Global Asset Allocation: The View From Europe

June 2025

Outlook: New world order

- We maintain a cautious outlook on risk assets, as the challenges posed by disruptive trade policies weigh on the trajectory of global growth and inflation.
- Negative sentiment around tariffs is weighing on the US growth outlook, whilst fiscal policy impacts remain unclear. Economies outside the US are facing similar growth concerns but with greater flexibility around monetary policy and with some, including Europe and China, acting on fiscal policy as an offset.
- Central banks, including the European Central Bank and the Bank of England, may have to ease policy further to support growth, whilst the Fed may also have to balance rising inflationary pressures as a result of tariffs.
- Key risks to global markets include the impacts of global trade tensions, the threat of higher inflation, central bank missteps and ongoing geopolitical tensions.

Themes driving positioning

Tick, tick, tick...

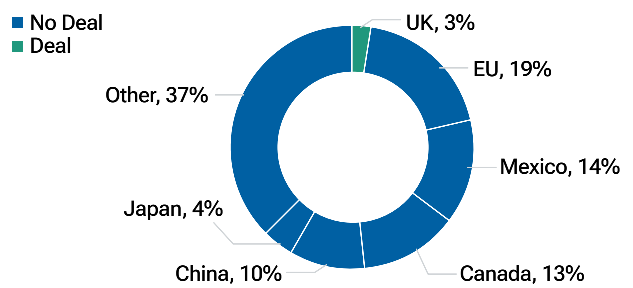
With the exception of a deal with the UK, uncertainty remains on progress with major trade partners, notably China, the European Union (EU), and Japan, as the July deadline from the 90-day postponement of reciprocal tariffs looms. Further exacerbating market unease has been the courts' recent rulings on the legality of the tariffs. With less than a month to go before the deadline, and seemingly much work left to be completed in securing deals with a large number of trading partners, markets may have gotten too complacent about the ability to pull off such a large feat. With the rhetoric still heightened, it's casting more doubt that the July deadline will finally bring resolution to the tariff-led trade war. So as the clock is ticking closer and closer each day, the lack of progress on deals—or even an extension—is likely to further exacerbate already poor sentiment among businesses and consumers, leaving us cautious on the outlook.

Tipping point?

Despite continued progress on inflation and increasing growth concerns, US longer-term yields have been on the rise as the focus has turned toward the growing deficit, highlighted by Moody's recent downgrade. Whilst the administration's current push for legislation increasing spending and lowering taxes has added fuel to the fire, other factors are contributing. Amongst those are waning foreign demand as sentiment toward the US has turned negative and worries that tariffs could ultimately lead to higher inflation. And whilst the level of rates has yet to severely impact the economy or equity market sentiment, pockets of stress could begin to emerge should rates drift higher from current levels, especially in the housing market and for corporations having to roll debt. Against this backdrop, we remain cautious on equities and longer duration, as we could be closer to a tipping point on rates with no letup in fiscal spending or trade relief in sight.

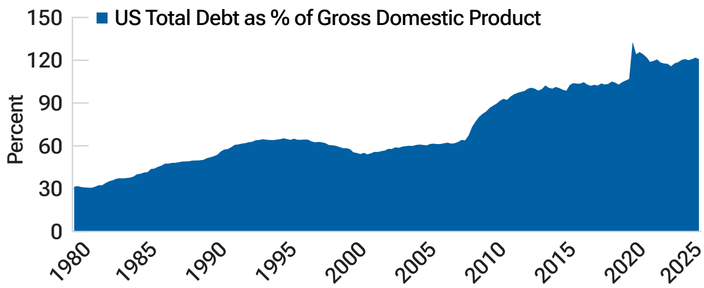
Crunch time

As of 31 May 2025



No limit

As of 31 May 2025



Past performance is not a guarantee or a reliable indicator of future results.

The pie chart represents trade deals negotiated so far by the US with its trading partners, with percentages representing the countries' percent of total US trade.

Sources: Bloomberg Finance L.P. and Federal Reserve Bank of St. Louis.

Asset class positioning

Equities

Under **Weighting** Over

- We remain cautious on equities given extended valuations, optimistic earnings projections and the still uncertain path on trade policy.
- Within equities, we continue to favour value-oriented sectors, which are supported by more reasonable valuations, deregulation and economic activity broadening beyond artificial intelligence infrastructure-driven spending.
- Within regions, we see better opportunities outside of the US on more compelling valuations as well as improving sentiment supported by increased fiscal spending and accommodative central banks.

