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Global Investors

APRIL 2025

House View Q2 2025

Vibe shift

Our view of global markets

Heads spinning, markets rotating

- **Early 2025 has brought a switch in sentiment.** Facing stark geopolitical realities, Europe is adjusting fiscal policy in a way that should drive structural growth. This pivot – a major moment for economics and politics – has sparked a broad-based European rally.
- **We think the rotation into European markets has, so far, barely made a dent in large, established US overweight positions** and it is not too late to participate.
- **In the US, tariffs and uncertainty about the economy and government policy are weighing on growth**. Some actions of the new administration could undermine the US as a safe haven.
- Risks in this environment include **higher US inflation, slowing growth momentum globally, and the potential for a full-blown and protracted trade war**. But we consider it a compelling period for active management.
- **We are cautiously optimistic on select equity markets in an environment where "air pockets" of temporary turbulence are likely.** Well-anchored portfolios across geographies are key. Consider a long Europe position as well as opportunities in China and India.
- **This shift in sentiment has implications for sovereign bonds.** Our highest conviction is in UK Gilts. Overall, we are slightly long duration in the UK and euro area. We think investment grade spreads are supported by carry and momentum.

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CHART OF THE QUARTER

Reversal in fortunes

With Donald Trump's return to the White House, many investors were hoping for a repeat of the US equities rally of the early days of his first term as president in 2017. Instead, US markets have fallen back, while European equities have surged. Note how the Mag 7 group of US tech stocks have collectively ceded their post-election gains.

Source: LSEG Datastream, AllianzGI Economics & Strategy. Data as at 12 March 2025

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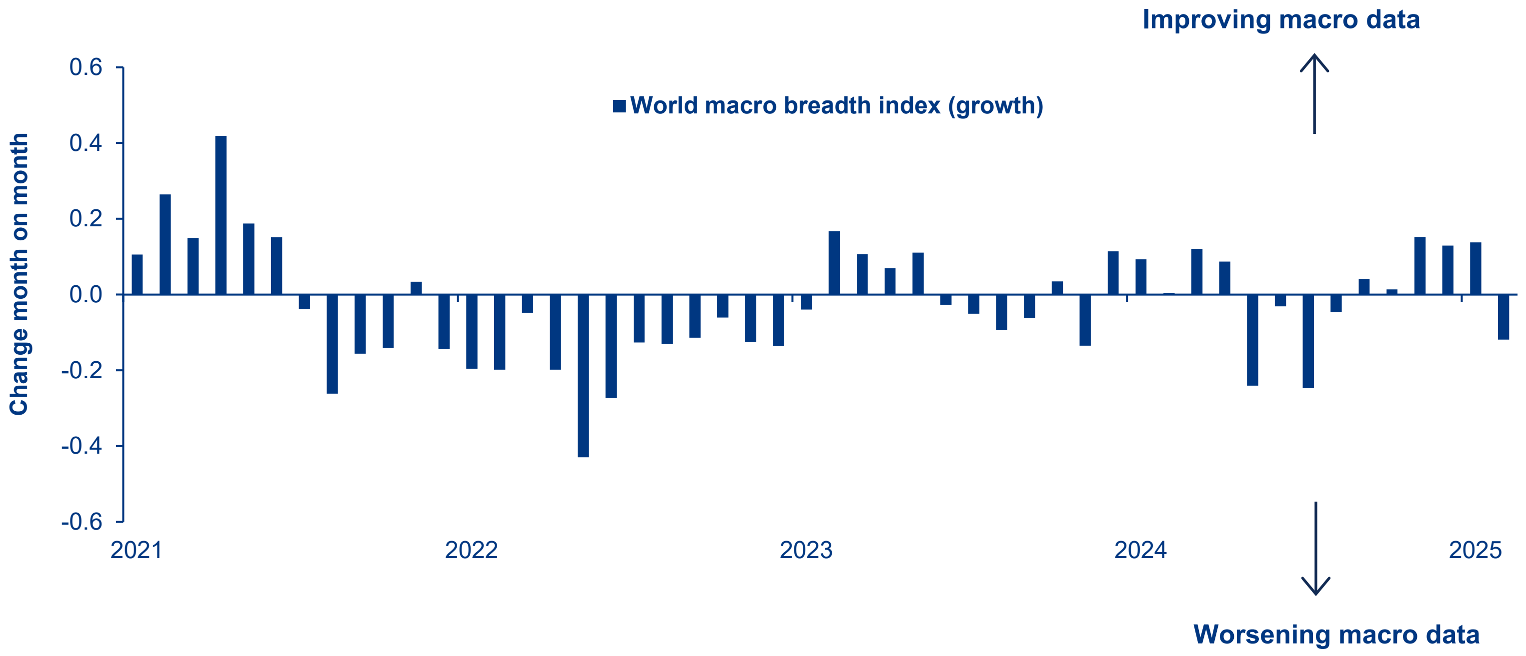
Economic growth: euro zone a bright spot amid global unease

