

Multi-asset market outlook

Why markets are watching rising defense spending

June 2026

General overview

AI capital expenditure raises demand for Asian semiconductor chips

Multi asset	1mo	3mo	YTD	1yr	3yr	5yr
Emerging Markets (UH, EUR)	10.3%	10.7%	26.4%	50.1%	21.4%	8.5%
Emerging Markets (LC)	9.7%	11.1%	26.8%	57.6%	26.6%	10.3%
MSCI World (UH, EUR)	5.1%	8.5%	11.2%	24.0%	18.3%	13.0%
MSCI World local currency	4.7%	7.6%	10.4%	27.4%	21.4%	12.7%
MSCI World (H, EUR)	4.7%	7.0%	9.7%	25.2%	19.7%	11.1%
EMD hard currency (UH, EUR)	1.2%	0.8%	2.0%	6.3%	5.8%	2.6%
EMD local currency (UH, EUR)	1.0%	-1.6%	0.8%	4.3%	3.8%	2.5%
Global investment grade bonds (H, EUR)	0.7%	-1.0%	0.2%	3.4%	3.9%	-0.8%
Global high yield (H, EUR)	0.7%	0.5%	1.4%	7.0%	9.1%	2.8%
Global inflation-linked bonds (H, EUR)	0.5%	-1.0%	1.3%	3.0%	1.2%	-2.6%
Global Gov Bonds (H, EUR)	0.4%	-2.0%	-0.6%	0.4%	0.9%	-2.0%
Cash (EUR)	0.2%	0.5%	0.8%	2.1%	3.1%	2.0%
Gold (USD)	-1.2%	-13.0%	5.0%	37.4%	31.3%	18.4%
Global real estate (UH, EUR)	-1.5%	-0.7%	12.7%	13.5%	10.1%	5.4%
GSCI Commodities (USD)	-7.1%	23.9%	38.5%	47.0%	16.7%	17.7%
Oil Index (USD)	-13.3%	49.4%	76.4%	82.4%	27.7%	21.9%

Risks assets continue to perform strongly as tensions in the Gulf ease

- > Global equities delivered solid gains in May, supported by resilient manufacturing sector surveys and a strong earnings season. Emerging markets outperformed, driven by demand for semiconductors in the AI capex build-out.
- > Oil and other commodities diverged, with oil declining sharply on easing geopolitical risk dragging the commodity indices lower. Industrial metals traded higher, reflecting resilient manufacturing activity signals and companies building stockpiles.
- > Fixed income returns were modest, with emerging market debt leading the way, mirroring the equity outperformance over developed markets. Credit and high yield delivered moderate outperformance, benefiting from tight spreads and continued investor demand for carry.

Past performance is no guarantee of future results. The value of your investments may fluctuate.

Source: Robeco, Bloomberg. Returns are in euros. All market data to 29 May 2026 unless mentioned otherwise.

Theme of the month: *Why markets are watching defense spending*

Rising geopolitical strategic ambiguity

After a year of tariff wars, geopolitical risks have risen again as the start of the US-Iran war in February accelerated the focus on defense. The great reset that is taking place has meant that countries around the world are already adapting to numerous evolving trends as security independence features high on the agenda. More resilient supply-chains are needed to navigate an uncertain economic landscape, where de-globalization and reshoring are re-shaping the capacity potential of the manufacturing sector which absorbs this higher spending.

Against this evolving backdrop, European allies and Canada military spending (based on the NATO defense spending tracker) has outpaced previous expectations, increasing by 20% in 2025, setting the scene ahead of the July NATO summit in Ankara for this trend to continue.

Adding to the strategic importance of defense autonomy, the recent events in the Middle East have also increased the complexities around the impact of higher spending on government budgets. As seen in the latest IMF fiscal monitor defense spending pressures is now one of the top 10 fiscal risks identified for advanced economies.

