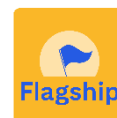


Global Asset Allocation

House Views September 2026: Rates Bite, Equities Fight



CITI'S TAKE

Since our last asset allocation, there has been a triple punch against global duration, driven by hawkish front-end repricing from the Fed, ECB, and BoE, coinciding with higher oil prices. While the FI sell-off is extended, the market is not pricing a 1999 type cycle either, which has become more plausible. With geopolitical uncertainty, we remain neutral duration (long EM, short Europe – now limited to core and periphery, with Gilts back to neutral). With fixed income volatility rising, the headwind to risky assets becomes stronger. We stay long equities and base metals, as both in the bigger picture can do well in a rising rate environment, but had cut gold earlier, which does not. Today we cut our EMFX carry, given our volatility signal triggered.

In equities, we stay overweight — We favor the US as the AI narrative remains strong. We have capacity to add to equity risk, and emerging Asia is a candidate, but prefer to buy the dip as there is usually some indigestion after first Fed hikes and into midterms.

In rates, we stay neutral duration — The sell-off in duration is extended, but volatility is rising and the time to buy duration is towards the end of the hiking cycle, not at the beginning. We stay overweight EM (now FX hedged), versus Europe (core and periphery).

In credit, we stay underweight — Credit remains a hedge for our equity overweight, as issuance by hyperscalers will remain substantial.

In commodities, we remain overweight base metals — We are neutral on energy, as there are also downside risks. We remain long base metals given strong global growth momentum. We cut our gold long earlier this month on rising US rates.

In FX back to neutral — We FX hedged our EM local position, given that our volatility warning triggered, driven by US rates volatility.

In illiquids, we stay long uranium and add a position in sugar.

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See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

House Views September 2026: Rates Bite, Equities Fight

Still long in equities, add risk on pull-back. We tactically reduced our equity risk in early July by cutting emerging Asia, but we are staying overall overweight, driven by the US. We are impressed how well the equity market has been trading in the light of higher oil, higher rates, and poor seasonals in Sep, even at a time when volatility in US rates is rising. Therefore, we stay the course but patiently wait for a pull-back to add more risk because a pullback is typical after a first Fed hike (rather than before) and because the market also tends to pull back into the midterms before the typical year end rally takes over. We prefer the US as we still believe that the AI trade will continue. Emerging Asia is the other candidate, and an attractive candidate when the time comes to add more risk. The US is also more insulated from renewed oil upside.

Staying neutral duration, long EM, short Europe (core/periphery). Duration has suffered from hawkish front-end repricing from the Fed, ECB and BoE, coinciding with higher oil prices. The US front end has suffered from a hawkish Jackson Hole, a hotter than expected CPI and September FOMC. At this stage, it is unclear to us what it will take to stop a hawkish Fed. While the FI sell-off is extended, the market is not pricing a 1999 type cycle either, which has become more plausible (though not the base case). Extended positioning and high uncertainty with respect to oil stop us from an underweight. We stay long EM (which also has a 10% China weight, the only global bond market that is largely immune to the sell off), against a short in Europe (both core and periphery), where the upcoming French election adds to the risk profile. We take Gilts back to neutral, as it may be the central bank where the market priced aggressive hikes versus what the central bank is suggesting.

We reiterate our IG credit underweight. We remain underweight in both US and EU IG credit as a hedge for our equity overweight. Plentiful issuance has led to a pullback in spreads, but with supply not cresting yet, credit still screens as a good hedge.

Stay long base metals in commodities. We remain neutral on energy, given that our commodity strategists still see oil eventually lower, even with short-term risks to the upside. We remain long base metals as global growth momentum remains very strong, and base metals have historically been immune to higher rates. We cut our gold long earlier this month, as US rates are the single most important driver for gold.

Neutral in FX. We had made the case that EMFX carry should trade well even with rising US rates, as long as rates volatility stays subdued. With US rates volatility now rising, our warning indicator triggered and we bring the EMFX allocation back to neutral, leaving us overall neutral FX.

Moderately risk on. Overall, we remain moderately risk on, with some hedges.

Figure 1. Medium-Term Recommended Asset Allocation & Tilt Changes

Asset Class	Sector Stance	Top Overweights	Top Underweights	Changes vs. Previous Positions
Equities	Overweight	US (MSCI US)	---	---
Government Bonds	Neutral	EM Local	EU Core & Periphery	JGBs from UW to Neutral (9/11) Gilts, EUR Core, & EUR Periphery to UW Gilts to Neutral (9/24)
Credit	Underweight	---	US and EU IG	---
Commodities	Overweight	Base Metals	---	Gold from OW to Neutral (9/14)
FX*	Neutral	---	---	EM Carry from OW to Neutral (9/24)

* FX positioning is based on allocation to other asset classes and an active hedging decision; there is no FX-specific overlay strategy.

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Note: -2 = Max Underweight; -1 = Underweight; 0 = Neutral; +1 = Overweight; +2 = Max Overweight; Allocations may not sum to zero

[Previous portfolio update](#)

Source: Citi Research

	-2	-1	0	+1	+2
Equities					
Credit					
Rates					
Commodities					

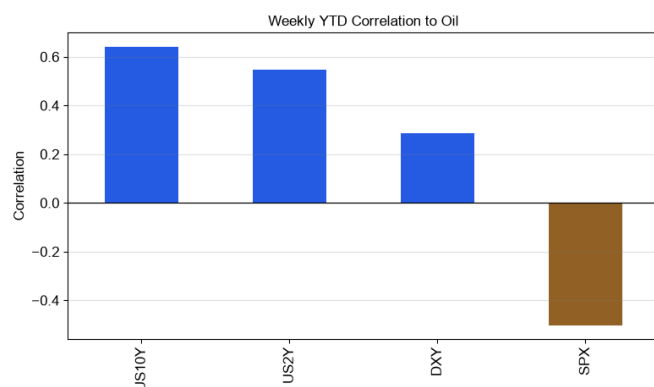
Cross-Asset Considerations

Staying Long Equities

We continue our equity overweight. We have made the case to stay invested in equities given that fundamentals still appear strong. While prices clearly peak before fundamentals by at least 6m or so, neither liquidity nor sentiment measures are in line with a major market top. Instead, the market is likely to continue to climb a wall of worry. The most recent worries have been related to a renewed flare up in the Iran war and only partially related to that, rising interest rates. On the more equity centric side, the potential for pacing the AI research efforts has added to concerns. While we will address all those concerns below, we would note that it is a very positive sign that the SPX is still so close to its highs despite those negative factors playing out. Furthermore, all this is happening in the month of September, a famously tricky month, seasonally speaking. We therefore keep our bullish positioning, with scope to add more risk over the next few weeks.

Iran concerns are difficult to dispel, but equity markets find it the easiest to decouple. The situation in Iran has been a headwind for many investors, mostly because there were many false starts to end the war. But even without an obvious way out, oil prices have not made new highs. Citi commodity strategy suggests that short term stress is still very plausible, even as by the end of the year, the SoH is likely to be open for business again, pushing oil prices back down to \$70/bbl by Q4 assuming a reopening (Global Commodities - SoH and El Nino present upside risks to commodities & inflation; structurally bullish metals themes expected to shine through). But the path from here to there is cloudy to say the least. Given extended uncertainty on the Iran front, it is somewhat reassuring that equity markets seem to care the least across asset classes. As can be seen in Figure 2, the correlation with both front ends and back ends in the rates space is extremely high, the correlation of the USD is reasonably high, but equities dance mostly to their own tune, especially in the US (illustrated in Figure 3).

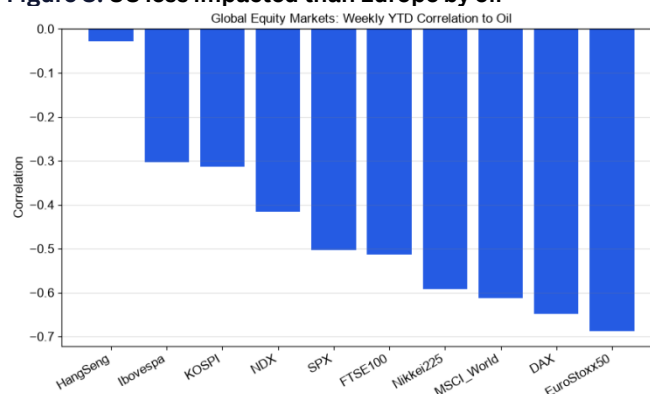
Figure 2. Equities decoupled from oil, nothing else did



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Source: Citi Research, Bloomberg

Figure 3. US less impacted than Europe by oil



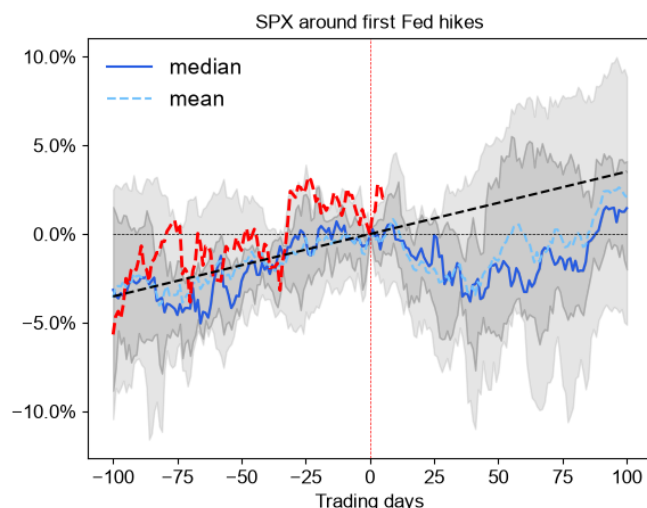
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Source: Citi Research, Bloomberg

Equities climbing a wall of worry. We would also note that the resilience of equities in the light of a continued Iran war as well as more hawkish central banks / rising rates, has been comforting. While much has been written about how higher rates may impact equities, this has so far barely happened. Of course, volatility is slowly picking up, and we always had the view that it takes higher rates volatility rather than higher rates per se to generate equity downside. This means that with

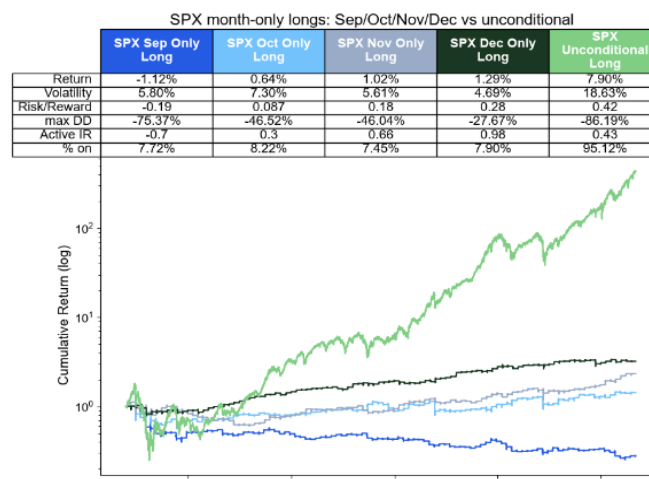
the Move Index on the move, risks to equities may be rising. Furthermore, we have been open to the idea that equities pull back around or slightly after the first Fed hike. Again, so far this has barely happened, which we see as encouraging, although we may have to wait for another few weeks before we are in the all-clear on that front. But the point is that both Iran and Fed hikes are now well understood, and the market has not reacted much, signaling underlying strength. Furthermore, September seasonals are famously negative, and we will be running out of this headwind in another week, even though October is also somewhat mixed, with November and December showing the big improvements.

