For professional investors only

Multi-Asset Investment Outlook 2027

Technological tailwind, geopolitical headwind

September 2026

COLUMBIA THREADNEEDLE INVESTMENTS®

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Introduction

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Investment Outlook 2027

The global economy has proved more resilient than many expected, but the investment landscape of 2027 looks materially different from a year ago – shaped by conflict in the Middle East, a reversal in interest rate expectations, and an AI-driven capital expenditure (capex) boom of unprecedented scale. As usual, we have also updated our capital-market assumptions, covering expected returns and volatilities for 23 asset classes.

The past year has seen a resilient global economy, despite significant uncertainty and headwinds arising from the geopolitical backdrop. Disruption in the Middle East, resulting from the US-led conflict with Iran which started in the first quarter, led to a spike in energy prices, with Brent crude almost doubling from pre-conflict levels before falling back on hopes for a cessation of hostilities and a reopening of the Strait of Hormuz. At present, it is not clear that President Trump will be able to extricate the US from the current conflict in the Middle East without ceding some element of control over the Strait to Iran, though the situation remains fluid and the range of outcomes is wide. A prolonged conflict would have a lasting impact on energy security and supply, but would also represent a source of future instability, with potential implications for other regions. This unstable backdrop has pushed up inflation at the margin and has contributed to a turn in interest-rate expectations. Indeed, there has been a marked shift in the interest-rate outlook compared with a year ago, when the market was pricing in up to 1% of rate cuts from the US Federal Reserve and anticipating cuts from other central banks. The European Central Bank has, in fact, hiked interest rates earlier this year and markets are now pricing in a greater likelihood of rises in interest rates from major central banks than cuts.

While geopolitical events have created uncertainty and volatility, global equity markets have risen to new highs, and credit spreads have mostly remained tight. Geographically, US 'exceptionalism' has waned, in line with our view that regional equity returns would broaden and Asian emerging market (EM) equities have been the standout performers over the past year, alongside commodities.

Aside from events in the Middle East, the dominant investment theme, however, has been that of infrastructure expenditure related to AI. The scale of planned capex is unprecedented but the lack of compute capacity is a key issue for 'hyperscalers' – large technology companies that offer cloud and AI infrastructure worldwide and operate large data centres for this purpose.

These hyperscalers are seeking to address the lack of compute capacity through spending on data centres, chips, networking equipment and power generation, among other areas. This trend has led to spectacular returns from many semiconductor stocks, including in Asia, and related beneficiaries of the AI capex theme. The AI theme has also resulted in increased bifurcation within the technology sector, with sectors such as software suffering from concern over disruption to existing business models and an erosion of incumbents' competitive positions.

While AI has the potential to drive productivity gains in the wider economy, the benefits seem set to accrue to a minority of companies and individuals. This is one reason concentration risk in markets remains historically high, with the top 10 companies in the MSCI World index now representing over a quarter of total market capitalisation. AI will also create significant political and economic challenges, and, from a market perspective, there is growing scrutiny over the likely returns which will accrue from capex spending from hyperscalers. The market, thus far, has assumed that the trillions of dollars which are being spent on AI infrastructure, which are increasingly being financed by debt, will prove profitable. Should this perspective change, investors will be unwilling to fund such investments, capex will slow and the recent winners (the companies providing the ‘picks and shovels’ in the AI arms race) will see their order pipelines dry up.

So, while we are constructive on the benefits of AI to drive productivity gains, technological advances often result in a build-out of excess capacity. There is no sign at present of a slowdown in AI capex, and this is driving extraordinary earnings growth in the market which, in turn, is supporting stock valuations. We are watchful for a change in dynamics which are driving both earnings and market returns but are yet to see a turn in fundamental drivers and an end to the capex boom.

Our Capital Market Assumptions (CMA) show, in general, modestly positive return opportunities across asset classes. High grade credit is still expected to deliver a small premium over returns available from government bonds, reflecting historically tight credit spreads, while equity markets will likely deliver premium returns over corporate debt. Local currency EM debt is viewed as attractive within spread products, when considering the available return per unit of risk. Across most asset classes, risk premia are low and valuations are historically high, but EM equities continue to offer opportunities, in our view. Despite impressive performance from this area over the past year there is still a valuation discount to developed markets although the correlation between emerging and developed equities has risen, in part due to the preponderance of the AI theme within global equities.

Elsewhere, our headline expected return from commodities suggests an excellent opportunity for investors here. Nonetheless, this perspective is caveated by a high dependency on commodity-driven inflation and is also tied to the geopolitical outlook. A safer investment proposition, with materially lower volatility, rests with absolute return alternatives, including catastrophe bonds, and direct lending, both of which are likely to deliver attractive returns per unit of risk.

Amid all the usual uncertainty, we retain a focus on the long-term opportunities stemming from the wider economic and corporate environment, as well as from rapid technological disruption. We continue to focus on the judicious construction of portfolios for our clients, diversifying exposure across a wide range of opportunities and ensuring that exposure is aligned to your specific objectives. Balancing risks against the numerous investment opportunities which exist requires structure, diligence and patience. The sections that follow provide detailed analysis of the macroeconomic environment, regional equity and fixed income markets, our key investment themes, and our full CMAs covering expected returns and volatilities across 23 asset classes.

Economic outlook

Anthony Willis
Senior Economist

Geopolitics continue to dominate, but the global economy is proving resilient

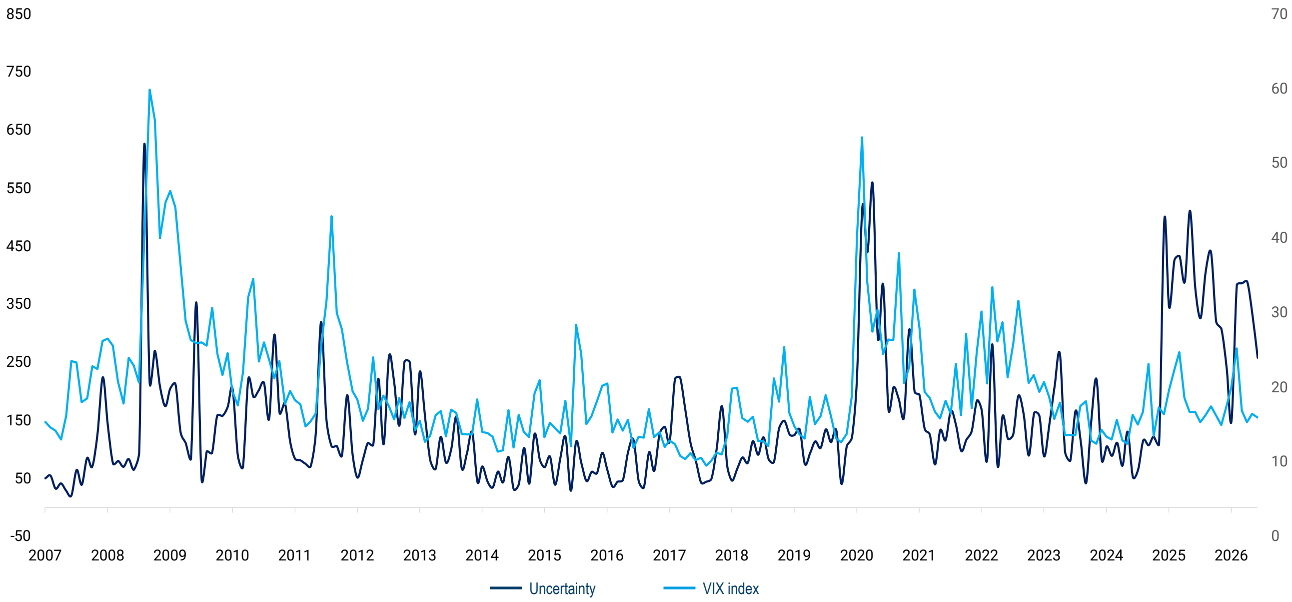
Despite significant global uncertainty, 2026 has been characterised by reasonable economic growth, strong corporate earnings and equity and bond markets which have shown significant resilience despite strong headwinds in the form of higher energy prices. Elevated energy prices have awakened concerns over inflation, and increased expectations of central banks being forced to raise interest rates, with memories still fresh of the 2022 energy shock that exacerbated post-pandemic inflationary pressures.

Looking ahead to 2027, the outlook for the global economy remains highly uncertain. Economic fundamentals are still reasonable, so the uncertainty mainly lies in finding an endpoint to the current geopolitical tensions in the Middle East, or more likely, a fragile détente that will allow for the resumption of the flow of commodities from the Gulf states unhindered by an ongoing conflict and the de facto closure of the shipping lanes in the Strait of Hormuz.

Financial markets will not wait for the certainty of a comprehensive peace deal; as we have seen already during 2026, moves towards a ceasefire were sufficient for financial markets to swiftly refocus on other matters, where the backdrop is more certain and supportive. Indeed, the strength of corporate earnings, underpinned by the AI revolution, along with positive economic growth and, so far, only a mild inflationary impulse from the energy price shock, means that fundamentals remain in reasonable shape. This has been very supportive in helping markets recover from the initial sell-off at the beginning of the US-Iran conflict back in the spring. The recovery in markets has, however, led to further questions over elevated valuations, particularly among technology- and AI-related stocks, with concerns likely to persist over the amount of capex required to deliver AI outcomes and whether that capex will ultimately deliver a return on investment.

As we look towards 2027, the outcomes remain somewhat binary. On the one hand, de-escalation and a return to a fragile peace in the Middle East will allow for market participants to focus on reasonably solid fundamentals. On the other, an escalation, or indeed a simply prolonged disruption to commodity supply chains, will raise the spectre of a more difficult growth and inflation outlook, with consequential challenges for the central banks in balancing concerns over higher inflation with risks of weaker economic growth.

Policy uncertainty compared with market volatility (as measured by the VIX)
US economic policy uncertainty (LHS) vs VIX index (RHS)



Source: Bloomberg, August 2026

Oil – not what it once was

Earlier in 2026, it was very easy to find commentary suggesting that oil prices would rise to between $150 and $200 a barrel given the supply disruption resulting from the Middle East conflict. The 'closure' of the Strait of Hormuz removed around 20% of global oil supplies and has impacted a large number of other commodities. The oil price was previously expected to trade around $60 a barrel both in 2026 and 2027 thanks to abundant supply, but has been volatile for several months, spiking as high as $120 a barrel during the conflict. Thankfully, widespread disruption to physical oil supplies has yet to emerge, though some stresses have become clear in refined products. Inevitably, the economic impact would be far more pronounced in the event of more broad-based supply issues.

Previous oil shocks have been a significant factor in economic slowdowns and recessions, but adjusted for inflation, the peak oil price seen so far in 2026, $120 a barrel, was only about half the all-time high in 2008 and well below the highs of the late 1970s during the Iranian revolution. Global oil demand intensity is on a long-term declining path, but in the short term, a combination of rerouting, lower demand, inventory drawdowns and a belief that the disruption would be relatively limited in duration has helped to keep oil prices from reaching more painful levels. Looking ahead to 2027, the 'equilibrium' level of oil should still be around $60 a barrel, but such a price level appears unlikely in the near term given that a 'risk premium' will remain in the oil price and that, even when the Strait of Hormuz is fully 'open for business', the nature of the shipping industry and the logistics involved will mean that the disruption will continue for several months.

