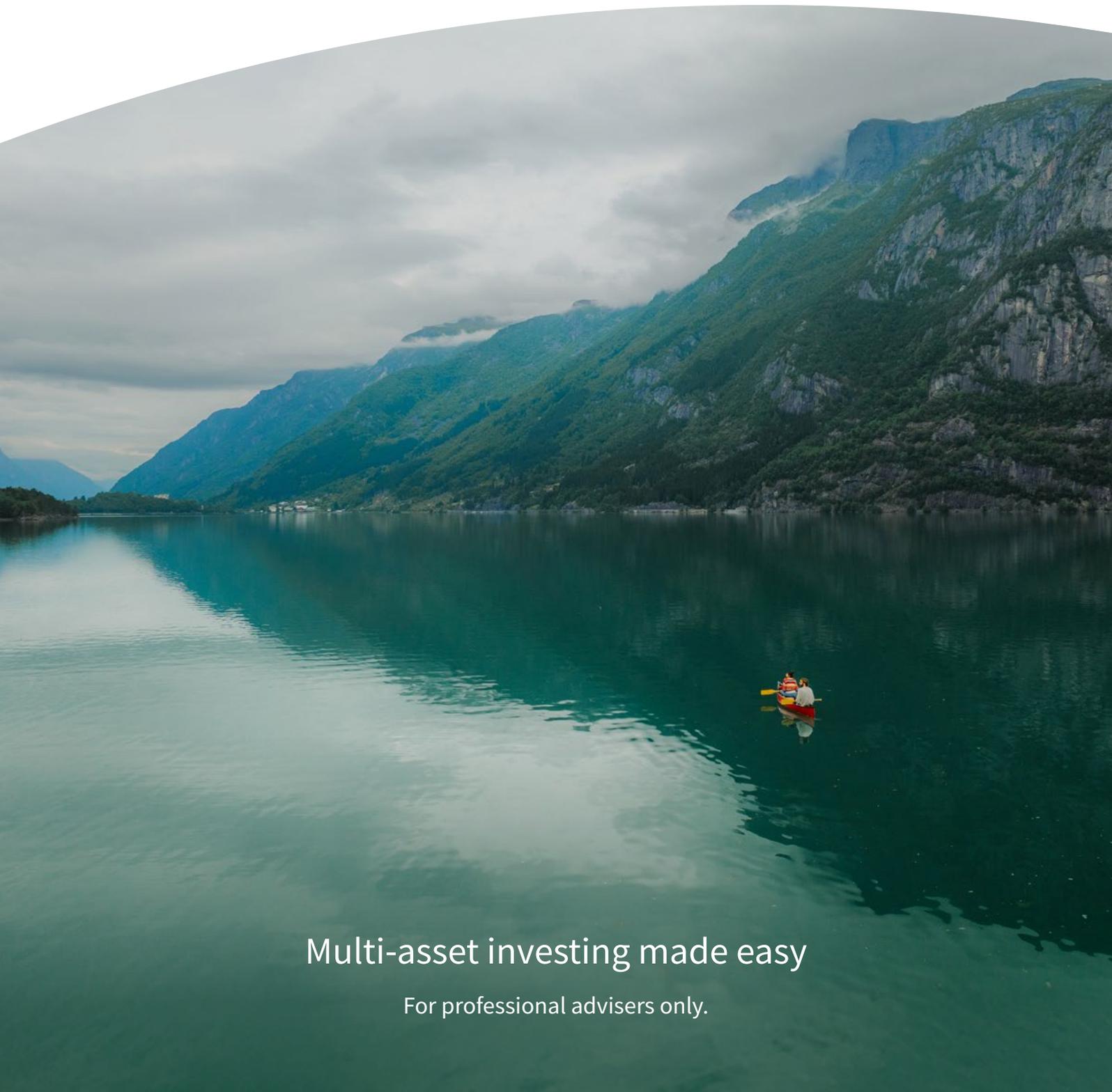


Strategic Asset Allocation 2026



Multi-asset investing made easy

For professional advisers only.

