



ALLIANCEBERNSTEIN®

MARCH 2025

Six Impossible Things Before Breakfast?

The unwinding of “Trump trades,” a spike in volatility and the outperformance of European versus US equities have sparked debate about whether this is a tactical shift or the beginnings of a longer bearish trajectory for markets.

We think that the market shift is tactical, not strategic, in the sense that it mainly represents the unwinding of an unusual degree of consensus, e.g. with respect to the US versus Europe and the growth/mega-cap trade. The unprecedented size of the flows going into this current episode implies there may be more rebalancing to come. However, we do not believe that this marks the end of strategic US exceptionalism, which is driven by deeply ingrained forces.

Investors have perhaps been complacent about volatility and need to position for it to be persistent, given high valuations, market concentration and a highly uncertain policy environment. In addition, the tactical earnings outlook in the US is meaningfully lower. Nevertheless, we think it remains appropriate to have a positive view on equity returns for the year.

The view that this shift is a tactical rebalancing is still consistent with recognizing the momentous scale of the geopolitical repositioning we are witnessing.

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The unwinding of the “Trump Trade” in recent weeks has set investors racing to question how much of this move is a tactical blip versus a move that requires a strategic shift in the narrative. While the Trump trade is no single specific, well-defined thing, the confluence of equities being down, US equities underperforming European equities, crypto falling, the Mag Seven underperforming and US financials trailing all point to a shift against the trades investors assumed would do well with Trump as president. (We don’t include the dollar underperforming in this list, because it was never entirely clear to us whether Trump’s proposed menu of policies was good or bad for the currency).

While the market’s repricing in recent weeks feels shocking and has included significant deleveraging, it is, we assert, a rotation rather than a true freaking-out about risk assets. This rotation is in part predicated on the view that the growth outlook has genuinely shifted for Europe relative to the US but mainly reflects the scale and quasi-unanimous nature of the pro-US, anti-Europe sentiment that existed at the start of the year. This feeling was manifested in the unprecedented scale of the flows out of Europe and into the US over the last 12 months. Yes, gold has risen over the last month’s market selloff, but the pace of return is the same as it has been since the election (moreover, this is in tandem with the dollar falling, so gold has retreated in EUR and GBP terms). Indeed, the \$5.5 billion outflow from crypto ETFs and a more than \$11 billion inflow into gold ETFs since the first week of February is a concise example of the tactical unwinding of a Trump trade. We also note there is no sign of destruction in sentiment toward credit, where spreads started the year tight; a proper de-risking would show up in these markets. This is not to make light of the degree of pain that appears to be felt, e.g., by levered returns when trends, such as the ones we have seen, unwind.

The “flooding-of-the-zone” approach to policy formation has no doubt shifted the political and geopolitical narrative in a fundamental way. But what about the investment narrative? In this note, in the interests of being focused, we attempt to address this question from a few specific points of view. The rapid release of so many policy announcements, the potential for some of them to change at short notice (e.g. tariffs) and the unconventional (at the very least) nature of policy implementation leaves investors in a similar position to the Queen in *Alice*, who every day had to try and believe six impossible things before breakfast. We do think that this shift in policy effectively brings forward a series of structural changes that define a new investment regime, which changes long-term expectations from the norms of recent decades but is not necessarily bearish.

The bottom line tactically is that we expect global equities to deliver a positive return over the course of 2025 but with much higher volatility. The flow of policy announcements as well as tariff and counter-tariff announcements is set to continue, which could be a painful period for markets. The equity market was probably too hopeful that deregulation would swamp the negative impact of tariffs and other policies. While there are potential market-friendly regulatory announcements that could still well transpire, there are also potential market-negative ones, such as immigration policy, that are presumably still to come. Strategically, we still believe in US exceptionalism, but *tactically* the relative advantages the US had are weaker than they were before.

Geopolitics and Recency Bias

While geopolitical realignment hasn’t dominated discussions with investors, in the US at least, it is arguably the most significant of the shifts that have taken place in recent weeks. The problem for investors is that markets do a very poor job at pricing geopolitical issues, as is the case with other low probability but potentially calamitous events.

One of the themes that runs through our strategic allocation research is the idea that investors need to be aware of recency bias. Different levels of this bias need to be peeled away, like layers of an onion. There is the recency bias of the last two years of a US-momentum tech-led trade as well as of the post-1982 period of quiescent inflation, a growing pool of global labor, strong growth and even stronger profits. Then there is the recency bias of the last 80 years of a post-war US-led order. Bluntly, we think all these must be stripped away. One can at least attempt to scale and price the first two, but what about the latter? It is, we argue, impossible to do so, so it would be wrong to introduce it as an extra risk premium in deriving an equity forecast. Any such reduction in the long-term outlook for equity returns could be wrong for years, and in any case something that cannot be scaled correctly. Nevertheless, it does matter, especially for those tasked with making long-term allocations.

