

OCTOBER 2025

# House View

## Q4 2025

Active and vigilant

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# Our view of global markets

## New world flux

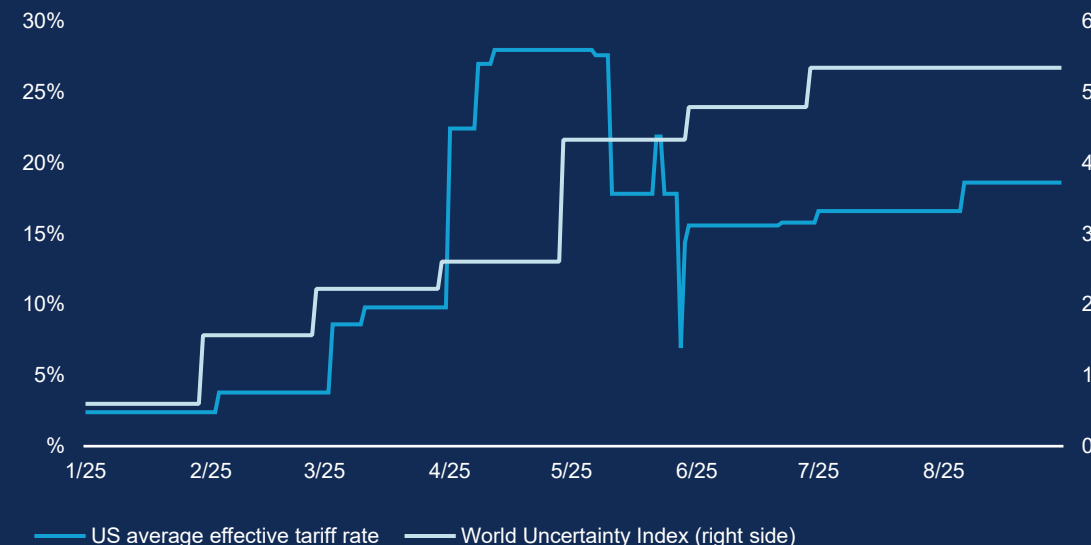
- **We view 2025 as a year of two distinct phases.** Following the initial shock of “Liberation Day”, markets are coming to terms with a new reality marked by reduced political and economic visibility. This evolving backdrop calls for caution but also opens the door to opportunities for actively positioned investors.
- **Growth is slowing below trend, with a broad-based, orderly deceleration across regions.** A new geopolitical and economic framework is emerging, as the previous global model – built on persistent US external imbalances – has effectively run its course. Themes like European sovereignty – broadening from defence to other strategic industries – may offer opportunities in this new landscape.
- **Diversification will be essential, including across a broader set of assets.** As countries pursue increasingly divergent monetary and fiscal policies, the global investment picture is becoming more fragmented. Yields have moved at different paces globally, underscoring the need for diversified bond portfolios.
- **In the US, inflation is likely to reaccelerate, partly driven by tariffs.** Elsewhere, weaker growth should keep inflation subdued. As the US Federal Reserve resumes cutting rates, any perception that political motives are overriding inflation dynamics could be a red flag for markets.
- **While the remainder of the year may be challenging, it's unlikely to be worse than that.** It would take significant bad news to push markets decisively into risk-off mode. But as the global economy enters a more fragile phase, investors should maintain agile portfolio positioning and consider volatility index exposure to stay active and vigilant.



## CHART OF THE QUARTER

### Uncertainty reigns after tariff turmoil

US tariff policy has been a key source of uncertainty this year. But while tariff levels have fallen from their peak, the World Uncertainty Index\* remains at a near-term high, suggesting a legacy of tariffs is a less predictable global economy. While that could be a challenge for global trade, an environment of less economic visibility may be fertile ground for active managers.



