

OUTLOOK 2026

# Navigating choppy waters

**European pension funds are heading into a year shaped by geopolitical uncertainty, market volatility and rising asset correlations, just as major structural reforms gather pace. Sandra Haurant reports on their investment outlook for 2026**

**W**ith continuing conflict in Ukraine, intermittent threats of tariff increases coming from the US, ongoing volatility and increased correlation between stocks and equities, it's fair to say that European pensions face an interesting year.

Add to that profound structural and systemic changes within some of the continent's biggest pension arenas, and it's clear there will be times when the industry needs to navigate some choppy waters.

One of the biggest structural reforms coming to Europe's pensions, of course, is the Dutch shift away from defined benefit (DB) schemes towards defined contribution (DC). The coming year will be the final one for transition, ahead of the deadline for schemes to change on 1 January 2028.

As Better Finance spokesman, Arnaud Houdmont, says, the move will have an important impact on investment strategies as it "shifts investment risk to



members and encourages greater allocations to risk-seeking assets such as equities, private equity and credit to chase returns”.

This, Houdmont says, will change investment appetite in quite fundamental ways, reducing structural demand for long-dated sovereign bonds, and consequently impacting European fixed income markets.

“Dutch funds are expected to play a larger role in domestic and European equity and private asset markets, potentially influencing capital flows and valuations across the continent,” he adds.

There will be changes, too, to priorities, in terms of liquidity and risk management – both of which will become increasingly important for large institutional portfolios. According to Payden & Rygel senior vice president, business development, Dennis Kwist, changing priorities are likely to affect fixed income in a variety of ways.

“From a fixed income perspective, [schemes] are going to need to make more returns, so in the Dutch market we very much are expecting an increased allocation, firstly to private credit, and then secondly to higher yielding liquid fixed income. So that would to some extent mean investment grade, but mostly high yield, emerging market debt and securities, where they are able to do it,” Kwist notes.

Overall, says Houdmont, this comprehensive restructuring of Dutch pensions could “set a precedent for pension investment strategies elsewhere in Europe”. Although, he adds: “Many pension funds are expected to implement the reform in a way that

retains many risk-sharing features, and investment decisions made by or on behalf of pension fund participants are unlikely to change dramatically.”

### The ripple effect

Investment strategies may not change “dramatically” as a result, as Houdmont says. But we could, nonetheless, see other European countries adopting reforms along similar lines, as the combined challenges of low interest rates and longer retirement periods, thanks to increased longevity, persist.

“While the Dutch reform is particularly large in scale, broader structural change across EU pension systems is an active agenda, largely driven by sustainability concerns,” says Houdmont.

“Across Europe, we continue to see an appetite for private credit,” says Kwist. “There is an element of chasing yields, but at the same time an awareness of the liquidity constraints that are out there, and [a move towards] looking at more liquid fixed income or higher yield liquid fixed income, even though spreads are very tight in most markets.”

### The wider world

While structural and systemic changes are driving many of the decisions within Europe’s pension schemes, the wider world is creating a whole new landscape. Among many other issues, the ongoing conflict following Russia’s invasion of Ukraine, and, more recently, the US administration’s insistence that it should control Greenland, contribute to an unsettled climate.

“The weaponisation of trade policies and financial flows by a number of world powers fuels uncertainty, making long-term financial planning increasingly difficult for professional and individual investors alike,” says Houdmont.

Against that backdrop, a shift towards investment in the defence industry has begun in a number of countries, which looks set to continue. As *European Pensions* reported in August 2025, a consortium of Denmark’s pensions investors backed an infrastructure project to build military barracks, as part of a public private partnership. Meanwhile, in Finland, the pension insurer Varma has increased allocations to defence assets.

And there has been a marked change in attitude to US assets, as concerns around unpredictable policy decisions persist. The Swedish fund Alecta sold off



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the majority of its US treasuries last year, while Denmark's AkademikerPension announced in January this year that it would sell USD 100 million of US government bonds.

AkademikerPension chief investment officer, Anders Schelde, said in a statement: "The decision is rooted in the weak public finances of the United States, which have led us to conclude that we need to make an effort to find an alternative way to manage our liquidity and risk."

Nonetheless, while some have retreated from US bonds, many European pensions remain invested in the US. "They also have an exposure to US equities," Kwist says.

"In some cases, people want to pull out, but there's too much 'fear of missing out' there. There is a worry that the market will continue to grow, and you'll be left behind. At the moment, based on the research produced by the larger investment banks and asset managers, everybody is still expecting the US market to continue growing on the back of artificial intelligence (AI).

"Even though there is talk of a bubble, they all think it's going to carry on growing," he says. "And then you add in the factor of interest rates in the US coming down; that's another thing that's going to fuel both the US economy, but probably also the price of fixed income."

### Seeking safe havens

While fixed income remains a major element in European pension portfolios, its traditional role as a stabilising asset, offsetting the volatility of equities, has been diminishing in recent times.

For bonds to provide that stability, they must necessarily move in a different direction to equities. In other words, when one goes up, the other needs to go down. Lately, though, correlation between the two markets has been increasingly aligned – and while the relationship is dynamic, this positive correlation means higher risk.

One area that some funds may head towards is that of commodities. Precious metals – particularly gold – have historically provided a route to diversification, since these usually display low correlation with other markets. Reporting on its performance in 2024, Swiss pension fund Publica said the second highest performing assets in its portfolio, after equities, were precious metals, which it invests in "for diversification

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reasons", and which delivered a 33 per cent return.

Commodities generally have "low correlation levels to stocks and bonds," says XPS Group head of multi-asset research, Josh Pilley, and are also floated as a useful hedge against inflation, since commodity prices are often the cause of inflation.

But Pilley cautions that these asset classes can also be misunderstood or overplayed. There are limits on the levels at which pensions can invest in commodities, too, so this will likely mean their role will remain relatively small in the coming year.

Indeed, a focus on avoiding correlation at all costs could, itself, cost funds, by taking them away from their long-term goals, says Kwist: "Correlations [*between stocks and bonds*] are higher than they used to be, but I think it comes back to the fact that a fund has a certain strategic asset allocation, and if you move out of one market into another there is going to be some effect to it."

### Staying the course

Indeed, for Kwist, reasons for sitting tight and riding out the markets' storms in 2026 remain strong. After all, long-term strategies are just that – designed for the long term, by definition. They should have been formulated taking into account the fact that markets have high points and low points and plenty of others in between.

"My view is that patience plays a part," he says. "[*Funds*] have a strategic allocation for a reason, and they should stick to it, and not go chasing [*returns*] left, right and centre. Obviously, you can reduce risks on the edges, here and there, but do so without making wholesale changes to what you have decided is your long-term goal. I think that is that is sensible."