

# Global Liquidity Pivot: Rates, Dollar, and Risk Assets in 2026

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Global liquidity conditions are a continuation of the easing trend into early 2026, with inflation moderating, growth stabilizing, and central banks nearing the end of restrictive policy cycles. This transition is creating a more supportive environment for risk assets while reshaping expectations for currencies, credit, and duration.

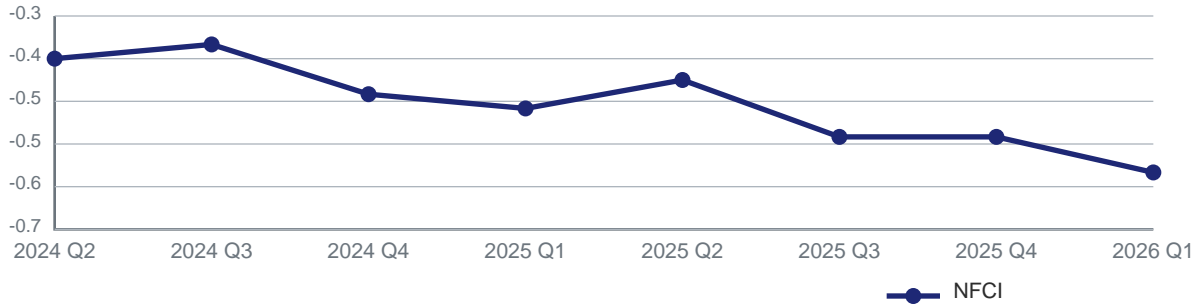
## Executive Summary

Liquidity is improving across major markets as rate expectations normalize and real yields peak. The U.S. dollar is showing early signs of softening, while select regions benefit from easing financial conditions and improving growth differentials. Investors should position for a gradual rotation toward risk assets with a focus on quality, cash flow durability, and regions with credible policy frameworks.

### Key Takeaways:

- Financial conditions are easing modestly as inflation cools and central banks signal a pause, supporting broader risk appetite.
- A softer dollar and improving real growth differentials favor select emerging markets, commodities, and non-U.S. equities.
- The opportunity set favors quality equities, investment-grade credit, and selective duration where disinflation is durable.

### U.S. Financial Conditions (NFCI, lower = easier)



Source: Chicago Fed, National Financial Conditions Index (FRED:NFCI)

## Policy Pivot and Liquidity Shift

Major central banks are moving toward neutral stances after an extended tightening cycle. The Federal Reserve is prioritizing policy stability as inflation trends lower, while the ECB and several EM central banks have begun easing. A slower pace of balance sheet runoff and clearer policy guidance reduces funding market volatility. The Chicago Fed National Financial Conditions Index has trended more negative into early 2026, signaling easier financial conditions.

## **Dollar Dynamics and FX Transmission**

Policy divergence remains a key driver of FX. If U.S. growth moderates and real yields peak, the dollar could weaken further, supporting commodities and EM assets. However, geopolitical risks or renewed inflation could re-strengthen the dollar and tighten global financial conditions.

## **Credit and Liquidity Transmission**

Credit markets are stabilizing as spreads compress and issuance improves. Investment-grade credit remains the cleanest liquidity transmission channel, while high-yield opportunities are selective and require strong fundamentals. Bank lending standards are still tight, but easing rate expectations are supportive.

## **Investment Implications**

Equities benefit from easing liquidity, but dispersion remains high. Focus on sectors with pricing power, resilient margins, and strong balance sheets. Credit conditions improve as spreads stabilize, favoring investment-grade and select high-yield with strong fundamentals. Duration offers diversification as inflation risk recedes, but positioning should be measured given potential volatility in rates.

## Portfolio Allocation Considerations

A balanced risk stance is appropriate for 2026. Quality equities, investment-grade credit, and selective duration provide a favorable risk-adjusted profile, while selective EM exposure offers diversification. Maintain liquidity buffers to manage episodic volatility.

