

Global Asset Allocation: The View From Europe

May 2025

Outlook: New world order

- We remain cautious on risk assets as the trajectory of global growth and inflation face potential challenges from disruptive trade policies.
- US growth expectations continue to slow as negative sentiment surrounding tariff impacts weighs. Despite tariff threats on growth, Europe and China policy support could provide an offset.
- Disruptive trade policies could force central banks to make uneasy choices whether to support growth despite threats of higher inflation, which is most pronounced in the US.
- Key risks to global markets include the impact of escalating trade wars on growth and reaccelerating inflation, central bank missteps and geopolitical tensions.

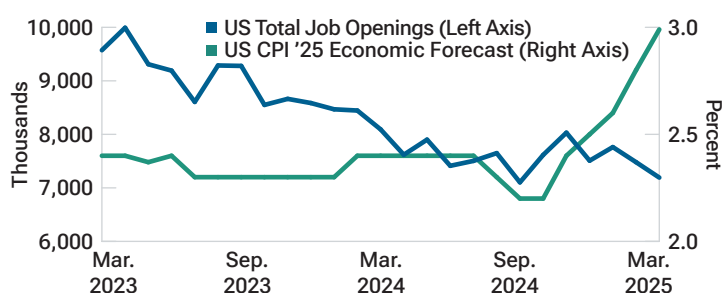
Themes driving positioning

Duelling mandates

Whilst the US Federal Reserve has faced challenges in its dual mandate of maximising employment and price stability in the past, today's environment may soon become acutely difficult. After nearly reining in what they mistook as 'transitory' inflation post-COVID, they could now be facing new inflationary pressures from tariff-led trade policies. These same policies, however, could also weigh on economic growth and lead to rising unemployment. Higher prices, lower growth and rising unemployment are an unwelcome confluence for Fed policymakers also facing political pressure to lower rates. For now, the labour market remains intact, allowing the Fed to stay on the sideline. This could change quickly, though, and markets are already betting that rate cuts may be coming sooner rather than later as trade policy weighs on growth. Given the Fed could soon find itself duelling its dual mandates, we're cautious on risk with a tilt towards inflation-sensitive assets.

Double trouble

As of 31 March 2025



Spring thaw?

What had started with targeted tariffs towards China back in February by the new administration quickly escalated into a global trade war, especially after the 2 April 'Liberation Day' announcement of a baseline 10% tariff and reciprocal tariffs. A week of extreme volatility followed, and the administration seemed to relent by announcing a 90-day pause, which was cheered by investors hoping that the extreme tariff measures were just part of a negotiating tactic. Recent headlines suggest that maybe it is working, with many countries seeming to be in negotiations with the US, and, notably, it appears that China is open to talks whilst also exempting some goods from its recently imposed retaliatory tariffs on the US. Whilst much uncertainty remains on the impacts on growth and the path of the negotiations, there have been some signs of thawing tensions in Washington, D.C. this spring. Against the still uncertain path ahead, we've moderated exposure to risk assets.

Trade-off?

As of 30 April 2025



Past performance is no guarantee or a reliable indicator of future results.

Source: Bloomberg Finance L.P.

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Asset class positioning

Equities



- Aligning with our view on moderating risk, we lowered our equity allocation to an underweight position and added to cash given potential headwinds to growth from tariffs and trade.
- Within equities, we continue to favour value-oriented sectors, which are supported by more reasonable valuations and should benefit from a continued broadening away from US large-cap growth.
- Within regions, we see better opportunities outside the US on more compelling valuations as well as improving sentiment supported by increased fiscal spending and accommodative central banks.

Fixed income



- We maintain an underweight position to global bonds given potential for upward pressure on US interest rates reflecting potential for increased supply to accommodate US fiscal policy.
- In line with overall de-risking, we trimmed exposure to spread sectors including high yield. Whilst fundamentals remain broadly supportive and default levels are expected to remain contained, spreads could be vulnerable to disruptions associated with trade policy.
- We maintain an overweight exposure to European inflation linked bonds as planned spending on infrastructure and defence could prove inflationary.

Cash



- We remain overweight cash, as it still provides attractive yields and liquidity.
- Cash could provide liquidity to take advantage of market opportunities amidst expected volatility.

Equity market views

	Underweight Neutral Overweight					▼ or ▲ Month-Over-Month Change
Change	Regions					
US	U					US equities face a difficult near-term environment given extreme policy uncertainty, potentially peaking capex spending and elevated valuations.
Europe ex-UK	U					Valuations are attractive. Core inflation is easing. However, economic activity is weak, whilst US tariffs and competition from China pose additional risks.
UK				O		Valuations are appealing. Domestic inflation is volatile but beginning to ease. The UK may be less susceptible to the impact of disruptive trade policies. 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)				O		EM stock and currency valuations are attractive. China's government policy is supportive. However, geopolitical tensions with the US could rise.
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					Growth stocks' valuations are more expensive and face headwinds from persistent consumer weakness in emerging markets.
Global Small-Cap vs. Large-Cap ¹	U					Global growth and receding inflation trends could be at risk due to increased policy uncertainty, potentially adversely impacting smaller companies.

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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

		Underweight Neutral Overweight					▼ or ▲ Month-Over-Month Change
Change							
Euro Government Bonds	▲		U				Germany's decision to spend on public infrastructure and defence can stimulate economic growth and push government bond yields higher. However, the eurozone is exposed to disinflationary trends from a stronger euro and lower oil and goods prices. There are global growth headwinds as well. If US disruptive trade policies escalate, Bunds may outperform as a safe-haven asset.
Euro Inflation Linked					O		Inflation is expected to ease as the economy slows down. However, the labour market remains tight. Spending on defence and infrastructure can be inflationary.
Euro Investment-Grade (IG) Corporates				N			Euro IG credit is looking less attractive in terms of valuations, given the tight nature of 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				In line with overall de-risking, we trimmed exposure to spread sectors, including high yield. Whilst fundamentals remain broadly supportive and default levels are expected to remain contained, spreads could be vulnerable to disruptions associated with trade policy.
EM Dollar Sovereigns					O		The sector is supported by attractive yields, but risks include tighter financial conditions from a stronger US dollar and rising US interest rates.
EM Local Currency					O		Yield levels are attractive, whilst US dollar uncertainty and fiscal challenges continue to pose headwinds.
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			Germany's decision to spend on defence and infrastructure is expected to stimulate economic growth, outweighing the impact of European Central Bank cuts. However, because of high levels of uncertainty and the recent strengthening of the EUR, we decided to take profits and go neutral.
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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