: 4Q 2025 trade data is based on 2 months of data annualised.  
Source: Fidelity International, Macrobond, USCB, BEA, February 2026.

## China's import share has redistributed to SE Asia & Mexico

US import share and effective tariff rates – region/country

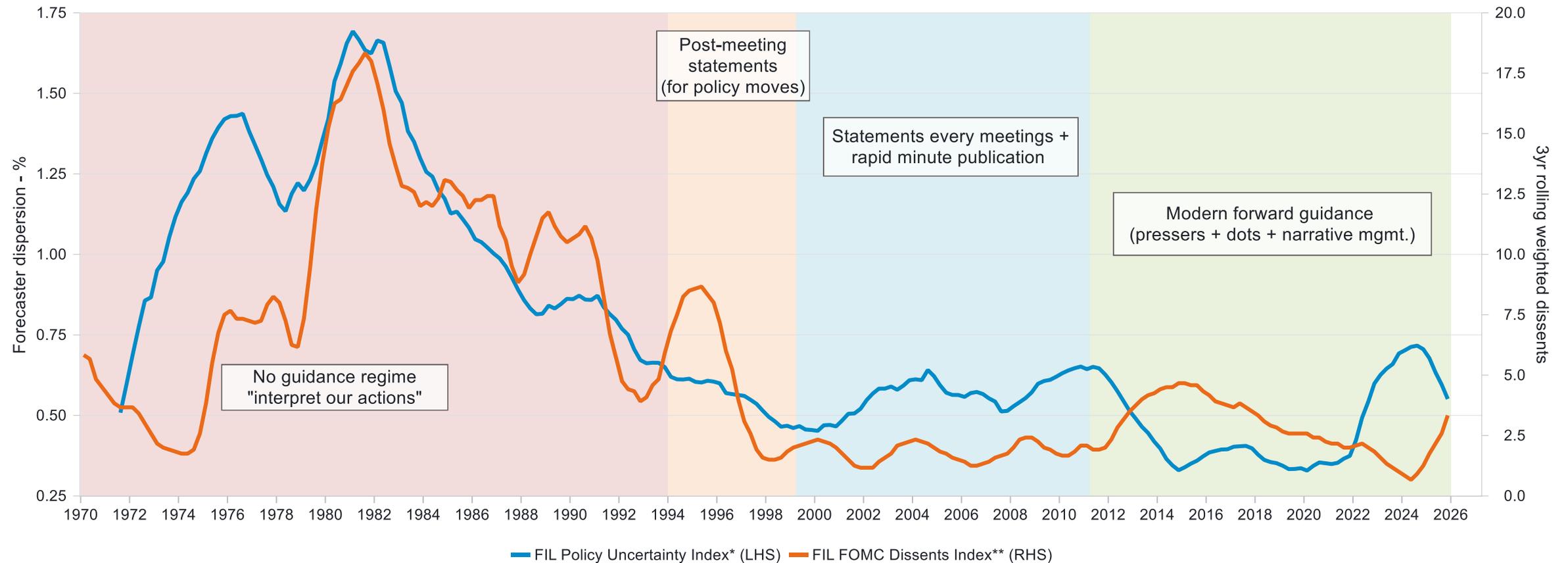


Note: 2025 import shares based on year to date trade data as of November 2025  
Source: Fidelity International, US Census Bureau, February 2026

# Warsh's inclination to downplay forward guidance, and lean into Greenspan-like...

... 'conviction economics' likely to increase policy uncertainty and could alienate FOMC members.

## Forecaster policy uncertainty tied to Fed board communication regime and individual FOMC member communications



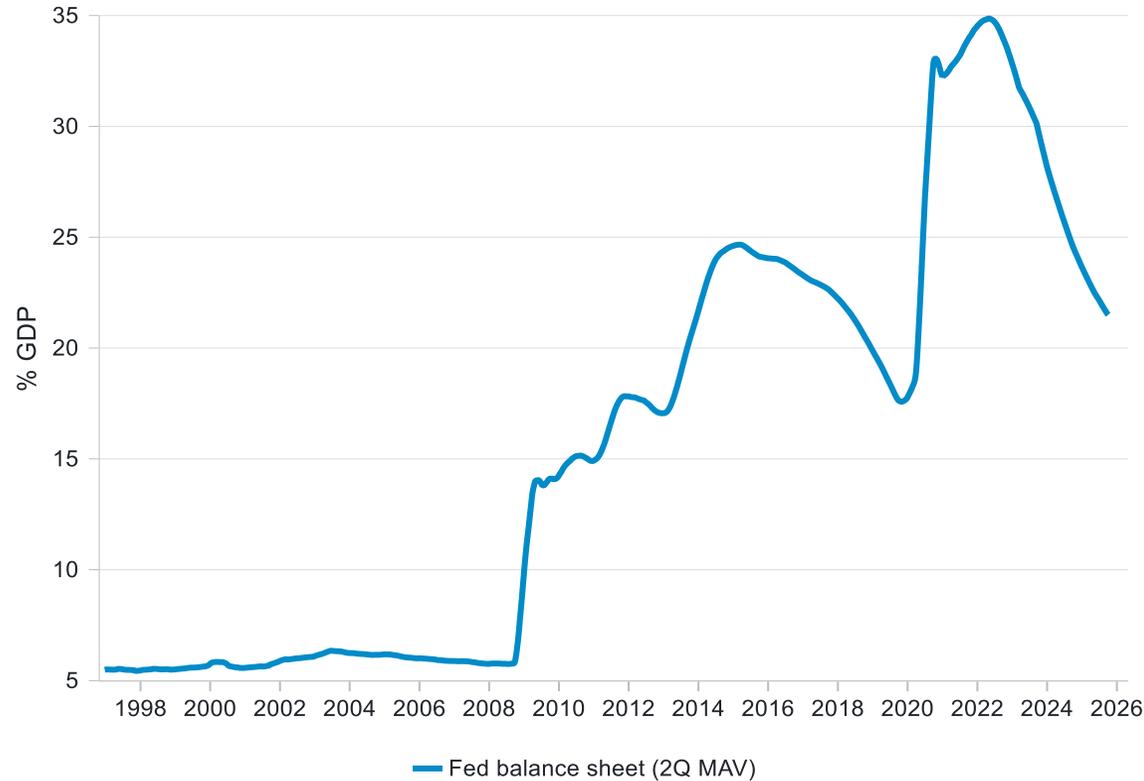
\*Average NTM forecaster dispersion of inflation and interest rates from the Philadelphia Fed Survey of Professional Forecasters. Just inflation prior to 1985 - 3yr MAV

\*\*Rolling 1yr sum of dissents to FOMC policy moves. Dissents from Governors weighted more - 3yr MAV

Source: Fidelity International, Macrobond, FIL Global Macro Team calculations, Philadelphia Fed, St. Louis Fed, February 2026.

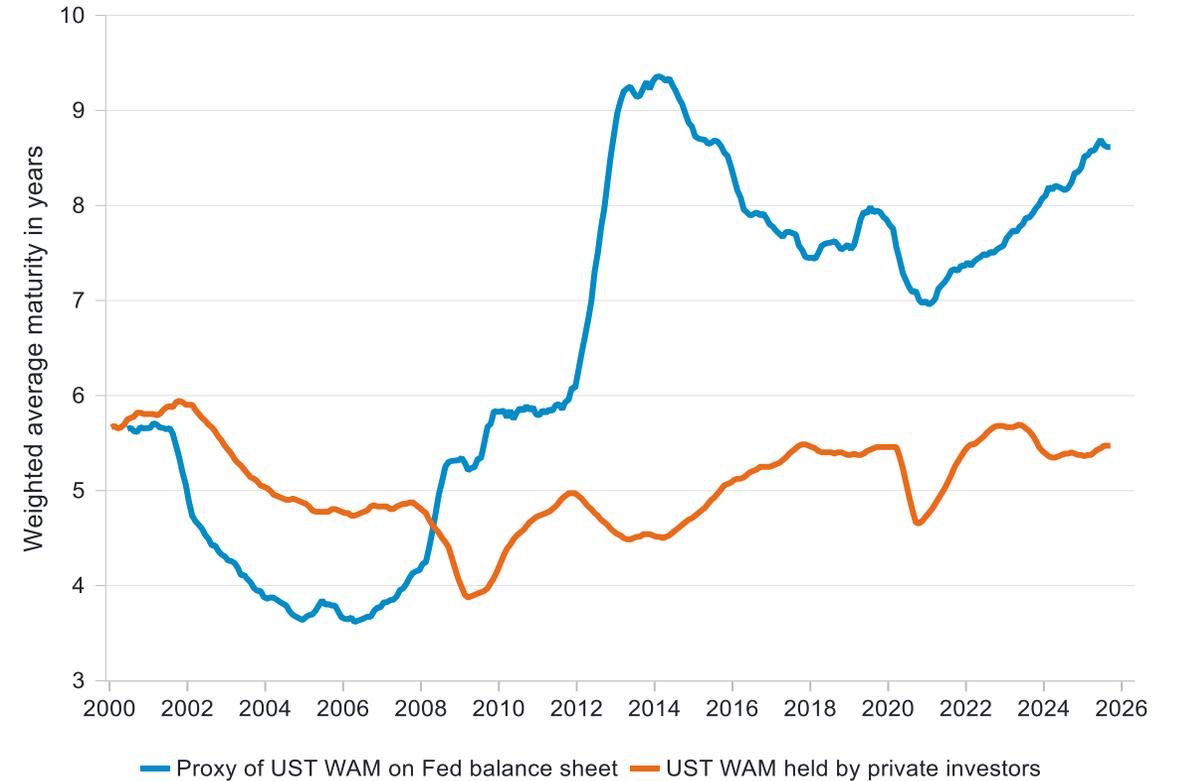
# Given the constraints of the current bank regulatory regime, Warsh will prioritise... ...shortening the duration of the Fed's balance sheet before actively reducing its size.

**Warsh will need Fed-Treasury accord in place to sustainably reduce balance sheet size from here**



Source: Fidelity International, Macrobond, Fed, BEA, New York Fed, February 2026.

**Warsh likely to twist Fed balance sheet more aggressively towards bills as a first step**

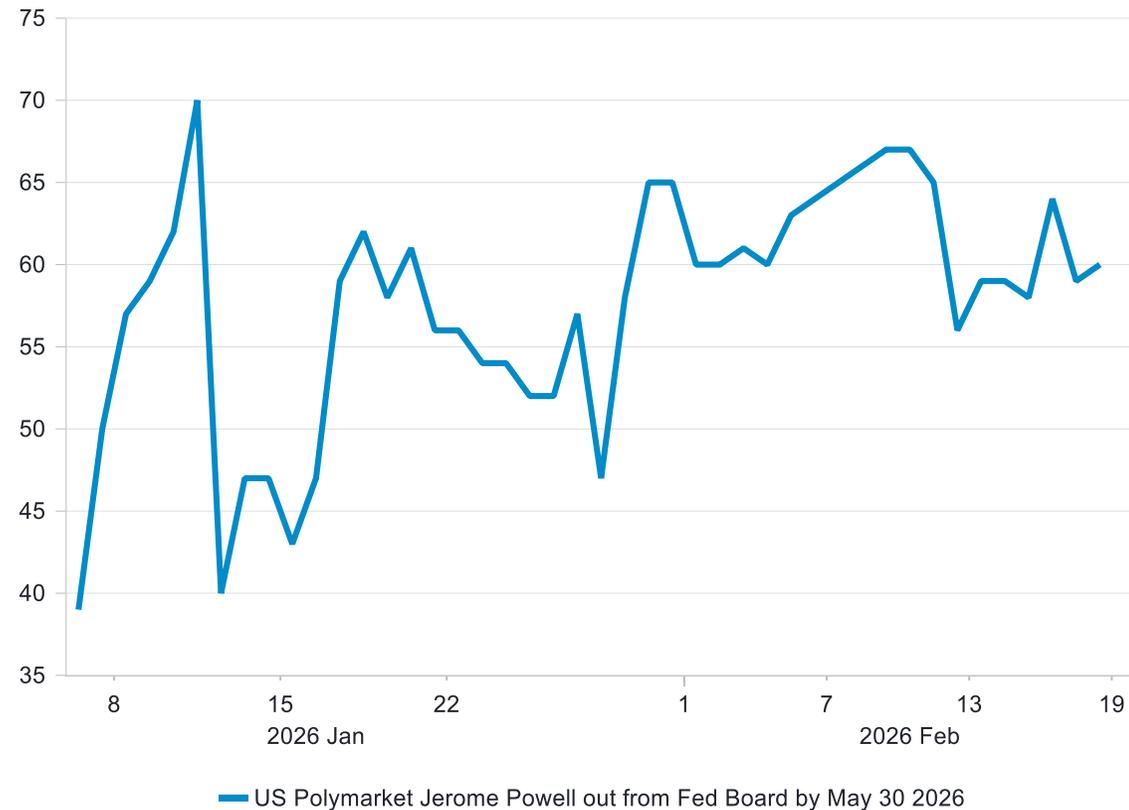


Source: Fidelity International, Macrobond, U.S. Treasury, February 2026.

# Odds that Powell stays as a Board Governor beyond his term as Fed Chair...

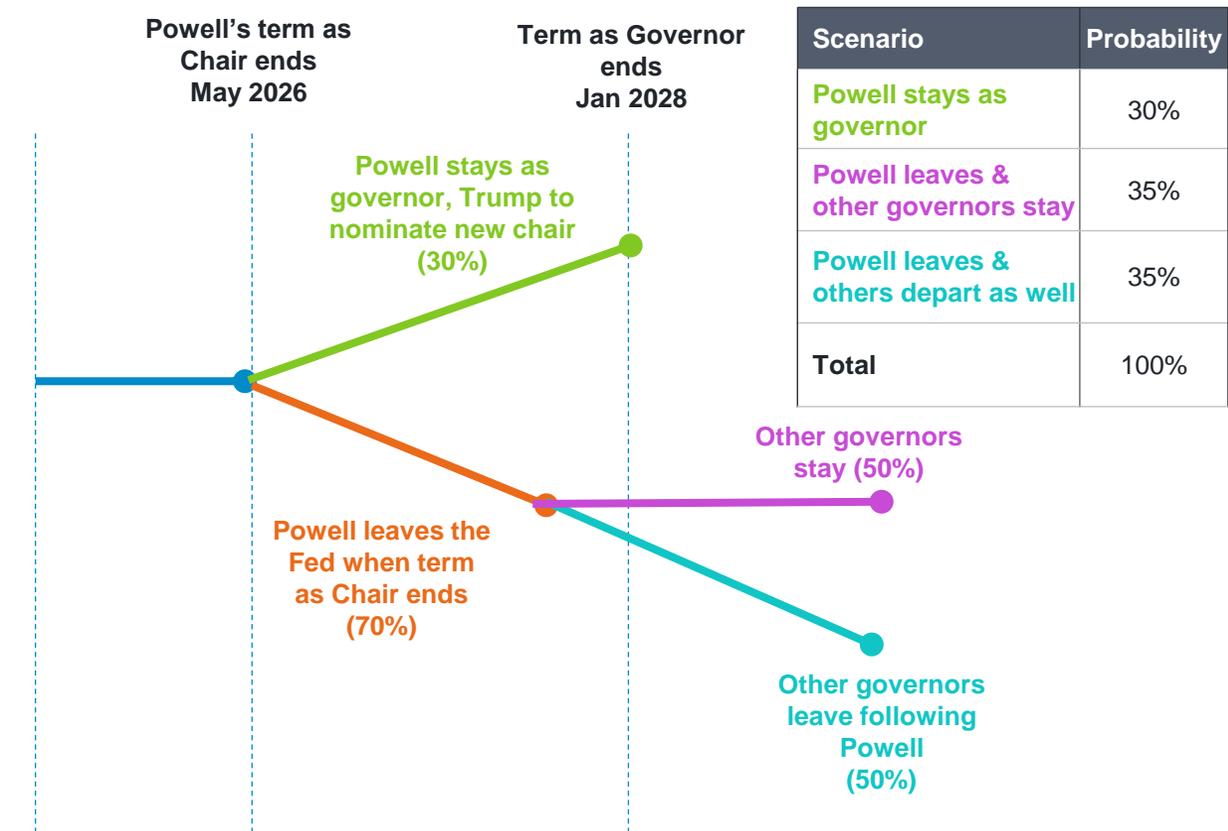
...are more elevated than markets are currently pricing.

## Odds Powell leaves as governor by May 2026



Source: Fidelity International, Bloomberg, Macrobond, February 2026.

## Board of Governors decision tree

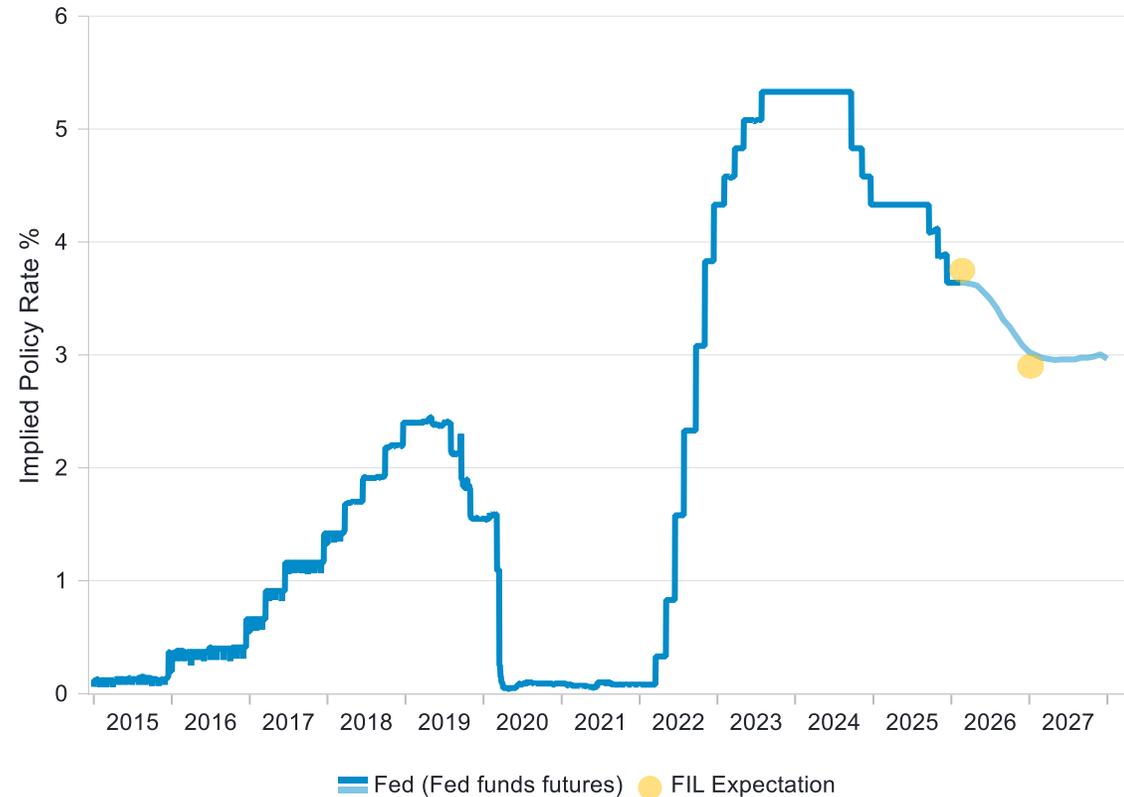


Source: Fidelity International, August 2025.

# Fed likely to remain on hold until the new Fed leadership steps in May 2026...

...and we expect at least three more cuts this year post-May, with markets now converging to our view.

