Snapshot Q1 2025

This is a summary of our House View Q1 2025.

What's our outlook for Q1?

Prepare for the "Trump effect" with the return of Donald Trump to the US presidency.

Higher government spending and reduced red tape could be positive for the US economy. We see a risk of growth reaccelerating and inflation taking off again, possibly forcing the US Federal Reserve to rethink future interest rate cuts.

Globally, we see economies diverging in growth, inflation and interest rates. Fresh thinking and broader diversification may serve investors well.

We are positive on US equities but conscious of high valuations. We favour European bond markets given the likelihood of future rate cuts.

With geopolitical risks on the horizon, a deft approach to managing portfolios will be critical.

?

What US policies are in focus for markets?

A rise in spending and tax cuts should boost US stocks, at least in the short term, even if they add to inflation. Tighter immigration rules may also drive inflation back up. Higher tariffs on US imports could trigger retaliation from other governments, raising consumer prices and potentially undermining growth.

What's our regional outlook?

US: growth boosted

Higher spending and tax cuts should provide a fillip to the US economy. But they may also stoke inflation and require the Fed to stop its interest rate cuts in the first half of 2025, with rates settling at around 4%.

Europe: subdued outlook

We think another year of anemic growth beckons in the euro zone. Some relief will arrive from further interest rate cuts by the European Central Bank. In the UK, growth should pick up marginally.

Asia: stimulus incoming

China's economy continues to slow, and we think the government may step in to provide additional support. Similarly, Japan's economy will be boosted by plans for a USD 250 billion stimulus.

2.1%[1]

= consensus expectation for US economic growth in 2025

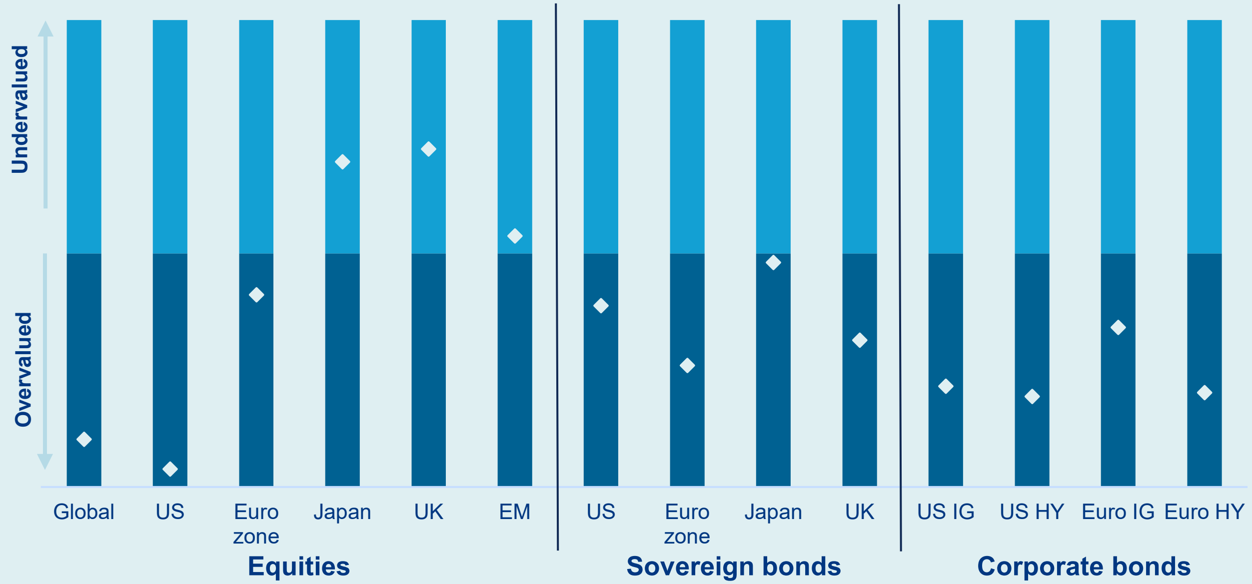
[1] AllianzGI's forecast is in line with Bloomberg consensus. Data: Bloomberg as at 4 December 2024.

Where do we see value?

Several equity markets may present opportunities, while more sovereign bonds are close to value.

- Many assets appear richly valued by historical standards. But we think select opportunities can be found as the difference between growth, inflation and interest rates widens between countries.
- Japan, UK and emerging market equities screen as undervalued even as US stocks appear pricey.
- In fixed income, more sovereign bonds may start to offer value according to our analysis.

End of November 2024



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 30 November 2024). 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?

Allianz Global Investors

Equities

- **Seek strategies to absorb volatility** – multi-factor investing could help to manage any turbulence caused by US policy.
- **Broadening of technology winners** – a wider range of stocks may benefit from the ongoing boom in US tech.
- **India has an edge** – both from its demographic dividend and its likely neutral stance in any trade tensions.
- **China has potential** – domestic demand should help withstand US tariffs, while pension reform offers a possible boost to markets.

Fixed Income

- **Favour European bond markets over the US** – weaker European growth should keep rate cuts on track.
- **Weigh active portfolio construction** – duration calls should be balanced with relative value trades across regions and yield curves.
- **Look to European investment grade bonds** – we think valuations are more attractive than in the US.
- **Watch for currency volatility** – we think investors should position themselves in the middle to lower end of risk budgets.

Multi Asset

- **The S&P 500 is still our favoured equity market** – but an uncertain long-term outlook demands vigilance. We also like Japanese equities.
- **Watch for US dollar fragility** – any weakening might be a chance to reallocate funds.
- **Gold is back as a diversifier** – buoyed by demand from central banks and Asian retail investors.
- **Now is a good time for assets uncorrelated to the rest of the market** – such as carbon credits or volatility as an asset class.

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.

Discover more insights

Our latest House View

- [House View Q1 2025 (full version)]

Other recent insights

- Outlook 2025
- Donald Trump poised for White House return
- What could tariffs mean for trade finance?
- French government changes: market factors to watch

Disclaimer

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

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.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is for Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations and is for information purpose only. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of this document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced, except for the case of explicit permission by Allianz Global Investors. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited (“AllianzGI AP”) and is intended for the use of investment consultants and other institutional /professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors UK Limited, authorized and regulated by the Financial Conduct Authority; in HK, by Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; in Singapore, by Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; in Japan, by Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424], Member of Japan Investment Advisers Association, the Investment Trust Association, Japan and Type II Financial Instruments Firms Association; in Taiwan, by Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan; and in Indonesia, by PT. Allianz Global Investors Asset Management Indonesia licensed by Indonesia Financial Services Authority (OJK).