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Introduction

Welcome to the asset allocation update for the AJ Bell Funds and MPS range. This document is designed to explain the changes being made to the AJ Bell range of investment solutions for 2026, which consider the current market conditions and long-term outlook for different asset classes around the world.

How it works

- The Strategic Asset Allocation sets the long-term direction of travel for portfolios.
- The Tactical Asset Allocation is adjusted to ensure portfolios provide the right type of journey for clients.

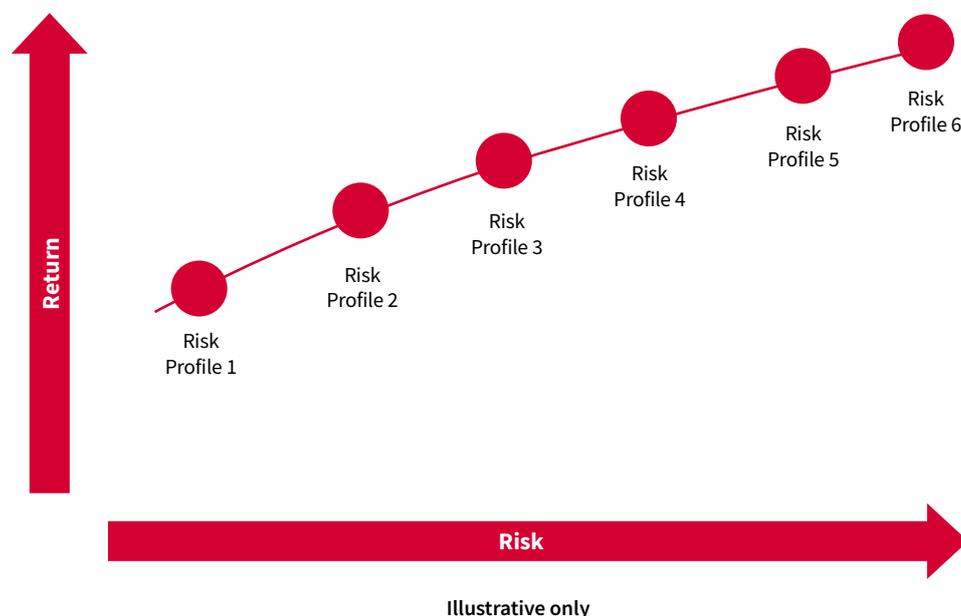
2026 highlights

- Bond allocations are focused on inflation risk with added global diversification.
- Equity market diversification has been enhanced with US sector opportunities.