Figure 4. SPX underperforms after the first hike



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Source: Citi Research, Bloomberg

Figure 5. SPX seasonals: bad September, okay Oct, better Nov, Dec



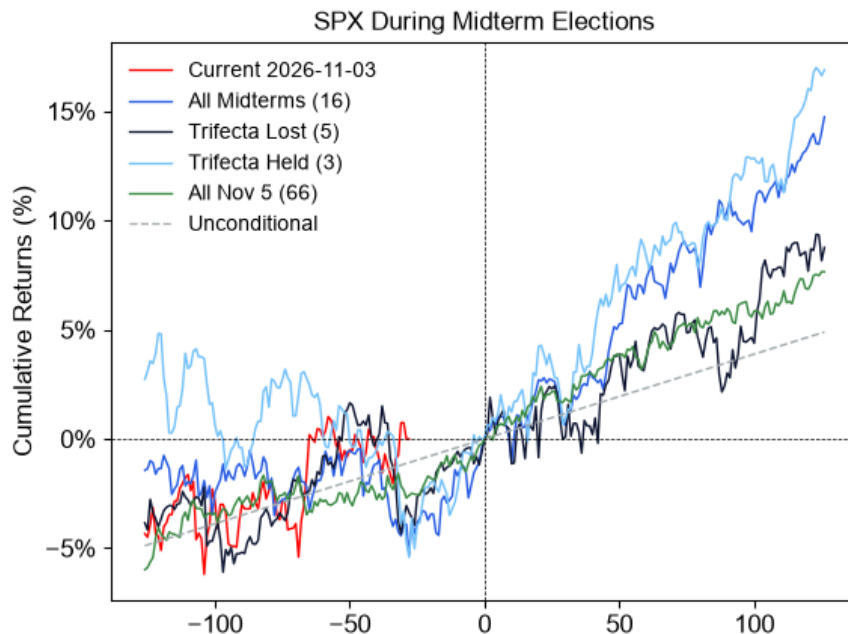
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AI story on track, keep overweight in US. More US specific, the other wall of worry has been the “pacing” story, where leading AI labs suggested to slow down on training new models in the light of safety concerns. Clearly, a moratorium of training would free up much compute capacity, at least in the short term, and would likely lead to a pullback in AI names. Having said that, this is not what has been proposed in terms of tapering. Instead, it seems more about adding outside observers into the model validation process. At the same time, additional compute resources may be required for additional alignment research. Maybe more importantly, President Trump came out strongly against major constraints on AI development. It may therefore require a more substantial accident than the [“Hugging Face” episode](#) (Reuters, 16 Sep), before more stringent regulation becomes more likely. While the likelihood of a more significant hacking episode may not be low, this is something quite difficult to trade given unclear timing. In the bigger picture, we would point out that excitement on physical AI is only starting to build, and computing resources needed for that build out are high. This is another reason to believe that the leadership of tech is to come back. We therefore prefer to stay overweight the US.

Adding more risk closer to midterms? While we are overweight US equities and have been for a while, we have capacity to add risk. But we would prefer to do this on a pull-back. We have noted in the past that there is typically a pullback ahead of the midterms. This is usually an opportunity to buy as the year-end performance tends to be quite strong. We would add risk on a dip, while keeping an eye on Iran.

President Trump has suggested peace may come only after the midterms, raising the risk that the military campaign could intensify beforehand.

Figure 6. SPX and midterms: Down into it, then up

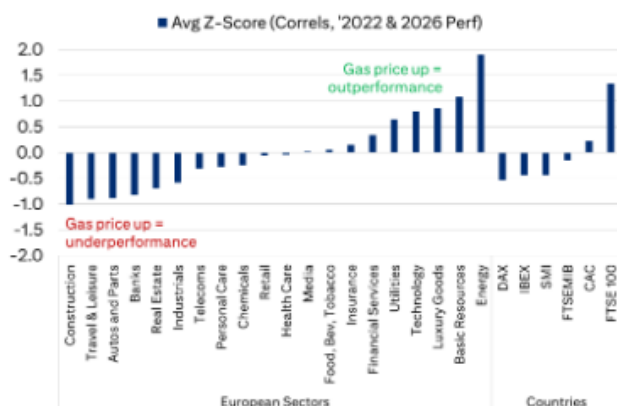


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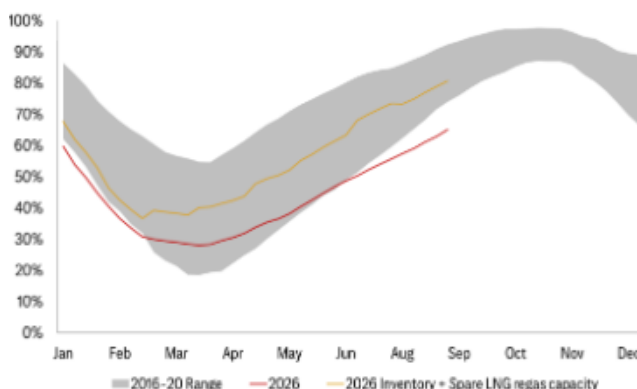
Neutral Europe – stuck between energy risks and resilient economy. Europe has higher energy sensitivity than most to gas prices (Figure 7). However, Citi strategists point out some areas of resilience, from both the broader economy and regasification capacity. ([European Equity Strategy Multi-Asset – European Equities and the Natural Gas Price Shock: Less Vulnerable This Time?](#)). European gas storage stands at 67%, but storage alone understates the region's supply cushion. Factoring in un-utilised LNG regasification capacity lifts effective gas coverage to ~81%, essentially in line with the 10-year September average of 82%. Put differently, Europe retains substantial import optionality through existing LNG infrastructure, providing a meaningful buffer beyond gas already in storage. Even with pipeline import capacity running at >90% utilization, the remaining spare capacity could add a further 2-3ppt to effective coverage, taking the region above its long-term seasonal norm. For more on longer term the European investment into resilience, see [Europe Multi-Asset – Protecting Europe](#).

Figure 7. Europe has high negative sensitivity to gas



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Source: Citi Research

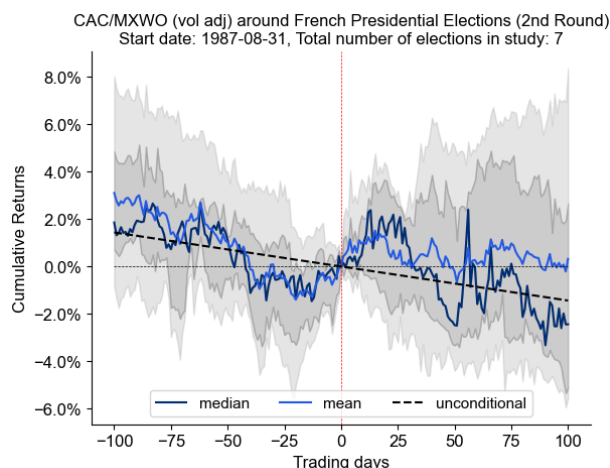
Figure 8. European natgas inventories are in line with historical average when accounting for LNG regas capacity



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Source: Citi Research

When to care about French elections? Why not now? We studied various cross-asset spreads into 2nd round of French elections going back to 1995 (5 samples). Most show no meaningful result, including FX (some mild weakness in EURCHF). CAC40 vs MSCI World is showing clear weakness well ahead of the election. This reinforces our bias to stay neutral European equities and UW duration (more on that later). For more on the French elections, see [European Multi-Asset: 2027 Presidential Elections in France: Why they matter](#).

Figure 9. CAC underperforms MSCI World

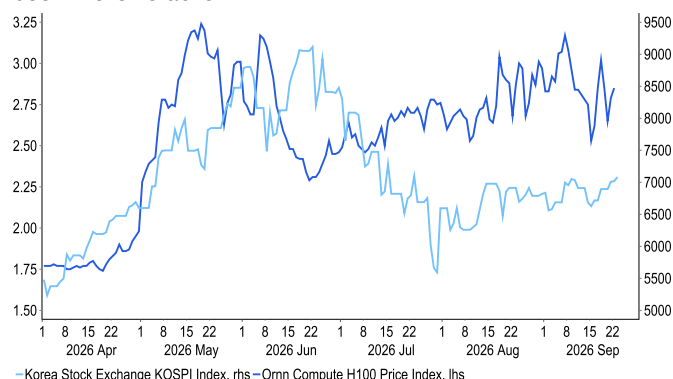


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In EM Asia, fundamentals remain constructive but earnings momentum and positioning keep us on the sidelines for now. We stay in the camp of an AI boom with physical AI in the early innings and more adoption to come. This makes EM Asia in general, and Korea in particular, a good candidate to add risk again (after having cut it in [early July](#)), but we stay on the sidelines until there is clearer bullish momentum. At this stage, earnings momentum in Korea is beginning to roll over and the earnings cycle is no longer providing the same tailwind it did earlier this year.

Positioning cleaner, but not clean. The reason for the massive run up in equities earlier this year was due to massive retail leveraged positioning. While that has cleaned up somewhat, as per Figure 11, domestic retail investor exposure remains elevated and may have to come off further, before technicals are favorable again. We would look to add on dips or on more bullish news flow. The other parts of EM Asia show more divergence with Taiwan benefiting from the AI tailwind, illustrating what the underlying trend looks like without retail chasing. India likely remains an underperformer from earnings disappointments, foreign outflows, and lack of AI exposure.

Figure 10. GPU rental prices leading KOSPI, recently have been more volatile



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Figure 11. Domestic retail still quite long Kospi

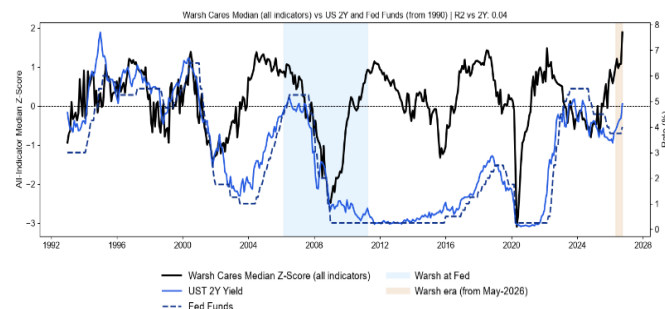


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Rates – Neutral duration, long EM local versus Europe

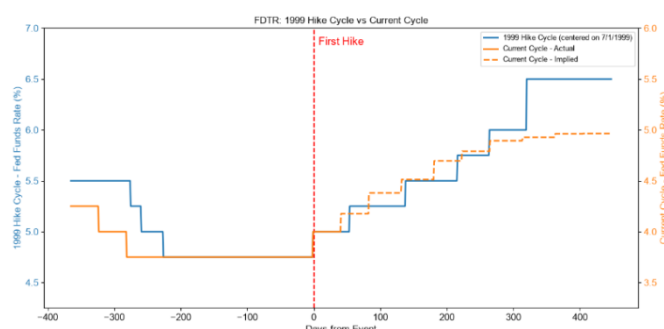
The Fed has turned hawkish. The story for duration has become much more complicated. Since the last GAA, the Fed has become meaningfully more hawkish. This started with a Jackson Hole speech that convinced investors that chair Warsh himself was hawkish (see [Global Macro Strategy - Views and Trade Ideas - The Warsh Shadow Rate](#)), mostly by highlighting the hawkish input into his reaction function, which we aggregated into a “Warsh shadow rate”, seen in Figure 12. This warning shot was followed by a higher core CPI (if only for some likely one-off reasons). The hawkish news flow then continued with a hawkish September FOMC, convincing investors that a hawk Warsh is in full control of the committee (after Governor Waller has sounded dovish pre CPI). At this stage, [Citi economics](#) is still calling for a one and done cycle. However, the market is debating whether the Fed will just reverse the last 75bp of cuts given that they were driven by unrealized labor market fears, or whether a full-fledged hiking cycle is needed given the current strength in the underlying economy. The market is pricing some combination of both, with nearly 100bp of hikes priced until the end of next year. This means that there is still upside risk to Fed pricing, especially if the labor market tightens and there is follow through in wages, while the inflation remains sticky. But at this stage, there are also downside risks, given that an end to Iran hostilities and the resulting oil price fall could remove some of the urgency and lead to a more gradual and shorter hiking cycle than currently priced.

Figure 12. The Warsh shadow rate is at the highs



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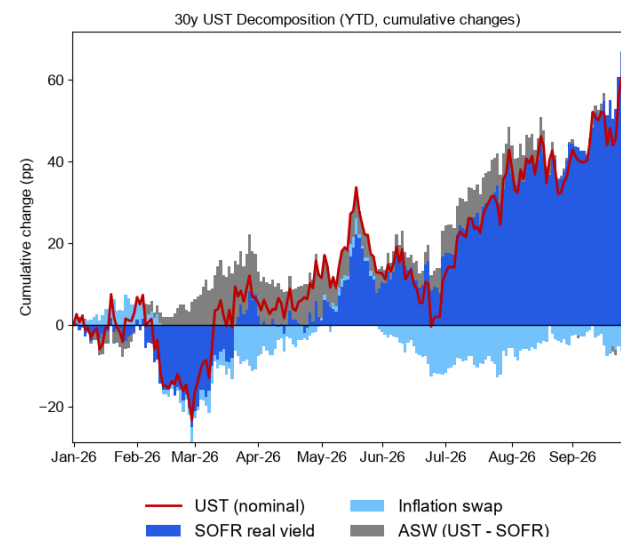
Figure 13. Close to a full cycle is being priced, but not at 99 levels



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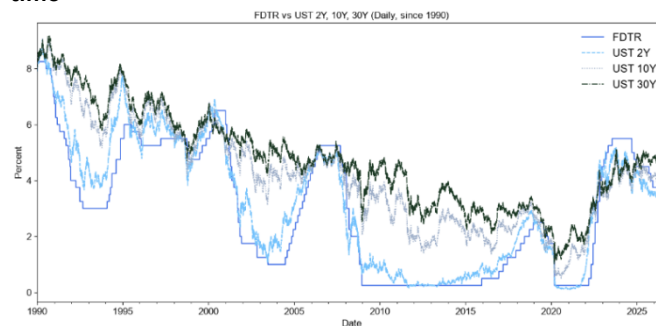
Backend driven higher by more hawkish Fed. While there is a group of investors who believe that hawkish Warsh is what is needed to stabilize the backend, we disagree. The main driver for the sell-off in the backend is neither fiscal (see stable ASW), nor Fed credibility driven (see stable inflation expectations), but is really driven by real rates, which is due to strong growth prospects and capital requirements to fund such growth (see Figure 14 for a decomposition). Furthermore, the curve has flattened aggressively, also highlighting that the sell-off in the backend is monetary policy cycle driven. Therefore, more caution at the front end translates into more caution at the backend of the curve, too. In the typical monetary policy cycle, the 10yr peaks roughly when the 2yr peaks and even the 30yr roughly peaks around the same time. This means that in spite of real rates now more attractive, at least on a medium-term horizon, we refrain from taking a position.

