CAP Focus

Cross Asset Allocation

23 February 2026

Market Theme : Strong demand for long bonds – should we follow? (pp.3-4)

The February 2026 auction of the 30-year US Treasury bond was a success and set a new record for investor demand. This is noteworthy because long-dated government bonds in both the US and Europe have been largely out of favour with many investors. The Duration Trade – as we label it - now deserve serious consideration as a diversifier, particularly against expensive US equities. Our conclusion is, that CAP would buy the Duration trade in the event of a growth-driven equity market crisis. However, we do not expect the strategy to prove as effective as in previous major equity crises. For the time being, we refrain from taking an overweight position in Duration, despite the signal coming from February's good 30-year auction.

Equity Market Themes, Performance & CAP Weightings (p.5)

A typical Danish 60/40 portfolio has risen by 0.9% over the past month. CAP's overweight positions include Value, European Equities, Low Volatility, and World Equal Weight all performing among the best asset groups. Emerging Market equities (Neutral) are also performing well. Among the weakest performers we find three of CAP's underweighted asset groups : Growth equities (LT Growth), US equities (EUR) and Global Equities. In 2026 we have opened a new overweight position in Danish Equities, which over the last month is the poorest performing asset groups that we follow.

Return Charts 12 mth: Cross-Asset Group & Theme Performance (pp.6-10)

CAP

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Market Theme. In Brief

Strong demand for long bonds – should we follow?

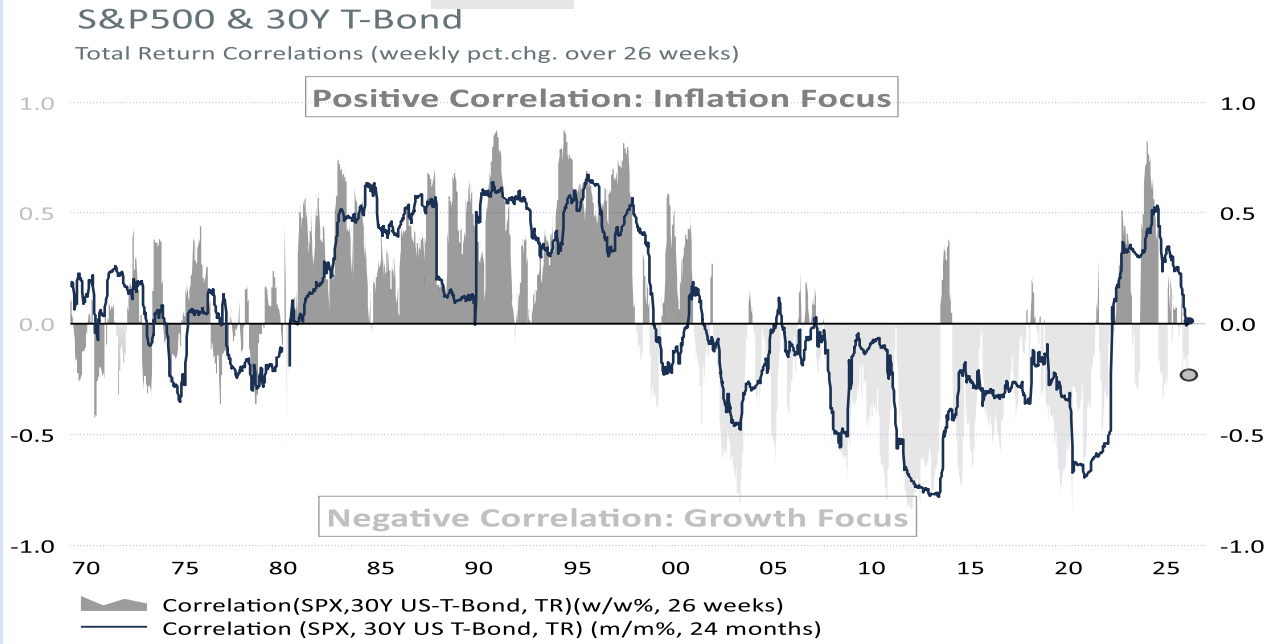
Strong demand for long bonds – should we follow?
The February 12, 2026 auction of the 30-year US Treasury bond was a solid success and set a new record for investor demand. With a Bid-to-cover ratio at 2.70, it exceeded all acution results for the 30Y since year 2011 .This is noteworthy because long-dated government bonds in both the US and Europe have been largely out of favour with many investors. Concerns about large issuance programmes and the risk of renewed inflationary pressure do not make the case for long duration in government bonds any easier. Nevertheless, CAP's view is that long-dated 10–30 year government bonds in the US and euro area – the Duration trade, as we label it – now deserve serious consideration as a diversifier, particularly against expensive US equities. A good place to begin these considerations is Figure 1, which shows how long US Treasuries have historically correlated with the S&P 500.