A reminder of the investment approach

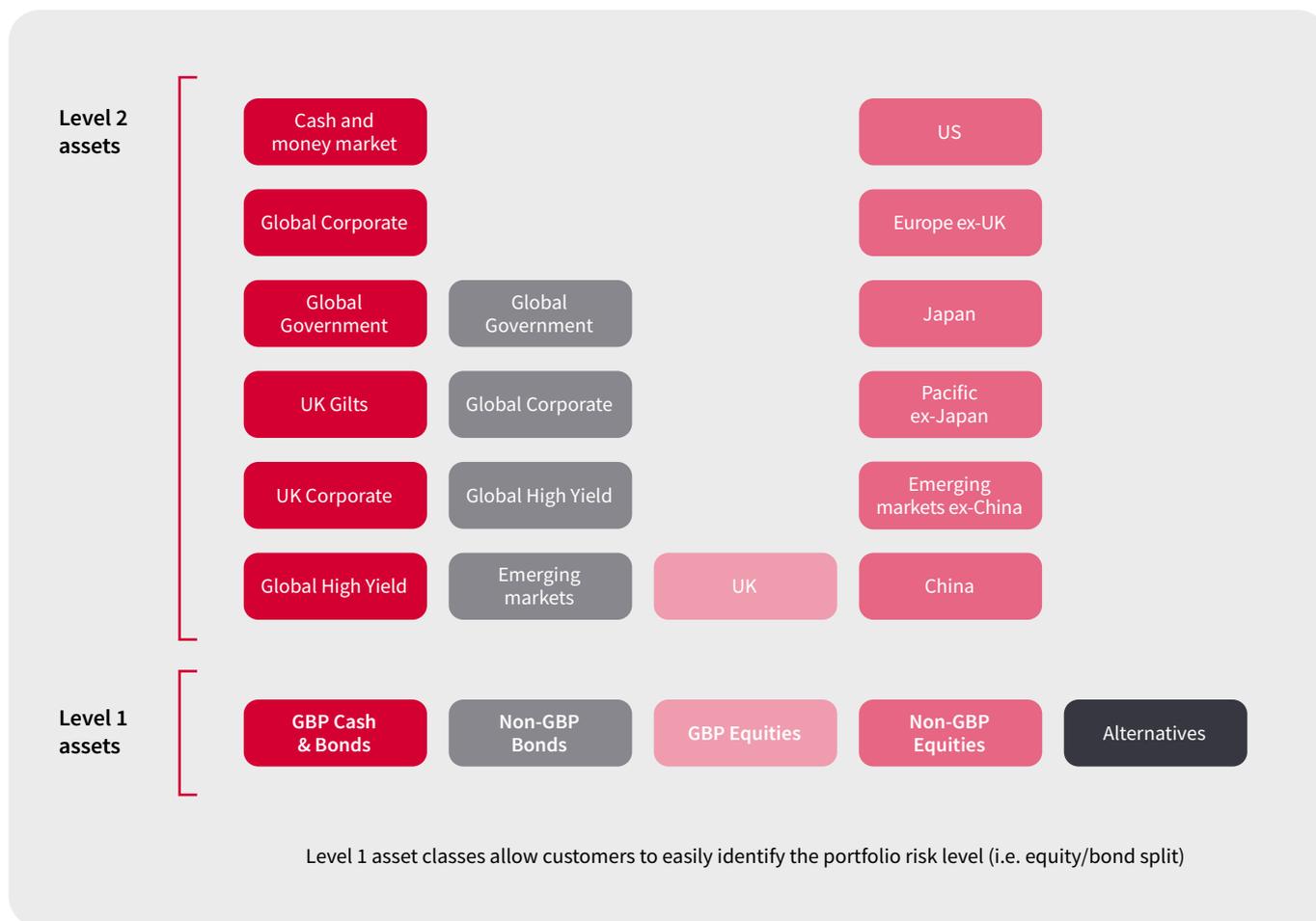
The AJ Bell Funds and MPS are designed to behave in a predictable manner around pre-defined levels of risk as measured by volatility. Our Investment Team uses a set of Capital Market Assumptions (CMAs) for selected asset classes to construct a range of portfolios that sit on or close to the efficient frontier using a Mean Variance Optimiser (MVO) following the principles of Nobel Prize winner Harry Markowitz.



The Strategic Asset Allocation (SAA) process is focused on five defined high-level 'buckets' (Level 1) that see the level of exposure varied depending on the level of risk being taken:

- Money market funds, cash and cash equivalents, and UK bonds
- International bonds (unhedged)
- UK equities
- International equities
- Alternatives

Sitting underneath these core asset classes, 17 sub-asset classes (Level 2) are optimised using the MVO to build the most efficient portfolio possible for the given level of risk, taking into account the constraints that have been built into the optimisation process.



For 2026, we've introduced two sterling-hedged versions of global bonds into the optimisation process: global government bonds and global corporate bonds. These will give us greater choice in terms of lower-risk asset classes.

