



NEUBERGER BERMAN

Asset Allocation Committee Outlook 2Q 2025

The Storm Before the Calm?

The first weeks of the new U.S. Administration have been more disruptive than the Asset Allocation Committee anticipated, particularly in the area of tariffs. We believe that trade negotiations are possible and a return to more predictable policymaking can revive animal spirits, but the risks have undeniably risen. The disruptions have already prompted strength-building and pro-growth policy action in Europe, leading us to upgrade our view on this market while maintaining a balanced view on overall asset allocation.

ABOUT THE ASSET ALLOCATION COMMITTEE

Neuberger Berman's Asset Allocation Committee meets every quarter to poll its members on their outlook for the next 12 months on each of the asset classes noted and, through debate and discussion, to refine our market outlook. The panel covers the gamut of investments and markets, bringing together diverse industry knowledge, with an average of 30 years of experience.

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Market Views

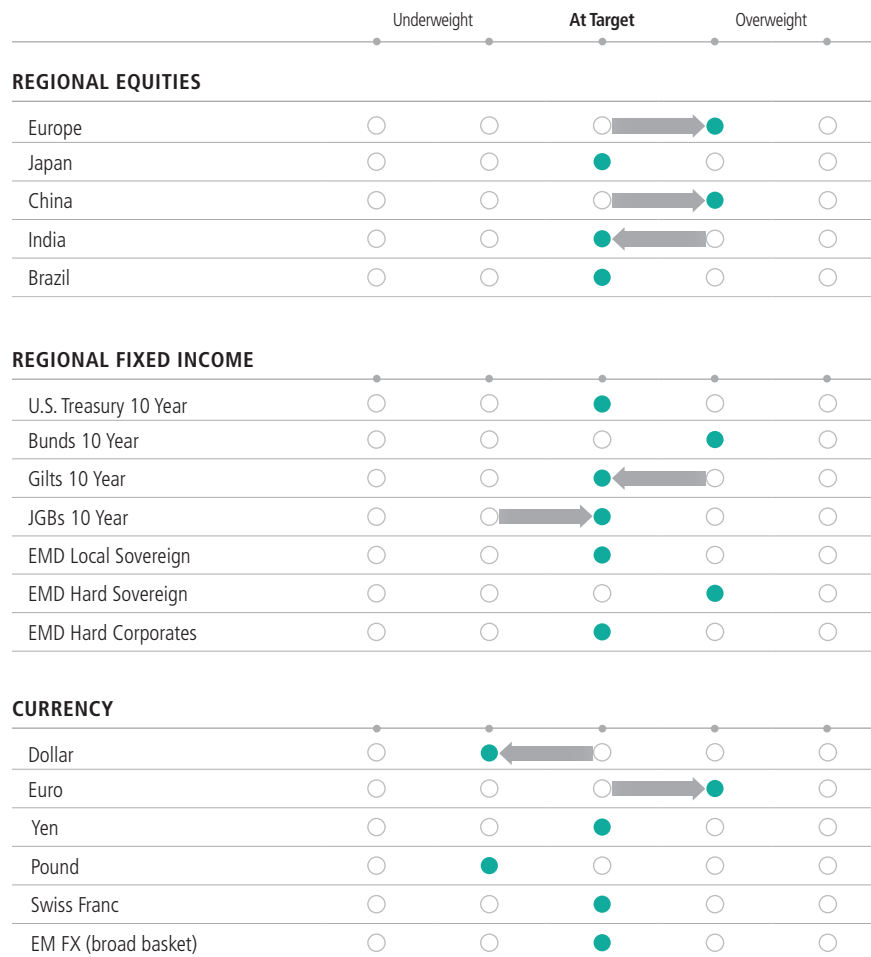
Based on 12-Month Outlook for Each Asset Class

	Underweight		At Target	Overweight	
EQUITY					
Global Equities	○	○	○ → ●	○	○
U.S. All Cap	○	○	●	○	○
U.S. Large Cap	○	○	●	○	○
U.S. Small and Mid Cap	○	○	○	●	○
Developed Market—Non-U.S. Equities	○	○	○ → ●	○	○
Emerging Markets Equities	○	○	●	○	○
FIXED INCOME					
Cash	○	●	○	○	○
Global Bonds	○	○	● ← ○	○	○
Investment Grade Fixed Income	○	○	● ← ○	○	○
U.S. Government Securities	○	○	●	○	○
Investment Grade Corporates	○	○	●	○	○
Agency MBS	○	○	●	○	○
ABS / CMBS	○	○	○	●	○
Municipal Bonds	○	○	○ → ●	○	○
U.S. TIPS	○	○	●	○	○
High Yield Corporates	○	●	○	○	○
Non U.S. Developed Market Bonds	○	○	○ → ●	○	○
Emerging Markets Debt	○	○	●	○	○
REAL AND ALTERNATIVE ASSETS					
Commodities	○	○	●	○	○
Hedged Strategies	○	●	○	○	○
Private Equity	○	○	○	●	○
Private Debt	○	○	● ← ○	○	○
Private Real Estate	○	○	○	●	○