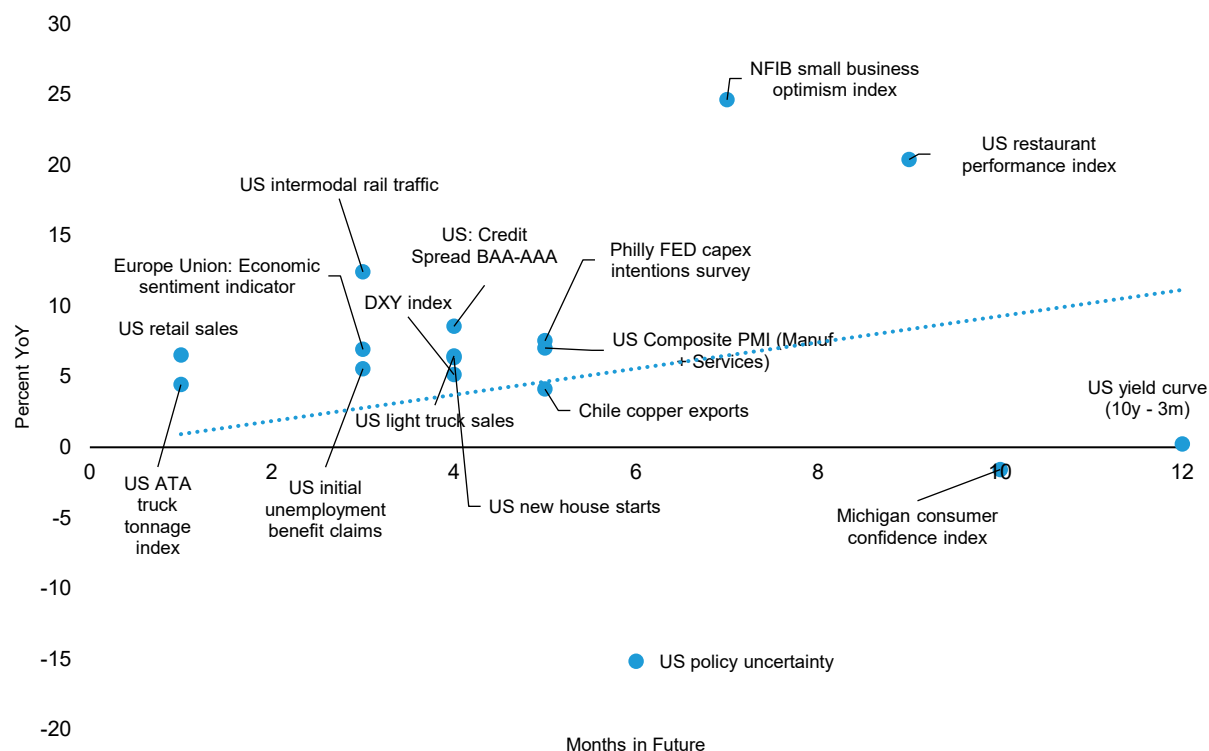
The Cycle

Where we can be more analytical is in a tactical discussion of the cycle. The near-term US earnings outlook has clearly and materially deteriorated. Our US tactical earnings indicator (*Display 1*) currently signals 11.2% earnings growth over the next 12 months, down from 15.1% at the start of the year. This is broadly in line with consensus expectations, which declined from 14.5% at the start of the year to 11.9% today. While there are always wide error bars around any market-earnings forecast, this

is a significant shift. Unlike top-down forecasts that use gross domestic product forecasts as the starting point, our model uses a broad sweep of inputs that in the past have all individually had predictive power for corporate earnings.

The key point is that this decline has shifted the narrative. When this forecast stood at 15% at the beginning of the year, the 2025 outlook was one of re-acceleration, a narrative that was pro small cap and cyclical. The current forecast, while still healthy, brings us back to the debate that dominated markets in 2024 before the US election: Is the prognosis for a soft or hard landing? The current reading is firmly for a soft landing and no recession, but it is a “landing” nonetheless.

DISPLAY 1: US 12-MONTH-FORWARD EARNINGS INDICATOR CURRENT FORECAST: 11.2%



Current analysis and forecasts do not guarantee future results.