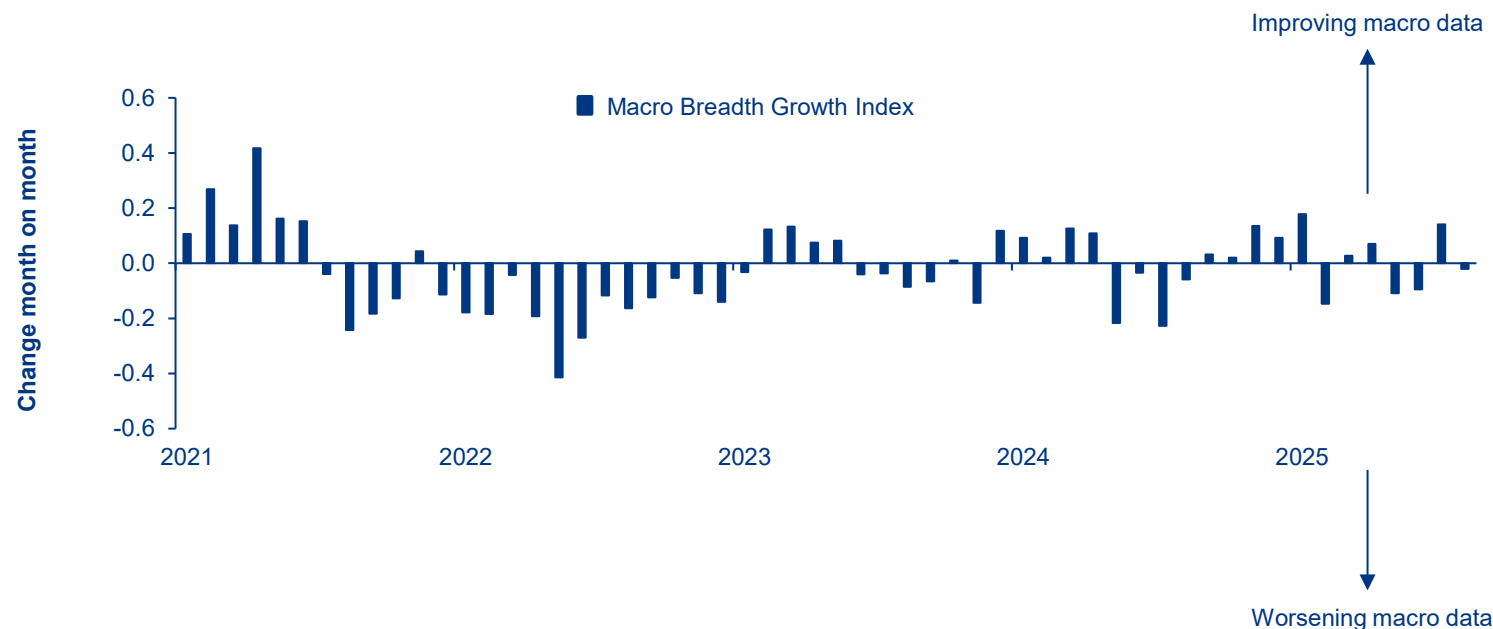
\* The World Uncertainty Index ([worlduncertaintyindex.com](http://worlduncertaintyindex.com)) is computed by counting the frequency of the word “uncertain” (and its variants) in the Economist Intelligence Unit country reports. A higher number means higher uncertainty and vice versa.

Source: Allianz Global Investors Global Economics & Strategy, Ahir/Bloom/Furceri (World Uncertainty Index), IMF, Yale Budget Lab (tariff rate), data as at 7 August 2025.

# Economic growth: Signs of resilience – beware stagflationary risks

Our Macro Breadth Growth Index<sup>1</sup>, measuring global macroeconomic data, reverses its recent rebound

- **Our index of global growth indicators slipped slightly in the latest reading**, driven by a retreat in business and consumer confidence, even though activity data improved modestly.
- **Regionally, the setback was broad-based, led by China and Brazil.** Sharing in the setback – albeit to a lesser degree – were the US, euro zone (with its first decline in five months) and the UK.
- **Japan, Canada, Korea, India and Turkey performed more strongly.**
- **Services sectors have held up better than manufacturing**, where the pre-tariffs boost from front-loaded production is showing clear signs of unwinding.



<sup>1</sup>) Our proprietary Macro Breadth Growth Index tracks the direction of 354 global, regional and country macroeconomic data on a monthly basis. The monthly change of the index is scaled from -1 to 1, with a value of 1 (-1) implying an increase (decrease) of all underlying indicators. By focusing on the direction rather than the magnitude of change, the indexes enable the evaluation of the broadness of underlying macro trends and are less prone to any historical revisions of the underlying data. Source: Allianz Global Investors Global Economics & Strategy, Bloomberg, Refinitiv (data as at 31 August 2025).



# In short: Key data by region

## US

We see stagflationary risks in the US amid a rebound in inflation and subdued growth. We think inflation will be higher than consensus in 2025 and 2026 as tariffs pass through to consumers and immigration cuts tighten the labour market. With the 25 basis point cut in September, the US Federal Reserve started an “insurance” rate cut cycle, **which we expect to take the Fed Funds rate to 3.5% by mid-2026**. We do not see fiscal stimulus arriving from Mr Trump’s "big, beautiful bill" until the first half of 2026.

