

# Global Asset Allocation: The View From the UK

February 2025

## Outlook: New World Order

- We have a more cautious view as broadly resilient global growth and receding inflation trends could be at risk to increased policy uncertainty, particularly around trade threats.
- US growth exceptionalism leaves it better positioned should trade disputes escalate, with other major economies, particularly Europe and China, more exposed with growth already tepid.
- Central bank divergence could widen on impacts of trade, with the Fed in a position to wait on impacts, whilst other central banks, including the Bank of England (BoE), the European Central Bank (ECB) and the Bank of Canada, advance easing as risk tilts towards slower growth.
- Key risks to global markets include elevated threat of trade wars impacting growth and reaccelerating inflation, central bank missteps and geopolitical tensions.

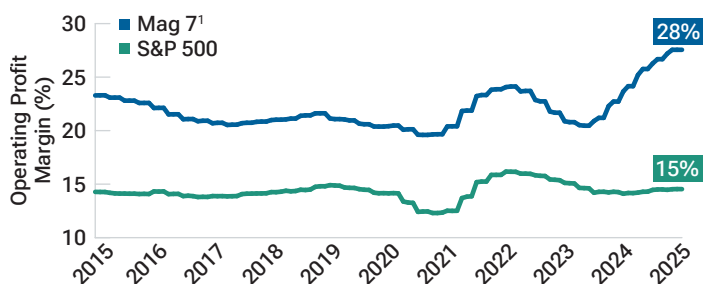
## Themes Driving Positioning

### Big Bet!

What do digital advertising, online retail, electric vehicles and software have in common? Seemingly not a lot, other than a combined USD 20 trillion. The 'Mag 7', as they are known, are a heterogenous group of companies that have dominated global equity markets. Their combined market cap is now multiple times larger than other parts of the market and any other country outside the US. Whilst eye-catching, their profitability has also been unprecedented in helping justify valuations. However, the recent news around DeepSeek, a Chinese artificial intelligence (AI) start-up, highlighted a common thread across this otherwise disparate group: billions in capex spending. Their enormous bet on AI technology to sustain their dominance will be increasingly scrutinised by investors looking for assurance these big bets pay off. Against this backdrop, **we favour better-priced value stocks** that should benefit from a broadening market and improving earnings.

### Deep Pockets

As of 31 January 2025

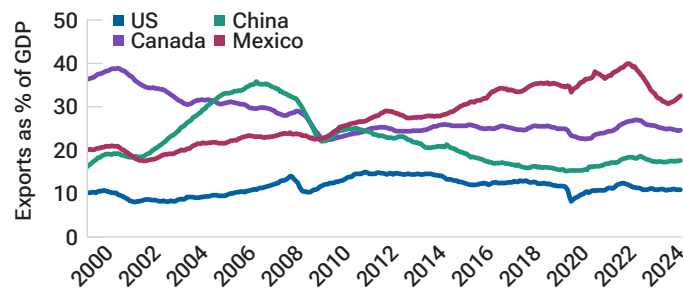


### Deal or No Deal?

As promised, President Donald Trump acted swiftly on using tariffs as a negotiating tool to draw counterparties to the table. The tariffs have been introduced largely on the premise of creating fairer trade policies and gaining border security protections. For the most part, the more aggressive stance has worked with trade partners acting quickly to make a deal or at least delay tariffs. The stakes are high for those targeted whose economies rely more heavily on trade. And whilst the US comes at these on a stronger economic footing and with less trade vulnerability, it will not be immune to potential consequences if this turns into a prolonged trade war, particularly with inflation at higher levels this time around. With the increased uncertainty, **we moderated our equity exposure** during the last few months as risk is increasingly tilted to the downside at current valuations.

### US Less Vulnerable to Trade

As of 31 December 2024



Performance data quoted represent past performance, which is not a guarantee or a reliable indicator of future results.

<sup>1</sup> The Magnificent 7 (Mag 7) is Apple, Alphabet, Amazon, Meta, Microsoft, NVIDIA and Tesla.

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## Asset Class Positioning

### Equities



- We **moderated our overweight to equities** as extended valuations amidst increased policy uncertainty leaves markets vulnerable to downside risk, although economic and earnings growth remain broadly supportive.
- Within equities, we favour more attractively valued, cyclical sectors as we anticipate a broadening of the market.
- Within regions, we are overweight the US, neutral the UK and underweight Europe ex UK, with valuations favouring markets outside the US, albeit against more modest growth expectations and uncertainty around potential headwinds from tariffs.

