Snapshot Q3 2025

This is a summary of
our House View Q3 2025

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.

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What's our outlook for Q3?

Experiencing FOMO? (fear of missing out)

Policy surprises and volatility in US markets have made some investors nervous – but the potential easing of trade tensions and a rebound in financial markets might prompt a change of heart.

The US still has many qualities that make it a uniquely successful business environment (see right). But with valuations high, consider focusing on sectors that include truly global champions.

Expect more downward pressure on the US dollar and rising long-term US Treasury yields. In this scenario, local currency bonds could benefit.

In equities, we see opportunities in Europe, where leading businesses in cybersecurity, defence and AI could gain from government spending plans.

Are investors overweight the US?

The US has many advantages: leadership in AI, favourable demographics and a historically high return on capital.

Yet despite these features, we think the US weighting in global indices may be too high. Equity valuations are rich, too.

Be selective by focusing on opportunities in technology and some industrials. Consider reducing exposure to US sectors that do not justify a price premium.

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What's our regional outlook?

US: uncertain outlook

Abrupt policy changes in the US seem to be affecting the economy, with the growth rate expected to halve in 2025.

Tariffs are likely to push inflation higher, which could prompt the US Federal Reserve to take a cautious approach. We anticipate a Fed Funds rate of around 4% by the end of 2025.

Ongoing uncertainties over trade, immigration and taxes support the case for a selective approach to US assets.

Europe: defensive union

Greater cooperation and increased defence spending across Europe could boost the euro zone economy in the medium term and accelerate subdued short-term growth.

Falling inflation could allow the European Central Bank and Bank of England to lower interest rates. We see opportunities in equity sectors poised to benefit from spending plans.

Asia: more stimulus

US import tariffs continue to threaten Chinese exporters. We expect additional stimulus from China to protect its economy, including rate cuts.

The Bank of Japan is still expected to raise rates over the medium term. Our analysis suggests Japanese equities may offer attractive value.

1.4%[1]

Consensus expectation for US growth in 2025 – half the level for 2024

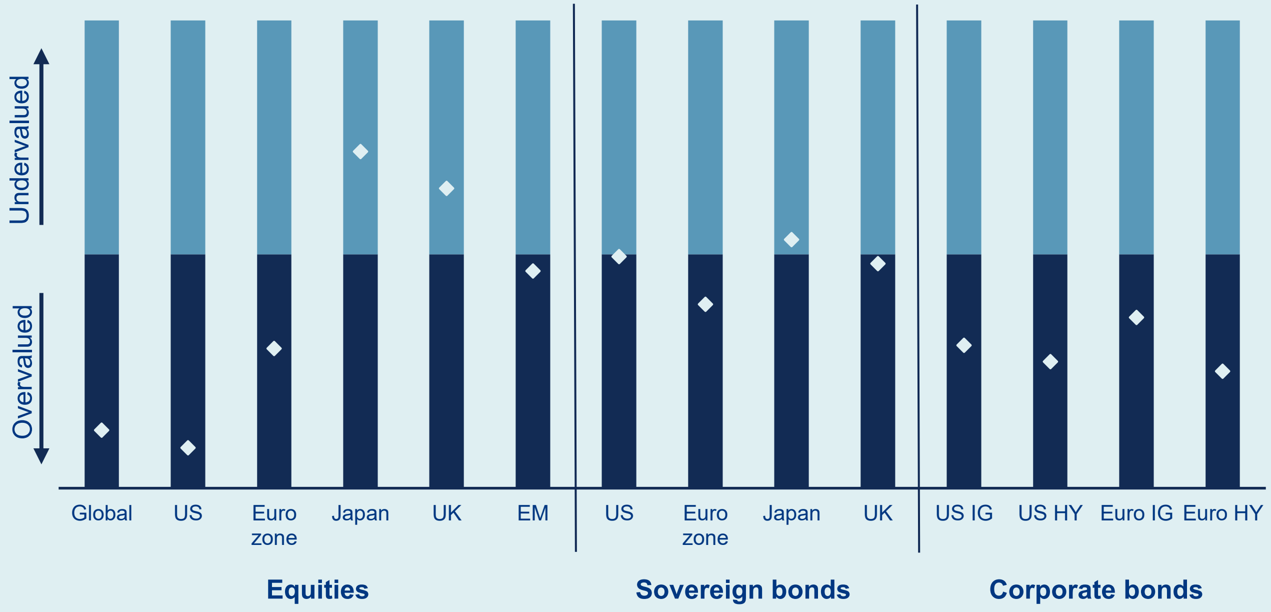
[1] Data: Bloomberg as at 11 June 2025.

Where do we see value?

Assets in Japan and the UK may be undervalued, while US equities look expensive.

- After a selloff followed by recovery, US stocks remain highly priced by historical standards.
- Among the assets we analyse, Japanese equities are the most undervalued, followed by UK equities. Euro zone equities look increasingly attractive.
- We think US Treasuries – often a go-to choice during market volatility – are approaching fair value. Japanese sovereign bonds appear cheaper.

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.

Where are the potential investment opportunities?

Equities

- **In Europe,** government plans to boost infrastructure and strategic industries could benefit leading businesses.
- The **move from language-based AI to multi-modal models** will likely drive tech growth and innovation in Asia, especially in China.
- **India's growth is set to reaccelerate,** supported by demographics and long-term productivity gains.
- In tech, **semiconductors** could be an area of renewed interest.

Fixed Income

- We expect the yield curve to steepen, **especially in the US.** We see value in long **30-year Gilts** versus US Treasuries.
- In **investment grade credit**, pricing is high but fundamentals remain strong. We think **high yield spreads** offer limited compensation for any step up in defaults.
- **In emerging markets,** we favour local currency bonds. We are short the US dollar versus the South Korean won, Singapore dollar and Brazilian real.

Multi Asset

- We are cautiously optimistic on equities, **especially in the euro zone.**
- We also favour the euro zone for **sovereign bonds** due to soft inflation data and safe-haven flows.
- We are bullish on **the euro and the Japanese yen**, which could benefit from US dollar weakness.
- **Gold continues to shine amid an uncertain global outlook,** bolstered by strong buying from central banks.

Private Markets

- Relative to public markets**,** private markets performance **has proven less volatile** in past periods of market turmoil.
- Defensive assets such as **floating-rate private debt and infrastructure equity** may help safeguard portfolios if inflation is kept under control.
- Secondaries may evolve as a **compelling defensive play.**
- **Semi-liquid private market products** can offer a foothold in this asset class.

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