Strategic Asset Allocation

2026

moneyfarm

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Past performance is no indicator of future performance. And forecasts are not a reliable indicator of future performance.

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What is strategic asset allocation?

Strategic asset allocation (SAA) plays a fundamental role in Moneyfarm's investment process.

Every year, Moneyfarm's Asset Allocation Team (AAT) produces long-term (10-year) evaluations of all major asset classes that make up our portfolios. These evaluations are used to find the right combination of assets to create portfolios that are suitable for our clients and meet their risk and return needs. It is a complex yet critical process, a product of studying and monitoring the markets throughout the year.

What are strategic portfolios?

The ultimate goal of this process is to identify the strategic allocations that form the basis of the portfolios we offer to investors.These combinations of assets are the final result of the SAA.

These portfolios are not the actual allocations but serve as guidelines that outline our long-term expectations.

It is important to emphasize that these strategic portfolios provide a framework for constructing the portfolios offered to our clients.

However, the actual allocation of client portfolios is also shaped by tactical adjustments made to address short- and medium-term market dynamics.

How are strategic portfolios constructed?

These portfolios are constructed based on expected returns, expected volatility, and correlations between asset classes, all evaluated over the next 10 years.

Expected returns reflect our projections for the growth potential of various asset classes over the coming decade. These projections are shaped by our team's insights into how economic, demographic, and social trends will influence asset valuations.

Expected volatility represents the estimated level of risk and is derived from an analysis of historical data.

Correlations measure the degree to which the value of one asset moves in relation to another, providing essential insights into diversification opportunities.

With these three components—expected returns, volatility, and correlations—we can construct strategic portfolios designed to achieve specific long-term risk and return objectives.

How does the strategic asset allocation process work?

It is both a qualitative and quantitative process. Forecasts are made using a mathematical process, but there are various control steps, validations of results and interventions by the Investment Committee.

Expected Returns, estimation of volatility and correlations

Our investment approach looks at the long-term growth potential of different asset classes, carefully considers how risky each one is, and analyses how they interact with each other. By combining these insights, we create well-diversified portfolios that aim to deliver attractive long-term returns while helping to smooth out ups and downs along the way.

1

Risk/return profile for each asset class

Setting limits

The portfolio managers set limits for asset classes that the SAA cannot breach. This ensures the portfolios remain diversified and are not over or underexposed to any particular geography or asset class.

Provisional portfolios

2

Robust optimisation

We run simulations to see how portfolios may behave in different scenarios, stress-testing our models and assumptions to help ensure they remain resilient even in adverse conditions.

3

Discussion and human oversight before approving the definitive outcome

4

Strategic Portfolios created

5

Qualitative review

The Investment Comittee monitors the results obtained through the quantitative process and takes corrective action if necessary.

Dear investor,

Welcome to the 2026 Strategic Asset Allocation report. The Strategic Asset Allocation (SAA) process takes place each December. It allows the Investment Committee to focus on the long-term outlook for a broad range of asset classes.

The goal is really to step back from the day-to-day noise of the global economy and financial markets and think about where we might be in ten years' time.

In an ever-changing global environment, it's an important reminder of **some of the core tenets of Moneyfarm:** focus on the long term, keep your costs and turnover low, and don't get too distracted by the daily news flow.

In the SAA process, we focus on the key macro drivers for long-term expected returns, notably economic growth, inflation and starting valuations. It's historically been quite a mechanical process, so there's relatively little scope for human judgement.

These outputs always provoke a spirited discussion within the Investment Committee as we debate the outlook for markets and, especially relevant this year, how much the future will resemble the past.

From tariffs to **Artificial Intelligence (AI),** we've seen a number of significant shifts for 2025. Conventional wisdom says these shifts will have a profound impact on the global economy and financial markets. It's worth remembering, however, that the crowd is often "wise", but not always.

As you'll see later in the document, this year the SAA still points to a fairly **optimistic outlook for financial returns across the board.** The starting point has really been the outlook for global bonds. After a repricing of bond yields higher in 2022, the SAA continues to see better long-term returns for global fixed income going forward. This gives comfort that lower risk portfolios can generate a decent real return for clients over the long term.

The SAA process sees slightly lower long-term equity returns than was the case a year ago, on the back of another strong year for most equity markets in 2025.

What will it take for these forecasts to be correct and for investors to enjoy these long-term returns? There are a few points to make.

First, **the SAA assumes macroeconomic stability:** inflation stays around the 2% target of most developed market central banks while the global economy expands, albeit at a fairly pedestrian pace. All things considered, this would represent a fairly benign environment.

Second, **the SAA process takes quite a conservative view on long-term valuations,** assuming that valuations normalise towards their ten-year average. That serves to dampen the expected returns for global equities, and the US in particular – where current valuations are above their long-term average.

Third, implicitly, **we assume that profits stay about the same as a proportion of the economy** – so economic growth is a decent proxy for profit growth. Intuitively that makes sense over the very long-term (otherwise the entire economy would just be profits!) and long-term data from the US suggests it's a fair assumption.

But if we look at more recent time periods, we see that profits from listed businesses have grown faster than the overall economy, and that margins have generally expanded. That has helped equity markets over the past decade, but we shouldn't assume that will necessarily be the case going forward Inevitably, whenever we look at a set of estimates we think about where they can be wrong. We think there are a few points to highlight. On the macro side, there are reasons to think that a benign outlook for inflation might be too optimistic. Higher tariffs and lower immigration could translate into structurally higher inflation going forward. Also, higher starting bond yields typically translate into better returns for fixed income, but high levels of government debt in developed economies do represent a secular challenge.

On a more positive note, these forecasts don't factor in much of an impact from AI. An optimistic outcome from AI could translate into structurally higher growth across the world – helping businesses and households alike.

In a similar vein, there are reasons to believe that **corporate profits could grow faster on a secular basis than our SAA assumes.** Listed businesses aren't the entire economy, and they look like they're capturing an increasing percentage of the overall profit pool. That could translate into sustainably stronger profit growth going forward. That's certainly been a feature of the past few years.

We explore many of these topics later in the document. Before that, we'd like to leave you with a couple of key messages. First, **long-term returns from financial assets look quite robust, and expected returns for fixed income remain healthy.** The repricing we saw in fixed income markets in 2022 continues to support forward-looking returns in the shape of higher yields.

On the equity side, the strong performance over the past couple of years has had a bit of an impact. Long-term expected returns for equities remain decent, but not quite as high as we saw in past SAAs.

We hope you enjoy reading these articles and find the analysis helpful.

Richard Flax
Chief Investment Officer

The rise of Artificial Intelligence

Anyone who has used Artificial Intelligence (AI) – even just to draft an email – will have realised that this technology is far more than an abstraction or a financial bet. **AI is a tangible force,** rapidly embedding itself in the real economy and reshaping how hundreds of millions of people live and work.

In this document, a year ago, we were asking ourselves if and when AI would begin to change the way we work. Twelve months later, as we write, there is evidence that many companies are already recording significant efficiency gains thanks to AI, while new applications continue to emerge every day.

Despite this evidence, in recent months investors have largely focused on **big tech earnings,** looking for confirmation that investments in AI have been worthwhile and that today's elevated market valuations are justified. While this is useful for assessing short-term market performance, we believe it risks distracting from the real underlying dynamic. AI is not a gadget that will simply boost earnings over the next 12 months: it is the potential trigger for an industrial transformation that could prove even more profound than the digital revolution of the past 40 years.

From an investment perspective, we usually care about the impact on profit growth, relative to starting expectations. However, we believe it is also important to step back from the noise surrounding market performance. The central question is not if or when AI will reshape production processes, organisational structures, and corporate profitability, but **how deep these changes will be.** We see little doubt that AI will catalyse growth and innovation; what remains to be understood is the magnitude of the wave and whether the global economy will absorb the impact without significant shocks.

What makes the AI revolution unique

AI's revolutionary potential lies in the fact that it is a new general-purpose technology, like electricity or the internet. This means it can be applied to an extremely wide range of professional – and increasingly, personal – activities.

Compared to past breakthrough technologies, however, two crucial differences emerge.The first, which makes AI historically unique, is that **it can replace cognitive and creative labour on a large scale** – tasks that have traditionally been the exclusive domain of humans. The second is the speed of adoption: despite the anxiety generated by quarterly earnings readings, **AI uptake is advancing at an accelerated pace,** supported by unprecedented investment. If the internet spread over decades, AI is penetrating industries and job functions at a much faster rate.

This uniqueness, however, introduces an element of uncertainty into a narrative that would otherwise appear unambiguously optimistic. It remains to be seen whether the economy can absorb this technology with the same adaptability shown in the past or whether the speed and depth of the change will impose adjustment costs higher than expected.

How far will AI transform the labour market?

To assess the scale of the AI revolution, the first parameter to consider is the improvement it brings to production processes. Early signals already show that AI is reshaping business operations at every level. Although evidence is still somehow contested, preliminary studies confirm that AI has

the potential to generate significant productivity gains.

According to researchers at the London School of Economics (based on data from 3,000 workers and 240 managers), integrating AI into work processes could save the equivalent of a full working day per week (7.5 hours). This corresponds to a productivity boost of around 20%, quantified at roughly £13,000 per worker based on the average salary of respondents.

These findings align with corporate expectations: Infosys reports that companies anticipate an average 15% productivity increase from AI projects, with peaks up to 45%.

These early efficiency gains are typical of major technological revolutions. Yet it's important to keep in mind that these numbers likely underestimate AI's full impact.

> *"AI is a tangible force, rapidly embedding itself in the real economy."*

Many workers are already using AI informally, and only a small share of companies have integrated it into their core processes. According to several studies (McKinsey, Infosys), **only about 1% of firms have fully embedded AI into core operations**, and only 2% are ready to do so. Most remain in the pilot phase or use AI only marginally. This is crucial: it suggests that most productivity gains have yet to materialise.

An increase in productivity per hour worked in these areas could – within a few years – deliver results comparable to those that would otherwise require an entire economic cycle. Estimates do vary, but for example, the OBR thinks that its realistic best-case is to end up with a productivity boost of 0.8pc annually in the UK.

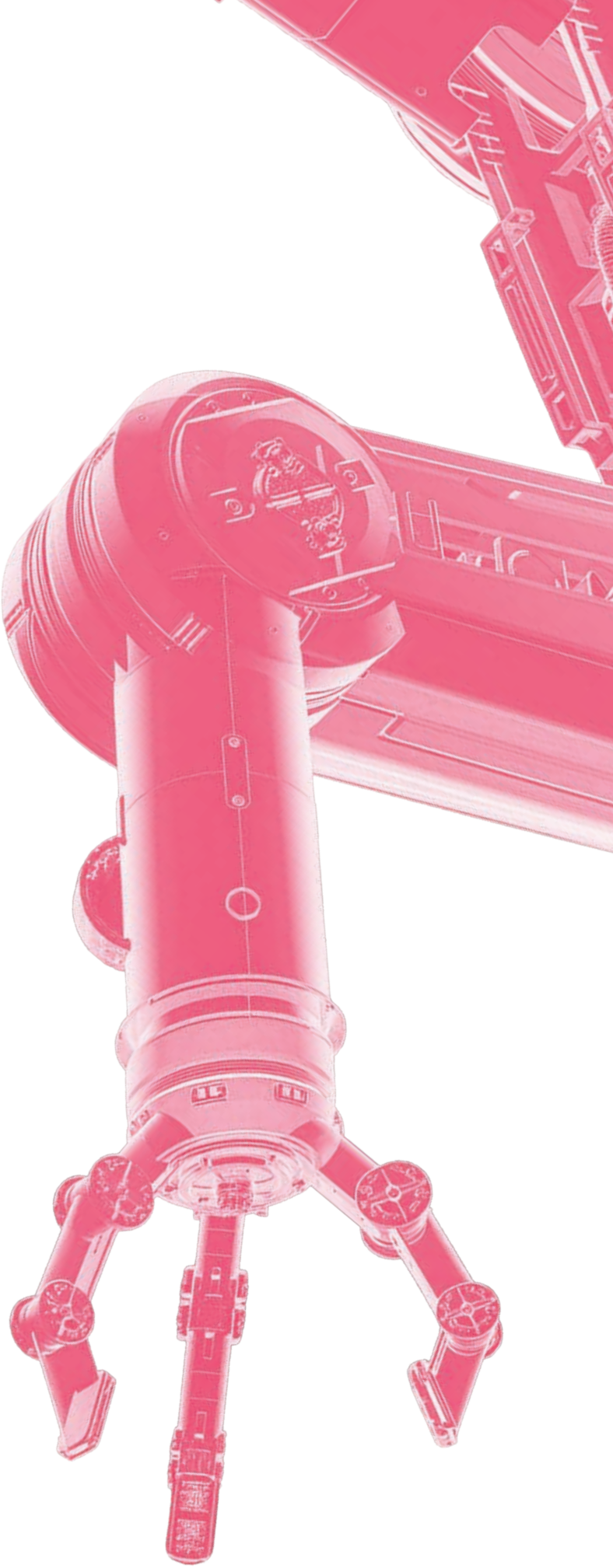
That would be more productivity growth than Britain has averaged since the financial crisis (0.5pc) so total productivity growth could hit 2% – territory not seen since the early 2000s. For context: the introduction of computers had almost no visible impact on productivity for decades, and the effects of electrification only became evident 40 years after its adoption.