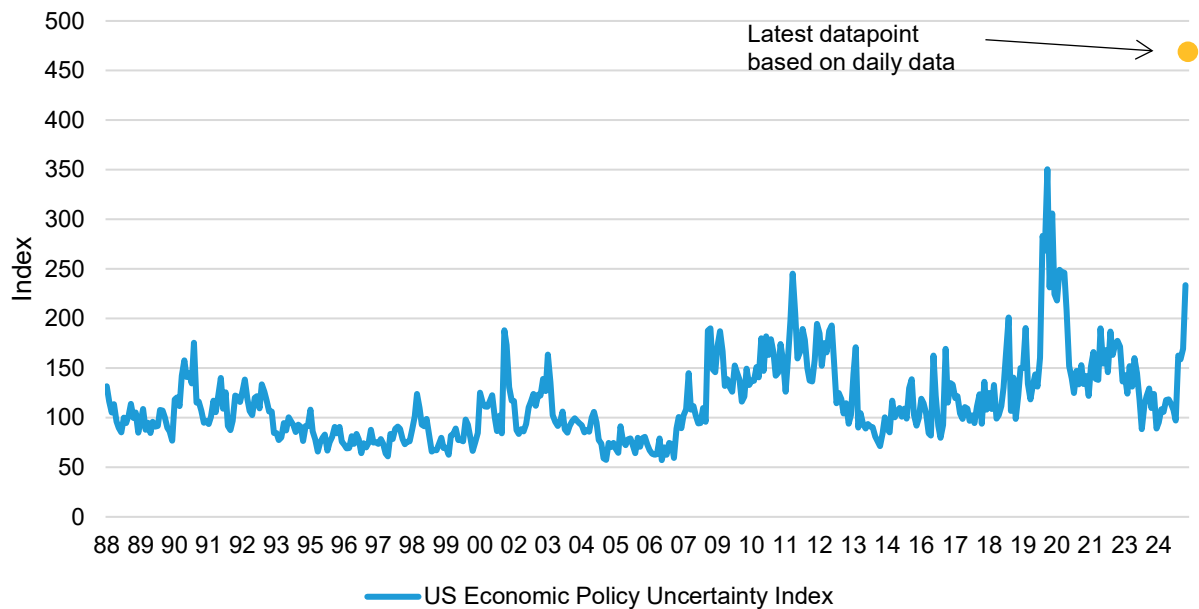
As of March 11, 2025

Source: Bloomberg, FRED, LSEG Datastream AB

Parsing the components of the indicator, it is the sharp spike in policy uncertainty, as measured by the Baker, Bloom and Davis Policy Uncertainty Index¹, that has been by far the biggest force in the worsening earnings outlook (*Display 2*). We also note that, while the daily policy uncertainty index is not directly comparable to the monthly series used in the earnings indicator, the daily index is currently even higher. Thus, if anything, the current reading of the earnings indicator understates the impact of policy uncertainty. The steep decline in consumer sentiment, as measured by the Michigan Consumer Confidence Index, has been another drag, as has the consistently negative outlook suggested by the US yield curve (despite its recent slight steepening).

¹ For more details please see: www.policyuncertainty.com

DISPLAY 2: POLICY UNCERTAINTY HAS SPIKED



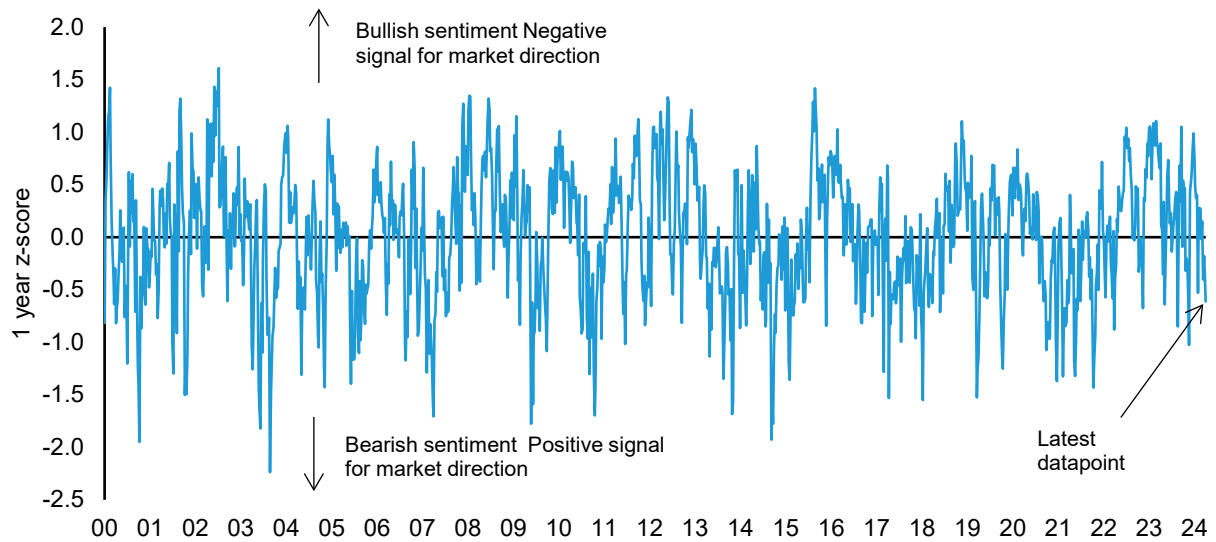
Current analysis does not guarantee future results.

As of March 13, 2025

Source: Policyuncertainty.com and AB

Our Composite Sentiment Indicator (*Display 3*) shows that investor sentiment has declined to a point where all the high sentiment of December/January has been removed; investor sentiment is now negative. However, it is not so deeply negative as to trigger an unequivocal buy signal.

DISPLAY 3: COMPOSITE SENTIMENT INDICATOR IS SLIGHTLY NEGATIVE



Current analysis does not guarantee future results.

The composite sentiment indicator is a weekly series showing the equal-weighted average of 52-week z-scores of the VIX volatility spread, put/call ratio (based on the total volume of puts and calls on the Chicago Board of Options Exchange (CBOE), Commodity Futures Trading Commission (CFTC) Nasdaq speculative positioning, Ii survey Bull/Bear ratio and equity fund flow data from EPFR. The measure is a contrarian indicator—overly bullish sentiment would trigger a sell recommendation and excessively bearish sentiment would trigger a buy recommendation. The signal has the greatest efficacy over short time horizons of about four to six weeks.

Data as of March 14, 2025

Source: Bloomberg, CBOE, CFTC, LSEG Datastream and AB

US vs. EU Equities

One of the key allocation questions we've heard in conversations with investors over the last two weeks is about the relative performance of European versus US equities—specifically whether the outperformance of Europe is tactical or the beginnings of a longer-term shift.