Brent crude oil: long-term price chart

Source: Bloomberg, August 2026

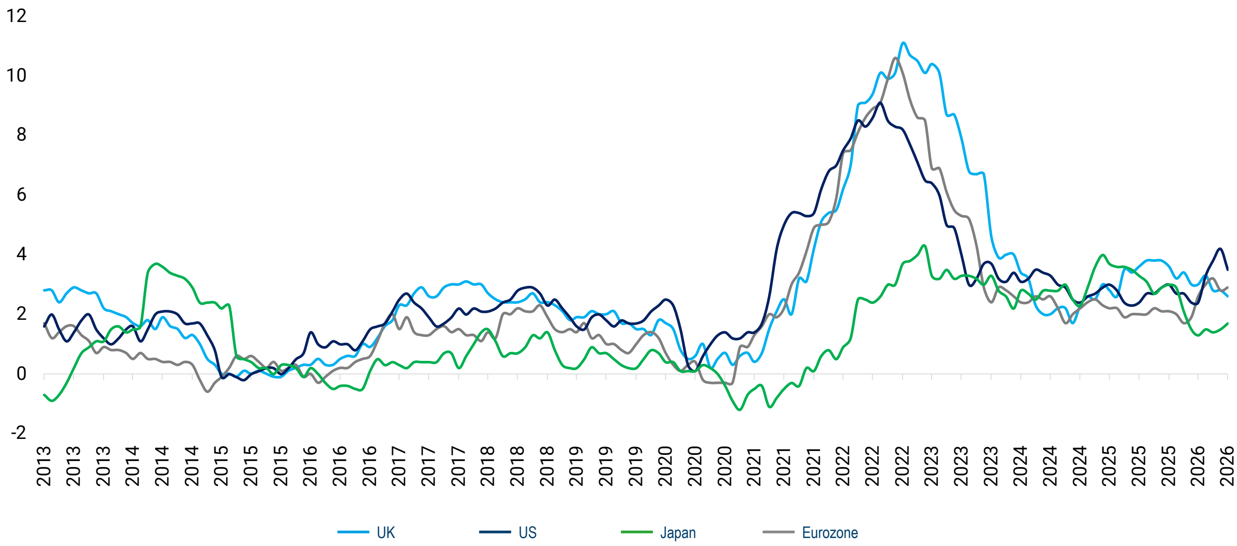
Inflation is back

After the inflation wave of recent years, which was countered by a rapid escalation in central bank interest rates, 2026 was expected to be the year in which inflation returned to levels around target that would give central banks the ability to cut interest rates or maintain them on hold for an extended period. European Central Bank (ECB) President Christine Lagarde often spoke of policy and inflation being in "a good place". That backdrop was broken by the spike in energy prices resulting from the Middle East conflict, which brought with it concerns that 2026 and beyond would see another inflation wave, in an echo of 2021-2022.

Using a phrase such as "this time is different" carries risks, but the backdrop in 2026-2027 is very different to that of 2021-2022. The 2026 energy shock came at a point when inflation was on an easing path, with central bank policy rates above prevailing inflation levels. Labour markets are softer than in 2021-2022, and the imbalances from the aftermath of the pandemic have faded. Back in 2021-2022, global supply chains were hugely disrupted, exacerbating the inflationary pressures that were already boosted by the fiscal and monetary stimulus unveiled to help economies recover from the pandemic. In 2026, the energy shock has occurred against a far more benign global backdrop, and provided no further escalation occurs, then the base effects of the energy price rises in 2026 will fall out of the data in 2027. The 'second order' impacts on wider inflation still pose risks to the outlook, but so far, the data suggests only a very limited impact.

Market expectations suggest the US will end 2026 with annual consumer price inflation (CPI) at 3.3%, which should ease to 2.4% in 2027. In the Eurozone, CPI is expected to be 2.8% in 2026, and ease to 2.2% by the end of 2027. In Japan, inflation of 2.0% in 2026 is expected to pick up slightly, to 2.1% in 2027. While inflation should get closer to central bank targets, further years of above-target inflation compound pressures for consumers still adjusting to the higher prices in the aftermath of the post-pandemic wave of inflation in 2021 and 2022. The compounding impact, and the failure of wages to keep up with rising prices, has put considerable pressure on consumers, and the resilience of consumer spending in this context is impressive.

Headline inflation rates for the UK, US, eurozone and Japan
CPI YoY comparison - UK, USA, Eurozone, Japan



Source: Bloomberg, August 2026

Central banks – how long can they ‘wait and see’?

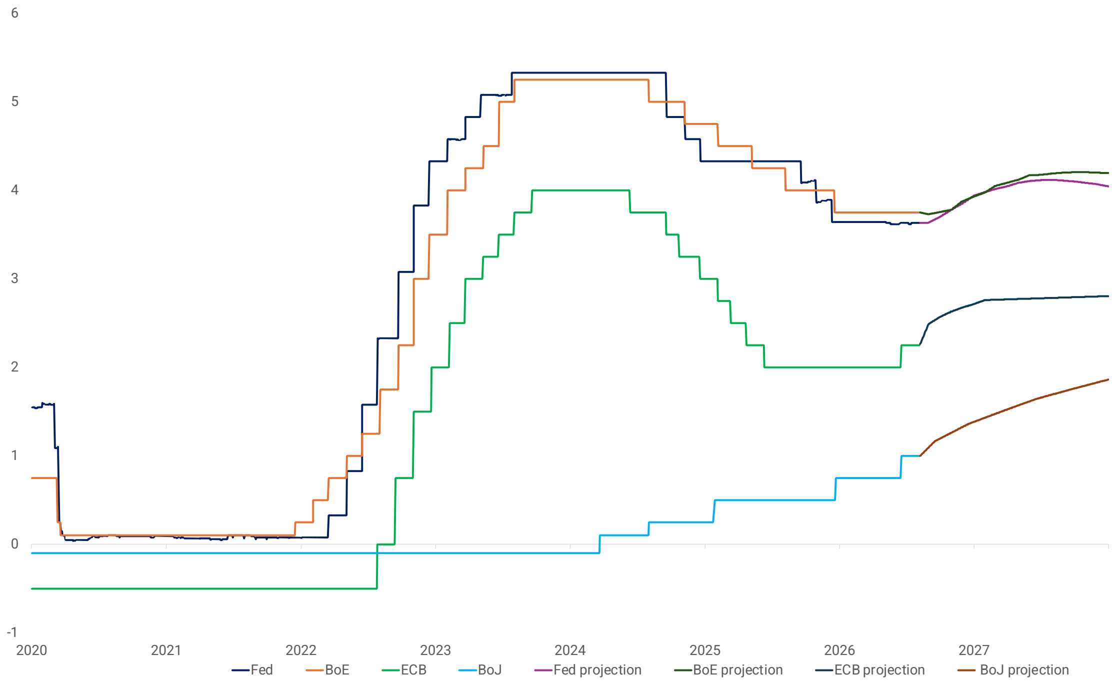
As a result of the shift in the inflation path outlined above, the interest-rate path for the remainder of 2026 and into 2027 looks very different from that at the start of the year. Expectations for interest-rate cuts have shifted towards rate increases, with central banks, along with all other market participants, very much beholden to geopolitical factors in terms of the outlook for inflation and, in turn, policy decisions. Energy shocks are challenging for central banks because, while energy prices push inflation higher, they also act as a tax on consumers and businesses, slowing economic activity. Some caution is therefore required to avoid adjusting policy for what may be a temporary shock. Central banks will be focused less on the headline inflation data that will fully reflect higher energy prices and more on both core CPI data (which excludes food and energy) and services CPI data for any signs of significant transmission from higher energy prices. So far – to August 2026 – the follow-through has been very limited, and likewise there has not been a notable uptick in wage pressures. While central banks can do little to counter inflation in energy prices, if core inflation, services inflation or wage pressures accelerate, then interest-rate hikes will become much more likely.

Of the major central banks, the ECB was the first to raise rates, reflecting a more aggressive approach despite inflation still being relatively close to target. The Bank of England has been more cautious, taking a ‘wait and see’ approach as above target inflation contrasts with soft economic growth. The US has seen a change of central-bank leadership with Kevin Warsh taking over as chair, and the bank’s language has taken a more hawkish turn, as Warsh immediately highlighted how inflation had been above the bank’s target for over five years.

The policy outlook for 2027 is contingent on outcomes from the Middle East. An easing in commodity price pressures will open the door for central banks to ‘look through’ the pickup in headline inflation in 2026, and expectations of rate cuts over the course of 2027 will mount. However, sustained increases in energy prices, which in turn may feed into wider inflation, will require a reassessment of the path for interest rates, with tighter policy required as central banks look to maintain control of price pressures.

Market expectations for central bank policy will likely remain volatile so long as uncertainty remains over the conflict in the Middle East and the impact on inflation. At the time of writing, in August 2026, markets are anticipating 48 basis points (bps) of interest rate increases in the US over the next year, with the first rate hike likely to be this October. As for the eurozone, 50 bps of rate increases are expected, with rate hikes by October 2026 and June 2027. Japan’s pathway to policy normalisation sees a total of 65 bps of rate increases anticipated over the next year, with rate hikes expected in December 2026 and April 2027.

Central bank policy rates including market projections till end 2027



Source: Columbia Threadneedle, Macrobond, 6 August 2026

Economic resilience expected to continue

The outlook for 2027 in terms of economic growth will be influenced by the outcomes around the Middle East, but assuming a return towards normality, then the global growth picture should remain positive, supported by fiscal stimulus, benign monetary policy and high levels of capex related to AI. While this last factor may ultimately not deliver a return on investment to companies, it should still provide economic support for some time to come. The spectre of lower growth and higher inflation – the feared 'stagflation' – looms, however, should the conflict in the Middle East and other geopolitical uncertainties persist and result in commodity prices continuing to be elevated. Looking around the world, China is likely to continue its gradual policy steps to underpin the housing market, along with incremental stimulus and policy measures to rebalance the economy from exports, which are extremely strong, to boosting domestic demand. These measures will require efforts to stimulate consumer sentiment and spending. In Japan, with a strong majority, the government is well placed to continue with stimulus measures and reforms to boost growth and meet the challenges associated with demographic headwinds. In Europe, the hope was that German stimulus would boost economic growth, but investors have had to be patient, given that both infrastructure and defence spending take a significant time to feed through. European governments collectively continue to face the challenge of low growth and limited scope to boost economic activity, not least when governments will likely need to prioritise defence spending over activities that could have a more positive economic impact. The US will likely suffer a fiscal 'hangover' in 2027 after several years of government generosity; this may be offset by what is expected to be even higher levels of capex related to the AI transformation. We expect that unless central banks feel the need to aggressively raise interest rates, the outlook for growth should be positive, and that unless downside risks around geopolitics materialise, any risks of stagflation, or even mild recessions in some regions, should recede.

Consensus growth estimates for developed economies are positive (see table). Interestingly, not a single analyst surveyed by Bloomberg sees any chance of a recession in the US or the eurozone. For developed economies, growth is expected to accelerate over the forecast period, from 1.6% in 2026, to 1.8% in 2027 and to 1.9% in 2028. EM economies are expected to also see growth improving, from 3.7% in 2026, to 4.3% in 2027 before a slight easing, to 4.2% in 2028. China has set a growth target of 4.5% to 5% for 2026; analyst expectations are at the bottom end of this range, for 4.6% in 2026, with a gradual slowdown to 4.4% in 2027 and 4.3% in 2028.

Consensus GDP forecasts

GDP forecast	USA	UK	Eurozone	Germany	Japan	China	India
FY							
2026	2.20	1.00	0.60	0.60	0.60	4.60	
2027	2.10	1.20	1.20	1.10	0.80	4.40	6.60
2028	2.10	1.50	1.30	1.20	0.90	4.30	6.80

Source: Columbia Threadneedle, Bloomberg, August 2026

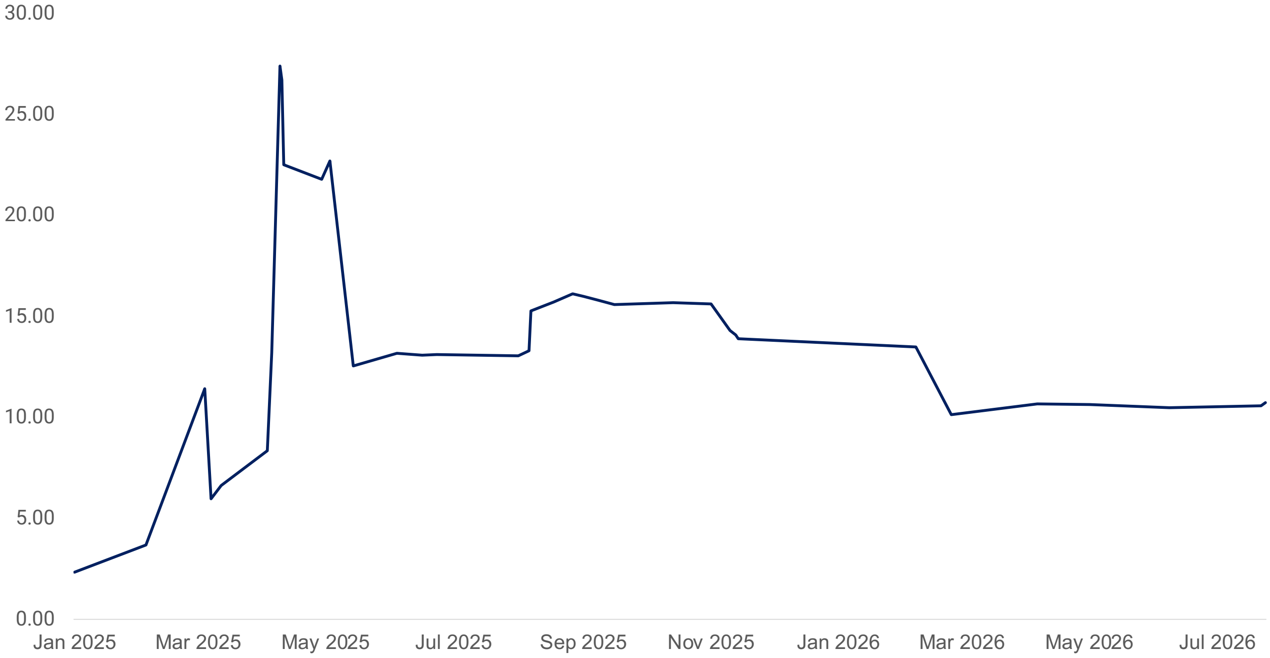
Tariffs: another feature of a more fragmented world

Tariffs have largely been on the back burner this year, but they were a defining market theme in 2025. While the original 'reciprocal tariffs' announced in April 2025 were ultimately struck down by the US Supreme Court, the US has since implemented a new tariff regime using a stronger legal basis. Although this limits President Trump's ability to impose tariffs unilaterally, the long-term framework now appears set, leaving the US effective tariff rate at around 10% from mid-2026, compared to 2.5% at the start of 2025. US companies and consumers will bear the burden of higher costs and prices from tariffs, though the impact has been smoothed over time, and does not appear to have had a significant impact on inflation.