As of 2Q 2025. Views shown reflect near-term tactical asset allocation views and are based on a hypothetical reference portfolio. Views on private market assets reflect the Asset Allocation Committee's views on the future return potential of new cash commitments, not the future return potential of existing investments. Nothing herein constitutes a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. See disclosures at the end of this publication, which include additional information regarding the Asset Allocation Committee and the views expressed.

Regional Focus

Fixed Income, Equities and Currency



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“Much now depends on whether we see a more structured and predictable approach to policymaking in the U.S., especially on trade and the size and cost of government.”

The Storm Before the Calm?

The Asset Allocation Committee (AAC) came into 2025 with a base case of improving economic growth and decelerating inflation that was supportive for risk assets, while noting that uncertainty around tariffs greatly widened the dispersion of potential outcomes. Now that President Donald Trump is back in office, his policies have indeed been as disruptive as we could have imagined, and trade policy more disruptive than almost anyone expected. We believe that the announcements on April 2 are an opening stance that invites negotiation from trading partners, and that the final tariff outcome will be less costly than the worst estimates. While it is likely that, whatever the final outcome, some lasting damage has been done, we expect U.S. business and markets to regain their animal spirits once the worst of the disruption from tariffs and government spending cuts dissipates in favor of tax-cut extensions and deregulation. That said, President Trump’s approach not only to trade but to longstanding security alliances has already prompted pro-growth policy action in other regions, especially Europe. That growth catalyst has led us to upgrade our outlook for these economies and equity markets, both in absolute terms and relative to the U.S., which in turn results in an upgrade to our view on global equities. These views reinforce our theme of broadening performance in equity markets, but with a growing emphasis on broadening by region as well as by size, style and sector. At the same time, tail risks clearly remain elevated, leading the Committee to maintain a balanced view on asset allocation and a continued focus on assets that can act as ballast against either a growth slowdown or a return to rising inflation.

The AAC Outlook at a Glance

- The April 2 U.S. tariff announcements were close to a worst-case scenario and introduce new growth and inflation risks; we believe that the U.S. administration will welcome trade negotiations, however, and a return to more predictable policymaking would shift the focus to lower rates, tax-cut extensions and deregulation later this year.
- Recent U.S. small- and mid-cap underperformance may have provided a more attractive entry point in advance of these catalysts.
- The disruption has prompted what we believe will be sustained pro-growth policy action in Europe, leading us to upgrade our view on this market.

Up for Debate:

- Are Investors Getting Carried Away on Europe?

The AAC came into 2025 with a base case that was supportive for risk assets, but a recognition that lurking inflation and the potential for higher trade tariffs meant that risks were “piled up on both sides of the balance.”