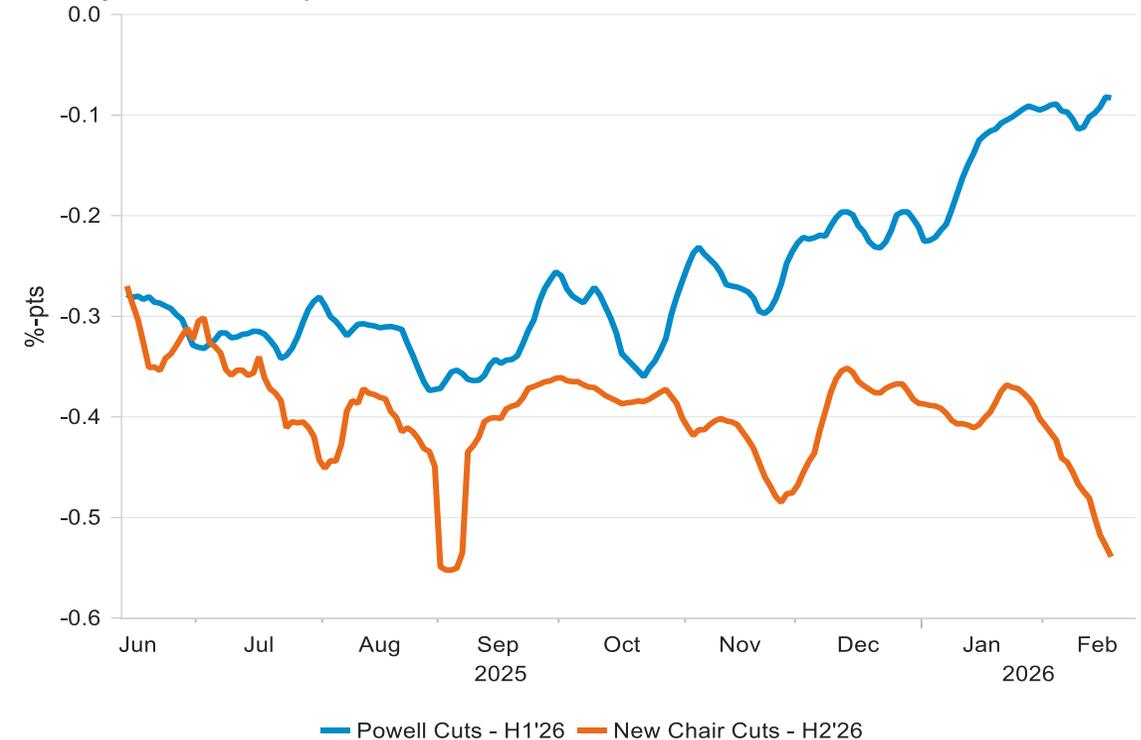
## Fed Market Pricing



Source: Fidelity International, Macrobond, CME, Federal Reserve, February 2026.

## Futures curve becoming kinked as markets move to price in a new Fed reaction function under Chair Warsh

Policy rate cut expectations: H1 vs H2 2026



Source: Fidelity International, Bloomberg, CME, February 2026.

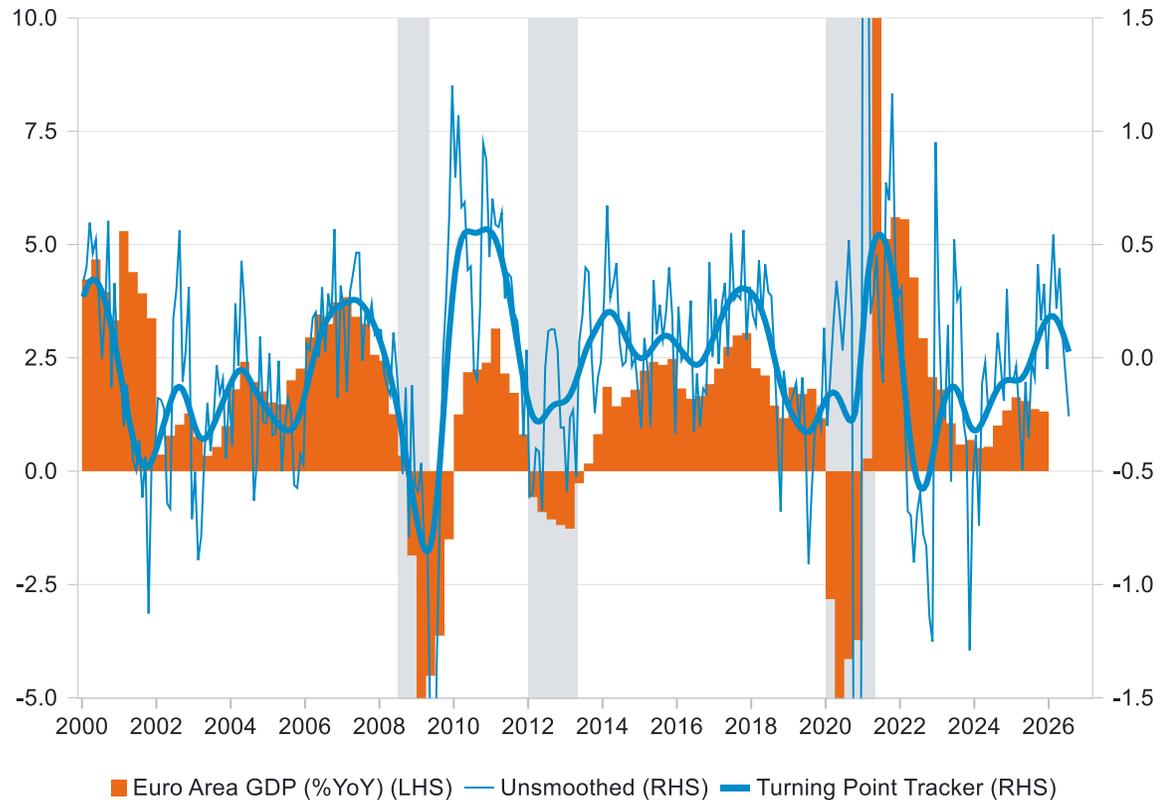
# Europe Macro Outlook

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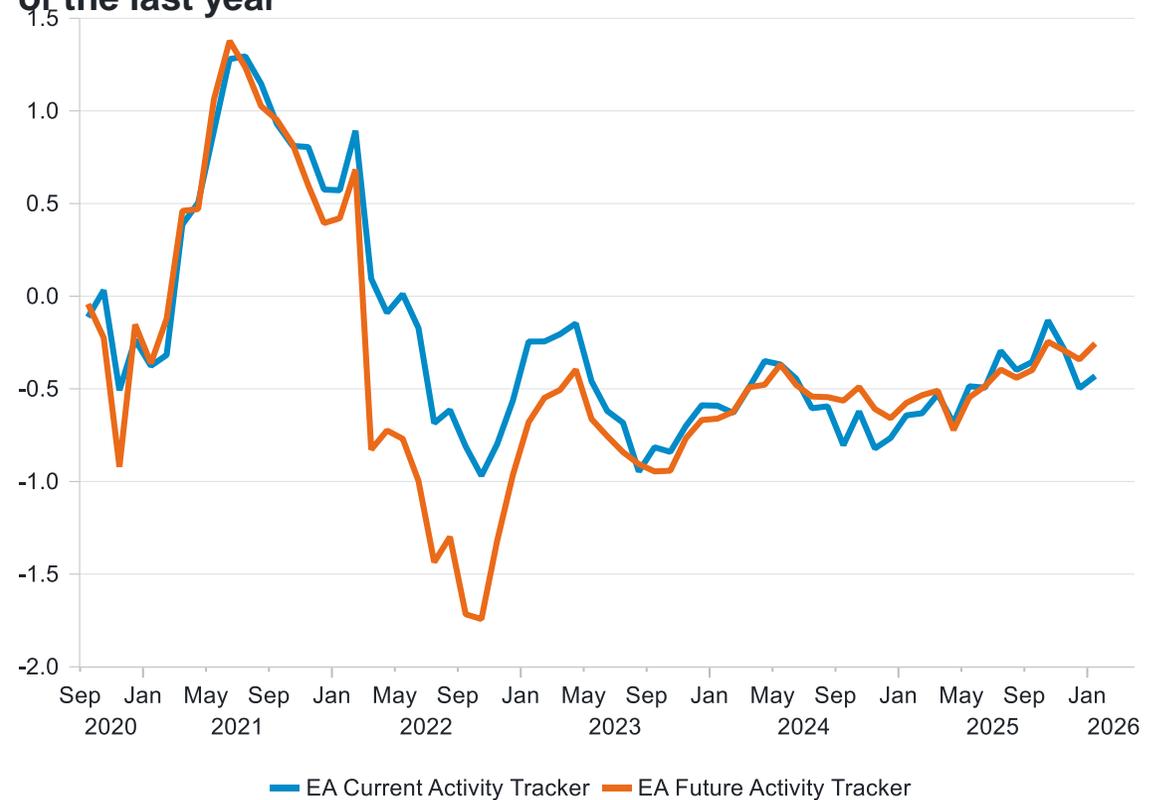
# Euro area growth has been resilient, with signals that this may continue

GDP data for Q4 were reasonably robust, tail risks from fiscal and “Southern strength”, trade risks remain

## Euro area turning point tracker signals momentum with caution



## FLI continues to slowly pick up – consistent with the resilience of the last year



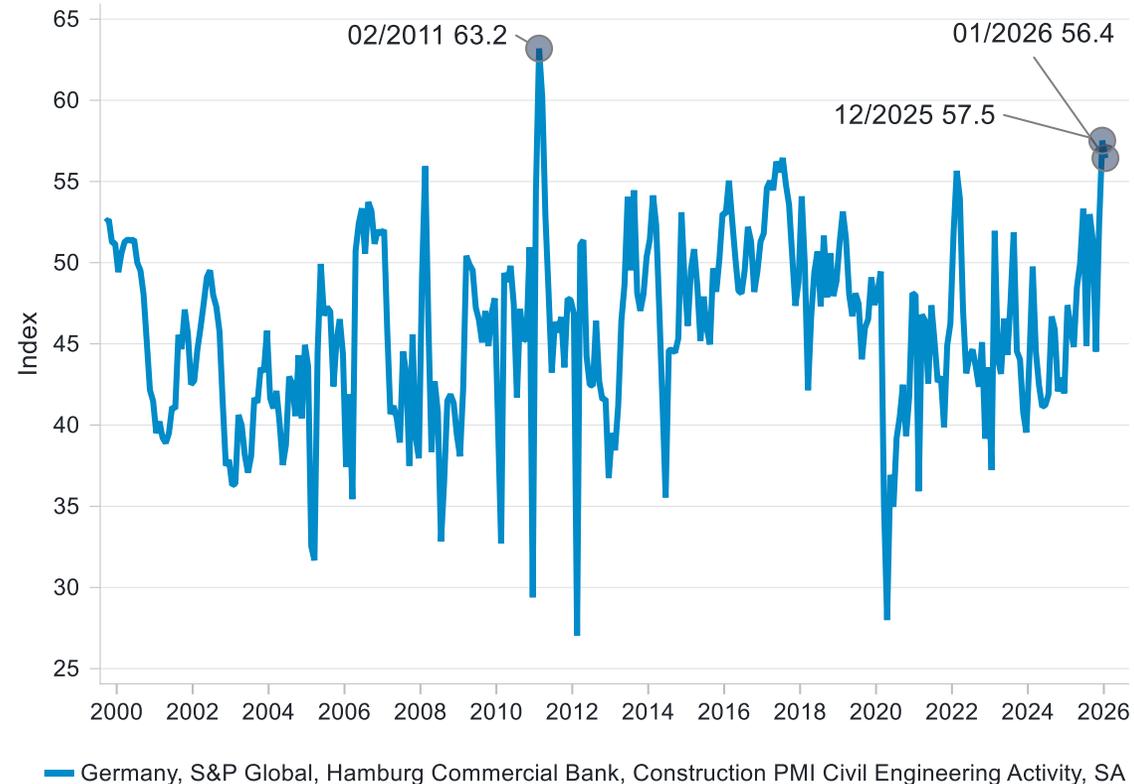
Source: Fidelity International, Macrobond, DG ECFIN, Eurostat, S&P Global, February 2026.

Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, February 2026.

# First signs of German fiscal rollout emerging

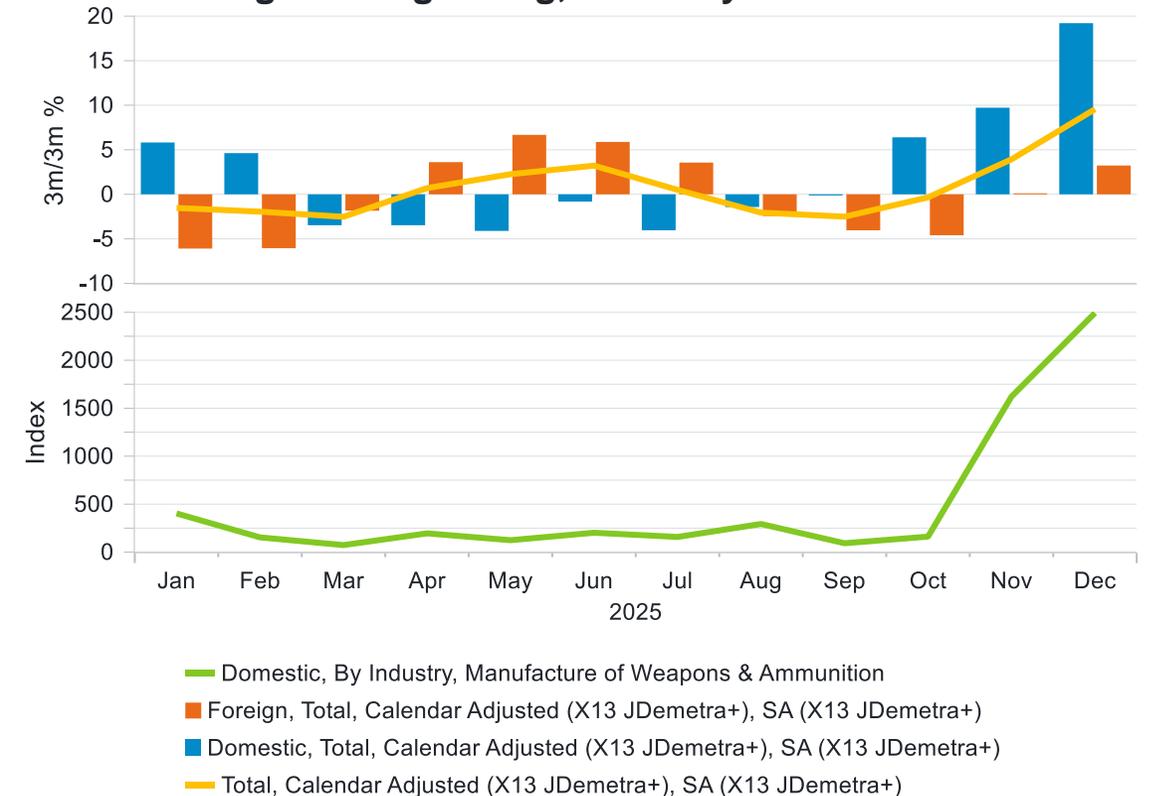
Civil engineering bump signals signs of “boots on the ground”, manufacturing orders sign of higher domestic demand

## German civil engineering PMI hits highest level since 2011



Source: Fidelity International, Macrobond, S&P Global, February 2026.

## Manufacturing orders growing, driven by robust domestic books

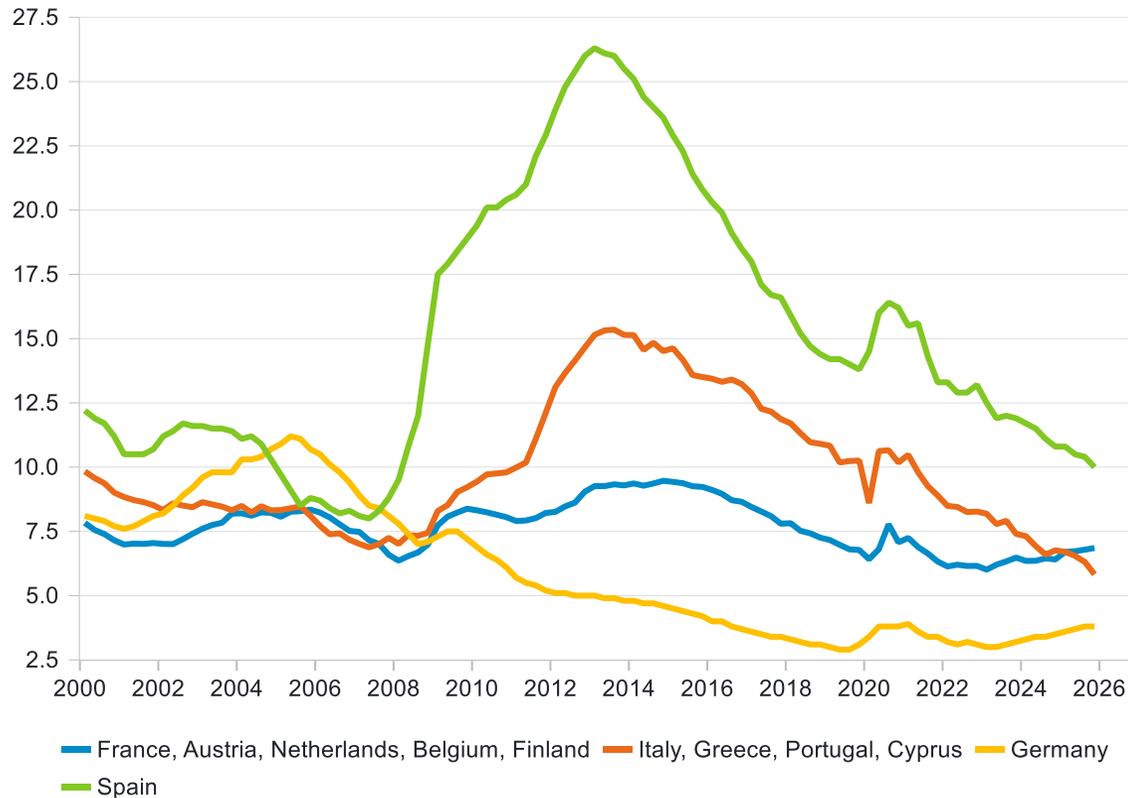


Source: Fidelity International, Macrobond, DESTATIS, February 2026.

# Diverging dynamics challenge the “core” vs. “periphery” classifications

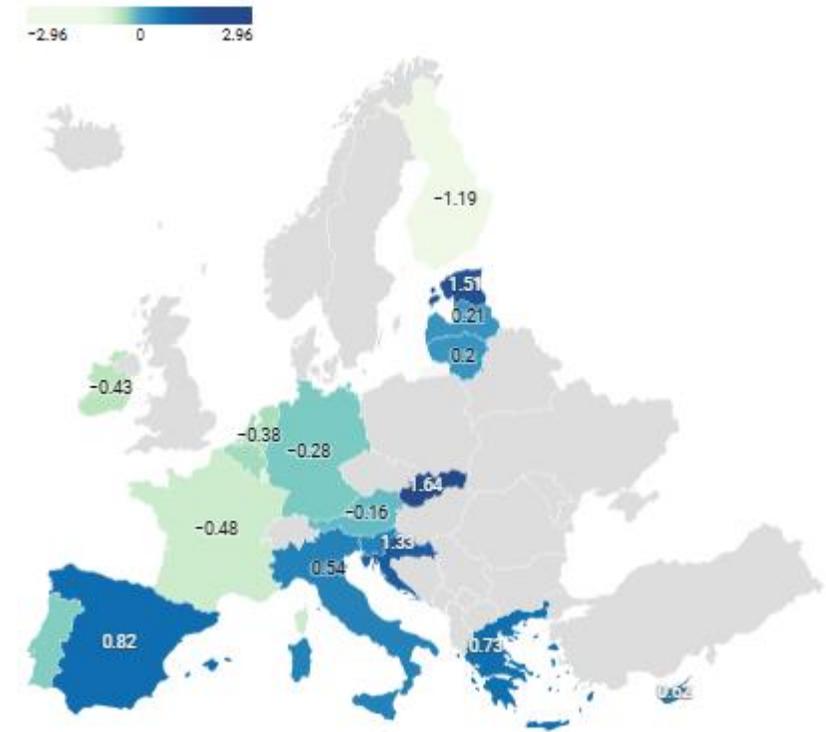
Recent trends point to robust labour markets in the traditional “periphery”

## “Core” labour market deteriorates as “periphery” improves



Source: Fidelity International, Macrobond, Eurostat, DG ECFIN, February 2026.