## Europe

There are **reasons to be positive about the outlook for Europe**. Inflation appears tamed and public spending should ramp up in Germany from 2026, boosting growth prospects. **Political instability in France remains a risk but, barring material economic weakness, we expect a further 25 basis point ECB cut by the end of 2025**. We anticipate the Bank of England to lower rates by another 25 basis points, although cuts may be delayed.

## Asia

We expect the Chinese economy to slow from the third quarter after three quarters of solid growth supported by government measures including subsidies. We expect additional stimulus, including rate cuts, but these measures may only limit downside risks. **The Bank of Japan is likely to await more signs of economic recovery before pushing ahead with raising rates.**

## ECONOMIC GROWTH: US growth to remain sluggish into 2026

Real GDP, year-on-year %

Location	2024*	2025 Bloomberg consensus†	2026 Bloomberg consensus	2026 AllianzGI forecast
World	3.0	2.8	2.9	=
US	2.8	1.6	1.7	↓
Euro zone	0.7	1.1	1.1	↑
Germany	-0.2	0.3	1.0	↑
UK	0.8	1.2	1.1	=
Japan	0.1	1.0	0.8	=
China	5.0	4.7	4.2	↑

## INFLATION: Inflation may be dampened by weaker economies ex-US

Inflation, year-on-year %

Location	2024*	2025 Bloomberg consensus†	2026 Bloomberg consensus	2026 AllianzGI forecast
World	4.2	3.8	3.5	=
US	3.0	2.8	2.8	↑
Euro zone	2.4	2.1	1.9	↓
Germany	2.5	2.1	2.0	=
UK	2.5	3.3	2.5	=
Japan	2.7	3.0	1.8	=
China	0.2	0.1	1.0	↓

\*2024 data from IMF. Data as at September 2025. † For 2025, our forecasts are mostly aligned with consensus.

# View on valuations: Japan and UK assets cheap for a reason?

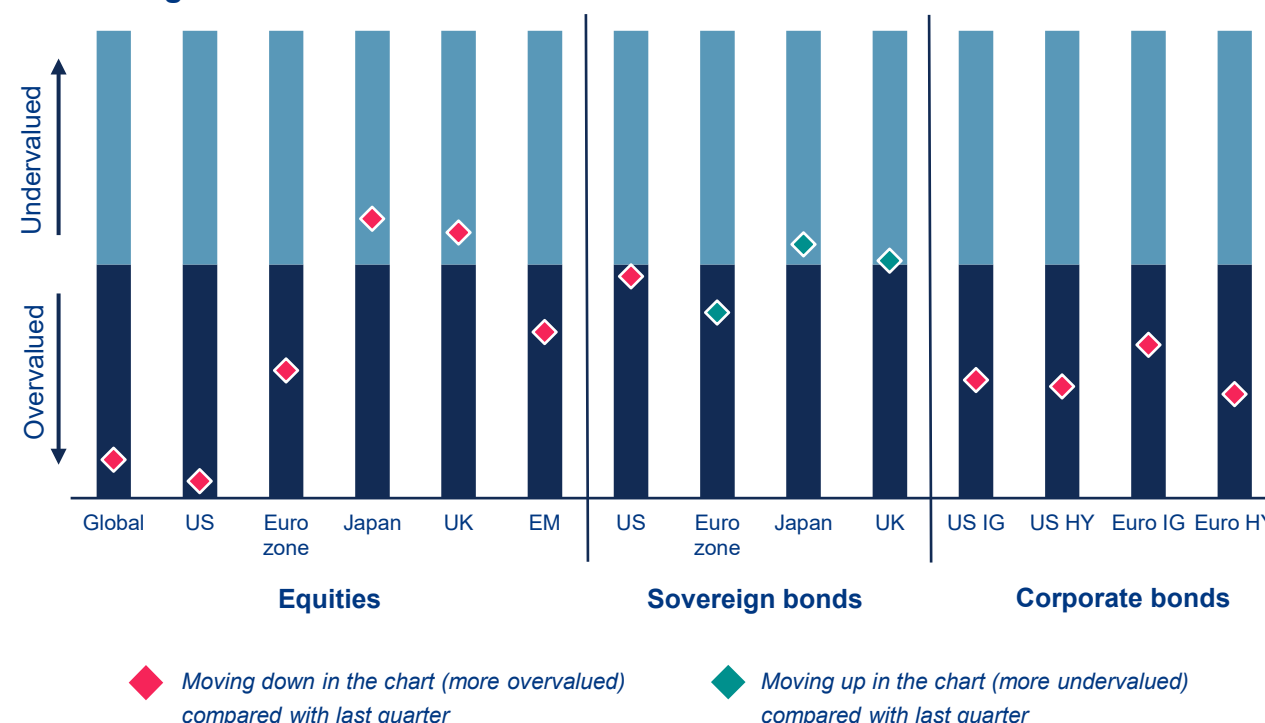
## Select sovereign bonds have become cheaper