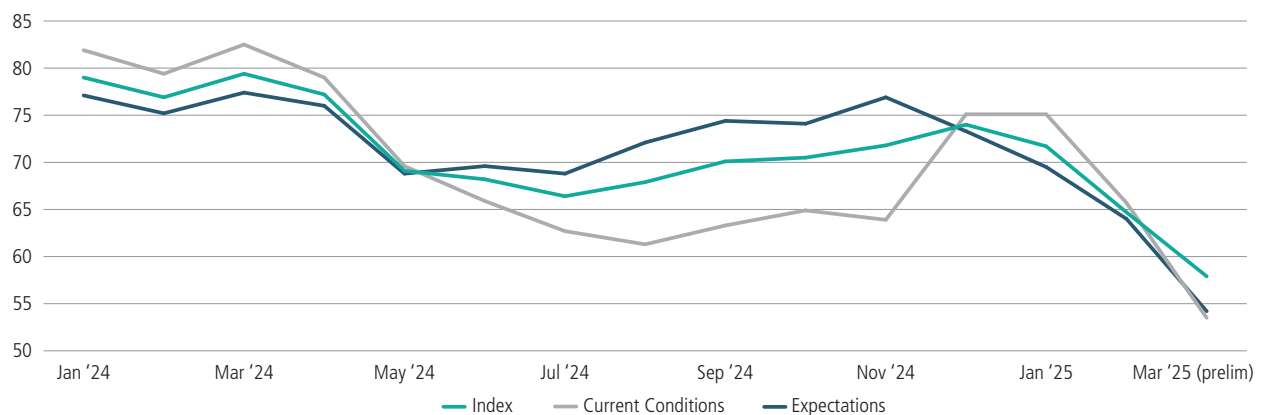
After implementing tariffs on Mexico, Canada and China, as well as on selected sectors in the first quarter, President Donald Trump announced sweeping new tariffs on April 2—only to withdraw most of them a week later, just as they were coming into effect. Citing the International Emergency Economic Powers Act of 1977 (IEEPA), the President announced a baseline 10% tariff rate for all imports from any destination country and meaningfully higher tariffs for 60 of the “worst offenders.” These were to include tariffs on China amounting to a total levy of 104%, 20% on the European Union, 32% on Taiwan, 24% on Japan and 46% on Vietnam. Certain sectors were excluded, as were Canada and Mexico, where tariffs have already been implemented. The total tariff rate for U.S. imports would have risen from below 3% to around 20% or more—levels not seen since the 1930s or even earlier. On April 9, however, President Trump announced a 90-day negotiation period during which a tariff of 10% would apply to all countries except China, where the total levy was raised to 125%.

The result has been exceptionally high volatility in both equity and bond markets. Our Fixed Income team estimates that, if these tariffs are sustained for any length of time, U.S. GDP growth for 2025 could fall below 1% (down from expectations for 2.3% at the start of the year) and core inflation could rise to 3.5% (up from 3.1% currently).

Even before April 2, the Fed’s most recent economic outlook included large downside growth risks. Since mid-January, markets went from pricing for a single rate cut in 2025 to pricing for almost five after the tariffs were announced. The dollar is down more than 6% against the euro so far this year. There are growing signs of a loss of consumer confidence. The very aggressive U.S. approach to trade policy, combined with its unpredictable implementation, appear to be prompting consumers and businesses to postpone purchasing and investment decisions.

THE U.S. CONSUMER IS STARTING TO HAVE DOUBTS

University of Michigan Index of Consumer Sentiment



Source: University of Michigan. Data as of March 24, 2025. Nothing herein constitutes a prediction or projection of future events or future market behavior. Historical trends do not imply, forecast or guarantee future results. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed or any historical results. **Past performance is no guarantee of future results.**

On balance, the Committee thinks the market’s initial growth scare may be overstated.

We believe there are a few reasons to consider the April 2 tariffs to be an opening position in a set of negotiations. The first is the reset announced on April 9. The second is that the levels announced were so punitive that they would be very damaging to sustain for any length of time, for the U.S. as well as its trading partners. The U.S. Treasury Secretary indicated that they should be considered the “high end” of charges and invited negotiations shortly after the announcement. Canada and Mexico were exempted from the April 2 measures, suggesting an opening for other countries to negotiate in the same way they have done over recent weeks. And finally, while China was quick to respond with tariffs against the U.S., there have otherwise been few signs of retaliatory rhetoric or action—at least at the time of writing.

That said, the unorthodox and simplistic method by which the tariffs were apparently calculated means they are not “reciprocal,” as described, and that potentially makes them more difficult to negotiate. Even if negotiations do get underway, they take time, and while we expect a better result than that announced on April 2, there seems little certainty about the tariff levels we will ultimately end up with. A best-case scenario now appears to be at least two quarters of slower growth and higher inflation, with the heightened costs associated with policy uncertainty eroding a few basis points from longer-term U.S. growth prospects.

This is a complex environment for monetary policy. We expect the Fed to err on the side of assuming that the inflationary effects of the tariffs will be temporary, focusing instead on vulnerability in the U.S. jobs market, where recent growth has relied a lot on the government, healthcare and education sectors that are now targeted for cuts. Nonetheless, after the tariffs were announced, Fed Chair Jerome Powell pointedly reiterated the central bank’s “obligation” to ensure that a one-time price increase does not become embedded in longer-term inflation expectations. In addition, the U.S. payrolls for March were unexpectedly strong, pointing to some resilience in the economy as we enter this next period of volatility. Overall, our view is that there are still two or three rate cuts in play for the Fed in 2025, not the four or five anticipated by the market.