It is no longer inflation that drives the 30-year T-bond – S&P 500 correlation
Figure 1 shows that if we calculate a short 6-month return correlation between 30-year Treasuries and the S&P 500, it currently stands at around -0.3, close to the average for the 20-year pre-Covid period. The strong interest in the recent 30-year auction therefore comes at a time when there is, in fact, measurable diversification to be gained from holding the Duration trade in, for example, a 60/40 balanced portfolio, with US equities in the 60% equity bucket and Duration in the 40% bond bucket. Figure 1 also shows the longer 24-month correlation. This has not yet turned negative, but it has fallen to a level close to zero. In summary, the inflation focus that has dominated since the inflation shock of 2021–22 – and that first pushed equities and bonds down together and then back up again – has now clearly loosened its grip on financial markets.

Pre-Corona 'normalisation'?
The key question now is whether we are moving towards a "normalisation" in which – as the short-term correlation between long-dated government bonds and equities already suggests – we can once again use Duration in our asset allocation, as we did pre-Covid, because long duration once more acts as diversification and a shock absorber if we run into an equity market crisis.

Diversifying away from US equities – what works today?
Before answering that question, it is worth highlighting what currently works as diversification versus US equities. Figure 2 illustrates this. The table shows that the rotation out of US/growth into non-US/non-growth equities – for example euro area and emerging market value equities – has worked extremely well so far. In fact, the first months of 2026 have seen non-US/non-growth equities rising while US/growth equities have actually fallen, implying a negative short-term correlation between segments within global equity markets. That non-US equities can provide diversification is obvious, but the negative correlation suggested in the table ('see column: '-1m') is unlikely to persist for long. What it demonstrates, however, is that the prevailing theme for global investors at this time is diversification away from global equities, particularly US equities. (cont. **p.4**)

FIG 1



Source: LSEG Datastream

FIG 2

Investment Styles & Themes	-1m	-3m	-12m	CAP Position
Value (EQ, CAP)	5.7%	17.2%	29.0%	Overweight
Emerging Markets (EUR) (EQ)	5.2%	16.2%	25.7%	Neutral
Europe (EQ, EUR)	3.3%	12.0%	17.1%	Overweight
Low Vol (EQ, CAP)	2.9%	4.0%	0.6%	Overweight
Globale Aktier (EUR)	0.1%	4.1%	6.0%	Underweight
USA (EQ, USD)	-1.0%	3.9%	15.2%	Underweight
LT Growth (EQ, CAP)	-1.7%	1.5%	4.7%	Underweight

Source: C.A.P

Market Theme. In Brief

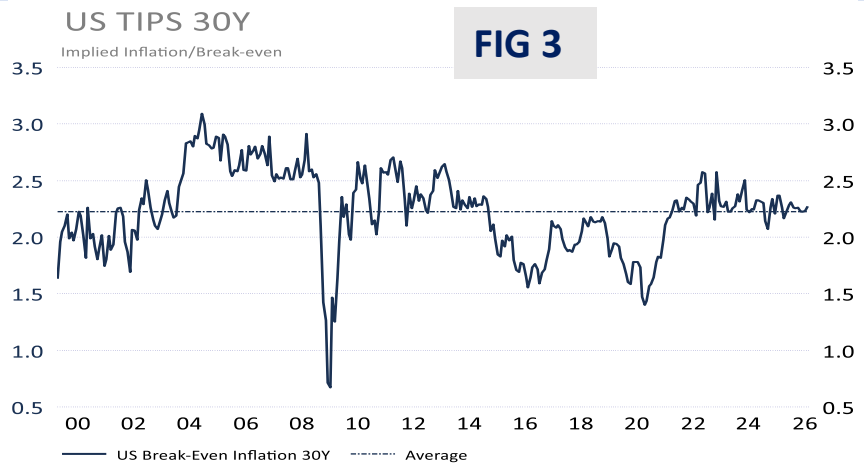
Strong demand for long bonds – should we follow?

Can long bonds cushion equity shocks as effectively as in past crises?
For now, it remains an open question whether Duration will act as a true shock absorber in the event of a US equity market crisis. It did so during the dot-com bust and the global financial crisis, but not during the inflation episode of 2020–24. What we are really talking about is that in the first two crises, long 30-year yields fell by around 2 percentage points, whereas during the inflation crisis they fell by only about 1 percentage point. A 2-percentage point decline in 30-year yields corresponds to roughly a +35% price gain, i.e. a substantial offset to the roughly -40% drawdown that investors experienced in global equities during the TMT and GFC crises. Can we expect the Duration trade to work in a similar way this time? The short answer is probably not.

Three factors will work against Duration
Figures 3–5 point to three factors that all suggest there is less upside from a 30-year yield decline in a new equity crisis today than there was during the dot-com and global financial crises. In brief, Figure 3 suggests that too little inflation is priced into long-dated government bonds; Figure 4 shows that the yield curve is flat compared with earlier periods, which in general makes it more expensive to hold long bonds than in the past; and finally, Figure 5 indicates that the Federal Reserve is unlikely to cut its policy rate by 4 percentage points, as it did in those earlier crises, which under stable inflation would imply cutting the Fed funds target from 3.75% to zero in the event of a new crisis.