### Fixed Income




- We maintain an underweight position in bonds as yields could remain elevated on resilient growth and potential for higher inflation resulting from global trade disruption.
- Within fixed income, we are underweight nominal government bonds and overweight inflation-linked bonds given the growth and inflation backdrop.
- Despite rich valuations, all-in yield levels for emerging market debt and high yield bonds remain compelling and provide a buffer should yields widen. Fundamentals remain attractive, with still modest default expectations.

### Cash



- Cash is still providing attractive yields relative to intermediate-term bonds.
- Yields are less vulnerable to downside with more gradual BoE easing expected.
- Cash offers liquidity should investment opportunities arise.

## Equity Market Views

Underweight Neutral Overweight					▼ or ▲ Month-Over-Month Change
Change					
Regions					
US				O	Structurally higher profit margins and optimism for more business-friendly policies; however, valuations are very challenging. Longer-term inflation concerns and any AI disappointments pose headwinds.
Europe ex-UK	U				Valuations are attractive. Core inflation is easing, but risks of a rebound remain. Economic activity is weak whilst Trump tariffs and competition from China pose additional risks.
UK		N			Valuations are appealing. Domestic inflation is volatile but beginning to ease. Growth may slow down in the near term but pick up later. Fiscal vulnerabilities remain.
Japan		N			Economic indicators are reaching new highs in this cycle. Corporate governance improvements continue to support Japanese company fundamentals.
Australia	U				Government support is positive. Consumer activity has rebounded thanks to a resilient job market. The Reserve Bank of Australia could pivot to a more hawkish tone.
Emerging Markets (EM)		N			EM stock and currency valuations are attractive. China's government policy is supportive. However, geopolitical tensions with the US could rise.
China		N			Chinese government policies are showing signs of increasing support but remain targeted and modest compared with history. Valuations are attractive but reflect a more challenging growth environment.
Style and Market Capitalisation					
Global Growth vs. Value¹	U				Trade uncertainty and muted economic growth pose challenges. However, US dollar strength is a tailwind.
Global Small-Cap vs. Large-Cap¹		N			Monetary easing, lower inflation and less exposure to trade policy could provide tailwinds with still very attractive valuations.

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These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.

<sup>1</sup> For pairwise decisions in style and market capitalisation, positioning within boxes represents positioning in the first-mentioned asset class relative to the second asset class.

## Fixed Income Market Views

Underweight Neutral Overweight					▼ or ▲ Month-Over-Month Change
Change					
UK Gilts		U			Recovering economic activity, persistent services inflation, accelerating quantitative tightening, large gilt issuance and US spillovers may keep yields under pressure.
UK Inflation Linked				O	Inflation indicators (services, wages) remain elevated, although the UK labour market has eased a little.
UK Investment-Grade (IG) Corporates			N		Investment grade credit is looking less attractive in terms of valuations, given the tight nature of spreads.
US IG Aggregate			N		Stubborn inflation and a resilient economy could see the Fed cutting rates fewer times than the market expects. Meanwhile, investment grade spreads remain tight.
European IG Aggregate		U			Expectation of higher global rates and dynamics of quantitative tightening may weigh on European rates. Credit spreads could widen if the economy slows down.
Global High Yield			N		Despite historically tight spreads, fundamentals remain supportive, and default expectations are expected to remain contained.
EM Dollar Sovereigns			N		EM sovereign valuations are relatively attractive, with compelling yield levels. However, trade policy and the path of the US dollar add uncertainty.
EM Local Currency				O	Attractive yield levels, while US dollar strength poses a headwind.
EM Corporates			N		We currently prefer to overweight EM sovereigns rather than corporates, as credit spreads may widen as the global economy slows.
Currency Market Views					
GBP vs. USD			N		In a benign market environment, the US dollar may soften, particularly from current expensive levels. The valuation of the GBP is attractive following its depreciation.
GBP vs. EUR				O	The ECB is likely to cut rates more than the BoE to support economic growth.
GBP vs. JPY			N		Interest rate differentials continue to favour the GBP. However, given recent volatility in the yen, we prefer to remain neutral.

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