The tariffs episode is another reminder that we go into 2027 with globalisation in retreat for several reasons, not least politics. Supply chains are evolving from just-in-time and low inventories to a model based on security of supply. This is also evident in the dash to secure commodities, such as rare earths, along with the wider theme of energy security. Countries that historically operated within a mutually beneficial framework are now more focused on their own self-interest. Tariffs are one of the obvious signs, along with export controls, reshoring and immigration controls. Meanwhile, perceptions of a more dangerous world and the reassessment of long-held security assumptions are forcing governments to ramp up defence spending. Regional divergences are likely to widen, and while strategic sectors will benefit from policy support, sectors exposed to global trade may suffer. More isolationist policies may well increase domestic resilience for some countries but will decrease efficiency, which is ultimately detrimental to the growth and inflation backdrop.

1. Source: Bloomberg

US effective tariff rate 2025-26



Source: Bloomberg, August 2026

The AI influence

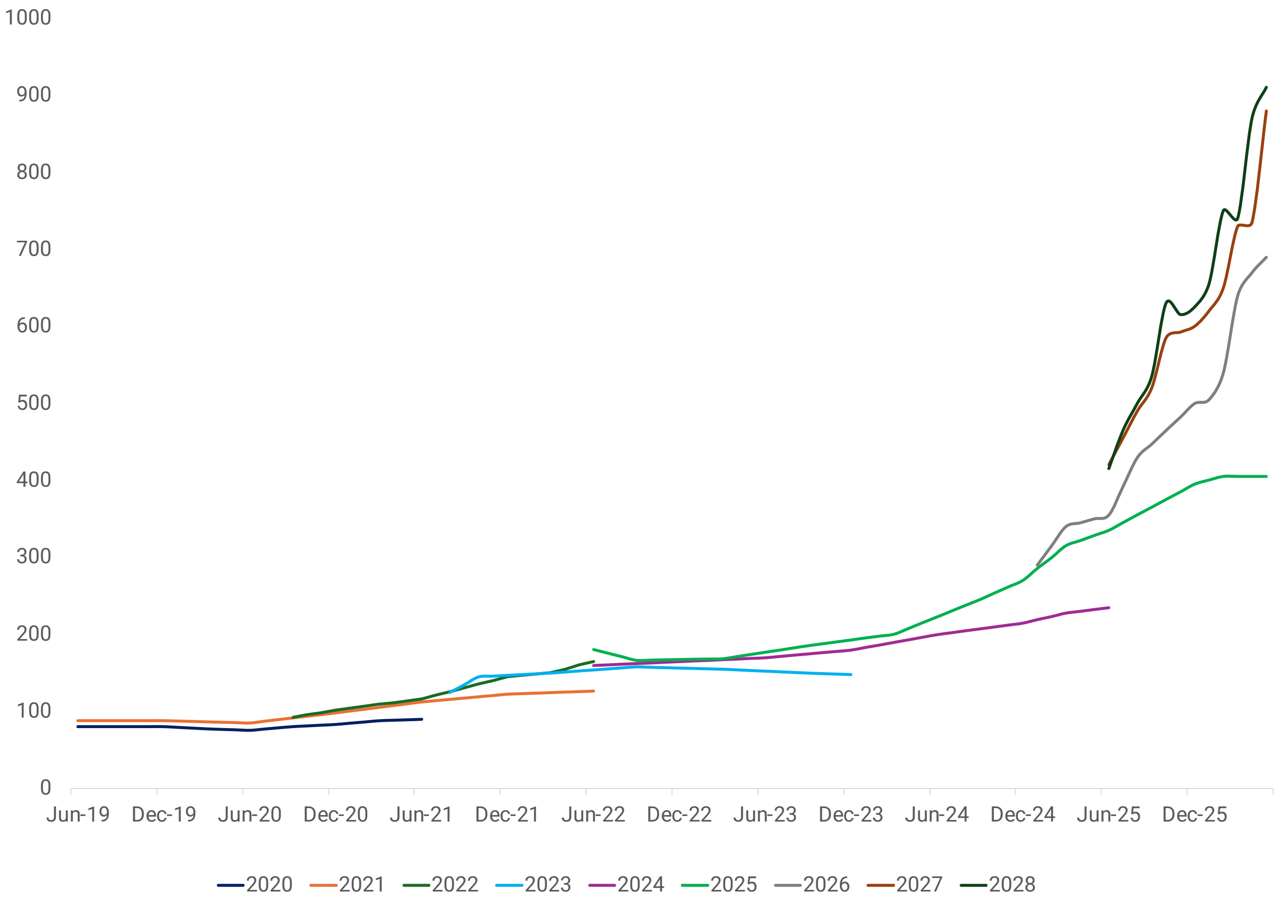
The AI theme remains central to market momentum and the economic outlook given the substantial amounts of money being injected into the global economy, particularly in the US and Asia. This is a result of capex related to the build-out of the digital infrastructure that technology companies believe will be needed to underpin the AI revolution that is currently underway. AI has the potential to be transformative and increase productivity, leading to higher levels of economic growth. But some caution is necessary, because history has shown that in such periods of rapid evolution, market participants are often poor at identifying 'winners' and 'losers'. In addition, as the technology evolves rapidly, companies can become poor allocators of capital.

While many companies are making extraordinary amounts of income in the short term, such 'super-normal' profits should not be extrapolated into the future. Likewise, high levels of capex cannot continue in perpetuity, particularly if borrowing is required to fund such investment. In 2025, the biggest tech companies in the US, including Amazon, Alphabet and Microsoft, spent $450 billion on infrastructure, which has grown to $900 billion in 2026 so far, and is expected to rise to $1.4 trillion in 2027[2]. Companies, that had previously funded capex through cashflow, are now turning to capital markets via bond or equity issuance. US tech companies have borrowed more than $400 billion this year[3]. This should entail a higher level of scrutiny and reassurance that such levels of capex will deliver a return on investment. This will become even more challenging if we enter a higher interest rate environment.

2. The Economist, 28.07.2026 https://www.economist.com/finance-and-economics/2026/07/28/ai-revenues-are-growing-fast-but-not-fast-enough
3. The Economist, 28.07.2026 https://www.economist.com/finance-and-economics/2026/07/28/ai-revenues-are-growing-fast-but-not-fast-enough

The risks of cheaper, open-source AI from China competing with more expensive US AI models are building. Chinese models are priced at levels which compete with mid-range US models but deliver performance in line with higher-end US AI. Hence there is a risk – particularly for US hyperscalers – that their investments will ultimately not deliver the expected returns, bringing into question both the levels of investment and market valuations. Cheaper, but high-quality, AI may well be positive for wider adoption, which has the potential to broaden productivity benefits, but could well be detrimental to some hyperscalers whose AI capex ultimately turns out to be poorly allocated and difficult to monetise.

US hyperscaler* capex estimates by year



Source: Bloomberg, August 2026. *Hyperscalers refer to Amazon, Alphabet, Meta and Microsoft

War *and* Peace?

Writing an outlook covering the remainder of 2026 and looking into 2027 is particularly challenging at a time when there is still significant uncertainty over events in the Middle East, the outcome of which – if indeed, there is a conclusion – will be a significant driver for the outlook for economic growth, inflation, rates and, in turn, market sentiment. There are a wide range of outcomes possible for 2027, and our overall positive views are based on the assumption that some sort of fragile peace can emerge in the Middle East. But downside risks cannot be completely ignored, and this is another period where investors need to be flexible, pragmatic and watchful of changing fundamentals.

So far in 2026, financial markets have proven adept, once again, at 'looking through' geopolitical risks, helped by the tone of the US president suggesting no desire to be involved in a protracted conflict. Iran has proven adept at weaponising the Strait of Hormuz, the closure of which has caused significant disruption. There remain a wide range of outcomes, ranging from a return to full conflict, a shift towards peace, or an uncomfortable 'middle way' with low-level conflict persisting, while supply chains and the global economy find ways to circumvent the gridlock in the Gulf.

The downside risks from a worsening conflict whereby the commodity crisis moves from a price shock to a supply shock are clear. Iran will not want to give up 'control' of the Strait of Hormuz as it has recognised that this is its primary tool of leverage against a superior military, and Tehran has already shown a high threshold for economic and military pain. The regime may well look to 'dig in' and test the endurance of the US in the face of rising energy prices and looming mid-term elections. The first five months of conflict have shown that President Trump will repeatedly move to the brink of escalation before becoming more conciliatory, but often we have seen more distress in financial markets, and significantly higher oil prices, before pragmatism has prevailed.

The outlook for 2027 is therefore, at the time of writing, particularly uncertain. Doubts over AI-related spending, coupled with heightened concerns over the Middle East and the impact on the outlook for inflation and interest rates, are likely to impact market sentiment and momentum. Clarity on either theme will take time. It is reassuring that, once again, the global economy has shown significant resilience in the face of uncertainty and adversity, and that the economic outlook remains relatively benign. Investors should take comfort from what should be a year of positive economic momentum, with risk assets supported by strong and reasonably broad-based corporate earnings growth.

Financial Markets and Capital Market Assumptions

Jitzes Noorman
Delegated CIO & Investment Strategist

Introduction

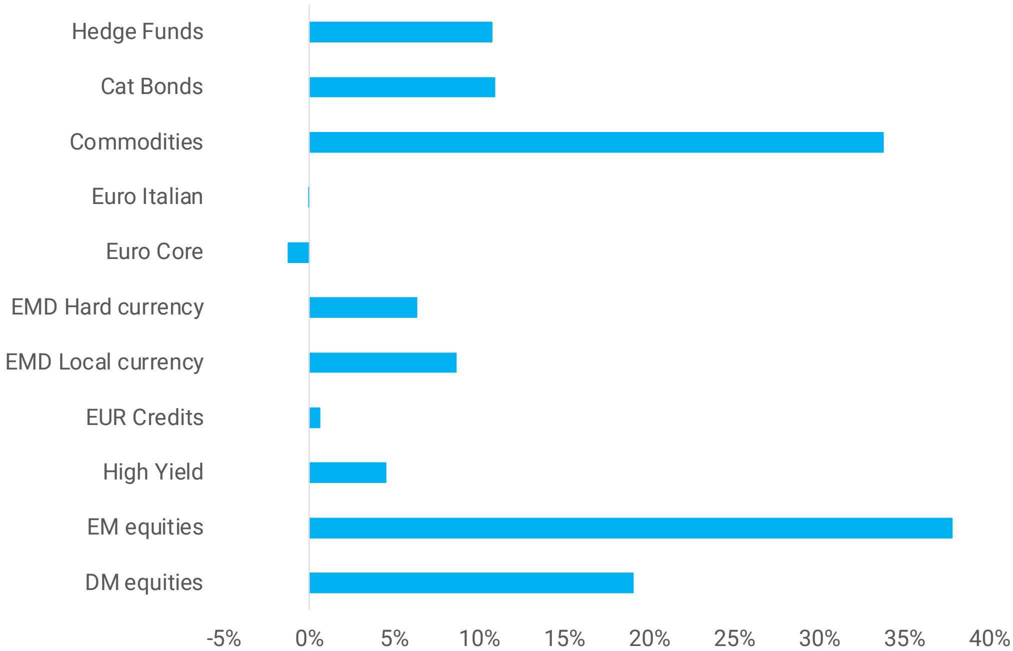
In this section, we describe financial market developments and share our expected returns (geometric, net) and expected volatilities for 23 individual asset classes over five-, 10- and 15-year horizons. Columbia Threadneedle's expectations are current and market-based and are consistent with, and incorporate, the consensus expectations regarding economic growth and inflation, as outlined in the previous chapter.

