Allianz Global Investors

INCORPORATING OUR PRIVATE MARKETS MID-YEAR OUTLOOK

JULY 2025

House View

Q3 2025

Fear of going in?

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Our view of global markets

Reassessing the US

- **There are signs that "FOGI" – fear of going in – has taken hold among institutional investors amid erratic policymaking and volatility in US markets.** The question is whether FOGI will be replaced by "FOMO" – fear of missing out – if an easing of trade tensions and rebounding financial markets prompt a change of heart later in the year.

- **As investors consider their next move, many factors that made the US a uniquely successful business environment remain intact** – such as the typically high return on capital of US companies, its leadership in artificial intelligence (AI), and favourable demographics. Historically, investors in US equities have been rewarded.

- **But we think the current weighting to the US in global indices may be too high: the premium applied to US stocks may be warranted in only the best-performing sectors.** Consider being selective and focus on key pockets of opportunity such as technology and some industrials – while diversifying away from US sectors that do not justify a price premium over other markets.

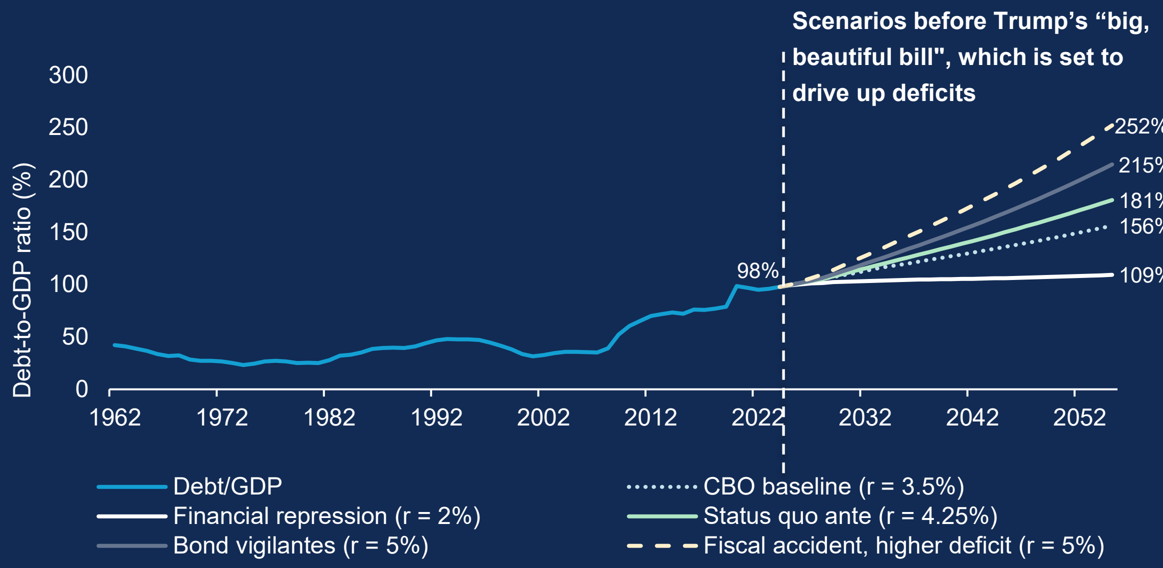
- **Amid concerns over policymaking and rising debt levels, global investors are questioning the future of the US dollar and US Treasuries as safe havens.** We expect downward pressure on the dollar and a continued steepening in the US yield curve. An allocation to local currency bonds could continue to benefit from a decline in the US dollar.

- **Meanwhile, increased fiscal spending in Europe is set to benefit leading local players** in sectors such as cybersecurity, defence and defence tech, and AI.

CHART OF THE QUARTER

Trouble times a trillion?

Rising US national debt (USD 36 trillion and counting) is an increasing focus for bond markets, worried about the government's ability to repay investors in the longer term. Projections made in advance of Donald Trump's "big, beautiful bill" saw the debt-to-GDP ratio hitting 252% in a worst-case "fiscal accident" scenario, underscoring concerns around rising yields and deteriorating appetite for US assets.



Note: Scenarios based on Congressional Budget Office (CBO) base case projections (March 2025) for primary deficit and nominal GDP growth (before any new stimulus) except for the "fiscal accident" scenario which assumes an additional annual rise in the primary deficit by 1%. The scenarios are based on different assumptions for the average interest rate on public debt (r). Source: Allianz Global Investors Global Economics & Strategy, Bloomberg, CBO (data as at 31 March 2025).