Figure 14. Movement in long end has been driven by real rates



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Figure 15. Rates across the curve peak around the same time

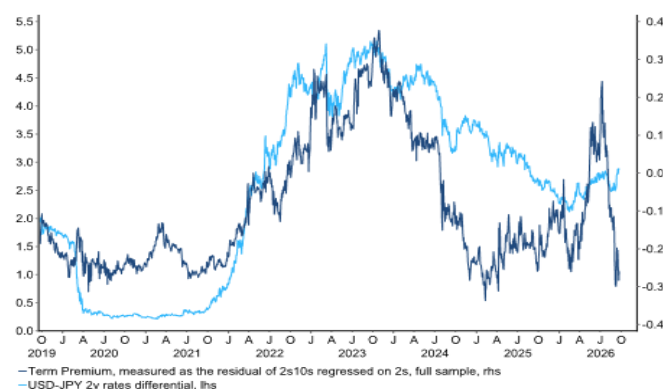


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Why not an underweight? Clearly, we wish we had been underweight duration, rather than neutral for the last few months. However, at this stage there are two risks. First, an agreement with Iran and lower oil prices would presumably lead to a tradable rally, given just how important oil has been for G10 central banks, as well as fixed income price action. Second, we think that into early November, the US Treasury market may benefit from an expectation that Treasury Secretary Bessent will lower coupons. November is far away for the market, but more aggressive buybacks are a tool for Treasury Secretary Bessent on a shorter horizon. The neutral stance is in line with our US Treasury strategist, which recently changed their stance to neutral ([US Rates Weekly - Only hawks outside the window](#)).

Japan debasement trade running into GPIF? To recap, on 11 Sep, we took profit in various pro-Japan trades, paid 1y, long NKY and short USDJPY ([5 bearish worries we are more sanguine on and 2 gamechangers](#)). In doing so, we also moved to neutral JGBs and moved European core, periphery and gilts to UW as a risk-weighted basket. Last week received long end rates in Japan in a hybrid trade ([Global Macro Strategy: Fading JPY weakness: 6m USDJPY down and JPY 20y TONAR down dual digi](#)). Overall, we think the combination of ongoing risk of further US-Japan coordinated FX intervention, GPIF increasing domestic bond allocations and improved BoJ credibility should support JGBs, at least in relative terms, if not absolute terms during a global duration sell off. While we added a longer dated bullish JGB structure last week in options space, the GPIF flows are difficult to time, and so we stay neutral in a more directional setting.

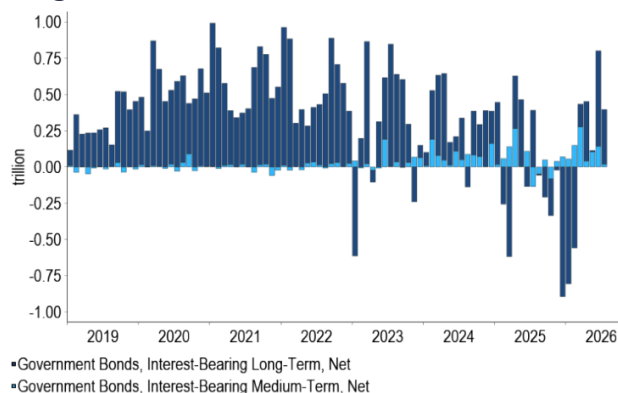
Figure 16. Japan debasement trade is mature – term premia collapsing (term premia = residual of 2s10s regressed on 2s)



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Source: Citi Research, Macrobond

Figure 17. JSDA data for net purchases of medium- and long-term bonds by life and non-life insurers suggest strong demand over the summer



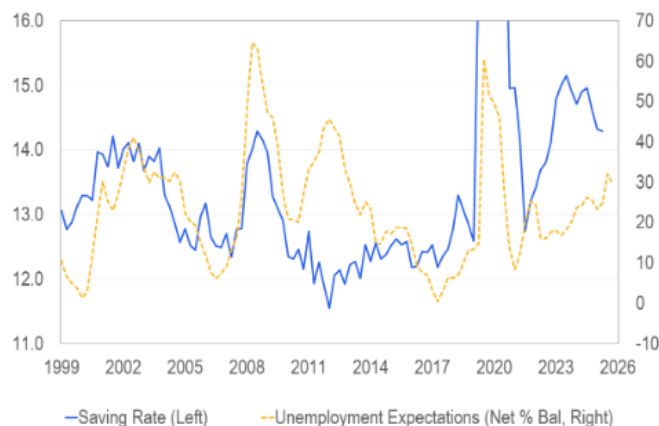
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Stay UW in European core and periphery: clearest energy + fiscal hedge.

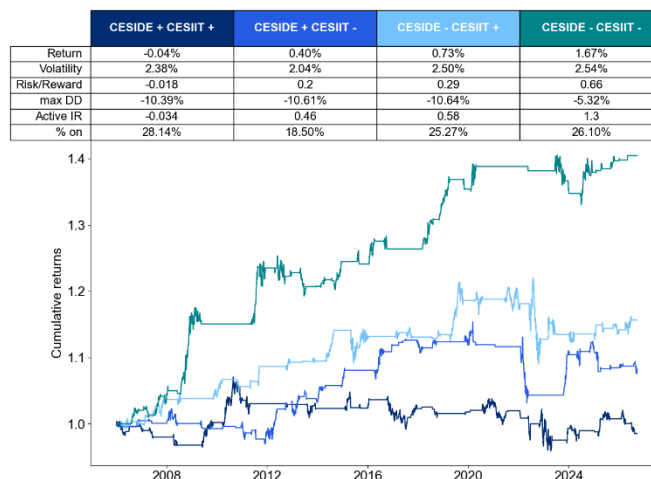
European growth is resilient for several reasons ([European Economics - Remarkable Endurance Likely to Continue](#)), including strong household balance sheets, stockpiling, a synchronized capex investment cycle and limited downside for energy-intensive industries. This has led to positive economic surprises. Figure 19 shows that the regime of positive CESI (Citi Economic Surprise Indicator) in Germany and Italy is the worst regime for Bunds. Additionally, EUR 10y has one of the highest G10 rate sensitivities to Brent, after GBP. Finally, the ECB remains arguably the most hawkish central bank in G10, which adds monetary policy pressure not just to core rates but also fiscal risk to select EGB spreads, as shown in Figure 21.

Figure 18. High HH savings in Europe act as a buffer to job concerns



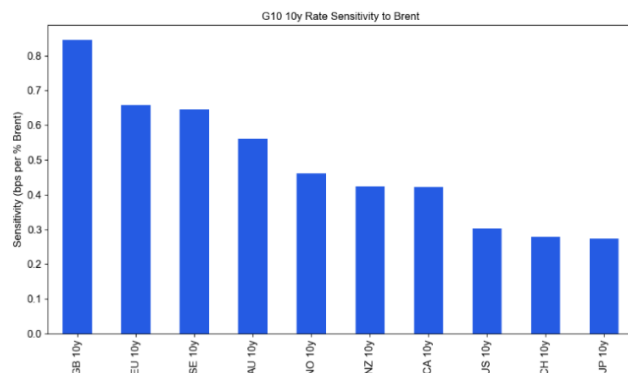
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Figure 19. Both German and Italian Citi Economic Surprise Indices are positive – worst regime for Bund total returns



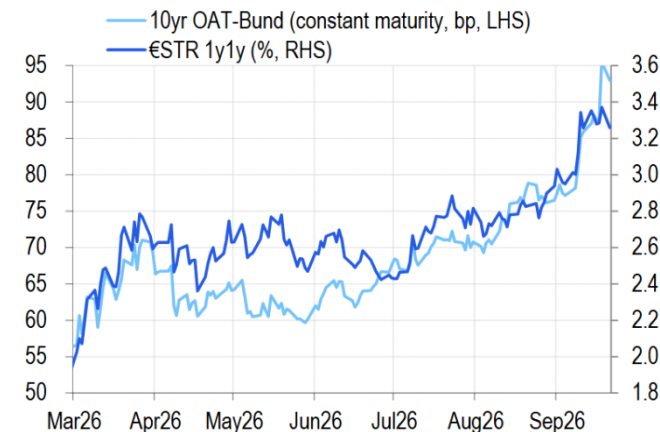
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Figure 20. Short EU FI is a strong energy hedge within G10



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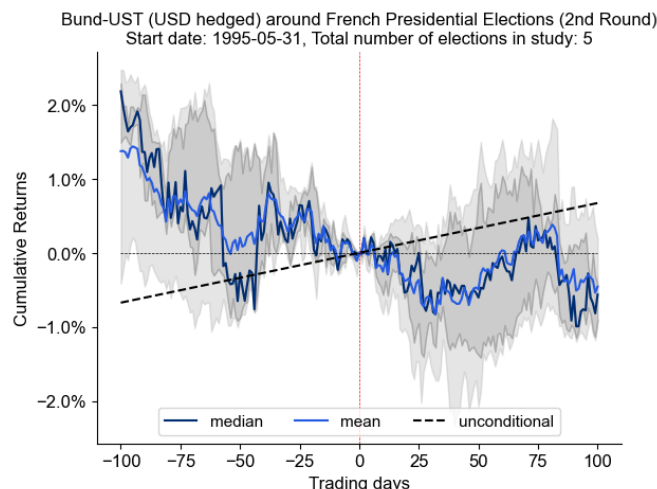
Figure 21. Hawkish ECB adds fiscal pressure to OATs



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European fixed income underperforms into French election. As already mentioned above, we studied various cross-asset spreads into 2nd round of French elections going back to 1995 (5 samples). In fixed income space, we find that Bunds vs USTs show clear weakness well ahead of the election.

Figure 22. Bunds underperform USTs into French election



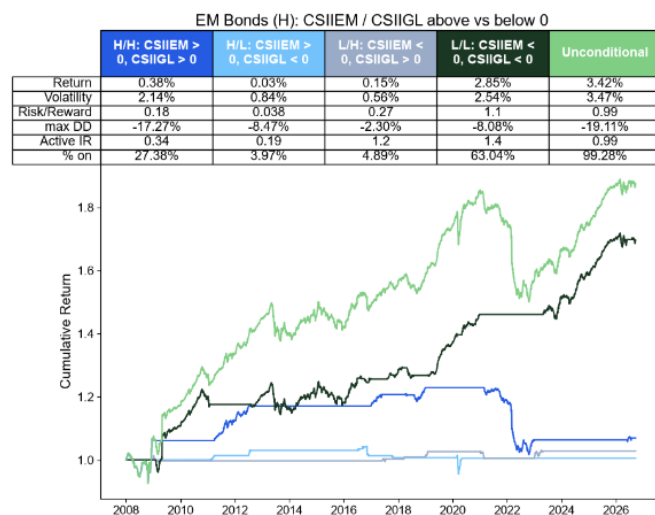
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Moving Gilts back to neutral. The BoE will be hiking soon but they seem less hawkish than the Fed and ECB. We [received Nov/Dec MPC](#) ahead of the BoE meeting as reflection of this cautiousness and maintain this position after the meeting. On the margin, the QT adjustments give flexibility for less longer dated issuance in the future as a maturity transformation (Gilt NCR won't change). This is also tactically bullish for the long end. For more, see [European Rates Weekly - A QT revolution](#).