Top fiscal risks identified in IMF staff reports on advanced economies

(Percent of countries)



Source: IMF Fiscal Monitor April 2026. IMF staff calculations based on data from 32 IMF staff reports on advanced economies published in 2025 using the Fiscal Monitor AI Analyst, a custom large-language-model pipeline

Theme of the month: *Why markets are watching defense spending*

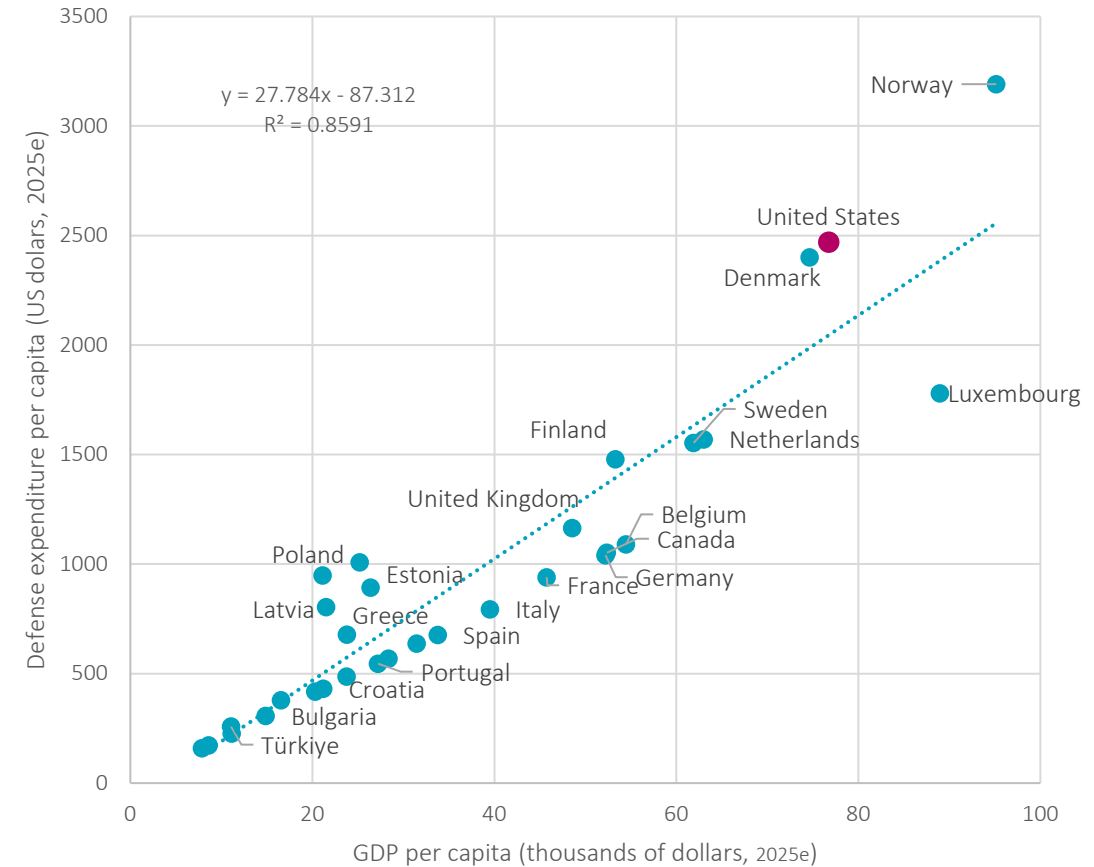
The prime motivators for increased defense spending

Looking across European NATO states, the level of defense spending has a clear diminishing distribution from East to West with several factors at play.

Geographical proximity to conflict zones can explain a significant proportion of the variation in defense spending. Countries with a relatively high GDP per capita tend to spend more as they can afford to, without compromising other public spending.

For countries with a relatively strong domestic defense industry like France and the UK, we find that military expenditure as a percentage of GDP tends to be also higher. Finally, fiscal constraints which have been traditionally a key limiting factor on rising military expenditures also play a key role.

GDP per capita (*1000 USD) vs defense spending per capita



Source: Robeco, NATO.