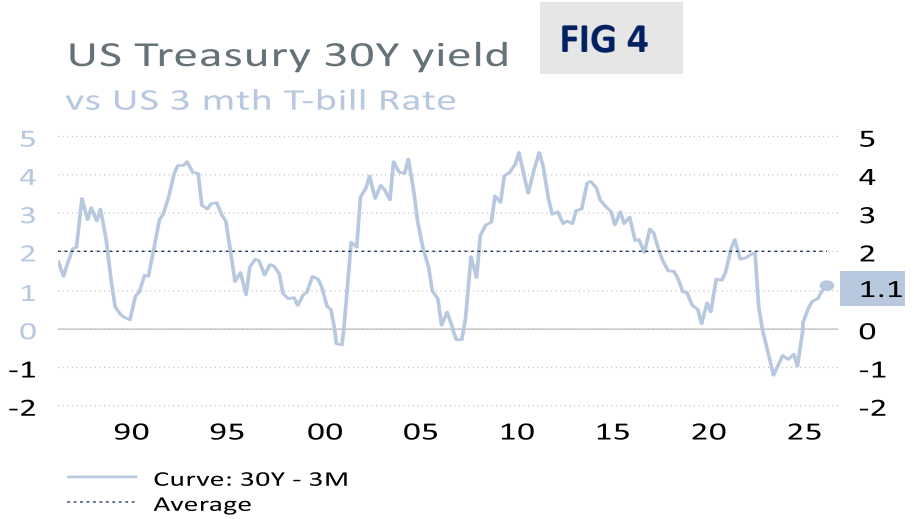
To sum up:
CAP intends to purchase Duration trades in the event of a correction in the growth-driven equity market. However, we do not anticipate this strategy to be as effective as it has been during previous major equity crises. Therefore, we are currently opting not to take an overweight position in Duration, despite the positive signal from February's strong 30-year auction. It's important to note that we still hold Duration. In our medium-risk portfolio, such as the preferred 60/40 balanced portfolio, we are just focusing on overweighting shorter-maturing EU credit bonds instead. (se **p.5** for our current Cross-Asset views)