Our Macro Breadth Growth Index[1], measuring global macroeconomic data, slipped for the first time in six months:

- **Global growth stalled as geopolitical worries resurfaced – but the euro zone and Japan bucked the negative trend.**
- Indicators weakened in the US, UK, China and emerging markets including Brazil and Mexico. Japan's recovery and a euro zone rebound provided glimmers of light.
- **Global activity data softened, as did business and consumer sentiment** amid persistent inflation. The services sector showed further signs of slowing.
- **One silver lining to the geopolitical uncertainty was a pick-up in manufacturing** – at least temporarily – as businesses built up inventory and front-loaded production ahead of US tariffs.



1) 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 28 February 2025).

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In short: key data by region

US

Cracks are starting to appear in the world's largest economy. Uncertainty surrounding tariffs, immigration, fiscal policy and regulation are weighing on business and investor sentiment. **As a result, we expect growth to slow more sharply than consensus forecasts**. Tariffs may fan inflation by raising prices. Against this backdrop, **we think the US Federal Reserve may prematurely halt its interest rate cuts**, with rates settling at around 4%.

Europe

Prospects for Europe are starting to brighten. **Plans for higher spending on defence and, in Germany, infrastructure should kickstart stagnant growth**. A note of caution: the impact is unlikely to be seen until 2026 at the earliest. In the coming quarters, **we expect the European Central Bank to move its deposit rate towards a neutral level of around 2%**. In the UK, we think the Bank of England will move cautiously, with one rate cut per quarter.

Asia

We expect the Chinese government to continue to support the economy amid fragility in the real estate market and the prospect of tariffs on exports to the US**.** With Japan's economy humming, **we anticipate the Bank of Japan may gradually raise its policy rate to at least 1% over the course of 2025.**

Economic growth: we are gloomier than the consensus

Real GDP, year-on-year %

	2024 Bloomberg consensus	2025 Bloomberg consensus	2025 AllianzGI forecast
World	3.0	2.9	↓
US	2.8	2.3	↓
Euro zone	0.7	0.9	↓
Germany	-0.2	0.3	=
UK	0.8	1.0	↓
Japan	0.1	1.2	=
China	5.0	4.5	=

Inflation: we see rising inflationary risks in the US

Inflation, year-on-year %

	2024 Bloomberg consensus	2025 Bloomberg consensus	2025 AllianzGI forecast
World	4.2	3.8	=
US	3.0	2.8	↑
Euro zone	2.4	2.2	=
Germany	2.5	2.3	=
UK	2.5	2.8	=
Japan	2.7	2.4	=
China	0.2	0.7	=

Legend: ↑ AllianzGI above consensus; ↓ AllianzGI below consensus; = AllianzGI in line with consensus.
Data as at 6 March 2025.

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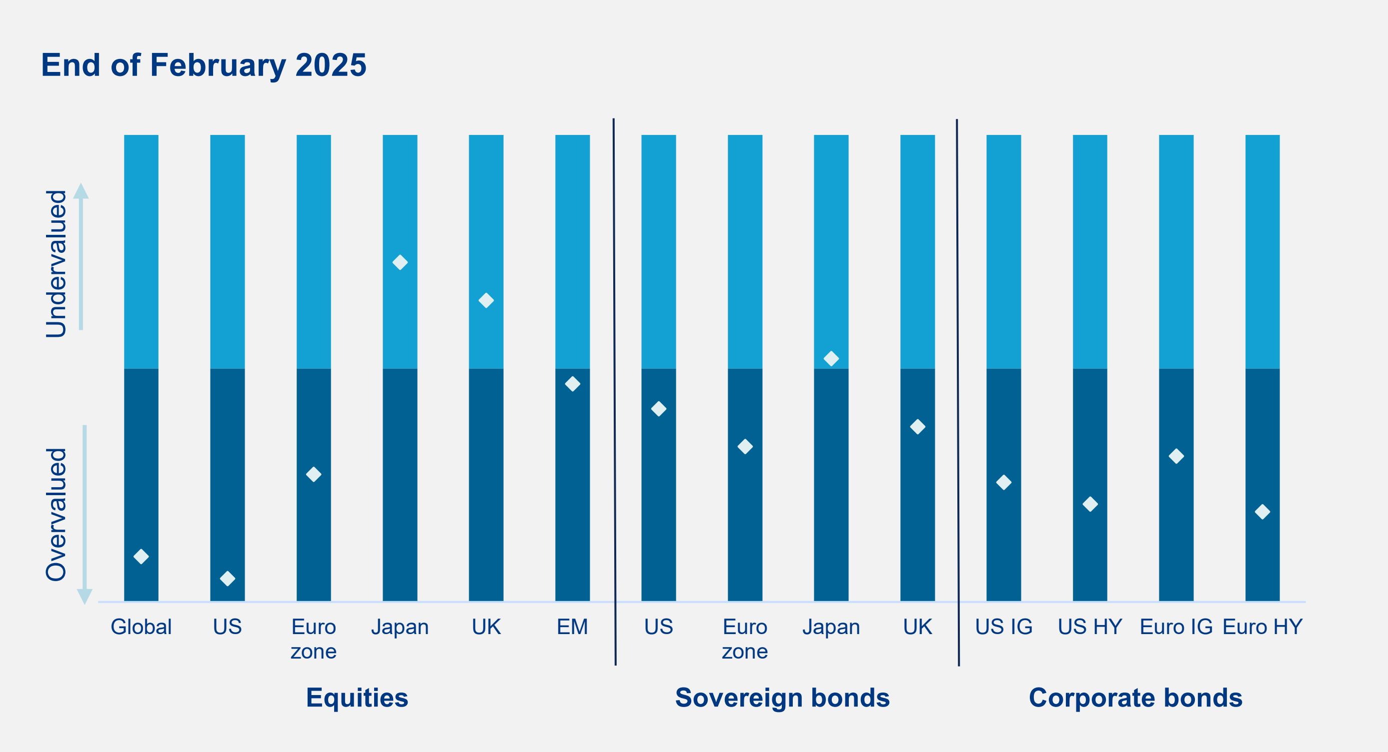
View on valuations: opportunities starting to emerge

