

Global Asset Allocation: The View From the UK

September 2025

Outlook

- We maintain a balanced view on risk assets, supported by fiscal stimulus and central banks' easing, offset by signs of moderating economic growth and persistent inflation pressures.
- Outside the US, growth outlooks remain challenged by trade uncertainties, though increased fiscal stimulus, particularly in Europe, and central banks' easing continue to provide support. In the UK, on the other hand, the government may need to raise taxes in the autumn.
- Key risks to global markets include the lingering impacts of global trade tensions, elevated inflation, potential policy missteps by central banks, a weakening labour market and ongoing geopolitical tensions.

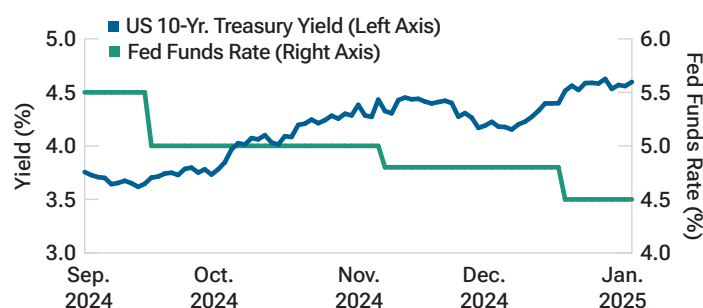
Themes driving positioning

Too soon?

Following US Fed Chairman Jerome Powell's Jackson Hole speech, markets have nearly fully priced in a 25-basis-point rate cut this month, with Powell adopting a more balanced tone and acknowledging potential labour market weakness. This shift echoes last year's pivot when the Fed moved to prioritise the labour market as inflation neared its target. The bond market, however, saw the moves as premature, pushing Treasury yields nearly 100 basis points higher as the Fed lowered short-term rates by the same amount. Today, with additional fiscal stimulus on the horizon, elevated Treasury issuance, and tariffs continuing to threaten inflation, the bond market may once again deem the timing too soon and inflationary, sending yields higher. With longer-dated Treasury yields already under upward pressure, any perceived misstep by the Fed could prove costly, as they try to strike a precarious balance between stabilising the labour market without stoking inflation.

Pushing on a string

As of 31 August 2025

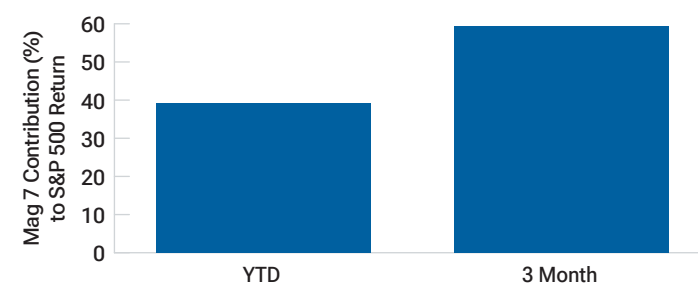


Perfection

With equity markets trending near record levels and valuations becoming stretched once again, narrow leadership and reliance—particularly in the US—on artificial intelligence (AI) spending are a growing concern. Markets have priced in a high degree of certainty that the pace of AI spending will continue and that those companies that are investing heavily in AI technology will see a significant payoff. It is unquestionable that AI technology will be transformative to many industries and lead to greater efficiencies over the long term. The risk for investors today, however, is that the AI theme is the primary driver of the market and economic growth, with other areas of the economy still pressured by high interest rates, uncertainty around tariffs, and the job market. With the market so narrowly focused on every data point surrounding AI spending and AI company-related earnings outlooks, the risk of disappointment is high. Delivering perfection has almost become a requirement rather than a goal.

Only show in town

As of 31 August 2025



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Sources: Bloomberg Finance L.P. and S&P. Please see Additional Disclosures for more information about this sourcing information.

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Asset class positioning

Equities



- We maintain a neutral stance on equities, balancing solid fundamentals, ongoing fiscal support and a broadly constructive earnings backdrop against stretched valuations and lingering trade uncertainty.
- Within regions, we continue to find more attractive opportunities outside the US, particularly in value, driven by more compelling valuations and improving sentiment, which are supported by fiscal spending tailwinds and accommodative central bank policies.