Near-Term Uncertainty, Longer-Term Optimism

The broader policy platform of the Trump administration is evenly split between measures that are positive and negative for growth; inflationary and disinflationary; and tighter and looser in fiscal terms. In our view, it is increasingly evident that the early part of the program, which can be advanced by the Executive alone, tilts to measures that are growth-suppressing and inflationary. The growth-enhancing impact of reducing regulation, reducing corporate tax and extending tax cuts, is unlikely to be seen until later in 2025. Similarly, reducing the size of government may reduce overall demand and slow growth in the near term, but also create space for private sector-led growth in the longer term.

THE TRUMP POLICY PLATFORM: A MIXED PICTURE FOR GROWTH, INFLATION AND THE DEFICIT

	Growth	Inflation	Budget Deficits
Imposing Tariffs	—	+	—
Reducing Immigration	—	+	+
Reducing Regulation	+	—	—
Reducing the Size of Government	—	—	—
Reducing Corporate Tax	+	+	+
Extending the Tax Cuts & Jobs Act (TCJA)	+	+	+
Producing More U.S. Energy	+	—	—
Resolving Geopolitical Conflicts	+	—	—

Source: Neuberger Berman. For illustrative purposes only. Nothing herein constitutes a prediction or projection of future events or future market behavior. Historical trends do not imply, forecast or guarantee future results. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed or any historical results.

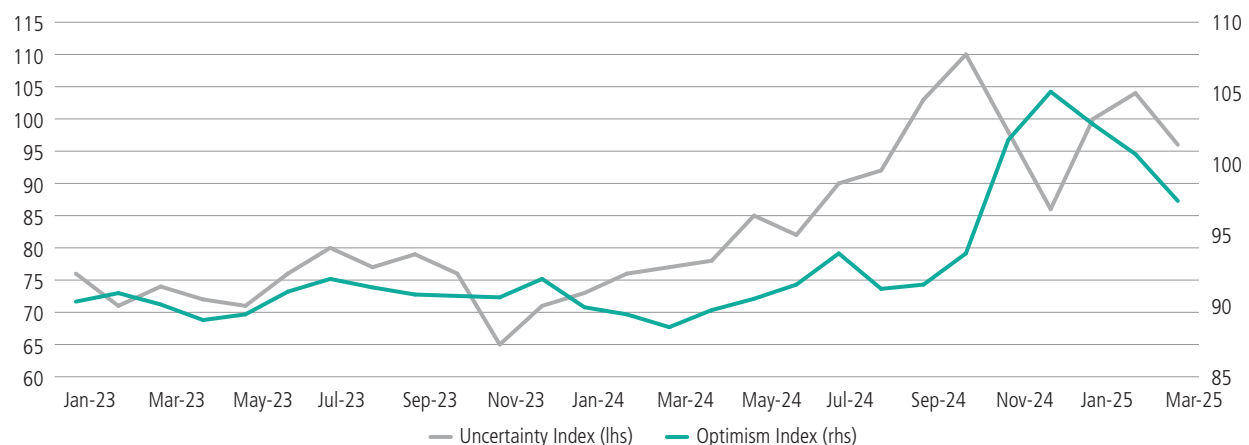
“U.S. exceptionalism is behind us, and the Fed agrees: its last economic outlook included the largest downside risk to its growth forecast since it started publishing them in 2007.”

Maya Bhandari, Chief Investment Officer, EMEA—Multi-Asset

We think this helps explain why U.S. business leaders are conveying in surveys that they are both unusually uncertain and unusually optimistic. They came into 2025 with extensive capex plans, but have been met with an unexpected level of policy disruption and market volatility. Many plans are therefore on hold, and some may not survive this period of uncertainty. In our view, it would take a severe downturn to derail the amount of investment currently in the pipeline, while lower rates, and any sign that the U.S. is returning to a more predictable and pro-growth policy environment, could be the catalyst to turn the faucets back on. It must be said that the April 2 announcements are likely to have pushed that horizon further into the future, however.

U.S. SMALL BUSINESS LEADERS ARE BOTH UNUSUALLY UNCERTAIN AND UNUSUALLY OPTIMISTIC

National Federation of Independent Business Uncertainty and Optimism Indices, 2023 – present



Source: National Federation of Independent Business. Data as of April 8, 2025. Nothing herein constitutes a prediction or projection of future events or future market behavior. Historical trends do not imply, forecast or guarantee future results. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed or any historical results.