Since our last investment outlook at the end of July 2025, most asset classes have made gains, measured in euros, over the year to the end of July 2026. However, there have been several significant outliers.

EM equities delivered the highest returns, followed by commodities. The former benefited from the 'AI boom' while commodities were chiefly boosted by the geopolitical turbulence and the Iran war.

In addition to commodities, other alternatives such as catastrophe bonds and hedge funds, also performed well. Finally, spread products with low credit ratings and those linked to EMs performed well. The public asset classes that lagged over the year – with returns ranging from around zero to slightly negative – were creditworthy euro-denominated bonds, issued by both corporates and governments.

Returns in euros (hedged, EM & EMD LC unhedged), past 12 months of listed asset classes



Source: Columbia Threadneedle Investments, Bloomberg, 31 July 2026

Commodities and absolute return categories, such as direct lending and catastrophe bonds, score well in our CMA model, although the expected return of the latter category has decreased compared to a year ago.

The expected return on equities has decreased slightly, while the expected return for most fixed income securities has increased due to higher risk-free rates. Within spread products, EM local-currency debt is the most attractive in terms of a risk-to-reward ratio.

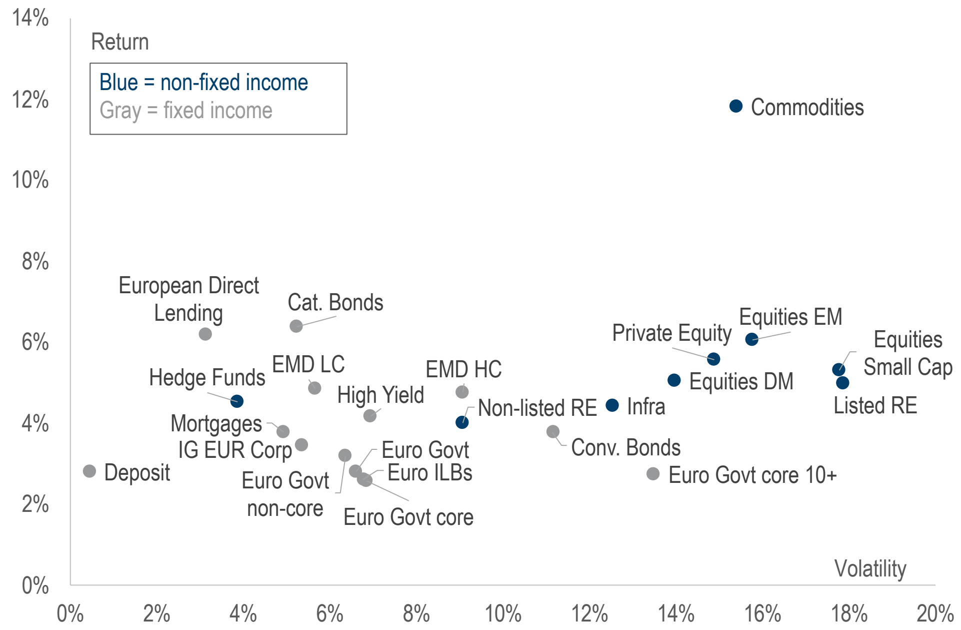
Of course, our basic expectations are surrounded by uncertainty. The major drivers of financial markets in the coming year include the further course of the Iran war, ongoing geopolitical fragmentation, the sustainability of national debt in many countries, and the question of whether the AI boom will continue or whether expectations about AI will be tempered.

Expected five-, 10- and 15-year returns and volatilities (in euros, net after costs)

			Return			Volatility		
		Asset classes	**5 Year**	**10 Year**	**15 Year**	**5 Year**	**10 Year**	**15 Year**
EUR	**Listed Equity**	Equities developed markets (EUR, hedged)	5.0%	5.3%	5.4%	14.0%	13.9%	13.1%
EUR	**Listed Equity**	Equities emerging markets (EUR, unhedged)	6.0%	6.6%	6.8%	15.8%	14.8%	14.8%
EUR	**Listed Equity**	Equities small caps (EUR, hedged)	5.3%	5.5%	5.6%	17.8%	18.0%	16.9%
EUR	**Listed Alternatives**	Listed real estate (EUR, hedged)	5.0%	5.2%	5.3%	17.9%	17.0%	16.4%
EUR	**Listed Alternatives**	Commodities (EUR, hedged)	11.8%	10.9%	10.9%	15.4%	14.1%	14.7%
EUR	**Listed Alternatives**	Convertible bonds (EUR, hedged)	3.8%	4.3%	4.5%	11.1%	11.1%	10.2%
EUR	**Listed Alternatives**	Catastrophe bonds (EUR, hedged)	6.4%	6.9%	7.5%	5.2%	4.7%	4.1%
EUR	**Non-listed Alternatives**	Private Equity (EUR, hedged)	5.5%	5.8%	5.9%	14.9%	15.3%	14.0%
EUR	**Non-listed Alternatives**	European Direct Lending (EUR)	6.2%	6.6%	6.8%	3.1%	4.8%	5.0%
EUR	**Non-listed Alternatives**	Non-listed real estate (EUR)	4.0%	4.2%	4.3%	9.1%	8.4%	8.1%
EUR	**Non-listed Alternatives**	Infrastructure (EUR, hedged)	4.4%	4.6%	4.7%	12.5%	12.0%	11.2%
EUR	**Non-listed Alternatives**	Dutch Residential mortgages (EUR)	3.8%	4.0%	4.2%	4.9%	3.7%	3.4%
EUR	**Non-listed Alternatives**	Hedge Funds (EUR, hedged)	4.5%	4.8%	4.9%	3.8%	4.8%	4.5%
EUR	**Fixed Income**	Emerging Markets Debt - HC (EUR, hedged)	4.7%	5.4%	5.8%	9.1%	9.0%	8.4%
EUR	**Fixed Income**	Emerging Markets Debt - LC (EUR, unhedged)	4.8%	5.9%	6.5%	5.7%	7.2%	8.4%
EUR	**Fixed Income**	High Yield (EUR, hedged)	4.2%	5.0%	5.5%	6.9%	7.6%	7.3%
EUR	**Fixed Income**	Investment grade Euro Corporates (EUR)	3.4%	3.8%	4.1%	5.3%	4.8%	4.5%
EUR	**Fixed Income**	Euro government bonds (EUR)	2.8%	3.5%	3.8%	6.6%	5.4%	5.2%
EUR	**Fixed Income**	Euro government bonds core (EUR)	2.6%	3.2%	3.4%	6.9%	5.6%	5.4%
EUR	**Fixed Income**	Euro government bonds core 10+ (EUR)	2.7%	3.3%	3.5%	13.5%	11.2%	11.4%
EUR	**Fixed Income**	Euro government bonds non-core (EUR)	3.2%	3.8%	4.0%	6.3%	5.8%	6.2%
EUR	**Fixed Income**	Inflation-linked Euro government bonds (EUR)	2.6%	3.3%	3.6%	6.8%	5.8%	5.9%
EUR	**Fixed Income**	Deposits (EUR)	2.8%	3.0%	3.2%	0.4%	0.5%	0.4%

Source: Columbia Threadneedle Investments, CMA Model, August 3, 2026

Five-year expected returns and volatilities (EUR hedged, EM & EMD LC unhedged)



Source: Columbia Threadneedle Investments, CMA Model, August 3, 2026

Equity markets

Over the past 12 months (to the end of July 2026), equity markets have performed very well. The return on EM equities was no less than 38% (in euro-unhedged terms), and the return on developed market equities was 19% (in euro-hedged terms).

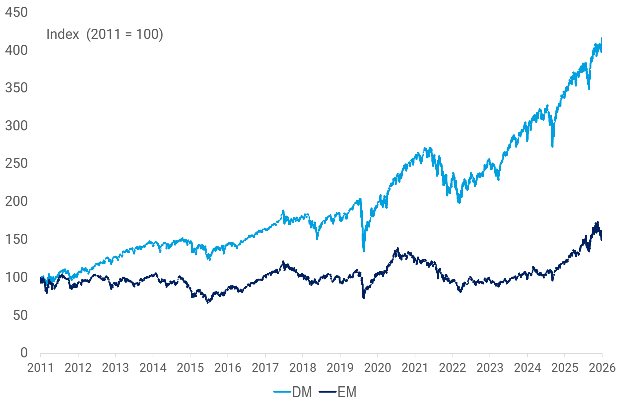
Developed market equities

Equity markets in developed countries showed resilience over the last year despite geopolitical tensions stemming from the US-Iran conflict, and higher energy prices. Although the MSCI World Index showed a temporary downturn of 9% during the first attacks by the US and Israel on Iran, on balance, there was a significant rally over the last year, with new all-time highs.

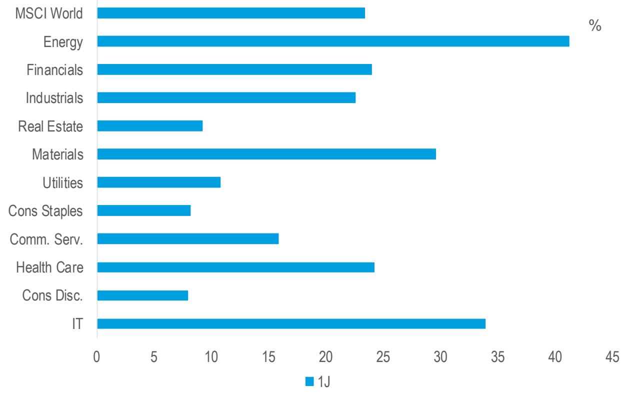
Explanations that the Iran war will have a limited impact are centred on the fact that the oil price has risen less than feared, in combination with the fact that economies have become less dependent on oil in recent decades. Robust and stronger-than-expected economic growth in the US also plays a role. Furthermore, investors have learned from previous geopolitical shocks that escalations are often temporary.

The main explanation for the rally is that the AI-driven earnings growth of technology companies more than compensated for the negative geopolitical effects. An important AI theme relates to hyperscalers, which include Microsoft, Amazon, Alphabet (Google Cloud), Meta and Oracle, among others. These companies' investments are a key driver of the growth of the digital economy and demand for semiconductors, energy, network capacity and data centre real estate. Until a year ago, these companies had a lot of cash, which was used for dividend payments, share buybacks and acquisitions. In the past year, however, AI infrastructure investments have increased to such an extent that free cash flow is no longer sufficient. One consequence in the stock market is fewer buybacks, and one consequence in the bond market is a sharp increase in issuance by these hyperscalers.

MSCI equity indices (prices in USD)



MSCI World sector performance (USD, 1 year)



Source: Columbia Threadneedle Investments, Bloomberg, MSCI, 5 August 2026

The best-performing sectors last year were technology and energy. This reflects the two main themes of the year, namely the AI boom and the Iran war, respectively.

Within developed markets, Japan was one of the outperformers. Furthermore, European equities outperformed US equities (on a euro-hedged basis).

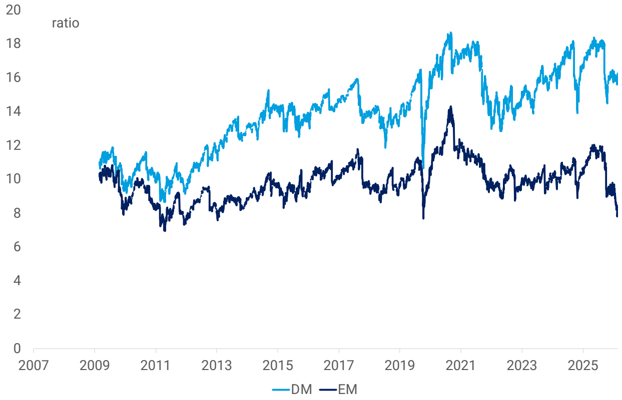
In terms of factors, value and small cap performed relatively well, while minimum volatility clearly underperformed.

Increased profit expectations

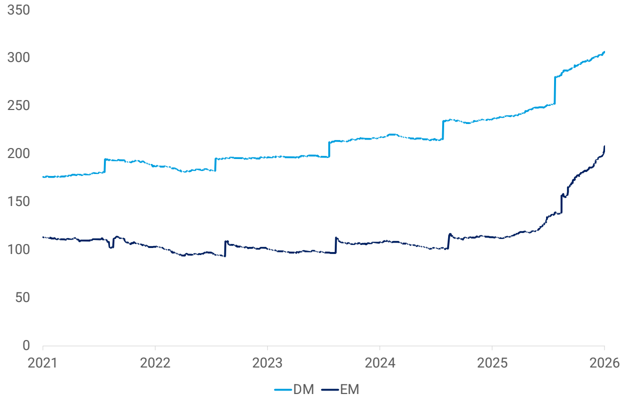
In previous years, rising stock prices could partly be explained by higher valuations, but the equity rally in the past 12 months is entirely attributable to a sharp increase in expected earnings. For both developed and EM equities, expected earnings have exploded since the beginning of 2026. Compared to a year ago, the expected profit for the third fiscal year for the companies in the MSCI World index increased by an average of around 30%, and for the firms in the MSCI EM Index, by no less than 75%. Against this backdrop, prices have also risen sharply. In fact, valuations based on price/earnings (P/E) ratios have even fallen slightly over the past 12 months. P/E ratios based on the first and third fiscal years are respectively 20 and 16 for developed markets. The comparative figures for EM equities are 11.5 and 8.

