

Barometer: Balancing the risks

August 2025 • Multi Asset

Continued uncertainty over tariffs, a mixed economic backdrop and stretched valuations warrant a neutral stance across global equities, bonds and cash.



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Asset allocation: staying neutral

The roller coaster of US trade policies continues – a brief period of apparent progress has been followed by news of new levies. This underscores our continued caution.

While liquidity conditions are supportive, valuations are very stretched, the global macro backdrop is muddled, with downside risks to growth and upside ones to inflation, and geopolitical conditions remain in flux.

We therefore remain neutral across global equities, bonds and cash. Equities are in an uptrend, but expensive and vulnerable to a lagged impact of tariffs on the US economy. Bonds are supported by monetary easing and reasonable yields, but are at risk from re-accelerating US inflation and growing deficits.

Fig. 1 - Monthly asset allocation grid
August 2025

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ASSET CLASSES			Equities		
			Bonds		
			Cash		
EQUITIES			US		
			Euro zone		
				Swiss	
			UK		
			Japan		
				China	
				Emerging markets ex-China	
			Pacific ex-Japan		
GLOBAL INDUSTRY SECTORS			Energy		
			Materials		
			Industrials		
			Consumer disc		
			Consumer staples		
			Health care		
				Financials	
			Real estate		
			IT		
				Utilities	
				Communication services	
GOVERNMENT BONDS			US		
			Euro		
			Japan		
			Swiss		
			UK		
			China		
				EMD local ex-China	
			EMD USD		
CREDIT			US IG		
			Euro IG		
			us high yield		
				Euro high yield	
CURRENCIES VS. USD				Emerging corporate	
				Euro	
			Sterling		
				Swiss franc	
			Japanese yen		
					Gold
			Chinese renminbi		

Source: Pictet Asset Management

We believe emerging markets offer some of the best opportunities – a view supported by our **business activity** indicators. We expect emerging economies to grow by 4% this year and next, compared to around 1.2% for the developed world, with the growth gap between the two at its widest level in two decades. Improving industrial production dynamics (not least in China) and continued easing by central banks should act as tailwinds for the emerging world, to the benefit of EM currencies, bonds and equities.

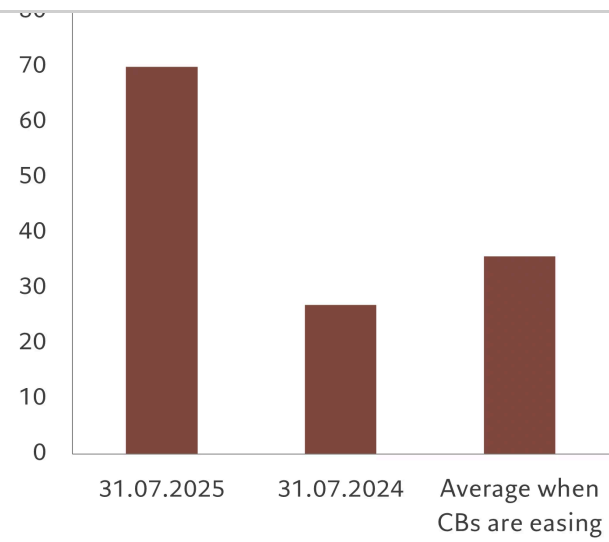
In contrast, our US macro score remains negative, with the world’s biggest economy likely to suffer a stagflationary shock. We expect US GDP growth to undershoot consensus in 2025 and 2026 as consumption growth continues to slow. According to our models, US tariffs will reduce the country’s GDP by 1.4ppts, compared to a 0.4ppts drag on the global economy. This asymmetric impact, coupled with limited policy stimulus options due to rising inflation, places the US in a less favourable position relative to other major economies.

For Europe, the impact of tariffs is expected to be offset by large-scale fiscal stimulus, particularly from Germany. However, we would like to see more progress in the implementation of those plans before turning more positive on the euro zone economy – and on the region’s equity markets.

Fig. 2 - Liquidity boost

Net share of central banks in easing made over previous 6 months, %

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Data covering period 31.01.2020-31.07.2025. Source: LSEG, Pictet Asset Management.

The Fed may have paused for now, but is clearly in a dovish mood, and the private sector has stepped up, with US banks extending loans and buying securities. We expect Fed easing to resume in the coming financial sector, should proper money and credit growth.

The positive liquidity backdrop, in turn, is counter-balanced by stretched **valuations**. Our models, which compare asset prices with their 20-year history, score global bonds as expensive and equities as very expensive.