A Balanced Outlook

It is notable that the early reaction of some European governments to the U.S. tariffs was to focus on internal fiscal support rather than to call for retaliation. The Trump Administration's ambivalence toward the North Atlantic alliance had already shocked Europe, led by Germany, into fiscal action that we are confident will be sustained. Last quarter, we were watching for signs of improvement in European fundamentals and a potential cyclical upturn, but we were still looking for the catalyst for more positive investor sentiment. While the tariff announcements obviously overshadow everything else right now, the change in Germany's fiscal stance could be that catalyst (see "Up for Debate: Are Investors Getting Carried Away on Europe?").

Overall, this background leads the AAC to maintain a balanced outlook for equities and investment grade bonds, a cautious view on the U.S. dollar, and a focus on gold and other commodities that can act as ballast against the inflationary potential of tariffs and dollar weakness. While our central scenario is for an improvement in business, consumer and investor sentiment later in the year, near-term risk has risen substantially, and we recognize the downside protection that fixed income can offer during the current volatility.

Equities: Awaiting Catalysts for U.S. Small Caps, Seeing Them in Europe and China

We are beginning to see evidence of broadening performance within the equity market, at least among large caps. The realized and projected earnings of the Magnificent Seven group of mega-cap tech stocks and the "S&P 493" have been converging for a year, and in the first quarter of 2025, we have seen that reflected in stock prices: the Magnificent Seven had entered a bear market even before April 2 and also dropped further than the broad market in the immediate aftermath. While we continue to see prospects for earnings growth from the mega-cap tech sector, even given its high levels of capex, valuations remain stretched and we anticipate further convergence with the rest of the market.

U.S. small and mid caps were a prominent “Trump trade” coming into 2025, but have been one of the weakest performers, as exuberance has given way to uncertainty. We retain our overweight view, however; a sharp fall in prices following April 2 has provided an even more attractive entry point for higher-quality smaller companies, especially if we do see the current small business optimism borne out by a more predictable policy backdrop and lower rates later in the year. Smaller businesses are particularly exposed to tariff risk, however, so a worsening trade and geopolitical backdrop would cause us to revisit this view.

As we mentioned already, we think the catalysts for fundamental improvement in Europe have arrived. The focus on defense and especially infrastructure in Germany means that newly announced spending plans are being ascribed a fiscal multiplier of around 1.0 in some economists’ early estimates, and even higher when accommodative monetary policy and the current slack in Germany’s industrial capacity are factored in. European corporate earnings were already expected to converge meaningfully with those of the U.S. in 2025, and these measures are likely to raise both analysts’ estimates and investors’ stock price targets.

Japan, long the Committee’s favored developed non-U.S. market, remains attractively valued and supported by improving fundamentals, but its rising rates now compare less favorably with the fiscal stimulus set to be unleashed in Europe. It is also relatively highly exposed to U.S. tariff headwinds. The AAC has upgraded its view on developed market non-U.S. equities to overweight from at-target, with the move largely determined by the more positive outlook for Europe.

We remain at-target on emerging market equities, but with growing optimism on China, where we have upgraded our outlook from at-target to overweight. As with Europe, the disruption and assertiveness of the first few weeks of President Trump’s new term appears to have brought new urgency to policymaking, bringing forth additional measures to support the consumer and the private sector. Investor sentiment and valuations remain subdued, creating a potentially attractive opportunity. Again, however, high exposure to the U.S. tariff headwind, and China’s initial retaliatory response, mean the view may need to be revisited should conditions deteriorate.

Fixed Income: Rate Cuts Back on the Agenda, Credit Spreads More Attractive

While rate cuts are back on the agenda due to the current growth scare, we have downgraded our view on global bonds, reflecting a downgrade for investment grade bonds from overweight to at-target. Yields have declined since the start of the year, relative value shifted in favor of equities after April 2, and we remain particularly cautious further out on the curve. A worsening outcome on tariffs could drag yields down further, but ultimately our base case is for a continued rise in term premium as investors begin to price for the wider deficits implied by the Trump Administration’s policies.

While credit spreads widened in March and into April, we do not yet see attractive value. Our outlook for credit stress remains mild, and we see a case for shorter-duration, high-quality exposure, but broad market spreads could still move wider to price in recession risk.