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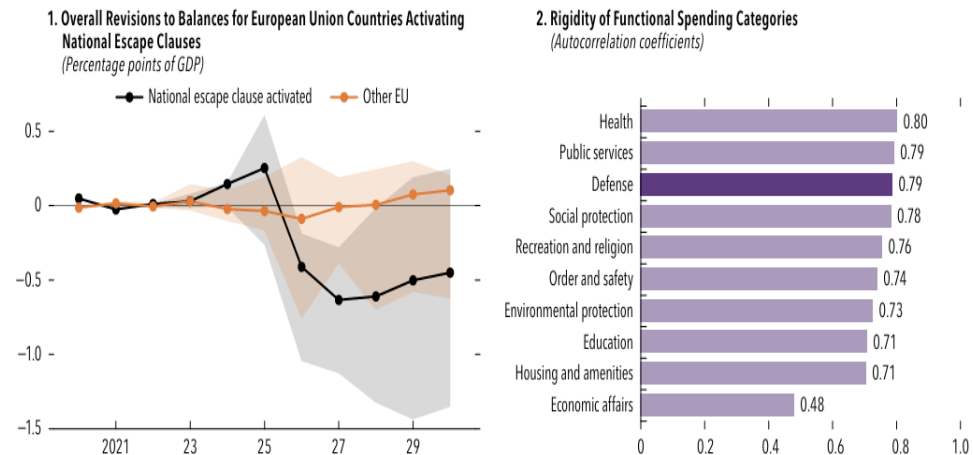
The fiscal price of increased geopolitical risk

The fiscal expansion needed to accommodate higher spending is unlikely to be transitory in Europe as defense expenditures tend to be rigid. For now, the activation of national escape clauses has provided some leeway for European countries to circumvent fiscal rules constraints, with the potential for structural increases in debt levels if the spending is not offset by other policies.

Turning to the US, one also needs to take into account the costs of the recent US-Iran war where estimates have been in the region of USD 30 bln and counting. The potential of higher spending is also seen in the latest proposed defense budget of USD 1.5 trillion for 2027. This constitutes a significant uplift from the previous years' projections and increases the uncertainty around future levels of the fiscal deficit. Notably, interest expenditures on US debt are now set to exceed defense expenditures. Historically, according to Ferguson's Law, this is also a signal of fading hegemony and fiscal troubles.

Overall, higher spending will have implications for inflation and rates expectations, where differentiation between countries that run higher fiscal deficits and those that don't is likely. In the same vein, the recent oil shock has added an additional parameter, which may be seen as short-lived and transitory under a peace deal scenario. In the meantime, the risk of higher for longer rates has supported higher premia in government bonds, particularly for countries that are energy importers and has brought to the fore an additional burden to government budgets at a time when fiscal expansion is needed to support higher defense spending goals.

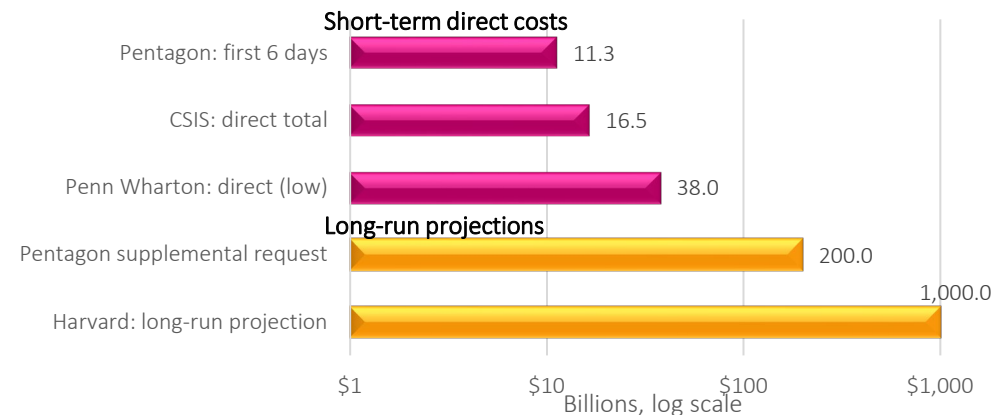
Europe: Fiscal flexibility and persistence of spending



Source: Eurostat Classification of the Functions of Government database; IMF, World Economic Outlook database; and IMF staff calculations.

US: The costs of war are rising at a time when deficits are already high

US Iran war cost estimates - \$bn (Operation Epic Fury, from 28 Feb 2026)



Source: Pentagon, CSIS, Penn Wharton, Harvard.