In short, last year's equity rally was driven by earnings and not valuations. It should be noted, however, that these are expected earnings, so there is a risk of disappointment if AI does not live up to expectations.

DM and EM P/E Ratios (third fiscal year)



Expected earnings (third fiscal year) DM and EM



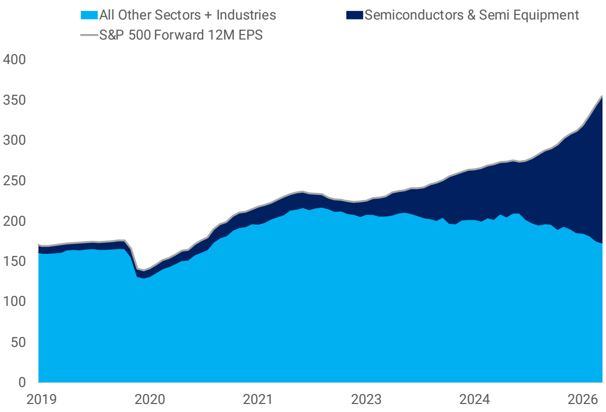
Source: Columbia Threadneedle Investments, Bloomberg, MSCI, based on expected earnings, 5 August 2026

Concentration risk

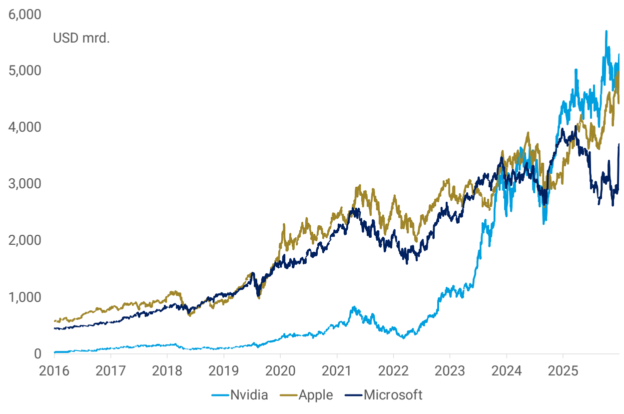
An additional observation is that there is an increasing risk of concentration. For example, an analysis by Columbia Threadneedle indicates that the increase in expected earnings of the S&P 500 index over the past two years is entirely attributable to the semiconductor industry. Currently, these account for no less than about 50% of the (expected) income of the S&P 500 index.

Another indicator of increased concentration risk is that the 10 largest companies in the MSCI World index currently represent a whopping 26% of the total market capitalisation. Four years ago, for example, this figure was still 18%. And there are now eight companies with a market value of more than US $1 trillion (NVIDIA is the largest, with US $5.4 trillion as of 28 August 2026).

S&P 500 index: contribution to 12M Forward EPS



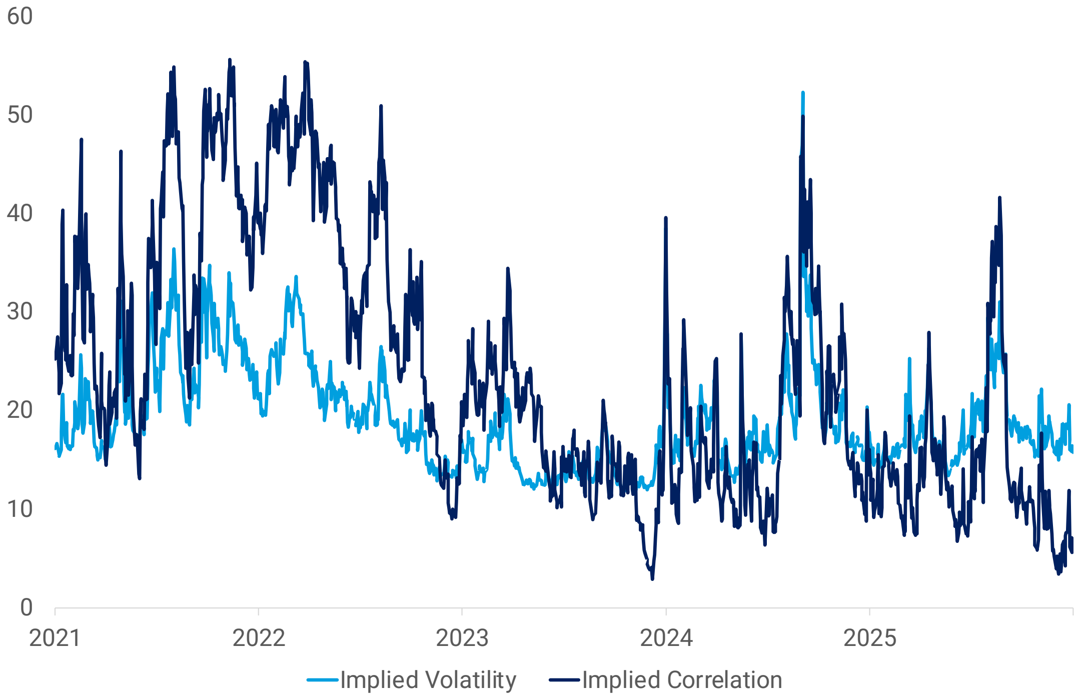
Market value of top three stocks in the MSCI World index (US $)



Source: Columbia Threadneedle Investments, Bloomberg, MSCI, S&P, IBES, LSEG Datastream, May 2026 and 5 August 2026

However, the equity market itself does not price in concentration risk. In addition to an implied volatility index, there is also an implied correlation index linked to the S&P 500. The latter measures the implicit correlation between individual stocks (derived from option prices of the 50 largest companies in the S&P 500 index), and is currently very low, at 6 (on a scale of 0 to 100). On average, the correlation over the past 20 years was 38, and the peak was 96 in 2008 during the subprime crisis. A low correlation implies that stock prices are driven not so much by general market risk, but more by individual company-specific developments. In short, although there are several indicators that point to increasing concentration risk, the market itself is not (yet?) pricing this in.

S&P 500 Index: Implied Volatility and Correlation

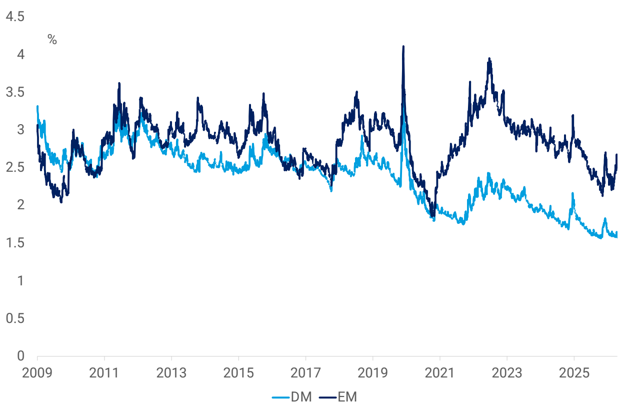


Source: Columbia Threadneedle Investments, Bloomberg, S&P, 5 August 2026

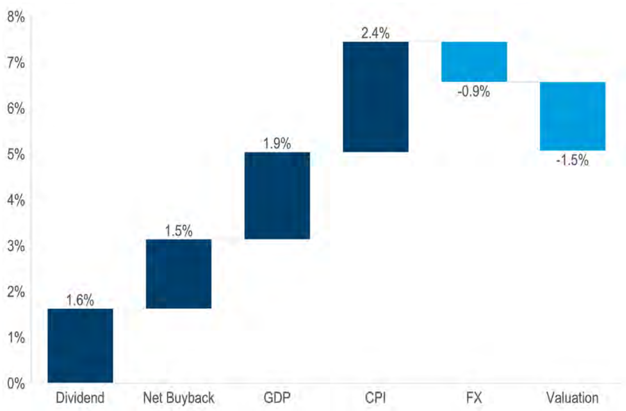
Expected return on developed market equities

The assumption in our CMA model is that the return on equities is theoretically equal to the income return plus the price return.

Expected dividend yield MSCI Indices



Components of 5J expected return DM equities



Source: Columbia Threadneedle Investments, Bloomberg, MSCI, CMA model, August 3, 2026

To calculate the expected returns, we link the income return to the outlook for dividend yields and net buybacks. We link the assumed price return and the assumed earnings growth to market-based expectations for economic growth and inflation. We also make an adjustment for hedging currency risk. On a euro-hedged basis, this currently results in a decline because US dollar rates are higher than euro rates. This component can be positive or negative, and the contribution of this component is theoretically zero in the long run. Our long-term target (modelled on volatility and forward rates) for the MSCI World index's P/E ratio indicates that developed market equities are currently overvalued. This valuation perspective is therefore currently depressing the expected return.

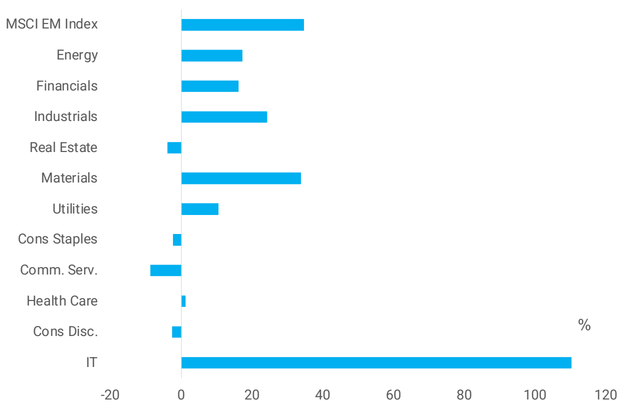
Ultimately, this results in an expected return for developed market equities of 5.0% over a five-year horizon and 5.4% over a 15-year horizon.

These are nominal expected returns. When adjusted for inflation (based on inflation swaps), the five-year expected real return amounts to around 2.9%, which is slightly lower than the rate over the last year.

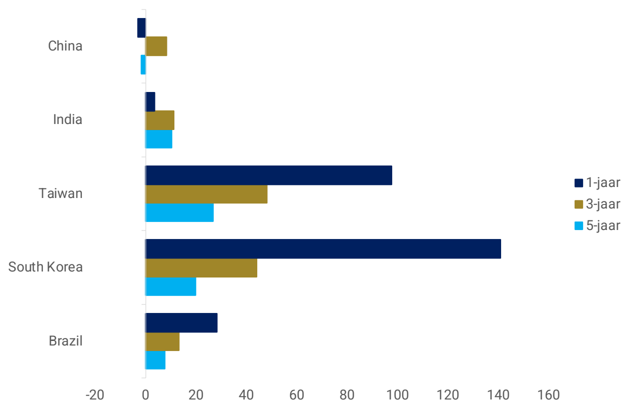
EM equities

EM equities returned no less than 38% on a euro-unhedged basis over the year to the end of July 2026. Favourable economic developments in EMs and some appreciation of EM currencies against the euro contributed positively. By far the most important explanation, however, is the technology sector and the AI boom that drove this rally, including a spectacular increase in expected earnings. In particular, the demand for semiconductors due to the AI investment wave has pushed some South Korean (Samsung and SK Hynix) and Taiwanese (TSMC) technology stocks to great heights. In local terms, the technology sector within EMs has shown a return of more than 100% over the past year.