Such pricing is particularly worrying given the potential for disappointing corporate earnings. A top-down analysis, using our macro forecasts, suggests global earnings growth of 3.7% this year and 7.4% in 2026 – half the pace expected by bottom-up analysts according to IBES consensus figures. Our analysis suggests that the disappointment could be particularly pronounced in the US due to its lacklustre economic growth prospects.

Technical indicators support our overall neutral stance on global assets, as well as our preference for emerging markets. For global bonds, sentiment and trend signals are all neutral, while EM bonds have full trend support. For global equities, trends are broadly positive, but this is balanced out by negative seasonality in both August and September. Flows, meanwhile, show continued investor appetite for EM local bonds, and a rotation from defensive stocks into cyclical ones.

The US dollar appears tactically oversold, prompting us to take profits and close our long positions in sterling and the Japanese yen. However, we expect the dollar down-trend to continue in the medium term thanks to concerns over policy credibility.

Equities regions and sectors: caution prevails despite rally

Global equities have not only fully reversed “Liberation Day” shock declines of April, but are now advancing well beyond those previous highs. US and UK stocks, for example, have printed new record highs as trade agreements between the US and its key trading partners and expectations for monetary and fiscal stimulus in major economies encouraged investors to wade back into risk assets.

Yet we don’t think it’s time to let our guard down and raise our benchmark weight in equities. The asset class is still expensive from a valuation standpoint; tariff flip-flops continue to jolt global markets and equities are also vulnerable to delayed effects from tariffs on the US economy.

As such, we keep our neutral stance, focusing on sectors with strong earnings dynamics and regions with supportive local conditions.

Among these bright spots are emerging markets, where we remain overweight. Real GDP growth differential between emerging and developed economies stands at around 2% per annum, among the highest in the past 15 years, and we expect this gap to hold in the coming year. The EM world’s growth advantage has typically driven appreciation in their currencies, which remain undervalued by more than 10% according to our fair value model.

We’re also optimistic about Chinese stocks, where we maintain an overweight. The People’s Bank of China has adopted an accommodative stance for the first time since the global financial crisis and emphasised more efficient and impactful implementation of stimulus policies. Beijing stands ready to support the economy with further policy easing. At the same time, it plans to address the problem of overcapacity that is plaguing China across industries and fueling deflation with its anti-involution strategy designed to phase out weaker players.

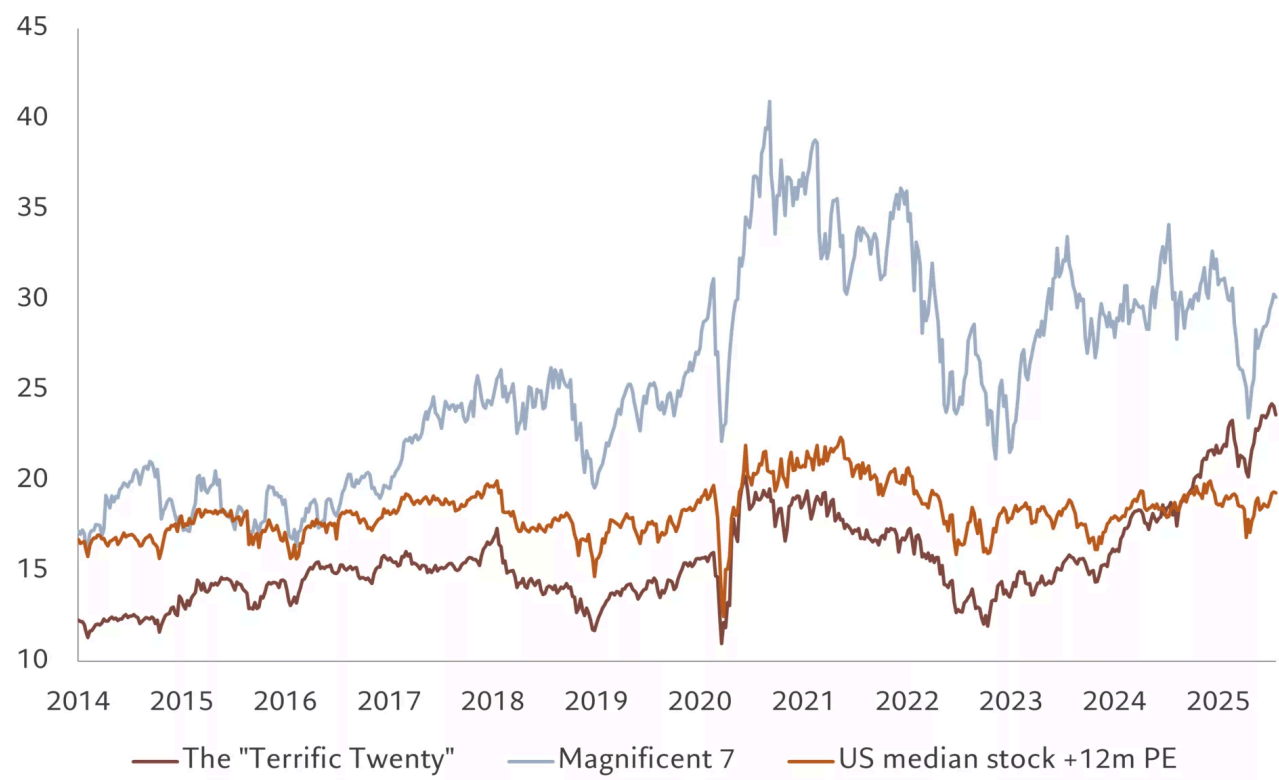
We also maintain a key hedge through our overweight position in Swiss equities, which offer attractive valuations and quality stocks in sectors like consumer staples which tend to withstand cyclical downturns.

