Snapshot Q2 2025

This is a summary of our House View Q2 2025.

What's our outlook for Q2?

Allianz Global Investors

Recent events are leading to a vibe shift in markets.

Facing stark geopolitical realities, Europe is switching up fiscal policy and committing more investment in areas such as defence.

This has led to a rally in European stocks at the same time as sentiment towards the US dampens amid uncertainty about tariffs and the economy.

We think this trend has further to run: the rotation into European markets has, so far, barely made a dent in large, established US overweight positions.

While mindful of risks – including the dangers of a full-blown, lengthy trade war – we think this vibe shift may offer a compelling opportunity for active managers. A diversified and agile approach is key.

Why is Europe benefiting?

As investors look for opportunities outside of the US, Europe is emerging from the doldrums.

The unwinding of the big tech trade in the US, coupled with the prospect of higher investment and reduced red tape in Europe, have helped to boost sentiment towards European stocks.

Promising sectors range from banks to construction firms.

What's our regional outlook?

US: weight of uncertainty

Uncertainty surrounding tariffs, immigration, fiscal policy and regulation are weighing on business and investor sentiment.

Tariffs may fan inflation, possibly leading the US Federal Reserve to pause its interest rate cuts. We expect rates to settle at around 4%.

Europe: pockets of promise

Fiscal changes to boost infrastructure and defence spending will likely help growth – although the effects may not be immediate.

We expect the European Central Bank to move its deposit rate towards a neutral level of 2%, while the Bank of England moves cautiously.

Asia: economic support

We expect China to continue supporting its economy, given weakness in the real estate sector and the added risk of the export sector being hit by US tariffs.

Japan's healthy economic environment should prompt a gradual increase in its policy rate over the year.

2.8%[1]

Consensus expectation for US inflation in 2025.
If anything, it could come in higher.

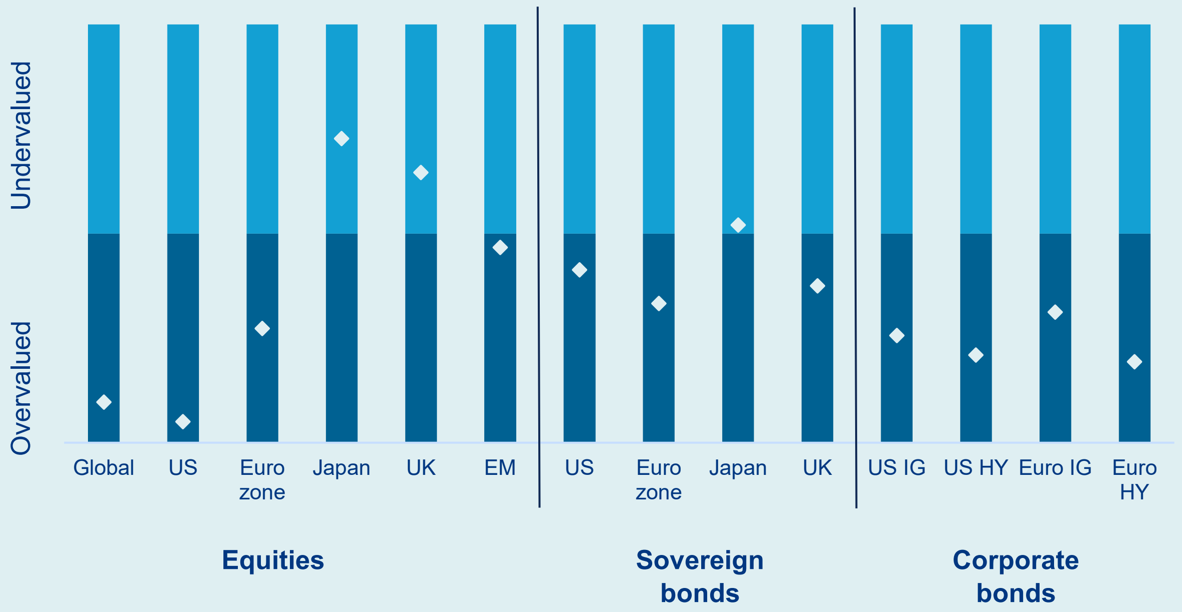
[1] Data: Bloomberg as at 6 March 2025.

Where do we see value?

Valuations are shifting to match the changing global environment, and we expect further repricing in the coming months.

- Despite recent market downturns, we think US stocks are still expensive.
- In our view, opportunities can still be found in euro zone equities following a strong start to 2025; Japan equities continue to look undervalued.
- In fixed income, Japan appears to be the cheapest option among sovereign bonds. After recent volatility, the US and the UK are starting to offer better value.

End of February 2025



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.

Where are the potential investment opportunities?

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Equities

- Given the uncertainty and volatility, **well-anchored portfolios across geographies are important.**
- **Increased European spending commitments could benefit defence, AI and cybersecurity.** Also watch the construction sector.
- **India is well diversified across sectors** and valuations may offer a margin of safety.
- **China benefits from tech leadership** in areas like embodied AI**.**

Fixed Income

- **Amid yield curve steepening in Europe and the US,** we prefer to trade tactically around structural positions.
- **Consider going long on the Japanese yen as** expected rate increases would flatten the yield curve.
- **Look to Gilts where we think** likely future rate cuts are not fully priced in.
- **Emerging markets are showing resilience** through market volatility.

Multi Asset

- **We favour European equities** due to upward momentum and attractive valuations.
- **European government bonds are our preference over US Treasuries** as we expect higher yields to persist.
- **Watch the Japanese yen,** which we think has the potential to regain its safe haven status.
- **Gold remains a strong diversifier,** driven by strong momentum.

Discover more insights

Our latest House View

- House View Q2 2025 (full version)

Other recent insights

Making European markets great again?

Ten reasons to (re)consider China equities

What if Europe is shocked into action?

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