Performance MSCI EM sectors (1Y)



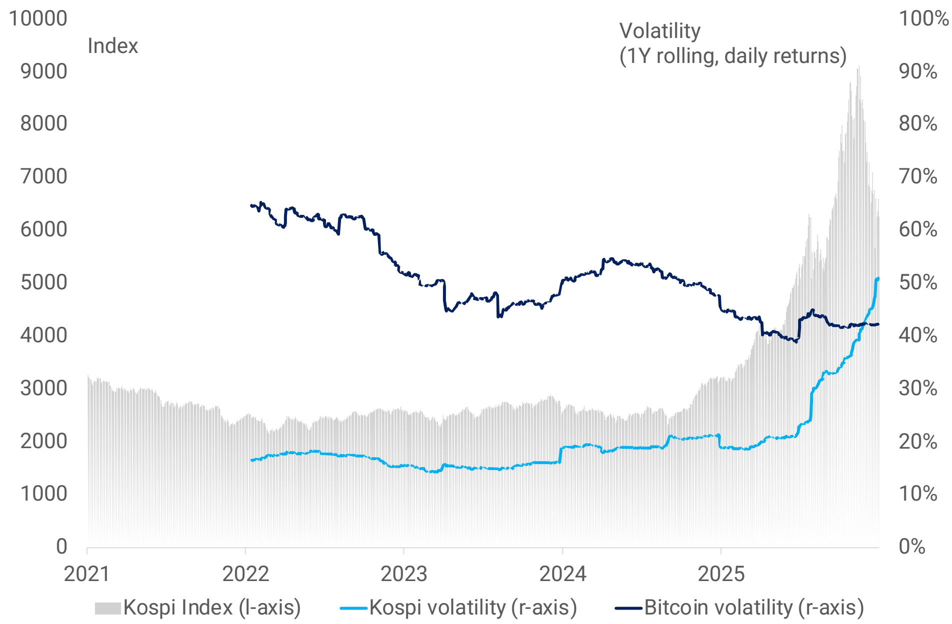
Performance MSCI EM countries (local terms)



Source: Columbia Threadneedle Investments, Bloomberg, MSCI, 5 August 2026

The Korean Kospi Index received a lot of attention last year, being the regional stock exchange with the largest price increases and, occasionally, declines. The volatility of this stock market index has risen to such an extent that it has even surpassed the volatility of Bitcoin since July 2026.

Kospi Index (KRW) and Volatility

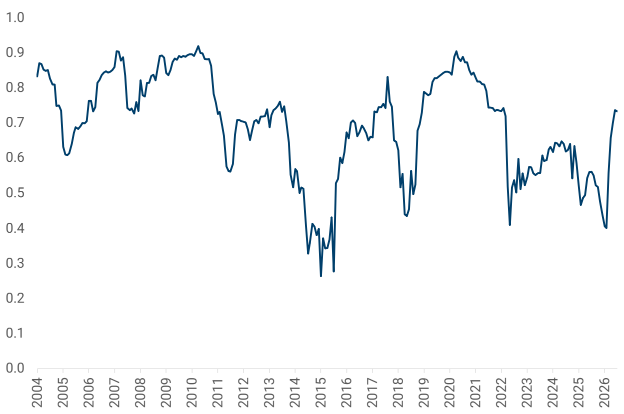


Source: Columbia Threadneedle Investments, Bloomberg, August 5, 2026

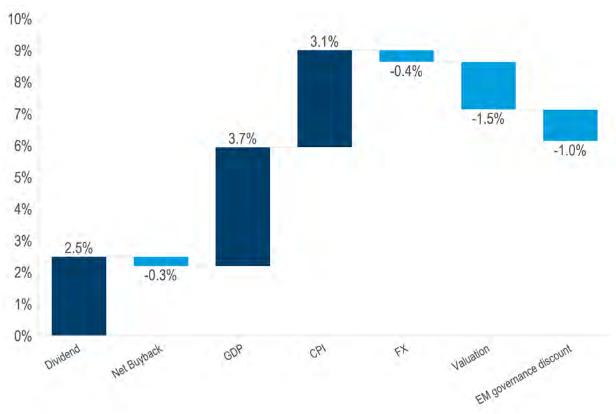
Expected return on EM equities

The methodology for expected returns for EM equities is identical to that for developed markets. The only difference is that we also apply a discount (-1%) for EM equities due to a lower governance score, highlighting the difference between developed and EMs.

Correlation between DM and EM equities



Components of expected returns of EM equities



Source: Columbia Threadneedle Investments, Bloomberg, MSCI, CMA model, correlation based on monthly returns over a two-year horizon, 3 August 2026

The expected dividend yield is 2.5%. This is slightly lower than last year, but still significantly higher than for developed markets. The net buyback yield, on the other hand, is negative (-0.3%) because in EMs, in line with expectations and given the phase of their economic development, more shares are generally issued than those which are bought back.

The expected price return (linked to the growth and inflation outlook) comes in at 6.8% and is significantly higher than the assumption for developed markets.

In terms of valuation, our CMA model indicates that EM equities are also overvalued.

Finally, there is an FX adjustment for the conversion to euro-unhedged returns.

Ultimately, our CMA model generates an expected return for EM equities of 6.0% on a five-year horizon and 6.8% over a 15-year horizon (expressed in euro-unhedged terms).

The difference in expected returns between EM and developed markets is 1% on a 5-year horizon (last year the difference was 1.5%).

EM equities are therefore still attractive in absolute terms as well as relative to developed market equities, but the attractiveness versus developed markets has decreased slightly after the strong outperformance last year. The correlation between EM and developed market equities has also increased over the past year, which has slightly reduced the diversification benefits of EMs.

Fixed income

Government bonds and swap rates

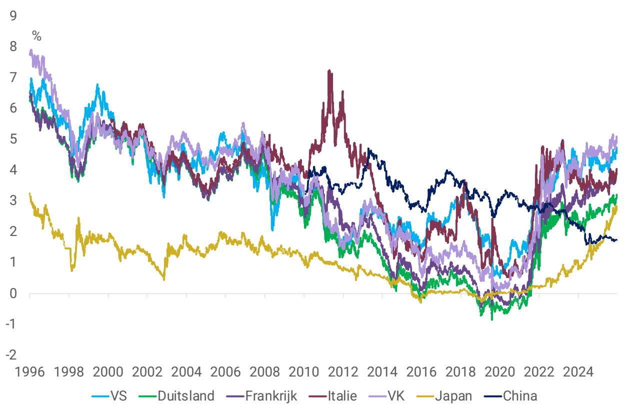
Capital market interest rates rose in developed markets worldwide over the last year, especially in Japan, where the 10-year government yield in Japan rose by 124 bps over the 12 months to the end of July 2026 to 2.79%. Over this period, the 10-year US Treasury yield increased by 36 bps to 4.73% and the 10-year German yield increased by 51 bps to 3.20%. In the US, the rise is entirely due to higher real interest rates, as the 10-year inflation expectations component fell (despite interim upward peaks due to the Iran war). In Germany, the rise in long-term government yields was also mainly due to higher real interest rates, and to a lesser extent, higher inflation expectations. The energy shock caused by the Iran war has had more of an inflationary impact on Europe than on the US, reflecting Europe's energy dependence. The largest interest rate increase in Europe occurred in the 2-year segment. For example, the 2-year German yield rose by around 90 bps and the 2-year euro swap rate by around 85 bps. The increase is largely linked to higher real interest rates and a rotating (i.e. tighter) picture with regard to ECB policy.

Meanwhile, the creditworthiness, according to the credit default swap (CDS) market, did not play a major role in the US and German bond markets, as the 10-year CDS linked to US government bonds rose only a few basis points on balance, and the German equivalent actually fell a few basis points. Nevertheless, the sustainability of public debt will remain an important issue in the coming years, given high debt-to-GDP ratios, rising interest rates and persistently large annual budget deficits in many countries, in the absence of any recession.

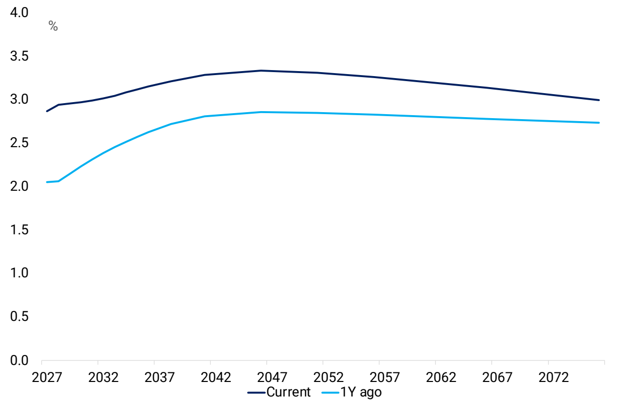
Within the eurozone, peripheral government bonds posted slightly higher returns than those from the core countries. The explanation is both the higher coupon income and a positive relative price effect; for example, spreads of Portuguese and Spanish bonds over German bonds narrowed, and the spread of Italy relative to Germany remained unchanged (at around 82 bps). This reflects the positive rating development of the Southern European countries in recent years. France, on the other hand, saw its spread versus Germany increase by 14 bps to about 79 bps.

The 30-year euro swap rate rose by 49 bps in the period between July 2025 and July 2026 to 3.33%. The underlying components both increased, with the 30-year euro real swap rate rising by 41 bps to 1.02% and the 30-year euro inflation swap rising by 7 bps to 2.31%.

10-year government interest rates

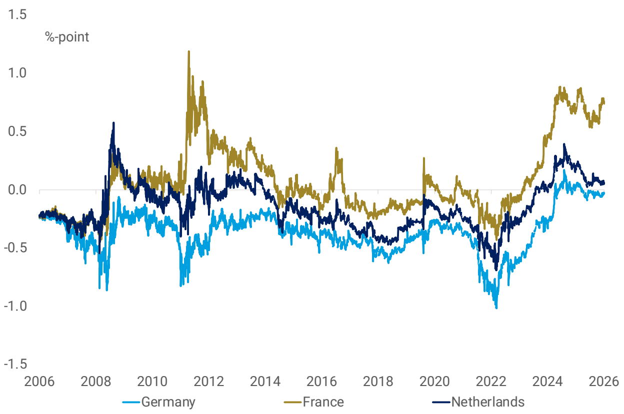


Euro Swap curve



Source: Columbia Threadneedle, Bloomberg, August 5, 2026

10-year interest rate differentials: state minus swap



30-year euro swap rate plus components

Source: Columbia Threadneedle Investments, Bloomberg, August 5, 2026

Since 2022, government yields from core countries have risen compared to euro swap rates, due to increasing government debts in combination with a further tapering of the ECB's bond-purchase programs. However, some normalisation took place in the past 12 months. For example, the 10-year Dutch government yield has fallen by 13 bps against the swap curve and is currently still 5 bps above the swap rate. The 10-year German government yield has fallen 5 bps and is now 4 bps below the swap curve. The 10-year French government yield, on the other hand, showed a further increase versus swap rates of 8 bps and is currently trading 76 bps above the swap curve. This reflects the downwardly revised credit ratings for France. The further course of sovereign-swap spreads in the eurozone is uncertain. With budget deficits expected to exceed 3% of GDP in the coming years, public debt in the eurozone points to relatively higher government interest rates. On the other hand, government interest rates could fall versus swap rates in the coming year due to the transition of Dutch pension funds to a new pension system and the phasing out of long-term interest rate swaps that this entails.

Expected returns on euro government bonds

The expected returns in our CMA model for core euro government bonds are positive across all horizons: 2.6% over five years and 3.4% over 15 years. That is slightly higher than a year ago, which is explained by the increased interest rates in the past year.

These expectations are based on the starting interest rate levels and the forward paths for the interest rates of the various governments over the next 15 years. This results in a yield return, a roll down return and a price return for each calendar year. To illustrate, the forwards for the Dutch 10-year interest rate assume an increase of 60 bps over a five-year horizon and then a slight fall of a few basis points over the subsequent 10 years.

The methodology for A-BBB-rated euro government bonds in our CMA model is identical to that for core countries, with the addition that a small discount is still applied for credit losses for this category, based on creditworthiness and historical bankruptcy statistics. Euro government bonds from non-core countries have an expected return of 3.2% over a five-year horizon and 4.0% over a 15-year horizon. The forwards do point to a slightly higher increase in yields of peripheral countries, but this is more than offset by the higher starting yields.

Spread Products

The performance of risky bond categories over the past twelve months has been positive for all categories in euro terms, albeit narrowly for investment-grade (IG) corporate bonds.

EM local-currency bonds yielded a return of no less than 8.25% (euro-unhedged), followed by EM hard-currency bonds, which returned 6% (euro-hedged). EM debt returns were generated by coupon income, some price gains due to falling spreads, and, in the case of local-currency debt, the appreciation of EM currencies versus the euro.

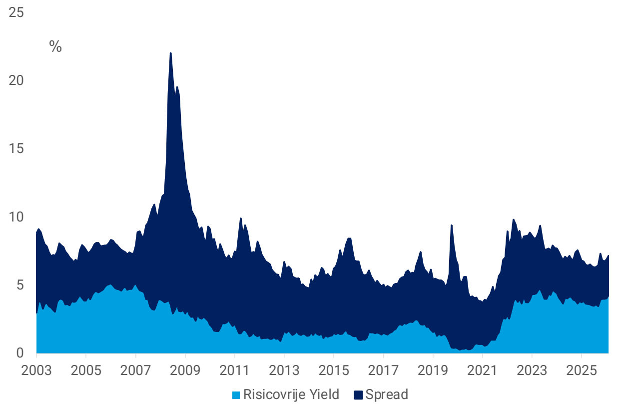
This was followed by high yield (HY) bonds, which returned 4.25% (euro-hedged). This return is entirely attributable to direct returns. The price return was negative as a result of rising risk-free interest rates in developed markets.