FIG 3



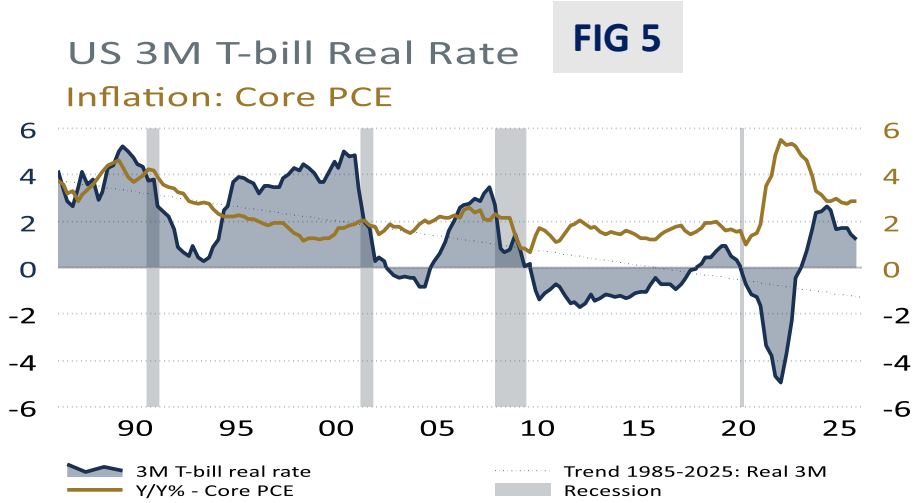
Source: LSEG Datastream, C.A.P

FIG 4



Source: LSEG Datastream, C.A.P

FIG 5



Source: LSEG Datastream, C.A.P

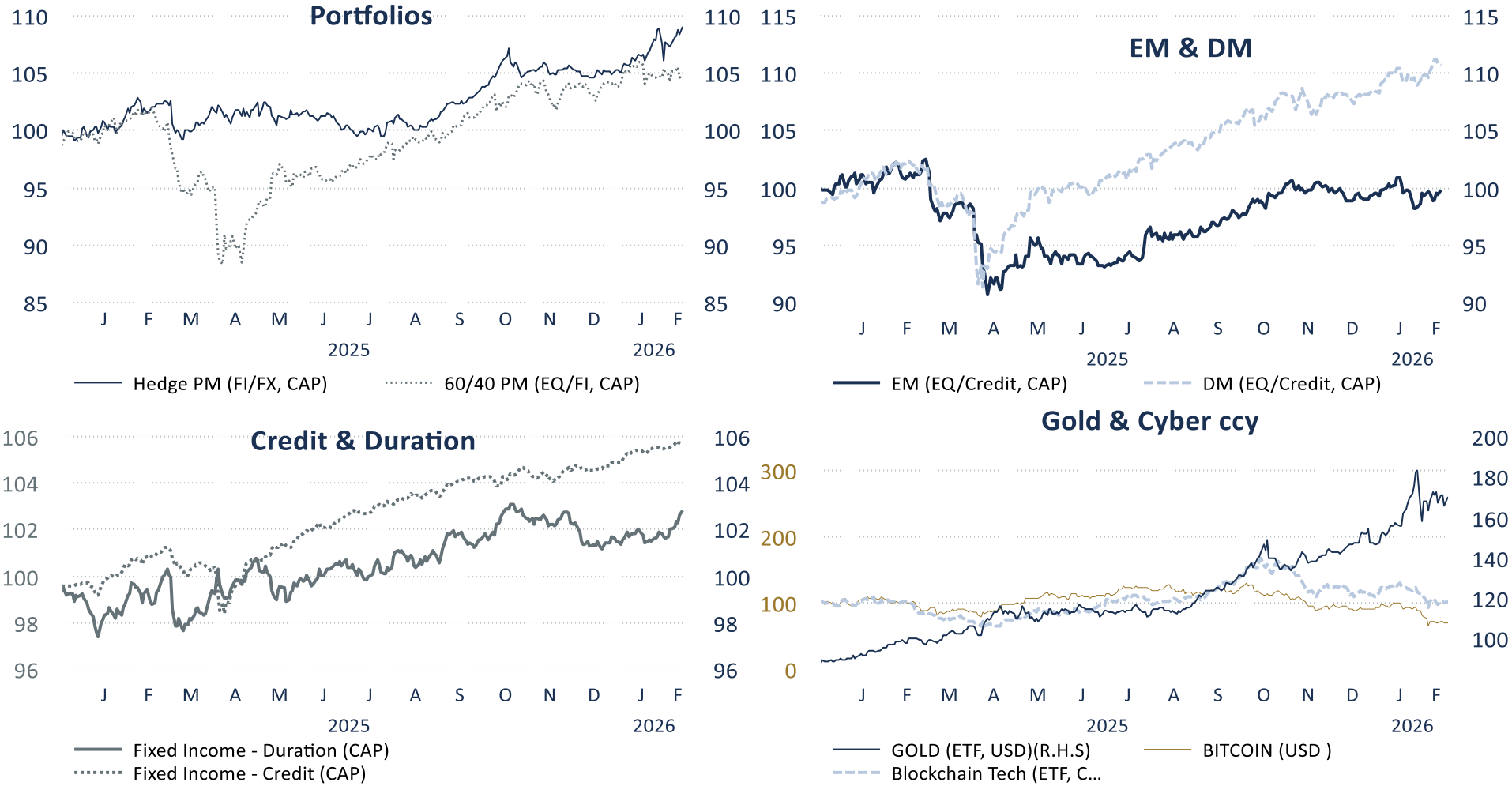
Market Themes, Performance & CAP weightings

Investment Styles & Themes	-1w	-1m	-3m	-12m	CAP Position
Value (EQ, CAP)	1.2%	5.7%	17.2%	29.0%	Overweight
Emerging Markets (EUR) (EQ)	2.1%	5.2%	16.2%	25.7%	Neutral
Europe (EQ, EUR)	1.6%	3.3%	12.0%	17.1%	Overweight
MSCI World Equal Weight (EUR)	1.3%	3.1%	8.7%	7.3%	Overweight
Low Vol (EQ, CAP)	0.6%	2.9%	4.0%	0.6%	Overweight
Size (EQ, CAP)	1.1%	2.4%	8.9%	18.3%	Underweight
Hedge (FI/FX, CAP)	0.7%	2.1%	4.1%	6.3%	Overweight
Duration (FI, CAP)	0.1%	1.5%	0.7%	3.3%	Neutral
EMD	0.6%	0.9%	0.4%	-1.7%	Neutral
IG Credit (Euroz)	0.1%	0.9%	1.3%	3.5%	Overweight
60/40 (EQ & FI(DK), CAP)	**1.0%**	**0.9%**	**3.2%**	**5.4%**	
Credit (CAP)	0.1%	0.4%	1.6%	4.9%	Neutral
US Dollar	0.6%	0.4%	-2.3%	-11.3%	Underweight
HY Credit (Global)	0.0%	0.2%	1.8%	4.9%	Neutral
Globale Aktier (EUR)	0.8%	0.1%	4.1%	6.0%	Underweight
USA (EQ, USD)	0.1%	-1.0%	3.9%	15.2%	Underweight
USA (EQ, EUR)	0.6%	-1.3%	1.3%	2.1%	
LT Growth (EQ, CAP)	2.1%	-1.7%	1.5%	4.7%	Underweight
Danske Aktier	-1.5%	-4.5%	4.3%	4.1%	Overweight

