

Global Asset Allocation: The View From Europe

August 2025

Outlook

- We maintain a balanced view on risk assets, factoring in still supportive fiscal and monetary policies and earnings growth, offset by ongoing trade tensions and moderating economic growth.
- Whilst still expected to moderate and facing potential tariff-related inflation pressures, US economic growth is supported by an uptick in fiscal spending.
- Outside the US, many economies' growth outlooks are at risk due to the impacts of trade policy, though increased fiscal spending—particularly in Europe—is providing support.
- Key risks to global markets include the impacts of global trade tensions, the threat of higher inflation, central bank missteps, a weakening labour market and ongoing geopolitical uncertainties.

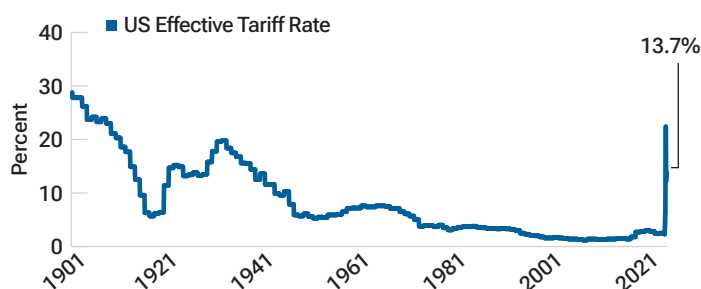
Themes driving positioning

Pressure's on

Another tariff deadline passed on 1 August, followed by a one-week extension, intensifying pressure on those countries still working to secure a deal and avoid higher tariff rates. Although there was initial uncertainty after Liberation Day regarding the likelihood of multiple deals, it has become evident that the second Trump administration is determined to deliver—negotiating bilateral 'fair' agreements with more favourable terms and concessions than many expected. Europe serves as a prime example, having agreed to a 15% tariff along with a commitment to buy USD 750 billion in US energy and invest USD 600 billion more in the US economy. Similar concessions came from Japan and South Korea as they weighed the consequences of further escalation. With most of the US's major trading partners having reached deals, the focus now shifts to a potential agreement with China, one of the final and most significant challenges. Whilst markets have reacted positively to progress on these deals, the long-term effects remain uncertain.

Someone's gotta pay

As of 31 July 2025



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

Sources: Bloomberg Finance L.P./Macrobond.

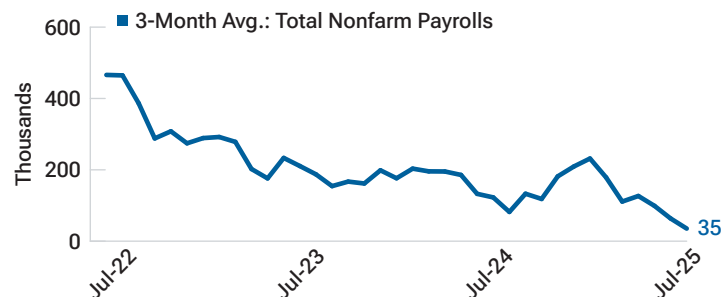
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Health check

The latest labour market data revealed some worrisome signs, with July's nonfarm payrolls falling well below estimates at only 73,000 new jobs added and significant downward revisions for May and June of 258,000 fewer jobs. Similarly concerning was that the areas of job gains were primarily within noncyclical sectors—education and health care. The labour market has been surprisingly resilient since recovering from the coronavirus pandemic, and a key reason the Fed has been cautious to reduce rates. The recent weakness echoes patterns observed last summer when markets were surprised by sudden job market deterioration, raising concerns that the Fed was behind the curve, before they followed through with their first rate cut. Today, with the Fed hyper-focused on prospects for higher inflation related to tariffs, let's hope they don't miss early signs that the job market may be less healthy than it appears.