We do see value appearing in developed non-U.S. markets, however, particularly Germany. That might seem counterintuitive, given the spending program set out by the new German Chancellor and our positive view on European equities. We see several reasons why it may take longer than expected to put that stimulus to work to generate growth and, as a result, we currently believe that Europe’s higher yields outweigh any immediate concerns about fiscal sustainability or inflation (see “Up for Debate: Are Investors Getting Carried Away on Europe?”).

Alternatives: The Liquidity Crunch Is Back

We, along with many others, expected the arrival of President Trump in the White House to reawaken dealmaking spirits in the private markets, but tariff disruption and uncertainty had put a freeze on M&A even before April 2. Deals may resume should some of the uncertainty lift later in 2025, but in the meantime, we are seeing a continuation of the investment theme that has dominated private markets over the past three years: almost half of private equity portfolio investments are now at least six years old, limited partners and general partners are seeking liquidity, and providers of that liquidity via secondary purchases and mid-life co-investments are being well compensated. While longer holding periods will lower internal rates of return (IRR) for existing investments, the opportunity set for liquidity providers and for new capital commitments leads the AAC to maintain its overweight view on private equity.

We have downgraded our view on private debt from overweight to at-target. Yields remain attractive, but the economic backdrop warrants a focus on high-quality credit selection. Over a medium-term horizon, our anticipation of deregulation from the Trump administration includes a likely weakening of the Basel II Endgame implementation, with the U.S. Treasury explicitly aiming to redirect business lending back into the banking sector. That may raise competition for private credit lenders.

The AAC is still unable to raise its outlook for hedged strategies despite what appears to be an abundant opportunity set of price dislocations for tactical trading. With some exceptions, the broad industry was wrongfooted by the disruption and volatility of the past three months, having come into 2025 geared to “Trump-trade” momentum. Manager selection can help, but we do not anticipate a broad improvement until policy uncertainty diminishes. We continue to expect the environment for event-driven managers to improve, but that, too, now looks likely to be a story for the second rather than the first half of this year.

We remain at-target in our view on commodities due to downsides associated with the higher-tariff environment. That said, the AAC takes a positive view on gold (as a beneficiary of geopolitical, political and trade uncertainty and of the weakening dollar); natural gas (as liquified natural gas could be an important bargaining chip in trade negotiations); and oil (given upside risks associated with the potential for new sanctions against Russia).

Generational Change

After a period of disruption and volatility that has surprised many investors and market commentators, much now depends on whether we see a return to more structured and predictable policymaking in the U.S., especially on trade and the size and cost of government. The week following April 2 has raised considerable doubt on that score, but for now, it remains our base scenario. We believe any sign of that could help turn the business optimism evident in survey data into action.

That said, some countries appear already to have seen enough disruption. Europe, in particular, is setting a course that acknowledges the potential for generational change in the global trading and security architecture. While our overall views remain balanced in the face of the current uncertainty, this new reality is reflected in the most notable change in our outlook: a more positive view on developed non-U.S. markets.

UP FOR DEBATE: ARE INVESTORS GETTING CARRIED AWAY ON EUROPE?

While it gave up some of its lead after the April 2 U.S. tariff announcements, the STOXX Europe 600 Index pulled ahead of the S&P 500 Index by a remarkable 12 percentage points in the first quarter of 2025.

That was partly due to the Magnificent Seven stocks entering a bear market and partly due to the disruptive policymaking of the new U.S. administration under President Trump. But it was also due to growing anticipation of a major adjustment to Germany's fiscal stance.

That arrived in mid-March, when incoming Chancellor Friedrich Merz used a majority in the outgoing German legislature to pass amendments to the country's constitutional "debt brake." Defense spending is now largely exempted from its rules and a €500bn infrastructure fund can also be created off the government's balance sheet. Germany has also thrown its weight behind a reform of tight fiscal rules at the eurozone level, while European Union leaders have proposed that defense spending should be temporarily exempted from those rules and augmented by a €150bn fund for defense loans to Member States. The European Union is also planning centralized purchases of weapons manufactured exclusively within the bloc.