Valuations start to reflect decorrelating global growth trajectories

- Recent financial market volatility is only starting to be reflected in valuations. **US stocks are still richly priced by historical standards, despite recent market falls**.
- **Euro zone equities have had a strong start to 2025, but we think opportunities can still be found (see asset class convictions). Japanese equities continue to screen as undervalued.**
- **In fixed income, Japanese sovereign bonds appear the cheapest option**. After recent volatility**, several other sovereign bond markets are starting to offer better value**, including the US, euro zone and the UK.
- **We see the potential for more repricing in the coming months** as geopolitical tensions sharpen already widening differences between growth, interest rates and asset class performance between countries.



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 28 February 2025). Past performance is not an indicator of future results. 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.

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Asset class convictions

Equities

- **Overall, we have a constructive outlook on equities while being tactical amid the risk of "air pockets".** We think the rally in European equities has further to go but, given the market volatility and uncertainty, we would also look to other global markets as part of well-anchored portfolios across geographies.
- **The reassertion of "European sovereignty" – and increased spending commitments – could boost several sectors.** These will likely include cybersecurity and AI as well as defence.
- **European investors are currently underweight construction.** But rapid growth in global data centres is structurally positive for the sector; it could also benefit from any post-ceasefire reconstruction in Ukraine.
- **With a USD 4 trillion market capitalisation, India offers a high sectoral diversification compared with other emerging markets.** Valuations may offer a compelling margin of safety.
- **We think China is attractively valued and getting noticed for its technology focus (eg, embodied AI and humanoid robots).** Given the potentially weaker trade outlook for China this year, the government is set to promote consumption that should support growth.

Fixed Income

- **We expect the yield curve to steepen in Europe**, reflecting big defence-related spending plans in Germany and elsewhere that will take time to implement. Across the Atlantic, **fears of a slowdown also point to US yield curve steepening.** In this environment, we prefer to trade tactically around structural positions.
- **The outlook for Gilts is promising based on valuations and market expectations of central bank policy**. In the UK, unlike in the euro area or Canada, likely future rate cuts are not fully priced in. On recent Gilts outperformance we took partial profit on this theme.
- **Consider going long on the Japanese yen.** The Bank of Japan is under ongoing pressure to raise rates to more "normal" levels to tackle inflation. For that reason, expect Japan's yield curve to flatten.
- **Don't chase beta in credit markets**. With interest rate volatility expected, the environment calls for a selective approach involving bottom-up and single-credit analysis.
- **Emerging markets are showing resilience in the face of market volatility**, indicating value in a selective approach to emerging market debt.

Multi Asset

- **We remain selectively constructive on certain equity markets** as headwinds grow and tariffs weigh on market sentiment. Having cut our US exposure, **European equities are our top pick, buoyed by momentum, attractive valuations, increased fiscal spending and improving sentiment**.
- **Weaker inflation in Europe than in the US leads us to favour European government bonds over US Treasuries.** Although the scale of planned fiscal packages is still be finalised, we expect higher yields to persist in an environment of increased volatility and a decoupling of major yield curves.
- **Our preferred currency is the Japanese yen.** We think conditions for the currency are supported by the Bank of Japan's policy stance – it is late in its cycle of interest rate rises. The yen could regain its safe haven status, especially as Japanese local bonds become increasingly attractive
- **In commodities, gold remains our highest conviction call, driven by robust momentum and its role as a hedge against geopolitical risks**. In our view, gold remains a useful diversifier in multi-asset portfolios.

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