Fixed income

Under **Weighting** Over

- We maintain an underweight position to bonds given potential for upward pressure on US interest rates from increased supply to accommodate US fiscal policy and the threat of tariffs on inflation.
- We are maintaining an overweight to emerging market debt given its income advantage as fundamentals remain broadly supportive and default risk remains low, even in a slower economic environment.

Cash

Under **Weighting** Over

- We remain overweight cash, as it still provides attractive yields and limited duration exposure.
- Cash provides liquidity to take advantage of market opportunities amid market dislocations.

Equity market views

▼ or ▲ Month-Over-Month Change

Change	*Underweight*		*Neutral*	*Overweight*		
			Regions			
US		U				US equities face a difficult near-term environment given disruption from trade, potentially pausing capex spending, and elevated valuations.
Europe ex-UK		U				Increased fiscal spending and reasonable valuations could provide near-term upside. However, the possibility of an extended trade war clouds the outlook.
UK				O		Valuations are attractive, and the longer-term outlook is healthy, but economic growth may be challenged and fiscal vulnerabilities remain.
Japan			N			Modestly higher inflation and rising wages are having a positive impact on consumption. Trade uncertainty could resolve quickly with Japan atop the priority list for US negotiations.
Australia		U				Earnings growth remains a concern, though the economy does appear to have stabilised. Labour market data are volatile, which may complicate the easing cycle.
Emerging Markets (EM)				O		EM stock and currency valuations are attractive and benefiting from capital flight out of the US. Trade disruption remains a notable area of concern, though some areas, notably Latin America, may be less impacted.
China			N			Credit conditions appear to be bottoming, the housing sector is stabilising and further policy support is expected. However, structural challenges remain, and tariffs could pose a headwind.
			Style and Market Capitalisation			
Global Growth vs. Value[1]		U				AI monetisation and capex spend continues to be scrutinised, though Mag 7 earnings have largely held up. Growth valuations remain elevated despite the recent sell-off. Value can benefit from prospective deregulation, broadening earnings growth, as well as prospective fiscal policy support and re-shoring; however, tariffs could pose a significant economic growth risk.
Global Small-Cap vs. Large-Cap[1]		U				Elevated valuations and concentration risks remain a concern for large caps. However, strong fundamentals and healthy free cash flow offer a buffer against economic slowdown. A muted growth outlook and a lack of pricing power could pose challenges for small caps. However, the potential for deregulation and stronger M&A activity are supportive.

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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.
[1] 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

▼ or ▲ Month-Over-Month Change

	Underweight	*Underweight*	*Neutral*	*Overweight*	*Overweight*	
Change						
Euro Government Bonds		U				Inflation is likely to fall below the 2% target of ECB, but this is already priced in. Economic growth is likely to weaken. The ECB may cut rates 1-2 more times, which is also already priced in. The political incentives are for more active fiscal policy (i.e. bond issuance). The balance of risks suggests that no near-term trade agreement will be reached with the US. Moves higher in US Treasury yields are likely to impact moves in European government bond yields.
Euro Inflation Linked				O		Inflation is expected to ease further. The labour market is also likely to continue to ease, with declining wage growth. However, these factors are priced in, so inflation-linked bonds can offer some hedge against upside surprise in inflation.
Euro Investment-Grade (IG) Corporates			N			Softer growth is weighing on yields. Credit fundamentals are supportive, with spreads reflecting uncertainty. Investment grade credit is looking less attractive in terms of valuations because of the tight spreads.
US IG Aggregate		U				Stubborn inflation and a resilient economy could see the Fed cutting rates fewer times than the market expects. Meanwhile, IG spreads remain tight.
Global High Yield		U				Spreads are more reflective of current market uncertainty, but the sector is still offering a healthy yield with supportive fundamentals and still muted default expectations.
EM Dollar Sovereigns				O		Despite attractive yields, risks to EM include tighter financial conditions from potentially higher US interest rates and tariff disruption.
EM Local Currency				O		Recent US dollar weakness has been supportive, though the path forward for the USD and fiscal challenges from tariffs both remain unclear.
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						
EUR vs. USD			N			The tariffs of the Trump administration reduce economic growth everywhere, but push inflation in opposite directions (up in the US, down in Europe). Germany's decision to spend on defence and infrastructure is expected to stimulate economic growth, outweighing the impact of ECB cuts. Interest differentials favour the USD.
EUR vs. JPY			N			The yen is a safe-haven currency. Current valuations are attractive. Given the recent volatility in the yen and uncertainty about Bank of Japan policy, we remain neutral.

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