

FOR PROFESSIONAL ADVISERS ONLY

# Asset *Allocation* Overview

Q2 2025







# Markets climb a wall of worry, but risks remain

- Volatility rocks markets in Q2, with a lot for investors to worry about, from trade wars to actual wars
- Trump's temporary tariff roll-backs alongside unaffected Middle East oil output soothes market angst
- While global equities hit a new (US dollar) record high in June, risks ahead guide our cautious outlook

## Outlook summary

*Views correct as of 30 June 2025*

Despite early April market volatility induced by US President Trump's reciprocal trade tariffs, it is impressive that the global equity market (as measured by the MSCI All Country World Index in US dollars) clawed its way back to all-time highs during June – although an important caveat is that this fresh record high has in part come about given US currency weakness so far this year – in sterling terms, the record set earlier this year is still yet to be reached.

There is an uneasy calmness in markets currently. With sentiment recovering on the back of 90-day pauses in higher tariff rates, those tariff pauses (which are due to end on 9 July for most of the world) have arguably proved the decisive factor in limiting the impact on the broader global economic picture.

The risk, however, is that any eventual tariff impact could be just a matter of timing, and therefore more of a question of when and not if. The additional trade frictions created by on-off US tariff uncertainty, and its impact on global economic growth and inflation will take time to show up in economic data which is by definition backward-looking and a lagging indicator.

Clouding the outlook, in addition there remains elevated risks and lack of clarity around global fiscal, monetary, and geopolitical policy.

After the recovery in markets, we would advise a degree of caution, hence our decision during Q2 to move our global equity model guidance down to neutral relative to our strategic equity asset allocation ranges. Within equities, our allocations are spread across regions and countries, delivering diversification across investment styles. For bonds, balancing the risks we take elsewhere, we prefer higher quality and shorter maturity debt that offer relatively attractive yields while limiting sensitivity to unexpected macroeconomic volatility. For our alternative investments, including structured return products, these can offer expected returns and yields that do not always move in the same direction as stocks and bonds, potentially reducing overall risk and balancing portfolios.

Overall, our diversified approach aims to position portfolios to effectively navigate the economic uncertainties that lie ahead.

## Our top three investment risks

- **Tariff risks.** With the US administration trade tariff policy, including reciprocal tariffs globally that are presently only paused not cancelled, this carries significant risks, both for lower economic growth and higher inflation pressures, and which would present a major significant challenge for risk assets.
- **Geopolitical risk.** Any renewed escalation in either the current theatres of conflict (noting a fragile Middle East Israel-Iran ceasefire, and separately, continued Russia-Ukraine fighting), or indeed future risks of potential conflict (regarding China-Taiwan), each has the potential to impact the global economic and investment outlook.
- **Policy error.** Governments and central banks continue to face the risk of unintended policy errors, with fiscal policy in particular a risk as governments attempt to navigate calls for continued deficit spending while hoping to keep financial markets onside.



Asset class	Outlook	Change since previous quarter	Rationale
Equities			
UK	●	No change	The UK equity market index earns about three-quarters of its revenues from outside the UK, making it sensitive to global trends. UK equities are a key part of our investment strategy, including shares of companies in ‘value’ sectors such as resources and financials; these stocks might be considered undervalued on a price to earnings ratio or dividend yield basis, for example. These sectors can help balance our growth investments in other regions and asset classes.
US	●	No change	The latest round of US corporate results reflected a still-resilient consumer supported by a healthy job market on balance. However, to caveat, such data is backward looking and precedes President Trump’s tariff uncertainty triggered early April. More interest rate cuts are expected later this year with the US Federal Reserve judging tariff inflation risks as “transitory”. In all, US tariff policies have introduced unwelcome uncertainty for an equity market which is relatively highly valued.
Developed Europe (excluding UK)	●	No change	Continental European equities held onto strong year-to-date performance in Q2, catalysed by increased government spending plans agreed in Q1 and led by the region’s largest economy, Germany. However, while Germany has the debt-to-GDP ratio headroom to allow for an increase in fiscal spending, the same cannot be said of some other major European countries. Meanwhile, regional headwinds remain, including US tariff risks and increased Chinese export competition.
Japan	●	No change	In recent years the Tokyo Stock Exchange has worked to help companies manage their finances better. Along with the return of inflation after years of stagnation, this has improved the outlook for Japan’s financial markets and shareholder return expectations. However, Japan still faces headwinds – high public debt levels and an ageing population in particular make it challenging for the Bank of Japan to pull away from its long-standing low interest rate monetary policy.
Asia Pacific (excluding Japan)	●	No change	The region’s dominant economy, China, continued to face significant economic headwinds in Q2. Structural imbalances, including a heavily indebted property sector, high youth unemployment, and febrile consumer sentiment will take time to resolve. While China’s policy makers continued promised support for the economy, lifting share prices earlier this year, the country is still at risk of being stuck in a deflationary spiral, while a degree of lingering uncertainty around US-China trade presents challenges for export growth and business sentiment.
Emerging markets	●	No change	China is a major buyer of global commodities from emerging markets. However, China’s leaders appear reluctant to rely heavily on their tried-and-tested past model of aggressive infrastructure expansion. Those risks dampen export hopes of emerging markets more broadly. Additionally, emerging market countries with debt in US dollars are particularly sensitive to US dollar exchange rate volatility and at times this can challenge global investment flows into emerging markets.