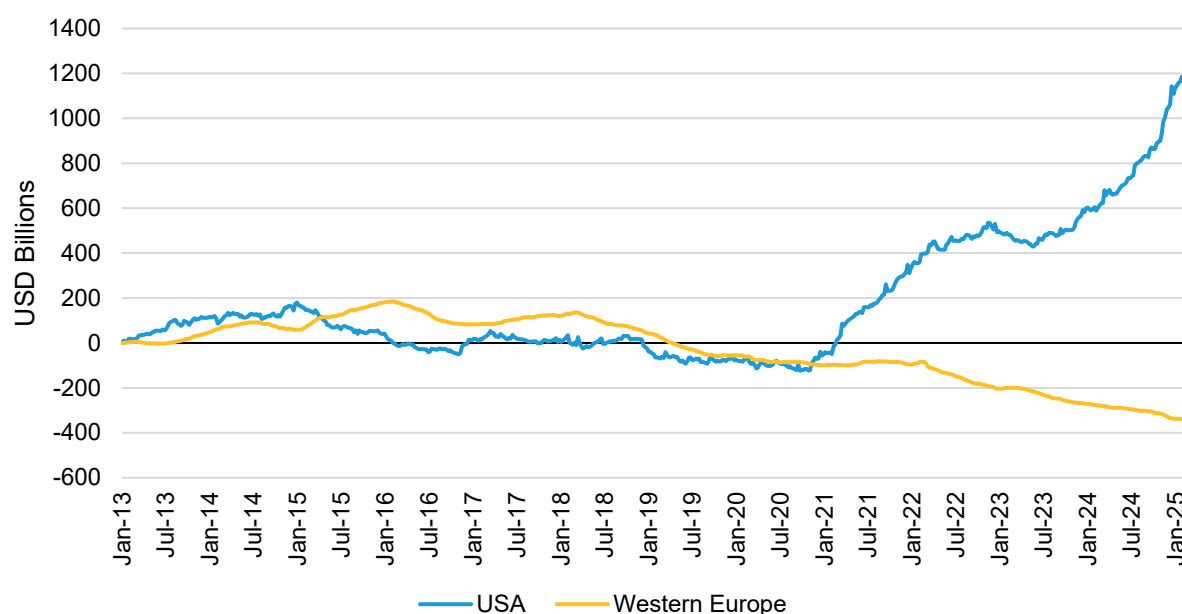
Our view is that this is tactical not strategic, albeit a tactical move that could be significant and could continue, given the scale of consensus in favor of the US that preceded this episode. We have heard the opinion voiced several times over the last week that "US exceptionalism is dead." We disagree and think that this reaction betrays a misunderstanding of the phrase. Any exceptionalism of the US should not be understood as a tactical proposition that can indeed change with sentiment, the cycle and policy pronouncements. The real exceptionalism of the US is a strategic one founded on:

1. A highly favorable demographic outlook versus other developed economies and China; the growth in the US working-age population is set to decline but remain positive, whereas in those other regions it is in outright contraction
2. A structurally higher level of profitability for US companies and a successful tech sector that imply an ongoing ability to earn higher margins
3. Stronger geographic security of supply chains than other regions
4. Benefits from the scale of its home market
5. The Dollar's reserve-currency status; despite attempts to undermine this, it is set to remain in place for the foreseeable future

Despite the policy shocks of recent months, these structural forces remain in place, so our strategic position remains overweight US assets. Tactically, however, there is a different story. The most striking feature in favor of Europe tactically was the scale of consensus against it at the beginning of the year. At our January CIO forum in New York City, the pro-US/anti-Europe consensus was unanimous. More quantitatively, this viewpoint is demonstrated by the extraordinary and unprecedented \$600 billion flow into US equities in the prior 12 months and contemporaneous \$60 billion outflow from European equities (*Display 4*). In dollar terms, we have simply not seen a disparity of flows of this scale before. Thus, when some exogenous shock (policy changes in this case) disturbs that consensus, the resulting move can be large.

So far, we would need to furnish readers with a magnifying glass to see the reversal of relative flows over the last month on the chart. Over that period, there was a \$17 billion European inflow and a \$45 billion US inflow. Thus, this resetting of the consensus position may have further to run.

DISPLAY 4: UNPRECEDENTED PRO-US/ANTI-EUROPE FLOWS LED UP TO THE CURRENT EPISODE: CUMULATIVE AND PASSIVE AND ACTIVE EQUITY FLOWS



Historical analysis does not guarantee future results.

As of March 14, 2025

Source: EPFR Global and AB

In *Display 5*, we show periods of significant European outperformance relative to the US over the last 30 years. The longest periods of sustained outperformance, e.g., 1999–2002 and 2003–2010, took place when European corporations outgrew their US peers in earnings-per-share (EPS) terms. The more recent periods of European outperformance have been more fleeting in nature. What does stand out about the current period of outperformance is the scale of the relative flow in favor of the US over the 12 months leading up to this period.

DISPLAY 5: PAST PERIODS OF SUSTAINED EUROPEAN EQUITY OUTPERFORMANCE VS. US

Start Date	End Date	Duration	US vs Europe Earnings per Share Growth, %	US vs Europe Equity Flows, % Market Cap (12 months prior)
30/09/1992	29/04/1994	19	11.31	
29/11/1996	31/08/1998	21	-8.20	
29/01/1999	30/04/2002	40	-5.51	
31/03/2003	31/08/2010	90	-31.01	6.86
31/10/2014	31/03/2015	5	2.64	-1.66
30/11/2021	28/02/2023	15	1.35	1.34
31/12/2024	?	?	?	6.63

Past performance does not guarantee future results.