## ...which can be seen in the relative optimal stance of monetary policy compared to euro area aggregates



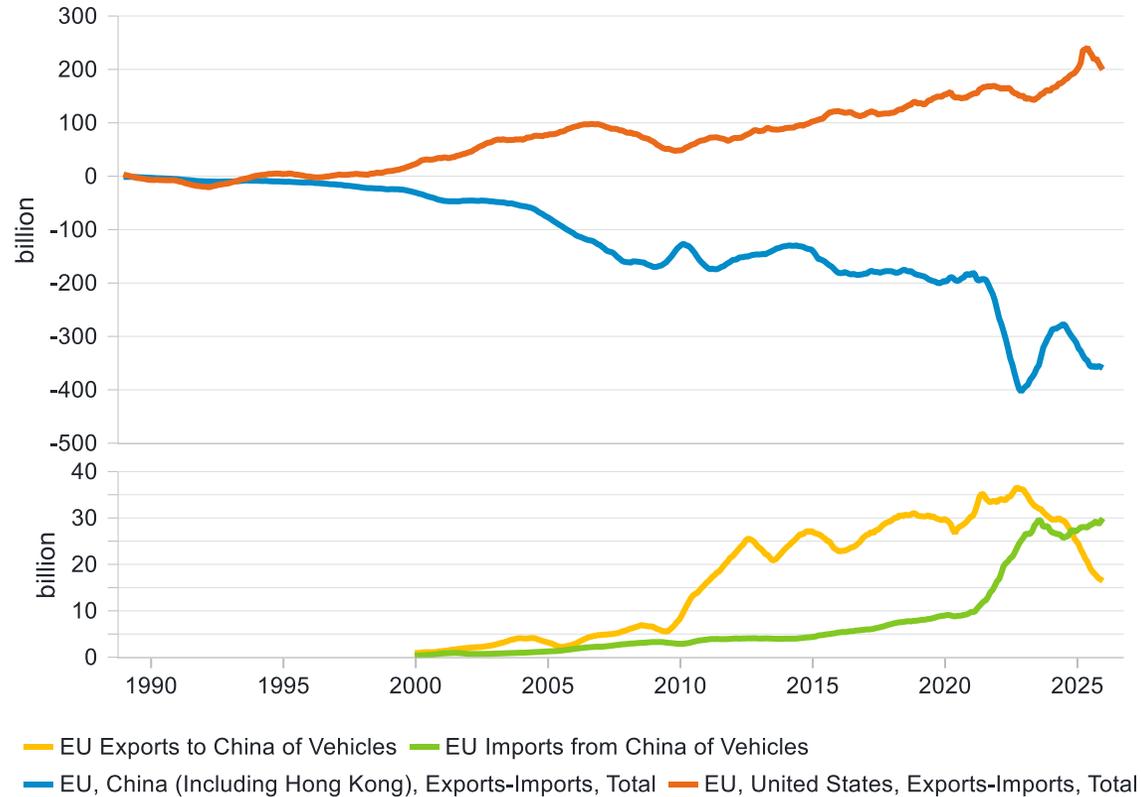
Source: Fidelity International, European Commission, Eurostat, Datawrapper, February 2026

Note: Chart shows the optimal monetary policy in each euro area in 2025 (excl. Bulgaria) relative to the EA19 average as expressed through a simple illustrative backward looking Taylor rule. Darker colours suggest optimal monetary policy should be tighter, lighter suggest looser. Data are taken as the average of Q1-Q4 2025.

# EU trade relations with the US and China present diverging challenges

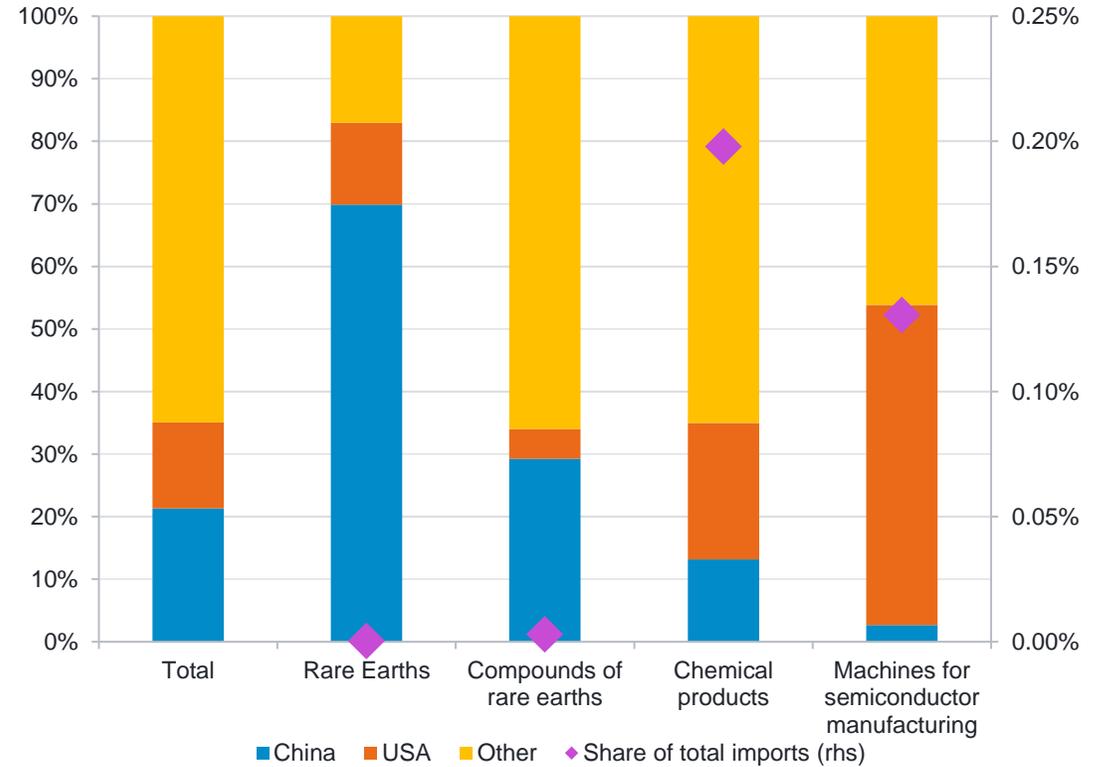
EU faces disruption from ongoing US tariffs, China supply chain reliance and China goods diversion

## EU net exports to the US and China show two sided challenges



Source: Fidelity International, Macrobond, Eurostat, February 2026. Chart shows 1Y rolling sum

## China makes up a high proportion of EU critical imports

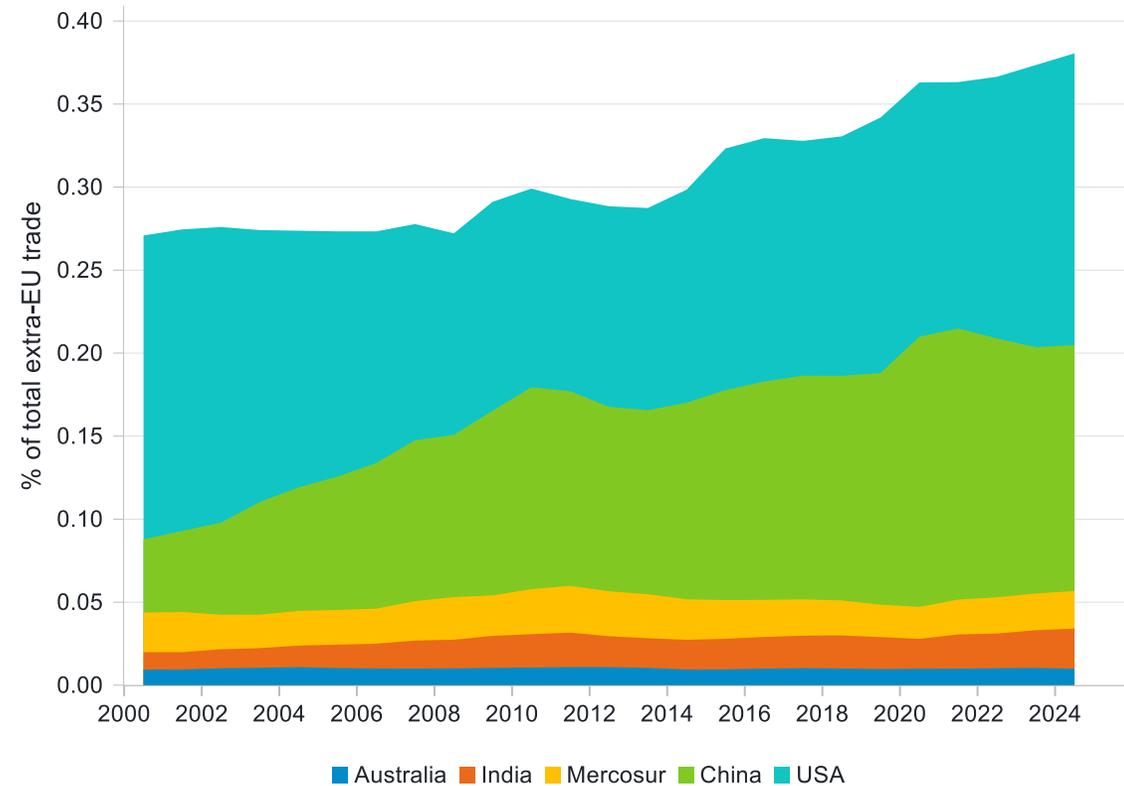


Source: Fidelity International, Eurostat, February 2026

# The EU have stepped up moves towards trade diversification, internal integration

Threat from US tariffs and reliance on China for supply chains has led the EU to accelerate trade deal efforts

## New and likely trade deals make up 5% of total extra-EU trade



Source: Fidelity International, Macrobond, IMF, February 2026.

## Agreements and proposals are forward looking in nature

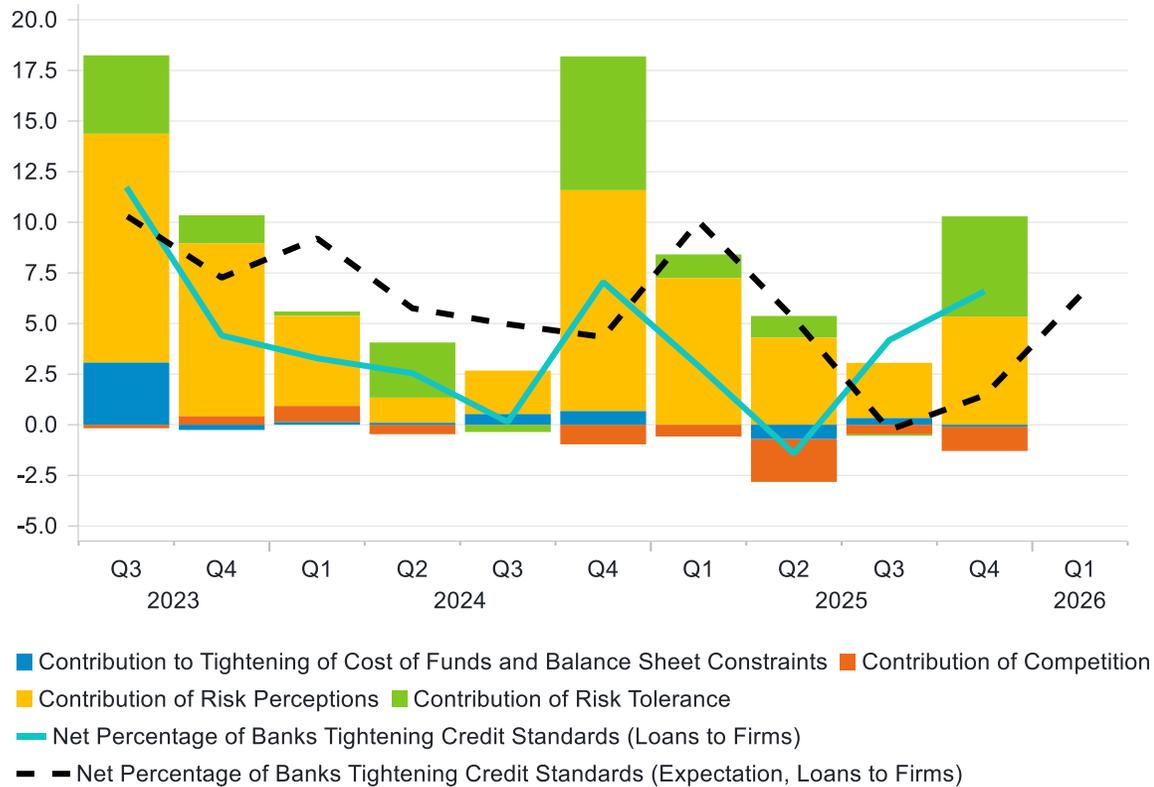
<b>Mercosur Deal</b>	<ul style="list-style-type: none"> <li>▪ <b>Tariff Reductions:</b> Eliminate 90+% of tariffs</li> <li>▪ <b>Sector Access:</b> Boosts Mercosur agriculture, EU industrial goods.</li> <li>▪ <b>Political Hurdles:</b> EU Parliament vote has delayed implementation</li> </ul>
<b>India Deal</b>	<ul style="list-style-type: none"> <li>▪ <b>Tariff Liberalisation:</b> Comprehensive FTA – EU cut tariffs on 99.5% of Indian goods, India on 97% of EU imports.</li> <li>▪ <b>Sectoral Targets:</b> EU side of the deal aimed at improving competitiveness of sectors such as autos, chemicals and manufacturing.</li> <li>▪ <b>Ambitious Aims:</b> EU aims to increase exports to India by 2032 by 107.6%</li> </ul>
<b>Proposed Australia Deal?</b>	<ul style="list-style-type: none"> <li>▪ <b>Still Under Negotiation:</b> Potential for tariff cuts, easier market access and deeper cooperation on services.</li> <li>▪ <b>Core Sticking Points:</b> Agricultural access an EU sticking point with meat quotas delaying VDL trip to Australia. Australian desire for expanded access relative to other FTAs.</li> <li>▪ <b>Mutual Desire to Complete:</b> Potential to increase trade by one third.</li> </ul>
<b>Further internal integration – competitiveness summit this week</b>	<ul style="list-style-type: none"> <li>▪ <b>A “two speed Europe”?</b> – The E6 concept</li> <li>▪ <b>Boosting internal robustness (FR) vs. Diversified trade (DE,IT)</b></li> </ul>

Source: Fidelity International, February 2026

# Early evidence that euro area credit conditions are tightening

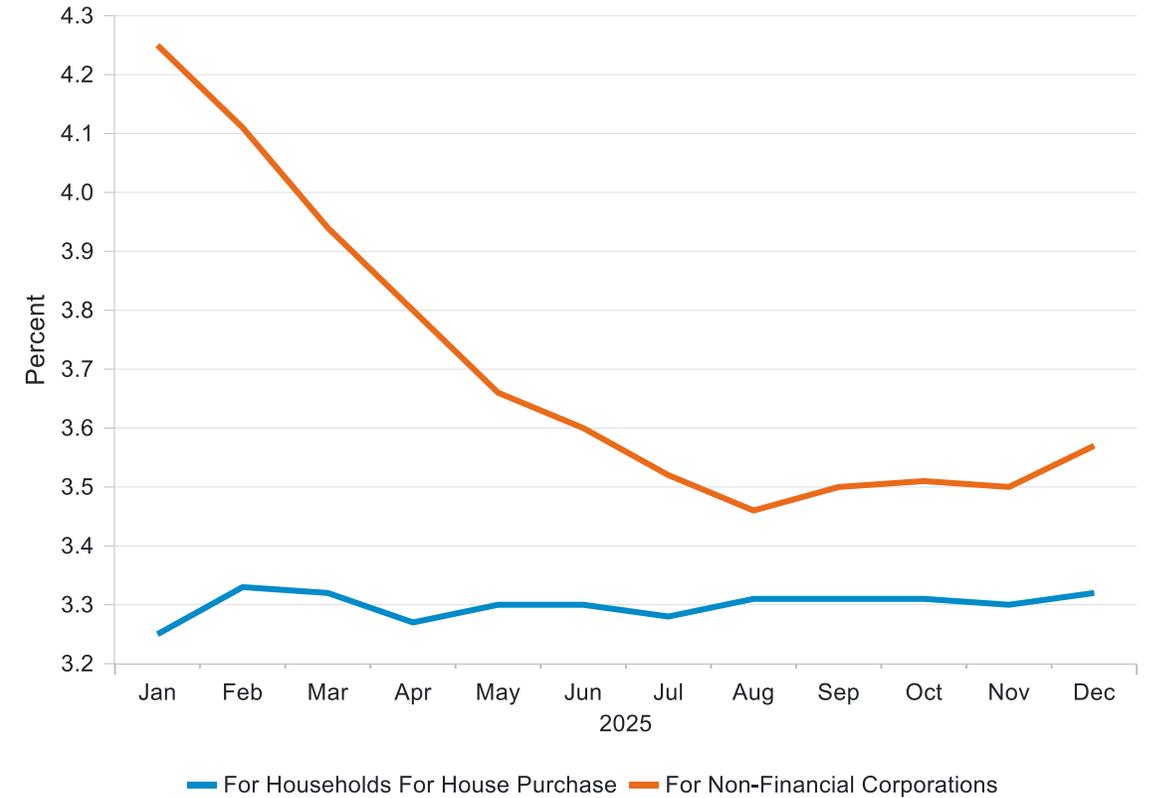
Uncertain geopolitical conditions are causing a tightening of credit standards, with bank rates now responding

## Credit standards on loans from banks to firms have tightened



Source: Fidelity International, Macrobond, ECB (Bank Lending Survey), February 2026.

## The tighter environment is being seen in rates charged by banks

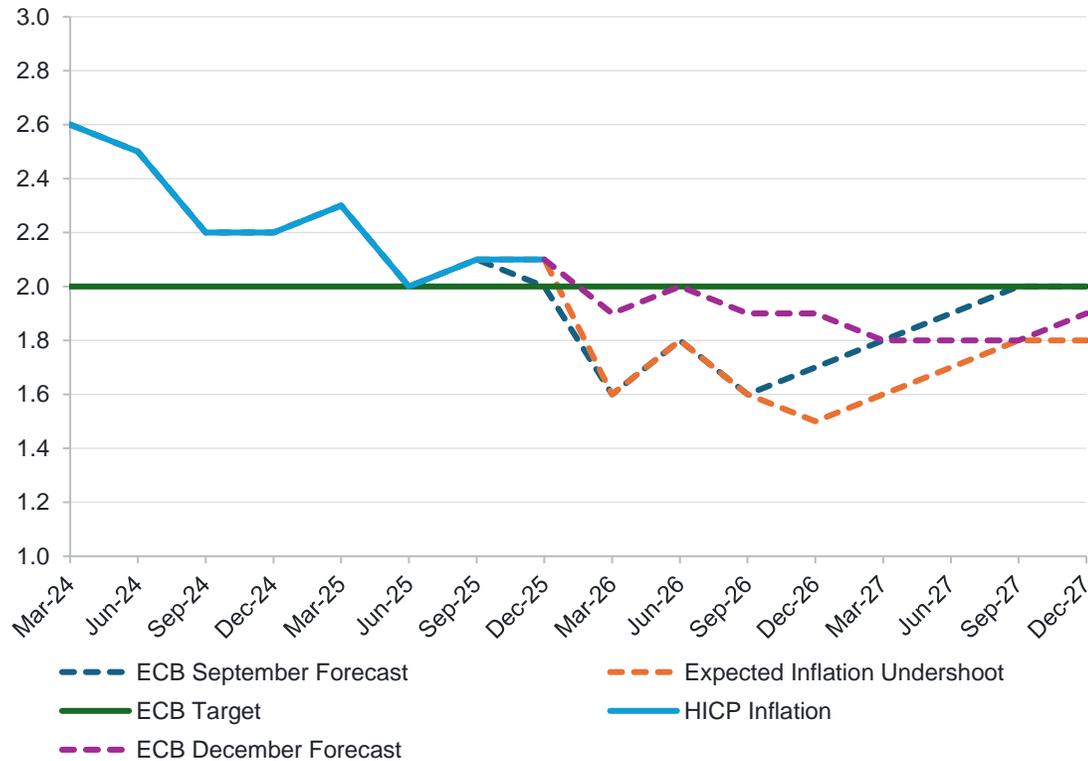


Source: Fidelity International, Macrobond, ECB, February 2026.

