

Asset allocation views: adapting to market turbulence

Welcome to MIM's Multi-Asset Solutions Team's second-quarter outlook for 2025.

I believe it would be an understatement to say that the first quarter of 2025 has unfolded along the lines that the vast majority of market participants expected. Coming into the year, expectations were for continued US dominance, both from an economic perspective and from a capital markets perspective. This was against a backdrop of anticipated steady economic growth, the continued dominance of US tech and AI companies, and a market-friendly administration.

That viewpoint, which bordered on complacency, has seen a sharp reversal in the first quarter. Uncertainty has taken over that conviction. Global trade and the implementation of tariffs have tested the market's mettle. Geopolitically, the world has shifted in a more polarized direction. All this has led to a significant, if not historic change in confidence among consumers, corporations, governments, and investors. This has also meant for a trickier environment for central banks.

With the exception of Japan, most central banks are within an easing cycle. However, the key question at this point is, at what point of the cycle are we currently in? The newfound uncertainty and concerns about the path of inflation mean a more challenging environment in some regions, while more aggressive actions may be needed in other areas, particularly in the event of market dislocation.

Against this challenging backdrop, one question we are regularly asked is whether the US shall remain the leader in capital markets, or is it time for other regions or asset classes to assume leadership? Growth dynamics, valuations, and sentiment will all come into play as factors dictating whether the US shall remain the desired destination for capital. But we're seeing shifting fiscal and monetary regimes in the emerging markets, particularly in Europe, and they've evolved quickly and could potentially challenge that US leadership.

This speaks to the need to search for diversifying assets, such as private assets and commodities. It also underscores that diversification can be a huge benefit at this juncture. Insights around those questions and more guidance on how investors should navigate these waters and how to take advantage of this uncertainty you will find in the attached materials. Please invest the time to peruse them, and as always, we welcome your feedback.