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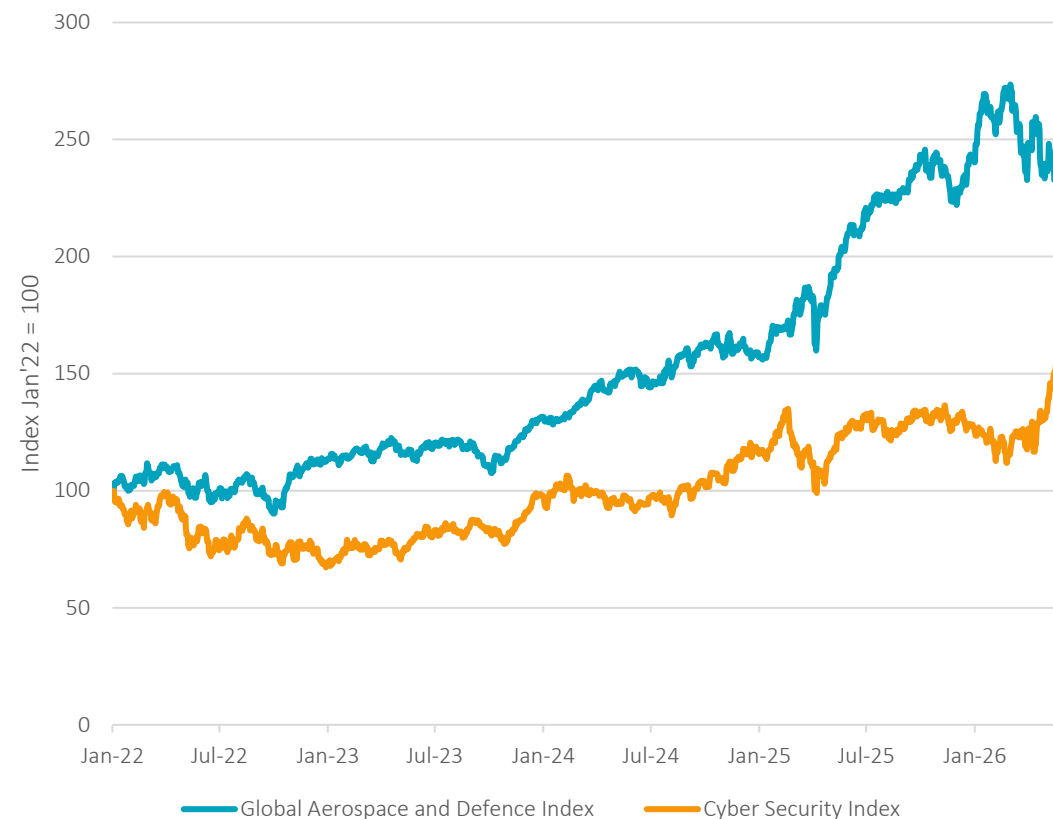
The ripple effects of higher defense spending

On a more positive note, higher spending has the potential to support the manufacturing sector over the coming years, but more efficient procurement processes, particularly in Europe, and innovations are needed to support higher demand and the modernization of the defense ecosystem. Tech innovation and private capital will be crucial in areas like AI, quantum technologies and next generation communication networks. These are areas that NATO has identified as having the greatest potential in transforming for future warfare where cybersecurity takes center stage.

Markets are already factoring in this trend, with the global cybersecurity stock index up 36% since the beginning of 2026. In contrast, global aerospace and defense equity returns have been muted after a very strong 2025 which saw them delivering performance in excess of 50%. Earnings growth projections continue to be supportive despite higher valuations, although faster procurement processes are needed from investor perspective to enhance earnings visibility and support valuations.

Rare earth metals, another beneficiary of higher defense spending due to their use in advance defense systems, have also seen their prices rise, but as we wrote on our previous theme “Energy self sufficiency in the age of shocks”, greater reliance on critical mineral sourcing and infrastructure expands the concept of security and demands supply chain diversification to support future growth.