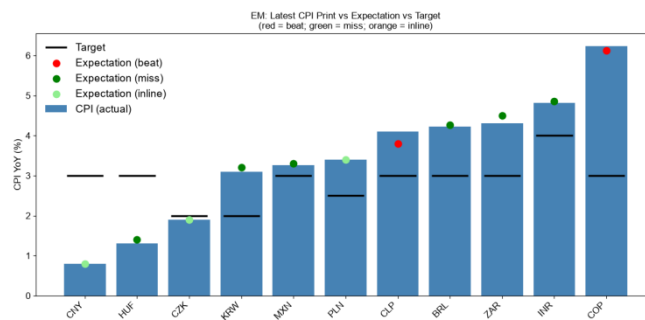
Stay overweight EM local. We went overweight EM local last month, given inflation surprises that are still coming in soft, especially relative to global markets overall, as per Figure 23. Inflation surprises globally and in EM are back to negative using our Citi Inflation Surprise Indices, which is the best period for EM bonds. Structurally, we would also flag strong momentum in EM vs DM performance since 2023. We suspect this reflects better inflation fighting credibility via higher ex-ante real rates and less fiscal imprudence than G10. We would also note that CGBs have a 10% weight in the index, and CGBs have been the key bond market that was able to counter the higher rates trend. While a high volatility selloff in US rates is not good for EM either, the PNL is mostly driven by 2022, which is when our European underweight would also kick in (see Figure 25). EMFX has also been an important part of the attraction for our overweight. We have held this position FX unhedged. While crowding was fairly high in EMFX, volatility remained benign enough for it to not matter much. However, our EM carry warning signal triggered earlier this week, as per Figure 26, as fixed income volatility (MOVE) broke the 2 standard deviation level. We therefore switch to the FX hedged EM local index, with risk sizing in line with the EU underweight, keeping us overall neutral.

Figure 23. Inflation surprises in EM softer than globally



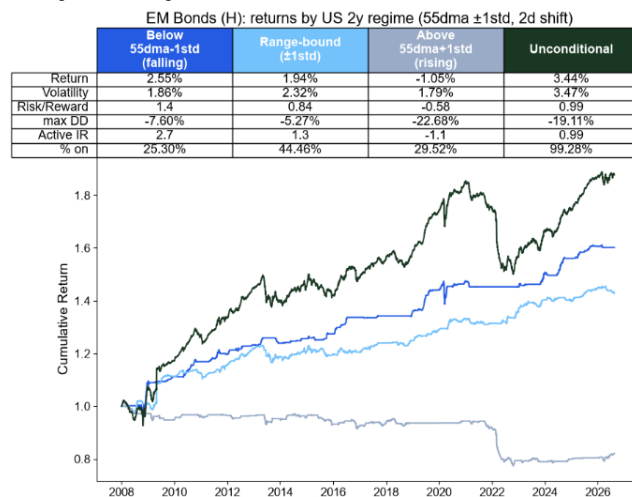
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Figure 24. Not many beats on EM inflation prints, and still some CBs that are cutting unlike in G10



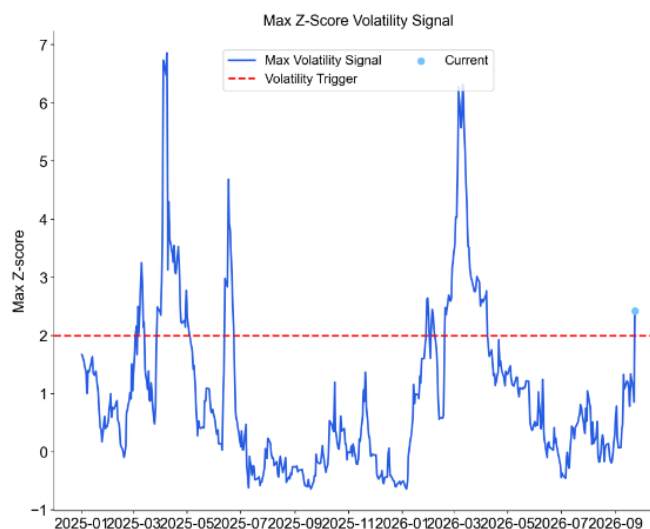
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Figure 25. Sharply rising US yields are a risk for EM bonds mostly driven by 2022



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Figure 26. The EMFX carry warning triggered



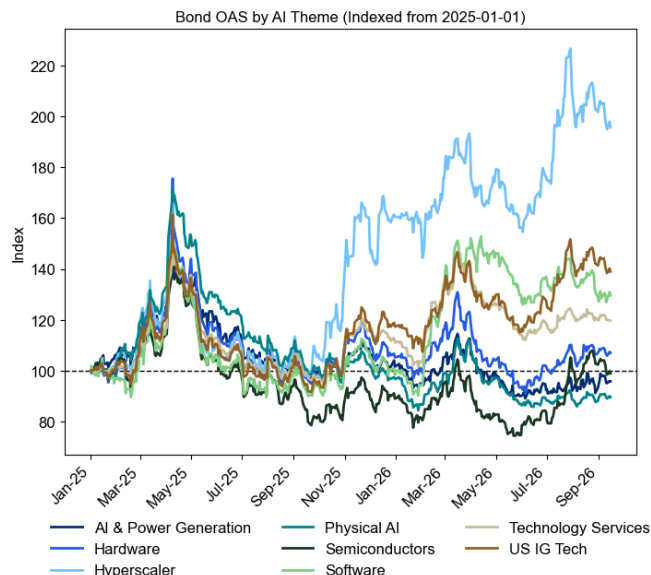
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Source: Citi Research, Bloomberg

Stay underweight credit – Supply pressures collide with hiking cycle

We remain underweight US and European IG credit. Our core view on credit remains that elevated issuance, particularly from hyperscalers, should continue to exert further technical widening pressure on spreads. Hyperscalers' issuance has materially increased this year and subsequently led to spread widening well above last year's April peak (Figure 27). Our colleagues in credit continue to expect this supply to continue and highlight that timing the top in supply is hard ([The High-](#)

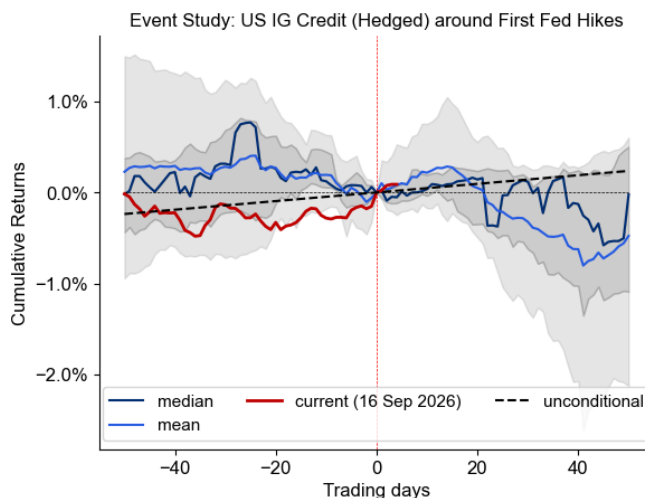
[Grade Beat: The path forward for hyperscalers](#)). We think this reinforces the case to remain underweight credit as a hedge to our bullish equity view, particularly as persistent supply pressures now coincide with a less supportive rates backdrop. As highlighted in [Global Macro Strategy - Views and Trade Ideas: Higher yields are the price of resilience](#), we think the sequence of resilient G10 economic data, stubbornly elevated oil prices followed by hawkish central-bank decisions has now shifted the debate from whether the Fed's (and other central banks) next move would be a hike/hold to how far and how long the hiking cycle may extend. Historically, we show in Figure 28 that this has been a challenging part of the cycle for credit. Our event study shows the first few weeks after the initial hike can provide brief relief as markets price in the tightening cycle. However, IG spreads have typically underperformed thereafter, with mean and median returns deteriorating more clearly 20+ trading days after the first hike. As such we prefer to remain underweight US and Euro IG credit here.

Figure 27. Hyperscalers spreads have widened well past last year's April peak



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Source: Citi Research, Bloomberg

Figure 28. Spreads (duration hedged) have typically underperformed around the first Fed hike

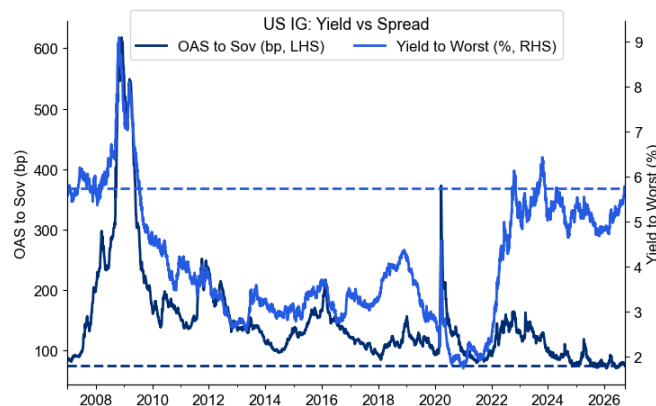


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Source: Citi Research, Bloomberg

A repeat of 2022 is not our base case, but the stronger starting point does not remove the case for wider spreads. In [European Credit Insights - Rates, REITs and Refis](#), our European credit strategists note that credit enters the current tightening cycle from a stronger position than in 2022. Under the hood, issuer quality has improved, as weaker borrowers have fallen out of the index, while companies have had more time to refinance and adjust to higher funding costs. That said, an important change over the past few years in credit markets has been the growth of fixed-maturity funds that are more willing to look past mark to market volatility which subsequently sees credit being increasingly framed as a yield product. We think that this poses a question for credit valuations and its decomposition. We show in Figure 29 and Figure 30 that much of the attractive all-in yield now comes from government bonds rather than credit spreads. Hence, if credit is increasingly treated as a yield and carry product, corporate bonds must still offer an adequate premium over government bonds to compensate for additional credit and liquidity risk. Therefore, while we think that a healthier issuer base should limit the extent of future widening, current tight spreads combined with rising supply and uncertainty

over the length of the hiking cycle should leave the risk-reward skewed towards underweight both US and European IG credit.

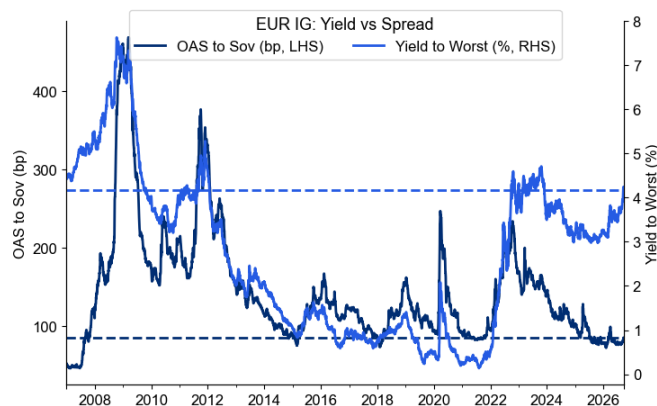
Figure 29. Credit is increasingly seen as a yield product, but all in yields are dominated by government yields...



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Source: Citi Research, Lipper

Figure 30. Credit spreads should still offer a premium over rates to compensate for credit and liquidity risks



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Source: Citi Research, Bloomberg

Commodities – Long base, neutral oil and precious

Remain neutral on oil

Balancing near-term geopolitical upside risks against a more bearish medium-term supply outlook in oil. Previously in [Global Macro Strategy – Views and Trade Ideas – 5 bearish worries we are more sanguine on and 2 gamechangers](#), we discussed the potential risks/spillovers from oil markets to our broader macro outlook. Even at current inventory draw rates, our Commodities strategists estimated that OECD stocks would not reach critical levels until late 2027 or later ([Cross-Commodity Outlook – Bullish gold and silver; ongoing ME escalation to continue before eventual 4Q26 de-escalation](#)). While their base case envisages further Middle East escalation supporting oil prices in the near term, this is eventually followed by easing tensions and a reopening of the Strait of Hormuz in 4Q26. As such, this would take Brent towards \$70/bbl by year-end and \$65/bbl in 2027, given that the return of disrupted supply pushes the market into a larger surplus than before the conflict, at ~3–4mb/d versus ~2mb/d previously.

