Tactical Asset Allocation

Investment Strategy ♦ November 10, 2026

Rebuilding risk after the shakeout

- **Global growth remains resilient to geopolitical shocks, although the rollover in economic surprises points to less positive momentum.**
- **Inflation uncertainty, rather than the immediate level of inflation, remains the more important variable for markets and term premia.**
- **On TAA, we add selectively to risk after the recent correction, favouring US equities and IG corporate credit over DM sovereign duration.**
- **The recent volatility has opened up attractive tactical entry points in the themes we like. We put them to work through our tactical ideas list.**

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Growth

Global growth continues to absorb a succession of geopolitical shocks without slipping into a broad-based downturn. Nevertheless, the underlying data impulse has softened (exhibit 01): global economic surprises are rolling over, suggesting that activity is increasingly meeting, rather than exceeding, elevated expectations. This is not yet a recessionary signal, but it reduces the cushion available to risk assets if financial conditions tighten or geopolitical tensions intensify.

The US remains the principal source of developed market (DM) resilience. Rising productivity growth is helping the economy sustain output and earnings even as interest rates remain restrictive. Productivity-led growth is particularly constructive because it can support real incomes and corporate margins without generating the same inflationary pressure as demand driven purely by additional leverage or fiscal stimulus.

Elsewhere, the picture is more mixed. Eurozone economic surprises turned negative in early November for the first time since July, pointing to renewed weakness after a period of improving expectations. In contrast, UK activity has surprised positively, providing a stronger starting point for the final months of the year. Emerging markets have remained broadly resilient, although China and India face increasingly visible domestic challenges. China continues to struggle with weak internal demand and structural balance sheet adjustment, but supportive external conditions provide a partial offset. India's medium-term foundations remain favourable, although near-term growth expectations may require recalibration.

Overall, the global economy is bending, not breaking. Growth remains supportive of earnings, but the loss of positive data surprises argues for more selective risk-taking.

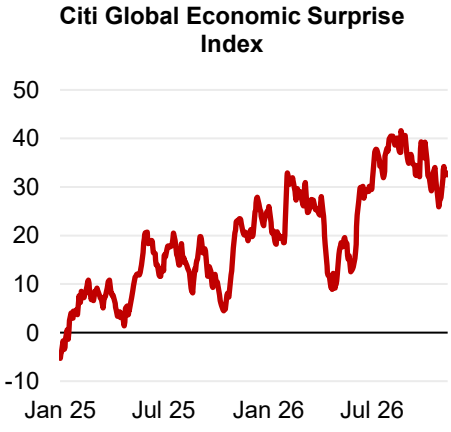
Inflation

The latest energy shock has increased headline price uncertainty, but we see limited evidence that it is developing into entrenched inflation (exhibit 02). The global economy is materially less energy-intensive than it was several decades ago, reducing the amount of economic output directly exposed to a given change in oil prices. Higher energy costs will still affect headline inflation and household purchasing power, but their transmission to underlying inflation should remain contained unless oil prices stay elevated for a prolonged period.

The duration of the shock is therefore more important than its initial magnitude. A normalization of geopolitical conditions in the Middle East and around Russia and Ukraine would remove part of the risk premium embedded in energy prices. Lower oil prices would subsequently contribute to disinflation and could produce temporary outright energy deflation as unfavorable base effects fade.

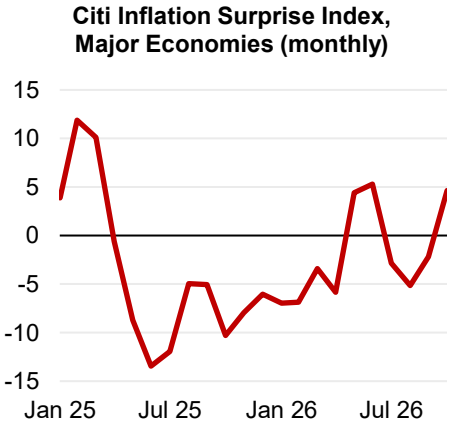
For markets, however, inflation uncertainty matters more than any individual inflation print. Greater uncertainty widens the distribution of possible policy outcomes and raises the compensation investors demand for holding long-duration assets. Even if realised inflation moderates, unstable expectations can keep bond volatility and term premia elevated. The distinction is important: the base case remains disinflationary, but confidence around that base case has deteriorated somewhat.