Euro IG credits lagged, with a slightly positive return of around 0.5%. This was due to these bonds' lower coupon income in combination with a negative price return due to rising interest rates.

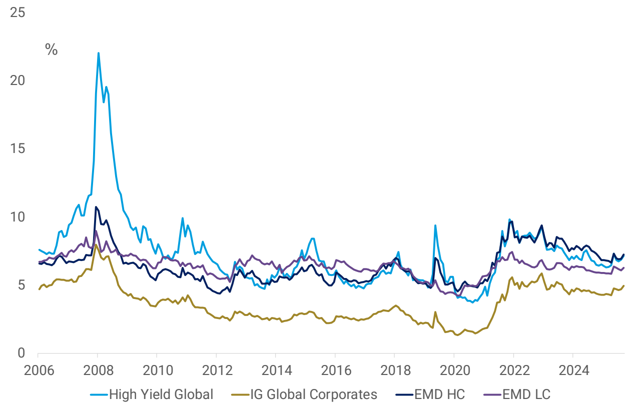
In previous years, it had mainly been the spread products linked to developed markets (IG corporate and HY bonds) that showed significant spread decreases. However, over the last year, spread products linked to EMs showed falling spreads. For example, the average EM hard-currency bond spread decreased by 55 bps to 2.44%. The average global HY spread and the average euro IG corporate spread remained broadly unchanged on balance, at 2.91% and 0.79% respectively. However, there was some volatility. For example, spreads rose significantly at the start of the Iran war, only to gradually fall again after a few months.

Spreads are significantly below the 10-year average, in the HY, corporate IG and the EM hard-currency debt markets. Because risk-free interest rates have risen in recent years, the total yields on spread products are still attractive.

Composition of Global High Yield interest rates



Yields on risky bonds

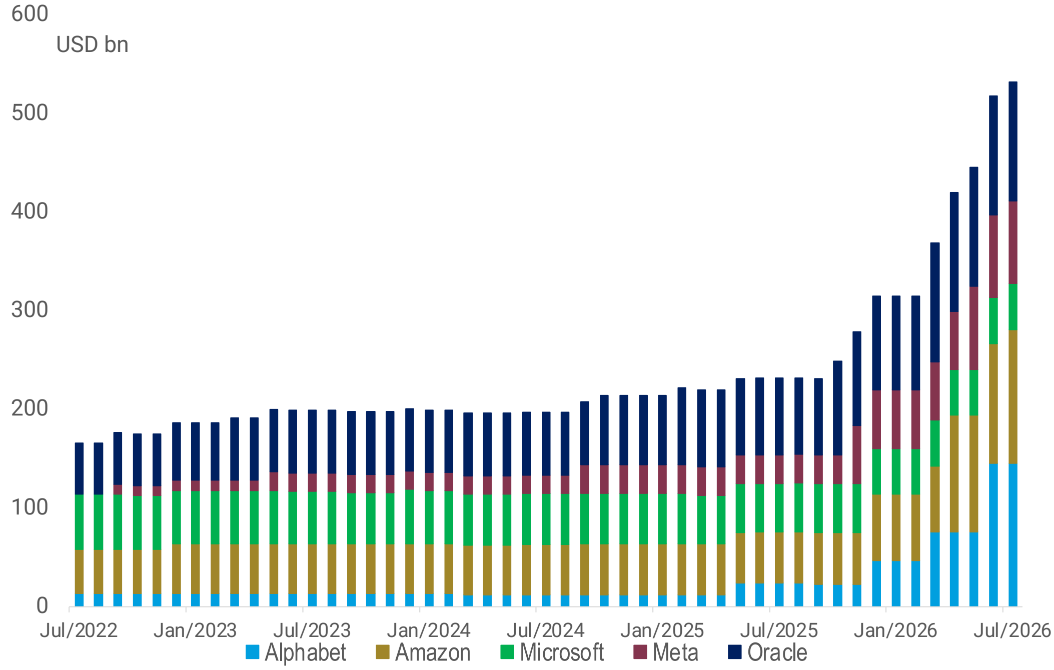


Source: Columbia Threadneedle Investments, Bloomberg, JPMorgan, July 2026

Overall, the outlook for spread products is positive. For example, positive economic growth in the US and Europe is assumed. Default rates have also fallen further in the past year, and are very low from a historical perspective in Europe and, especially, the US. And rating agencies expect the percentage of defaults to remain low next year.

Yet there are risks. For example, policy uncertainty as well as geopolitical uncertainty is high. Furthermore, interest rates on spread products (risk-free rates plus spreads) have risen in the past year. In the event of refinancing, interest expenses will increase compared to last year. Also, spreads are already low from a historical perspective, so there is limited room for further declines. Another observation is that the divergence between good and bad issuers in the (HY) corporate bond market has increased. This should provide opportunities for actively managed portfolios.

Amount of outstanding hyperscalers' bonds (principal in US dollars)



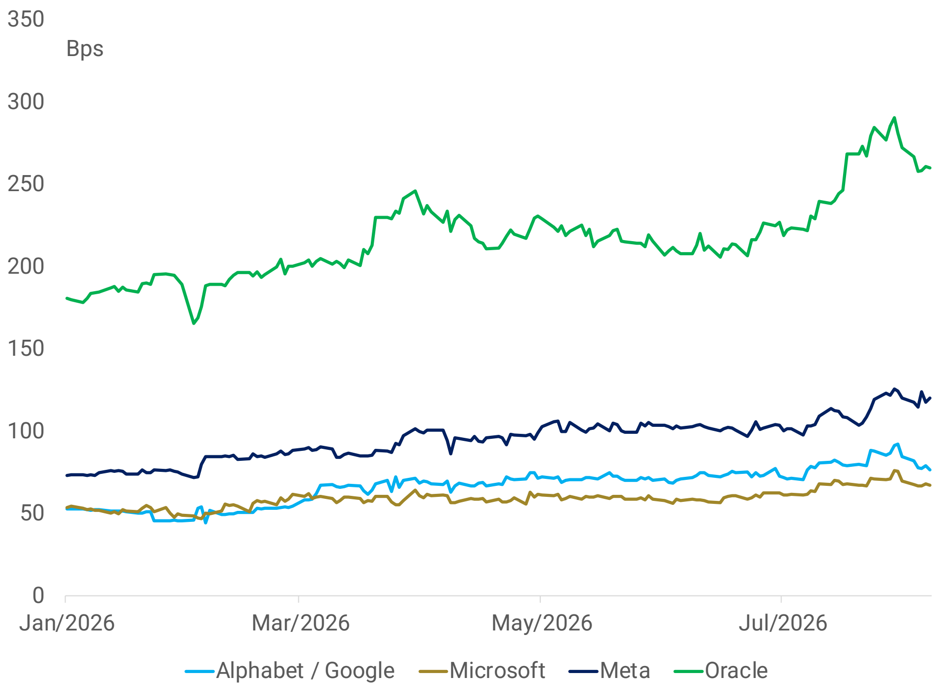
Source: Columbia Threadneedle Investments, Bloomberg AI, July 2026

Bonds issued by AI-related companies will also play an increasing role.

Five hyperscalers (Microsoft, Amazon, Alphabet, Meta and Oracle) collectively have US $531 billion in outstanding bonds as of July 2026 (based on face value), compared to US $231 billion a year ago. These bonds are part of the global IG corporate market, and not the global HY market. These hyperscalers have IG ratings ranging from AAA (Microsoft) to BBB (Oracle). The majority (77%) of outstanding debt is in US-dollar-denominated loans. Therefore, the biggest impact is likely to be felt in the US IG corporate market. The global IG corporate market currently has a combined weight of approximately 3% (as of July 2026), versus approximately 1.5% a year ago. The euro IG corporate market has a combined weight of approximately 1%. And the global HY market currently has no exposure to these five specific companies.

The effect of hyperscalers on the broader bond market is still limited. But if the weighting of these bonds increases further, then this could change. For example, spreads of these hyperscalers have risen over the past year, in contrast to the broader corporate bond market.

10-year CDS spreads from hyperscalers: year-to-date



Source: Columbia Threadneedle Investments, Bloomberg, January 1 / August 7, 2026

Expected returns from spread products

Returns of spread products are modelled in a similar way to those of government bonds. Based on starting interest rates, expected interest-rate paths and maturities; income, carry and exchange rate returns are calculated for the various calendar years. The only addition is that the interest rate path consists of a separate path for the risk-free interest rate component (based on forwards) and a separate path for the spread component (which is assumed to move in line with the long-term average). Reductions are also applied for credit losses. Finally, the returns are translated into euros for categories that are not yet denominated in euros. In line with the 'interest parity' theory, we base this on interest rate differences between the different currencies and the euro. Given the current interest rate differentials between the eurozone and the rest of the world, this method currently results in a lower expected return expressed in euros on average.

Currently, over a five-year horizon, the CMA model results in expected returns of 3.4% for euro IG corporates, 4.2% for HY (euro-hedged), 4.7% for EM hard-currency debt (euro-hedged) and 4.8% for EM local-currency debt (euro-unhedged). Within spread products, EM local-currency debt is the most attractive in terms of the risk-to-reward ratio. This spread category also offers diversification due to the currency component.

Real Estate
Sentiment towards European real estate was cautiously positive at the beginning of 2026, building on the recovery that became visible in the second half of 2025. However, this recovery was disrupted by the war in the Middle East, which led to higher volatility in financial markets, an energy-driven inflation shock and renewed uncertainty about interest rates and economic growth.

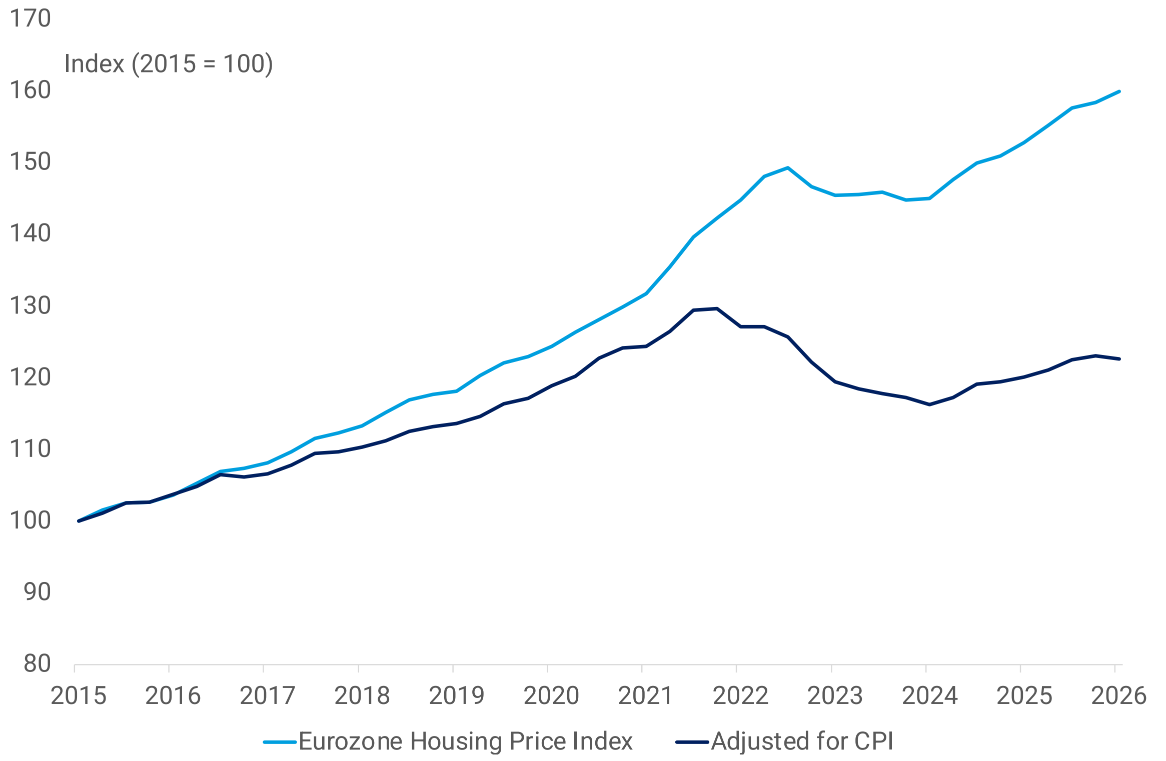
Nevertheless, the real estate sector is fundamentally in a stronger position than it was a few years ago. The focus is shifting from valuation adjustments to underlying real estate fundamentals.

