Asset Allocation Outlook

April 2025

*The latest publication schedule is January, April, July and October. The last update was issued in January 2025.

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Key global themes

Uncertain trade policies, central bank policy divergence, and slowing global growth can present diversification opportunities.

1. Uncertainty is a key factor driving markets

- 2025 began with increased uncertainty for investors, with US government policy evolving quickly. Trade policy has been in focus, with proposed tariffs on key trading partners such as China, Mexico, Canada, and potentially Europe adding a measure of market volatility.
- Traditionally, providing stability has been a key tenet of government policy to allow businesses, consumers, and investors to plan and ultimately grow the economy, but that's not currently the case. In the near term, potentially increased prices might affect consumers and companies alike, with the burden likely divided between higher costs and narrower profit margins. A lack of certainty might also make economic forecasting more challenging, likely making it difficult for central banks to act decisively.
- Over the longer term, tariffs may shift production domestically and alter global supply chains. Moreover, uncertainty around what the policy will ultimately look like could dampen consumer and business confidence and potentially slow economic activity.
- Amid rising uncertainty, we think it's important to remain diversified while also incorporating defensive exposure such as defensive equities, high-quality bonds, or real assets such as gold. However, much of the uncertainty may already have been priced in, and any clarity, especially on trade policy, could provide a tailwind to markets.

2. Global central banks are nearing the end of their easing cycle

- The US Federal Reserve (Fed) has been cutting rates since their rate hiking cycle ended in 2024, but an uptick in uncertainty has left them in wait-and-see mode. Further cuts would likely require clarity around government policy unless weak growth data or persistently high inflation force the Fed's hand. We expect that over the course of 2025, some combination of a growth scare, a cooling labour market, or a further downshift in inflationary pressure will allow the Fed to continue moving toward its neutral policy rate.
- Globally, central banks are at different stages in their cycles. The European Central Bank (ECB) and Canadian central bank are nearing the end of their easing cycles, but tariff-related deterioration in the economy could prompt more cuts. The Bank of England is navigating still-firm inflationary pressure and weak growth, which could lead to gradual easing. Japan continues to gradually increase interest rates to normalise its monetary policy. Further easing by the Fed could provide more room

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for emerging-market central banks to continue easing, but foreign trade exposure will determine the extent.

- Moderately divergent central bank policy presents opportunities for investors. Within the United States, we prefer assets such as shorter duration bonds and financials and have become more supportive of equities outside of the US, particularly in Europe.

3. Balancing US equities with global prospects

- In recent weeks, US market dominance has come into question as signs of slowing economic growth, fading consumer and business confidence, and policy uncertainty have dampened investor sentiment. Valuations remain stretched relative to global peers. However, the US economy continues to offer relative strength compared with other regions as corporate earnings growth remains robust. While we're not negative on US equities, given increased potential risks, we feel it's prudent to find balance in equity allocations.

- Outside the United States, while tariffs remain a clear potential headwind, opportunities may exist. For European equities, value-oriented favourable economic factors, including more accommodative monetary policy from the ECB, supportive fiscal spending plans, and improving investor sentiment, could provide a boost. In China, DeepSeek AI advancements have driven a strong rally since the beginning of the year. Stabilisation in economic activity could broaden the rally beyond the technology sector to more domestically focused stocks.

- Within the United States, we think investors should look to balance their large-cap growth exposure with more value-oriented exposure in sectors such as financials and healthcare, while higher dividend equities could also help navigate volatility.

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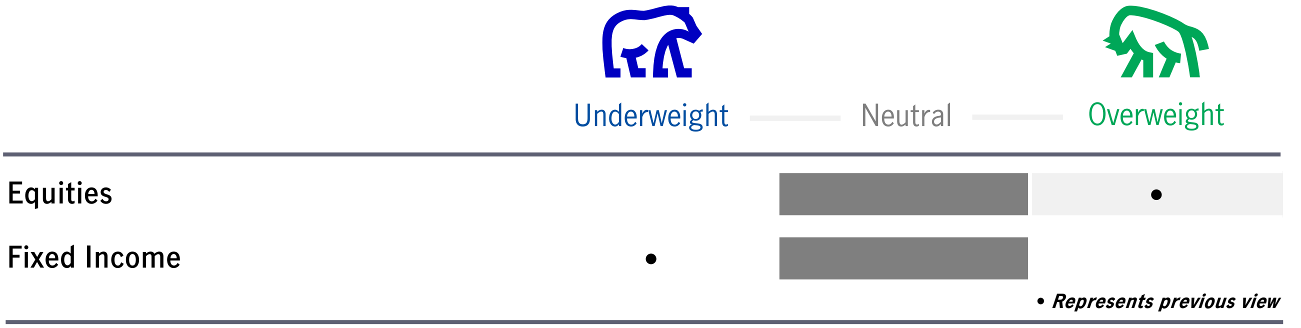
Asset class overview