Cybersecurity stocks have reaped the benefits of higher defense spending

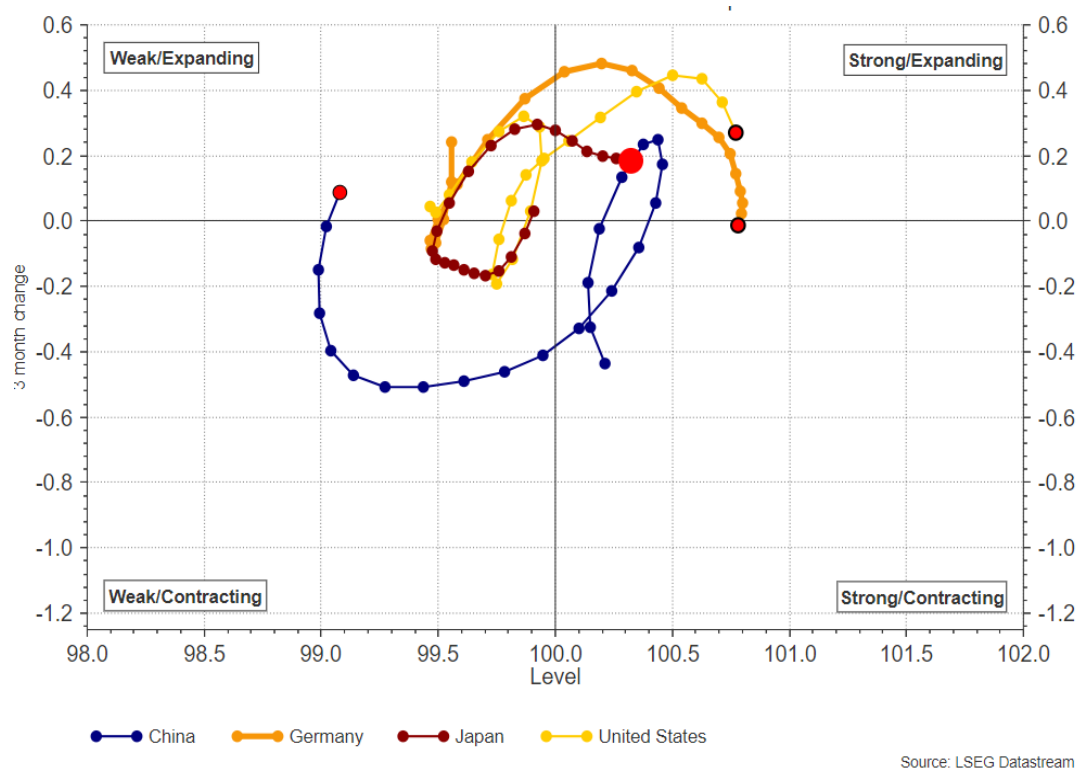


Source: Robeco, Bloomberg. Data as at June 2026.

Economy

AI capex boom keeps global activity vibrant

Global business cycle still expanding..