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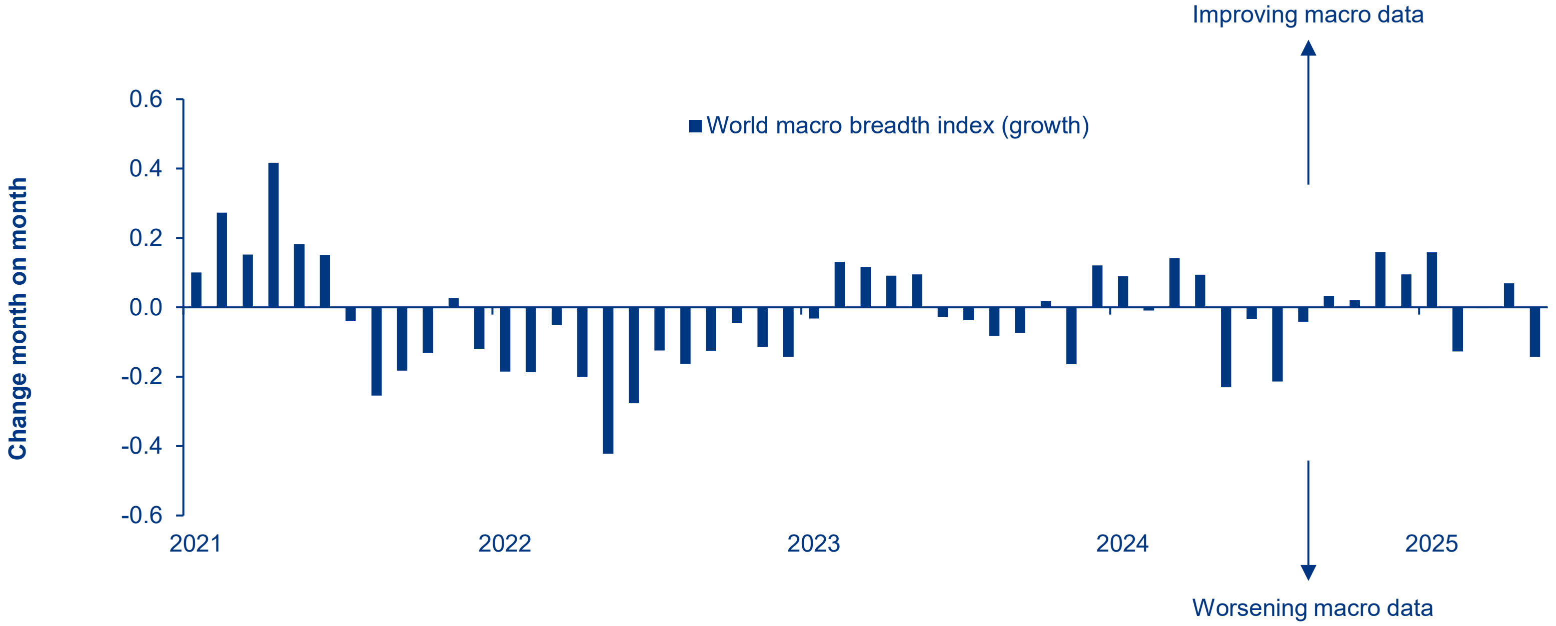
Economic growth: tariffs take a toll, but euro zone is a bright spot

Our Macro Breadth Growth Index[1], measuring global macroeconomic data, slipped to its biggest monthly fall in nearly a year

- **Our index of global growth indicators fell for the first time in three months**, finally reflecting the lagged impact of the prolonged trade war.
- **Global performance was hampered by a slowdown in manufacturing** as companies unwound the front-loading of their production ahead of the tariffs. Services lost more momentum.
- **Indicators slid for the fourth month running in the US.** Japan, the UK, China and Brazil also suffered setbacks.
- **In contrast, the euro zone made continued gains**. Data was also up in Australia, India, Mexico and South Korea.



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 31 May 2025).

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In short: key data by region

US

The US administration's abrupt policy changes are likely undermining economic prospects. **Growth is set to halve in 2025** as business, consumer and investor confidence is shaken by uncertainties surrounding trade, immigration and taxes. **We expect tariffs to push inflation meaningfully higher in the second half of 2025**. We think the US Federal Reserve will adopt a wait-and-see approach, gradually lowering rates to around 4% by the end of 2025.

Europe

Greater willingness for closer pan-European cooperation, the prospect of higher public expenditure in Germany, and increased defence spending across the region are positives for Europe. But growth remains subdued and trade war risks loom. We expect inflation to ease, allowing the European Central Bank to move its deposit rate to 1.5-1.75% by the end of 2025. In the UK, we anticipate gradual rate cuts.

Asia

Higher US import tariffs pose a threat to Chinese exports, one of the Chinese economy's bright spots in recent quarters. We anticipate further additional stimulus, including rate cuts, but these measures may only limit downside risks. **The Bank of Japan, the outlier among major central banks, is still expected to raise rates gradually over the medium term** – but the risk of policy missteps has risen in a rapidly shifting environment.