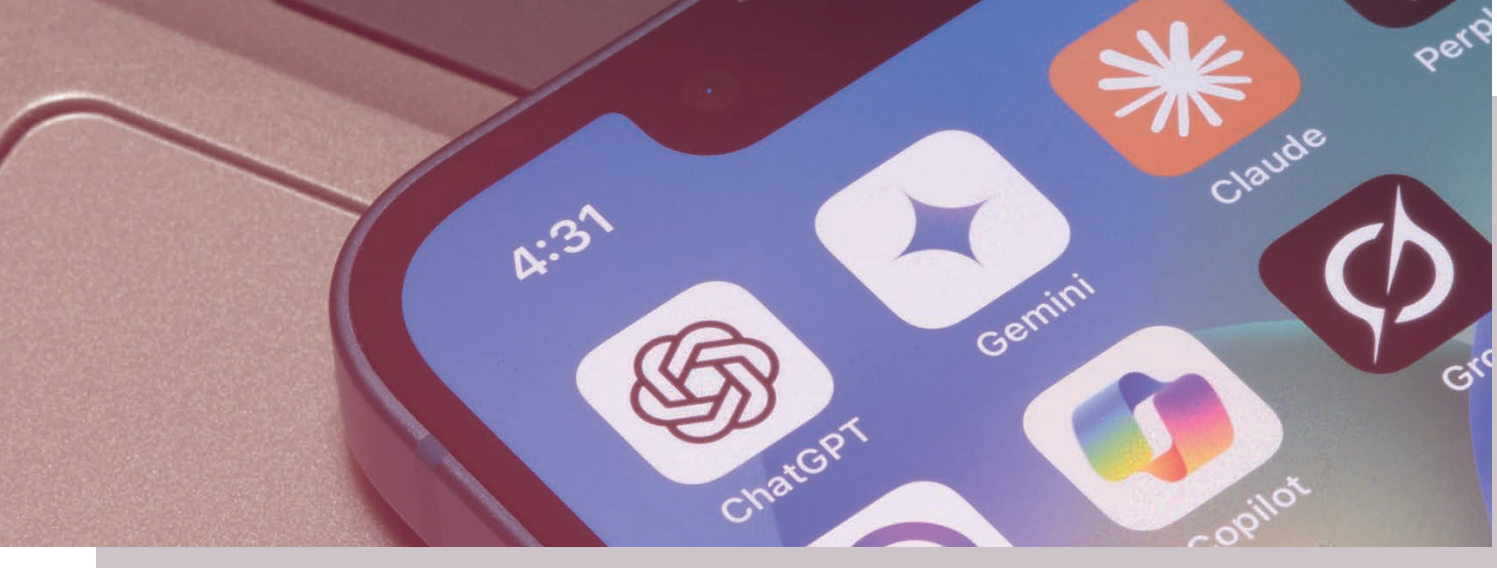
These observations remind us that the relationship between new technologies and productivity is often nonlinear and difficult to predict (the "productivity paradox").

Even allowing for caution, a productivity boost smaller than current estimates would still result in substantial economic benefits: higher output with the same resources, improved corporate margins, support for real wages, and a structural increase in the economy's growth potential – translating into positive outcomes for investments.

After a decade of weak growth, AI may well become the catalyst for a new cycle.

However, these positive macroeconomic effects on growth and employment will likely emerge only in a few years. The primary reason is the low formal adoption rate: macro effects typically





appear only once diffusion surpasses certain critical thresholds, as happened with the internet between 1995 and 2005.

Until adoption gains momentum, the impact on GDP will remain muted. It is very likely that AI will become a decisive engine for global growth, but we may only start to see this trend later in the decade – barring possible downward pressure on prices and employment.

Some estimates predict an additional 7% boost to economic growth in the coming years.

Expansion into consumer sectors

A step-change in adoption will occur when AI becomes integrated into mass-market consumer products, giving rise to entirely new product categories and consumption habits. Today, consumer-facing AI is still at an early stage: there is no defining product – no "iPhone moment" – that can trigger mass uptake.

However, early signs are emerging in existing devices. AI integration in smartphones, wearables, and smart glasses is only just beginning. Major software and hardware makers are testing AI-agent functions embedded directly in operating systems (generative video editing, contextual personal assistants, real-time productivity tools). Still, none of these features has yet become a true sales driver.

This is likely to change. According to the World Economic Forum, **AI could unlock $1.2 trillion in value across consumer sectors by 2038** – almost equivalent to the entire global luxury industry. The report suggests that AI's spread across consumer products will act as a powerful growth engine, revitalising mature categories such as retail, entertainment, digital health, smart home devices, and food & beverage.

Labour-market effects

While the growth effects may emerge over the next decade, the impact on the labour market is already visible. For example, in the UK the number of job vacancies has fallen from 1.3 million in May 2022 to around 0.7 million in May 2025. Studies suggest that AI adoption may account for part of this decline. Research from King's College London shows that **firms most exposed to AI have already reduced employment by roughly 4.5% compared to others** – a first measurable impact of AI on the labour market.

Although still marginal relative to the scale of the transition, this raises an important question: once AI adoption reaches maturity, will the economy be strong enough to absorb the shift? Historical fears about the "end of work" have accompanied every major technological innovation – and have almost always proved exaggerated.

However, AI represents an unprecedented leap in productivity, and this is arguably the most significant risk factor that could challenge the anticipated AI-driven economic boom.

> *AI could unlock $1.2 trillion in value across consumer sectors by 2038.*

Goldman Sachs estimates that generative AI could automate up to one-quarter of tasks in the US and Europe, potentially affecting up to 7% of the workforce in the absence of new job creation. These numbers should not be underestimated: during the 2008-09 financial crisis, US unemployment peaked at 10%.

Reallocating labour on such a scale – even if ultimately absorbed – could generate political and social tensions and pose new challenges for policymakers. This process will also take time, while job displacements might happen quicker.

Public policy will be essential to ease the transition, supporting welfare systems and workforce training. The World Economic Forum (WEF) estimates that 59% of workers will require reskilling or upskilling by 2030.

Many companies are already moving in this direction: **77% expect to invest in skill development,** even while acknowledging that some roles will shrink. Governments and firms will need to coordinate on education programmes, professional training, and social-safety measures. How quickly policymakers act will increasingly become a key variable.

In the meantime, the economy will likely reorganise itself gradually. The prevailing view is that AI will transform and reallocate jobs rather than eliminate them. A global survey shows that 86% of companies expect AI to transform their industry by

2030–and crucially, they also expect new roles to be created.

Latest projections from the WEF even suggest a net positive when considering the overall job market: **170 million new jobs could be created by 2030,** compared to about 92 million eliminated–a net gain of 78 million.

Predicting the exact scale of these effects is difficult, but we believe this dynamic between rising productivity and labour rotation will become the defining economic process of the next decade. There will be disruptions and difficult transitions, but over the long term, AI appears as a powerful engine of progress–and a clear signal for investors to remain invested with a long-term perspective.

Progress, especially when it is as disruptive as it is today, needs to be managed. It is understandable that investors' attention is currently focused on valuations and on the concern that enthusiasm around Artificial Intelligence may have inflated the market. However, **several factors clearly distinguish the current phase from similar historical episodes, such as the dot-com bubble.**

Unlike in the past, many of the companies driving this transformation today have well-established business models, high levels of profitability and significant cash flows, enabling them to fund investment without relying on purely speculative expectations.

Moreover, as discussed in the article, AI adoption is still in its early stages, suggesting that the central issue is not excessive maturity, but rather how to manage a profound technological transition.

Looking at history, around 60% of US workers are employed in occupations that did not exist in 1940, and more than 85% of employment growth since then has come from new roles created by technological progress.

For this reason, we believe investors should welcome the start of the AI era with confidence. The most effective way to take part in this new wave of progress is to remain invested in the markets, with careful attention to risk control and diversification.

In a nutshell

Artificial Intelligence looks set to have a profound long-term impact on the global economy. Most likely it will cause significant disruption, with positive and negative implications.

On the positive side, we see potential for a step up in labour productivity, and that could drive faster sustainably faster global growth.

The implications of that on average household income, government finances and equity market returns could be significant.

At the same time, the implications for the labour market might not be immediately positive, as AI automates a range of roles.

Optimists argue that previous technology shifts have resulted in increased job creation in the end. But that somehow underestimates, with the benefit of hindsight, the cost of those shifts on incumbent workers.

A decade of labour market disruption doesn't sound so bad when looked back a hundred years later, but the experience at the time was probably rather more shocking.

As for the financial market impact, having a profound long-term impact doesn't preclude market volatility. Forecasts of internet ubiquity have proven correct, but the winners (at least for now) took some time to emerge and the timing was slower than the most optimistic forecasts at the time.

Keeping perspective amid economic noise

In the 1930s, at the height of the Great Depression, an unprecedented protectionist spiral devastated global trade. It all began in the United States, when Congress decided to respond to the economic crisis by imposing tariffs on hundreds of consumer goods in an attempt to protect domestic farmers and industry. What was meant to be a defensive measure quickly became a global detonator. The tariff hikes triggered equally rapid retaliations from more than twenty countries. In just a few years, the international trading system imploded: **between 1929 and 1934, world trade collapsed by around 65%.** Trade between the United States and Europe shrank by almost two-thirds in just three years.

That trade war was not an isolated event, but a powerful amplifier of an already unfolding economic crisis. It contributed to bank failures, factory closures, and a further deterioration in social conditions. In many countries, that climate of impoverishment and disillusion created fertile ground for the rise of authoritarian and totalitarian regimes, with consequences that shaped the entire course of the twentieth century. This is why, after that traumatic experience, the world did not witness comparable upheavals in the global trading regime for nearly a century.

In the post–World War II era, tariff policy followed a clear and consistent direction: fewer barriers, more trade. This was driven not only by the memory of the mistakes of the 1930s but also by a deeply rooted idea in classical economic thought — that labour specialisation and free trade are essential engines of growth. Over the last seventy years, despite setbacks along the way, tariff barriers gradually decreased, helping to build the globalised world we know today.

2025 was supposed to be year zero for global trade

All of this held true until now. Expectations were that 2025 would mark the "year zero" of global trade policy: the beginning of a decisive turn toward protectionism, driven by **Donald Trump's return to the White House** with a promise to finally deliver on his vision of a more isolated America, both commercially and politically. It must be said that the intention was certainly there. In April, speaking from the White House Rose Garden, Trump unveiled a new wave of tariffs, holding up a chart outlining a not-entirely-linear "reciprocity" principle.

The tariffs targeted a substantial number of countries, including the United States' three largest trading partners (Canada, China, and Mexico) as well as the European Union. On paper, the approach looked exactly like what many had feared.

In fact, when writing this document in 2024, we had identified this as the highest-risk scenario: a unilateral move with the potential to destabilise global markets and ignite a spiral of uncertainty and retaliation.

Reality, however, proved far less catastrophic than expected. The global trade crisis everyone feared simply did not materialise. On the contrary, international trade continued to grow, reaching new all-time highs.

According to a United Nations report, in the first half of 2025 global trade increased by roughly $500 billion and, barring surprises in the final months, 2025 is expected to close above the record set in 2024. Even relative to global GDP, trade has shown no signs of structural decline. Its share has stabilised at

high levels in recent years – more an indication of equilibrium than of reversal. In other words, there was no collapse: global trade kept expanding despite tariffs and political tensions.

A system capable of reorganising itself

How do we explain this seemingly incredible gap between predictions and reality? Was the tariff risk a collective hallucination, or have the effects simply not yet emerged?

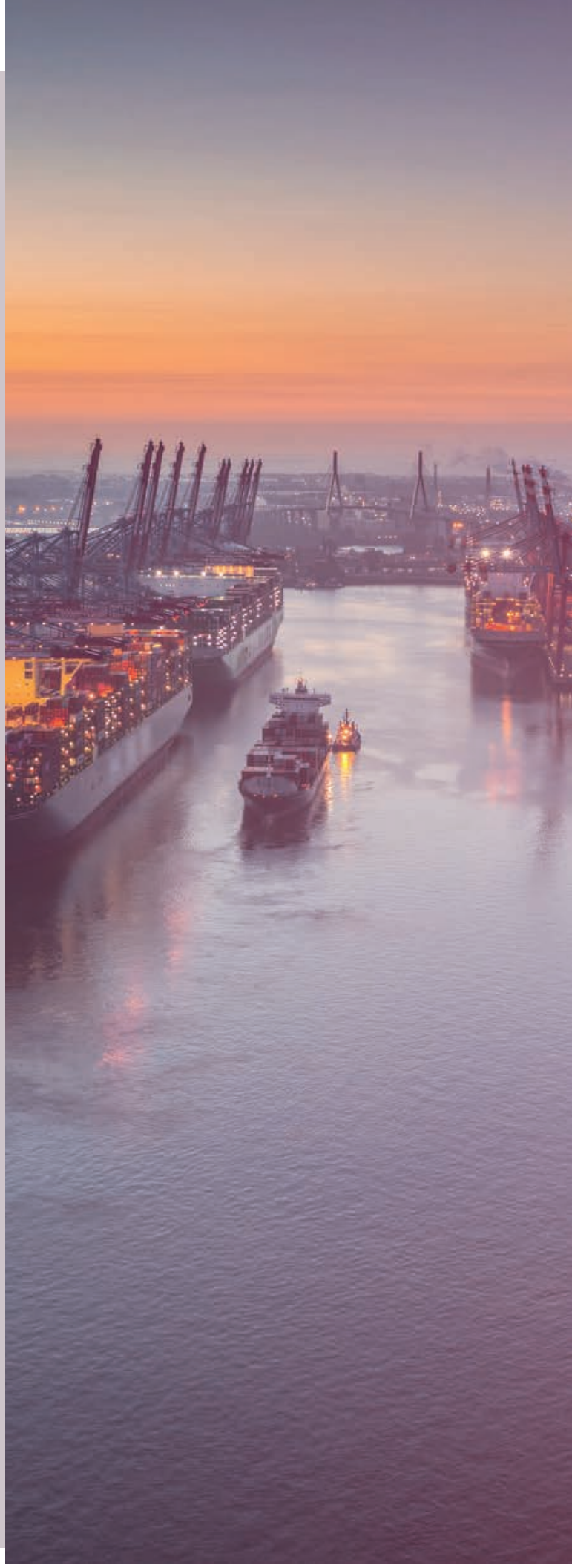
The truth is that **the global economy is a complex system: it reacts, evolves, and develops self-correcting mechanisms.** We believe that the damage remained limited largely thanks to the adaptive capacity of businesses and governments, which reacted quickly to the new environment. Rather than halting trade, companies reorganised their supply chains. Since the first wave of Trump-era tariffs – and later the pandemic, which exposed the system's vulnerabilities – many firms have been realigning supply chains and making them more resilient. As a result, global value chains have proved far more flexible and robust than many had anticipated.

> *The global trade crisis everyone feared simply did not materialise*

Political responses also played a crucial role. While Washington raised tariffs, most other countries – representing around 85% of global trade – continued abiding by existing rules and refrained from mirroring US measures. Except for China, which retaliated proportionally, almost no major economy adopted a hardline stance. Instead of a protectionist "everyone against everyone", most of the world chose to keep trade channels open and stay at the negotiating table, seeking new balances and opportunities.

Emerging economies, from China to India, weathered the shock better than expected. Countries such as Brazil and South Africa strengthened ties with other markets to offset potential losses in US exports. At the same time, trade among developing nations – for instance within the BRICS bloc (Brazil, Russia, India, China and South Africa) – has been rising, creating alternative channels that act as buffers against tariff shocks from advanced economies.

More broadly, nearly all countries, both emerging and developed, recognised the need to reduce dependence on any single partner – whether the US or China – and began actively exploring "third markets". Chinese exports to the US did fall in some sectors, but China compensated by expanding its exports to Southeast Asia, Africa, and other emerging markets. Countries like Vietnam and Mexico, initially seen as vulnerable due to high exposure to the US, responded with targeted economic policies and infrastructure investment, boosting competitiveness and attracting relocated production.