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we re keeping our neutral stance in the US. we expect US earnings growth of only 2% this year, which is some 7 percentage points below consensus, as the impact of tariffs starts to bite. The US remains the region with the least attractive valuation. Our analysis shows that a group of 20 US mega-cap stocks – what we call the 'Terrific Twenty' – are catching up with the 'Magnificent Seven' in terms of multiples (see Fig. 3). This demonstrates that investor enthusiasm and associated stock price premiums are broadening out beyond the tech giants.

Fig. 3 - Terrific Twenty catching up with Magnificent Seven

Magnificent Seven vs Terrific Twenty* and median stock 12m forward PE



*Broadcom, JPMorgan, IBM, Berkshire Hathaway, Visa, Netflix, ExxonMobil, Mastercard, Costco, Walmart, Oracle, AT&T, GE Aerospace, Home Depot, Wells Fargo, Bank of America, Palantir Technologies, Chevron, Philip Morris International, Goldman Sachs.

Source: LSEG, data covering period 01.01.2014 – 23.07.2025

While Europe shows signs of improvement with fiscal spending plans and Germany's corporate tax reforms, the region is not immune to the impact of the trade war and a slowdown in the US. For these reasons, we keep broader European equities neutral too. The best opportunity to benefit from a European recovery, in our view, lies in focused exposures to domestic mid-cap and industrial stocks in the euro zone.

We remain overweight communication services. Despite their challenging valuation, the sector is supported by long-term trends such as AI adoption, while retaining earnings leadership – as the latest earnings beat from Meta highlights. Financial stocks, which we are overweight, should benefit from a steeper yield curve and potential deregulation under the Trump administration. We also remain overweight in utilities, which offer defensive characteristics and benefit from the structural trend of increasing electricity demand.

Fixed income and currencies: clouds gather over yen and sterling

We trim our positions on the Japanese yen and sterling to neutral from overweight, with both looking vulnerable against the dollar.

Japan's political and economic uncertainty is likely to weigh on the yen. July's upper house elections failed to give a clear political signal, raising the risk of a hung parliament destabilising the government. Meanwhile, Japanese government bonds (JGBs) have come under pressure amid concerns over a possible increase in public borrowing, with demand slumping for long-dated issues, leaving the yield on the 30-year JGB at around 3.1% from just under 2.3% at the start of the year. As a result, the

Bank of Japan is likely to pull back on its quantitative tightening programme, which is negative for the currency – in effect it is favouring shoring up IGBs over the yen.