ECONOMIC GROWTH: Overall outlook subdued

Real GDP, year-on-year %

Location	2024*	2025 Bloomberg consensus	2025 AllianzGI forecast
World	3.3	2.7	*Consensus*
US	2.8	1.4	*Consensus*
Euro zone	0.9	0.8	*Consensus*
Germany	-0.2	0.0	*Above consensus*
UK	1.1	1.0	*Below consensus*
Japan	0.1	0.8	*Consensus*
China	5.0	4.5	*Consensus*

INFLATION: Higher inflationary pressures in the US

Inflation, year-on-year %

Location	2024*	2025 Bloomberg consensus	2025 AllianzGI forecast
World	5.7	3.9	*Consensus*
US	3.0	3.0	*Above consensus*
Euro zone	2.4	2.1	*Below consensus*
Germany	2.5	2.2	*Below consensus*
UK	2.5	3.0	*Below consensus*
Japan	2.7	2.8	*Consensus*
China	0.2	0.3	*Consensus*

*2024 data from the IMF. Data as at 16 June 2025.

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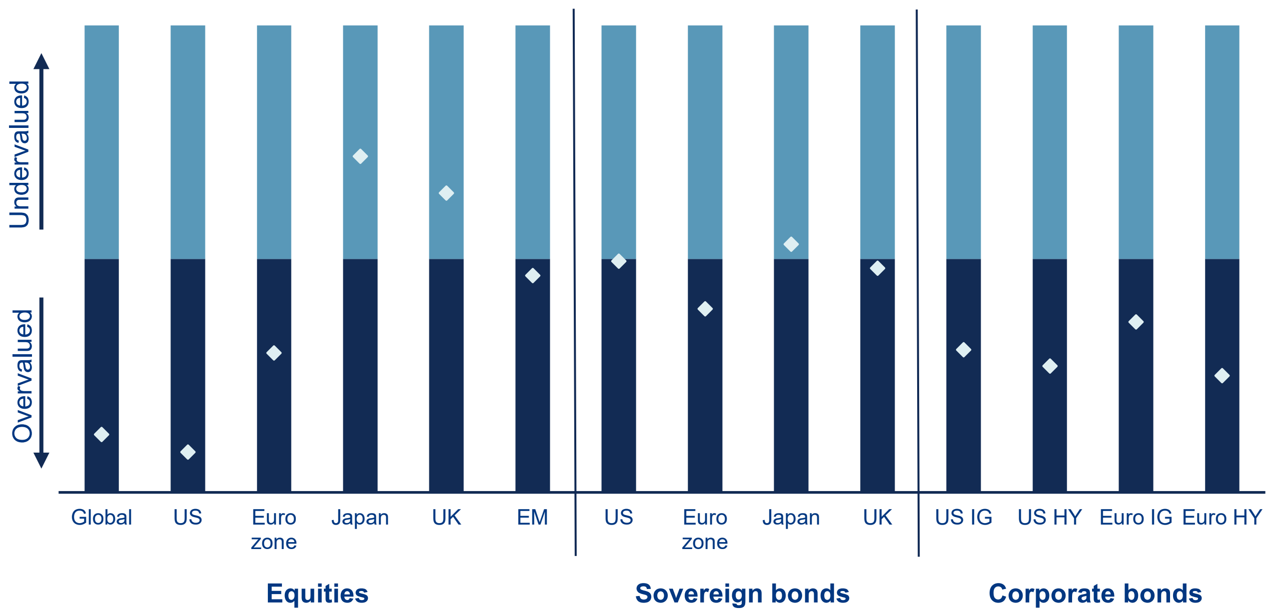
View on valuations: opportunities beyond US equities

Valuations of more assets are improving

- After a selloff followed by recovery, **US stocks remain highly priced by historical standards**. But our valuation chart shows there are plenty of opportunities elsewhere.
- **Japanese equities screen as the most undervalued** among the assets we analyse. **Euro zone equities look increasingly attractive**.
- The recent shake-up in fixed income markets has created potential entry points. We think **US Treasuries – historically, a go-to choice during market volatility – are approaching fair value**. Japanese sovereign bonds screen as the cheapest option.
- **We could see more repricing before the end of the year**, depending on the scale of trade tensions and the path of US policy, as well as differences in interest rates and growth between countries.

End of May 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 31 May 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

- **In Europe, a continued focus on "sovereignty"** will provide tailwinds as governments boost investments in infrastructure and strategic industries. We believe the earnings growth differential with the US will narrow in 2026.
- **In Asia, the move from language-based AI to multi-modal models, powering embedded and embodied systems,** will be a key driver of tech growth and innovation, especially in China. In Japan, reflation and reform in corporate governance are driving markets, which may also benefit from a safe-haven effect as money is expected to rotate out of the US.
- **India's growth is set to reaccelerate, buoyed by fiscal and monetary tailwinds.** Over the long term, demographics and productivity gains should continue to favour India.
- In the tech space, in addition to the AI theme – adopters vs enablers – we believe that as cyclical pressures ease and structural demand accelerates, **the broader semiconductors sector will be an area of regained interest.**
- **While, in the short term, tariff-related volatility and rich valuations weigh on our outlook for US equities,** we think the US retains key structural strengths, including its equity market exposure to innovation and AI, business culture, flexible labour market, return on capital and demographics.