This does not mean trade tensions have had no negative effects. They have – but these effects have been localised and sector-specific rather than systemic. Industries heavily reliant on tariffed imports faced higher costs and shrinking margins; sectors such as automotive and electronics saw reduced competitiveness in some domestic plants.

Agricultural regions oriented toward Chinese demand or industrial districts deeply integrated into the US – China supply chains suffered more than others. And this adjustment is far from over. The global trading system will continue to evolve in an environment of higher tariffs; the end of 2025 is not an endpoint but another stage in a longer transition.

However, at the global macro level, **these frictions did not trigger a chain reaction capable of derailing the system.** Trade between many other country pairs continued unimpeded – and even grew – offsetting isolated bilateral declines.

The last push of multilateralism

Recent years have seen much talk about the crisis of globalisation and the end of multilateralism. While it's true that a naïve, linear, hyper-optimistic view of globalisation is no longer credible, the multilateral system – kept alive by a diversity of actors beyond governments – has proven far more resilient than expected. This is positive news for investors operating in an increasingly conflictual global environment.

We are undeniably in a transitional phase. Tensions remain high, and the risk of fragmentation persists.

But it is more reasonable to expect the multilateral model to be tested and reshaped rather than dismantled abruptly, as some predicted. In other words, globalisation is still alive – just evolving.

Recent geopolitical frictions have also triggered constructive responses, pushing governments to renegotiate and diversify their partnerships.

Dozens of bilateral and regional trade agreements have been revived or signed after decades of gridlock, driven by the fear of losing opportunities in a more fragmented world.

At the end of 2024, for example, the EU and Mercosur – the South American trade bloc – announced the conclusion of a free-trade agreement after more than twenty years of negotiations. Talks between the UK and India or between Brazil and China have similarly accelerated.

Meanwhile, major powers have shown more pragmatism than expected. The US and China, despite harsh rhetoric and selective measures, have avoided a full-scale tariff war, opting instead for contained skirmishes and tactical negotiations.

The EU has pursued dialogue with Washington to manage disputes in specific industries. The general logic has been one of containment: **managing conflict without disrupting critical trade flows or destabilising the global economy.**

Additionally, globalisation continues under new forms. While trade in physical goods is growing more slowly, trade in services and digital flows is accelerating. In 2024, global trade in services – many delivered digitally – grew by around 7%, compared with just over 2% for goods.

Cross-border data flows, from e-commerce transactions to cloud computing, continue to expand rapidly. This suggests that economic interdependence is increasingly rooted in digital connectivity and that political "deglobalisation" has not severed the ties binding firms globally.

Economic narrative vs economic reality

Ultimately, 2025 leaves us with a less bleak picture than many had anticipated: the great global trade crisis is the crisis that never happened.

This doesn't mean tensions have vanished. The environment remains fluid, marked by structural frictions, latent vulnerabilities, and numerous unresolved geopolitical and commercial issues. These could still slow global trade in the coming years.

At the same time, globalisation and multilateralism remain alive. Production networks, trade flows, and financial ties have not dissolved — they are being reshaped. What we are witnessing is not the end of globalisation but its reconfiguration.

Above all, **this phase reminds us of the importance of moderation and perspective in economic judgment.** In a world saturated with data, forecasts, and analysis — and with a natural human tendency to imagine worst-case scenarios — it is easy to overestimate shocks and underestimate the system's resilience.

This doesn't mean ignoring risks, but recognising that economies can adapt far better than expected and that outcomes can turn out much better than feared.

For investors, this message is particularly relevant: distinguishing between noise and signal, between political rhetoric and economic fundamentals, can make the difference between reactive decisions and more thoughtful long-term choices.

In a nutshell

Looking back at 2025, financial markets digested all the changes in global trade better than many might have feared.

After all the noise, we think that's partly because we've seen quite pragmatic negotiations between the US and many of its trading partners, as the potential economic reality of a prolonged trade war became clear.

Investor focus on the potential of AI, and its contribution to US GDP growth, also helped to shift attention away from the potential downside of higher tariffs.

That said, we think that higher tariffs are here to stay and can act as a tax on global growth, even if that impact has been reduced from the worst case scenarios of April 2025.

We'd expect to see some re-wiring of global trade linkages over time, and that will produce winners and losers among both countries and sectors.

Is the world becoming a more dangerous place?

Headlines are dominated by news from war zones, nationalist rhetoric is on the rise, and defence budgets are increasing across the globe. The belligerent tone adopted by prime ministers and presidents only adds fuel to the fire. **In 2025, there were 59 active state-based conflicts –** the highest number since the Second World War

This rise in international conflict is, of course, far from good news, as are the tragic stories emerging from the many theatres of war. Commenting on these issues is always delicate, especially when doing so from the comfort of one's desk. Yet, as investment managers, our job is also to focus on fundamentals and assess whether this growing sense of insecurity – both real and perceived – could escalate to a point where it threatens the stability of the global economic system. In this regard, despite increasingly harsh rhetoric, we believe that some timid but encouraging signals have emerged in recent months.

The importance of dialogue and economic diplomacy

Although geopolitical rivalry is often described as a prelude to a future clash between blocs, the hottest axis remains the one between the United States and China. However, 2025 has shown that, when significant economic interests are at stake, multilateralism remains a viable path.

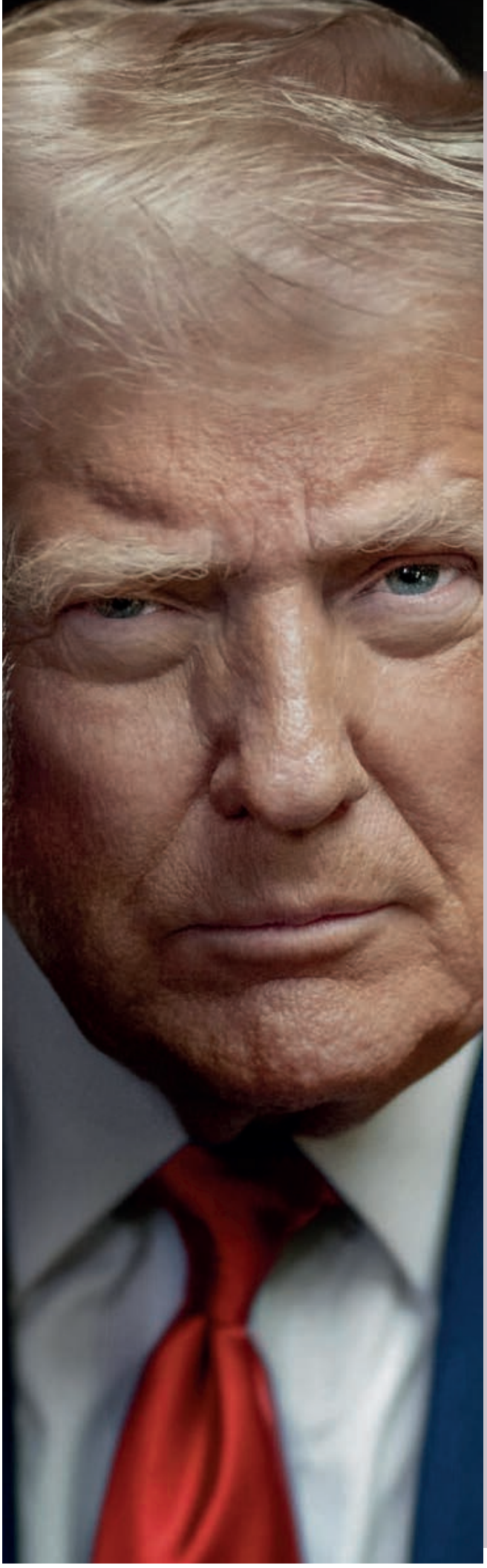
For example, despite flare-ups over tariffs and reciprocal retaliation, **the United States and China have maintained high-level economic and trade talks throughout the year,** culminating in the October meeting between President Donald Trump and President Xi Jinping with another meeting expected in April. Both leaders, while maintaining deep strategic divergences, adopted a more pragmatic tone. Trump emphasised the need to rebalance bilateral economic relations, criticising practices seen as unfair, such as forced technology transfers and subsidies to Chinese state-owned enterprises. Xi, for his part, stressed the importance of "win-win" cooperation and stability as essential conditions for shared prosperity.

Despite underlying tensions, the two leaders attempted to restore a degree of predictability to their relationship. No concrete progress was made on sensitive issues such as Taiwan or cybersecurity, but both reiterated the need to avoid strategic accidents and to keep channels of communication open. This balance contributed to a less confrontational narrative and created political space for economic diplomacy.

In this context, the ongoing dialogue suggests that both superpowers still view stability as a mutual benefit. Keeping communication channels open and managing disputes through negotiation helps defuse minor tensions before they escalate – a pragmatic approach that, for now, appears to prevail.

The war in Ukraine: early signs of a potential truce?

Even on what is arguably the most sensitive front in today's great-power competition, some progress appears to have been made in recent months, at least in laying the groundwork for dialogue. In 2025, Ukraine remains the most intense and symbolically significant armed conflict in the international system. The fighting



> *In 2025, there were 59 active state-based conflicts – the highest number since the Second World War.*

continues to be extremely violent, especially along the eastern front, with heavy clashes in the Donetsk and Kharkiv regions and constant missile and drone attacks on civilian and military infrastructure. According to independent observers and military analysts, including the Institute for the Study of War and CSIS, the conflict has increasingly taken on the characteristics of a war of attrition, marked by slow, costly, and territorially limited advances.

Yet despite its intensity, the conflict remains geographically contained. There has been no direct spillover beyond Ukrainian territory, nor direct military engagement between Russia and NATO. This is a crucial point: rather than a global war, **this is a high-intensity regional conflict "contained" by the strategic calculations of the major powers,** with both sides seemingly intent on avoiding irreversible escalation.

On the diplomatic front, dialogue remains fragile but not absent. In recent weeks, indirect contacts and exploratory initiatives have intensified at all levels, with the aim of assessing the possibility of conditional ceasefires or temporary agreements. Discussions are increasingly focused on future territorial arrangements, lines of demarcation, and security guarantees, rather than on a comprehensive political reconciliation. Although it is certainly too early for any firm predictions, this pragmatic approach, supported by Washington, could begin to yield results, especially as both sides are worn down by the protracted conflict. Despite the harsh rhetoric – predictable in such a delicate negotiating phase, where each party seeks to protect its position – it is plausible that, in the coming months, compromises may emerge that bring the parties closer to a negotiated solution and, if not a lasting peace, at least a cooling of hostilities. However, the possibility of an escalation remains very real and cannot be ruled out.

Conflict and equity performance

The dynamics seen in the Ukrainian conflict extend to many other flashpoints around the world today. The international landscape remains shaped by multiple crises, yet without their convergence into a single systemic conflict. Even in the Middle East and other tension-ridden regions, the major powers continue to favour containment strategies and diplomatic management. The overall picture is that of a more unstable but still compartmentalised world: marked by many fault lines, but not – at least for now – by one capable of triggering systemic breakdown.

For investors, it is important to remember that not all major geopolitical events produce lasting shocks in financial markets. Historical analysis shows that highly mediatised events – including wars, diplomatic crises or military tensions – have

often had limited, temporary or negligible effects on asset prices. A study of 21 geopolitical shocks, from Pearl Harbor to 9/11, shows that equities fall by an average of 1.2% on the day of the event and up to 5% at the trough. Markets typically bottom out within 22 days and recover within 47 days on average. Consistent with this pattern, recent crises have generated volatility mainly in the early phase of uncertainty, without becoming medium-term drivers of asset prices.

What ultimately matters is not the symbolic or political gravity of an event but its capacity to affect economic fundamentals. Shocks that genuinely move markets are those that slow growth, fuel inflation or impair the functioning of credit markets. Geopolitical events that do not alter macroeconomic prospects tend to remain confined to the markets most directly exposed and are quickly absorbed.

In this regard, it is reassuring to note that **global trade flows have remained resilient – even robust – despite heightened geopolitical tension.** UN data show that global trade volumes reached new highs in 2025.

Another key factor is the markets' increasing habituation to repeated shocks. As uncertainty becomes progressively priced in, reactions tend to diminish over time. Markets assume that such crises lack systemic potential; a truly catastrophic event would instead be perceived as a "black swan" – highly unlikely yet extremely damaging. This is why some chronic geopolitical tensions, over time, cease to be genuine market movers.

A world under strain

In sum, 2025 has been a year of significant global tension, but also a year in which international actors – gradually accepting a new multipolar reality – have begun to engage in more realistic and candid dialogue.

The major powers, while remaining strategic rivals, have shown a preference for confrontation management over direct conflict. International politics is not dead: it still functions, but according to harsher, less idealistic rules. As John Mearsheimer – a leading international relations scholar and key proponent of "offensive realism" – often notes, in international relations what matters is not what states want to do but what the system compels them to do – and today the system incentivises containment over open warfare.

That said, vigilance remains essential. Geopolitical risks are by nature fluid, and a sudden escalation could still affect commodity prices or global supply chains. However, the most likely scenario remains the current one: the great powers continue to manage crises through sanctions, diplomatic pressure and limited military support while avoiding direct confrontation.

In a nutshell

Geopolitics have dominated the news headlines in recent years. But history suggests that the impact of geopolitical events on financial markets have been fairly muted and the right approach is to look past the noise. And that broadly speaking is what we've done. But that might not always be the case: an extension of the Russia-Ukraine conflict towards NATO countries, for instance, or escalating tension between China and Taiwan, could produce a more significant reaction in financial markets than we've seen so far.

Our Strategy

Clear explanation of our long-term philosophy and objectives.

The Strategic Asset Allocation (SAA) represents the starting point of Moneyfarm's investment process and it's run at the start of every year. The yearly process consists of reviewing the core methodology and running the new expectations considering the market's performance in the last 12 months. The resulting updated long-term expected returns serve as a compass to review risk exposures and eventually adjust the models' weights.

The SAA is part of the Moneyfarm investment process. Within the SAA framework the Moneyfarm Asset Allocation Team (AAT), after having evaluated the long-term economic framework and analysed the risk and return of each asset class, generates a range of portfolios that are consistent with Moneyfarm six risk levels.

The SAA starts with a traditional risk-return analysis, in which scenario analysis and stress-testing on the underlying assumptions are performed. The goal is to ensure that Moneyfarm portfolio construction is robust under a broad range of scenarios.

The process implies the estimation of the inputs, i.e. of the expected returns and of the expected volatility, and then an optimization algorithm that provides the optimal weights for each identified asset class.