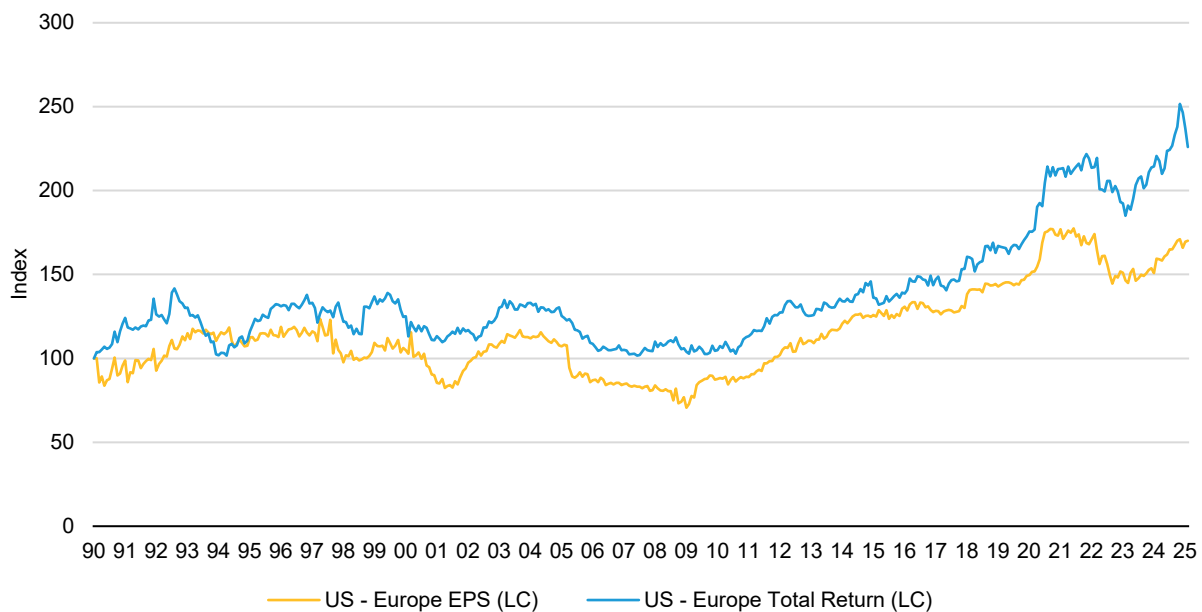
Note: Positive number in Earnings Per Share Growth and Equity Flows indicate periods when US earnings growth and equity flows were larger compared to Europe.

As of March 10, 2025

Source: EPFR Global, IBES, MSCI, LSEG Datastream and AB

Display 6 shows the indexed relative performance of the US versus Europe performance and relative EPS growth in local currency terms. It demonstrates that sustained outperformance by European equities requires sustained higher earnings growth. Valuation is not sufficient to predict a shift in performance. Despite a decline in the near-term outlook for US earnings and an increase in the outlook for European earnings, we cannot find ourselves able, with any degree of equanimity, to make a forecast that Europe's earnings will outgrow those of the US over long horizons.

DISPLAY 6: RELATIVE US VS. EUROPEAN EQUITY PERFORMANCE AND RELATIVE EPS GROWTH



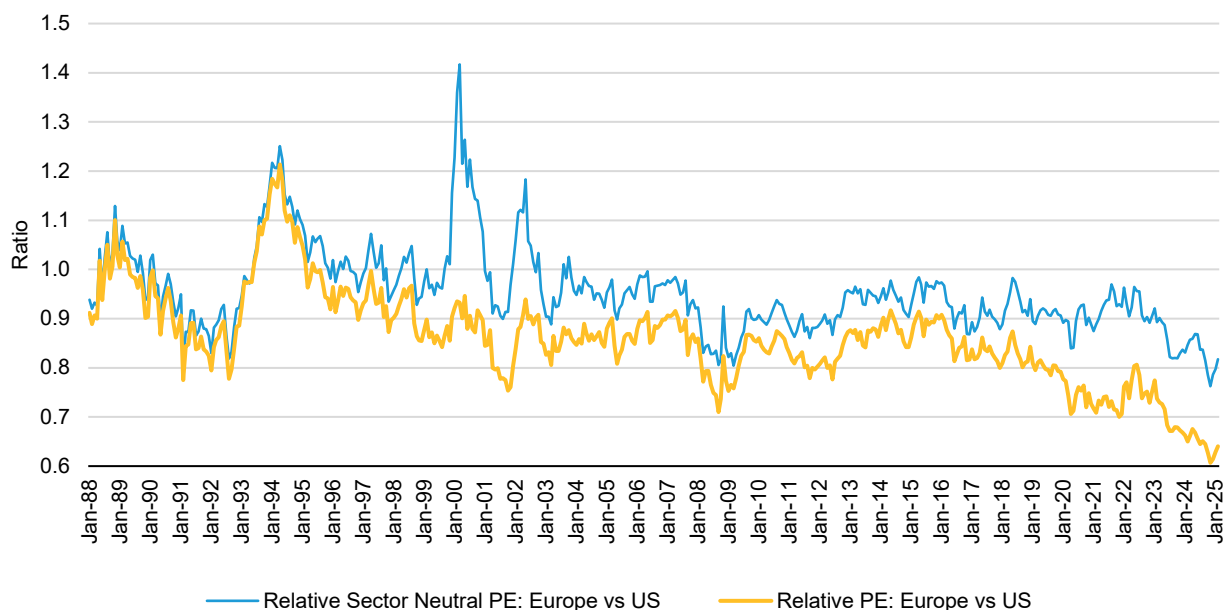
Past performance does not guarantee future results.