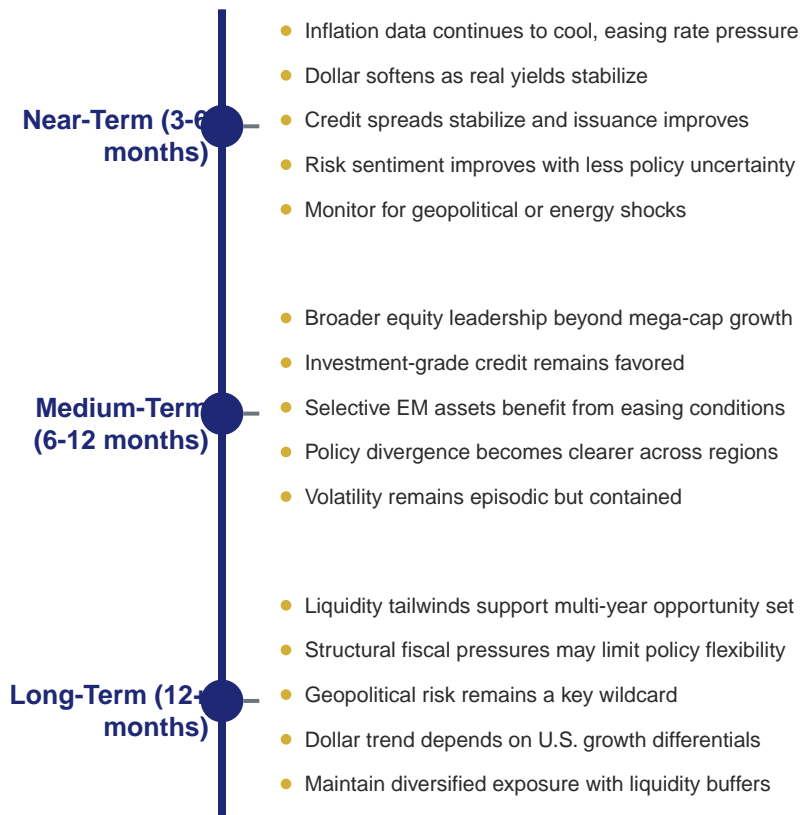
## Timeline and Outlook

**Near-Term Outlook (3-6 months):** Financial conditions should continue to ease as inflation prints improve and central banks emphasize patience. Watch for dollar softness, credit spread stabilization, and improved risk sentiment.

**Medium-Term Outlook (6-12 months):** By mid-2026, clearer evidence of disinflation and steady growth should support broader risk assets. Equity leadership may broaden beyond mega-cap growth, and credit issuance should normalize.

**Long-Term Outlook (12+ months):** The liquidity pivot supports a multi-year opportunity set, but the path is uneven. Structural fiscal pressures, geopolitical risks, and policy shocks remain key variables that could re-tighten conditions.

## Timeline Overview



*Source: AVANTAS Research Analysis*

## Risk Factors

**Policy Risk:** A premature easing cycle or inconsistent guidance could reignite volatility in rates and FX. Investors should monitor central bank messaging and inflation expectations.

**Inflation Risk:** A resurgence in energy or wage pressures could force policy re-tightening, reducing risk appetite and compressing valuations.

**Geopolitical Risk:** Escalation in geopolitical tensions can disrupt trade flows, drive commodity shocks, and strengthen the dollar, tightening global liquidity.

**Liquidity Risk:** Funding market stress or a sharp widening in credit spreads could reverse improving conditions. Liquidity management remains essential.








## Conclusion

The liquidity pivot is not a straight line, but the direction of travel is improving. Investors should lean into selective risk exposure while maintaining resilience against macro shocks. A disciplined, diversified approach across quality equities, credit, and selective duration is appropriate for 2026.

## Asset Class Impact

Improving liquidity supports equities and credit while easing conditions can weaken the dollar and lift commodities. Duration offers diversification as inflation recedes, though rate volatility remains a risk. EM assets benefit from a softer dollar and improving growth differentials, but require selectivity.

## Asset Class Impact

| Underweight | Neutral | Overweight |                         | View  | Commentary   |
|-------------|---------|------------|-------------------------|---|--|
|             |         |            | Global Equities         | <br>+1        | Overweight. Easing liquidity supports risk assets, favoring quality equities and regions with improving earnings momentum. |
|             |         |            | Investment-Grade Credit | <br>+1        | Overweight. Stabilizing spreads and improved issuance support high-quality credit with attractive carry.                   |
|             |         |            | High Yield Credit       | <br>Neutral   | Neutral. Select opportunities exist, but dispersion and refinancing risk warrant caution.                                  |
|             |         |            | Commodities             | <br>+1        | Overweight. Softer dollar and improving growth momentum support commodity prices.  |
|             |         |            | Developed Market FX     | <br>Neutral | Neutral. FX outcomes hinge on policy divergence and relative growth trajectories.  |
|             |         |            | U.S. Dollar             | <br>-1      | Underweight. Peaking real yields and easing policy expectations pressure the dollar.                                       |
|             |         |            | EM Equities             | <br>+1      | Overweight. Easing global liquidity and softer dollar support select EM markets.   |

Source: AVANTAS Research Analysis