The first step of the process is precisely about coming up with **expected returns** for all the main asset classes. In order to do this, Moneyfarm considers both the asset class specific characteristics (e.g. the Price/Earning for Equity and the yield curve for Fixed Income) and the long term expected macroeconomic figures (e.g. Gross Domestic Product and inflation). When AAT develops the long-term return assumptions for each asset class, there are four key drivers to be considered.

Historical returns:

Historical annual returns provide an important guide when thinking about long-term future returns, even if it is not sufficient to project them into the future.

Starting valuations:

Starting valuation may not be the greatest predictor of short-term returns, but they are much more significant when we start to think about long-term expected returns.
In Moneyfarm the SAA process is based on the assumption that valuations mean revert over time towards a long-term average.

Profitability:

History shows that levels of corporate profitability are not stable. They ebb and flow, not least with the economic cycle.
When we think about long-term valuations, we also need to consider the normalised earnings or cashflow that businesses generate.
We want to avoid using either peak or trough profitability when valuing asset classes.

Growth:

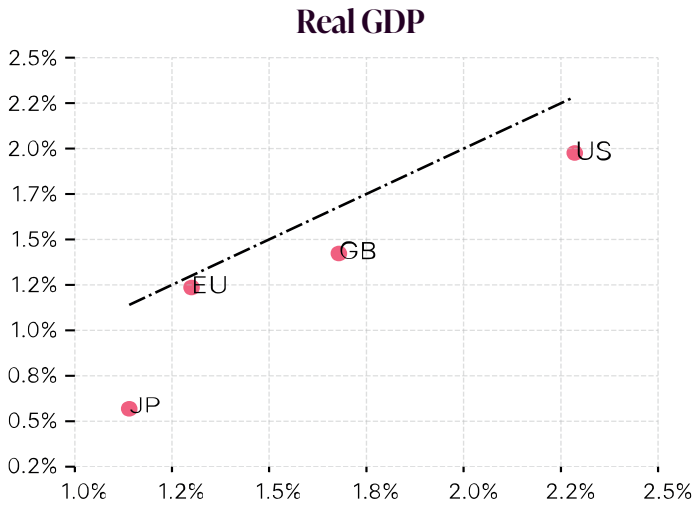
Assumptions around growth are an important factor in assessing the expected return particularly for equities. We recognise that the relationship between GDP growth and equity returns has historically been weak, but the relationship between growth in GDP and corporate earnings is more robust.

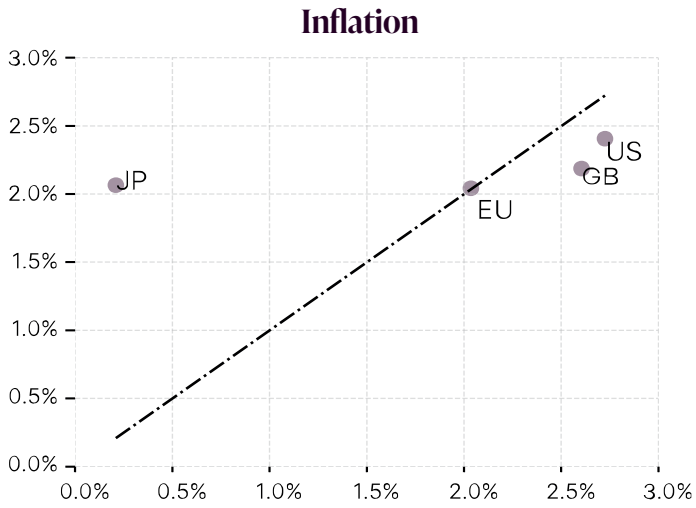
The macro environment

To estimate the terminal rate for fixed income, that is, the long-term yield level towards which government bonds are expected to converge, and the growth in earnings per share (EPS) for equities, we rely on **estimates from the International Monetary Fund (IMF).**

In the case of equities, **EPS growth reflects the expected evolution of corporate earnings over time** and represents a key input in assessing long-term return prospects. For Emerging Markets (EM), rather than relying on nominal GDP, we estimate earnings growth based on the IMF's forecasts for export volumes, which are more representative of the economic dynamics of these regions.

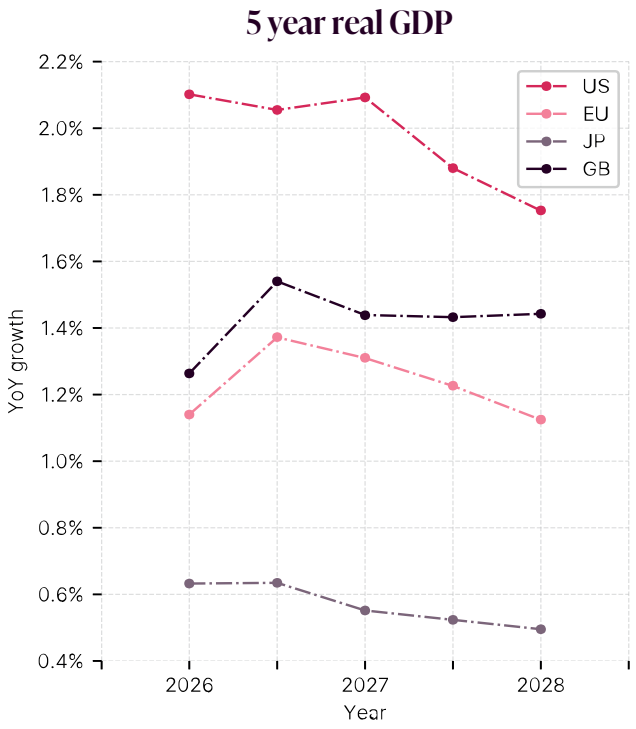
The IMF's long-term expectations for **real GDP growth appear weak across most geographies.** In the United States, five-year growth expectations are around 2%, compared with a historical median of 2.4%, and are lower than last year. Growth prospects remain subdued for all major economies. Inflation (Consumer Price Index or **CPI**) expectations generally remain below historical averages, with the notable exception of Japan.

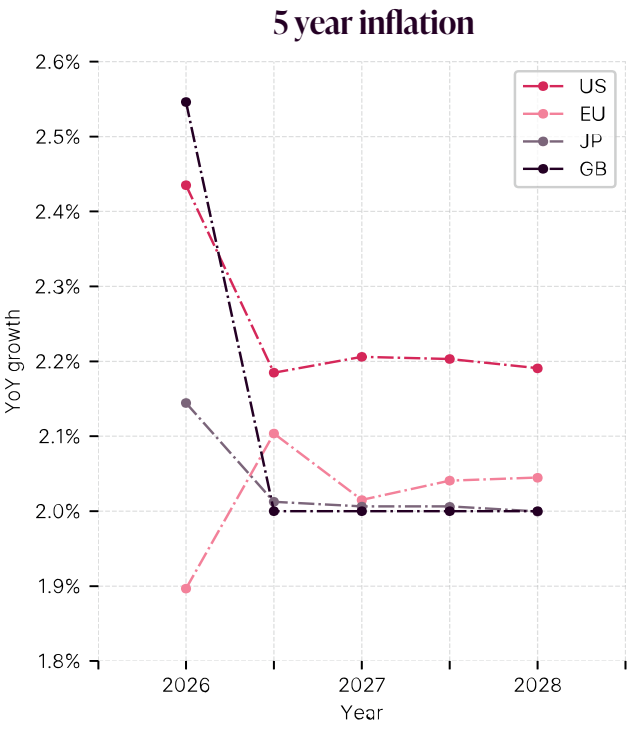




Source: IMF outlook 2026

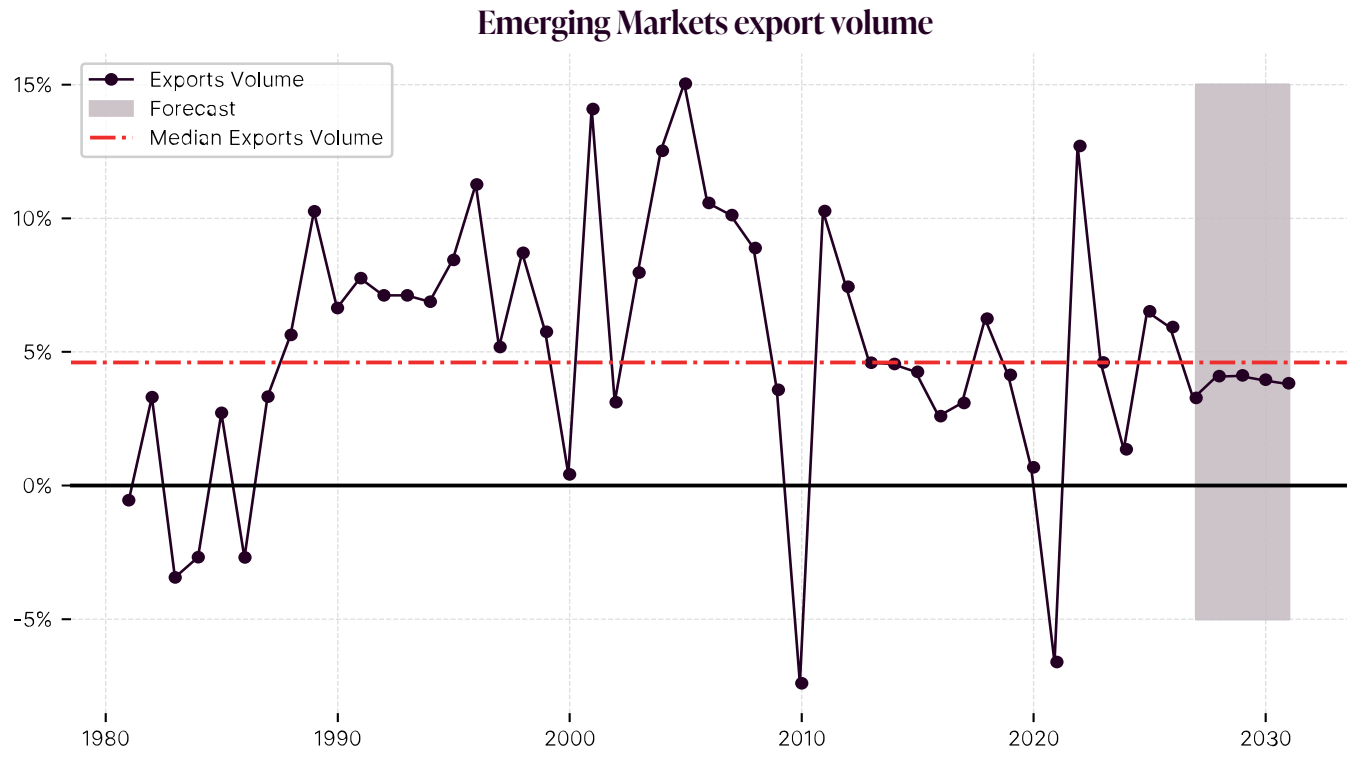
The chart below shows how expectations for **real GDP growth** and **inflation** are distributed over the next five years, on a year-by-year basis. This "term structure" allows us to observe not only the expected level of growth, but also how it is projected to evolve over time. In this context, the United States stands out for stronger expected growth, albeit accompanied by higher inflation levels.





Source: IMF outlook 2026

For **Emerging Markets, expected export volumes are on the weak side,** edging below their historical median, as shown in the chart below.



Source: IMF outlook 2026

The main takeaways on IMF estimates are

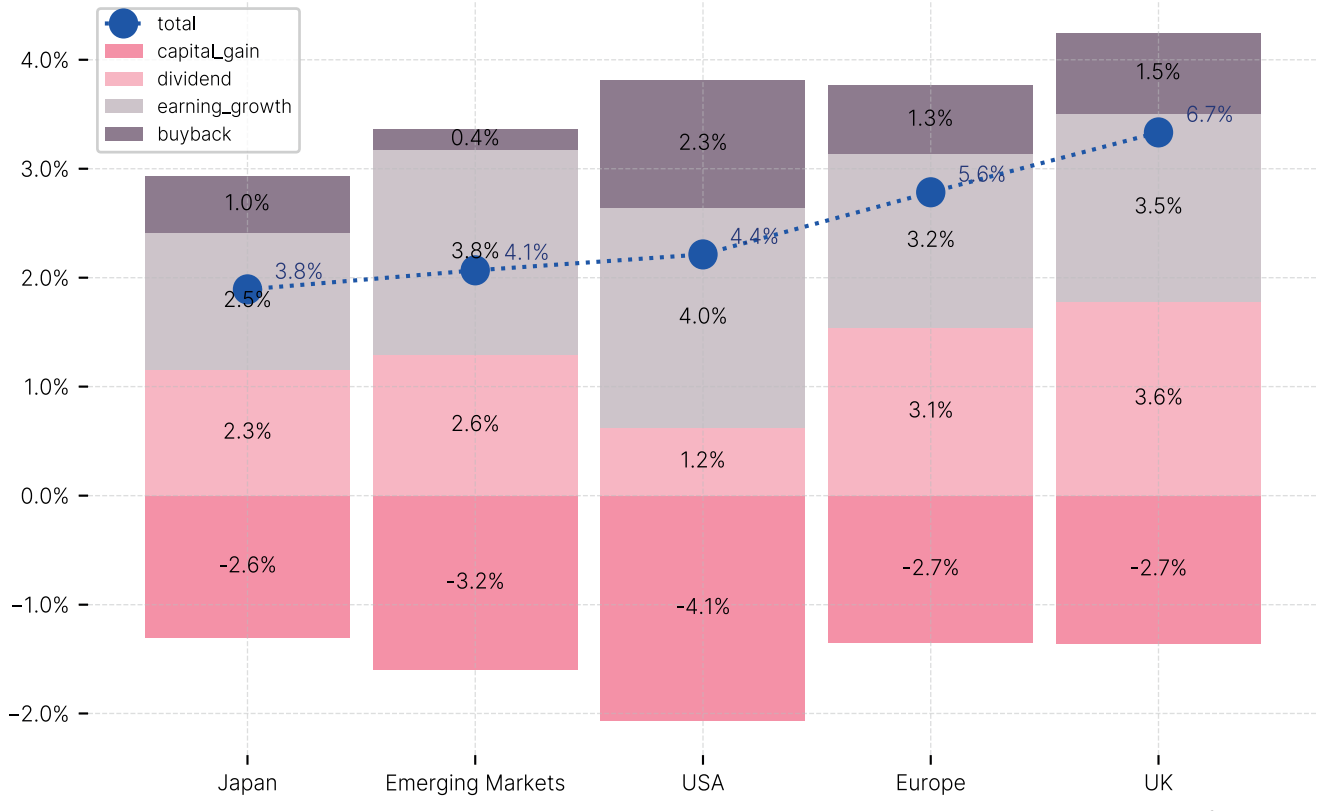
1 - No recession priced in for the next few years;
2 - The US is expected to continue growing, but with >2% inflation. Inflation expectations have worsened versus last year for this geography;
3 - As for the rest of the world, nominal growth expectations have generally remained stable versus last year.