Exhibit 01: Global economic surprises are rolling over



Sources: Citi, Bloomberg, and ADCB Asset Management

Exhibit 02: The energy shock has not produced persistent inflation surprises



Sources: Citi, Bloomberg, and ADCB Asset Management

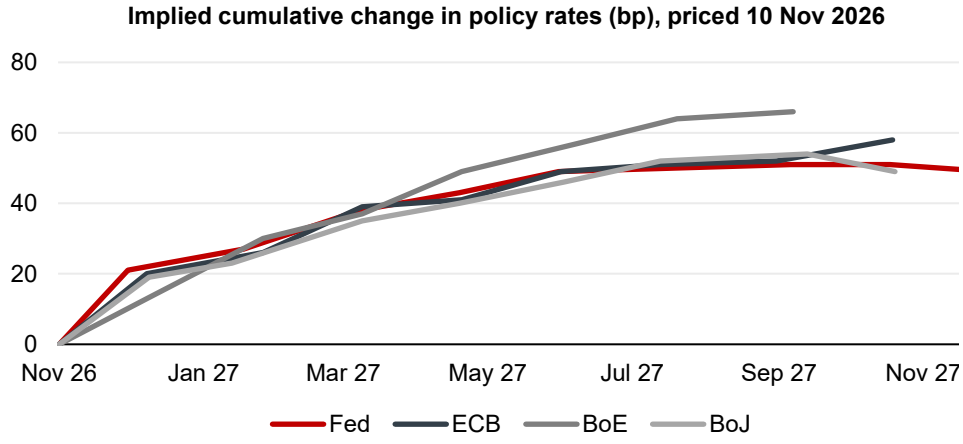
Monetary policy

Monetary policy remains fragmented, with central banks responding differently to the balance between resilient activity and inflation uncertainty. Market expectations and pricing reflect the same to a good degree (exhibit 03). In our view, the Federal Reserve's decision to restart tightening was a policy error. Yet two wrongs do not make a right. An immediate reversal would risk weakening policy credibility and could loosen financial conditions prematurely. We therefore think the Fed is more likely to deliver one additional increase before the first quarter of 2027, before moving toward rate cuts in the second half of 2027 as inflation pressures moderate and the growth impulse softens.

We expect the European Central Bank to raise rates once more over the next three months. Beyond that horizon, weak regional growth and fading energy effects should allow the ECB to reverse course. The Bank of England could also deliver one further increase this year, supported by stronger-than-expected activity, but is likely to ease during 2027.

The Bank of Japan is the principal exception. We expect it to remain on hold for the rest of the year and into 2027, balancing domestic inflation dynamics against global uncertainty and the risk of unnecessary tightening.

Exhibit 03: Markets price roughly two more hikes from each major central bank over the next year

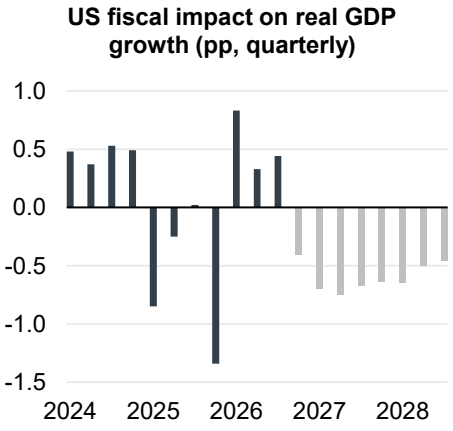


Sources: Bloomberg, and ADCB Asset Management

Fiscal policy

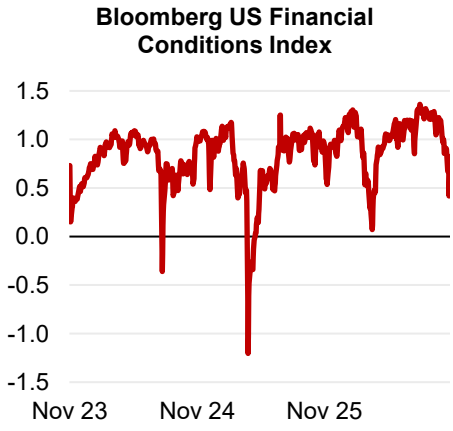
Fiscal policy remains accommodative across much of the world (exhibit 04), although the impulse could turn less supportive in 2027, particularly in the US. Large deficits continue to be financed through substantial net debt issuance, increasing the supply of duration that private sector balance sheets must absorb. Global debt has reached levels at which rising interest expenses will place increasing strain on government budgets. This creates difficult trade-offs between debt service, social expenditure, defense commitments, and investment. It also increases the sensitivity of fiscal arithmetic to changes in refinancing costs. We expect these pressures to feed into structurally higher term premia, especially in markets with large financing requirements. Nevertheless, we do not see the foundations of a global fiscal crisis. Sovereign funding markets remain functional, while governments retain fiscal, regulatory, and institutional tools unavailable to private borrowers. The more likely outcome is a persistent valuation penalty for sovereign duration rather than a disorderly funding event.

