Manulife Investment Management

Asset allocation views: evolving global growth and regional dynamics

Welcome to our final market outlook for 2025. Since we last spoke, the markets have performed very favorably. Risk assets across the world have given positive performance on the whole into portfolios. However, what is different is there has been a broader and greater opportunity set. U.S. equities have done very well, but the best performing asset classes year to date have been emerging market equities, gold, Chinese equities, and indeed European equities. And that's just looking at the asset class level without getting into sectors.

But as we look forward into the opportunities that present themselves for the rest of this year and beyond, there are three main themes that are dominating our thinking.

The monetary and fiscal conditions, particularly in the United States, we have gone through a period of sustained uncertainty with geopolitical risks, with the imposition of tariffs and negotiations thereof. Where we find ourselves now is we expect greater stability and a clearer path, I think to looser financial conditions.

But all markets are not made the same. The Fed on a cutting cycle, the ECB probably on pause for now. And Japan, we expect there to be tightening and normalization of rates, but obviously dependent on the new Prime Minister that has just come in. Elsewhere, we need to look at the dominance and whether or not that can continue in AI and technology. Now certainly in speaking to our investment experts in active equities, they are strong believers in a continuation of this secular theme. And indeed, the data would suggest that whilst valuations on the face of it appear somewhat elevated, they are actually, in fact, in line with 10-year averages.

And then finally, how do we think about positioning portfolios and what opportunities can we take advantage of? And critically, what are the threats that we need to avoid? Dispersion is likely to increase those opportunities that I talked about in markets beyond the United States, we believe will continue. It's important to have an acute forensic understanding of risk in portfolios and make sure that positions are sized appropriately to avoid any potential increase in volatility that could come through if financial conditions worsen, if inflation increases, or if there is a pivot in geopolitical or local political risk.

Thank you for watching, and as ever, all the details on the website.

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