# Lower wage growth to aide disinflation, ECB easing will eventually be required

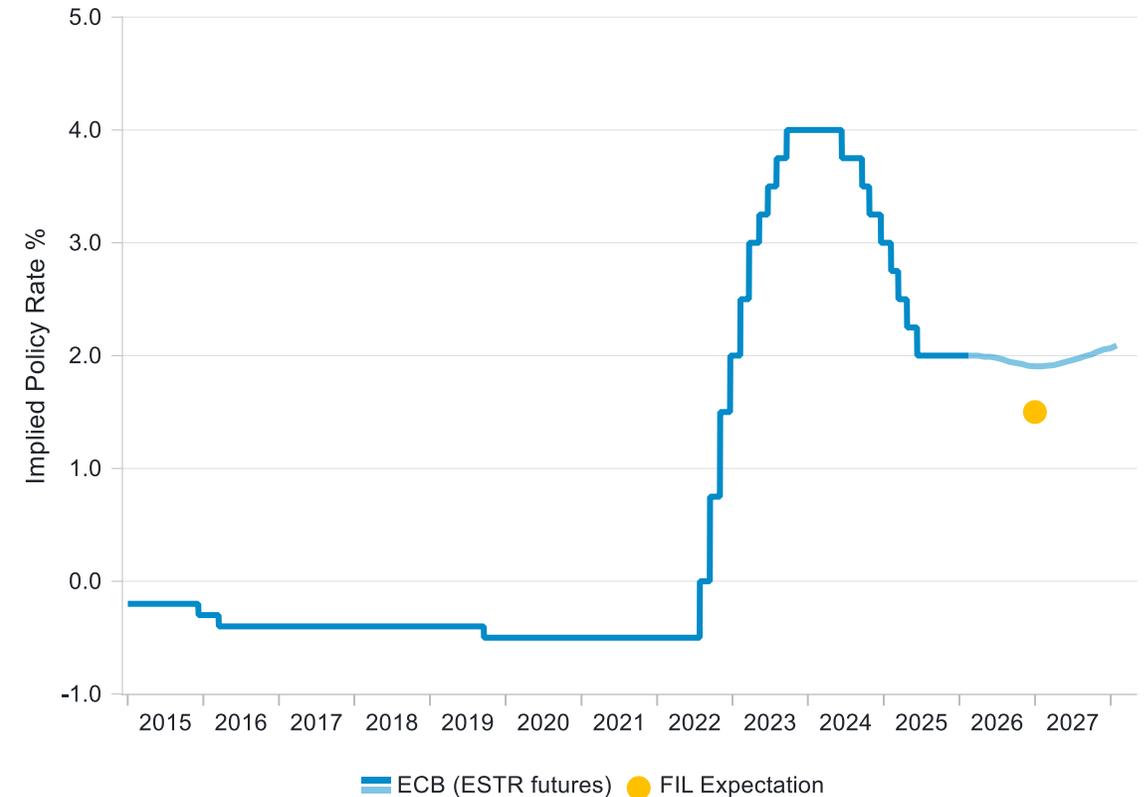
Lower energy prices, currency appreciation, trade tensions and soft goods inflation to bring downside risks

## ECB likely to revisit forecasts in March as undershoot manifests



Source: Fidelity International, ECB, January 2026

## ECB to cut as disinflation proves persistent in latter half of year

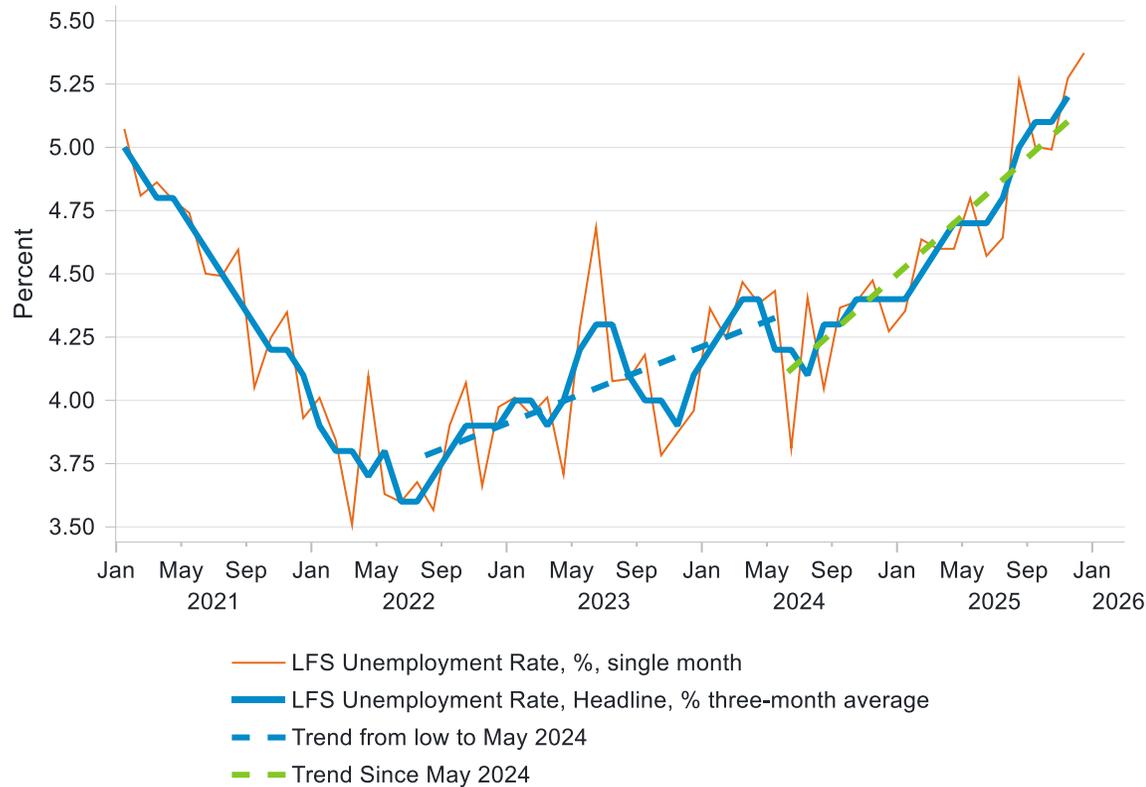


Source: Fidelity International, European Central Bank, February 2026.

# UK: Labour market deterioration intensified in late 2025

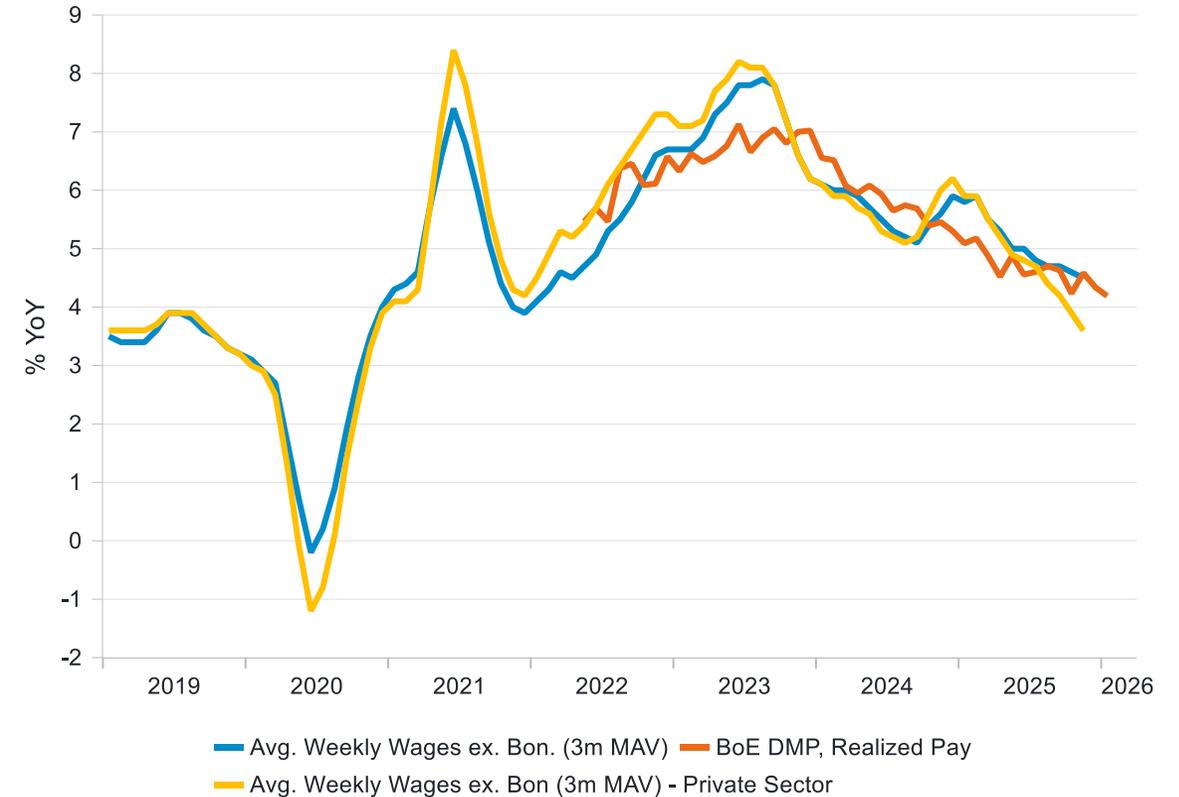
The unemployment rate has risen while private sector wage disinflation continues at a strong pace

## The unemployment rate continues to trend upwards



Source: Fidelity International, Macrobond, ONS, February 2026.

## As private sector wages trend clearly downwards

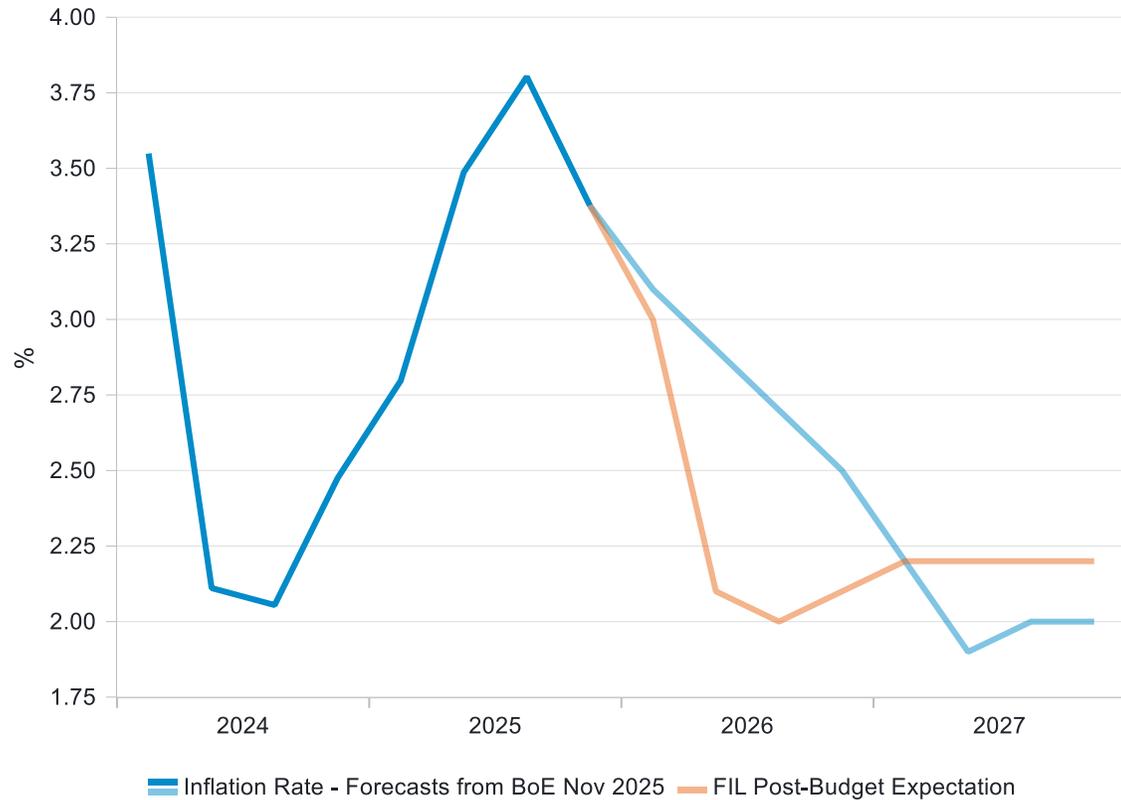


Source: Fidelity International, Macrobond, ONS, BoE, Indeed Hiring Lab, February 2026.

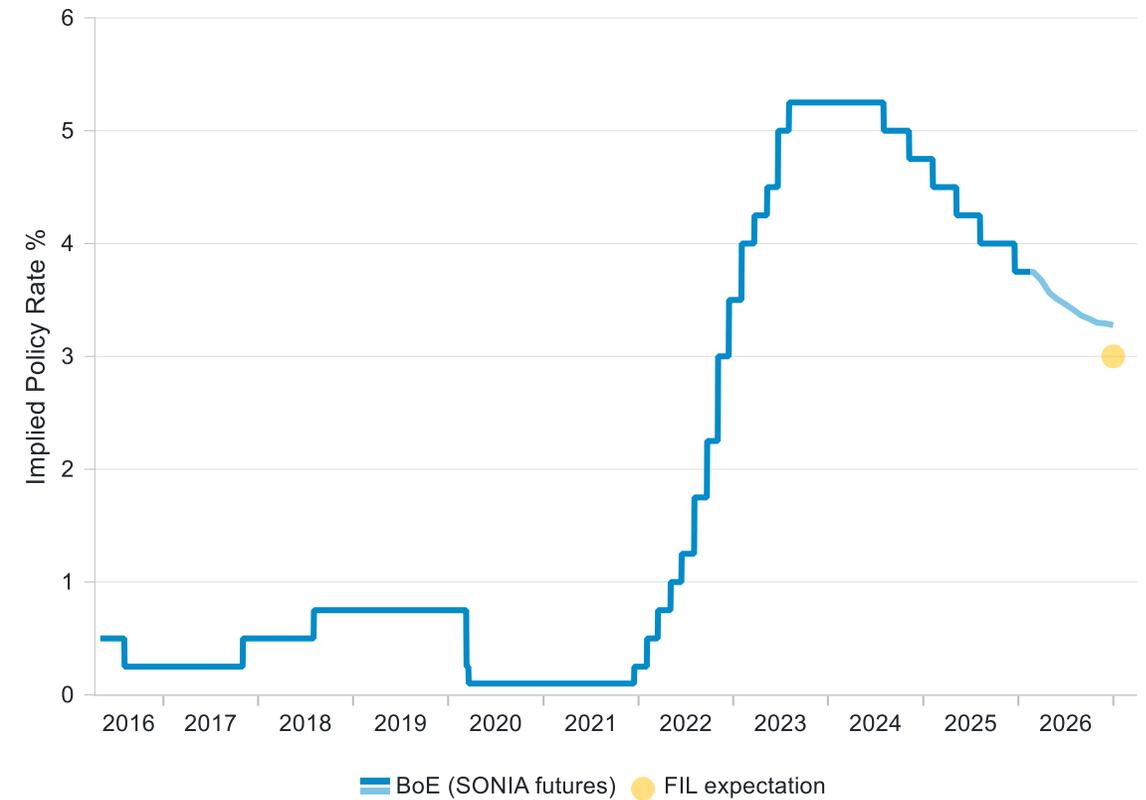
# BoE to cut more than expected owing to disinflation and a weak labour market

Disinflation to proceed with inflation expected close to target by mid 2026

Budget measures and recent softness will fuel disinflation



Bank of England likely to cut by more than markets expect



Source: Fidelity International, Macrobond, ONS, February 2026.

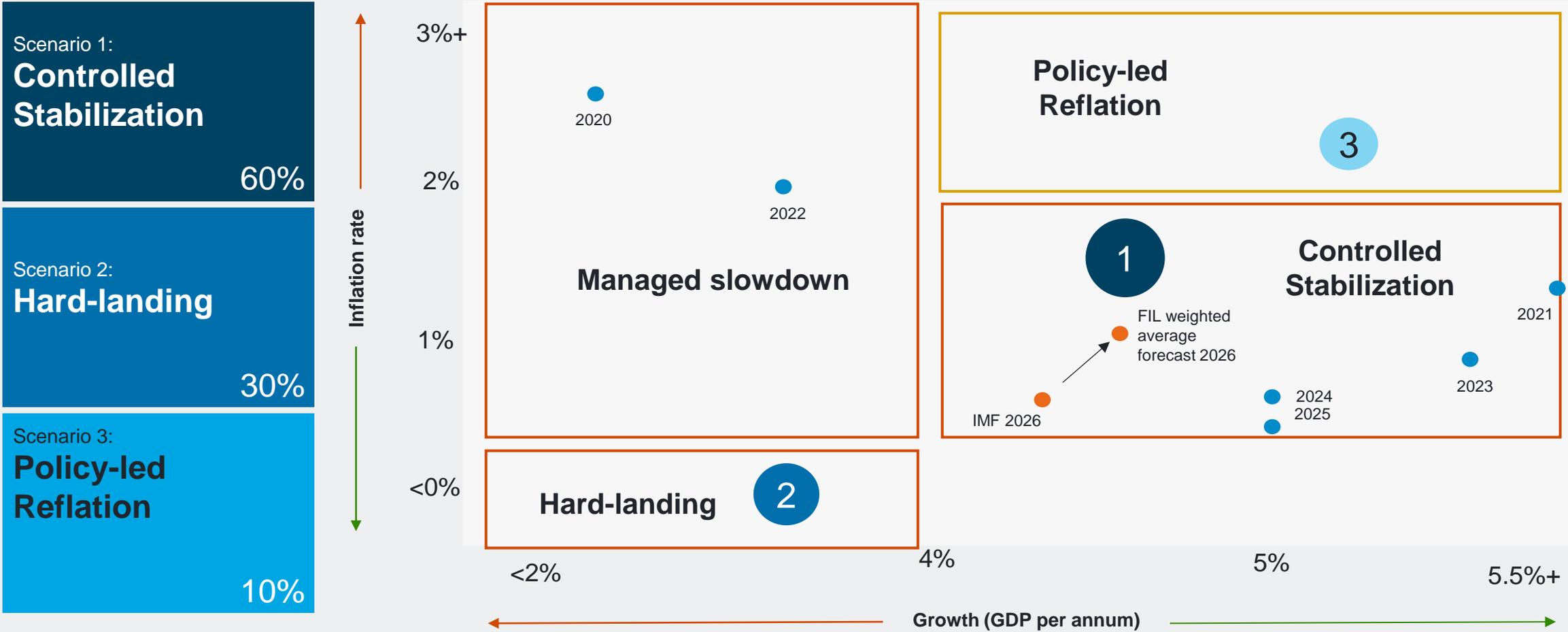
Source: Fidelity International, BoE, ICE Futures Europe, February 2026.

# China Macro Outlook

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# Three Scenarios for China in 2026

The rebalancing of the dual circulation growth model



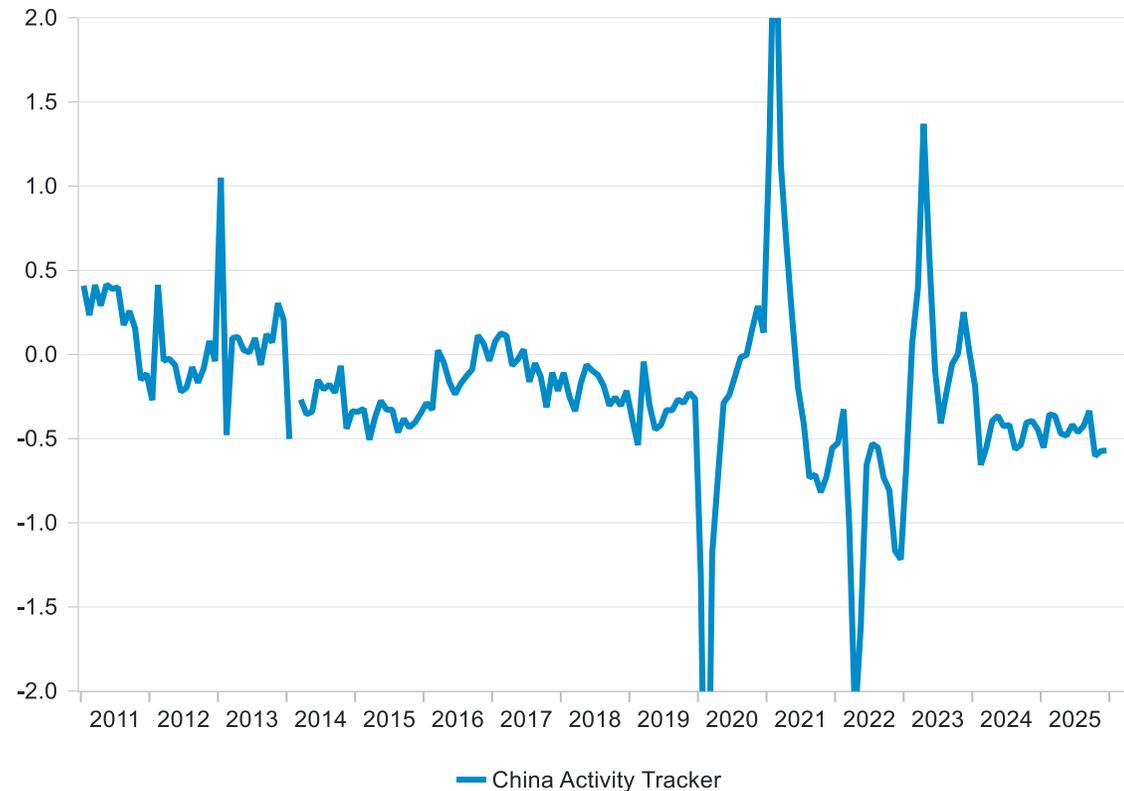
Source: Fidelity International, January 2026

Note: Arrow in the chart denotes the latest revision by IMF, which is converging towards FIL's weighted average calculation of GDP and inflation outlook.