Exhibit 04: US fiscal policy turns from tailwind to drag in 2027



Sources: Brookings Hutchins Center, and ADCB Asset Management | Notes: Fiscal Impact Measure, contribution of fiscal policy to real GDP growth; grey bars are projections from Q4 2026.

Exhibit 05: Financial conditions have not tightened substantially



Sources: Bloomberg, and ADCB Asset Management

Financial conditions

Financial conditions have not tightened substantially despite repeated bouts of volatility (exhibit 05). Equity markets experienced turbulence in late summer and again during the autumn, while bond volatility remains elevated despite its recent moderation. Yield curves have flattened so far this year, reflecting tighter policy expectations at the front end and intermittent risk-off demand further along the curve.

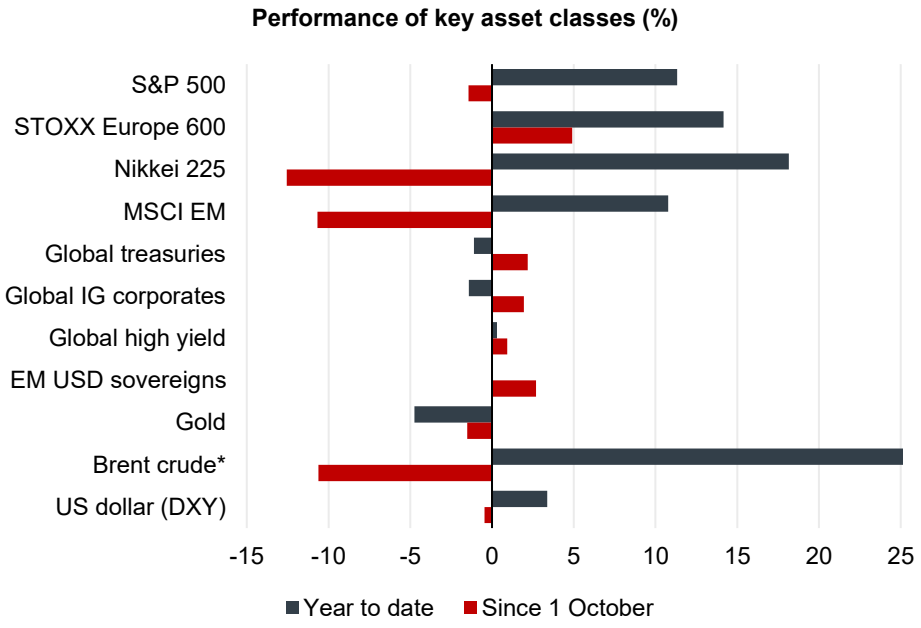
The US dollar rose before subsequently retracing and now appears broadly aligned with the macroeconomic cycle. Credit markets have been more stable: spreads in global high yield and emerging markets should remain contained, supported by resilient growth and demand for income. Beneath the aggregate indices, however, idiosyncratic stresses remain important. Security selection and balance sheet quality matter considerably more when index-level spreads offer limited protection against adverse outcomes.

Cross-asset outlook

Equities remain supported by earnings, although US earnings growth is likely to slow over the next few quarters. Valuations are not extreme in aggregate, positioning has lightened following the early-November shakeout, and liquidity remains ample. This combination creates scope for markets to recover as risk-off sentiment stabilizes, even if returns become less uniform across regions and sectors (exhibit 06).

In fixed income, ten-year sovereign yields have fallen alongside the recent equity correction. We expect yields to stabilize and subsequently rise as risk aversion fades and investors refocus on inflation uncertainty, debt issuance, and term premia. We therefore continue to favor credit risk over duration risk. Credit spreads are unlikely to compress materially from already tight levels, but the all-in yields available on high-quality corporate bonds remain attractive.