Broad asset class outlook



- Looking out 12 months, **we've moved our stance on equity relative to fixed income to neutral** amid continued uncertainty. In the near term, we've moved some portfolios modestly underweight equity and will look to opportunistically add risk should further volatility present opportunities.
- Within equity, **our preference has shifted toward defensive stocks; we're adopting a more balanced stance between US equities and international markets** as well. Global economic and earnings growth provide a supportive backdrop for risk assets, but we remain mindful of risks associated with stretched valuations and uncertain policy developments.
- Subdued growth expectations offer relative upside for fixed income; however, inflation risks from trade disruption, which could lead to elevated yields, present a headwind.

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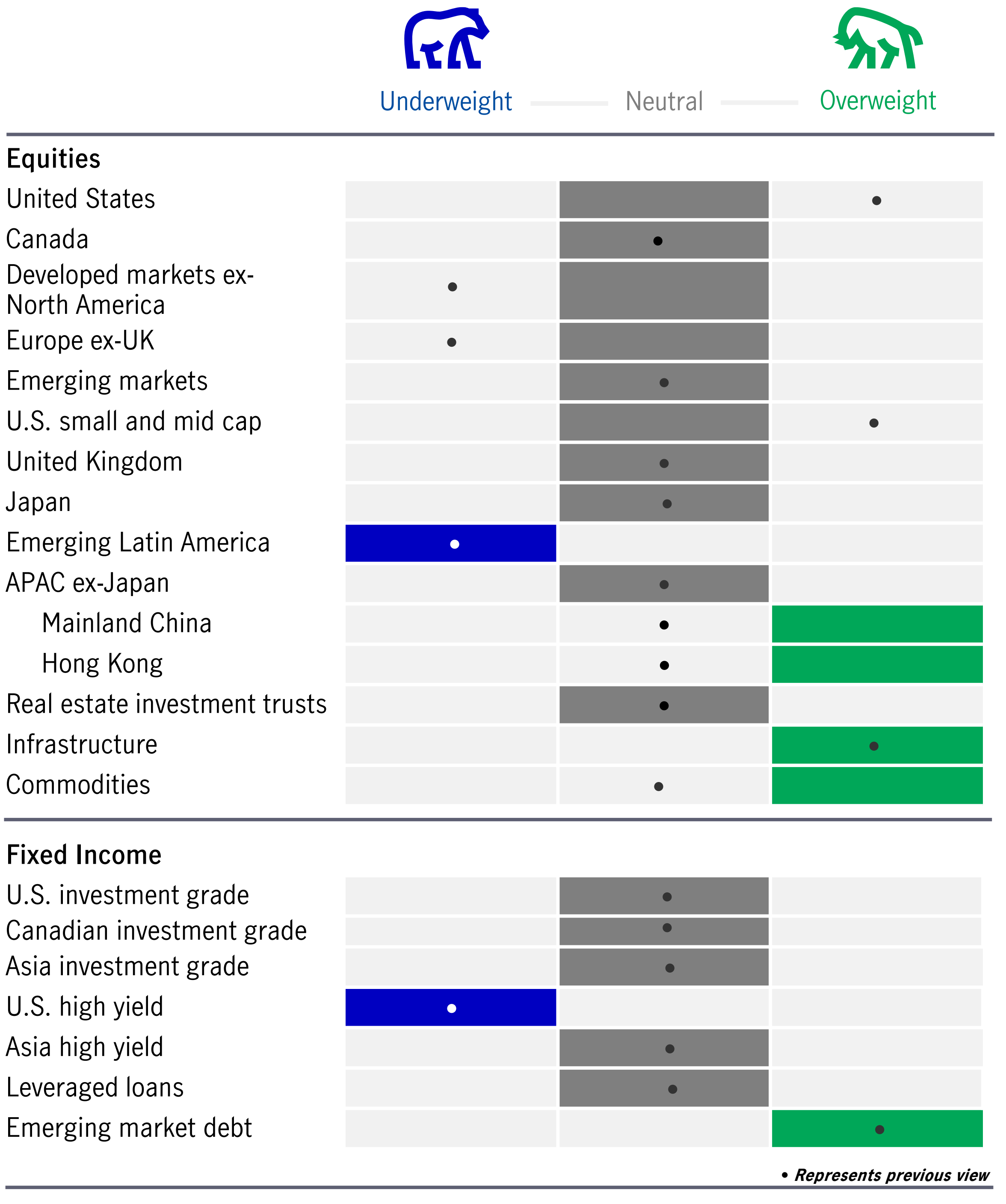
Active asset allocation views



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Active asset allocation views

Private Markets	Underweight	Neutral	Overweight
US real estate		•	
Canada real estate		•	
European real estate		•	
Global infrastructure			•
Private credit			•
Private equity	•		
Timberland		•	
Farmland		•	

• Represents previous view

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Equity view

Broad equity

- **We moved our view on US equities to neutral, down from overweight,** reflecting the rapidly changing political climate and the signs of a slowdown in US economic growth. However, there continue to be attractive opportunities and we prefer certain sectors, including financials, healthcare, and utilities.