Source: C.A.P

Investment Segments – 12 mth. Total Return

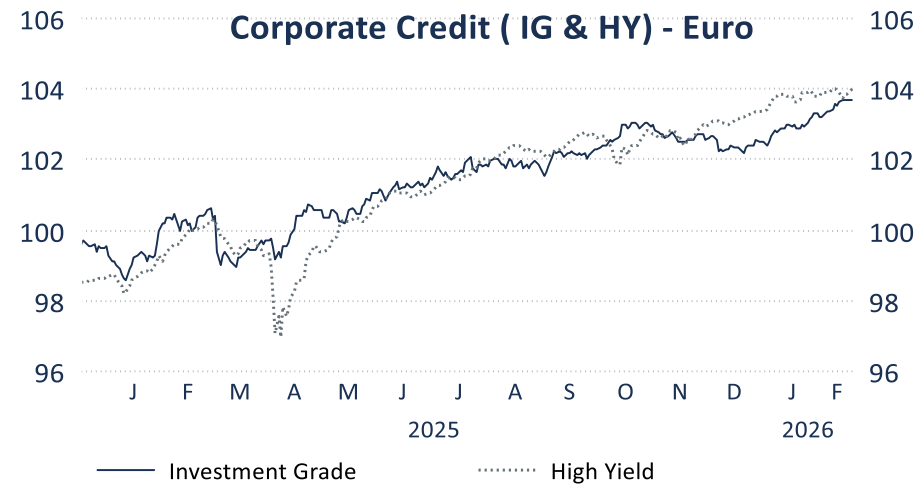
Cross Assets. Portfolios & Segments

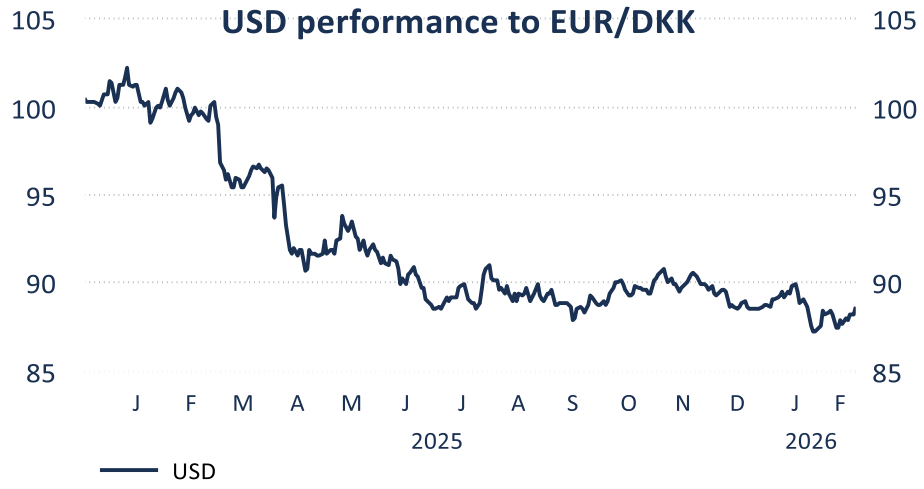


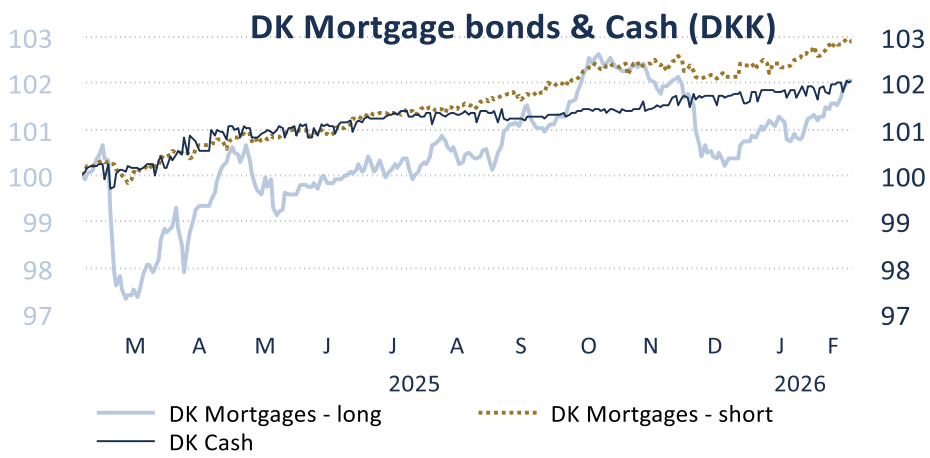
Source: LSEG Datastream, C.A.P

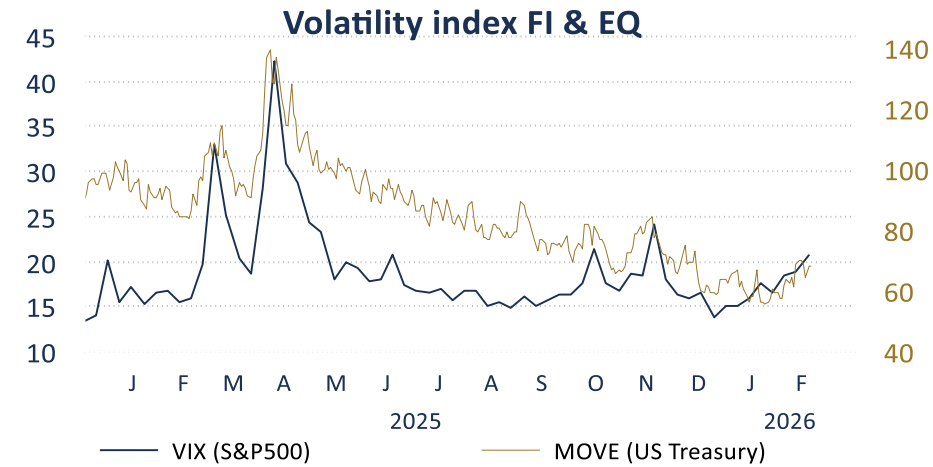
Credit, USD & Vol – 12 mth. Total Return & Performance