Exhibit 06: The autumn shakeout reversed part of the year's gains in equities and commodities



*Sources: Bloomberg, and ADCB Asset Management | Notes: Total return for equity and bond indices, price change for gold and the dollar. *Brent crude YTD +50.3%, bar truncated at the axis limit. Data as of November 10, 2026.*

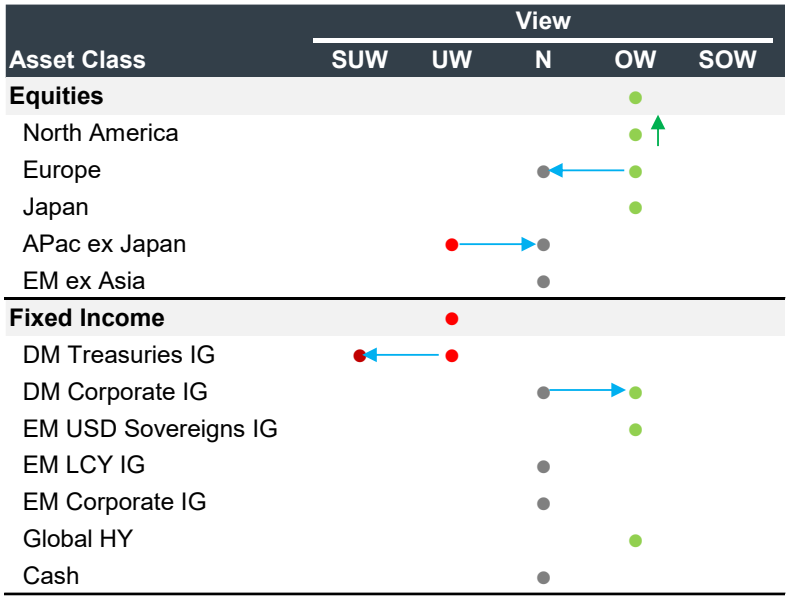
Tactical allocation changes

We downgrade developed market sovereign investment-grade bonds to a significant underweight following the recent decline in yields. We upgrade developed market investment grade corporate credit from neutral to overweight, reflecting attractive carry, sound aggregate credit quality, and its lower sensitivity to rising term premia than sovereign duration.

Within equities, we add to our overweight in US after the recent correction. We also normalize our regional active positions: Europe moves from overweight to neutral, while Asia Pacific ex Japan moves from underweight to neutral. The result is a more concentrated expression of our constructive equity view through the US, supported by productivity, earnings quality, lighter positioning, and ample liquidity.

In short, we rebuild risk selectively after the shakeout (exhibit 07). The macro backdrop still favors equities and credit over sovereign duration, but declining economic surprises and elevated inflation uncertainty argue for disciplined sizing rather than an indiscriminate increase in beta.

Exhibit 07: We rebuild risk selectively: overweight US equities and IG credit, underweight DM sovereign duration



Sources: ADCB Asset Management

High conviction tactical ideas

Alongside the allocation changes, we open four tactical positions and keep the four existing ones. The new equity themes express our US overweight through quality growth rather than index beta, and each enters after a correction, consistent with rebuilding risk selectively after the shakeout. All three carry a 25% target and a 10% stop.

Data centres. The S&P Data Center and Tower REIT and Infrastructure index is up 22% year to date but has fallen 22% since its peak in early June, as markets braced for US mid-term outcomes scrutiny of data center construction and a large writedown on US projects hit sentiment. We see this as an entry point as demand for compute and power continues to outrun supply, and the cash flows are contracted rather than cyclical. As such, we do not expect the democrat-led congress to be overly detrimental to the compute build in the US.

Clean energy. The S&P Global Clean Energy Transition index is up 1.5% year to date and down 3.5% over the month, having derated through the rate cycle. Our starting point is that climate investment is a structural trend that has been on pause, not reversed. Commitments and rhetoric from the large economies softened over the past two years, oil prices rose and conventional energy equities outperformed, and clean energy underperformed as capital rotated away. We see a rotation back as a matter of time

rather than direction. The Democratic sweep is consistent with this, it removes the risk of further cuts to clean energy support, and the Senate has already advanced bipartisan permitting legislation by 73 votes to 25 that would ease the transmission bottlenecks holding back new wind and solar, although with the White House holding the veto until 2029 we do not expect a full reversal of the 2025 cuts in the near term. The pause has created a better entry point, and we expect capital to come back to the theme over time.

Media and entertainment. The MSCI ACWI Media and Entertainment index is down 10.2% year to date, with October's 14.7% fall doing most of the damage as streaming growth slowed and advertisers turned cautious. That is a dislocation, not a change in the earnings picture, the sector has fallen further than the advertising cycle warrants, and it has started to stabilize, up 4.8% so far in November. We treat this as a tactical position.

Long INR against AUD. In currencies, we open a relative value position long the Indian rupee against the AUD, with a 5% target and a 3% stop. It is a policy divergence trade. The RBI raised rates to 5.50% in October, its first hike in almost four years, with inflation near the top of its band. Strong inflows and reserves near USD693bn support the currency. On the other side, the RBA's hike to an 18-year high of 4.85% on 3 November looks like its last, a split board and the removal of forward guidance mark the end of the cycle, markets now price cuts in the second half of 2027, and the AUD was the weakest G10 currency in the week after the US midterms. Lower oil helps India as an importer and weighs on a commodity linked AUD. The pair has moved 3.9% in the rupee's favor over the past month, and we expect the divergence to carry it further; the risk is a rebound in oil, which the stop is sized for.