- **We upgraded our stance on developed international markets outside North America from underweight to neutral.** Although there are signs of improving growth and benefits from positive fiscal policies, ongoing structural challenges persist, which is why we believe it's prudent to stay neutral for now. We're closely watching to assess whether recent outperformance suggests a sustained positive shift in the economic landscape, which could prompt a more optimistic outlook.

- While the valuation landscape for emerging-market equities is appealing, we maintain a neutral stance due to uncertainties in trade policies and potential slowdowns in global trade. However, **we see opportunities emerging in Asian markets, particularly onshore Chinese equities,** driven by attractive valuations and supportive government measures.

Regional/ Sector-specific equity

- We have a **neutral stance on US small and mid-cap equities** driven by a slowdown in economic growth and the lower-quality nature relative to large caps. Within these equities, we prefer higher-quality and more profitable mid caps to small caps. Valuations remain attractive and are supportive of the neutral positioning.

- **We upgraded European equities from underweight to neutral,** driven by an expected increase in fiscal spending, a potential cease-fire in Ukraine, a pickup in earnings revisions, and improving sentiment. That said, we believe caution is warranted amid ongoing uncertainties. Short-term opportunities may arise if fiscal initiatives and manufacturing improvements continue, while long-term risks persist from structural challenges and trade tensions.

- While we remain neutral on Asian equities overall due to ongoing trade and tariff uncertainties, we see opportunities within the region. Supply chain restructuring continues to create opportunities for select domestically focused markets, including Mainland China. While offshore equities have seen significant recent outperformance, we believe this may be ahead of actual earnings and macro improvements. Therefore, attractive valuations against offshore

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Equity & Fixed Income views

- equities and improving earnings growth expectations, combined with anticipated government stimulus, could offer appealing short-term tactical opportunities in onshore China equities. Due to this, **we've changed our stance on Mainland China to overweight, up from neutral.**

- **We've upgraded our view on broad commodities** driven by favourable views for gold, copper, and, in the near term, oil. We expect demand for gold and copper to remain high, while weak fundamentals have already been priced into oil spot prices, providing upside opportunity.

Fixed income

- **We remain neutral on US investment grade overall**, and within the asset class, **we prefer US investment-grade corporates over US Treasuries.** From a duration perspective, we prefer the belly of the curve while avoiding longer duration assets.

- **We continue to favour leveraged loans over US high yield** as they offer more attractive spread and yield carry, providing a better risk/reward balance. While recent risk-off sentiment has widened spreads, high yield spreads remain relatively tight.

- **Within Asia, we prefer high-yield credits over investment-grade credits** due to more attractive valuations with favourable high-yield spreads compared against historical averages. Default rates are likely to normalise post years of credit stress. The recent rally in Chinese equities has been a boost to higher beta China credits.

- **We maintain an overweight stance in emerging-market debt**, although given tight spreads, we expect most of the return to be driven by favourable yields. The asset class offers strong credit fundamentals relative to history, and a weakening US dollar could provide a tailwind. Trade uncertainties are a risk to monitor.

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Fixed income & Private markets view

Private markets

- **We remain neutral on real estate, but that view has been shifting more positive,** as evidenced by our upgrading of US real estate from underweight to neutral back in 2024. A decline in interest rates has provided a tailwind for valuations and lowered borrowing costs, which should be supportive of a recovery in real estate markets. Rising rents and increasing transaction volumes are signs of improving sentiment. However, sticky inflation, government policy uncertainty, and structural shifts in office markets remain key risks.

- We remain **optimistic about global infrastructure,** particularly given strong secular trends in digitisation and decarbonisation. However, geopolitical tensions and supply chain constraints in power infrastructure development present challenges.

- **Private credit remains attractive as banks continue to restrict lending.** While competition in the space is increasing, the ability to secure higher yields in a still-restrictive credit environment remains compelling. Despite a recent decline in Secured Overnight Financing Rates, all-in yields remain in the double digits.

- **We remain underweight in private equity** due to ongoing challenges in the exit environment, compressed multiples, and higher financing costs. We'll continue to monitor for a recovery in merger-and-acquisition activity in 2025.