The most important structural theme is the increasing scarcity of high-quality supply. Higher construction costs, stricter regulations, labour market shortages and sustainability requirements structurally limit new construction volumes in almost all European markets. Sustainable, energy-efficient buildings are becoming scarcer, which creates an increasing premium for future-proofing objects. In addition, access to energy capacity and grid capacity is becoming a differentiating competitive factor; this is partly driven by the rise of AI and digital infrastructure.

Due to lower yields, returns from real estate are increasingly driven by income and rental growth rather than higher valuations. Active asset management, rental activities and repositioning are therefore becoming more important. The differences between winners and losers are increasing; selectivity in location, quality and sustainability increasingly determines the return. The biggest source of outperformance is in markets where structural demand is set alongside persistent scarcity[5].

5. For more background and analysis of European real estate, see: https://www.columbiathreadneedle.com/en/gb/intermediary/insights/european-real-estate-2026-half-year-health-check/

Eurozone house price index



Source: Columbia Threadneedle Investments, Eurostat, Bloomberg, Q1 2026

The starting point in our CMA model for listed real estate is our return expectations for regular listed developed market equities. However, the returns will be adjusted for the greater interest rate sensitivity of real estate. This adjustment is based on forward rates and an estimated sensitivity. In the event of a priced-in rise in interest rates, this results in a relatively lower return and vice versa.

For non-listed real estate, we structurally apply a 1% lower risk premium than listed real estate (given the lower risk profile and relatively low leverage of this category). A possible interest-rate effect is also accounted for.

Over a five-year horizon, expected returns for listed and unlisted real estate are respectively 5.0% and 4.0%.

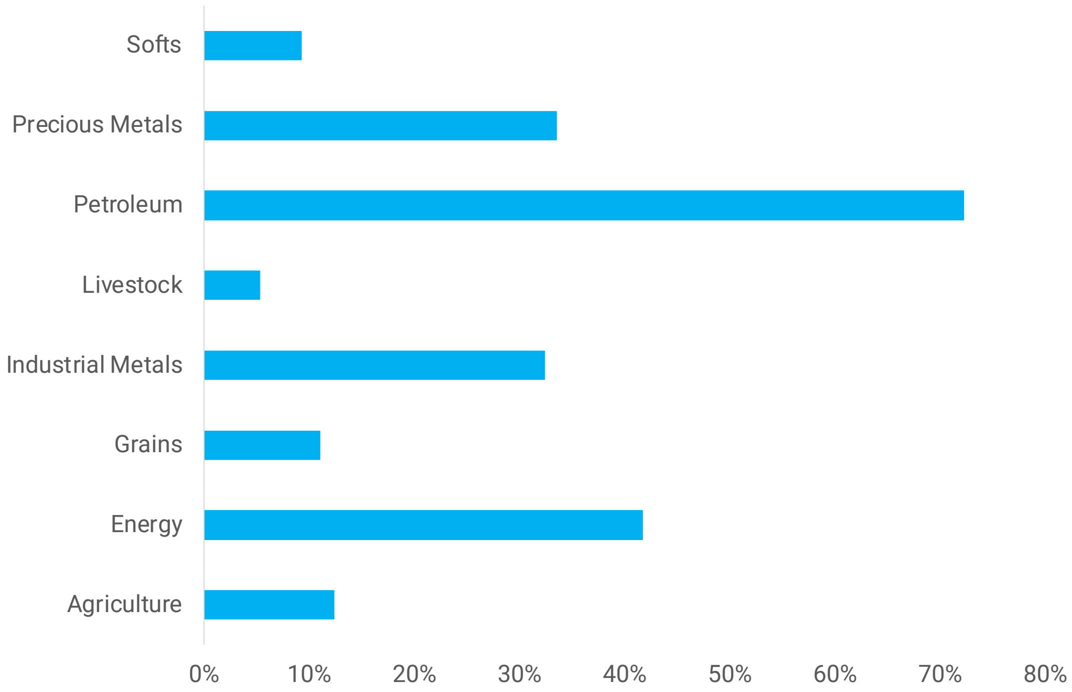
Commodities

With a positive return of 33% (euro-hedged), commodities were one of the absolute positive outliers over the past 12 months.

The spot return – or the change in commodity prices – was the most important factor. In particular, prices rose sharply for energy-related commodities and precious metals, due to geopolitical turbulence, inflation fears, the Iran war and the blockade of the Strait of Hormuz. Meanwhile, industrial metals were also influenced by the AI boom, the energy transition and electrification.

The roll yield on commodity futures made a negative contribution, but this was offset by a positive return on collateral.

Commodity Futures Returns by Category (Total Return in USD, Past 12M)



Source: Columbia Threadneedle, Bloomberg BCOM Index, July 31, 2026

Commodities are one of the most volatile asset classes, with returns being difficult to predict.

The expected return from commodity futures in the CMA model is currently 11.8% over a five-year horizon.

We use three expected sources of return for commodities in our CMA model. The expected spot return is significantly positive (based on positive expected global inflation in combination with a multiplier). The roll yield is slightly negative, based on a long-term average. The expected return on collateral is positive and is assumed to be equal to (the forward path for) the US money market interest rate (which is currently around 4% and expected to rise to 6% over a 15-year horizon). Finally, an adjustment is made for the conversion to euro-hedged returns.

With these CMAs, it is important to emphasise that a strong performance from commodities is absolutely no guarantee. Inflation must be driven by commodity prices. If future inflation is the result of second-order effects such as higher wages or higher rents, commodities will not benefit from this.

Other assets

Expectations for returns from small caps and private equity are simply defined as the expected returns on equities, in addition to respective premiums of 0.25% and 0.5% (as referenced in our Investment Cases). Over a 5-year horizon, this should result in expected returns of 5.25% from small caps and 5.5% from private equity.

For infrastructure, we apply a discount of -0.5% versus equities, as well as an adjustment for higher interest-rate sensitivity. Over a five-year horizon, this results in an expected return of 4.4%.

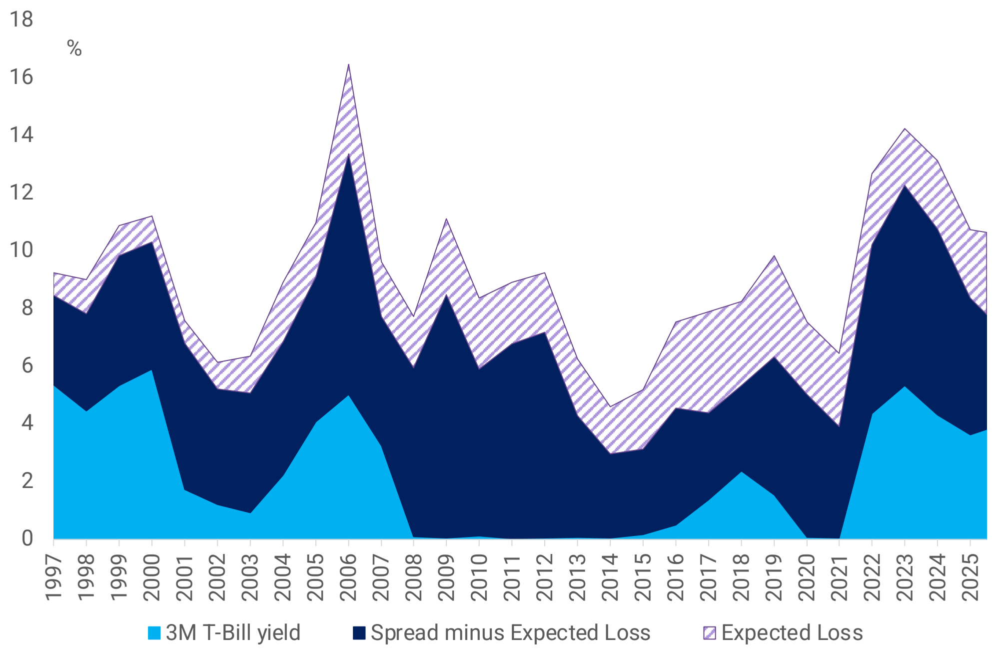
For convertible bonds, we apply 'mapping'. For example, the expected return is a combination of the assumptions for IG corporate bonds, HY and developed market equities, minus a discount for the implicit option that is purchased. Over a five-year horizon, this results in an expected return of 3.8%.

For hedge funds, the expected return is based on a weighted average of the expected return on equities and a cash-plus premium. Over a five-year horizon, this results in an expected return of 4.5%.

The expected returns for European (senior) direct lending are modelled as follows: based on a future (forward) path for Euribor interest rates in combination with assumptions for current and future spreads, an interest rate path is created for direct lending. Subsequently, on this basis, together with an assumed original issue discount component, income and price returns are calculated for various calendar years. Reductions are also applied for credit losses and costs. Currently, this results in an expected return of 6.2% over a five-year horizon.

The expected return for catastrophe bonds is based on (forward) projections for US money market interest rates combined with a mean-reversion approach for the catastrophe bond spread, minus a discount for the expected loss due to natural disasters. An adjustment is also made for hedging currency risk. Over a 5-year horizon, this results in an expected return of 6.4%. This is lower than over the last year because spreads in this category have decreased. However, this expected return is still high compared to the expected volatility of only 5.2% over this horizon. That deserves some explanation. Firstly, this category is structurally characterised by a low standard deviation compared to the return (because 'cliff risk' is not included in this risk measure). The innovative and complex nature of the asset class also plays a role, which means that investors demand a higher risk premium. Finally, the money market interest rate as remuneration on the collateral contributes about half of the high expected return.

Catastrophe bond and insurance-linked securities (ILS) yields on new issues (in US dollars)

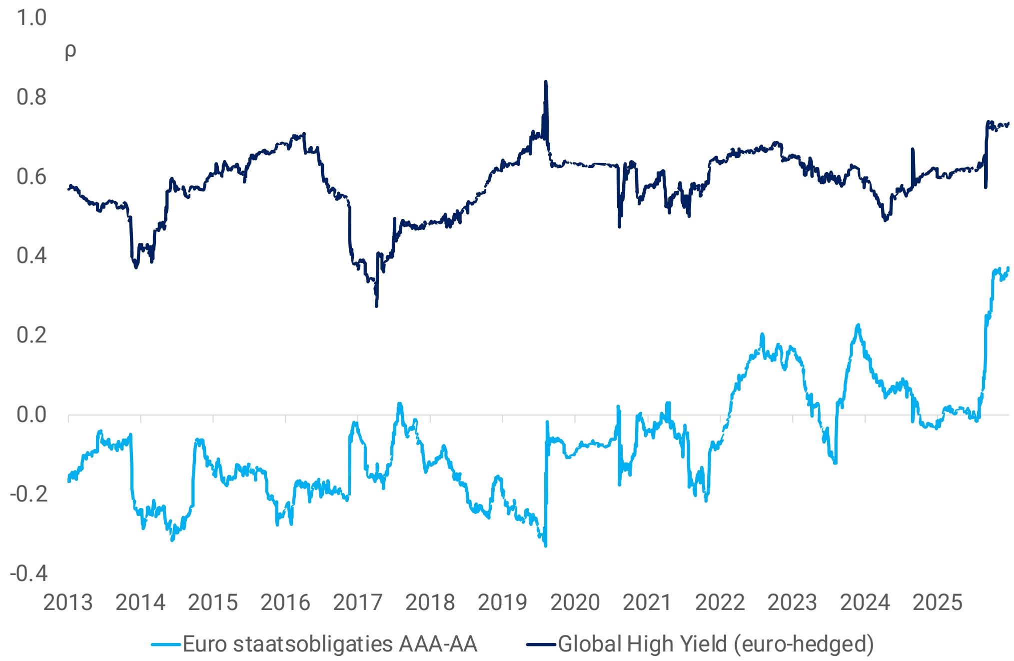


Source: Columbia Threadneedle Investments, Bloomberg, Artemis, Q2 2026

The Case for Absolute Return Alternatives

Not only are returns and volatilities important inputs for the composition of portfolios, but the correlations between different categories also play a role. As elaborated earlier this year in a market outlook called "The case for absolute return alternatives", the correlation between equities and bonds has increased since 2022. The inflation shocks as a result of geopolitics and war (Ukraine and Iran, among others) are – at least in the short term – negative for both stocks and bonds. This explains why the correlation between these categories has increased. However, in the longer term, stocks tend to recover from inflation shocks since they are real assets. As a result, the traditional diversification between equities and bonds has worked less well in recent years. A broader composition of portfolios including alternatives is therefore desirable.

Euro-hedged bond and equity correlations
(1-year rolling correlation based on daily returns)



Source: Columbia Threadneedle, Bloomberg, MSCI, August 3, 2026

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