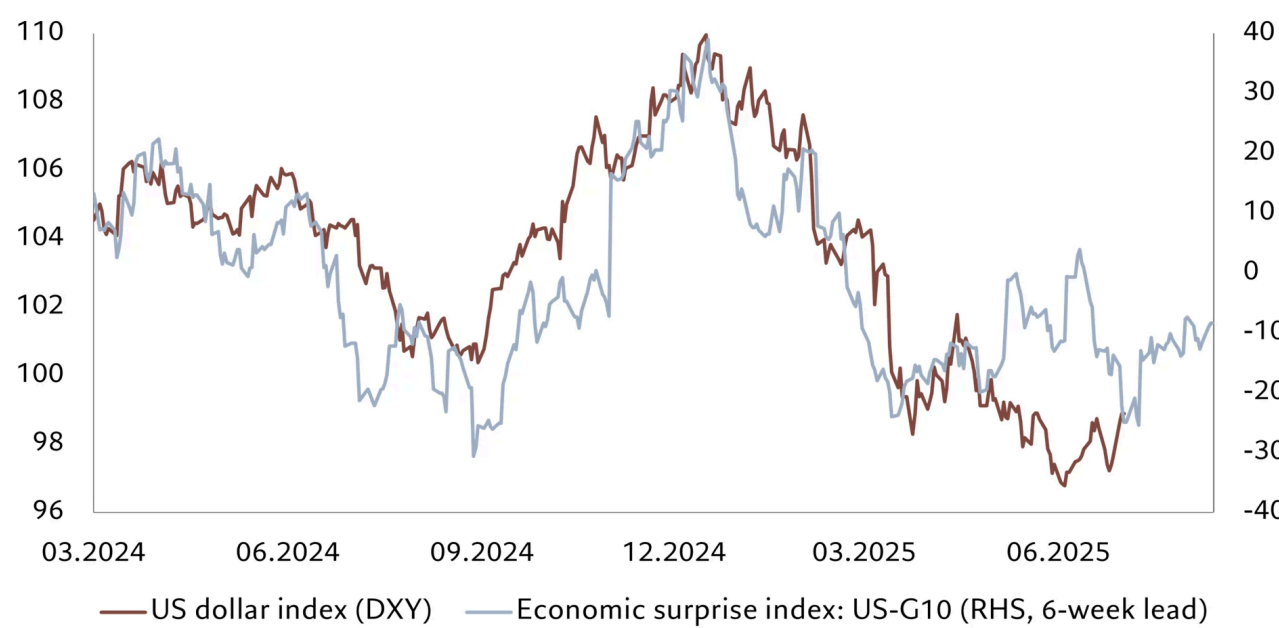
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Sterling, meanwhile, is relatively expensive on a purchasing power basis. We expect a dovish tilt from the Bank of England as it responds to a lacklustre economy and pressure on consumers from rising tax rates. The market is pricing in two quarter point rate cuts during the rest of the year, but we think there's a chance of a third, which would weaken sterling.

The yen and sterling downgrades also reflect our view that the dollar's weakness so far this year is overdone. We foresee a period of consolidation, in part thanks to a better recent record of positive economic surprises compared to other large economies (see Fig. 4). Nevertheless, we expect this to be short-lived respite for the dollar which is still fundamentally overvalued and should eventually resume its downtrend.

Fig. 4 - Dollar surprise

US dollar index vs economic surprise index (US-G10, 6-week lead)



Source: LSEG, Citi, Pictet Asset Management. Data covering period 29.03.2024-30.07.2025.

We keep our full overweight on gold, which remains the defensive asset of choice in an environment where more than three-quarters of the world's 30 biggest central banks are cutting rates.

In fixed income, we stick to neutral positioning on most sovereign debt. Notwithstanding that most central banks are in an easing cycle, inflationary risks persist. For instance, President Donald Trump's tariffs will push up US inflation over the near term – we expect the net impact to be 2 percentage points, albeit as a one-off. The Fed will have to weigh this against the hit to the US economy.

We maintain our overweight in emerging market local currency bonds, excluding China. High policy rates relative to domestic inflation continue to underpin this asset class. We are also overweight emerging market corporate debt; it has already benefitted from robust economic strength and we expect such conditions to persist over the medium term.

Elsewhere, we are overweight in European high yield credit, which is likely to be supported by Germany's infrastructure and defence spending.