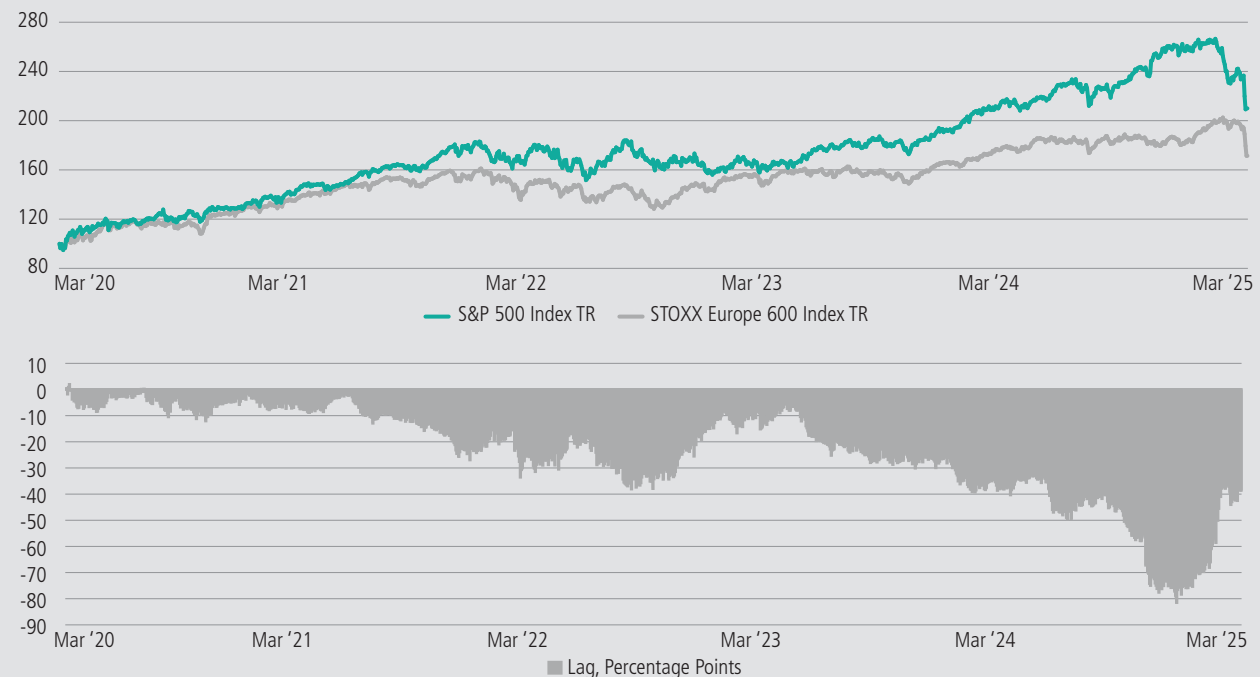
The AAC has responded with more favorable views on the euro and European assets. But not every Committee member is persuaded that this is the generational change it appears to be.

At one end of the skeptical spectrum are those who believe that the ambition to rebuild the European defense industry, rather than spend the money elsewhere, will slow down the deployment of the fiscal package. In the middle are those who think the plans will need to be scaled back substantially as part of tariff negotiations with the U.S. At the other end are Committee members who simply do not see evidence of the policy agreement among European Union Member States necessary to make the proposals a reality.

Some of the skeptics on the AAC prefer a "barbell" of U.S. and emerging market equities over European equities. The consensus was for an upgrade to an overweight view on Europe—although recognition of the challenges of putting such a large fiscal package to work, as well as the undeniable growth headwinds from higher tariffs, leads us to see an attractive opportunity in European bond yields and European equities.

EVEN AFTER RECENT OUTPERFORMANCE, EUROPEAN EQUITIES HAVE GROUND TO MAKE UP

S&P 500 Index and STOXX Europe 600 Index, cumulative total return in euros, rebased to 100 in March 2020



Source: FactSet. Data as of April 8, 2025. Historical trends do not imply, forecast or guarantee future results. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed or any historical results. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

EQUITIES

U.S. EQUITIES Current view: At Target | Move from last quarter ◀▶

While both U.S. large-cap and small-cap indices lost ground in the first quarter, we have seen a broadening of performance within large caps that we expect to continue.

We still favor higher quality small and medium-sized companies, but this view is likely to change if we do not see signs of a return to a more predictable policy backdrop and lower rates later in the year.

NON-U.S. DEVELOPED MARKET EQUITIES Current view: Overweight | Move from last quarter ▲

Major fiscal stimulus announced by Germany and the European Union leads us to upgrade our view on European equities.

We remain constructive on Japan on a secular horizon, given continuing evolution of corporate governance.

Despite headwinds from higher tariffs, these developments, plus attractive relative valuations and a weaker dollar, result in an upgrade from an at-target to an overweight view.