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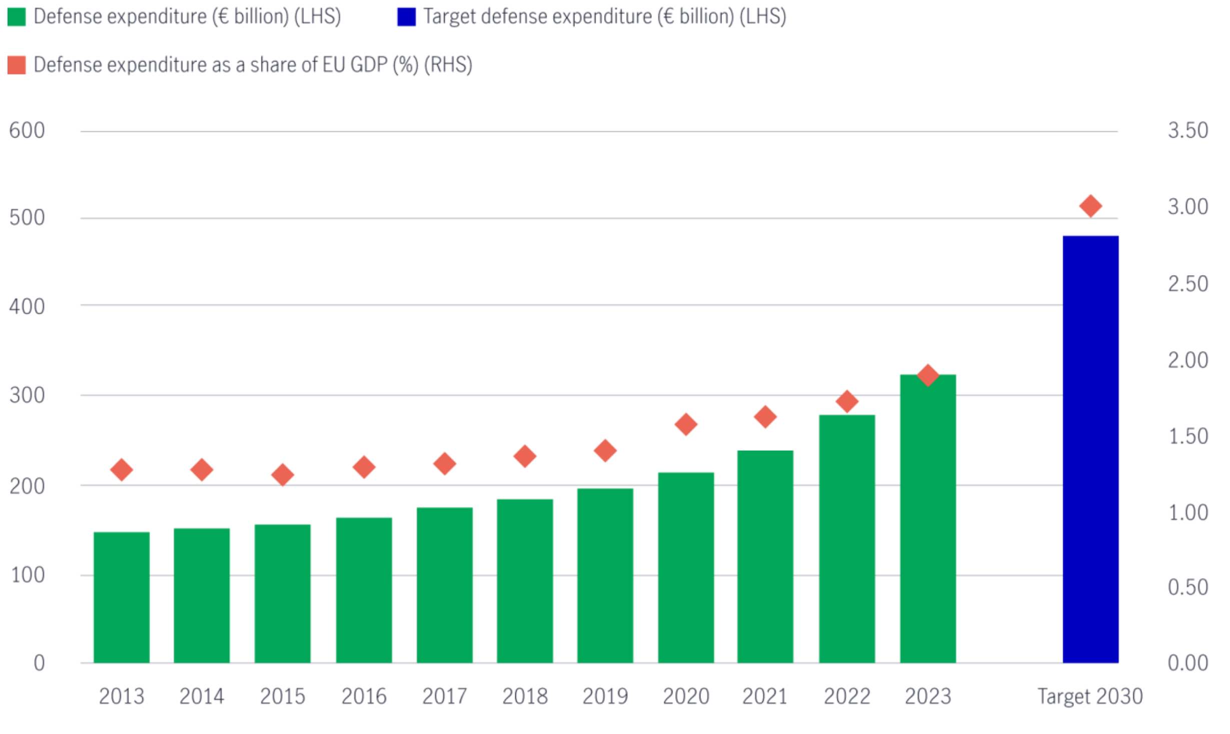
Europe: A favourable policy mix

- A potential increase in defence spending and accommodative monetary policy makes Europe an intriguing opportunity outside the United States.

- Heading into 2025, the consensus on European macro and assets was decidedly bearish. While we've been relatively less pessimistic, we haven't been bullish about the region either. Tariffs remain a clear potential headwind, but over the past few months, there have been a series of constructive macro developments that suggest a more favourable policy mix ahead, which should support growth. This led us to upgrade our view from underweight to neutral in January 2025.

- These include the EU Commission's ReArm Europe Plan, which is expected to increase defence spending across Europe at a time in which industrial and manufacturing activity has been weak. Separately, in Germany, a new leadership coalition is determined to push growth and economic reform, highlighted by a €500 billion special purpose vehicle, potential debt break reforms, and a more pro-business approach. We'd expect all of these to put upward pressure on our growth outlook.

EU's defence spending push



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Europe: A favourable policy mix (cont'd)

- After another rate cut from the ECB in April, from our perspective, monetary policy in the eurozone is more accommodative than peers such as the United States or the United Kingdom where neutral is still a way away. The ECB's 210 basis points of easing over the past twelve months has and should continue to support credit conditions, which could be a tailwind to growth[1]. Looking ahead, our base case is for one more cut from the ECB this year, to a neutral rate of 2%[2].

- A shifting macro narrative in Europe has been a major tailwind for European assets in 2025, including the euro. European equities have strongly outpaced the S&P 500 Index, leading to a material shift in flows. While we don't form our macro views on flow dynamics, the move has been material; we think this momentum is encouraging global investors to consider ex-US assets. While we see positive trends, we must wait and see the longer-term impact of policy changes on earnings.

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[1] As of 23 April 2025, main refinancing operations rate and marginal lending facility rate are 2.4% and 2.65% respectively, both of which were reduced by 210 basis points compared to twelve months ago.

[2] Neutral rate of 2% refers deposit facility rate

Important Information