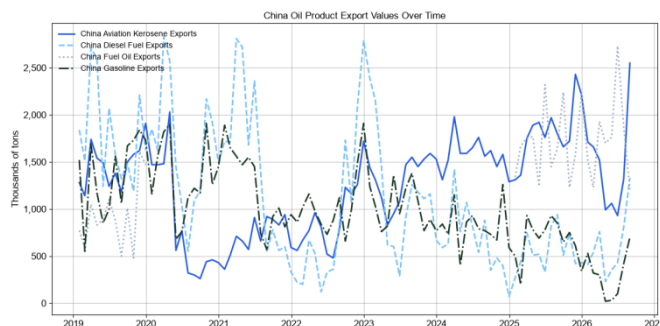
Figure 31. World total oil/products inventories would take until 2028 to reach levels consistent with the 2nd oil shock of the 1970s on their Feb–Jul 2026 trajectory (status quo) (from [Cross-Commodity Outlook – Bullish gold and silver; ongoing ME escalation to continue before eventual 4Q26 de-escalation](#))



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Source: Citi Research, Bloomberg

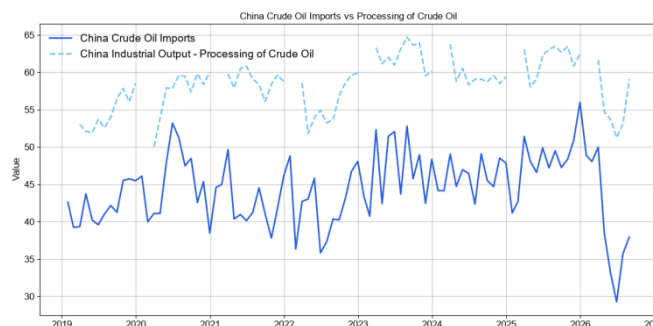
Neutral medium-term allocation, but some hedges in trading book. From an asset-allocation perspective, however, we think the wide distribution of potential outcomes argues against taking significant directional risk in oil. We prefer to allocate risk to assets with stronger structural support, including equities and base metals exposed to the AI investment cycle. Having said that, there are upside risks. In our Commodities team's upside tail case, a sustained disruption to Middle Eastern flows could lift Brent towards \$110–120/bbl, with damage to regional energy infrastructure presenting a more extreme upside catalyst. Conversely, an earlier reopening of the Strait would accelerate the return of supply and drive a sharper unwind in crude and refined-product prices. While we are retaining cheap upside oil hedges against an extended disruption ([Global Macro Strategy – Correlation Corner – #9: Looking for US-Iran hedges](#)), this is easier to implement in our trading book, where we can use options, rather than in GAA.

Figure 32. Chinese crude imports have recently recovered from their lows that...



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Source: Citi Research, Bloomberg

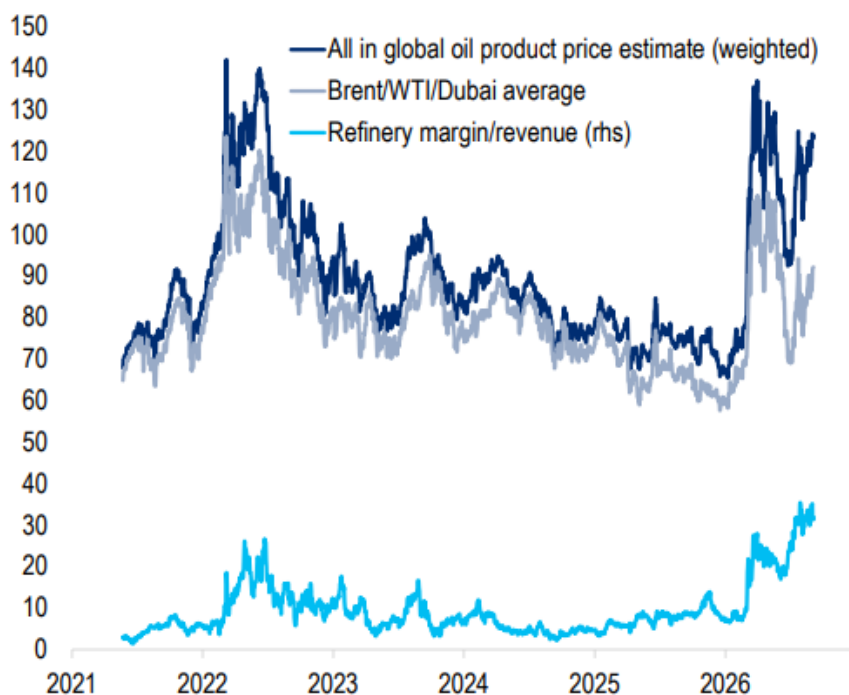
Figure 33. coincides with an increase in exports of refined products



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Source: Citi Research, Bloomberg

Are Chinese refiners capturing elevated margins? One theme we are watching is whether Chinese refiners are increasing crude imports to capture elevated refining margins. While on one hand, we think there is some tentative support to this narrative from looking at the publicly available data. In Figure 32, we show that Chinese crude imports have recently recovered from their lows, coinciding with an increase in exports of refined products (Figure 33). However, we think the evidence remains inconclusive with many caveats. First, the data is backward-looking, with the latest observations extending only to end of August, while the recent moves are not out of the ordinary when compared with the historical volatility of these series. Second, our Commodities team notes that crack spreads have already been elevated for an extended period since the start of the war (Figure 34 from [Cross-Commodity Outlook - Bullish gold and silver; ongoing ME escalation to continue before eventual 4Q26 de-escalation](#)). Refining margins alone therefore appear insufficient to explain why synchronous crude imports and product exports would be rising only now. For the time being, we view this as a developing narrative rather than a confirmed trend, but we think that it remains an important theme to watch. If China were to increase imports to add to inventories, rather than to export products, it would remove one balancing mechanism for energy markets.

Figure 34. All-in oil/product prices are above \$120/bbl (dark blue line), similar to 2022; however, the breakdown is different, with refinery margins much higher (light blue) and crude lower (grey) (from [Cross-Commodity Outlook - Bullish gold and silver; ongoing ME escalation to continue before eventual 4Q26 de-escalation](#))



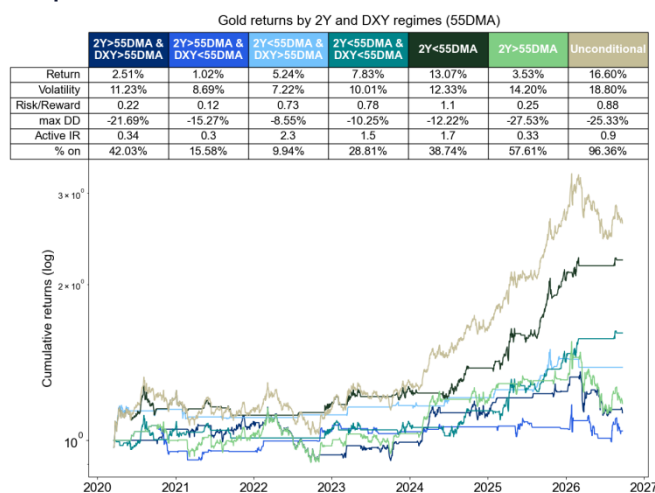
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Source: Citi Research, Bloomberg

Gold not a long given hawkish Fed

We recently moved gold back to neutral. While we were initially bullish on gold following the US Treasury's buyback announcement (see our reaction [here](#)), we have since shifted the position back to neutral. This comes as resilient economic data, alongside persistently elevated energy prices, has prompted markets to question the duration of the tightening cycle. Reflecting this narrative, government bonds have sold off globally while the USD has strengthened. In such an environment, we think the bullish case for gold is less attractive and we remain on the watch for further catalysts before getting back into the trade. In terms of catalysts, we think the rates component is more important. In Figure 35, we show the performance of gold conditioned on whether the US 2y yield and DXY are above or below their respective 55dMA. We find that gold underperforms when yields rise, irrespective of the momentum in the dollar. Digging deeper and looking at the slope of the Treasury curve in Figure 36, we see similar dynamics emerge, with both bear steepening and flattening regimes usually coinciding with negative performances in gold while bull steepening regimes have provided the most supportive backdrop. With the length of the hiking cycle remaining uncertain, we think the risk-reward remains skewed towards staying neutral gold.

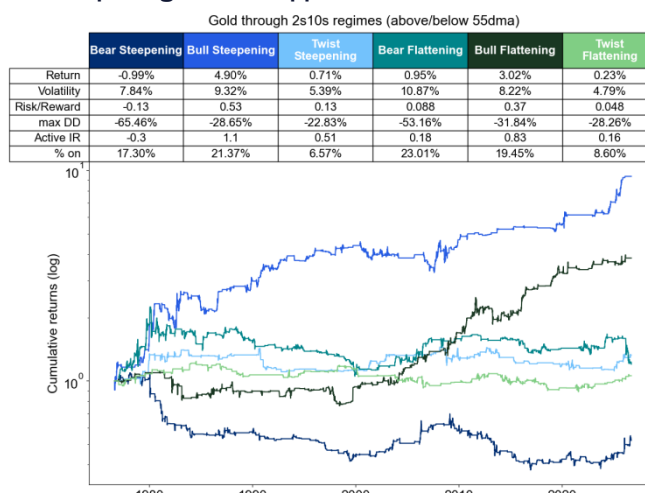
Figure 35. Gold underperforms when yields rise, irrespective of the momentum in the dollar



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Source: Citi Research, Bloomberg

Figure 36. Bear regimes are usually negative for gold while bull steepening is most supportive



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Source: Citi Research, Bloomberg

Investor flows in gold ETFs also suggest positioning may need to clean up further before re-entering the trade. In Figure 37 and Figure 38, we show that gold ETF flows across China and the world ex-China have recently followed price action, turning net bullish as gold recovered over the summer. Since then, gold has retraced and remains well below its 200dMA, while positioning is somewhat caught offside and remains net bullish. We therefore think there is room for positioning to clean up further before we re-enter the gold long position. Adding to this, we think physical demand from India is unlikely to provide a strong near-term catalyst when looking ahead and thinking in terms of who the marginal buyer could be. In [Metal Matters – Import duties remain a headwind for India gold imports in 2H'26](#), our colleagues in Commodities expect India's gold imports to remain below last year's levels despite the usual September-to-November seasonal recovery, as high import duties, elevated gold prices and increased recycling continue to

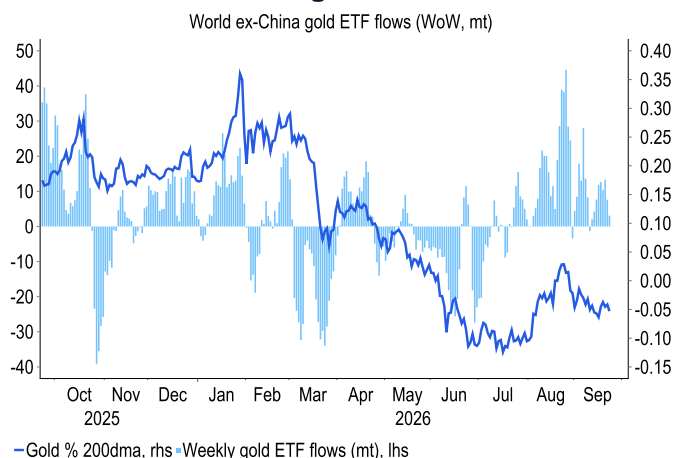
discourage fresh imports. In Figure 39, courtesy of our Commodities team, we highlight that negative local premiums point to weak immediate demand. Elevated oil prices are also adding pressure to India's current account which subsequently reduces the potential scope for easing of import duties that could trigger further gold related dollar outflows.