As of February 28, 2025

Source: LSEG Datastream and AB

On the valuation front, we often hear the argument that Europe looks “cheap.” Even leaving aside the point that relative valuation has not been a good predictor of relative regional performance, as outlined in the above chart, the different sector composition of the markets needs to be accounted for. Adjusting for these sector differences, Europe currently trades at an 18% discount to the US based on the 12-month forward price/earnings (PE) ratio, compared with a 4% average discount historically. So even after the bounce, Europe still trades at a sector-adjusted discount. We do not see valuation as a reason to espouse a tactical trade (it takes longer to play out), but at least it is not an impediment for those who want to go beyond a neutral tactical position on Europe and actually overweight the region.

DISPLAY 7: EUROPE VS US RELATIVE VALUATION (12-MONTH FORWARD PE)



Current analysis does not guarantee future results.

As of February 28, 2025

Source: Factset and AB

Factors

The key factor narrative in the recent turmoil has been defensive value/income and low volatility doing well with growth underperforming. In *Displays 8* and *9*, we show the performance of factors in Europe and the US.

Year to date, composite growth was the worst-performing factor in the US, down 9% (long-short); it was also one of the worst-performing European factors, down 3.3%. Small caps underperformed significantly in both regions as well, down 6% in the US and nearly 9% in Europe. There was also a notable divergence in momentum—down nearly 5% in the US but up nearly 6% in Europe. The growth underperformance represents a retreat from an area of the market that had seen strong inflows, while the small-cap shift reflects the decline in the cyclical outlook.

Value factors have outperformed significantly in both regions, with dividend yield delivering a particularly strong showing in the US, up nearly 9%. Low volatility is also up significantly in both regions so far this year, with stronger outperformance in the US. Both these factors are defensive in nature.

DISPLAY 8: US FACTOR PERFORMANCE

Factor	1m	3m	6m	12m	YTD
US: Composite Value	14.04	10.29	-1.19	4.75	7.41
US: 12m FWD PE	10.23	7.88	2.34	-0.17	5.92
US: Price to Book	9.15	4.97	1.15	0.42	3.22
US: Dividend Yield	15.40	12.27	-2.63	10.99	9.61
US: ROE	2.22	0.86	-0.57	-0.23	0.21
US: Composite Growth	-11.70	-8.91	-2.07	-13.17	-9.03
US: Long-Term Earnings Growth	-11.30	-4.28	5.91	-1.46	-4.95
US: Internal Growth	-0.10	-3.18	-6.61	-12.20	-3.27
US: Short-Term Earnings Growth	-11.48	-4.88	5.54	3.54	-4.70
US: Momentum	-11.69	-5.03	0.81	-0.88	-4.81
US: Low Vol	13.84	12.01	-3.22	8.15	8.28
US: FCF Yield	5.49	2.94	0.54	-3.24	2.07
US: Low Leverage	-5.94	-7.24	-4.38	-11.76	-5.64
US: Small vs Large	-3.75	-6.21	-6.62	11.04	-5.88

Past performance does not guarantee future results.

Note: Factors are constructed by dividing the MSCI into quintiles based on a given factor (or a blend of factors for a “composite” style) and long-short portfolios of stocks that are in the top and bottom quintiles, respectively, are formed. The stocks in portfolios are equal weighted and portfolios are rebalanced quarterly. Returns are calculated on a total-return basis in USD.

As of March 11, 2025.

Source: Factset, IBES and AB

DISPLAY 9: EU FACTOR PERFORMANCE

Factor	1m	3m	6m	12m	YTD
Europe: Composite Value	10.13	13.75	15.26	23.10	11.45
Europe: 12m FWD PE	8.37	12.76	19.28	22.90	10.67
Europe: Price to Book	10.99	13.10	16.15	21.93	11.32
Europe: Dividend Yield	6.74	8.79	6.93	13.79	8.36
Europe: ROE	-1.69	-2.43	-1.60	-7.77	-2.06
Europe: Composite Growth	-4.33	-3.59	-0.21	-4.79	-3.25
Europe: Long-Term Earnings Growth	-2.77	0.26	3.15	-0.32	-0.57
Europe: Internal Growth	-3.92	-4.05	-1.29	-10.95	-3.43
Europe: Short-Term Earnings Growth	-2.52	-1.66	-1.75	0.01	-1.29
Europe: Momentum	1.21	7.24	13.03	13.40	5.90
Europe: Low Vol	4.71	5.91	0.16	8.10	5.28
Europe: FCF Yield	7.02	5.47	7.88	12.54	5.83
Europe: Low Leverage	-2.67	1.20	12.57	4.14	1.71
Europe: Small vs Large	-4.81	-8.65	-7.55	-3.09	-8.91

Past performance does not guarantee future results.

Note: Factors are constructed by dividing the MSCI into quintiles based on a given factor (or a blend of factors for a “composite” style) and long-short portfolios of stocks that are in the top and bottom quintiles, respectively, are formed. The stocks in portfolios are equal weighted and portfolios are rebalanced quarterly. Returns are calculated on a total-return basis in USD.

As of March 11, 2025

Source: Factset, IBES and AB

Display 10 summarizes current factor valuations across US and Europe, presented as a Z score versus a factor's own 30-year history of the median PE of top- versus bottom-quintile stocks screened on each metric. This has the economic interpretation of showing whether a factor is at a premium or discount compared with its own history. In the US, the quality factor, as proxied by high return on equity, is currently the most expensive factor, trading at 0.5 standard deviations above historical average. It also trades at a significant premium in Europe, but Europe's most expensive factors are low leverage and composite growth. Interestingly, composite growth in the US trades near its historical average valuation.