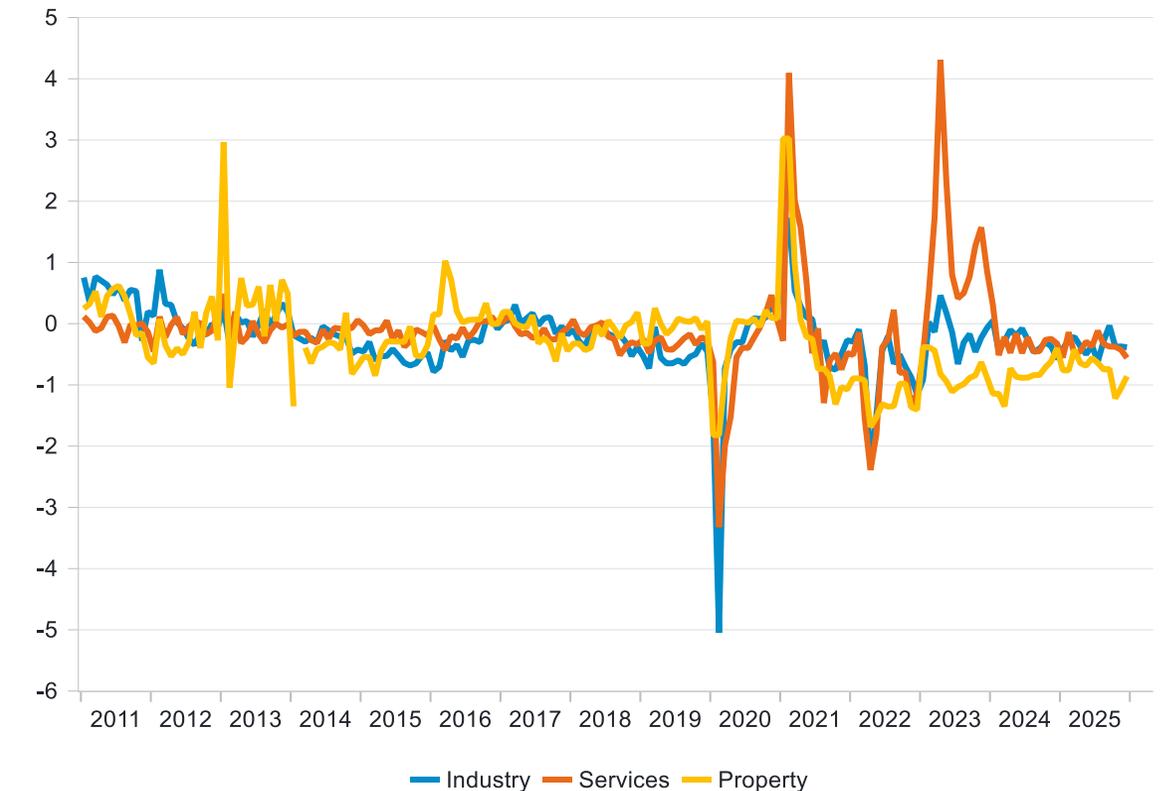
# China activity indicator temporarily stabilized at low levels

Mainly driven by property sector deterioration while manufacturing and services sectors remain choppy

## China activity indicator (CH-AI)



## China activity indicator (CH-AI) by sector



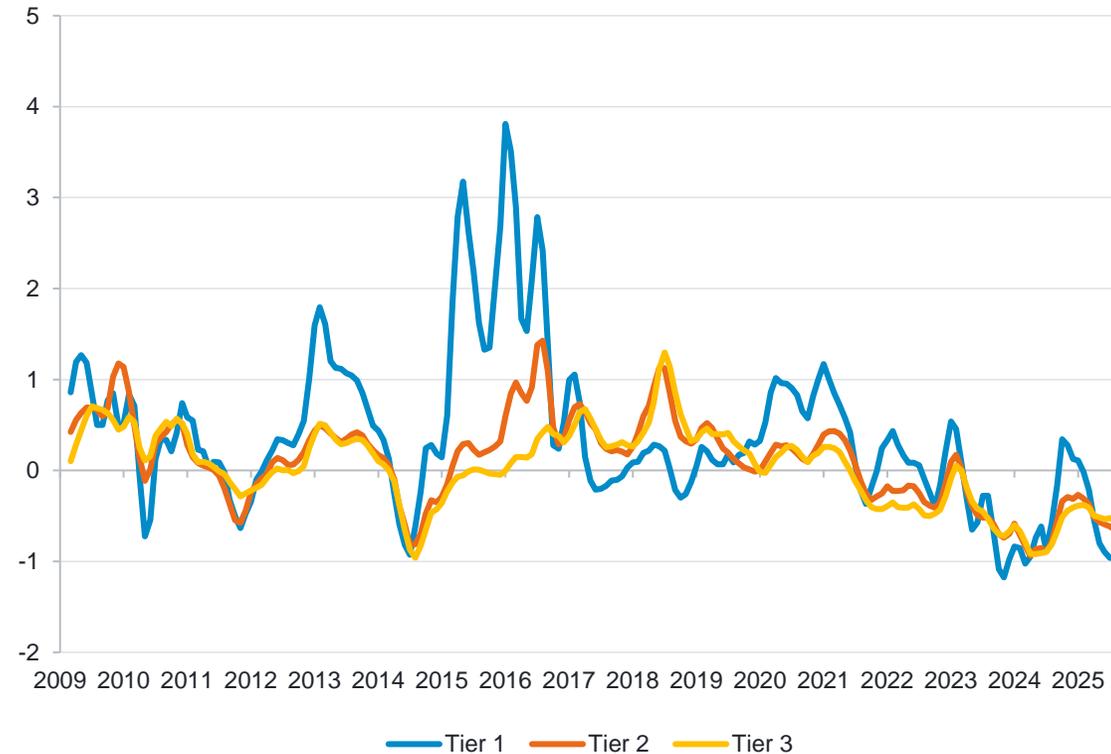
Source: Fidelity International, Macrobond, February 2026

Source: Fidelity International, Macrobond, NBS, China National Bureau of Statistics (NBS), February 2026

# Property sector recovery is not gaining traction

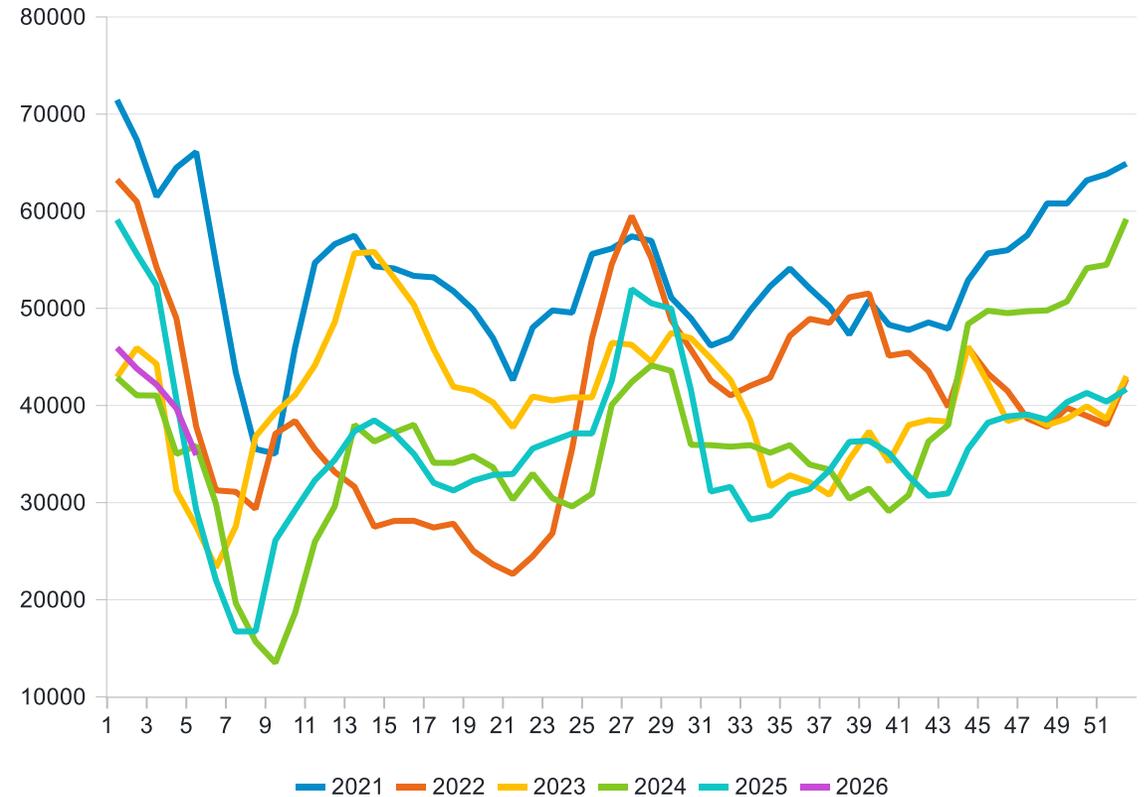
There are signs of a renewed slowdown in the property sector, especially in bigger cities

### Property price (Resale, MoM %)



Source: Fidelity International, Bloomberg, November 2025.

### Property transaction volume in Tier 1 cities

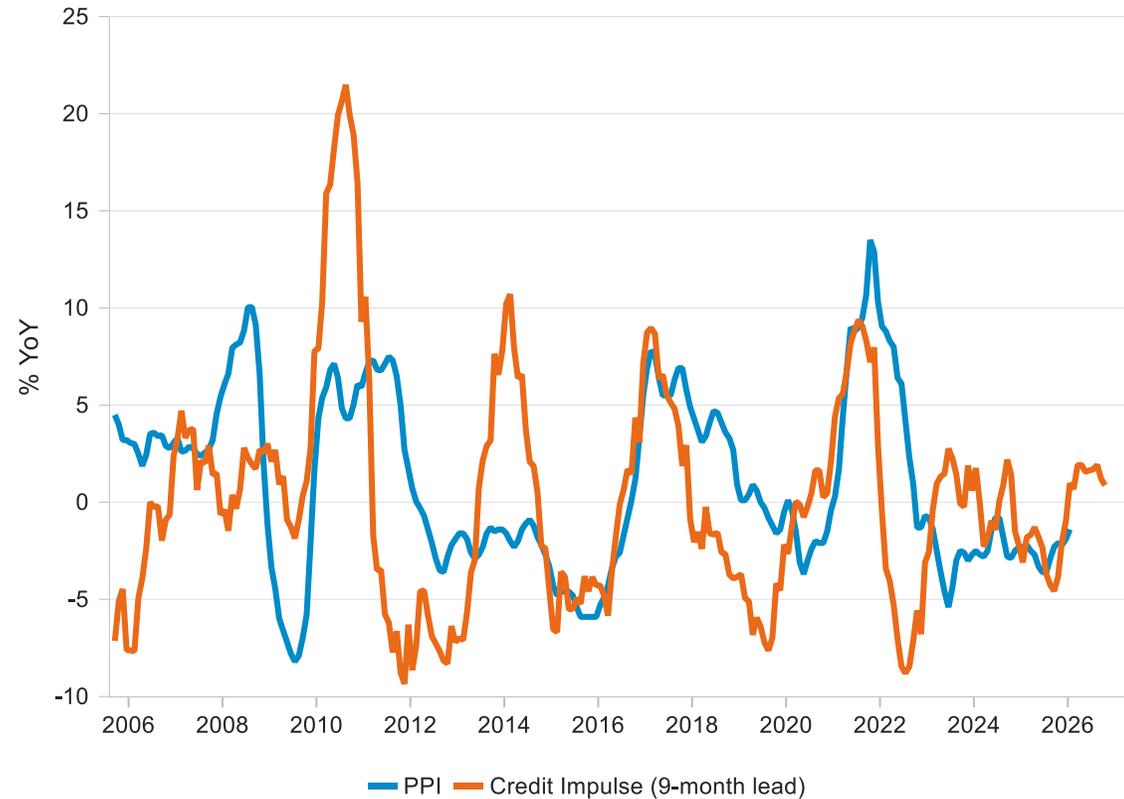


Source: Fidelity International, Macrobond, CREIS, February 2026.

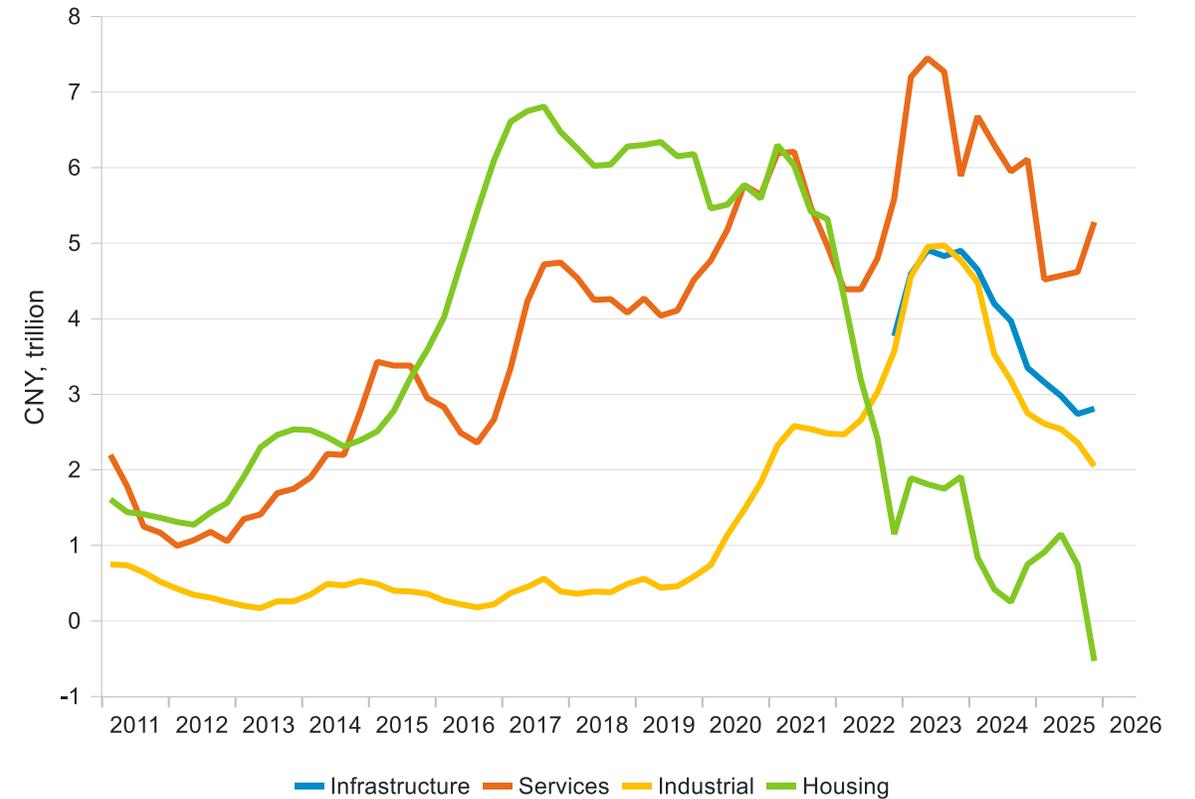
# Inflation and policy outlook

Fiscal spending remains the key lever to support domestic demand as private credit demand is subdued

## Credit impulse and PPI



## Loans by sectors (YoY change in values)



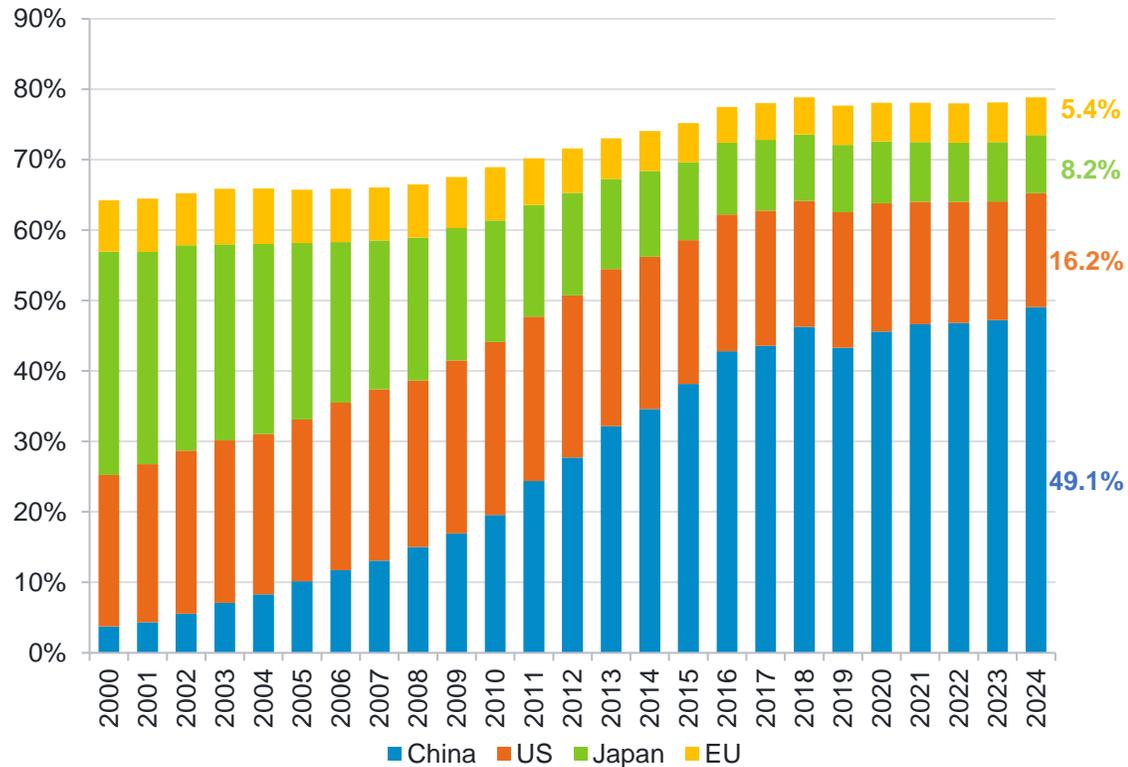
Source: Fidelity International, Macrobond, Bloomberg, NBS, February 2026.

Source: Fidelity International, Macrobond, PBoC, February 2026.

# Pivoting into services trade with rising innovation capabilities

China's rising innovation capabilities is attracting more R&D hubs set up beyond manufacturing centers

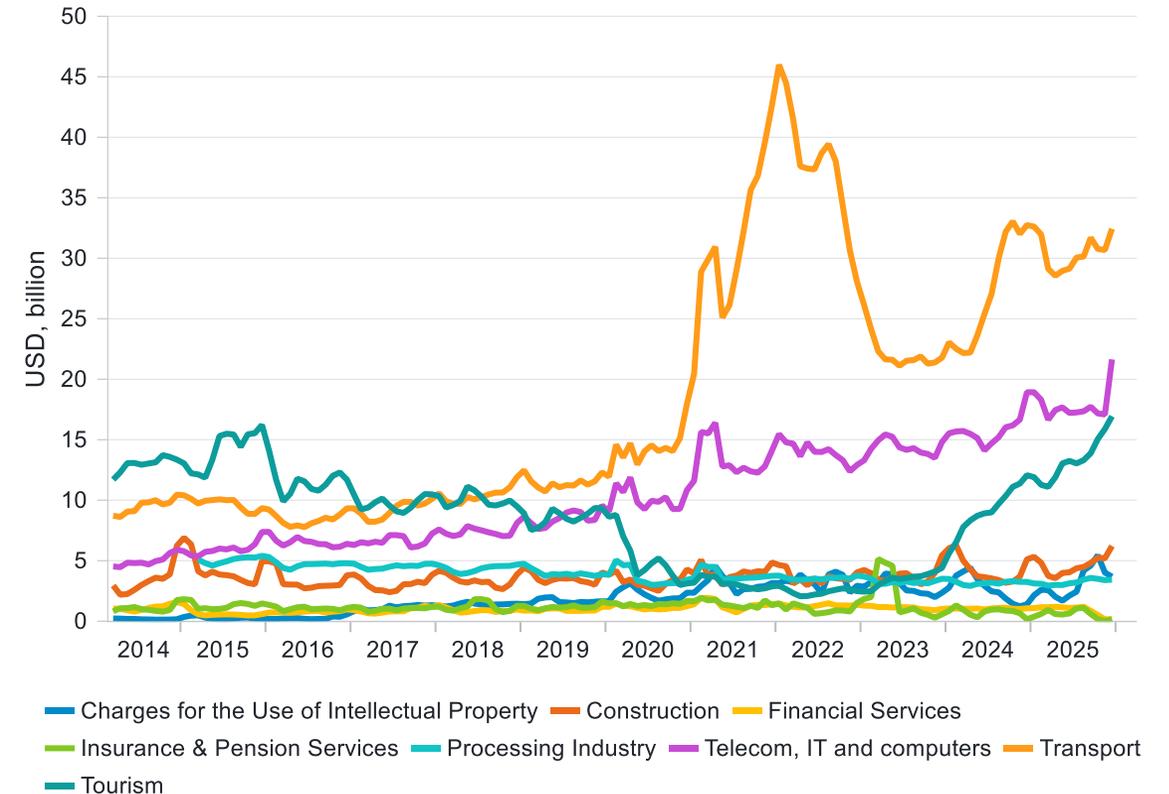
## Share of global patent applications



Note: China represents Mainland China excluding Hong Kong SAR

Source: Fidelity International, WIPO Statistics database, December 2025.