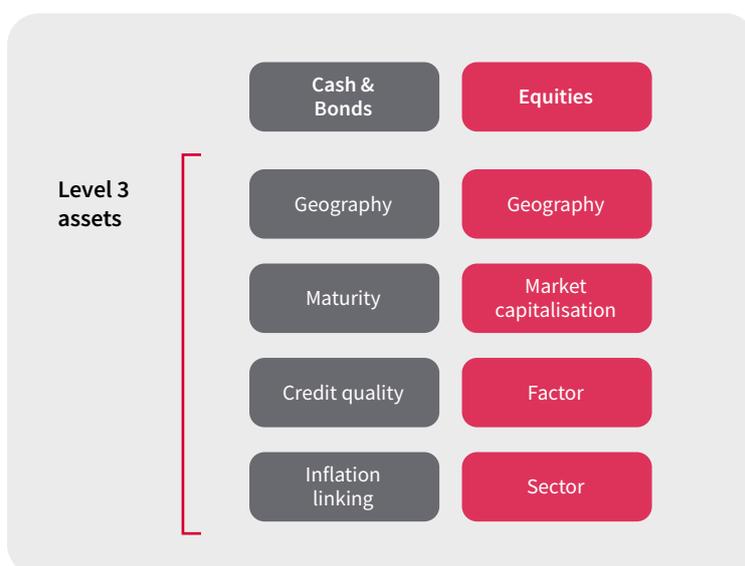


Tactical Asset Allocation (TAA)

It's important to remember that the optimiser is an unemotional beast that lacks context around current market conditions. Instead, it simply takes the inputs of long-term expected returns, correlations and volatility and gives its most efficient portfolio i.e. the one with the highest annual return for the level of risk being taken. However, there are occasions when manual intervention is required in the form of tactical adjustments.

Where our Investment Team sees an opportunity to enhance the risk adjusted return, either by increasing the return or reducing the risk, a tactical adjustment may be made to the strategic asset allocation. Importantly, these are not short term 'calls' on the market, but well-evidenced adjustments that consider current market or macro-economic conditions that are outside the scope of the optimiser.

Significant adjustments are relatively infrequent, given clear mispricing of risk or returns is not a regular occurrence within broad asset classes. In all instances, the adjustments are implemented within strict 'tramlines' to ensure that each risk-targeted portfolio doesn't stray outside of its designated risk band. Any TAA we undertake must operate within the set confines of the Level 1 asset class and takes place by either adjusting the relative weight of the Level 2 assets or by considering Level 3 assets. These Level 3 assets can be thought of differently across equities and bonds as shown in the graphic.



Market backdrop

- Risk-on market backdrop.
- UK, European and Emerging Market equities outperforming the US.
- Inflation uncertainty influencing government bonds .
- Corporate bonds lifted by benign global economy.

2025 was another good year for riskier assets with strong equity returns across the board, including the much-maligned UK equity market. UK based investors' attention turned to currency, as the continued rise of US equities was somewhat eroded by US dollar weakness, however on the flipside, returns in European equities were boosted by currency moves. After the volatility of the second quarter and the trade war, equity markets were calmer than usual as the AI theme continued to unfold.

Bond markets saw one key distinction, between corporate credit, and government bonds. Although interest rates were cut across key regions, government bonds had to contend with inflation uncertainty and political factors. Corporate credit enjoyed the benign economic environment, with riskier high yield bonds a standout performer as investors embraced higher risk assets.

We often say there is no telling what will capture the markets' attention in the near term, but long-term returns are frequently dictated by valuations.

Capital Market Assumptions (CMAs) – where are we today

- Equity market valuations are higher.
- Government bond yields balanced between rates cuts and higher than target inflation.
- Credit spreads are near record-lows.

Despite declining interest rates, yields on major government bond indices in the UK and US are little changed year-on-year. This contrasts with corporate bonds, where yields have fallen and so credit spreads have narrowed. Corporate bonds continue to offer an additional yield that is useful in the battle against inflation and some investors are increasingly viewing them as lower risk than government debt in a time of continued fiscal expansion.