Cross Assets. Credit, Mortgages, USD and Vol





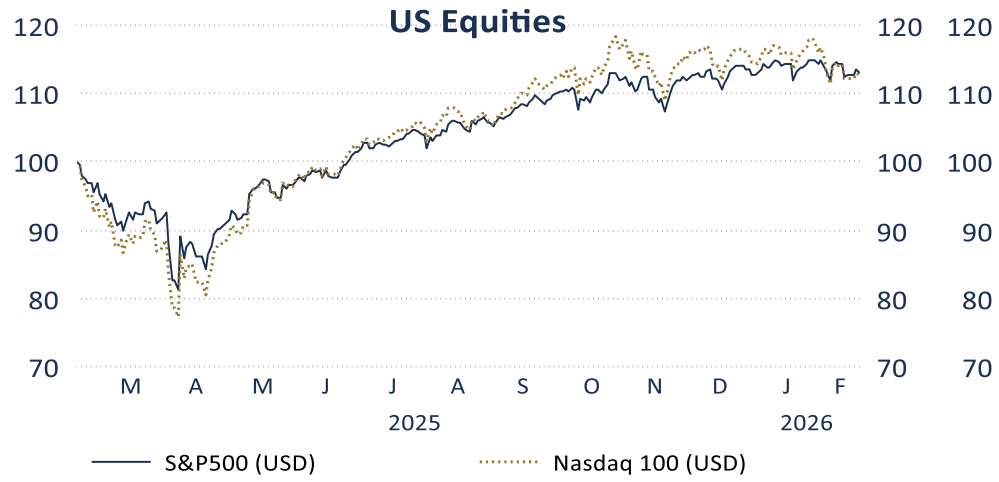


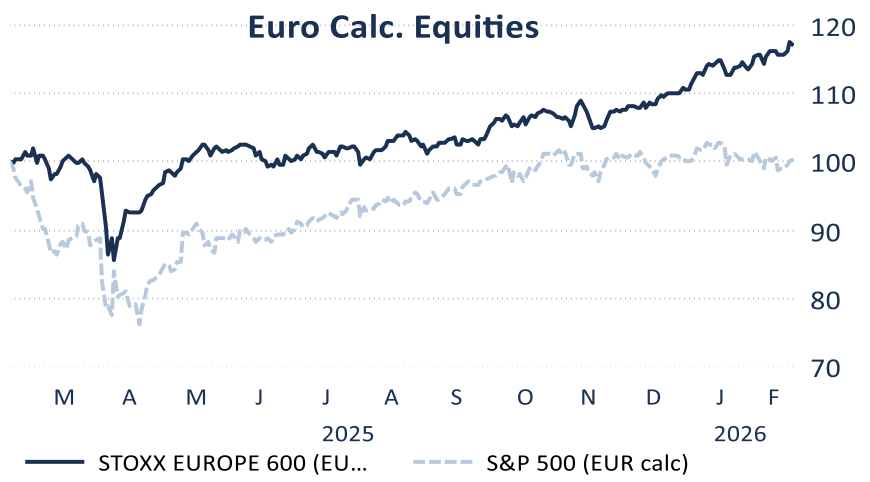


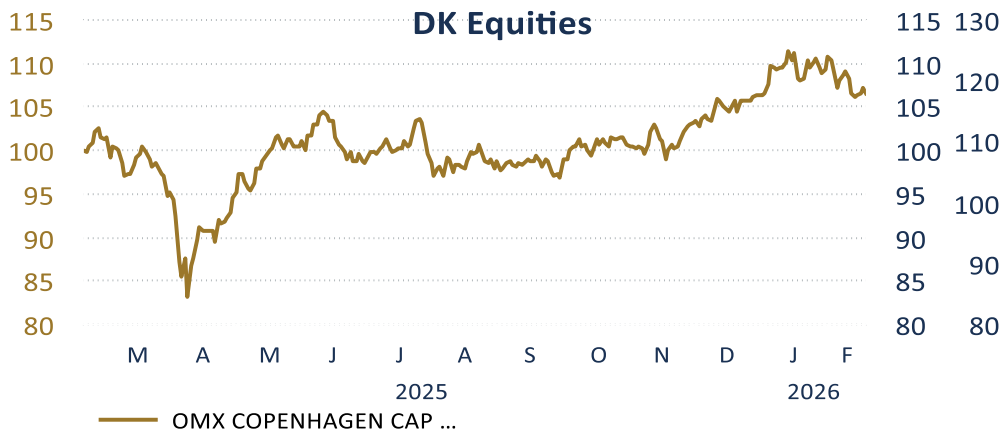
Source: LSEG Datastream, C.A.P

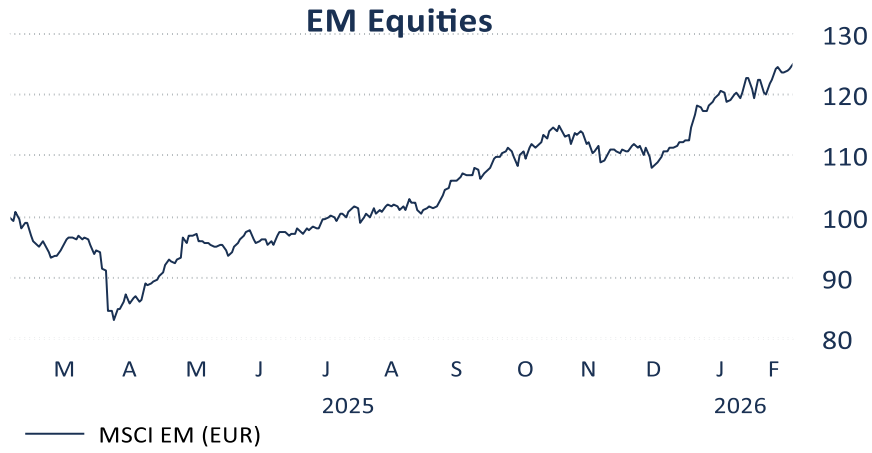
Equity Markets – 12 mth. Total Return