Figure 37. Recent gold ETF flows have followed price action, turning net bullish as gold recovered over the summer



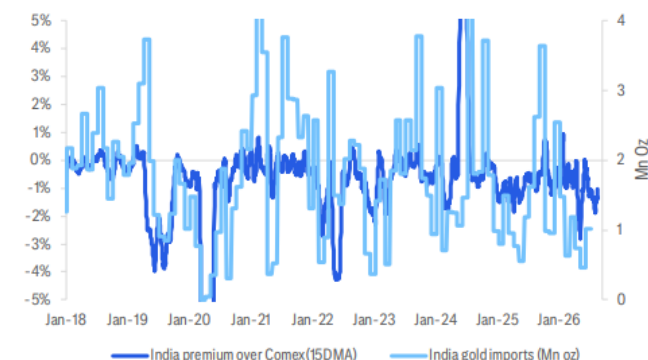
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Source: Citi Research, Bloomberg

Figure 38. There is scope for positioning to clean up further as net ETF flows remain long



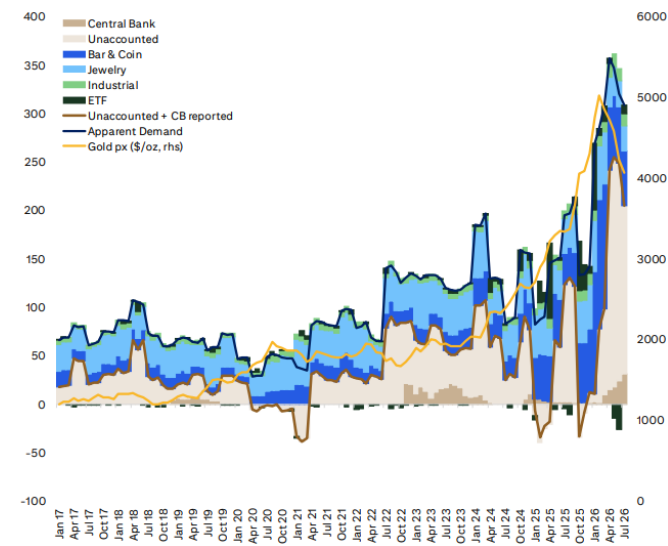
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Figure 39. Negative India gold premiums in August suggest weak gold imports



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Source: Citi Research, Bloomberg

Figure 40. China gold apparent demand (\$Bn annualized) - central bank and commercial bank activities likely still robust amid weak retail demand



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Source: Citi Research, Bloomberg, WGC, CGA, China Customs, PBoC, [Metal Matters - Reiterating \\$5k year-end target for gold; binary risks at Jackson Hole](#)

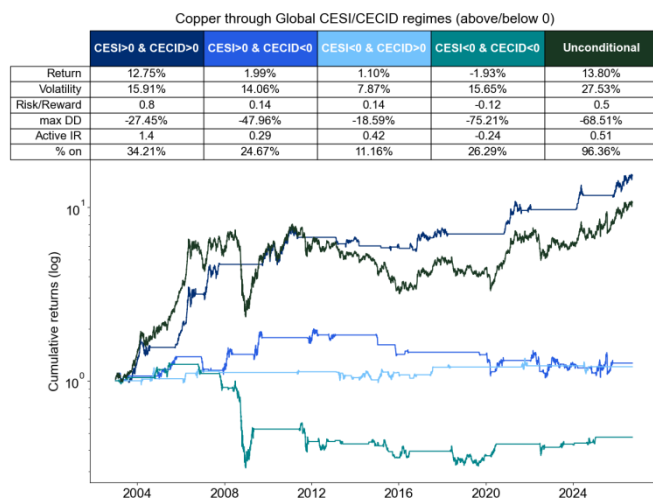
We are more bullish medium term. That said, we are not convinced that the central-bank demand story is permanently over. A world of increased geopolitical fragmentation should continue to make reserve diversification a priority for central banks. Given that gold is a primary beneficiary, we are bullish gold over the medium term. Our Commodities colleagues also remain constructive, with a [0-to-3-month](#)

[target of \\$4,800/oz](#) and expect a recovery in Indian imports in early 2027 conditioned on oil prices easing that could eventually see import duties being reversed. For now, however, we would need to see positioning clean up further along with more clarity over the length of the G10 hiking cycle before adding back our gold long. It may need a peace deal with Iran, to really help both US rates and gold demand again.

Base Metals – remain long

Remain long base metals despite copper tariff uncertainty. We remain constructive on copper and base metals broadly as we think the structural demand from electrification, power infrastructure and AI/data center buildouts continues to outpace mine supply growth, leaving the market increasingly reliant on scrap to balance demand. Our colleagues in Commodities expect mine supply to be broadly flat in 2026, supporting a [medium-term path toward \\$15,000/t copper](#). More tactically, we think the cyclical picture remains bullish for base metals. Our backtest in Figure 41 suggests that the information ratio is strong when both Global CECID and CESI are positive. We remain in this regime, both for the US, and globally, though note that the recent strength has been coming more ex US. One caveat here, we think that uncertainty on the potential implementation of Section 232 tariff has been a headwind and led to a set-back in early September. Citi colleagues' base case remains that no blanket tariff on refined copper is ultimately implemented. But at this stage the premium between LME and Comex has normalized already, suggesting that market expectations have been pared back (as per Figure 42). Even if tariffs do not get implemented this year, we think the broader bull case remains intact and stay long base metals here.

Figure 41. Business cycle still favors copper, Global CESI and CECID both remain well above the threshold 0 level



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Source: Citi Research, Bloomberg

Figure 42. Premium between LME and CME has normalized already as market expectations have been pared back



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FX – cutting carry risk

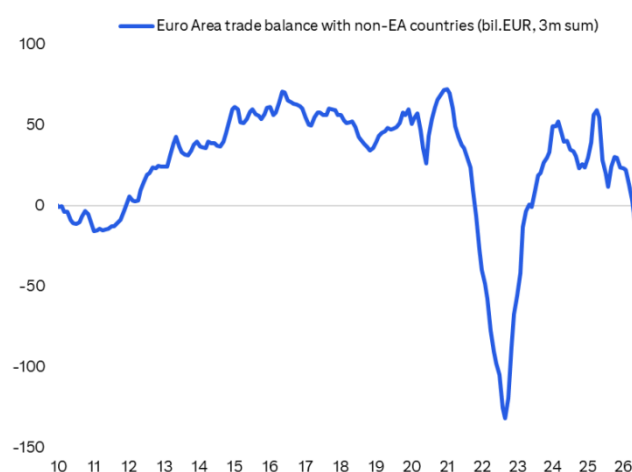
Cutting EMFX carry. As discussed in the EM rates section, our volatility signal triggered for EMFX. Given that positioning going into the volatility has been somewhat stretched, we do not want to fade it and therefore neutralize our EMFX overweight. While it is tempting to add a USD long given the new Fed outlook, as the forecasts by our FX strategist colleagues suggest (see [Foreign Exchange Forecasts – September 2026](#)), the level is probably not conducive to chasing it here, especially if there should be a risk that there is an Iran deal, which would reverse some of the deteriorating trade balance. We therefore stay on the sidelines.

Figure 43. Positioning is heavy in EM carry

Crowding lowers returns in top 5 vs bottom 5 vol-adjusted carry

5x5 EMFX Carry Vol-Adj - Leveraged Flows				
0-20	1.28	0.56	1.20	0.40
20-40	1.76	2.71	-0.02	1.50
40-60	2.24	1.19	1.42	1.17
60-80	0.06	0.77	1.79	1.19
80-100	0.71	0.64	0.93	1.49
<80	1.19	1.22	1.12	0.95
uncond	1.09	1.08	1.07	1.11
	1m	3m	6m	12m
Current Crowding Score				
	77.8%	100.0%	100.0%	100.0%

Figure 44. Euro area trade balance becoming a tail wind (from [Foreign Exchange Forecasts – September 2026](#))



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Source: Citi Research

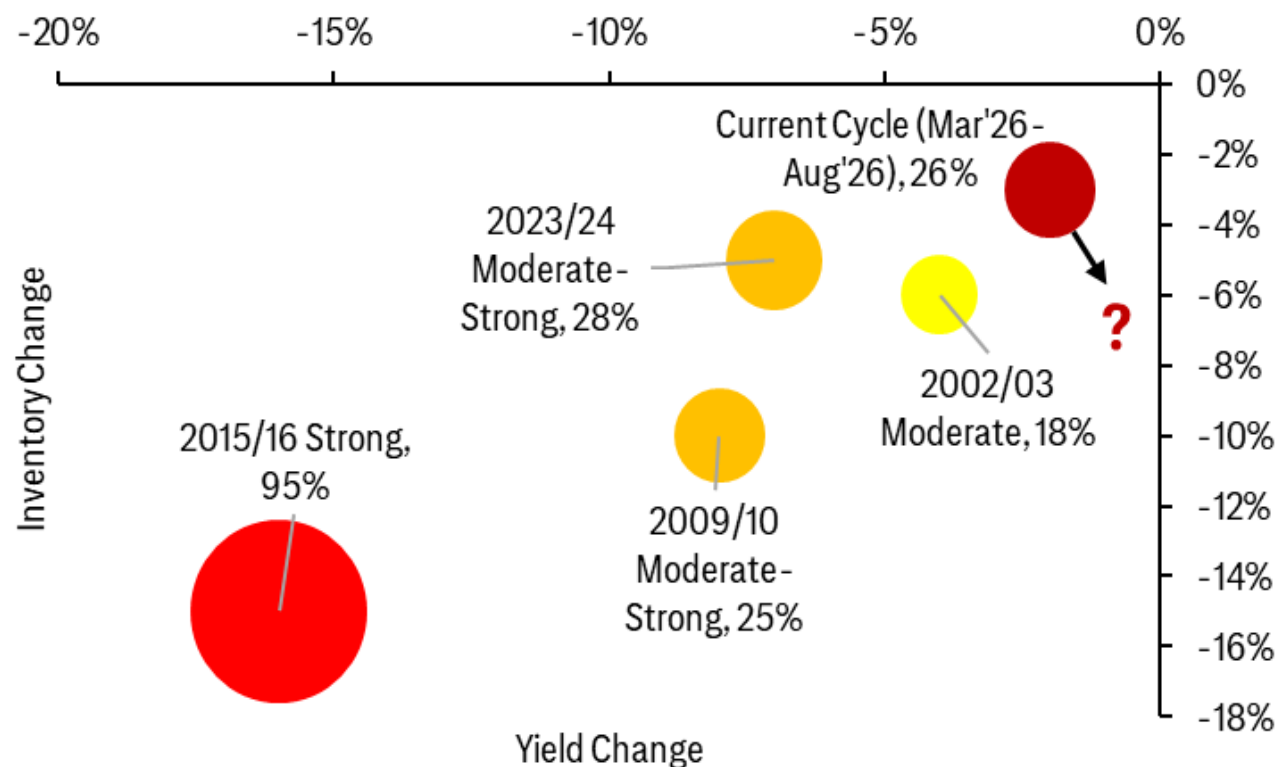
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Illiquid corner – The next leg higher in sugar is coming

We initiate a long position on sugar prices. Sugar prices rallied on the back of lower European supply and lower ATR levels in Brazil. The impact of a strong El Niño is likely to become more evident between November 2026 and January 2027, as the market gains greater visibility into Indian yields, harvest outcomes, and available stock levels. We stay long uranium and allocate half the risk from uranium to sugar.

We remain bullish as strengthening El Niño, and likely increased pull for diversion of sugarcane toward ethanol production will lead to higher prices. Supply risks continue to build across several key producing regions, while India's recent measures to contain domestic sugar prices, including authorizing 1mmt of duty-free raw sugar imports, releasing government stocks, and directing mills to divert additional sucrose toward sugar production, reinforce our view that domestic inventories are considerably tighter than officially reported. Below-normal rainfall across Maharashtra, Karnataka, and Marathwada increases downside risks to 2026/27 production, while sharply lower ethanol diversion highlights the severity of the underlying supply deficit. Beyond India, adverse weather conditions are also raising production risks in Thailand, further reducing global supply flexibility and reinforcing a constructive outlook for sugar prices.

Figure 45. Current El Niño Cycle vs Historical Episodes: Sugar is exposed the most to El Niño while yields and inventories are yet to decline*, **



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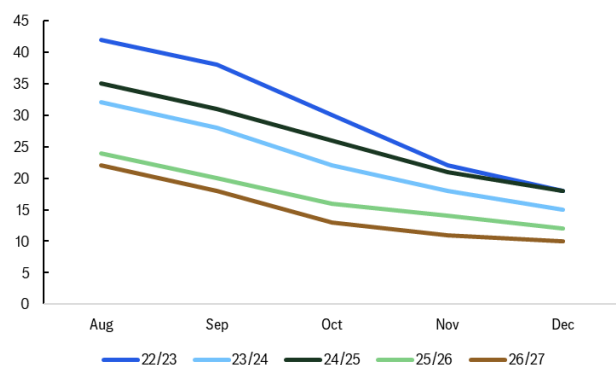
*Size of the bubble represents the previous price performance of each commodity

** Inventory, yield and price changes are estimated for the period between the moment El Niño officially announced start and end date

Source: Citi Research, Expana, Bloomberg

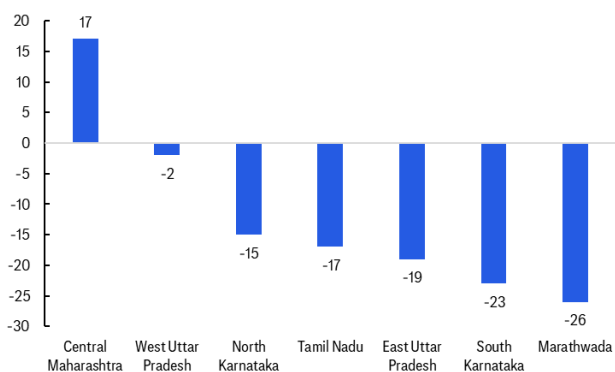
Brazil remains the market's key balancing supplier; however, weather-related operational and harvest execution risks during the remainder of the season leave little margin for error and could constrain export availability in the coming months. Finally, sugar offers a unique combination of upside catalysts: potential supply shortfalls associated with a strong El Niño and additional demand support from elevated global ethanol and fuel prices. As a result, global sugar balances appear increasingly vulnerable to further tightening, leaving prices highly sensitive to any deterioration in Brazilian weather, Indian production prospects, or biofuel-driven demand growth.