Expected returns

Equity

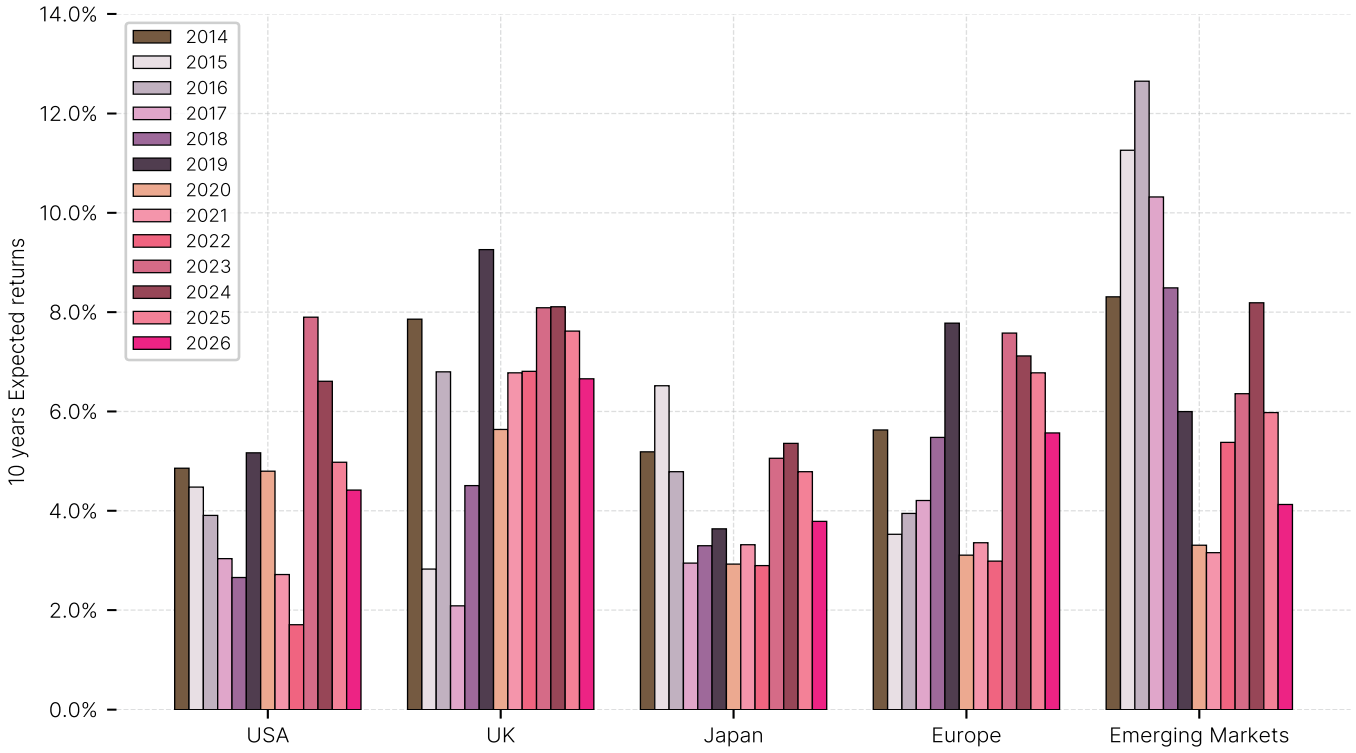
The figure below shows the different components that contribute to the expected return (coloured bins) and the total expected return (dots). The impact of valuations is quite stressed this year, including for ex-US. Amongst our key reference geographies, the UK has once again the highest expected return, thanks to solid expected earnings growth and a solid dividend payout. European equities show a better outlook than the US and EM. All geographic regions show lower expected returns compared with last year.

The components of expected equity returns



Source: Moneyfarm research

Global equities: expected returns compared

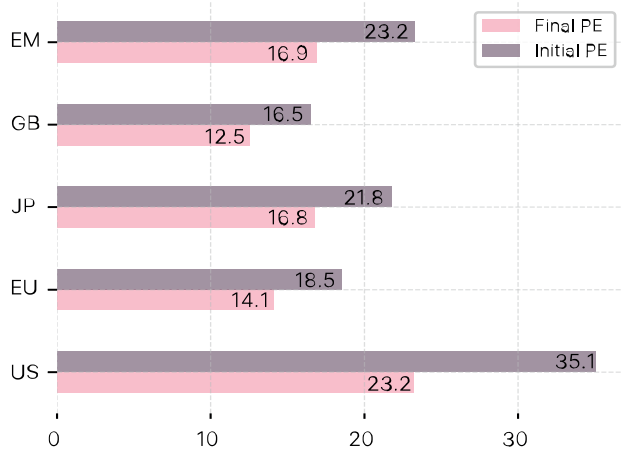


Source: Moneyfarm research

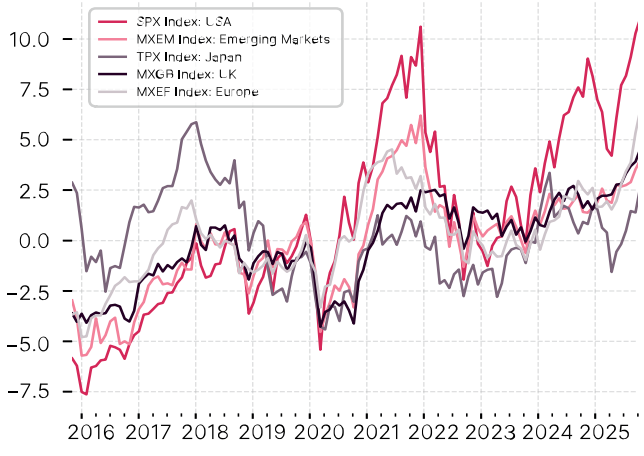
Valuations

The **CAPE (Cyclically Adjusted Price Earnings)** is a valuation metric that compares the price of an equity market with the average of real earnings over the past ten years, adjusted for inflation. When comparing the **current CAPE,** i.e. the level observed in the market today, with the **CAPE target,** defined as the valuation level considered sustainable over the long term based on the market's structural characteristics (the median of the past ten years), overall valuations appear elevated, as shown in the charts below. Positive values indicate valuations above the long-term average, while negative values indicate more subdued valuations.

Current vs 'target'



CAPE

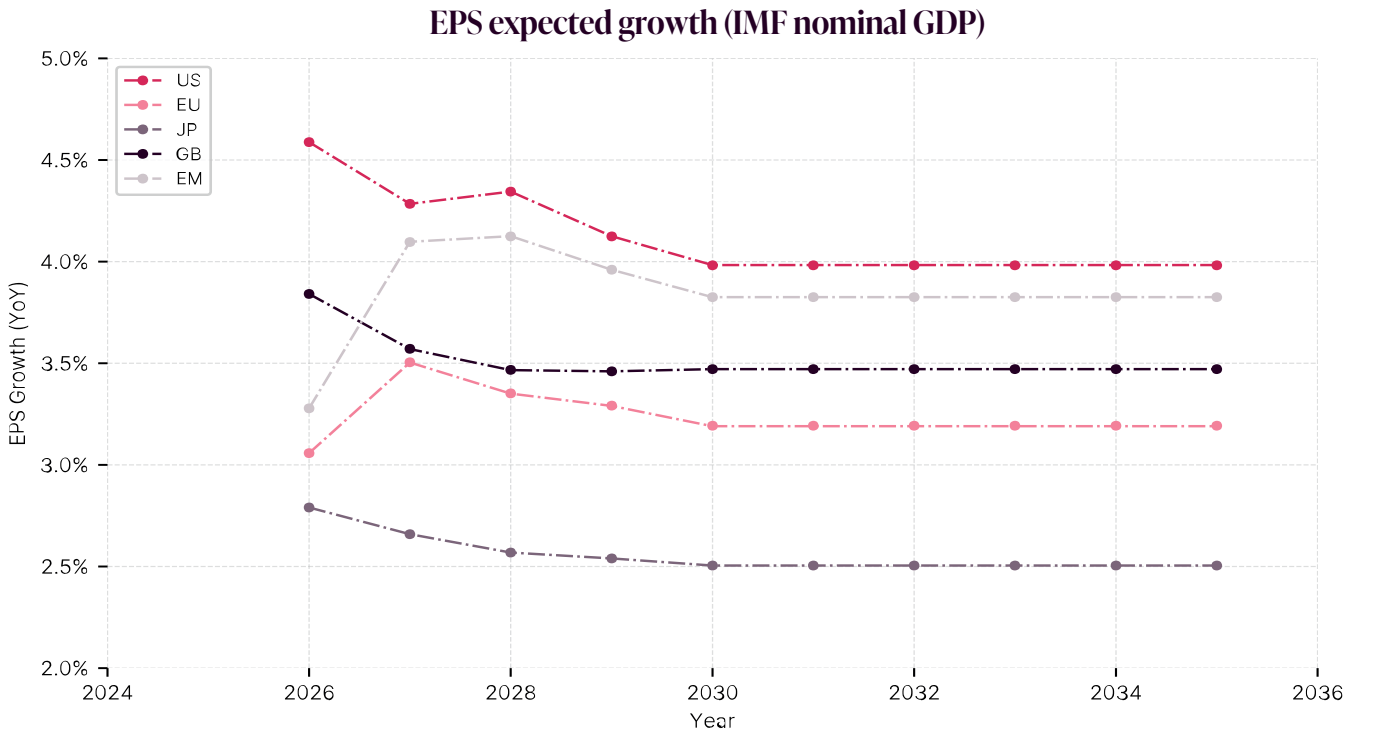


Source: Moneyfarm research

In the United States, the gap exceeds 10, signalling particularly stretched valuations, even above the peaks reached in 2021. This level can be partly explained by sector composition and the high degree of market concentration, but above all by the historically elevated margins of the largest companies in the S&P 500. Assuming a structurally higher CAPE implies believing that large US technology companies will be able to sustain exceptional levels of profitability and market dominance over time.

EPS Growth

Earnings per share (EPS) represent the profits generated by a company for each share outstanding and are a key measure of firms' ability to create value over time Our estimates for EPS growth through 2035, based on trends in nominal GDP, appear prudent but consistent with a moderate growth scenario. By comparison, over the past ten years median EPS growth in the United States has exceeded 10%, while our more conservative assumptions stand at around 4%.



Source: Moneyfarm research

Dividends and buyback

The current model is based on the **dividend yield,** defined as the ratio between dividends distributed by companies and share prices. The calculation also includes **share buybacks.** We use a **ten-year median** for this measure, in order to make it more consistent with other long-term valuation indicators, such as the **CAPE (Price/Earnings).** This approach also helps reduce year-on-year volatility in the estimates, providing a more stable foundation for our return expectations.

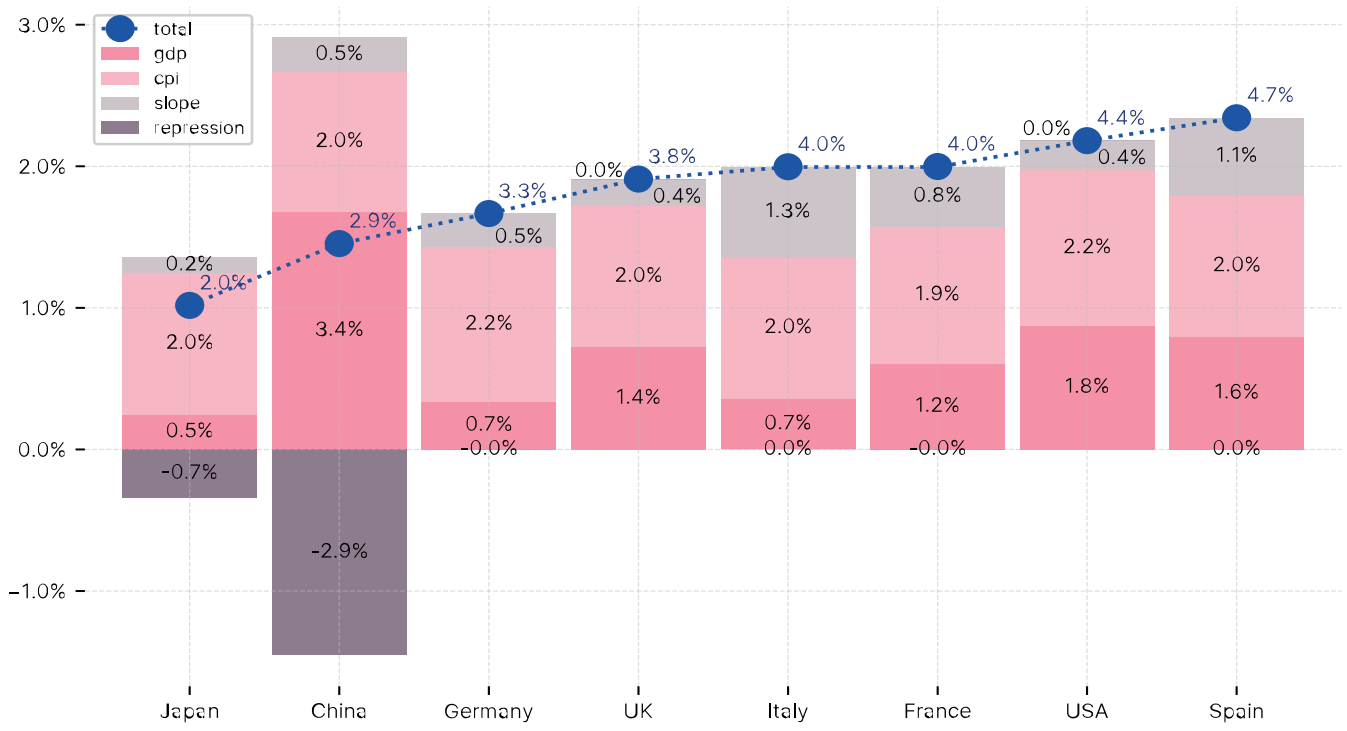
Government bonds

To estimate the long-term returns of government bonds, we first calculate the expected **terminal rate,** that is, the level towards which long-term government bond yields are expected to converge over time.

This rate is typically constructed by combining economic growth **(nominal GDP),** the **term premium** required by investors to hold longer-dated securities, and a **financial repression factor,** which we introduced during the years of Quantitative Easing to capture the impact of unconventiona monetary policies aimed at keeping interest rates artificially low. This year, we have set the financial repression factor to **zero** for most geographic areas, reflecting the fight against inflation over the past three years and, consequently, the expectation that interest rates will remain higher for longer alongside a gradual unwinding of extraordinary central bank interventions.