Value still trades at a significant discount to its historical average in both regions, although the undervaluation is considerably larger in Europe. In Europe, income-based value factors such as dividend yield and free-cash-flow yield trade at the largest discounts of nearly two standard deviations. Low volatility also continues to screen as attractively valued relative to its history in both regions.

DISPLAY 10: US AND EU FACTOR VALUATIONS (Z-SCORES)

Factor	USA L/S Factor Valuation 12m Fwd PE (z-score)	Europe L/S Factor Valuation 12m Fwd PE (z-score)
ROE	0.55	1.29
Short-Term Earnings Growth	0.27	1.57
Momentum	0.20	-0.65
Long-Term Earnings Growth	0.18	0.71
Composite Growth	0.07	1.91
Low Leverage	0.02	2.00
Small vs Large Cap	-0.05	-0.82
12m FWD PE	-0.28	-1.06
Low Vol	-0.31	-0.47
FCF Yield	-0.39	-1.86
Internal Growth	-0.68	0.86
Dividend Yield	-0.84	-1.74
Price to Book	-0.89	-1.34
Composite Value	-1.03	-1.43

Current analysis does not guarantee future results.

Note: Factors are constructed by dividing the MSCI into quintiles based on a given factor (or a blend of factors for a "composite" style) and long-short portfolios of stocks that are in the top and bottom quintiles, respectively, are formed. Factor valuation is calculated as the ratio of the median 12-month forward PE multiple of the long-short portfolios. Smaller (or more negative) values indicate a greater discount to historical average.

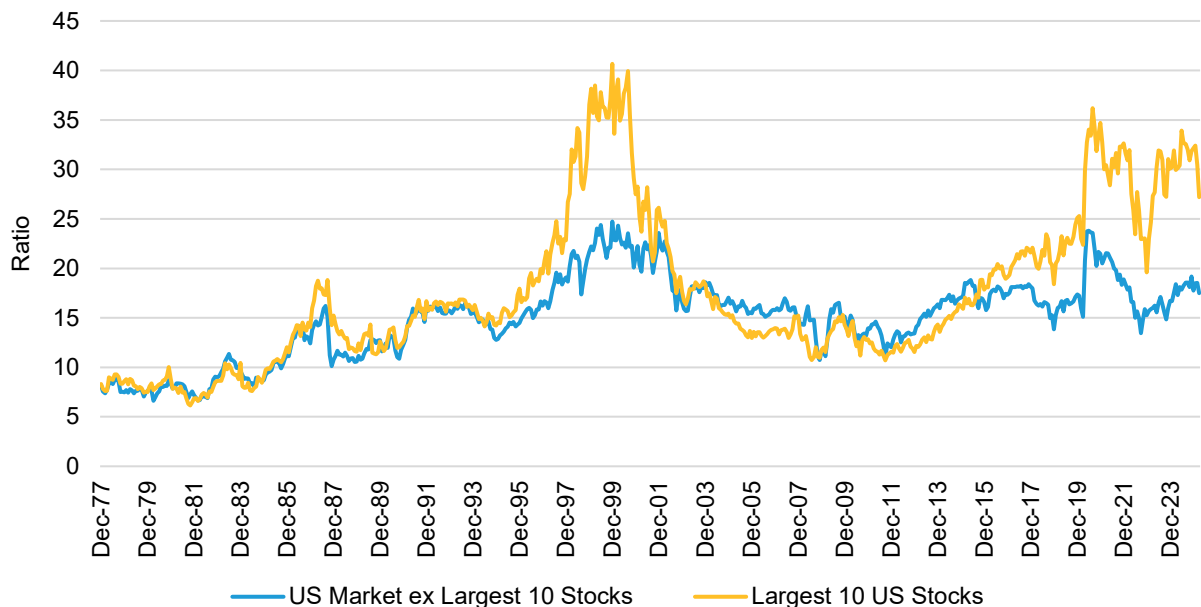
As of March 11, 2025.

Source: Factset, IBES and AB

This comparison only matters if one can make forward-looking statements about such factors. Forward-looking views on factor positioning rely on having a view on the cycle and valuation. One view that remains constant for us is the idea that volatility has been oddly low for some time, in part due to the near-monotonic flow into US/growth trades. However, high market valuations and a high level of index concentration imply that volatility should be higher. We think investors should get used to this new higher volatility level. In that context, it is interesting to note that the low volatility factor does not trade at a premium; we think it is an attractive factor to hold alongside a pro-equity view. The time when low volatility does worst is in a high-return market that is delivering >10% returns; we do not think that is likely in the current environment.

As *Display 11* shows, since the start of the year the US mega-cap 12-month-forward PE multiple has declined from 32x to 27x, while the rest of the US market has moderated from 18.5x to 17.5x. As has often been noted, unlike the TMT bubble, mega-cap tech names are profitable this time. Moreover, the persistence of profitability has been rising in the US. Thus, we see this as part of the undoing of a trade that went too far rather than as a structural shift in narrative. The most likely course, we think, is that mega caps deliver a market-average return over the next 12 months, i.e., they lose their leadership role, but their valuations do not need to mean-revert all the way back down to long-term averages.

DISPLAY 11: VALUATION OF US MEGA CAP STOCKS VS THE REST OF THE MARKET



Current analysis does not guarantee future results.