Exhibit 08: Our high conviction tactical investment themes, open and closed positions*

New/Open positions	Asset class	RV?	Date opened	Current date	Performance	Target	Stop
Data Centers	Equities		9-Nov-26	9-Nov-26	0.0%	25%	-10%
Clean Energy	Equities		9-Nov-26	9-Nov-26	0.0%	25%	-10%
Media and Entertainment	Equities		9-Nov-26	9-Nov-26	0.0%	25%	-10%
Long INR vs AUD	FX	Yes	9-Nov-26	9-Nov-26	0.0%	5%	-3%
Gold	Commodities		2-Feb-26	9-Nov-26	-11.2%	25%	-15%
Indian equities	Equities		11-Apr-25	9-Nov-26	2.9%	20%	-10%
Global Core Infrastructure IG	Fixed Income		9-Jun-26	9-Nov-26	-1.4%	5%	-3%
UST 2Y Index	Fixed Income		26-Jun-26	9-Nov-26	1.1%	5%	-1%
Average					**-1.1%**		

Closed positions	Asset class		Date opened	Closed date	Performance	Target	Stop
Silver	Commodities		15-Oct-25	31-Dec-25	35.1%		
Silver	Commodities		22-Sep-25	15-Oct-25	20.4%	20%	-10%
Copper	Commodities		15-Jun-23	15-Oct-25	26.5%		
Silver	Commodities		10-Jun-25	22-Sep-25	20.6%	20%	-10%
Gold	Commodities		14-Nov-22	14-Jun-23	10.4%		
Commodities average					**22.6%**		
US Small Caps (Russel 2000)	Equities		6-Oct-25	21-Jun-26	20.2%	20%	-10%
US Large cap Innovation Growth	Equities		26-Mar-26	15-May-26	23.5%	20%	-10%
US Homebuilders	Equities		2-Sep-25	12-Mar-26	-11.0%	20%	-10%
US Small Caps (Russel 2000)	Equities		6-Mar-24	6-Oct-25	20.2%	20%	-15%
High dividend yielders index	Equities		6-Mar-24	10-Jun-25	15.1%	15%	-10%
Gold miner equities	Equities		17-Mar-25	2-Jun-25	20.8%	20%	-10%
SPW relative to SPX	Equities	Yes	6-Mar-24	10-Apr-25	-5.7%	15%	-10%
Gold miner equities	Equities		25-Nov-24	17-Mar-25	22.3%	20%	-10%
HK equities	Equities		14-Nov-22	13-Nov-24	13.3%		
Chinese hotels & leisure	Equities		14-Nov-22	13-Nov-24	-18.6%		
Chinese semiconductors	Equities		22-Mar-23	13-Nov-24	9.0%		
Dow Jones World Cons. Goods	Equities		25-Aug-23	6-Mar-24	1.5%		
Indian equities	Equities		22-May-23	6-Mar-24	31.3%		
Cybersecurity	Equities		22-Mar-23	6-Mar-24	26.9%		
Gold miner equities	Equities		14-Nov-22	14-Jun-23	13.1%		
US Div.banks over US Regional	Equities	Yes	13-Mar-23	13-Jun-23	24.8%		
Equities average					**12.7%**		
US Mortgage Backed Securities	Securitized credit		11-Apr-25	5-Sep-25	5.2%	5%	-5%
UK gilts over other DM Sov.	Rates	Yes	14-Nov-24	1-Sep-25	-2.5%	5%	-5%
UST (7Y-10Y) over other DM Sov.	Rates	Yes	5-Jul-22	13-Nov-24	-1.1%		
EU IG Corp over US IG Corp	Credit	Yes	9-Jan-23	13-Nov-24	6.0%		
Asia investment grade credit	Credit		9-Jan-23	14-Jun-23	1.8%		
Fixed Income average					**1.9%**		
USDJPY	FX		6-Mar-24	26-Apr-24	-6.0%		
GBPUSD higher	FX		15-Jun-23	20-Sep-23	-2.8%		
USDJPY lower	FX		9-Jan-23	14-Jun-23	-5.5%		
GBPEUR lower	FX		9-Jan-23	14-Jun-23	-2.9%		
FX average					**-4.3%**		

*Sources: Bloomberg, and ADCB Asset Management | Notes: *Data as of November 9, 2026.*

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