Exceptions include **Japan,** which continues to pursue a very accommodative monetary policy and for which we maintain a value of **25%,** and **China,** where the factor remains at 50%. In China's case, the central bank continues to adopt a strongly dovish stance in an effort to support the real estate sector and re-ignite economic growth, and we do not foresee a rapid reversal of this approach.

Government bonds: expected returns and their components

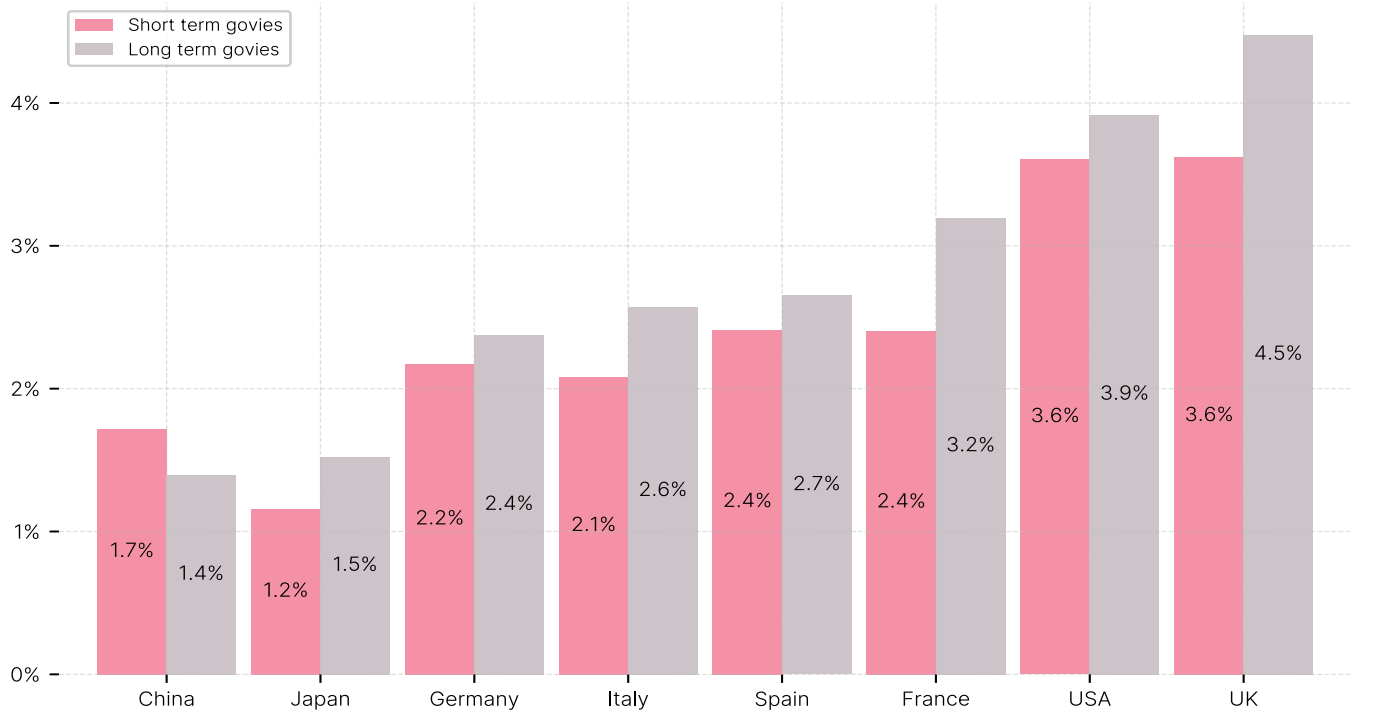


Source: Moneyfarm research

Expected returns

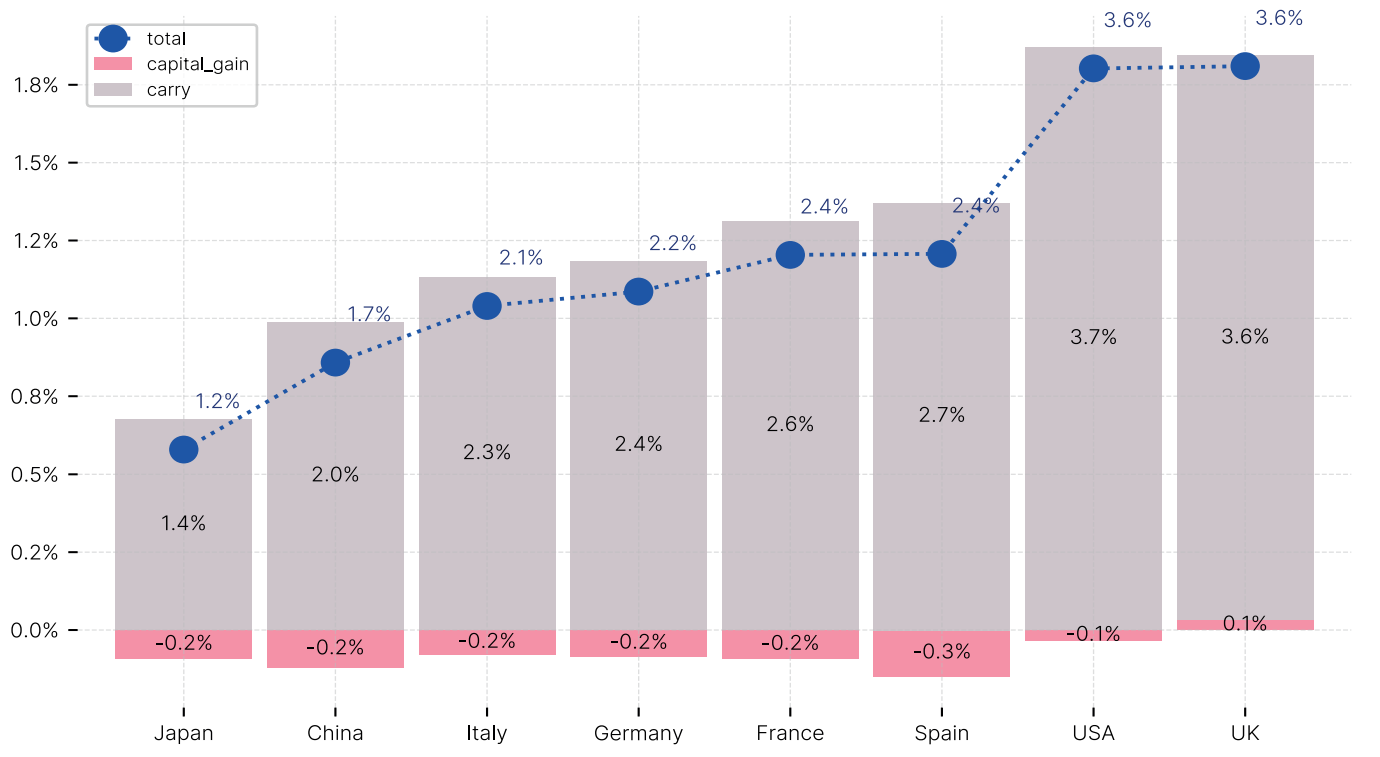
After the intense fight against inflation – which now appears to be largely under control across most geographies – and the resulting rate hikes of recent years, long-term expected returns have finally moved above short-term ones. Higher target rate levels reflect growth and inflation expectations that are less favourable than last year, but still overall solid, with higher inflation and more moderate growth. Overall, expected returns remain very strong.

Short VS long maturity Govies Expected Return



Source: Moneyfarm research

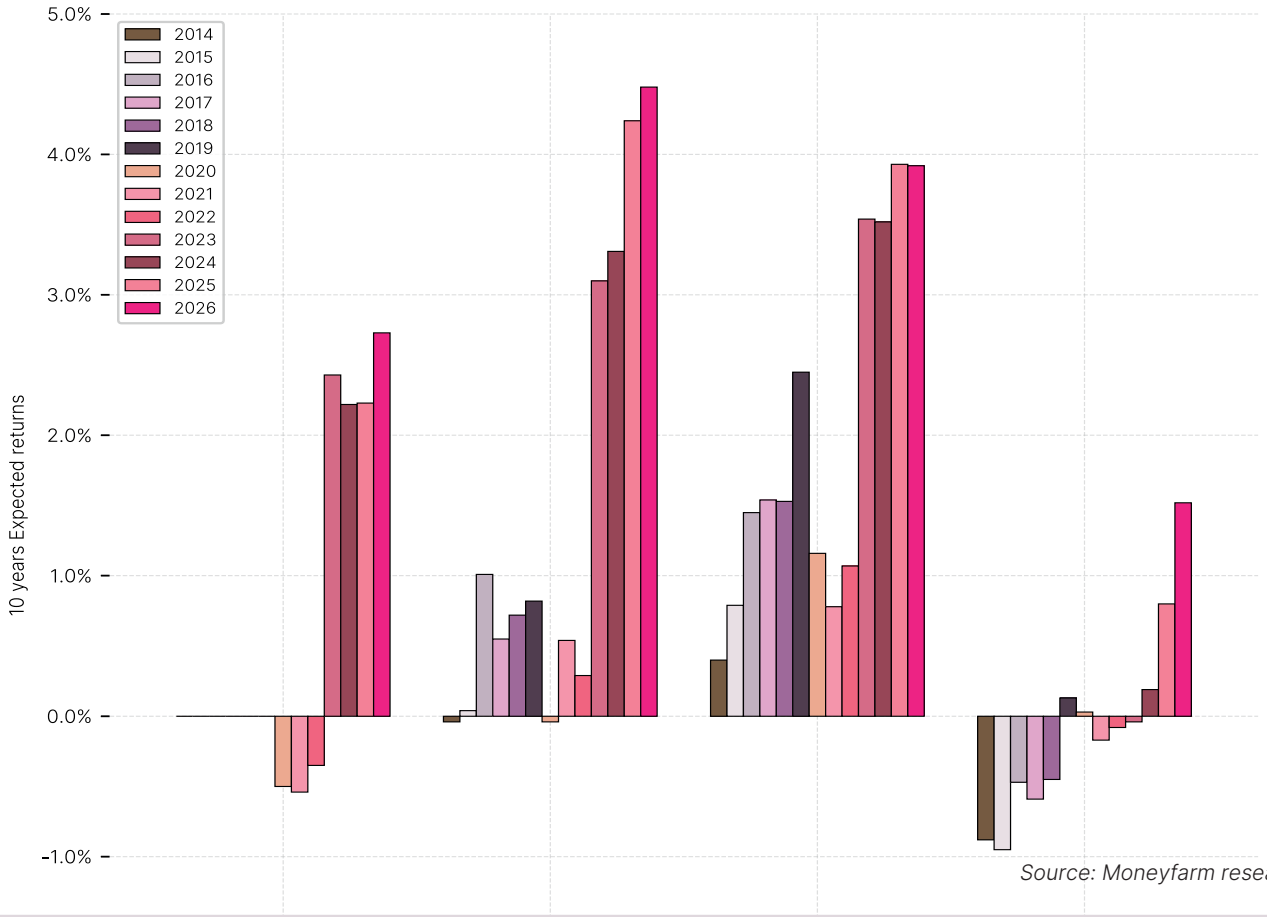
Short maturity Govies



Source: Moneyfarm research

Remarkably, long-term government bond expected returns are at their highest levels since we began running the SAA across all key geographies. The UK stands out as the most attractive, with a 4.5% long-term expected return for long-duration government bonds, partly reflecting the lingering loss of market confidence following the 2022 episode of unfunded fiscal proposals under the Truss government.

Long terms Govies - Expected return by year

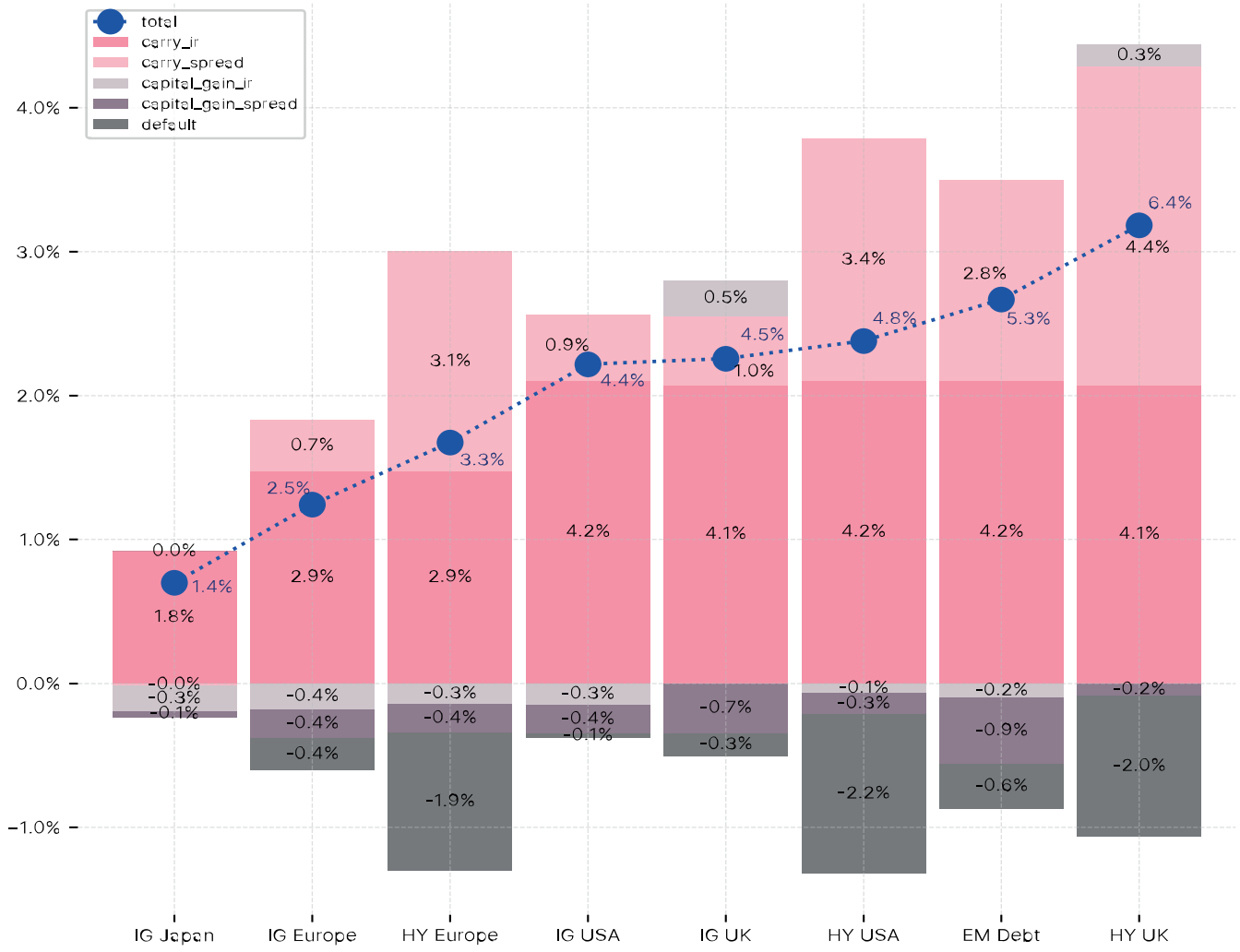


Source: Moneyfarm research

Credit and EMD

The credit segment appears broadly solid in absolute terms, but with spreads that remain tight, meaning that the risk premium is relatively limited. Compared with last year, default risk has declined in some sub-asset classes, a factor that particularly supports Emerging Market debt (EMD). In the United States, **Investment Grade** bonds – issued by borrowers with higher credit quality and therefore lower risk – now offer expected returns similar to those of **High Yield** bonds, which carry higher credit risk. This reduces the incentive to take on additional risk, both because spreads remain compressed and because higher nominal interest rates make Investment Grade credit relatively more attractive, given its longer duration. By contrast, European credit does not appear particularly attractive on a relative basis.