Figure 46. India's Implied stocks-to-use (%) ratio is projected to be at the lowest level



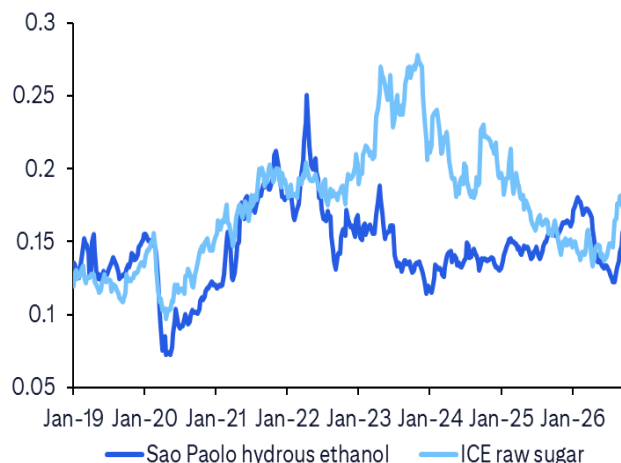
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Source: Citi Research, Expana

Figure 47. Cumulative Monsoon Rainfall (June–September '26) Remains Below Normal Across Key Sugar-Producing Regions



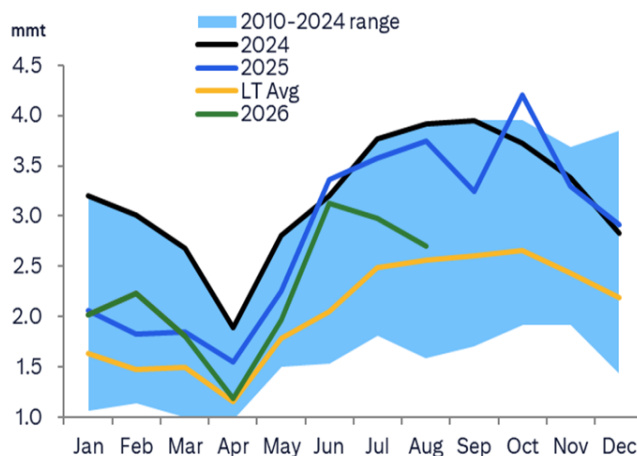
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Source: Citi Research, Expana

Figure 48. Sao Paulo hydrous ethanol vs ICE sugar prices (\$/lb, in sugar equivalent terms)



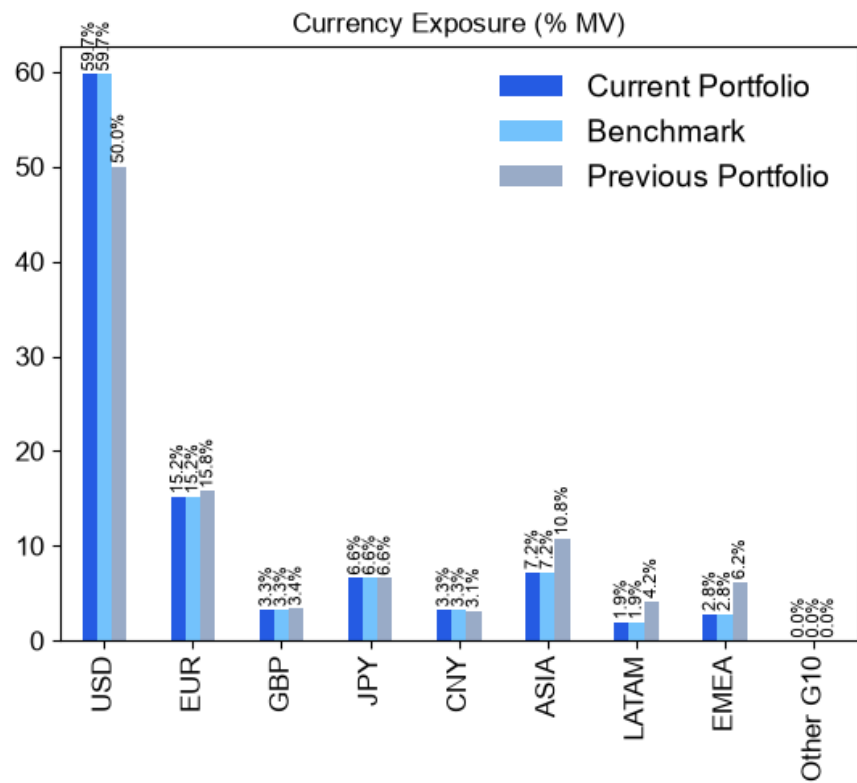
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Source: Citi Research, Bloomberg

Figure 49. Brazil Monthly Sugar Exports have been weakening



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Figure 50. Portfolio FX Exposure



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Source: Citi Research

Figure 51. Medium-Term Asset Allocation.

	-2	-1	0	+1	+2	Reference Index Weights	Portfolio Weights	Over/ Under Weight	Previous Publication Over/Under Weights
EQUITIES						55.0%	56.4%	1.4%	1.4%
DM						49.0%	50.5%	1.4%	1.4%
US						38.1%	39.5%	1.4%	1.4%
Europe						6.1%	6.1%	0.0%	0.0%
Japan						3.0%	3.0%	0.0%	0.0%
UK						1.8%	1.8%	0.0%	0.0%
China						0.2%	0.2%	0.0%	0.0%
EM						5.8%	5.8%	0.0%	0.0%
Asia ex-China						4.6%	4.6%	0.0%	0.0%
CEEMEA						0.7%	0.7%	0.0%	0.0%
LatAm						0.5%	0.5%	0.0%	0.0%
CREDIT						12.0%	2.2%	-9.8%	-9.8%
US IG						6.4%	0.0%	-6.4%	-6.4%
US HY						1.3%	1.3%	0.0%	0.0%
Europe IG						3.4%	0.0%	-3.4%	-3.4%
Europe HY						0.4%	0.4%	0.0%	0.0%
China \$						0.1%	0.1%	0.0%	0.0%
EM External						0.4%	0.4%	0.0%	0.0%
GOVERNMENTS						30.0%	35.2%	5.2%	3.4%
US						9.5%	9.5%	0.0%	0.0%
Europe Core						2.6%	0.0%	-2.6%	-2.7%
Europe Periphery						2.2%	0.0%	-2.2%	-2.2%
Japan						3.6%	3.6%	0.0%	0.0%
UK						1.5%	1.5%	0.0%	-1.5%
China						3.3%	3.3%	0.0%	0.0%
EM Local ex-China						5.9%	15.9%	10.0%	9.7%
US TIPS						1.0%	1.0%	0.0%	0.0%
European Linkers						0.5%	0.5%	0.0%	0.0%
COMMODITIES						3.0%	5.2%	2.2%	2.1%
Energy						1.0%	1.0%	0.0%	0.0%
Base						1.0%	3.2%	2.2%	2.1%
Precious						1.0%	1.0%	0.0%	0.0%
CASH						100.0%	99.3%	0.7%	5.9%
ILLIQUIDS						0.0%	0.25%	0.25%	0.25%
Uranium						0.0%	0.1%	0.1%	0.3%
Sugar						0.0%	0.1%	0.1%	0.0%

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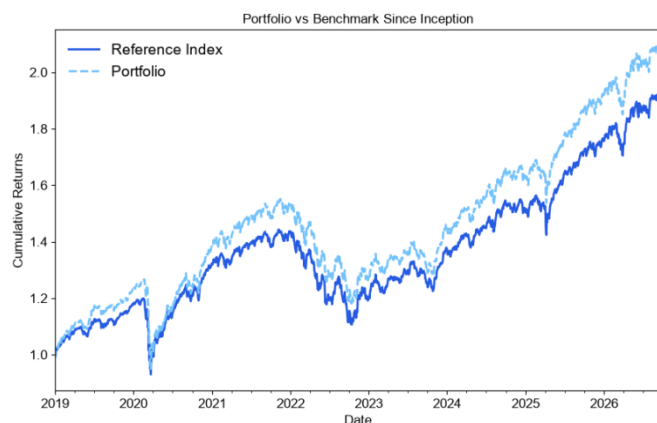
Allocation measured in units of under/overweight: -2 = Max Underweight; -1 = Underweight; 0 = Neutral; +1 = Overweight; +2 = Max Overweight; Assumes a roughly 12m horizon. ** In previous publications these asset classes were classified as: Equities – Asia ex-Japan (now Asia ex- China); Gov – Europe (now Gov – Europe Periphery); Gov – Germany (now Gov – Europe Core); Gov – EM Local (now Gov – EM Local ex- China)

Source: Citi Research

Historical Performance of Asset Allocation vs. Reference Index

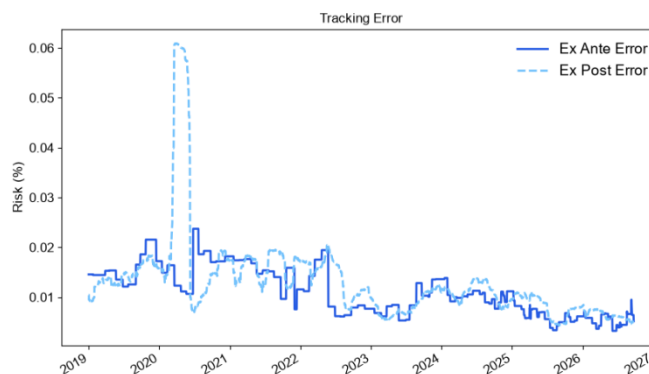
YTD, the reference index (as described in our [White Paper](#)) has returned 8.03%, whilst our portfolio has returned 7.98%, leaving an excess return of -4bp YTD (end of day September 23th). For the ex-ante tracking error, we target 400bp, but our conservative approach of using perfect correlation across positions results in much smaller ex-ante tracking errors. Our ex-post tracking error ran at 0.72%, calculated as a median of the last 3 months, and our current ex-ante error is running at 0.61%.

Figure 52. Historical Asset Allocation vs. Reference Index.



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Source: Citi Research

Figure 53. Historical Tracking Error vs Reference Index.



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Citi Views: Prospects for Returns to Mid-2027

- In Citi's asset class specialist's forecasts, TOPIX, MSCI China and MSCI EM are top performers to mid-2027.
- Brent is the underperformer at the end of 2026.
- Forecasts for Commodities, US rates, S&P 500, Global MSCI and US & EUR credit are only to end of 2026.

Figure 54. Citi Strategist End-2026 Targets and Implied Total Returns

	Spot	Citi Forecast Mid-2027	Implied Total Return to Mid-2027	Implied Total Return to Mid-2027 (USD)	Implied Total Return to Mid- 2027 (USD Hedged)
Equities²					
MSCI AC World	1376	1440	5.9%	5.9%	6%
S&P 500	7698	8100	6.1%	6.1%	6.1%
DJ Stoxx 600	636	700	12.4%	11.8%	13.5%
Topix	4075	5000	24.3%	29.1%	26.6%
FTSE 100	10680	10700	2.8%	2.5%	2.9%
MSCI EM	1749	2050	19.4%	19.1%	19.3%
MSCI Asia ex-JP	1160	1250	9.8%	9.6%	10.3%
MSCI China	73	92	26.2%	28.7%	28.6%
MSCI LATAM	3098	3300	11.3%	10.3%	7.2%
MSCI CEEMEA	270	275	5.5%	5.2%	3.8%
Rates³					
US	5.14	5.00	4.7%	4.7%	4.7%
EMU	4.22	4.01	5.0%	4.4%	6.1%
DE	3.60	3.38	3.9%	3.4%	5.1%
JP	3.08	2.95	4.1%	8.8%	6.4%
UK	5.38	4.70	9.5%	9.3%	9.6%
EM Local ex-China					
China					
US TIPS	2.81	2.80	4.8%	4.8%	4.8%
Credit⁴					
Citi US BIG Corp	78	90	0.0%	0.0%	0.0%
Citi US HY	284	305	1.7%	1.7%	1.7%
iBoxx EUR Corp	97	85	1.3%	0.7%	2.4%
iBoxx EUR HY	316	280	3.2%	2.7%	4.4%
Citi ESBIE \$	198	250	-1.1%	-1.1%	-1.1%
China \$	84	94	0.3%	0.3%	0.3%
Commodities⁵					
ICE Brent	126	68	-35.6%	-35.6%	-35.6%
LME Copper	14687	15000	1.9%	1.9%	1.9%
Gold	4276	5000	16.9%	16.9%	16.9%
BCOM Index	146	139	-4.5%	-4.5%	-4.5%
Foreign Exchange⁶					
Global USD	n/a	n/a	-0.1%	-0.1%	-0.1%
USD vs. DM	n/a	n/a	0.6%	0.6%	0.6%
USD vs. EM	n/a	n/a	-2.0%	-2.0%	-2.0%
Cash⁷					
SOFR	3.87	3.87	2.9%	2.9%	2.9%

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The Implied Total Returns are expressed here in local currency terms and only achievable by domestic investors 1) Non-USD returns converted using Citi FX forecasts vs. spot; USD hedged returns incorporate FX forward hedging cost; FI returns assume funding at 3m SOFR or equivalent local short rates 2) Only index targets set by Citi strategists, Bloomberg consensus forward dividend yield used to calculate implied total return; MSCI AC World forecast level refers to local index, it is aggregated excluding the US; MSCI EM forecast level refers to USD index; For countries where Citi does not forecast FX, no currency change is assumed (less than 1% of global index); 3) G4 targets shown are for 10yr yields whereas return forecasts are weighted across the curve. EMU yield (spot and forecast) calculated from weighted EGBI constituent country 10yr yields. EM and China Local Debt forecast (unobtainable as a product) derived from weighted EMGBI constituent country 5yr yield forecasts; EM local ex China Total Returns are USD unhedged. 4) Targets are on spreads. Since September 2022, credit returns represent spread returns (and do not incorporate government bond returns). 5) Targets are price forecasts vs. spot. The BCOM forecast is derived from the underlying constituent forecasts shown in the Commodity section below. Note that Citi does not forecast heating oil, gasoil, Kansas wheat, soybean oil, cotton, lean hogs, live cattle and feeder cattle. This corresponds to roughly 20% of the index where returns are assumed to be zero; 6) FX returns are GDP weighted USD returns vs. forwards; 7) SOFR return calculated from quarterly forecast path shown in the G10 rates section below. Note: EM Local doesn't include Russia. Libor 3m has also been changed in the December 2022 publication to SOFR. NB: Futures trading involves substantial risk of loss.