Cross Assets. Equity Markets





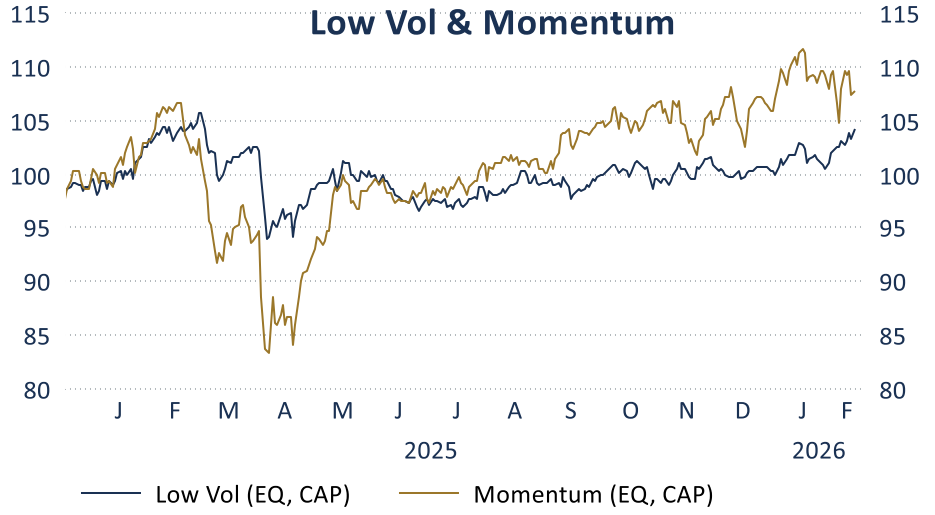


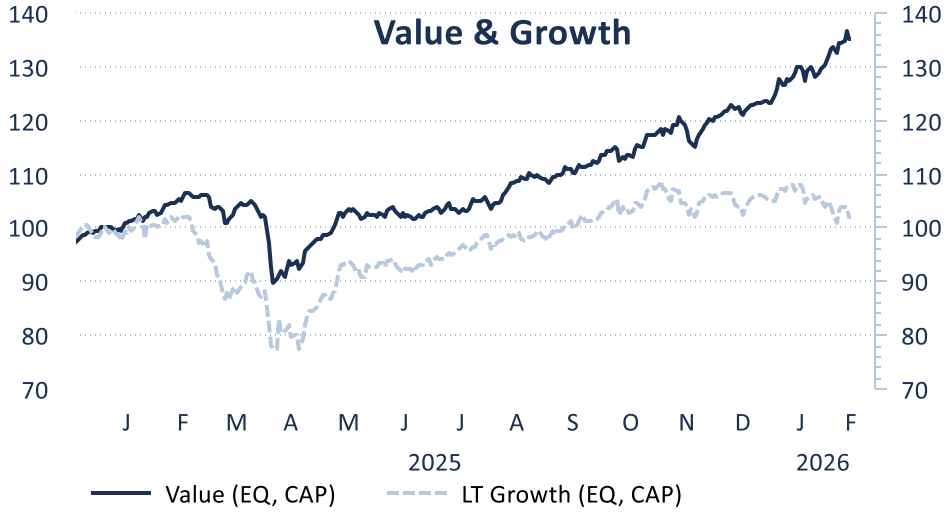


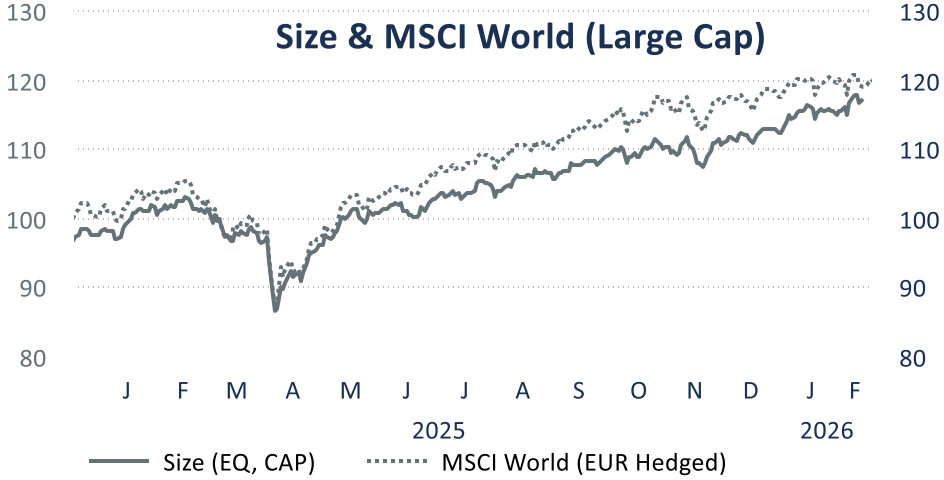
Source: LSEG Datastream, C.A.P

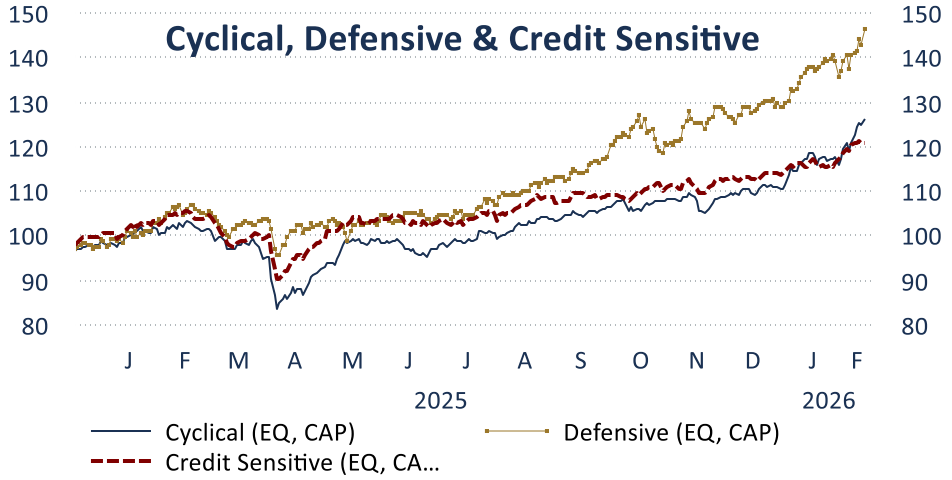
Equity Investment Styles – 12 mht. Total Return