## Services exports by sector

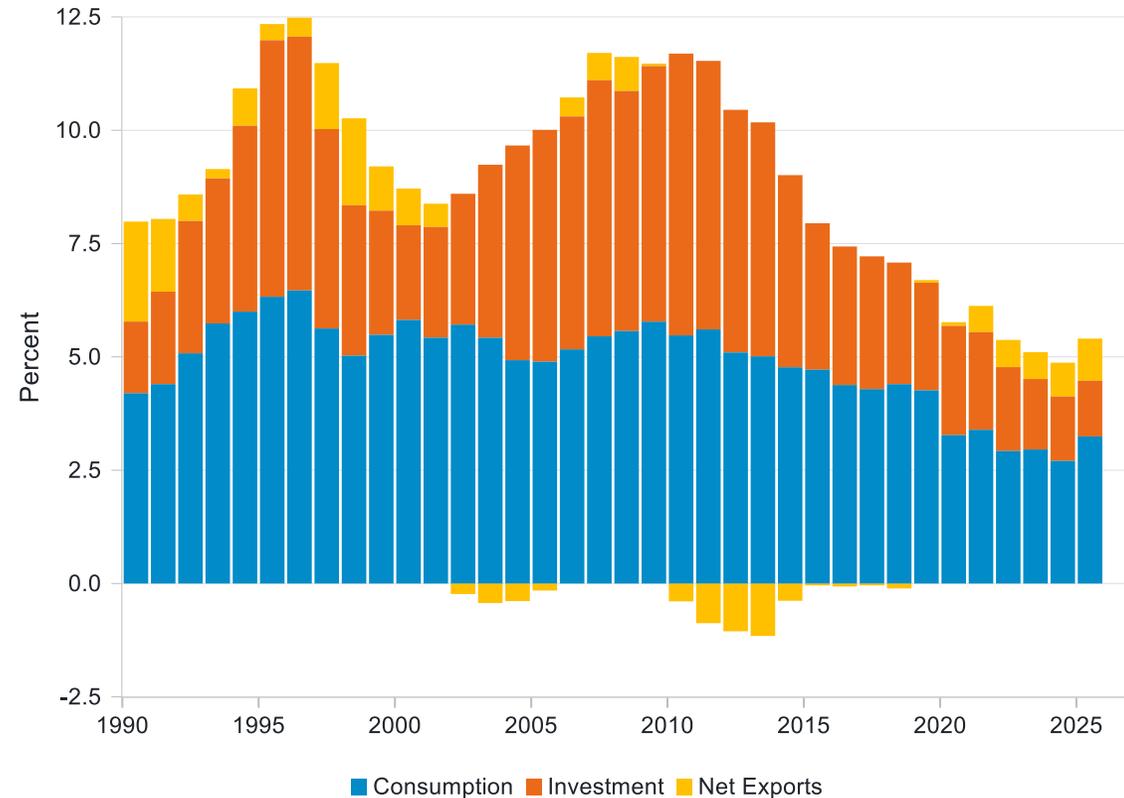


Source: Fidelity International, Macrobond, SAFE, February 2026.

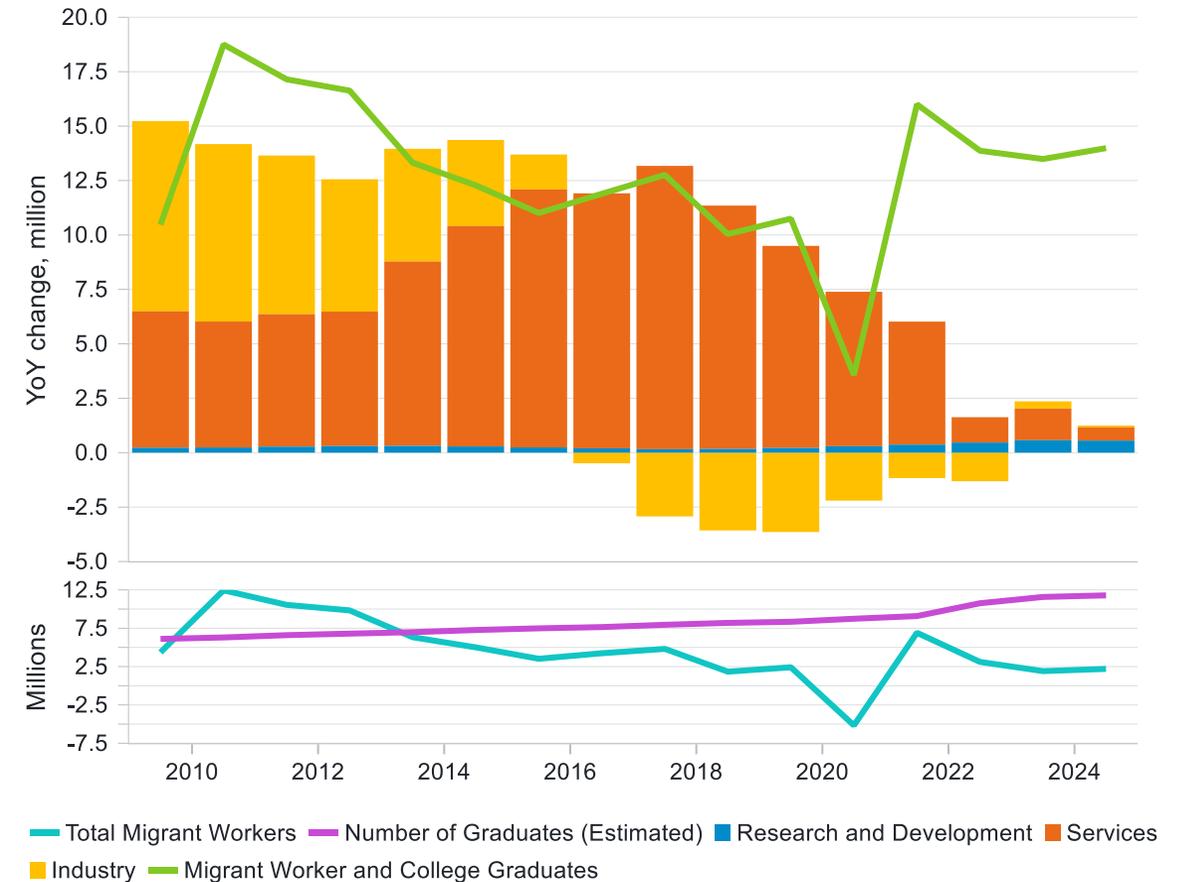
# Five Year Plan key takeaways

Expanding the services sector is a top priority

## GDP by contribution (5-year moving average)



## Employment change and newly added labour (5-year average)



Source: Fidelity International, Macrobond, NBS, February 2026.

Source: Fidelity International, Macrobond, NBS, MOE, February 2026.

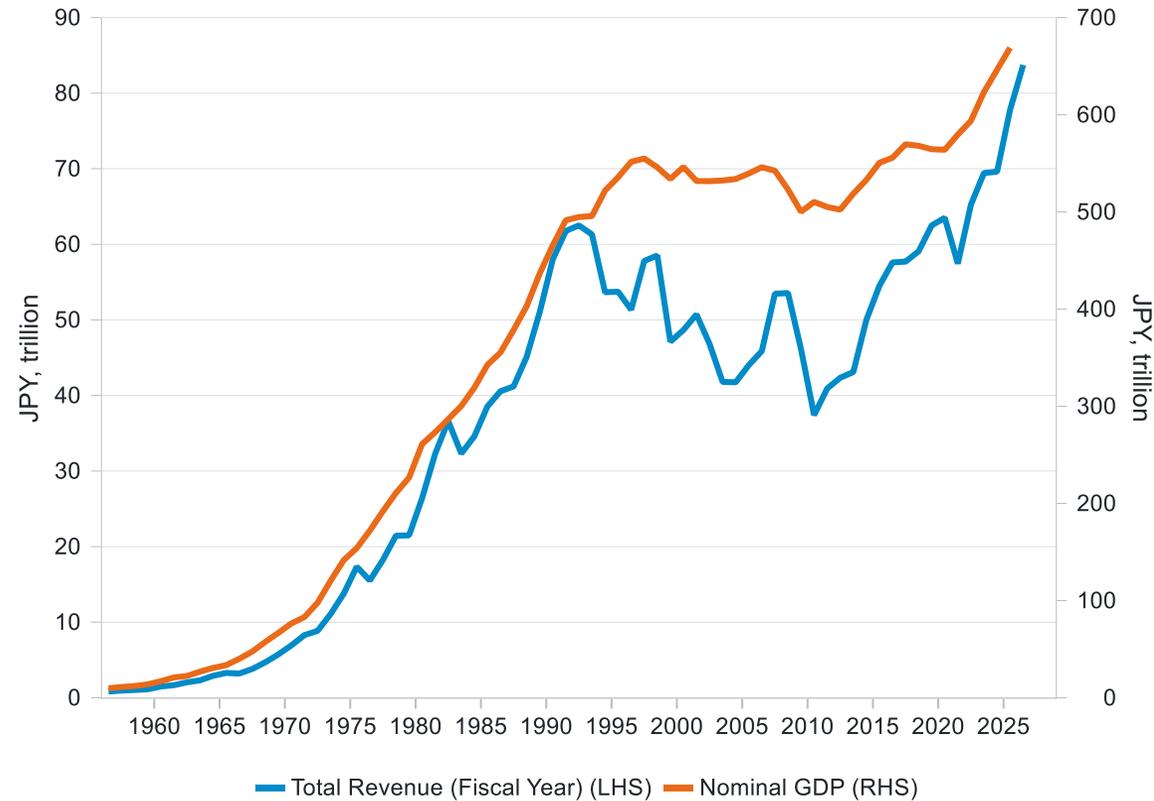
# Japan Macro Outlook

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# Improving nominal growth in Japan

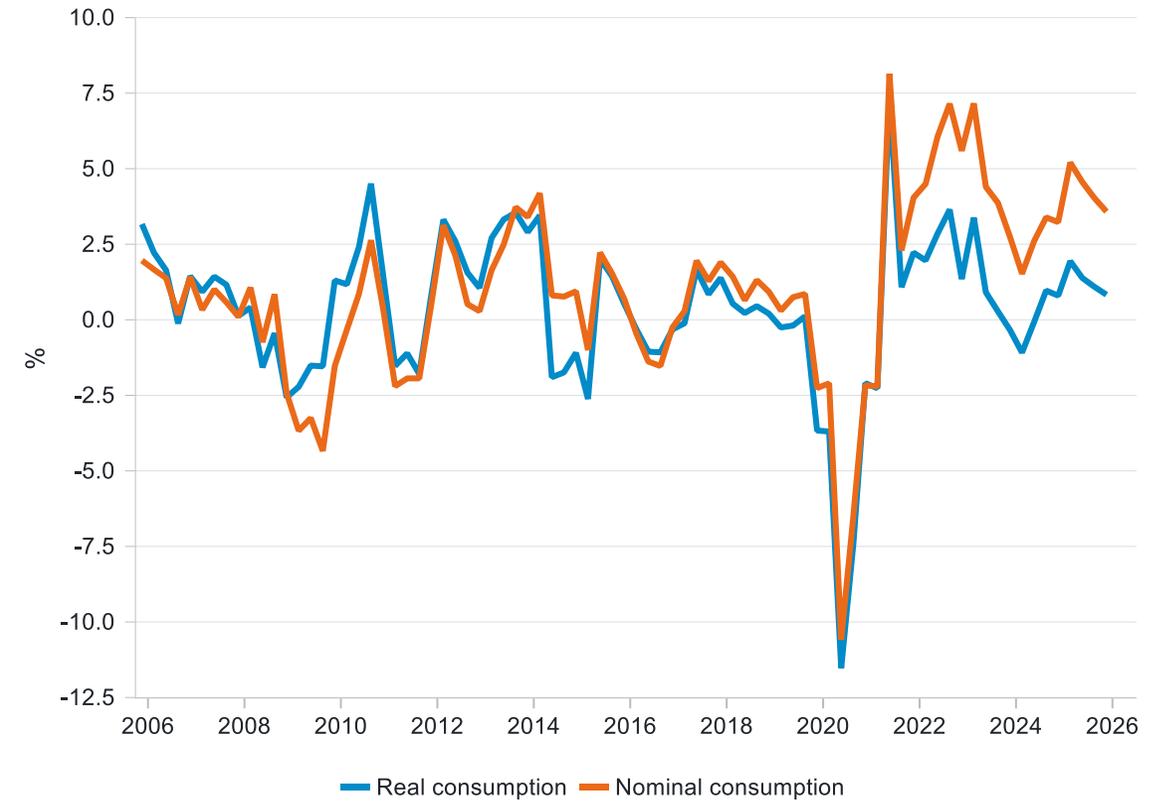
Tax revenues are increasing due to higher nominal growth, giving more room for fiscal support for households

## Nominal GDP and total tax revenue



Source: Fidelity International, Macrobond, MOF, CAO, February 2026.

## Japan private consumption

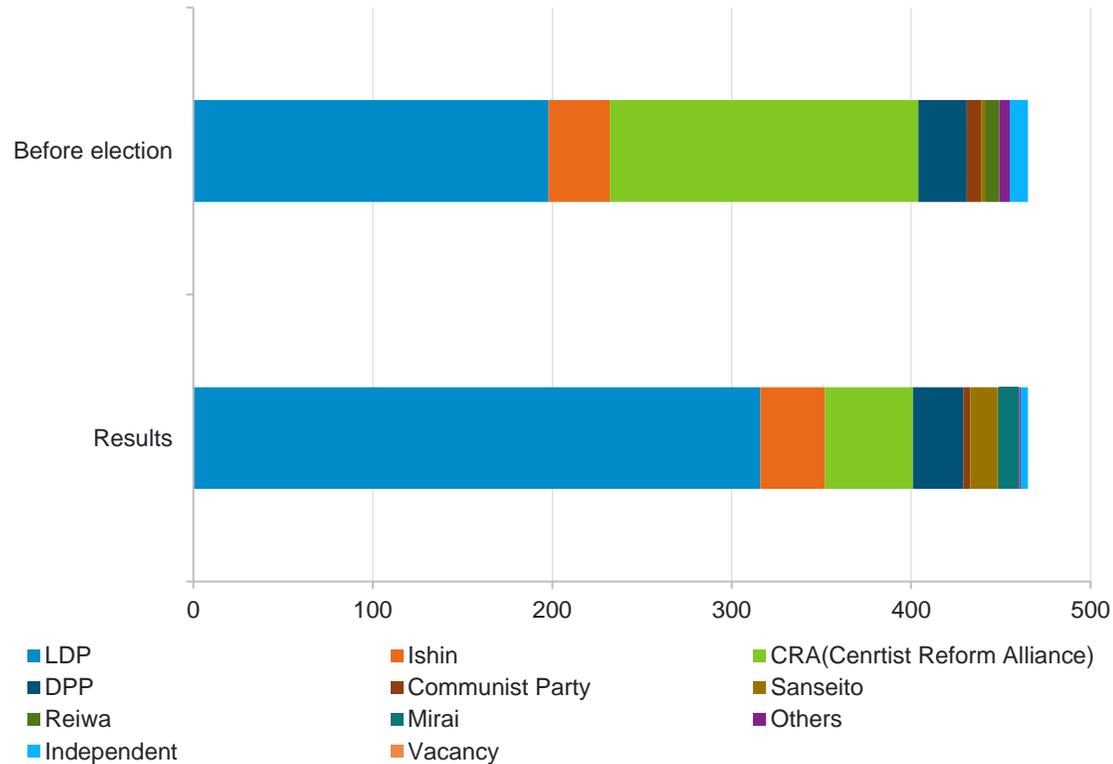


Source: Fidelity International, Macrobond, CAO, February 2026.

# Fiscal, monetary and diplomatic policies are in focus after election

LDP controls over 2/3 of Lower House seats, enabling easier policy push

## Lower House election result



Source: NHK, various media sources, Fidelity International, February 2026

## Key events in H1 2026

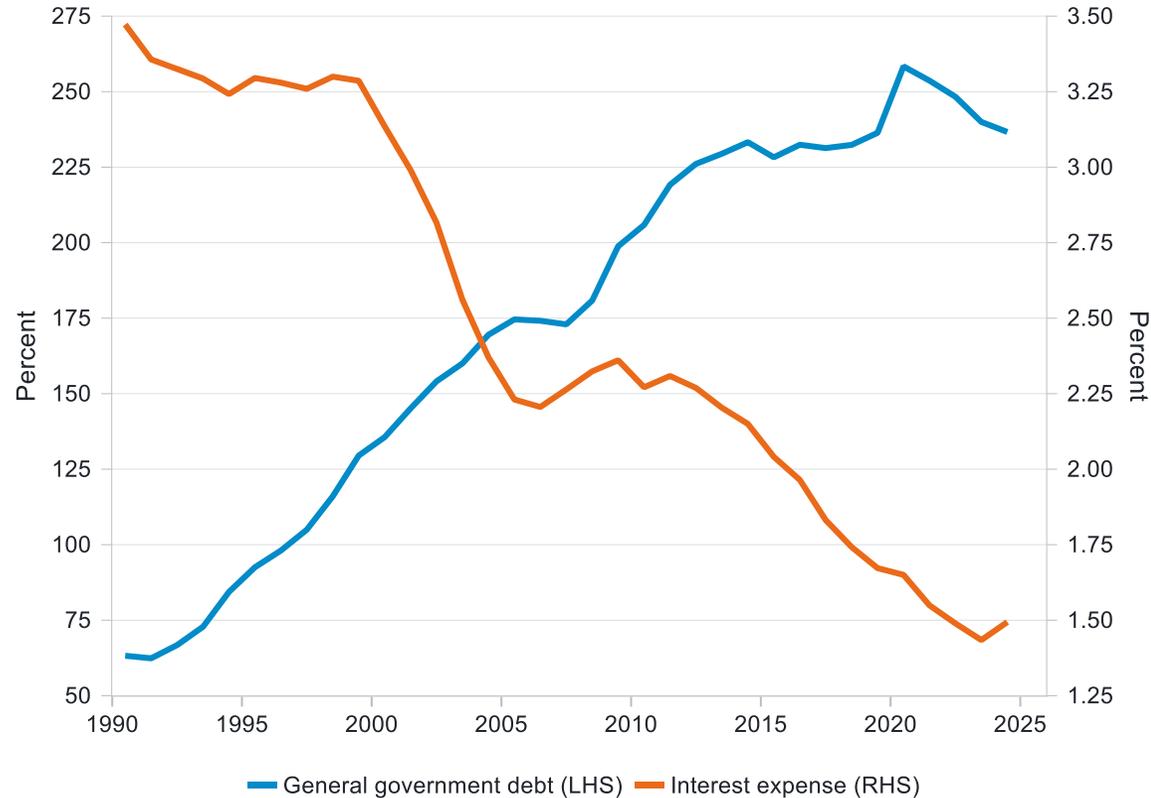
Month	Date	Event
Feb	18-19	Special Diet Session to confirm Premiership and Cabinet
	20	Takaichi's policy speech
Mar	19	Takaichi-Trump meeting
	19	BOJ policy meeting
	23	Rengo to release first result of Shunto wage negotiation
	31	BOJ policy board member Asahi Noguchi's (dovish) term expires
Apr	28	BOJ policy meeting
	End-Apr	FY2026 budget and tax reforms to be approved by Diet
Jun	15-17	G7 Summit in France
	16	BOJ policy meeting
	Late-June	Cabinet approval of Basic Policy on Economic and Fiscal Management and the Growth Strategy Report

Source: NHK, BOJ, Nomura Research, various media sources, Fidelity International, February 2026

# Debt levels are elevated and interest costs are rising

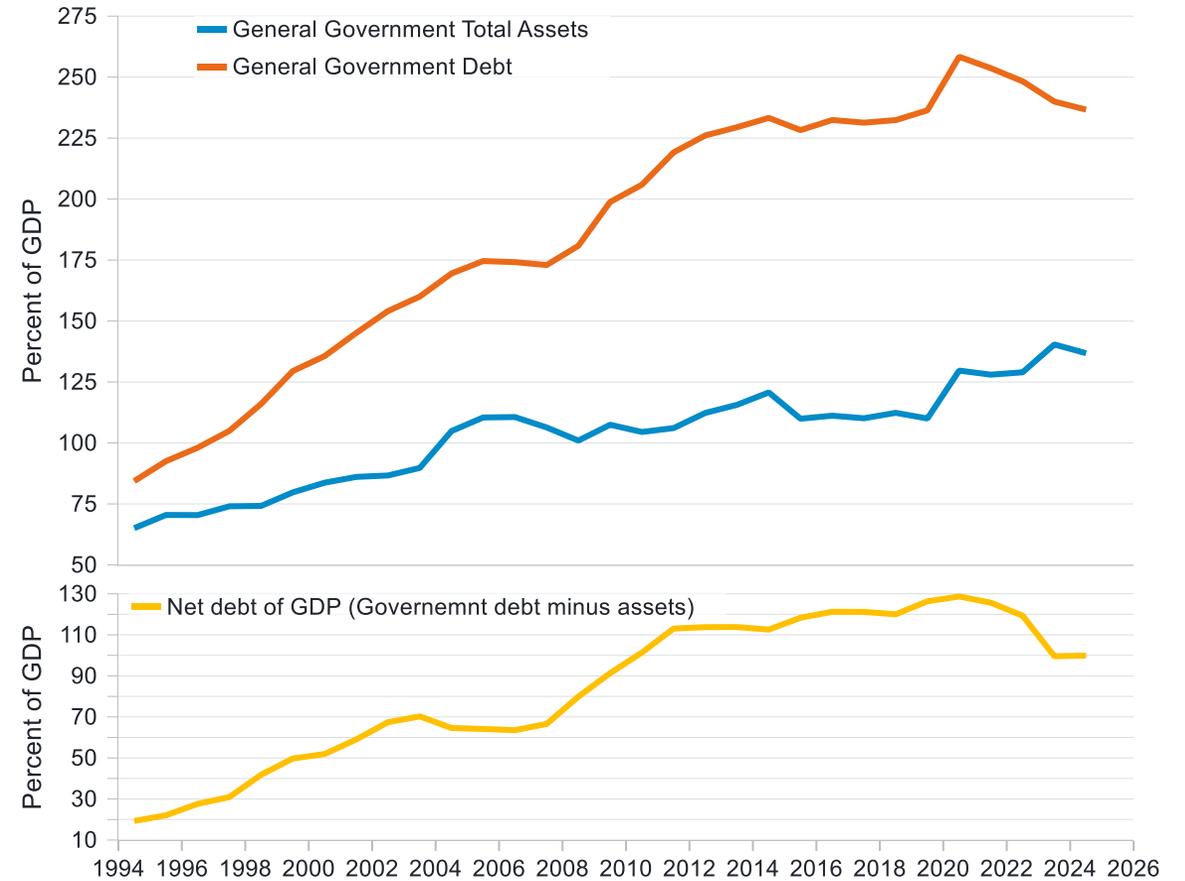
But debt levels are less worrying when we consider the assets on the government balance sheet

### Interest expense rising as higher yields start passing through



Source: Fidelity International, Macrobond, IMF, February 2026.