As of March 12, 2025

Source: Factset and AB

Distinct from the mega-cap trade, small cap has also been a very poorly performing factor. We view this as a direct consequence of the transition from the view that the cycle was accelerating to one of more modest growth. We think this has implications for private equity as well, given an exposure to smaller stocks. This will likely not show up in the marks of private-equity prices for some time, but it amplifies a longer-term issue for the sector: the amount of dry powder has driven up entry prices and hence lowered expectations of future returns. We remain cautious on private-equity returns, preferring other areas of private assets.

Positioning

The bottom line is that, while there are indeed enormous structural shifts happening in the political and geopolitical sphere, we think the recent downturn in markets represents a repositioning rather than the beginning of a bearish trajectory. The flows into strong consensus positions were unprecedented. The sequencing of policy announcements in the US has not been as friendly as markets had hoped. While it is entirely possible that more market-positive regulatory announcements could still come, the capricious nature of policy formation makes it imprudent to rely on such a development.

Despite much excitement about small shifts in recent US inflation statistics that imply continued very gradual disinflation, when one zooms out on the chart, the thing we find extraordinary is the stability of inflation expectations. 5y5y inflation swaps have shifted down slightly in the US, in tandem with growth expectations, and have ticked upwards in Europe, in response to the sea change in the fiscal outlook. We think that the risk here is to the upside, [as we recently wrote](#). In this context, it is perhaps surprising that 5y5y inflation rates have barely moved.

The key tactical conclusions from this analysis are:

- We continue to expect positive returns from global equities over the course of 2025.
- Volatility is likely to reset at a high level; in this context, we like the low volatility factor, which does not appear overly expensive.

- Given the scale of flows leading into this period, it is entirely feasible that a tactical outperformance of European equities could have further to run. But that does not change our strategic preference for the US, given the set of fundamental forces in its favor.

We set out our strategic asset allocation recommendation in *Display 12*. From a strategic point of view, the main focus for our allocation is the delivery of positive real returns, hence the continued strategic underweight on duration.

DISPLAY 12: STRATEGIC ASSET-CLASS VIEWS

Asset Class	Recommendation vs. 60/40	Comment
Developed Equities	Overweight	
US Large Cap	+	Real asset; attractive long-term returns; "US exceptionalism;" potential for higher nominal growth and margins under Trump; valuations and market concentration are sources of risk.
US Small/MID Cap	+	Trump win a tailwind for domestically oriented businesses; historically an area of strong alpha generation by active managers.
International Developed	Neutral	Attractive valuations but greater drag on growth from demographics and deglobalization than US; Trump win negative for euro zone outlook.
UK	+	Attractive valuations; attractive sector composition offering defensive/stable growth.
Japan	+	Positive inflation dynamic; corporate reform boosting corporate earnings and improving long term fundamentals and shareholder returns; attractive valuations; diversification benefits.
Euro Zone	-	A more challenged growth outlook, Trump win negative for euro zone (defense, geopolitics, tariffs); lack of tech sector/AI exposure.
EM Equities	Underweight	
EM x China	Neutral	Positive growth premium over DM; better demographics (India, Africa); structural sentiment measures supportive; deglobalization to improve the diversification role of EM; geopolitics and policy are risks in some countries; Trump poses increased risks to outlook (protectionism, higher USD).
China	-	Poor demographics; policy and geopolitical risks to outlook (Trump) despite cheap valuations.
Style Premia		
US Growth	++	Expensive but structural tailwinds (greater persistency of ROE; tech and AI theme exposure).
US Value	++	Potentially higher inflation and rates favor value as long as accompanied by strong growth outlook.
EAFE Quality	++	Attractive valuations; defensive properties and volatility reduction for a less-robust strategic outlook outside the US.
EAFE Dividend Yield	++	Attractive valuations; defensive properties and volatility reduction for a less-robust strategic outlook outside the US; attractive source of income.
Duration	Underweight	
US Government: Long	-	Structural risks; low term premium, inflation volatility; diminishing diversification; prospect of excess issuance relative to demand for bonds
US Government: Intermediate	Neutral/Overweight	
US Government: Short	+	Better compensation for (lower) risk than long bonds
Euro Government Bonds	Neutral	Yields attractive versus history; stronger fiscal position than US; nearer-term more favorable policy outlook. Balanced against this is geopolitical and domestic political risk
Real Assets	Overweight*	
REITs	++	Real asset, with positive correlation with inflation and positive real returns in all inflation regimes. Structural risks include climate change (higher insurance costs) and policy risk of rent control in residential real estate; case to be selective within the space.
Natural Resources Assets	++	Strategic inflation hedge, provider of real return. Diversifying asset for equity risk even at higher levels of inflation (unlike bonds). Key example of sustainable asset that is also an inflation hedge. Possible risks include climate change (e.g., risk of destruction by fire for timber)
US TIPS	++	Attractive long-term returns; inflation protection.
Private Assets		
Private Equity	-	Expect zero multiple expansion in aggregate, higher cost of debt than most of its history. Many investors are already overweight. High fee and liquidity concerns
Private Debt	+	Attractive current and prospective yield. Floating nature provides inflation protection. Beneficiary of retrenchment by traditional providers of credit
Infrastructure	+	Inflation protection in the form of offering positive long-term real return in both moderate- and high-inflation environments. Beneficiary of energy transition
Non-Fiat		
Gold and Crypto	+	Hedge against debasement risk for G7 currencies

Historical analysis and current forecasts do not guarantee future results.

*Asset has small or no benchmark allocation.

As of March 14, 2025

Source: AB

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