Equities. Style & Macro Factors





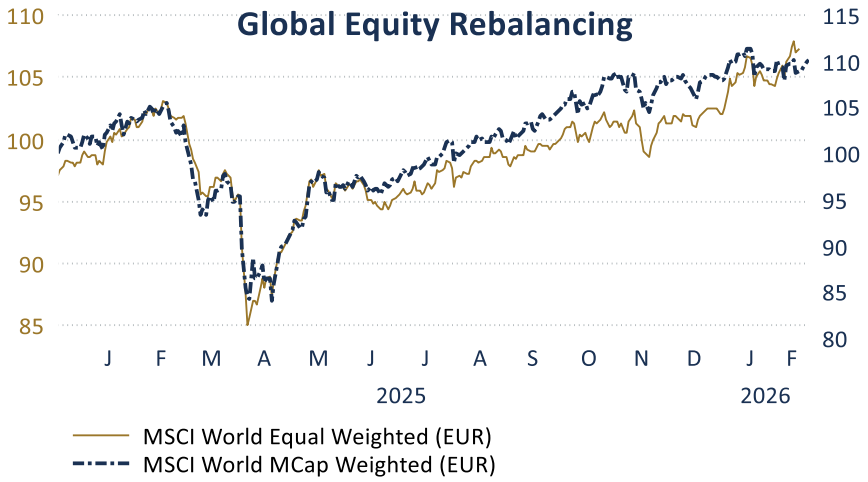




Source: LSEG Datastream, C.A.P

Equity Investment Styles – 12 mht. Total Return - 2 -

Equities. Style & Macro Factors



Source: LSEG Datastream, C.A.P

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