- **Most assets have risen in value over the past three months.** Exceptions include Japan, UK and euro zone sovereign bonds, which have become cheaper compared with historical standards.
- **Japan equities still screen as the most undervalued among the assets we analyse, closely followed by UK stocks.** Japan and UK sovereign bonds also appear undervalued, based on our metrics.
- **The recent persistent stock market rally is reflected in valuations.** Already the most overvalued of the assets we screen, US equities rose again over the past three months. The last time US equities were this overvalued was September 2000.
- **Corporate bonds have become more richly priced in recent months**, with euro investment-grade fixed income the pick of the bonds we screen from a valuation perspective.

### Calculations by our Economics & Strategy team.

Valuation score = current score relative to historical distribution of scores. Equity valuation based on Shiller-PE, price/book, 12-month forward PE. Sovereign valuation based on 10-year real interest rate and term premium. Corporate bond valuation based on implicit default probability and respective sovereign valuation. Source: Allianz Global Investors Global Economics & Strategy, Bloomberg, Datastream (data as at 31 August 2025). Past performance does not predict future returns. The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. We assume no obligation to update any forward-looking statement. Valuations are based on the latest assumptions about the economic growth outlook.

### End of August 2025



# Asset class convictions

## Equities

- **In Europe, growing strategic autonomy remains key.** European champions in strategic industries show convincing growth at reasonable prices; 5% (of GDP) defence spending for NATO members will be unprecedented and boost aerospace and defence. The strength and independence of the financial system will be another major topic.
- **Smaller caps may benefit from federal policies and the trend to onshoring in the US,** while also showing attractive valuations in other regions. Lower rates should support their performance thanks to improved financing and increased risk appetite.
- **Chinese markets are being boosted by leadership in AI and adjacent segments,** alongside property sector improvements. **India's aspiration economy looks unruffled by tariff concerns** – net goods exports to the US are under 2% of GDP – with favourable demographics driving long-term growth.
- **On the tech side, humanoid robots and intelligent machines are gaining interest** thanks to AI and developments by leading firms. The case for AI remains strong – perhaps even underhyped.
- **Software is striking back, with fears that AI will undermine SaaS likely overblown** – enterprise software is complex and customised, enjoying recurring revenues and high margins. While uncertain, the effects of AI here are likely positive, with simple tasks streamlined so humans can focus on higher value-adds.

## Fixed Income

- **We favour a long duration bias in select markets** due to downside risks to growth. We anticipate further yield curve steepening in key markets, such as the US. Globalised interest rate exposure is key given divergent paths in central bank policy.
- **We think peripheral euro rates markets (such as Spain) are preferable to US Treasuries.** We are cautious on France, where political and fiscal risks are rising.
- **Consider US Treasury Inflation-Protected Securities (TIPS)** as markets may be underpricing US inflation risks.
- **In credit, we prefer high-quality investment grade issuers to high yield,** with a focus on non-cyclicals and bank senior debt.
- **Emerging market debt benefits from attractive carry and US dollar weakness,** especially local currency bond markets such as Brazil, South Africa and Peru. In Asian credit, we continue to like carry in high yield.
- **We are bearish on the US dollar** given slowing US growth, rate cutting and growing risks to Federal Reserve independence. We favour FX longs in the euro and Korean won versus the US dollar. We also favour shorts in the British pound versus the Norwegian krone, Australian dollar and Chinese renminbi.

## Multi Asset

- **On a cross-asset perspective, we prefer equities over bonds, and bonds over cash.** We think equities can maintain their recent momentum in a broadly risk-on environment, even though fundamentals have weakened. But although we are long on equities, we are also active users of option strategies to profit from swings in volatility.
- **Emerging markets are our favoured equity markets,** aided by a weak dollar, improved company earnings, an underallocation by many investors and strong price momentum.
- **Our outlook on sovereign fixed income remains largely neutral, although we continue to like steepeners.** We still prefer the euro zone to the US due to soft inflation data and safe-haven flows, but we are cautious on France, given the political upheaval.
- **Emerging market debt is becoming a longer-term favourite** thanks to conservative fiscal and monetary policies.
- **As the US dollar's status as the global reserve currency is tested, gold is emerging as the preeminent safe haven** and we continue to view it as the ultimate diversifier. We hold a long-term negative view on the US dollar and we are positioning for further falls in the short term.

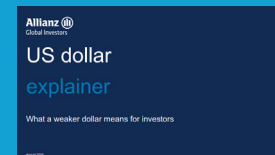
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