Equity markets had another positive year in 2025 and future expected returns from most markets have declined as a result. What is most interesting is that rising earnings in the US have largely offset the rise in equity markets, whereas in other regions we've witnessed a rise in the valuation multiple. For the second year in a row, the difference in expected returns across equity markets has narrowed.

Strategic Asset Allocation (SAA) – the year ahead

Level 1

- Greater global diversification

The most prominent move within the high-level asset allocation (Level 1) is between non-GBP bonds and their GBP counterparts. In 2026 we have introduced global government and global corporate bond assets classes in GBP hedged form. The yields are attractive relative to their volatility, and crucially they are not historically as volatile as UK gilts. In higher risk portfolios, cash falls in favour of increased equity risk, which is a more efficient use of capital given the acceptance of higher expected volatility.

The portfolios after the optimisation step of the process are shown in the Level 1 allocation in Table 1.

Table 1

Level 1 2026 AJB positions	Risk Profile 1	Risk Profile 2	Risk Profile 3	Risk Profile 4	Risk Profile 5	Risk Profile 6
GBP money market funds, cash and cash equivalents and bonds	69.0%	47.0%	33.0%	17.0%	6.0%	1.0%
Non-GBP bonds	5.0%	5.0%	5.0%	4.0%	3.0%	-
GBP equities	6.0%	12.0%	14.0%	18.0%	21.0%	24.0%
Non-GBP equities	20.0%	36.0%	48.0%	61.0%	70.0%	75.0%
Changes year-on-year	Risk Profile 1	Risk Profile 2	Risk Profile 3	Risk Profile 4	Risk Profile 5	Risk Profile 6
GBP money market funds, cash and cash equivalents and bonds	+4.0%	+1.0%	+1.0%	-	-1.0%	-1.0%
Non-GBP bonds	-4.0%	-1.0%	-1.0%	-	-	-
GBP equities	-	-	-	-	-	-
Non-GBP equities	-	-	-	-	+1.0%	+1.0%

Level 2

- Cash reduced in favour of government bond exposure.
- Tactical allocation to inflation-linked bonds.
- Increased US equity.
- Reduction in Emerging Markets ex China and Europe ex UK.

At the more granular asset allocation, Level 2, there are several changes. As interest rates have declined over 2025 the prospective return on money market funds and cash equivalents has fallen. In conjunction, there is now a better yield on government bonds, which makes a switch attractive. Money market funds and cash equivalents remain an important anchor within the asset allocation, particularly within the lower risk portfolios.

For 2026 the optimisation has also considered a hedged allocation to global government and global corporate bonds, in addition to the unhedged versions we have held in the past. We've used this opportunity to diversify bond exposure further, particularly into inflation protected bonds, global corporate bonds and Europe – more on that later.

Within equities, with valuation spreads narrowed, a further rotation towards the US has been seen. The US remains an attractive home for equity capital, in our view, however given the scale of the increase we made some tactical alterations to avoid increasing exposure to the largest stocks in the index. This increase has largely been funded from European equities. We remain positive on the outlook for European equities, but the optimisation has kept that enthusiasm in check by considering the higher volatility that comes with them.

