

Global Asset Allocation: The View From the UK

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.

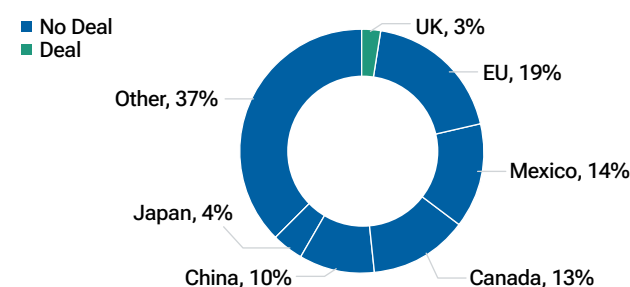
Themes driving positioning

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.

Crunch time

As of 31 May 2025

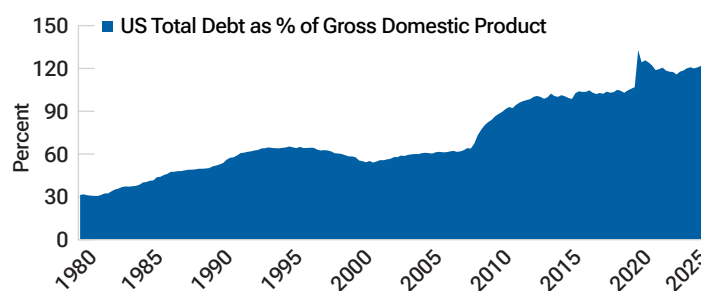


Tipping point?

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.

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.

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Asset class positioning

Equities



- 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



- 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



- 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

Underweight Neutral Overweight					▼ or ▲ Month-Over-Month Change
Change					
	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 appealing. Domestic inflation is volatile but beginning to ease. The UK may be less susceptible to the impact of disruptive trade policies.
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

		Underweight Neutral Overweight					▼ or ▲ Month-Over-Month Change
Change		Red	Red	Grey	Green	Green	
UK Gilts			U				Domestic inflation is beginning to ease. Global tariffs may hurt economic growth. The labour market is weakening. The Bank of England may cut rates 2-3 more times this cycle and slow down quantitative easing. There is a fiscal risk of tax rises. Gilt yields are likely to follow those of US Treasuries upward.
UK Inflation Linked					O		While domestic inflation is beginning to ease, risks remain that although May inflation may fall, it may surprise the consensus to the upside. Medium term, the inflation outlook is improving.
UK 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				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					Germany's decision to spend on public infrastructure and defence can stimulate economic growth and push government bond yields higher.
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							
GBP vs. USD				N			The dollar may soften if US economic growth decelerates. However, US growth is still stronger than that in the UK and the Bank of England is more likely to cut.
GBP vs. EUR					O		Interest rate differentials favour the GBP.
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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