● POSITIVE   ● NEUTRAL   ● NEGATIVE





Asset class	Outlook	Change since previous quarter	Rationale
Equity Themes			
Technology	●	No change	With a focus on profitable, cash generative technology exposures, we see long-term growth from technology's ability to identify, enter and disrupt new markets, creating new revenue streams and barriers to entry. More recently, generative Artificial Intelligence (AI) has catalysed revenue and earnings forecasts for the sector as companies seek to lift their productivity. Across our technology exposures, we are mindful of concentration risks given 'megacap' stock dominance.
Healthcare	●	No change	Western healthcare systems are geared toward elective care which can be more profitable for companies compared to non-elective procedures. Coupled with favourable demographic tailwinds, recent growth in appetite-suppressant drugs is the latest example of product innovation. Highlighting the overlap between our Healthcare and Technology themes, generative AI has the potential to improve drug discovery outcomes, clinical trial design, and customer engagement.
Fixed Income			
UK sovereign	●	No change	Higher yields on gilts, reflecting the current interest rate environment, can mean this asset class can play a more constructive role in asset allocation. Recognising inflation and interest rate uncertainty, including timing of further rate cuts and the eventual 'landing zone' for interest rates longer-term, we prefer shorter-dated bonds to manage interest rate sensitivity.
UK Credit	●	No change	Our positive outlook on UK corporate debt reflects absolute levels of yield available that are higher than those elsewhere globally in aggregate. Within corporate debt, we prefer investment grade over high yield debt, where the latter is more vulnerable to any weakening in economic outlook as well as greater sensitivity to adverse liquidity and market stress events.
International sovereign	●	No change	Our neutral outlook disguises a more cautious outlook towards conventional US Treasury bonds, where as a result of the US administration's tariff and tax cut policies in particular, we see a risk that bond yields could move higher across the curve. Balancing risk of a re-emergence in inflation, we have a positive view on US Treasury Inflation Protected securities.
International	●	No change	Credit spreads versus sovereigns are some way below past episodes of significant market stress. Corporate balance sheets are relatively well-capitalised, but we prefer investment grade over high yield debt, where the latter can prove more sensitive to changes in the economic outlook as well as relatively weaker liquidity characteristics.

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Alternatives			
Alternatives	●	No change	Within the Alternatives asset class, we have allocations (dependent on the risk band in question), to Directional Multi-Asset funds, and/or Alternative Income, and/or Uncorrelated Assets. These assets can be expected to provide a degree of counterbalance to more directional risk exposures elsewhere in our asset allocation.
Property	●	No change	The inflation / interest rate outlook has generally continued to moderate, lifting sentiment, though central bank policy is still in restrictive territory. Longer-term, the sector offers both generalist and specialist investment opportunities, while valuation discounts to net asset value provide some cushion against any downward estimate revisions.
Structured investments	●	No change	While structured investments have at times historically provided relatively attractive returns, performance can become more correlated with equities if markets suffer a significant correction. In addition, pricing of structured return products can vary at times, in part given issuer appetite as well as expected market volatility levels going forward

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## Important information

All data provided as of 30 June 2025 unless otherwise stated.

Past performance is not a reliable indicator of future results. Investors should be aware that the price of investments and the income from them can go down as well as up and that neither is guaranteed. Investors may not get back the amount invested. Changes in rates of exchange may have an adverse effect on the value, price, or income of an investment. Investors should be aware of the additional risks associated with funds investing in emerging or developing markets. The information in this document does not constitute advice or a recommendation and you should not make any investment decisions on the basis of it.

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