Slipping away

As of 31 July 2025



Asset class positioning

Equities



- We have shifted to a neutral stance in equities as the outlook balances lower recession risks, fiscal support and a generally constructive earnings backdrop against extended valuations and ongoing trade tensions.
- Additionally, we've adopted a neutral position between US growth and value sectors, reflecting a balanced perspective on the beneficiaries of fiscal incentives and deregulation, alongside rich valuations in both growth and value relative to their historical norms.
- Within regions, we continue to find more attractive opportunities outside the US, driven by more compelling valuations and improving sentiment, which are supported by fiscal spending tailwinds and accommodative central bank policies.

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 inflationary risk posed by tariffs.
- We moved to a further underweight position in US long-term Treasuries as that area of the curve is most vulnerable to a shift higher in rates given funding requirements associated with US fiscal stimulus.

Cash



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

Equity market views

	Underweight Neutral Overweight					▼ or ▲ Month-Over-Month Change
Change	Regions					
US	U					US equities face a mixed environment. Valuations and earnings expectations are elevated. However, falling policy uncertainty, fiscal stimulus and artificial intelligence (AI) progress have buoyed sentiment.
Europe ex-UK	U					Increased fiscal spending and reasonable valuations could provide near-term upside. However, a relative dearth of innovation leaders dampens the longer-term outlook.
UK				O		Valuations are attractive, and the longer-term outlook is healthy. However, economic growth may be challenged in the near term, and the inflation outlook remains volatile.
Japan		N				Both trade policy and political uncertainty have decreased significantly, while structural improvements in corporate governance remain on track. Yen strength and Bank of Japan (BoJ) tightening slightly dampen our enthusiasm.
Australia	U					Earnings growth remains a concern, and valuations are elevated. The longer-term outlook is further challenged by the slowing demand for coal and industrial metals from China.
Emerging Markets (EM)				O		EM stock and currency valuations are attractive and benefitting from negative sentiment towards investing in the US. The global economic outlook is improving on easing trade tensions and rising fiscal stimulus.
China		N				Credit conditions are bottoming, the housing sector is stabilising and further policy support is likely. However, the housing market could remain a structural drag on growth.
	Style and Market Capitalisation					
Global Growth vs. Value ¹ ▲		N				Despite extended valuations of growth, AI monetisation is showing signs of promise, and Mag 7 earnings have largely held up. Recently introduced tax incentives in the US should also help. Potential for deregulation as well as support from fiscal policy and reshoring support value; however, modest economic growth and housing market weakness remain headwinds.
Global Small-Cap vs. Large-Cap ¹		N				Elevated valuations and concentration risks remain a concern for large caps. However, strong fundamentals and healthy free cash flow levels offer a buffer against economic slowdown. Muted economic growth outlook and higher for longer rates pose challenges for small caps. However, potential for deregulation, fiscal prospects 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		Underweight	Neutral	Overweight	
Euro Government Bonds		U			Although the uncertainty about trade policy is lower now with the US and EU trade deal, a 15% tariff rate is higher than expected. A weaker economy in the second half of the year may lead the European Central Bank (ECB) to cut one more time this year. This is slightly more dovish than current market pricing. Global factors, such as possible rising US Treasury yields, may push euro government bond yields higher.
Euro Inflation Linked				O	Inflation is expected to fall below the ECB's 2% target in the second half of the year due to a weaker US dollar, lower oil price and good deflation. However, this is priced in. Inflation-linked bonds can provide some cushion should inflation rise above expectations, for example, due to effects from tariffs.
Euro Investment-Grade (IG) Corporates			N		Softer growth is weighing on yields, whilst risks of inflationary pressures remain. Credit fundamentals are supportive, with spreads expensive relative to history.
US IG Aggregate	▼	U			Concerns around higher inflation and funding requirements associated with US fiscal stimulus could keep upward pressure on long-end yields.
Global High Yield			N		Spreads are approaching historically tight levels but supported by strong fundamentals. The sector still offers a healthy yield and muted default expectations.
EM Dollar Sovereigns				O	Despite attractive yields, risks include tighter financial conditions from potentially higher US interest rates and tariff disruption.
EM Local Currency				O	US dollar (USD) weakness has been a tailwind, 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		One risk is that the ECB cuts more than expected, taking the euro lower. Germany's defence and infrastructure spending is stimulative. 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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