Fixed income



- Within fixed income, we increased the allocation to global high yield to an overweight. While spreads are tight, with little room to tighten further, the sector offers healthy total yields and muted default expectations, as long as the economy continues to do well.
- We shifted some of the allocation to emerging market (EM) dollar sovereigns to EM corporates, partially to reduce duration. Dollar-denominated EM bonds price off the US yield curve, and we expect long-term yield to move higher.

Cash



- We continue to maintain an overweight position in cash, due to its attractive yields and limited duration risk.
- The sector offers 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 equity valuations are very elevated but are supported by strong and improving fundamentals. The earnings outlook is favourable, but any hiccups could be punished more harshly than normal.
Europe ex-UK ▲		N				Increased fiscal spending, accommodative monetary policy and reasonable valuations could provide near-term upside. However, a relative dearth of innovation leaders dampens the outlook.
UK			O			Valuations are attractive, and the longer-term earnings growth outlook is healthy. However, budget concerns remain a significant headwind, and the inflation outlook remains volatile.
Japan		N				Both trade policy and political uncertainty have decreased significantly, leading to a fragile but improving economic outlook. Structural improvements in corporate governance remain on track.
Australia	U					Economic growth is fragile with low productivity a persistent challenge. Valuations are somewhat elevated despite a weak earnings outlook. However, the prospect of further easing in monetary policy may be supportive.
Emerging Markets (EM)			O			EM stocks have benefitted from capital flight out of the US while the global economy is benefitting from easing trade tensions and rising fiscal stimulus. A weaker US dollar offers a further tailwind.
China		N				Credit conditions are bottoming, the housing sector is stabilising and further policy support is likely. However, the labour market is soft and the housing market remains a structural drag on growth.
	Style and Market Capitalisation					
Global Growth vs. Value ¹		N				US growth equity fundamentals continue to accelerate. Recently introduced tax incentives should also help. However, extended valuations make risk/reward less attractive. Regarding value, there is potential for deregulation as well as support from fiscal policy and reshoring; however, modest economic growth and housing market weakness remain headwinds.
Global Small-Cap vs. Large-Cap ¹		N				For large caps, elevated valuations and concentration risks remain a concern. However, strong fundamentals and healthy free cash flow levels offer a buffer against an economic slowdown. For small-caps, a muted economic growth outlook and sticky inflation pose challenges. However, Fed cuts, deregulation, fiscal prospects and stronger mergers and acquisitions 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	Light Red	Dark Grey	Light Green	Dark Green	
UK Gilts			U				The Bank of England (BoE) is likely to decrease the pace of quantitative easing and sell fewer gilts. The BoE may cut more than market expectations because of a weakening labour market, slower economic growth since the government is likely to raise taxes, and easing services inflation. However, gilt yields may rise in tandem with those of US Treasuries.
UK Inflation Linked					O		Weakening labour market should lead to easing services inflation. We reduced the allocation to inflation-linked gilts, partially to decrease duration, but we remain overweight because the risk of a sticky or higher inflation remains.
UK Investment-Grade (IG) Corporates				N			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.
European IG Aggregate		U					Large on-going bond issuance is a headwind, balanced by the risk of spreads widening on periphery bonds (benefitting German Bunds), geopolitical risks and the possibility of the European Central Bank (ECB) discussing an end to quantitative tightening. The eventual effect of Trump Tariffs, French political uncertainty, and euro appreciation may push the ECB to cut once more by March 2026, which is a more dovish outcome than market expectations.
Global High Yield	▲				O		Spreads are approaching historically tight levels but are supported by strong fundamentals. The sector still offers a healthy yield, with measured expectations for increases in defaults.
EM Dollar Sovereigns					O		Despite attractive yields, risks include potentially higher US interest rates and the unknown impact from tariffs on economies.
EM Local Currency					O		US dollar weakness has been a tailwind, though the path forward for the US dollar and fiscal challenges from tariffs both remain unclear.
EM Corporates	▲				O		The sector offers a shorter duration than that of EM dollar sovereigns. Spreads are tight, but total yields remain attractive relative to some other fixed income sectors.
Currency Market Views							
GBP vs. USD				N			The dollar may soften if US economic growth decelerates. However, US growth is stronger than that in the UK, and the interest rate differentials favour the USD.
GBP vs. EUR					O		Interest rate differentials continue to favour GBP. A potential tailwind for the EUR is any improvement in the French political situation or an improvement in the geopolitical situation in Poland.
GBP vs. JPY				N			Interest rate differentials continue to favour the GBP. 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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