Table 2

Level 2 2026 AJB positions	Risk Profile 1	Risk Profile 2	Risk Profile 3	Risk Profile 4	Risk Profile 5	Risk Profile 6
Money market funds, cash and cash equivalents	23.0%	13.0%	7.0%	3.0%	1.0%	1.0%
UK gilts	12.0%	4.0%	3.0%	-	-	-
UK corporate bonds	8.0%	8.0%	6.0%	4.0%	-	-
Global government bonds (GBP hedged)	11.0%	10.0%	6.0%	3.0%	-	-
Global corporate bonds (GBP hedged)	10.0%	7.0%	4.0%	-	-	-
Global high yield bonds (GBP hedged)	5.0%	5.0%	7.0%	7.0%	5.0%	-
Global government bonds	-	-	-	-	-	-
Global corporate bonds	-	-	-	-	-	-
Global high yield bonds	-	-	-	-	-	-
Emerging market debt	5.0%	5.0%	5.0%	4.0%	3.0%	-
Cash and bonds	74.0%	52.0%	38.0%	21.0%	9.0%	1.0%
UK equity	6.0%	12.0%	14.0%	18.0%	21.0%	24.0%
Europe ex UK equity	3.0%	4.0%	6.0%	7.0%	10.0%	13.0%
US equity	13.0%	20.0%	25.0%	30.0%	30.0%	23.0%
Japan equity	-	4.0%	6.0%	7.0%	6.0%	8.0%
EM ex China equity	4.0%	5.0%	7.0%	9.0%	15.0%	20.0%
Pacific ex Japan equity	-	-	-	3.0%	3.0%	3.0%
China equity	-	3.0%	4.0%	5.0%	6.0%	8.0%
Equities	26.0%	48.0%	62.0%	79.0%	91.0%	99.0%
Changes	Risk Profile 1	Risk Profile 2	Risk Profile 3	Risk Profile 4	Risk Profile 5	Risk Profile 6
Money market funds, cash and cash equivalents	-3.0%	-6.0%	-4.0%	-1.0%	-1.0%	-1.0%
UK gilts	-	-2.0%	+3.0%	-	-	-
UK corporate bonds	-8.0%	-5.0%	-6.0%	-4.0%	-	-
Global government bonds (GBP hedged)	+5.0%	+7.0%	+2.0%	+3.0%	-	-
Global corporate bonds (GBP hedged)	+10.0%	+7.0%	+4.0%	-	-	-
Global high yield bonds (GBP hedged)	-	-	+2.0%	+2.0%	-	-
Global government bonds	-3.0%	-	-	-	-	-
Global corporate bonds	-	-	-	-	-	-
Global high yield bonds	-	-	-	-	-	-
Emerging market debt	-1.0%	-1.0%	-1.0%	-	-	-
Cash and bonds					-1.0%	-1.0%
UK equity	-	-	-	-	-	-
Europe ex UK equity	-1.0%	-2.0%	-2.0%	-3.0%	-6.0%	-3.0%
US equity	+1.0%	+3.0%	+4.0%	+5.0%	+9.0%	+7.0%
Japan equity	-	-	-	-	-1.0%	-1.0%
EM ex China equity	-	-1.0%	-2.0%	-2.0%	-1.0%	-1.0%
Pacific ex Japan equity	-	-	-	-	-	-1.0%
China equity	-	-	-	-	-	-
Equities					+1.0%	+1.0%

2026 Tactical Asset Allocation and implementation

- Mix of nominal and inflation-protected bonds.
- Passive portfolios increasing US diversification.

Tactical changes to the asset allocations are focused on where we see a difference in what risks the optimisation is viewing. There are two main limitations: first, the model relies on historical data and cannot account for current economic or market conditions. Second, it only considers major asset classes, while we can analyse more detailed components, such as specific countries or sectors.

Bonds

Within bonds, we remain focused on the shape of the yield curve and whether it offers enough protection from our view of heightened inflation uncertainty i.e. are we being compensated enough for lending for longer? We are not certain on this point, and portfolios therefore remain short duration. We see some attractive real yields now available in the UK, in addition to those we have been successfully utilising in the US over the last year.

Diversification is a topic less discussed within bond markets, but something we feel has an increasing role as debt levels continue to rise across much of the world. Within government bonds that means we are now seeking to diversify across Europe, particularly in Germany and France, in addition to the UK and US, but stopping short of taking on the wider risks associated with the global government bond market.

