

Snapshot Q4 2025

This is a summary of
our House View Q4 2025

What's our outlook for Q4?

Be active and vigilant

Economic growth is slowing down worldwide – but the slowdown is orderly. Amid a shifting world order, we see opportunities in Europe in defence and strategic industries.

Countries are adopting varying fiscal policies, and government bond yields are out of sync. It may be more important than ever for investors to spread their portfolios across a range of assets.

US inflation will likely rise, partly due to tariffs. If it appears the US central bank is swayed by politics over economic factors, markets could react badly.

So, the rest of the year may be tough, but we think it would take significant bad news to alarm investors. As the global economy enters a fragile phase, investors should stay agile and vigilant in the face of any market swings.

Have we entered a new world order?

The Trump administration shook up the global trade landscape with its aggressive tariff policy.

US tariff levels have since fallen from their peak, and stock markets mostly shrugged off the risk of a trade war. Yet tariffs have left a legacy – a new reality marked by reduced political and economic visibility.

While greater uncertainty is challenging for businesses, a less predictable economy may create opportunities for active managers.

What's our regional outlook?

US: stagflationary risk

We believe the US faces stagflationary risks – high inflation combined with a stagnant economy.

Inflation may rise more than most experts predict if import tariffs make goods more expensive for consumers.

Amid further rate cuts, we expect the Fed Funds rate to fall to 3.5% by mid-2026. Stimulus from President Trump's "big, beautiful bill" likely won't arrive until 2026.

Europe: positive signs

With inflation under control, Germany plans to increase government spending from 2026, which should boost growth.

Political uncertainty in France is a concern, but we still expect the European Central Bank to cut interest rates by 25 basis points by the end of 2025.

In the UK, the Bank of England could cut rates by the same amount, though this might happen later than expected.

Asia: China slowdown

We think China's economic growth could slow in the fourth quarter. Expect additional stimulus, including rate cuts, but these measures may only limit downside risks.

Japan's central bank will probably wait for clearer signs that the economy is improving before it raises interest rates.

1%¹

Consensus expectation for German growth in 2026 – up from an estimated 0.3% this year

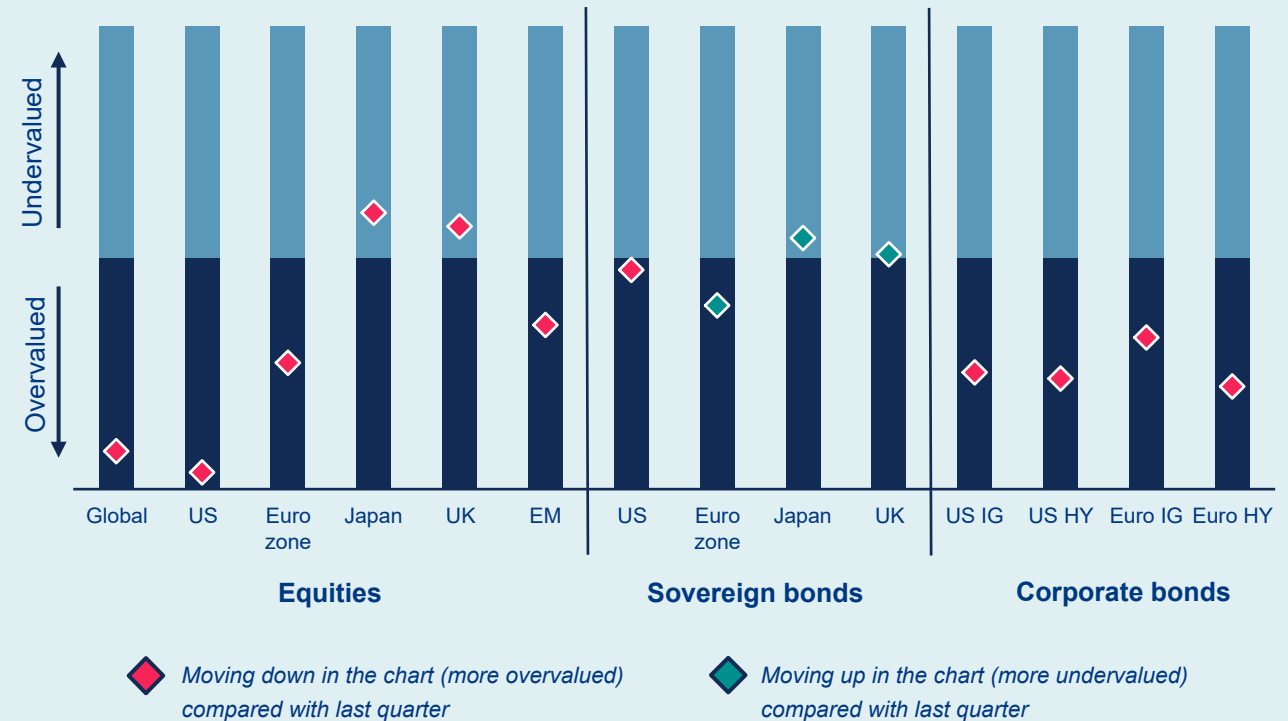
¹ Data: Bloomberg as at September 2025.

Where do we see value?

Select sovereign bonds are the exception as most valuations trend upwards.

- Japan, UK and euro zone government bonds were alone in becoming more undervalued this quarter.
- US stocks – already the most richly valued in our analysis – rose even higher over the past three months. The last time US equities were this overvalued was September 2000.
- Japan equities screen as the most undervalued among the assets we analyse, followed by UK stocks.

End of August 2025



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 August 2025). Past performance does not predict future returns. 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?

Equities

- **European champions in strategic industries** show promise, with defence spending to boost key sectors.
- Small caps may benefit from **US federal policies and onshoring trends**, supported by lower rates.
- China enjoys **AI leadership** while India **remains resilient** to tariff concerns.
- **Humanoid robots** are attracting interest and the software sector could enjoy a comeback as **AI enhances rather than undermines** performance.

Fixed Income

- Favour **long duration** in select markets due to weak growth and central bank rate cuts, with steeper yield curves expected.
- **Prefer peripheral euro rates over US Treasuries**, avoiding France due to political risks.
- In credit, consider **high-quality investment grade over high yield**, focusing on non-cyclicals.
- **Long the euro and Korean won** against the US dollar and hold shorts in the British pound.

Multi Asset

- **Prefer equities to bonds**; options can capitalise on volatility swings while maintaining long equity positions.
- **Emerging market equities** could benefit from a weak dollar, improved earnings and strong momentum.
- Neutral on sovereign bonds **but prefer the euro zone to the US** partly due to softer inflation data.
- **Gold is emerging as the preeminent safe haven** thanks to its decorrelation from the dollar.

Discover more insights

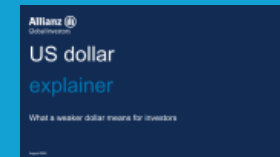
Our latest House View

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