### Net debt is significantly lower and has been falling since 2020

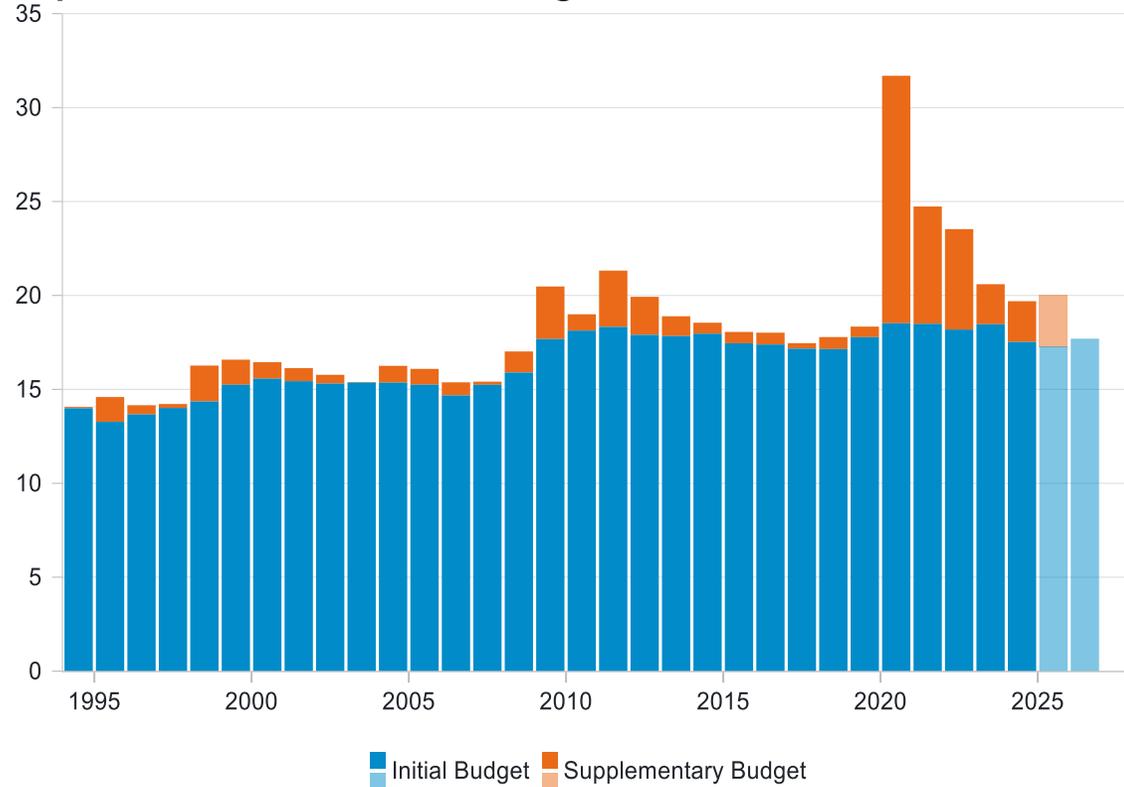


Source: Fidelity International, Macrobond, BOJ, IMF, February 2026.

# Fiscal sustainability is critical

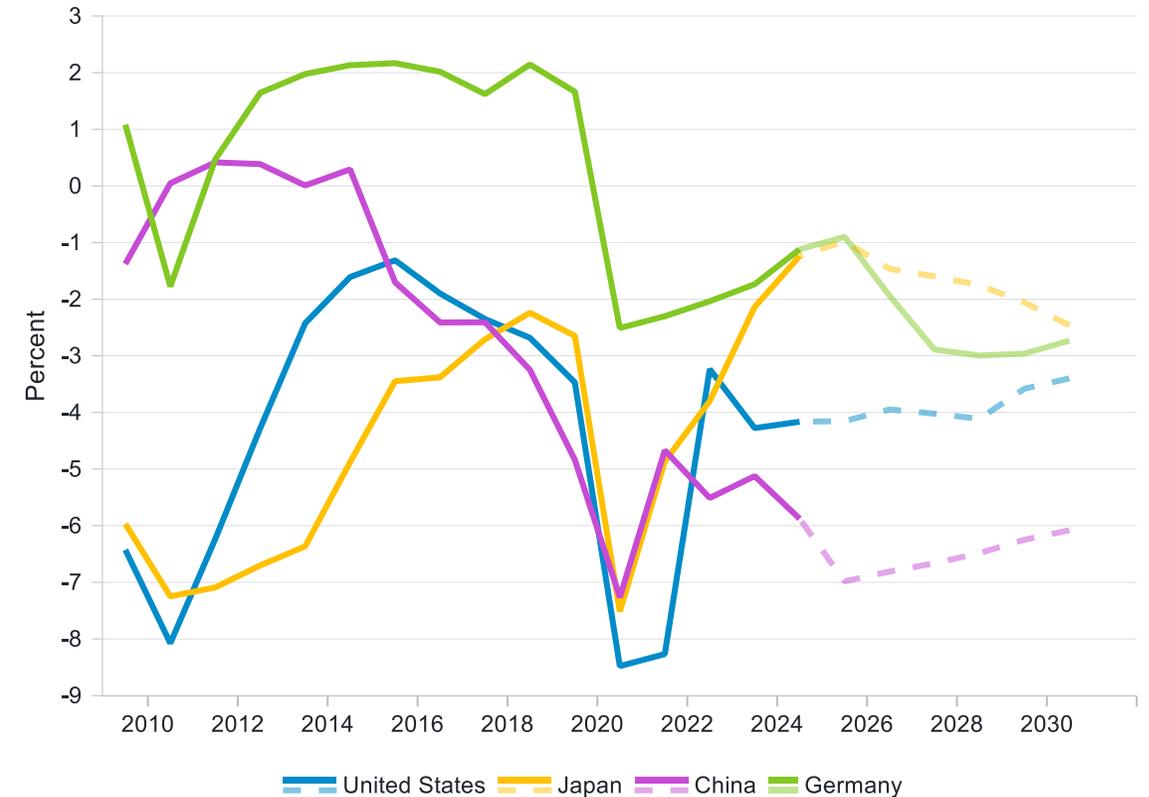
Takaichi conveys “responsibility” in fiscal expansion and resurgence of industrial policies to channel capital into economic security and strategic growth

Japan Central Government Budget, % of GDP, Fiscal Year



Source: Fidelity International, Macrobond, MOF, February 2026.

Primary balance as % of GDP

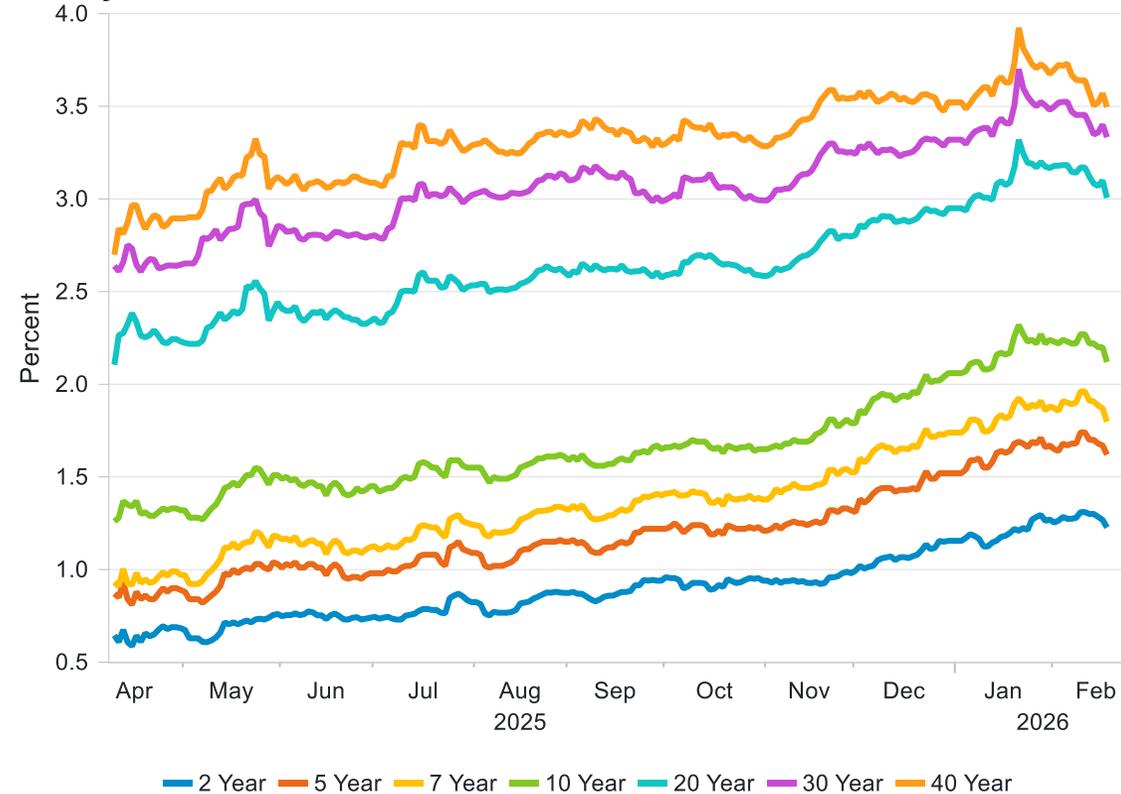


Source: Fidelity International, Macrobond, International Monetary Fund (IMF), February 2026.

# Fiscal concerns will put more pressure on JGB yields

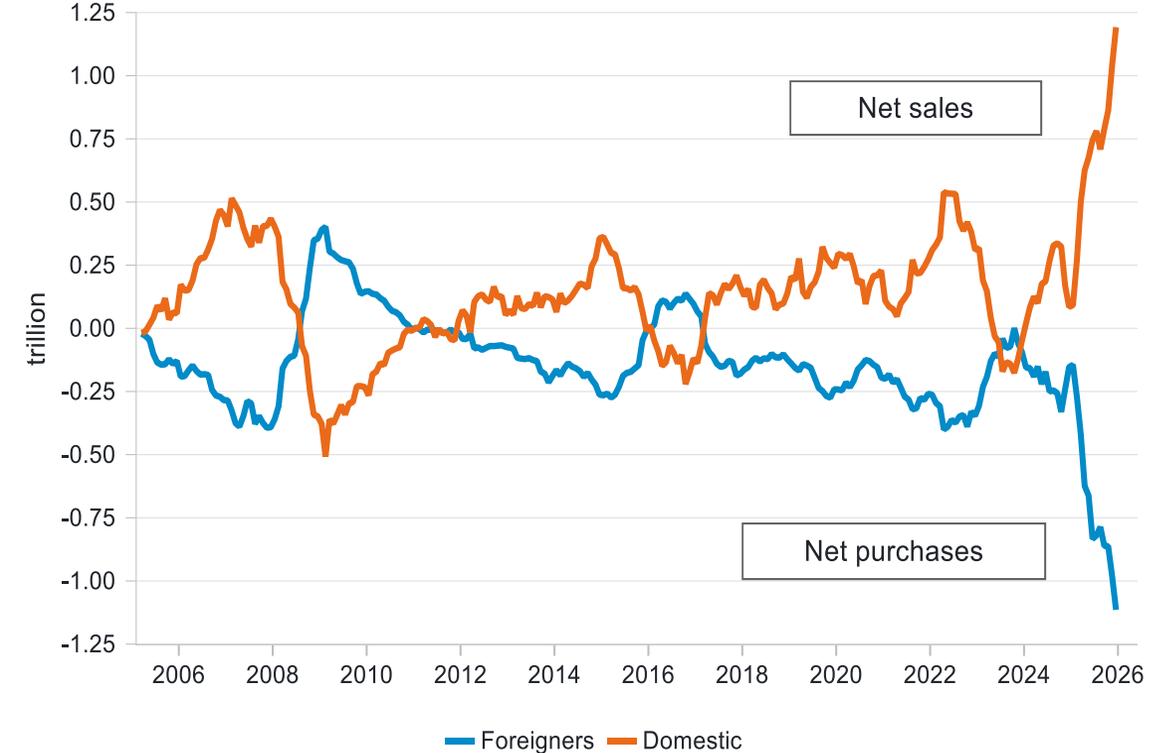
Long-end yields have lowered after election but medium term fiscal outlook remains uncertain. Rising foreign participation in bond market may lead to higher volatility and contagion in global markets

## JGB yields



Source: Fidelity International, Macrobond, February 2026.

## Japan Government Bonds Trading Volume, Interest-Bearing Long-Term (Over 10-Year), Net, JPY

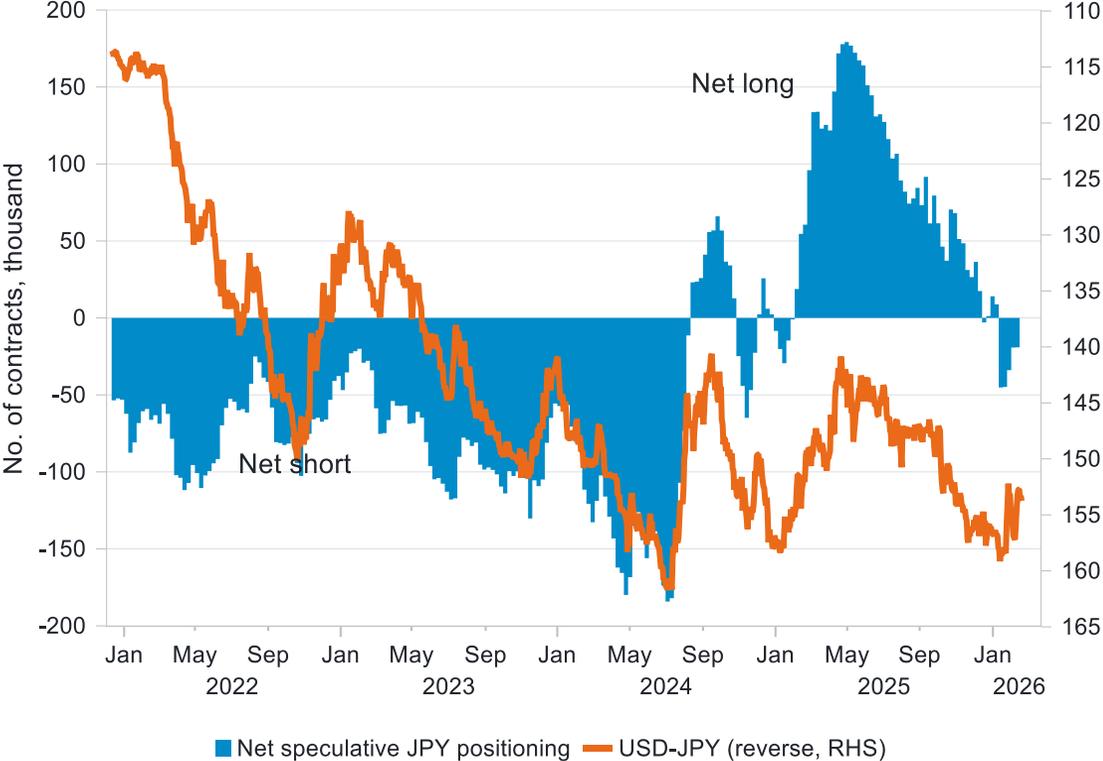


Source: Fidelity International, Macrobond, JSDA, February 2026.

# JPY and BOJ outlook

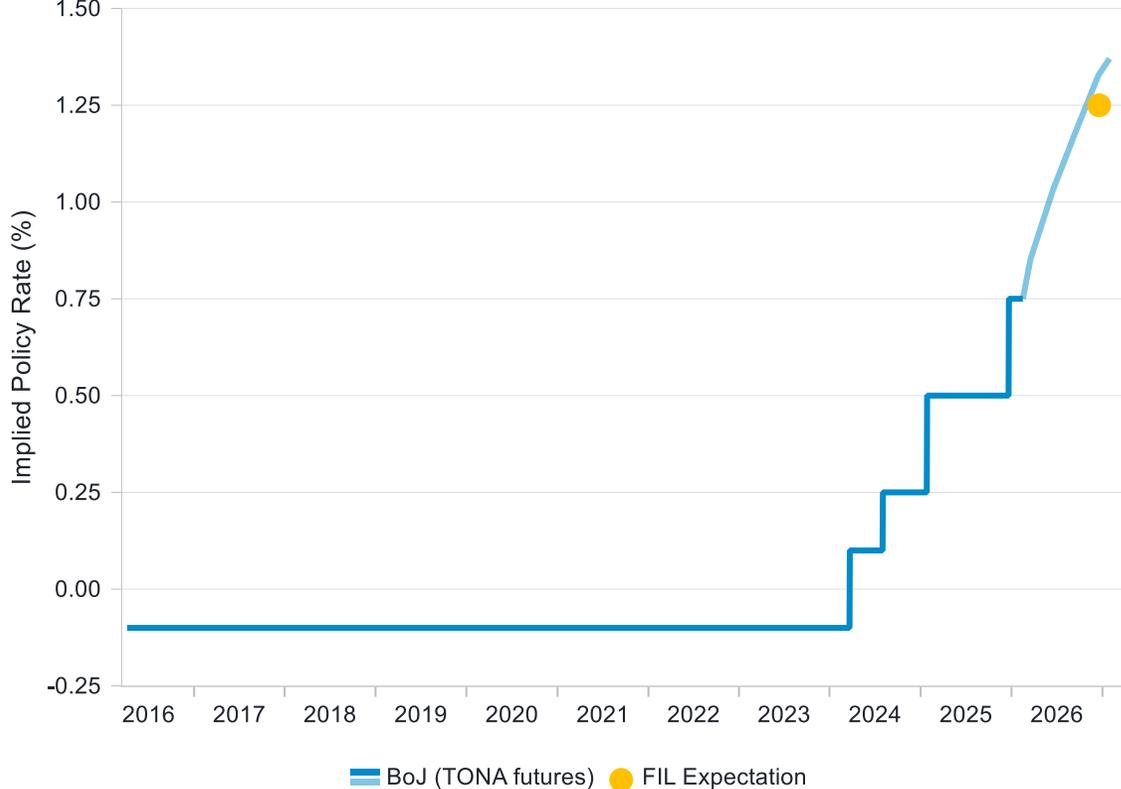
If JPY weakening pressure remains, the BOJ may need to accelerate its pace of hikes.

## Imported inflation and CPI



Source: Fidelity International, Macrobond, Bloomberg, February 2026.