Table 3

2026 AJB positions	Duration	Currency	Risk Profile 1	Risk Profile 2	Risk Profile 3	Risk Profile 4	Risk Profile 5	Risk Profile 6
Gilts	Standard	GBP	6.0%	-	-	-	-	-
Gilts	Short	GBP	3.0%	2.0%	-	-	-	-
Index-linked gilts	Short	GBP	3.0%	2.0%	3.0%	-	-	-
US TIPS	Short	GBP hedged	6.0%	6.0%	6.0%	3.0%	-	-
US Treasuries	Short	GBP hedged	2.5%	2.0%	-	-	-	-
Euro government	Short	GBP hedged	2.5%	2.0%	-	-	-	-

Passive funds and MPS

- Diversification: shift to sector allocations to enhance portfolio diversification.
- Sector focus: defensive (Healthcare, Utilities) for stability; Energy for cyclical upside.
- Strategy: barbell approach – balance resilience with growth potential, leveraging AI benefits.

The increased allocation to US equities creates a pause to think about the increasing concentration of the US market. Whilst the allocation is still short of that across global market cap indices, we recognise these risks within portfolios. We've therefore taken more expansive action to diversify and at the same time take advantage of valuation opportunities in sectors that have the potential to benefit from AI implementation.

Rather than a single equal-weight S&P 500 allocation as we did in 2025, US sectors are tailored to portfolio risk profiles. Lower-risk portfolios emphasise defensive sectors – Healthcare and Utilities – offering resilience and upside potential, while retaining some cyclical exposure via the equal-weight index. Higher-risk portfolios seek greater cyclicity through energy alongside the index.

- Defensive sectors: Healthcare and Utilities offer stability and AI-driven efficiency gains – automation, predictive analytics, and smart grid optimisation.
- Energy: undervalued with cyclical upside; rising AI power demand adds long-term relevance despite net-zero challenges.

2026 AJ Bell Fund and Passive MPS positions	Risk Profile 1	Risk Profile 2	Risk Profile 3	Risk Profile 4	Risk Profile 5	Risk Profile 6
US market cap	7.0%	12.0%	15.5%	19.0%	18.0%	14.0%
US equal weight	2.0%	4.0%	3.5%	5.0%	5.5%	3.5%
US healthcare	2.0%	2.0%	2.0%	2.0%	3.5%	2.5%
US energy	-	-	2.0%	2.0%	3.0%	3.0%
US utilities	2.0%	2.0%	2.0%	2.0%	-	-
US equities	13.0%	20.0%	25.0%	30.0%	30.0%	23.0%

Active MPS

- UK – adding the Evenlode Income fund to Growth MPS for quality exposure.
- US – sector allocations added with balanced approach to active managers.
- Japan – wider use of the M&G Japan fund to blend with the Jupiter Japan Income fund

UK

The growth portfolios have been using a blend of the JPM UK Equity Plus fund and the Man Income fund, covering the core and more value-orientated styles that are common in the UK active fund market. For 2026 we have introduced the more quality-orientated Evenlode Income fund to give a better spread across styles. The quality style has significantly underperformed the market in recent years, and this presents the opportunity to add high quality and defensive companies to the portfolios at an attractive valuation.