Source: Citi Research and Bloomberg

Metrics on Reference Index Constituents

Figure 55. Metrics on Constituents of Reference Index (Investable Universe)

	Sharpe Ratio	Mean Annual Return	Volatility	Correlation with CPI	Correlation with PMI
Equities					
US	0.45	9.6%	18.4%	0.04	0.15
EU	0.23	6.9%	21.9%	0.04	0.15
JP	0.15	5.0%	17.4%	0.03	0.18
UK	0.25	6.1%	19.7%	0.10	0.18
China	0.22	12.4%	36.2%	-0.01	0.12
Asia ex China	0.38	12.5%	24.5%	-0.11	0.10
EMEA	0.18	8.8%	28.5%	0.09	0.18
LATAM	0.24	12.2%	36.2%	0.15	0.19
Weighted Avg	0.39	9.19%	19.99%	0.03	0.15
Bonds					
US	0.76	3.30%	5.54%	-0.27	-0.17
Core Europe	0.36	4.01%	11.67%	-0.07	0.04
Periphery Europe	0.40	5.07%	12.25%	-0.03	0.07
UK	0.25	3.15%	12.39%	-0.01	0.04
JP	-0.04	0.35%	11.33%	-0.12	-0.11
China	0.91	4.84%	6.59%	-0.11	-0.17
EM ex China	0.15	3.32%	11.95%	-0.06	0.11
US Real Rates	0.84	4.64%	6.66%	-0.02	0.05
EU Real Rates	0.39	4.99%	12.50%	0.03	0.11
Weighted Avg	0.45	3.27%	9.22%	-0.13	-0.05
Credit					
US IG	0.79	4.95%	7.09%	-0.18	0.06
US HY	0.73	8.06%	15.11%	0.06	0.21
EU IG	0.42	4.62%	12.56%	0.00	0.12
EU HY	0.43	9.56%	25.61%	0.08	0.18
EM External	0.80	7.41%	10.72%	-0.02	0.19
China	0.26	2.92%	6.28%	-0.27	0.06
Weighted Avg	0.66	5.39%	10.22%	-0.09	0.10
Commodities					
Energy	-0.09	-1.46%	31.19%	0.30	0.14
Base Metals	0.20	8.39%	30.33%	0.17	0.26
Precious Metals	0.49	9.93%	16.29%	0.04	0.11
Weighted Avg	0.61	16.86%	77.80%	0.51	0.51
Reference Index	0.61	6.78%	11.31%	0.01	0.15

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Source: Citi Research

FX Hedging Considerations

To help asset allocators think about their FX exposures, we show 1y FX hedging costs from the viewpoint of a USD, EUR, JPY, GBP, CHF, and CNY-based investor, as well as include USD-hedged returns for all assets in the main returns table in Figure 56.

Figure 56. FX Hedging Cost Comparisons – 1y Horizon

			1y Hedging Cost Back into:					
Asset		Yield (%)	USD	EUR	JPY	GBP	CHF	CNY
USD	<i>Equities</i>	3.7	-	1.5%	3.1%	0.1%	4.5%	3.3%
	<i>Govt</i>	5.1						
EUR	<i>Equities</i>	5.6	-1.5%	-	1.6%	-1.4%	3.0%	1.8%
	<i>Govt</i>	3.6						
JPY	<i>Equities</i>	5.5	-3.0%	-1.5%	-	-2.9%	1.4%	0.2%
	<i>Govt</i>	3.1						
GBP	<i>Equities</i>	6.7	-0.1%	1.4%	3.0%	-	4.4%	3.1%
	<i>Govt</i>	5.4						
CNY	<i>Equities</i>	8.0	-3.2%	-1.7%	-0.1%	-3.1%	1.2%	-
	<i>Govt</i>	1.7						
MSCI AC World Equities (Weighted)		4.4	-0.4%	1.1%	2.6%	2.6%	4.0%	2.8%
MSCI EM Equities (Weighted)		6.1	0.0%	1.4%	3.0%	0.1%	4.4%	3.2%
EM Local Rates Ex-China (Weighted)		6.3	0.5%	2.3%	3.0%	1.6%	3.7%	3.1%

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Source: Bloomberg and Citi Research

Ranking of Return and Sharpe Ratio Forecasts

Ranking Citi strategists' total return forecasts (Figure 57), China equities and Japan equities come out on top.

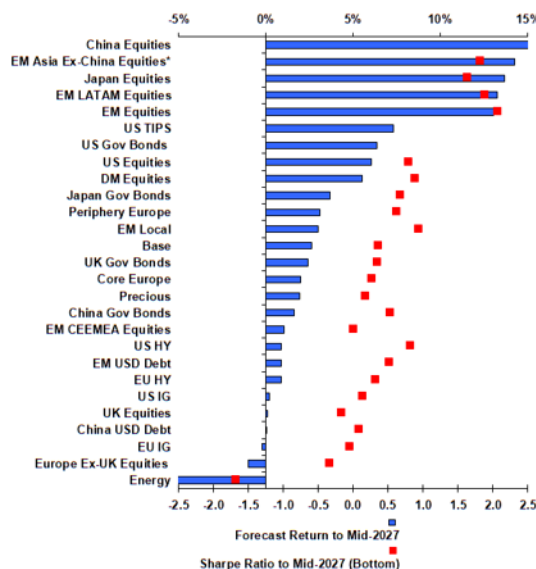
Figure 57. Assets Ranked by Total Return Forecast

Rank	Asset	Forecast Return to Mid-2027	Sharpe Ratio to Mid-2027
1	China Equities	24.3%	3.4
2	EM Asia Ex-China Equities*	14.2%	1.8
3	Japan Equities	13.7%	1.6
4	EM LATAM Equities	13.2%	1.9
5	EM Equities	13.0%	2.0
6	US TIPS	7.3%	4.7
7	US Gov Bonds	6.4%	3.9
8	US Equities	6.0%	0.8
9	DM Equities	5.5%	0.9
10	Japan Gov Bonds	3.7%	0.7
11	Periphery Europe	3.1%	0.6
12	EM Local	3.0%	0.9
13	Base	2.6%	0.3
14	UK Gov Bonds	2.4%	0.3
15	Core Europe	2.0%	0.2
16	Precious	1.9%	0.2
17	China Gov Bonds	1.6%	0.5
18	EM CEEMEA Equities	1.1%	0.0
19	US HY	0.9%	0.8
20	EM USD Debt	0.9%	0.5
21	EU HY	0.9%	0.3
22	US IG	0.2%	0.1
23	UK Equities	0.1%	-0.2
24	China USD Debt	0.1%	0.1
25	EU IG	-0.2%	-0.1
26	Europe Ex-UK Equities	-1.0%	-0.4
27	Energy	-27.7%	-1.7

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Source: Citi Research *EM Asia Ex-China Equities is historic price return.

Figure 58. Assets Ranked by Total Return Forecast



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Source: Citi Research *EM Asia Ex-China Equities is historic price return.

On a Sharpe ratio basis (Figure 59), US TIPS and US Gov Bonds are the outperformers.

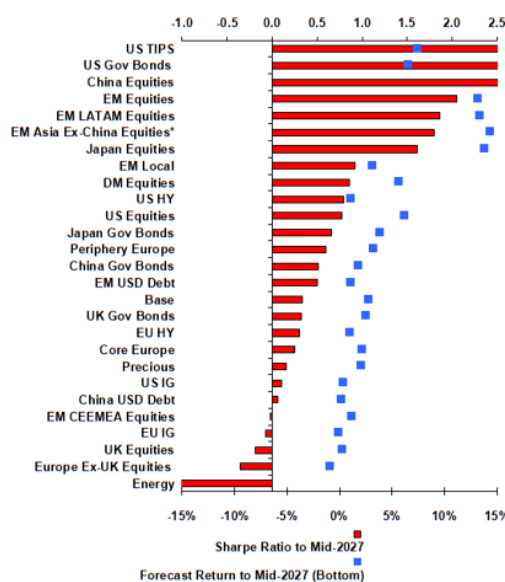
Figure 59. Assets Ranked by Sharpe Ratio Forecast

Rank	Asset	Sharpe Ratio to Mid-2027	Forecast Return to Mid-2027
1	US TIPS	4.7	7.3%
2	US Gov Bonds	3.9	6.4%
3	China Equities	3.4	24.3%
4	EM Equities	2.0	13.0%
5	EM LATAM Equities	1.9	13.2%
6	EM Asia Ex-China Equities*	1.8	14.2%
7	Japan Equities	1.6	13.7%
8	EM Local	0.9	3.0%
9	DM Equities	0.9	5.5%
10	US HY	0.8	0.9%
11	US Equities	0.8	6.0%
12	Japan Gov Bonds	0.7	3.7%
13	Periphery Europe	0.6	3.1%
14	China Gov Bonds	0.5	1.6%
15	EM USD Debt	0.5	0.9%
16	Base	0.3	2.6%
17	UK Gov Bonds	0.3	2.4%
18	EU HY	0.3	0.9%
19	Core Europe	0.2	2.0%
20	Precious	0.2	1.9%
21	US IG	0.1	0.2%
22	China USD Debt	0.1	0.1%
23	EM CEEMEA Equities	0.0	1.1%
24	EU IG	-0.1	-0.2%
25	UK Equities	-0.2	0.1%
26	Europe Ex-UK Equities	-0.4	-1.0%
27	Energy	-1.7	-27.7%

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Source: Citi Research *EM Asia Ex-China Equities is historic price return.

Figure 60. Assets Ranked by Sharpe Ratio Forecast



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Source: Citi Research *EM Asia Ex-China Equities is historic price return.

Asset Class Specialists' Views

Figure 61. Asset Class Specialists' Views

Global Economics		Global Economic Outlook & Strategy: Global Resilience—Sunshine Despite Very Cloudy Skies
Global FX		Foreign Exchange Forecasts: September 2026
Rates	US	US Rates Weekly: Only hawks outside the window
	Europe	European Multi-Asset: 2027 Presidential Elections in France: Why they matter
	Japan	Japan Rates Weekly: Yen weakness acceptable at effectively fastest rate hike pace?
	EM	Emerging Markets Strategy Weekly: Rough Waters Ahead
Equities	US	US Equity Strategy: Midterm Election Perspective
	Europe	European Equity Strategy Multi-Asset: European Equities and the Natural Gas Price Shock: Less Vulnerable This Time?
	Japan	Japan Strategy: Post-MPM equity strategy: Return to growth driven by flattening
	EM	Global Equity Strategy: The Fed and the Long End
Credit	US IG	US High-Grade Credit: AI and Credit Markets: The Buildout, The Risks, and How to Price Them
	US HY	The Speculative Grade Beat: Ten Billion Debut: AI's Record-Setting HY Entrance
	Europe	European Credit Insights: Rates, REITs and Refis
	EM	EM Credit Weekly: Navigating asymmetric macro risks
Commodities		Oil Monitor: Uncertain times: Geopolitical disruptions spread to the Saudi bypass pipe, to prompt regional dealmaking

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Source: Citi Research

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Appendix A-1

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