## BOJ pricing



Source: Fidelity International, Macrobond, BOJ, JPX, February 2026.

# Investment implications

---

# TAA views summary

		--	-	=	+	++	Snapshot of views
Equities	<b>Equities</b>				●		Growth remains resilient, earnings momentum is holding up, and fiscal support is a tailwind, even as valuations and dispersion argue for selectivity.
	US				●		Earnings remain robust, supported by AI-led investment and fiscal support, but full valuations and narrow leadership limit upside at the index level.
	Europe				●		German fiscal expansion and easing financial conditions support selective opportunities, but trade tensions and geopolitics are risks.
	UK				●		Earnings remain uninspiring, but the market still trades at a discount and sterling weakness will support multinational large caps.
	Japan					●	Domestic demand, governance improvements, and supportive policy underpin earnings, despite rising political and rates volatility.
	Emerging markets					●	Improving growth momentum, attractive valuations and a weaker medium-term dollar underpin select EM opportunities.
	Asia Pacific ex. Japan					●	Macro conditions and valuations are mixed, outcomes remain sensitive to the global manufacturing cycle and China's demand impulse.
Credit	<b>Credit</b>		●				Tight spreads, especially in investment grade, limit upside despite still-solid fundamentals.
	Investment grade		●				Spreads in IG remain very tight and we prefer the risk-reward of other areas of credit.
	High yield					●	All-in yields remain attractive, but returns are expected to be carry driven rather than supported by spread tightening.
	Emerging market debt (hard)					●	Improving fundamentals, attractive carry, and contained default risk support the outlook, even as sensitivity to US rates and the dollar remains a key watch point.
Government bonds	<b>Government bonds</b>					●	Slowing growth is improving the diversification case for duration, but fiscal dynamics and issuance constrain conviction.
	US Treasuries					●	We are becoming incrementally more positive, but elevated deficits and term premia limit upside.
	Euro core (Bund)			●			Fiscal expansion and a less dovish ECB leave Bunds as a favoured funding source.
	UK Gilts					●	Weak growth and faster disinflation increase the likelihood of further Bank of England cuts result in a positive outlook for Gilts.
	Japanese gov. bonds					●	Gradual policy normalisation and fiscal driven volatility cap upside, particularly at the long end.
	Emerging market gov. bonds (local)					●	There are several markets in EM, especially LatAm, with attractive valuations and high real yields.
	Inflation linked bonds (US TIPS)					●	Linkers are still a decent hedge against stagflation but are less attractive given budget deficit concerns in the US.
Cash / currencies	<b>Cash</b>				●		Cash remains a useful buffer but offers limited return as easing cycles progress.
	US dollar				●		Near-term support from yield differentials offsets medium-term depreciation pressures from Fed easing and fiscal concerns.
	Euro					●	German fiscal support and an ECB closer to the end of its easing cycle underpin a modest medium-term appreciation bias.
	Japanese yen					●	Valuation support and policy normalisation are positives, but fiscal concerns and JGB volatility limit near-term upside.
	Sterling			●			Weak growth and fiscal tightening leave the currency vulnerable to external shocks.
	Emerging markets FX					●	A weaker dollar and positive flows towards EM equities are positive for EM FX.

Source: Fidelity International, January 2026. Views reflect a typical time horizon of 12–18 months and provide a broad starting point for asset allocation decisions. However, they do not reflect current positions for investment strategies, which will be implemented according to specific objectives and parameters. Regional equity views use universes defined by MSCI indices.

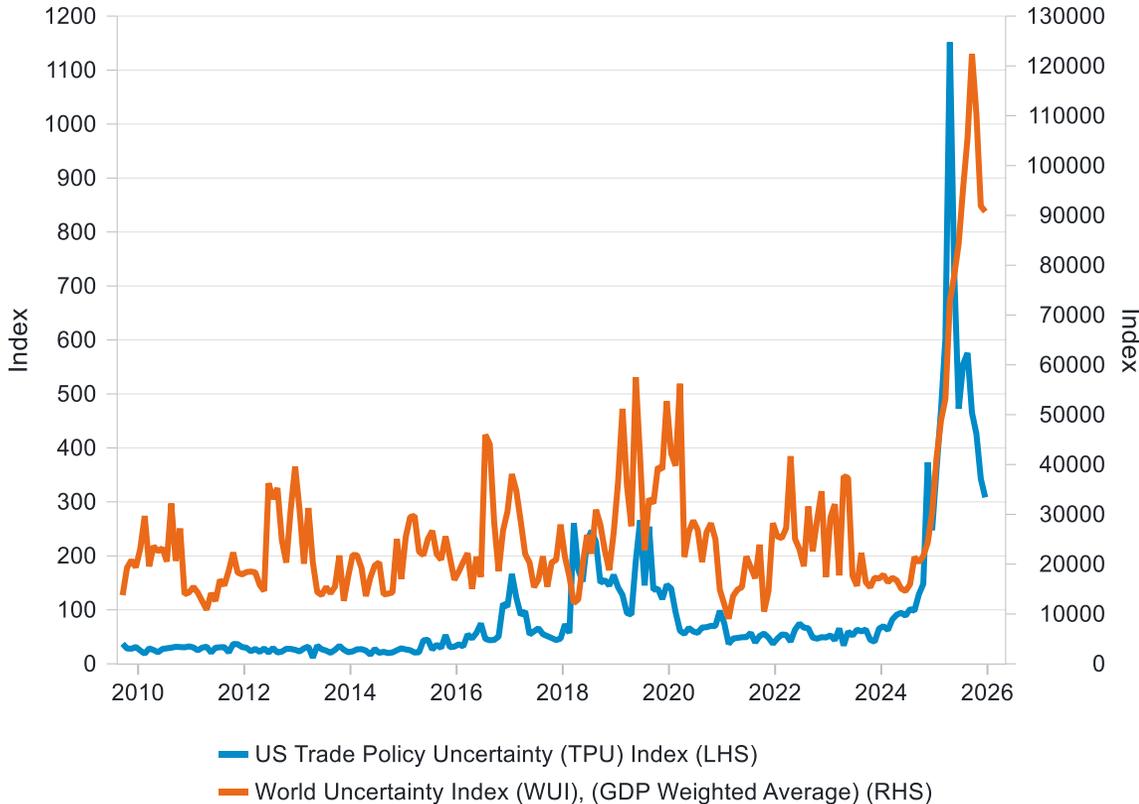
# Appendix

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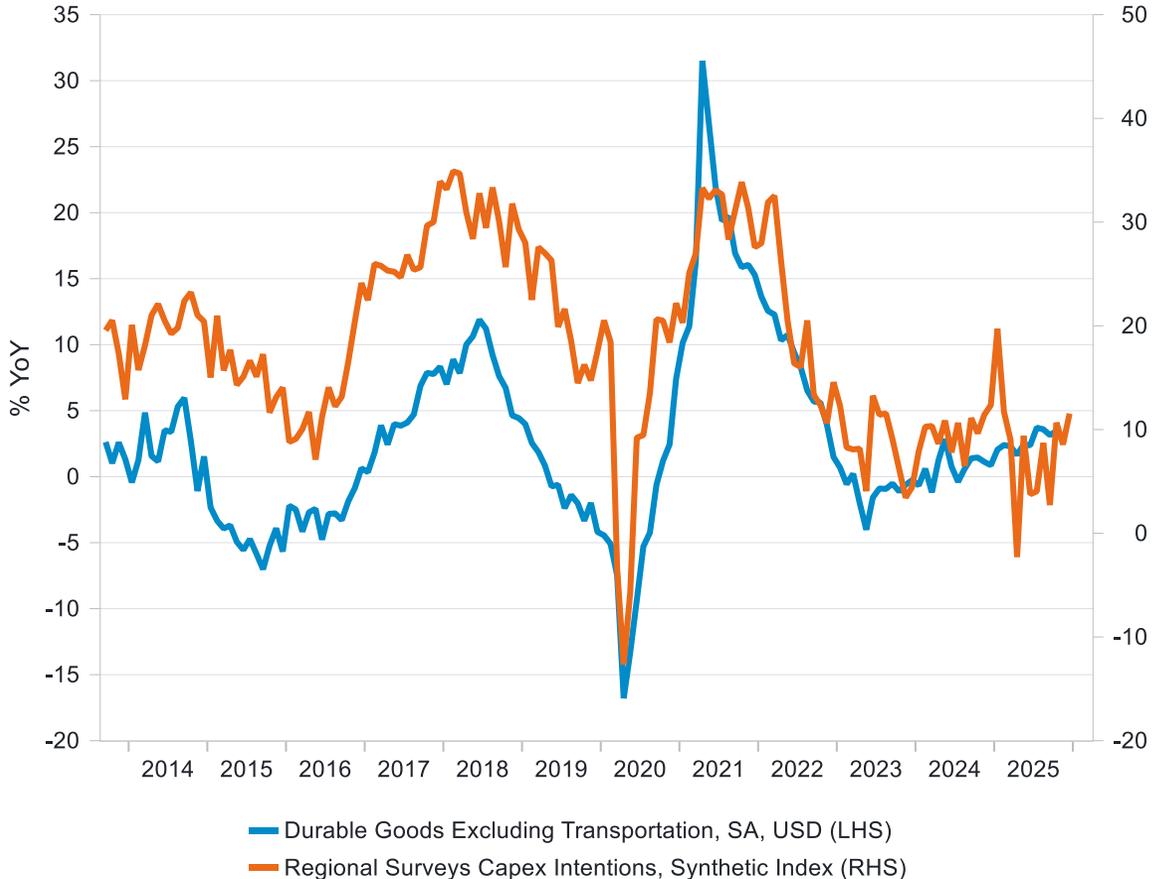
# Trade uncertainty remains contained with capex intentions steadily rising

But new round of trade tensions have potential to disrupt the ongoing stabilisation

### US and world trade uncertainty index



### US durable goods order and regional Fed capex intentions



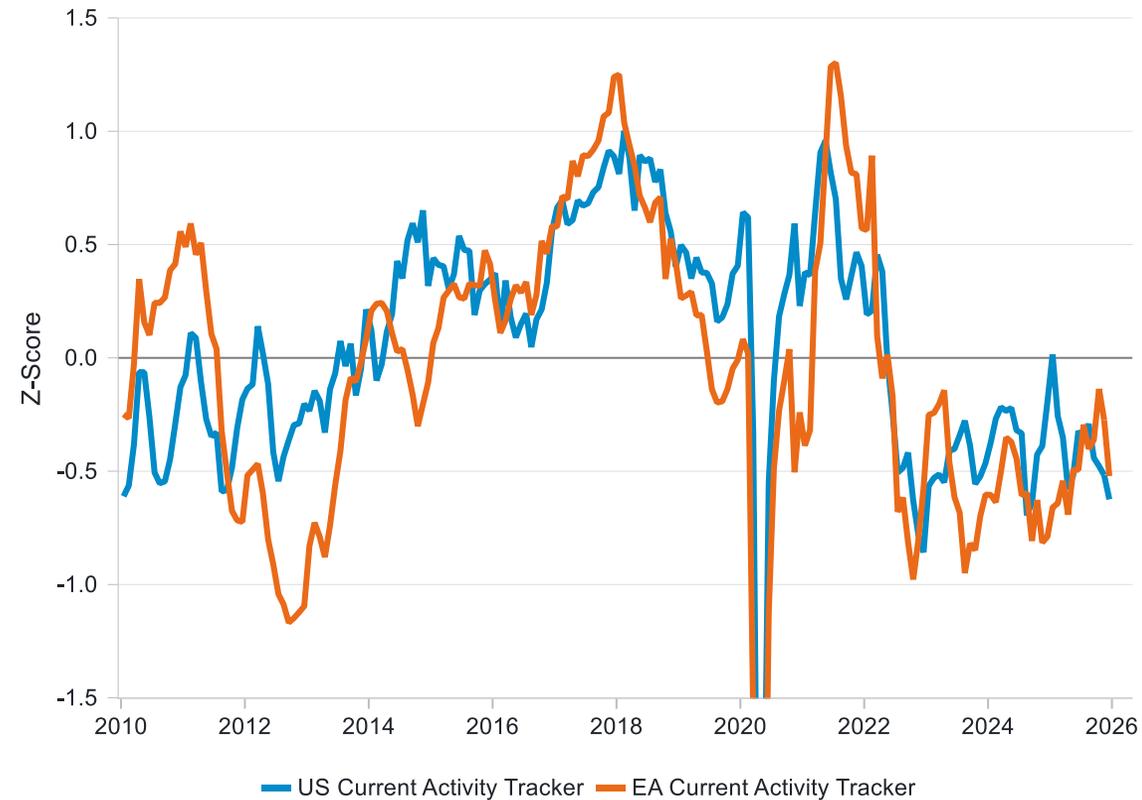
Source: Fidelity International, Macrobond, Matteo Iacoviello, Economic Policy Uncertainty, January 2026.

Source: Fidelity International, Macrobond, US Census Bureau, ISM, Regional Feds, January 2026.

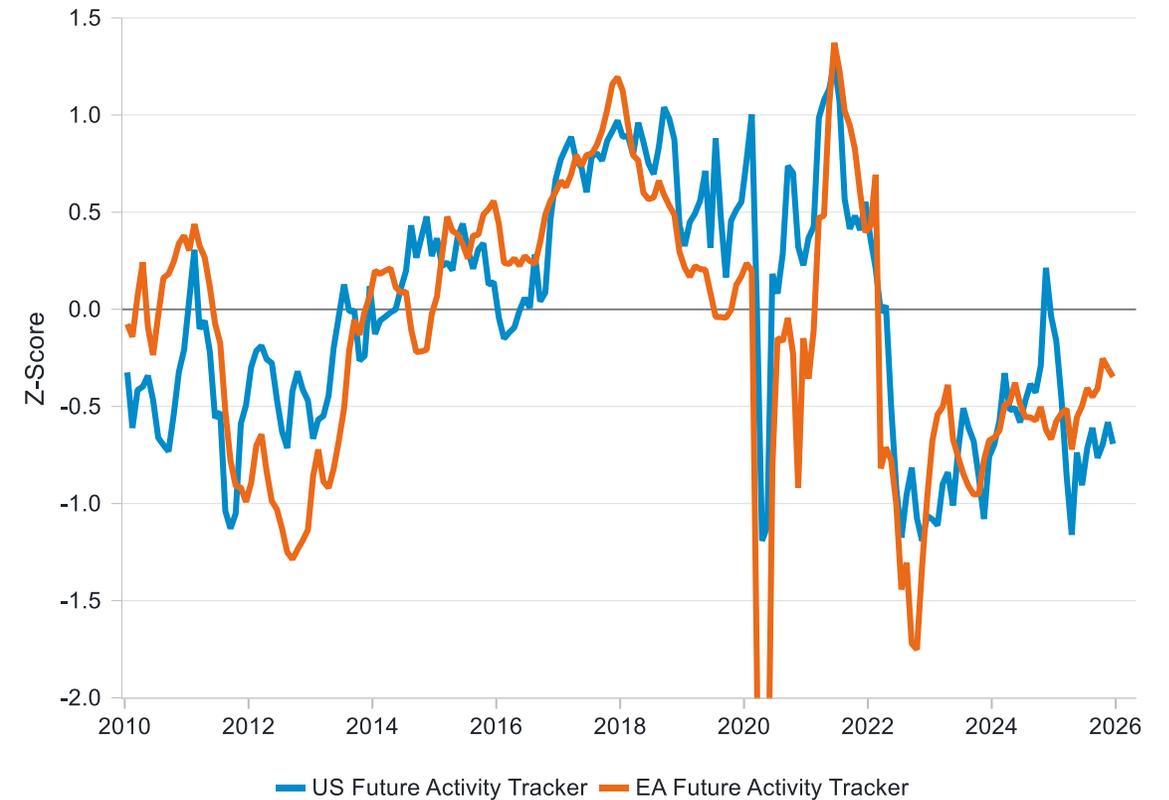
# Our activity trackers deteriorated towards the end of last year

Softening demand and consumer concerns around inflation and employment, though future sentiment appears more constructive.

## Current activity trackers: US and euro area



## Future activity trackers: US and euro area



Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, January 2026.

Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, January 2026.

# Indicators underlying our PCAs and Labour Market Tightness Indicator

Updated on a monthly basis

## USA PCA Framework – Indicators used

### US Current activity tracker

PMI Manufacturing - Production  
PMI Manufacturing – Employment  
NAHB Single Family Home Sales  
Philly Fed Manufacturing Business Activity  
Richmond Fed Manufacturing – Capacity Utilisation  
PMI Non-Manufacturing - Business Activity  
PMI Non-Manufacturing – Employment  
Richmond Fed Service Sector - Revenue  
Richmond Fed Service Sector – No of Employees (3mma)  
UMICH Consumer Sentiment Current Conditions  
Conference Board Consumer Confidence Present Situation  
Mortgage Purchase Applications

### US Future activity tracker

PMI Manufacturing - New Orders  
NAHB Single Family Home Sales - In 6 months  
Philly Fed Manufacturing - Future Business Activity  
Empire State Manufacturing – New orders  
Richmond Fed Manufacturing – Capacity Utilisation in 6 months (3mma)  
PMI Services - New Orders  
PMI Services - New Export Orders  
Richmond Fed Service Sector Demand – 6 months ahead (3mma)  
UMICH Consumer Sentiment Expectations  
Conf. Board Consumer Confidence Expectations  
Conf. Board Expectations of Buying New Home in 6M  
Richmond Fed Manufacturing wages in 6 months (3mma)

## Eurozone PCA Framework – Indicators used

### EA Current activity tracker

German Ifo Business Climate: Manufacturing  
EC Industrial Confidence  
EC Construction Confidence  
PMI Manufacturing - Quantity of Purchase  
PMI Manufacturing - Production  
EC Service Confidence  
PMI services  
German Ifo - Business Climate: Services  
German Ifo - Passenger car demand  
EC Consumer Confidence  
ZEW Economic Sentiment  
EC Retail  
EC Employment Expectation

### EA Future activity tracker

German Ifo 6 Months ahead  
EC Industrial Production expectations  
PMI manufacturing New orders  
PMI manufacturing New Export orders  
PMI Construction New orders  
EC Services expected demand over next 3 months  
EC Retail trade expected business situation  
PMI services New business  
EC Consumption fin situation next 12 months  
EC Consumption eco situation next 12 months  
Sentix Future

## Fidelity Labour Market Tightness Indicator

### Dates in brackets show when indicator starts being used

NAIRU minus UR (31/3/1949)  
Jobs minus workers (where JOLTS have been extrapolated prior to December 2000 using a composite Help Wanted Index) (31/1/1951)  
Employment NFIB firms with positions not able to fill right now (31/10/1973)  
NFIB single most important problem: percent reporting quality of labour (31/10/1973)  
NFIB Businesses with few or no qualified applicants for job openings (30/04/1993)  
JOLTS quits rate / hires rate (31/12/2000)  
Full employment normal guesstimate minus part time work for economic reasons % employment (31/7/1955)  
Conference board jobs plentiful minus jobs hard to get (31/1/1967)  
Atlanta FED wage growth tracker: job switcher minus job stayer (31/3/1997)

Source: Fidelity International, 2025.

# Fidelity's proprietary China Activity Indicator (CH-AI)

## China Activity Indicator subcomponents

Sector	Indicator List	Weights
Industry	Major Ports Volumes	9.0%
	Caixin manufacturing PMI: Output	7.3%
	Manufacturing PMI: Production	7.3%
	Manufacturing PMI: Employment	6.5%
	Industrial Production	10.3%
	Total Industry	40.4%
Services	Caixin services PMI: Employees	6.5%
	Caixin services PMI: Business Activity	7.5%
	Auto sales	10.2%
	Domestic flight	8.5%
	Total Services	32.6%
Property	Residential property sales	9.7%
	Construction Starts	8.8%
	Cement Production	8.5%
	Total Property	27.0%

Source: Fidelity International, FIL Global Macro Team calculations, 2025.

# Global Macro & SAA team

Powering asset allocation across Fidelity's investment teams

## Our team

**Salman Ahmed**  
Global Head of Macro & SAA

**Max Stainton**  
Senior Global Macro Strategist

**Peiqian Liu**  
Asia Economist

**Ashray Ohri**  
Macro Strategist

**Conor Parle**  
Eurozone Economist

**Stefan Rusev**  
Senior SAA Strategist

**Edoardo Cilla**  
CMA Strategist

**Weiyue Kou**  
Associate CMA and SAA Strategist

## Our role

- Part of Fidelity Solutions & Multi Asset, working across Fidelity's investment teams to feed into asset allocation decision making
- Leading research into macroeconomic and market dynamics, supporting asset allocation decisions and establishing core investment views

## Evolving Fidelity's capabilities

- Building out Fidelity's capabilities in macroeconomic research
- Creating and maintaining Fidelity's capital market assumptions (CMAs)

Source: Fidelity International, 2026.

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