Fixed Income

- **We expect the yield curve to steepen, especially in the US, because of economic growth risks and concerns of a deteriorating fiscal outlook.** Bond market volatility could remain high, so we prefer to trade tactically around our core views in yield curves and our long headline duration bias.
- **We see value in long 30-year Gilts versus US Treasuries.** We think the macro and policy backdrop also favours peripheral euro sovereign spreads over core markets.
- **In investment grade credit, pricing is modestly rich, but corporate fundamentals remain strong and technicals are supportive.** We retain a moderate overweight with a focus on higher quality and non-cyclical names.
- **We think high yield spreads offer limited compensation for any step up in defaults.** Rather than chase the market, we focus on security selection and stay slightly underweight.
- **In emerging markets, we favour local currency bonds,** especially where central banks have room to cut rates, such as Indonesia. We also like South African local rates.
- **We think the US dollar faces cyclical and structural headwinds and favour short positions versus the South Korean won, Singapore dollar and Brazilian real,** among others.

Multi Asset

- **As multi asset investors, we are cautiously optimistic on equities,** helped by supportive momentum, but with strong regional preferences. While equities could continue to profit from technical support in the short term, we expect US equities to reach a secular top, while other markets may outperform. **Our pick is euro zone equities,** aided by improving sentiment, supportive central bank policy, and growing investor inflows.
- **The euro zone is also our preference for sovereign bonds** due to soft inflation data and safe-haven flows, though our conviction has moderated. We are more cautious on US Treasuries due to rising fiscal concerns and weak auctions. EM debt should profit increasingly from past fiscal and monetary discipline.
- **US dollar fragility is still the dominant theme in currency markets.** We stay positive on the euro and the Japanese yen, benefiting from dollar weakness and supportive fundamentals. The US dollar's outlook is clouded by challenges to US exceptionalism and the rising debt burden overseas.
- **Gold continues to shine amid an uncertain global outlook,** bolstered by strong buying from central banks. While geopolitical tensions could lead to higher oil prices in the short term, crude remains under pressure as concerns about excessive supply weigh on prices. **Copper stays range-bound** but additional tariffs on the metal could push up prices.

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Private markets: mid-year outlook

Current opportunities

- **Relative to public markets, private markets performance has proven more stable (less volatile) in the past periods of market turmoil,** showcasing how the addition of private markets in the asset allocation can help stabilise a portfolio in such times.
- **Diversification is essential.** Investors in private credit or infrastructure can think about diversification in two ways: i) across vintages – the year when a fund makes its first investment – to decrease market timing risk, and ii) across geographies to help avoid excessive exposure to one region.
- **While the growth outlook is uncertain, adding defensive assets such as floating-rate private debt and infrastructure equity should help safeguard portfolios** if inflation is kept under control.
- **If inflation rises significantly, real assets and credit (where revenues are often inflation-linked) are expected to benefit.** The inflation protection potential of infrastructure equity was demonstrated in 2022 when inflation spiked (see chart).
- **Secondaries (stakes in existing credit funds) continue to evolve as a compelling defensive play** amid overall uncertainty, lack of distributions in the broader market, and drawdowns in public markets.
- Private equity activity is still on the sidelines, and **we expect a rebound once liquidity, stability and a more positive economic outlook materialise.**
- **Fast-growing semi-liquid private market products can be a good way to tap into private markets –** especially for investors seeking an initial foothold – as they offer a fast build-up. They can also help existing investors fine-tune their allocation.

Market performance update: asset class snapshot (EUR)

In euro terms, private markets asset classes delivered double-digit returns in 2024, also boosted by a 7% appreciation of the US dollar over the year. Long-term upside and downside volatility has consistently been lower than equities, with strong outperformance in the 2022 equity downturn.

	2024	2023	2022	5Y	10Y
Private equity	12.0%	2.4%	-3.2%	15.4%	15.5%
Private credit	13.6%	6.6%	9.4%	10.2%	9.4%
Infrastructure equity	12.6%	5.0%	15.4%	10.7%	10.8%
MSCI World	26.9%	19.8%	-13.0%	13.0%	11.7%

Source: Allianz Global Investors, MSCI Private Capital and Bloomberg: pooled net IRRs across all vintages for private markets and total returns for equities, all as of 31 December 2024, in EUR. This is for illustrative purposes only and no guarantee of expected results or indicative of future allocation. Past performance does not predict future returns.

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