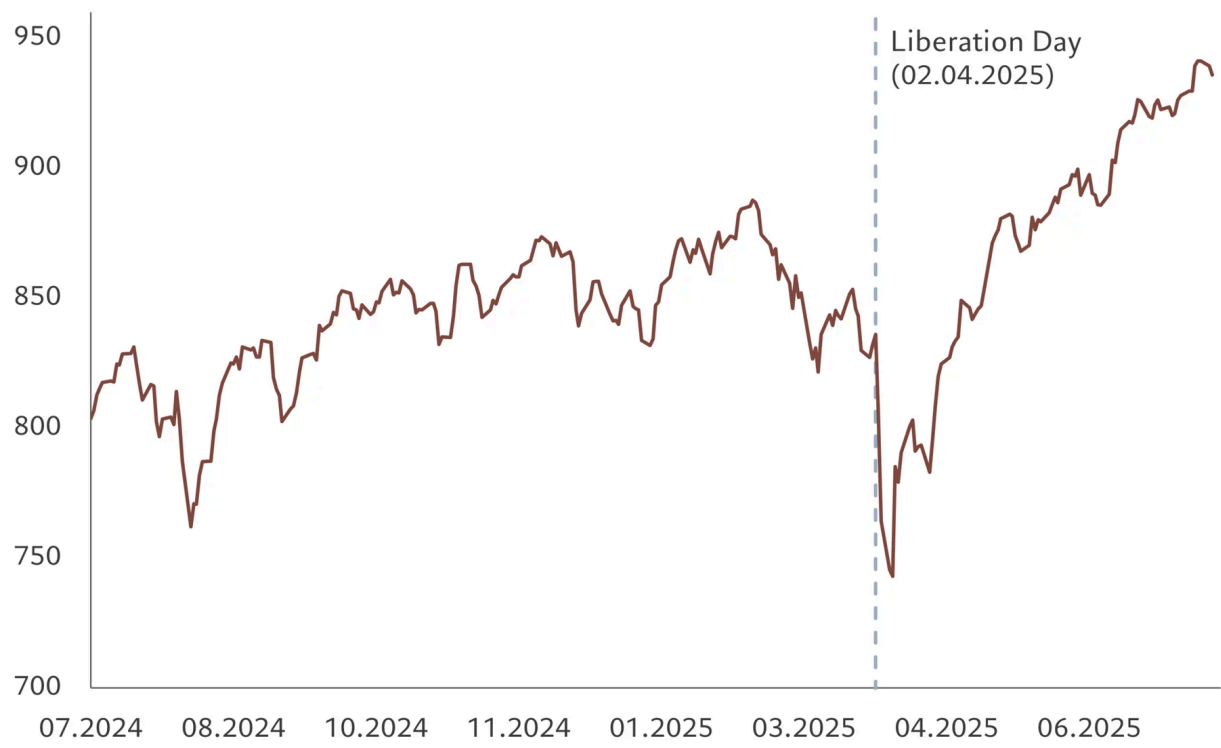
Global markets review: record highs

Global equities pushed higher in July, with the MSCI All Country World Index scaling fresh record highs (see Fig. 5). Fund managers turned moderately optimistic on risky assets, according to Bank of America's monthly survey.

Britain’s FTSE 100 hit record highs, breaking through the psychologically key 9,000 point barrier. US equities added 2.3% as investors welcomed forecast-beating quarterly earnings from the likes of Apple, Meta and Microsoft. Among the nearly 300 of the S&P 500 companies who have already reported their second quarter results, 81% came in above analyst expectations, according to LSEG data.

Strong earnings helped IT stocks to add 4.6% on the month despite already stretched valuations. The energy sector, meanwhile, gained 3.1%, reflecting a surge in the oil price amid continued tensions in the Middle East.

Fig. 5 - Rebound
MSCI All Country World Index



Data covering period 28.07.2023-29.07.2025. Source: LSEG, Pictet Asset Management.

Performance in fixed income markets was more mixed, with global bonds finishing July down 0.4% in local currency terms. US Treasuries lost 0.7% as the Fed left borrowing costs unchanged in July and signalled that it may remain on hold at least through to September.

Japanese bond prices fell, with yields on 30-year bond hitting record highs in the face of political uncertainty and the prospect of increased government borrowing.

Credit markets generally held up better than sovereign debt, supported by steady investor inflows.

In foreign exchange markets, the dollar gained 3.2% versus a trade-weighted basket of currencies. It performed particularly strongly versus the Japanese yen and sterling.

In brief

Barometer August 2025

Asset allocation

We are neutral across global equities, bonds and cash in the face of unspectacular economic growth and continued geopolitical

uncertainty. Although liquidity conditions are positive for risk assets, valuations are stretched.

Equities regions and sectors

We keep overall neutral stance. Bright spots are in emerging markets, including China, and Switzerland. In sectors, we like communication services, financials and utilities.

Fixed income and currencies

We cut the yen to neutral from overweight amid concerns about political uncertainty and rising JGB yields. We also cut sterling to neutral from overweight amid expectations of a more dovish outlook for the Bank of England.

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