US

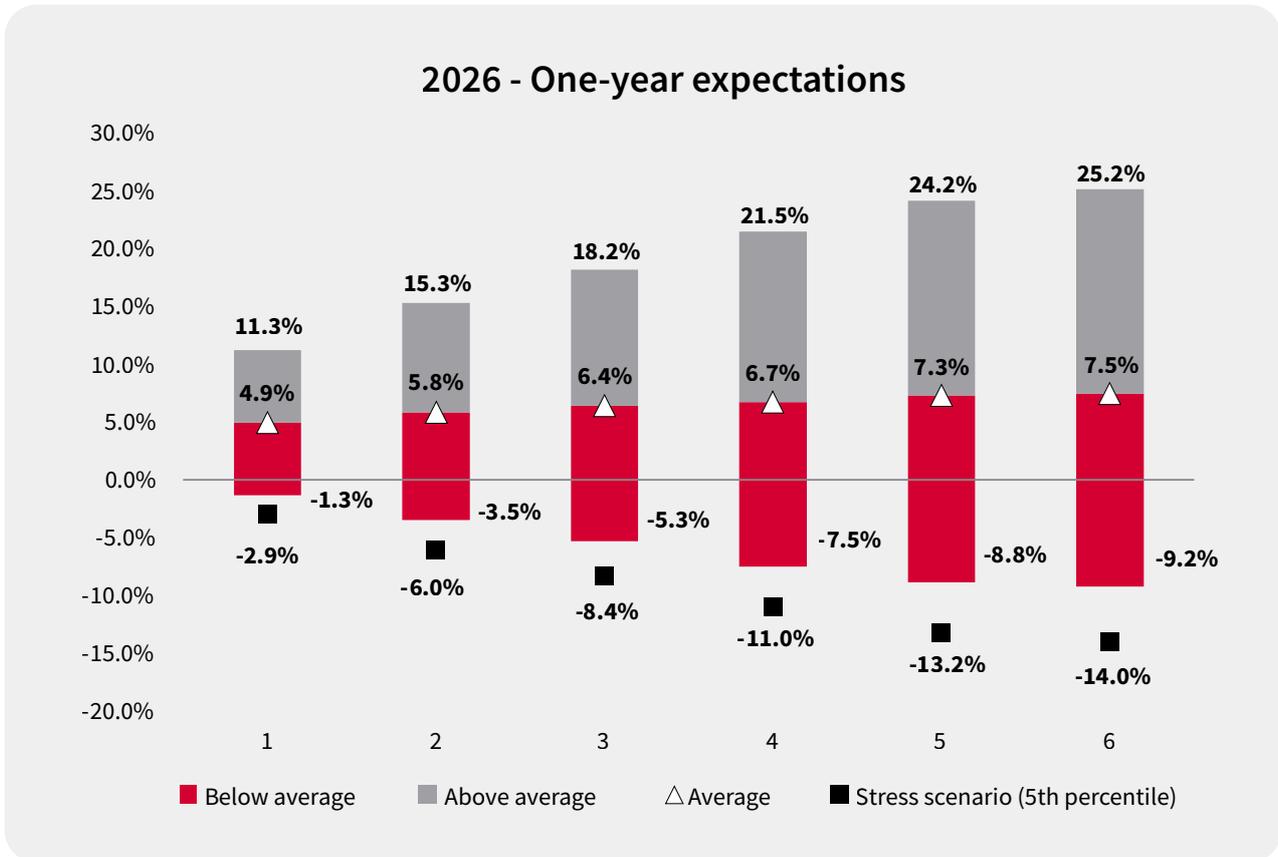
The active managers used in the US do give a different sector composition to the wider market, however we have used specific sector ETFs to tilt to the opportunities we see across Utilities, Healthcare and Energy.

Japan

The Jupiter Japan Income fund has been the sole allocation to Japan in most portfolios in recent years. This year we have also introduced the M&G Japan fund to blend the two different styles together. The Jupiter fund takes a more quality growth-orientated approach, and drifts lower down the market cap spectrum, whilst the M&G fund is closer to the index.

Managing expectations – a range of outcomes

Each of the AJ Bell Funds and MPS portfolios is designed to maximise the return for a specific level of risk. However, returns will vary over time as the market moves. The chart below shows the long-term expected returns alongside the variability of these returns based on the 2026 asset allocation.



Outlook

As we move into 2026, the investment environment continues to present a range of possibilities. Diversification, a core principle of the investment process here at AJ Bell, is as relevant as ever. Whilst narratives capture the headlines, ensuring the portfolios are built to be robust in different scenarios remains our focus.

As equity market dynamics change there may be more opportunities we can capture whilst maintaining the diversification discipline. Much of that will depend on how the AI theme plays out. In fixed income, the shape of the yield curve will be a key factor in decision making around duration and any move away from the current cautious stance.

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The value of investments can go down as well as up and you may not get back your original investment.

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