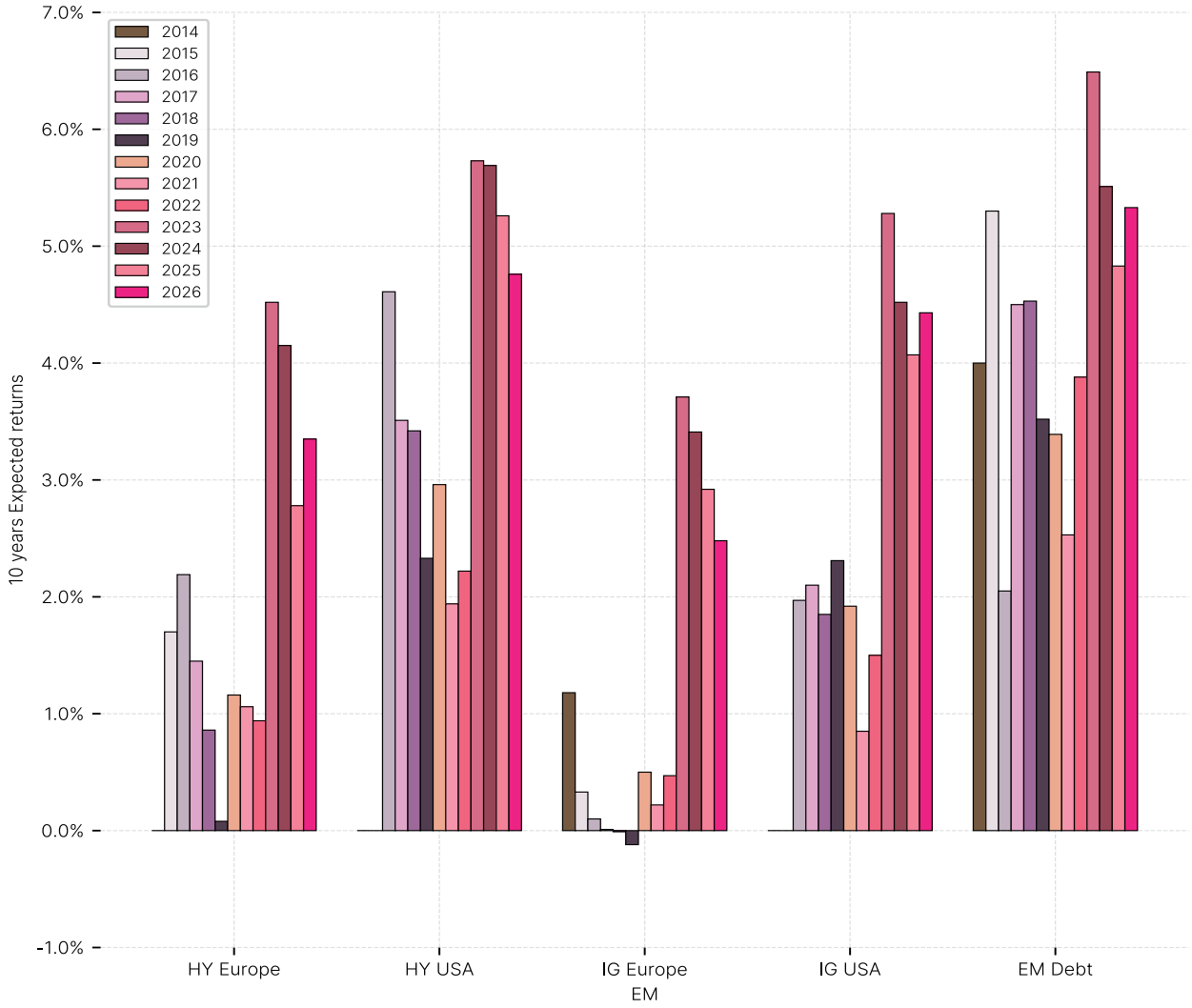
Corporate and EMD debt



Source: Moneyfarm research

Expected returns for all asset classes remain still attractive in absolute and relative terms.

Expected return by year



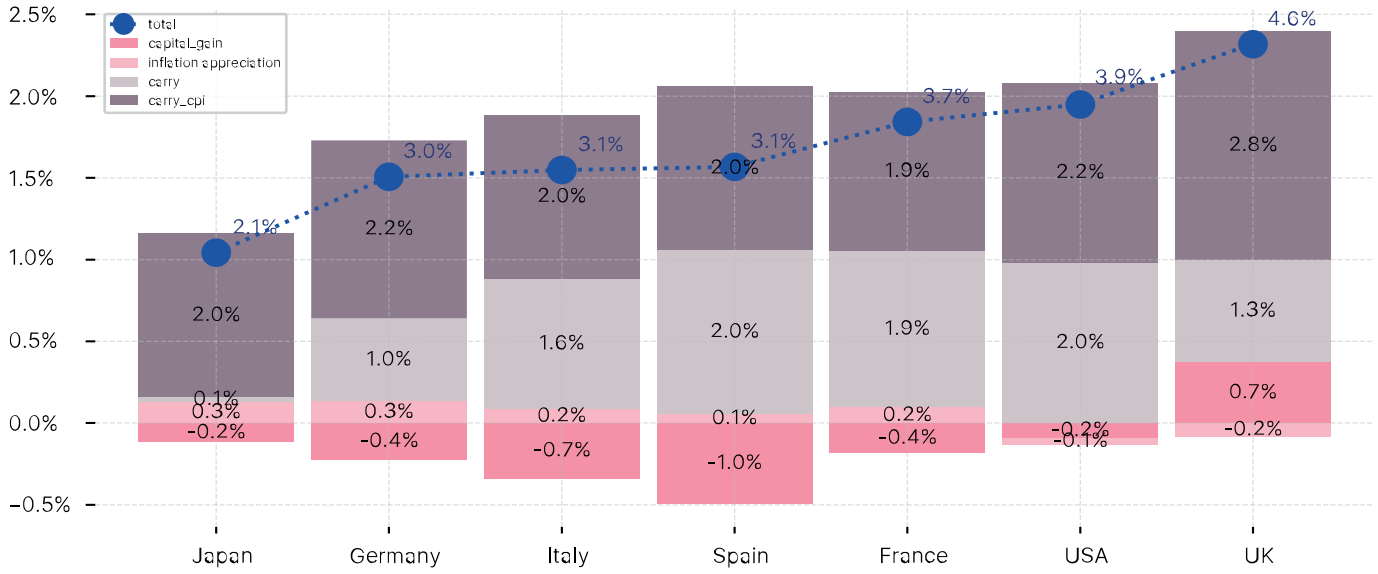
Source: Moneyfarm research

Linkers

Linkers, or inflation-linked bonds, are designed to protect investors' purchasing power, as the principal and/or coupons adjust over time in line with inflation. Their total return therefore depends both on movements in consumer prices and on changes in market interest rates.

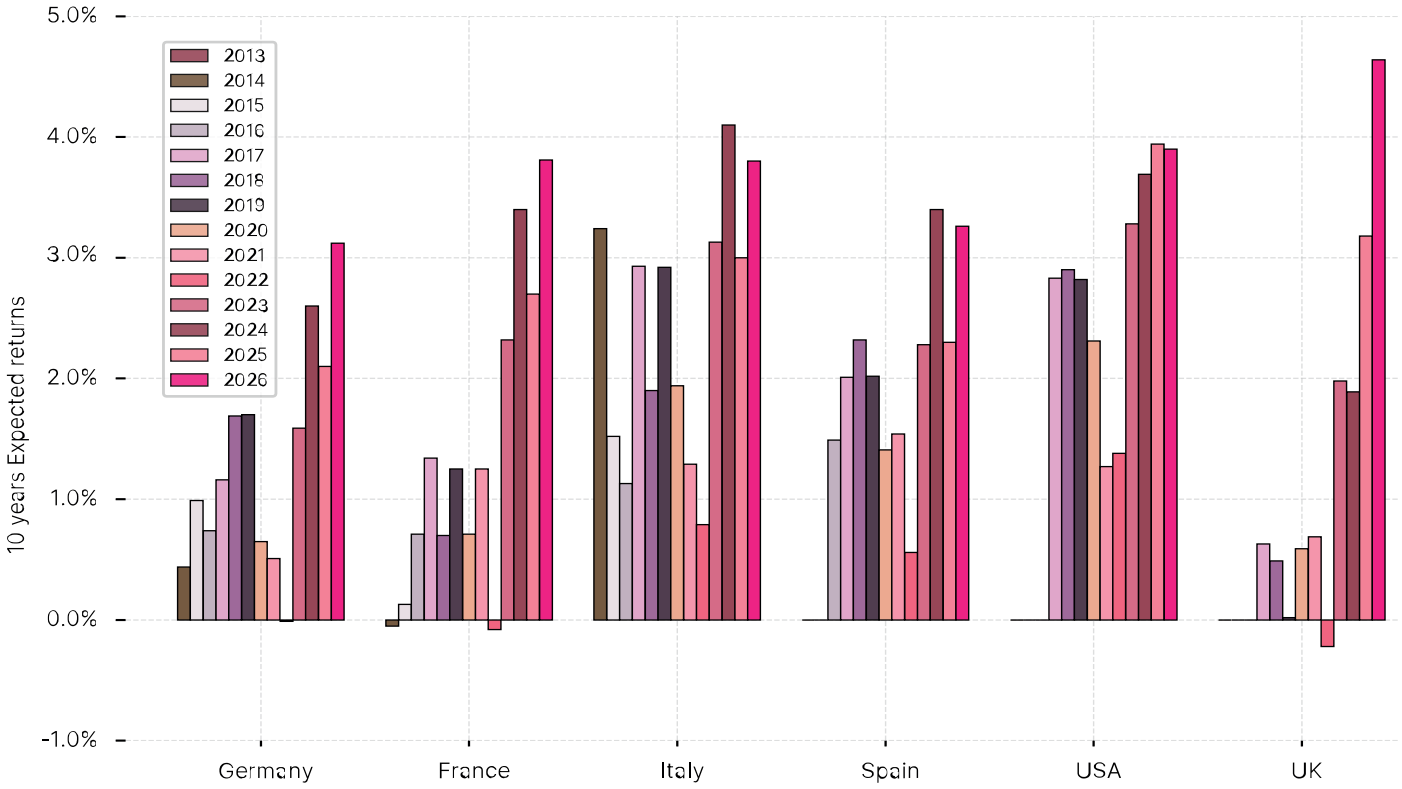
As shown in the chart below, most of the expected return comes from inflation expectations and from a more favourable environment for nominal interest rates. Overall, expected returns remain among the highest on record across all geographies and are generally higher than those observed last year.

Linkers



Source: Moneyfarm research

Linkers expected returns



Source: Moneyfarm research

Commodity

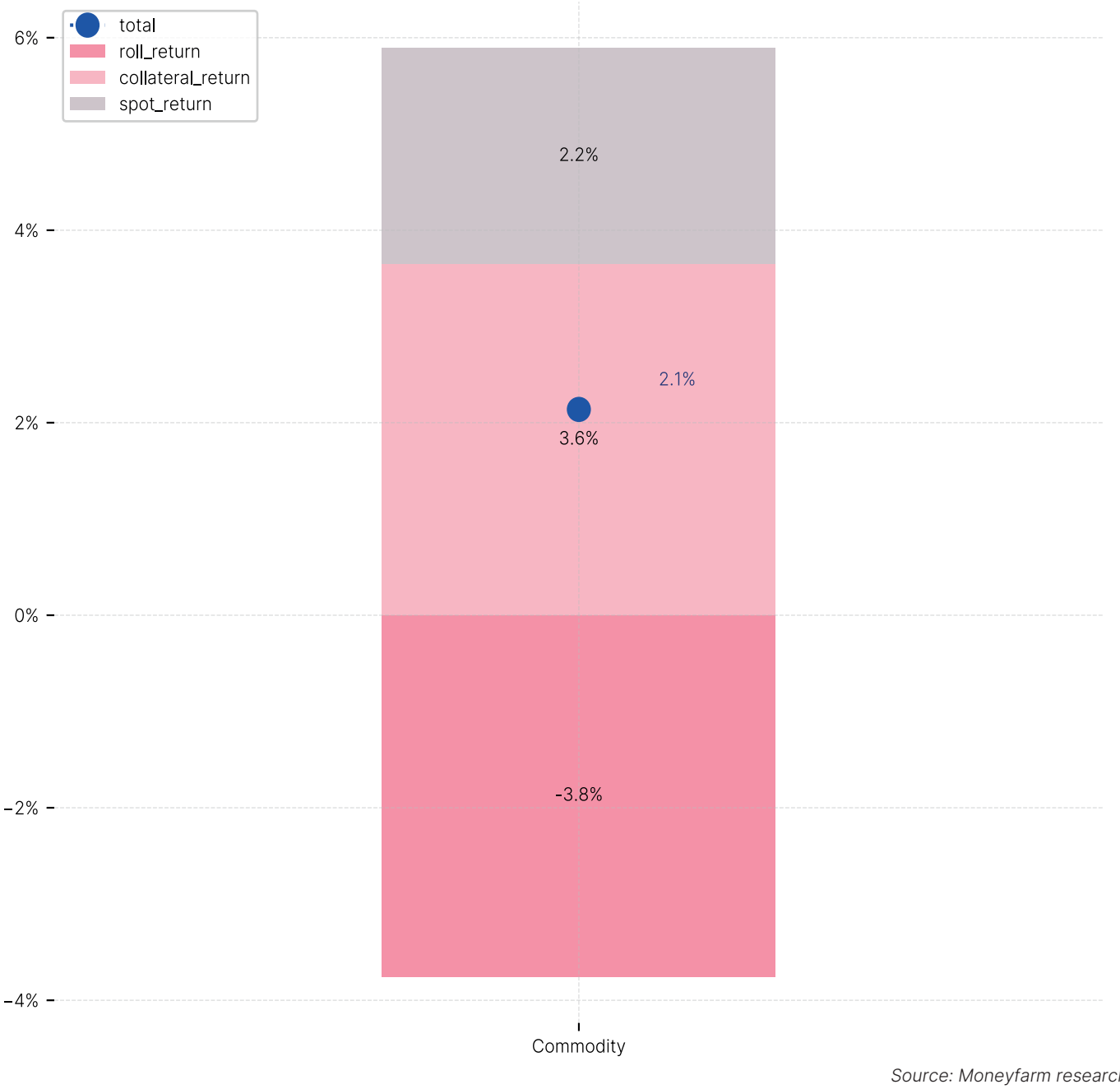
Commodities include real assets such as energy, metals and agricultural products. Expected returns for this asset class appear broadly solid, but they are driven by different components compared with equities and bonds.