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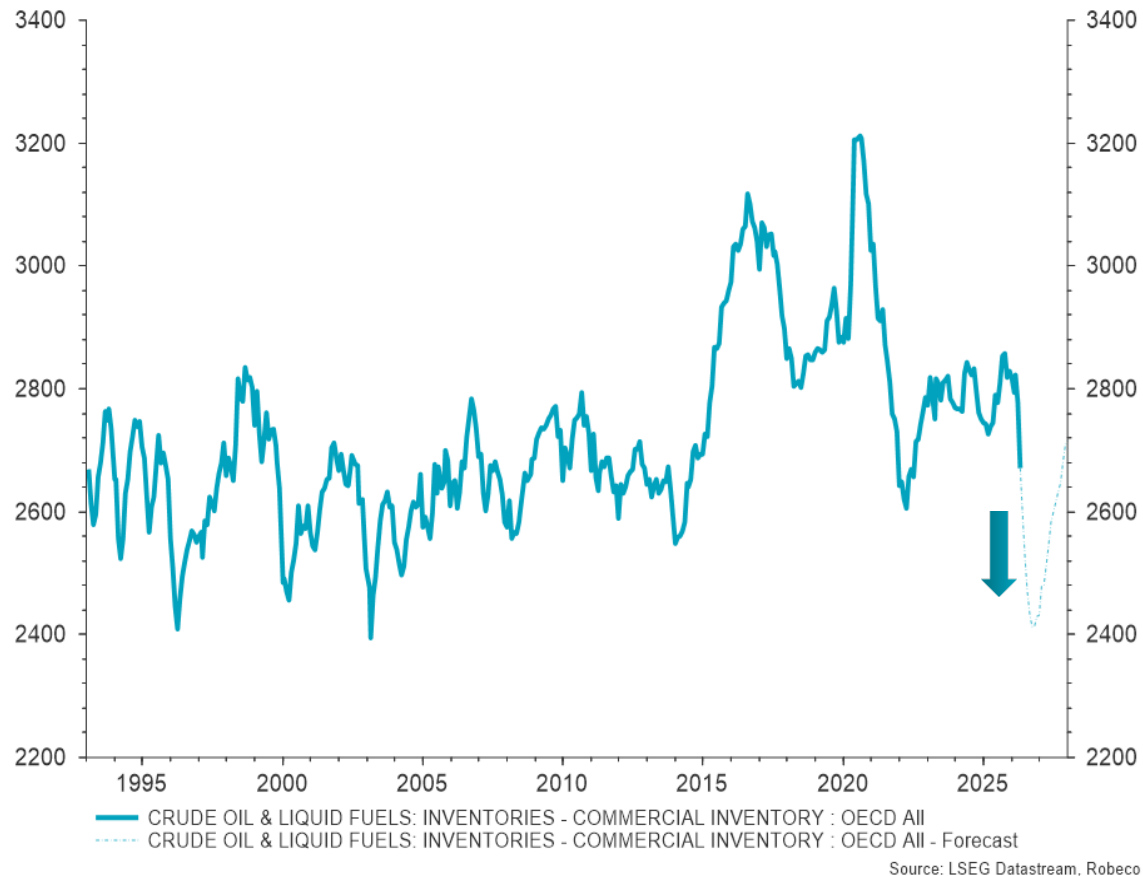
.. but time is running out for an Iran deal

- > The direction of the global economy at this juncture is determined by two opposing forces; the propelling force of the AI capex boom and the resisting force of the Strait of Hormuz closure, disrupting energy supply. As the US and Iran are making progress towards a deal to extend the ceasefire, global economic activity is weathering the oil price shock reasonably well. At the country level, the net impact of these forces differs materially.
- > Starting with the US, US Q2 growth tracks 3.0% according to the Atlanta Fed GDP nowcast. The ISM manufacturing even signaled accelerating expansion, but the strong headline number (54) obscured weakening purchasing manager sentiment with supply chains seeing real disruption, inducing frontloading of inputs. Also, with gasoline prices sitting well above the 3 USD pain point, US households are feeling the pinch. The Michigan consumer sentiment survey even posted the lowest reading since 1978 (which is often a contrarian indicator for subsequent consumption growth). Trump is now polling below 40%, so the pressure to present an Iran deal that surpasses Obama's Iran deal is clearly rising.

Economy

Restocking will keep oil prices above pre-Iran war levels even if deal is in place

OECD oil inventories will run critically low by September



Less worried about second round effects of a 1.5% jump in CPI

- > Europe, a net energy importer, saw headline PMI weakness with the S&P composite indicator showing contraction in May even as the manufacturing subindex remained in expansion. European gas inventories are running at 38% which is close to the the 5Y seasonal low. The European energy import bill will likely rise significantly as a share of GDP as Europe competes with Asian LNG importers on the global market to refill before the winter.
- > Even in case of an Iran deal, de-mining the Strait of Hormuz will take time and shipping insurance premiums will remain elevated. Compared to last month, investors have now almost fully priced in a Fed rate hike for 2026 with 3 hikes expected for the ECB. We see major differences with the 21/22 inflation build-up (DM labor market tightness is absent, weaker fiscal impulse, higher corporate margin absorption) and are less worried about second-round effects. Yet central banks will remain cautious, believing that the longer the Hormuz closure persists, the less confidence they can have that the inflation spike will prove transitory. For Europe, we are more worried that an initial inflation spike delivers a growth shock that ultimately proves to be disinflationary.

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Source: Robeco, Bloomberg. Returns are in euros. All market data to 31 May 2026 unless mentioned otherwise.

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