EMERGING MARKETS EQUITIES Current view: At Target | Move from last quarter ◀▶

Renewed stimulus from China and a weaker dollar has improved the outlook for emerging markets, but particularly high U.S. tariffs and the renewed relative attractiveness of the European market inform against an upgrade to our view for now.

FIXED INCOME

INVESTMENT GRADE FIXED INCOME Current view: At Target | Move from last quarter ▼

Longer-dated government bond yields have fallen through the lower end of their trading range after April 2 and are now fully valued.

Corporate credit spreads have widened, but not yet enough to compensate for recessionary tail risks, in our view.

NON-U.S. DEVELOPED MARKET BONDS Current view: Overweight | Move from last quarter ▲

Yields in the U.K. and Germany continue to be attractive, particularly following the latter's fiscal announcements—and we do not yet see any cause for concern about overheating growth or inflation due to this forthcoming stimulus.

This is balanced by a more cautious view on Japanese government bonds, where there is an ongoing commitment to higher rates.

HIGH YIELD CORPORATES Current view: Underweight | Move from last quarter ◀▶

Spreads have widened, but not yet enough to compensate for recessionary tail risks, in our view.

That said, our outlook for credit stress remains mild and we see a case for shorter-duration, high-quality exposure.

EMERGING MARKETS DEBT Current view: At Target | Move from last quarter ◀▶

While a weaker dollar provides some support, valuations remain relatively high, and U.S. tariffs have been set particularly high for some emerging economies.

REAL AND ALTERNATIVE ASSETS

COMMODITIES Current view: At Target | Move from last quarter ◀▶

Commodities—with a current focus on gold, natural gas and oil—remain a useful hedge against inflation spikes, upside growth surprises, seasonal effects and geopolitical shocks.

Slowing global demand prevents us from adopting an overweight view.

HEDGED STRATEGIES Current view: Underweight | Move from last quarter ◀▶

Hedged strategies have generally failed to capitalize on the recent backdrop of price dislocation and volatility.

Event-driven strategies should benefit from the rise in M&A activity, but this now looks likely to be a story for the second rather than the first half of 2025.

PRIVATE EQUITY Current view: Overweight | Move from last quarter ◀▶

The freeze in deal-making means secondaries and co-investments remain attractive, as both Limited Partners and General Partners seek liquidity options to complete deals and increase distributions.

Deals that are being done are generally high in quality and attractively priced.

PRIVATE DEBT Current view: At Target | Move from last quarter ▼

Growth risks and the prospect of rising competition from banks could start to weigh on prospects for private debt, even as absolute yields remain attractive.

REAL ESTATE Current view: Overweight | Move from last quarter ◀▶

We remain cautious on core real estate, but the start of the rate-cutting cycle has created a tailwind for an ongoing recovery in the asset class. Despite recent strong performance, there is still value opportunity for liquidity providers in public REITs and private real estate secondaries.

More structurally, we believe post-pandemic growth dynamics will continue to support key sectors such as warehouses, industrial and multifamily residential.

CURRENCIES

USD Current view: **Underweight** | Move from last quarter ▼

The USD came into 2025 fully valued and with the market very long-biased, due to its yield and strong U.S. growth relative to its peers.

Rising uncertainty concerning the growth impact of the new U.S. administration's policies, together with plans for major European fiscal expansion, could trigger (predominantly unhedged) capital flows from the U.S. to Europe.

EUR Current view: **Overweight** | Move from last quarter ▲

Plans for major fiscal expansion could change perceptions of Europe's relative growth outlook and trigger (predominantly unhedged) capital flows from the U.S. to Europe—with the EUR starting from a relatively low valuation.

JPY Current view: **At Target** | Move from last quarter ◀▶

Despite narrowing over last summer, with the potential to narrow further given restrictive monetary policy, the JPY still suffers from a yield disadvantage versus all other major currencies.

GBP Current view: **Underweight** | Move from last quarter ◀▶

The U.K. is struggling with weak economic growth, sticky inflation and little to no room for fiscal stimulus, and while its relatively high yield currently provides some support, this tightness in financial conditions could eventually become a headwind.

CHF Current view: **At Target** | Move from last quarter ◀▶

The CHF continues to be overvalued on PPP-based fair value measures, but increasing political uncertainty in Europe combined with geopolitical uncertainty in Ukraine and the Middle East can still trigger sharp appreciations in safe-haven currencies.

Index Definitions

The **S&P 500 Index** consists of 500 U.S. stocks chosen for market size, liquidity and industry group representation. It is a market value-weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.

The **STOXX Europe 600 Index** is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

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