A large share of the expected return comes from the **collateral,** that is, the interest generated by low-risk financial instruments (such as short-term US government bonds) in which the cash used to back commodity positions is invested.

Another important component is the **roll return,** which captures the effect of rolling futures contracts over time. When the price structure is unfavourable, moving from a contract close to maturity to a longer-dated one can generate a loss, making this component negative, as is the case most of the time. Intuitively, investing via derivatives avoids the storage costs that would be incurred when holding the physical commodity. However, this benefit is partly offset by the negative contribution from rolling futures contracts. In practice, contracts are sold shortly before maturity, when prices tend to be lower as physical delivery – and the associated storage costs – approaches.

At the same time, new contracts with longer maturities are purchased at higher prices, reflecting the fact that physical delivery is further away in time. Finally, the **spot return** reflects movements in commodity prices over time. In our estimates, this component is aligned with inflation expectations, as commodities are real assets and tend to move broadly in line with general price increases.

Expected returns of commodities and their components



Source: Moneyfarm research

Summary of expected returns

Long-term expected returns for the **2026 Strategic Asset Allocation (SAA)** remain broadly attractive. The **equity risk premium,** defined as the additional return expected from equities relative to safer assets, has declined. This reflects higher valuations and more moderate growth expectations, which reduce the potential for excess equity returns over the long term.

By contrast, the **duration risk premium** – that is, exposure to interest rate movements typical of long-dated bonds – is once again being rewarded.

In an environment of higher interest rates, bonds now offer more attractive starting yields than in the recent past. More generally, the fixed income universe presents compelling opportunities compared with previous years, reflecting the new level of rates.

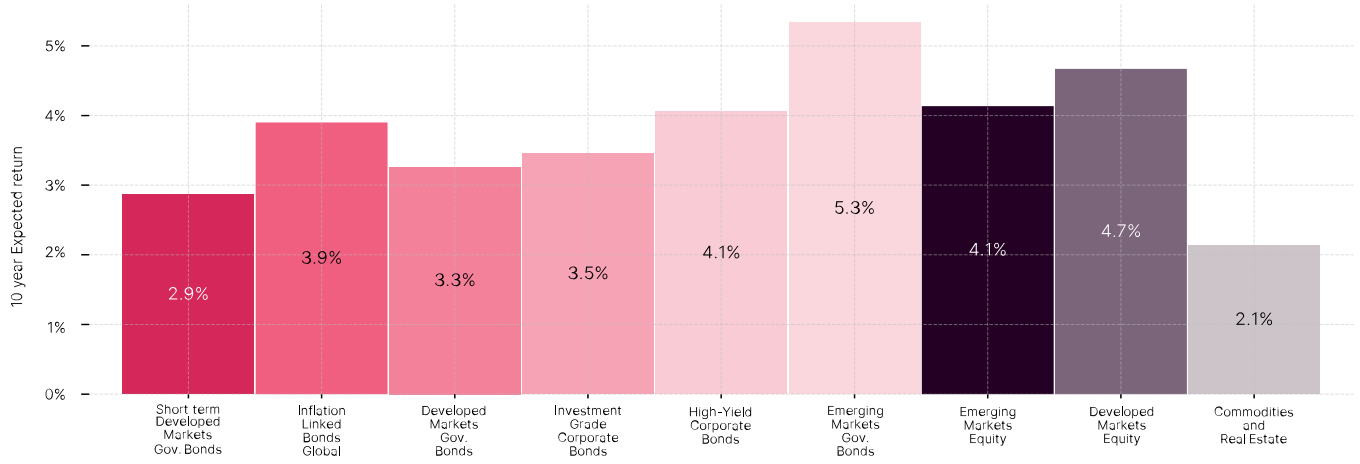
Inflation-linked bonds (linkers) appear attractive, as they combine protection against inflation with higher real yields than those observed in recent years. Within the **credit** space, **Investment Grade bonds** – issued by borrowers with high credit quality – appear less attractive on a relative basis, while **High Yield,** which offers higher returns in exchange for greater risk, remains broadly stable compared with last year.

Finally, prospects for **local-currency Emerging Market Debt (EMD)** have improved, mainly due to a reduction in expected default risk, making this asset class more attractive relative to other fixed income alternatives.

Overall, we believe the key message of this year's Strategic Asset Allocation is constructive. After a prolonged period characterised by zero or negative interest rates, fixed income appears to have regained a central role within multi-asset portfolios, complementing equities in delivering attractive risk-adjusted returns.

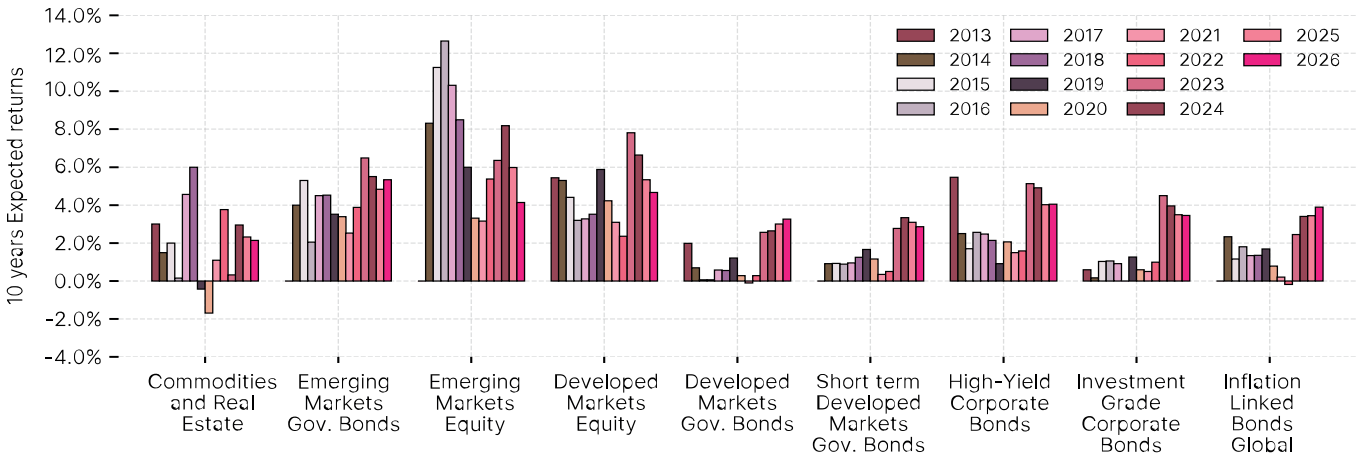
In a world of elevated equity valuations and higher interest rates, diversification once again emerges as a key pillar in building resilient portfolios over time.

10-year expected returns across asset classes



Source: Moneyfarm research

Key asset class



Source: Moneyfarm research

Understanding the 2026 Strategic Asset Allocation

We wanted to take a moment to put the results of the 2026 Strategic Asset Allocation (SAA) process into context. We'll make two quick comparisons, first against the results of the previous year, and second against the current positioning of the Moneyfarm portfolios.

Before doing so, it is worth briefly outlining how the final outcomes of the SAA process are constructed. Once the full spectrum of risk levels has been defined, we identify combinations of asset classes designed to maximise expected returns for each level of risk. To assess these dimensions simultaneously, we rely on quantitative models and structured processes.

The key assumptions – from asset class risk characteristics to expected returns and diversification benefits – and final output are reviewed by members of the Asset Allocation team as well as the Investment Committee.

What's changed?

As the tables indicate, comparing the 2026 Strategic Asset Allocation portfolios to last year's shows a couple of key themes.First, the SAA equity weight has come down overall compared to last year.

That's what we would expect given the relatively strong performance of equities in 2025 and, more importantly, the increase in equity valuations. Second, we see a higher weight in inflation-linked bonds relative to last year, particularly driven by higher expected returns in the UK, where inflation has proven quite sticky. It's also worth noting that there wasn't a significant change in recommendation for credit (like high yield or Emerging Market debt). Spreads remain tight versus history, but absolute yields still look interesting.

Your portfolio today

A common question is how the SAA process influences client portfolios. SAA is a key input into our long-term market and portfolio thinking, helping to clarify our investment views and, at times, challenge our current positioning

Alongside this, our investment process also includes a tactical overlay, which reflects shorter-term market conditions and the broader geopolitical environment.

This becomes clear when comparing the current Moneyfarm portfolios with the 2026 SAA outcomes, a comparison that also helps illustrate our tactical, short- to medium-term views.

First, we see that the Moneyfarm portfolios generally have a higher equity weight than the suggested SAA positioning.

Over the next twelve months, we expect earnings growth and corporate profitability to be stronger than those long-term expectations suggest – an assumption that is reviewed continuously as new data emerges. On the fixed income side, the Moneyfarm portfolios generally have a lower duration (meaning we are less sensitive to interest rate changes) than the SAA would suggest.

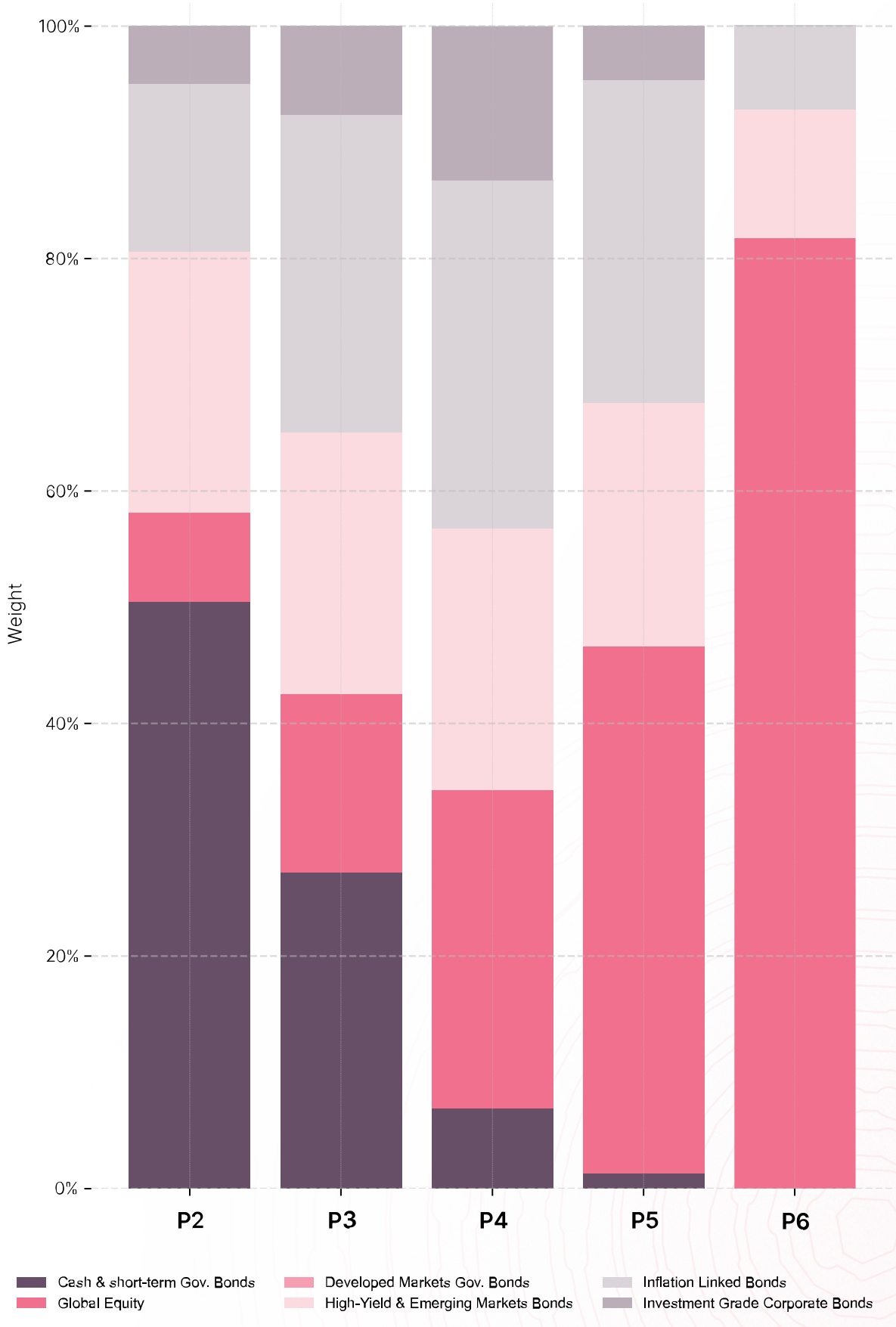
From a shorter, tactical perspective, we believe the combination of lower policy rates and increased fiscal spending could support stronger growth and potentially higher inflation. In that case, we could see yields on longer-dated bonds drift higher.

As with equities, this view remains under constant review as market conditions evolve.

Asset Class	Current portfolios Vs SAA 2026			SAA 2026 Vs SAA 2025		
	−	=	+	−	=	+
Equities			●	●		
Government Bonds			●		●	
Duration	●					●
Investment Grade			●	●		
High Yield	●				●	
EM Debt	●				●	
Inflation - Linked Bonds	●					●
Commodities			●		●	

Please note that these are aggregated views, and there may be differences at the individual fund level.

UK Strategic Asset Allocation



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2026