FTSE RUSSELL
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Asset Allocation Insights

USD EDITION

QUARTERLY REPORT | **MARCH 2025**

Challenging macro, equity market rotation and credit stress are countered by diversification opportunities from decoupling markets and interesting shifts in alternatives.

Diverging growth, persistent inflation risks and global uncertainty at record high

IMF upgraded US growth forecasts in January 2025, however economic data in February shows signs of weakness. The European economy lags, while Emerging markets growth expectations are stable. Headline inflation has moderated but short-term inflation expectations are rising. US trade policy changes and global reactions increase economic uncertainty.

Market leadership shifts as US equities lose dominance

YTD, China, Developed Europe ex UK & UK outperformed FTSE All World, while US underperformed. US equities saw the first 3M losses since Oct. 2023. Over 12M, China and the UK outperformed the US. FTSE Developed Europe ex UK posted its strongest yearly start since 2001 versus the US. US real yields above 1% (currently around 2%) have generally supported non-US equities historically.

US Credit markets show signs of strain

While large cap balance sheets remain strong, US investment grade & high yield credit spreads have widened in the last 3M. US HY spreads have risen at the fastest pace since the late 2023.

The US dollar breaks in February its usual risk-off pattern

The US dollar typically strengthens in risk-off periods, and it did rise over three months. But in February, it weakened, despite market stress due to US uncertainty.

Alternatives benefit from structural shifts, commodities provide diversification to stocks & bonds

Listed infrastructure continues to deliver equity-like total returns and high income yield comparable to fixed income. Gold surges on central bank demand and copper benefits from the green transition and AI-driven demand. Commodities provide diversification to both equities and fixed income and have outperformed both asset classes since 2020.

Rising volatility, shifting correlations and decoupling markets

Diverging economic paths are widening dispersion in financial markets. Uncertainty and market rotations increase the potential for continued volatility. Correlation between asset classes is weakening & geographic markets are decoupling – major implications for portfolio construction.

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Chart 1: While uncertainty stems from the US, policy responses elsewhere create a chain reaction and raised the global GDP-weighted uncertainty to a record high. Higher uncertainty usually favors bonds over equities.

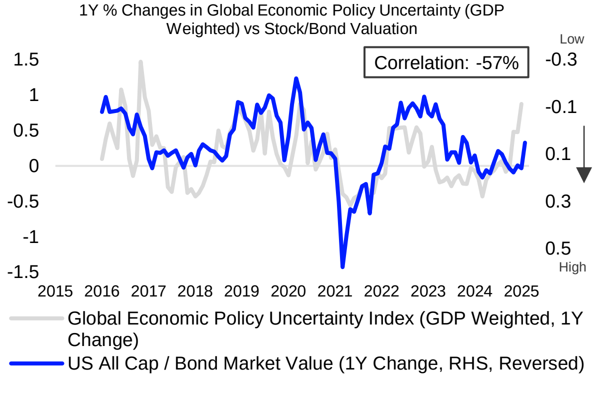
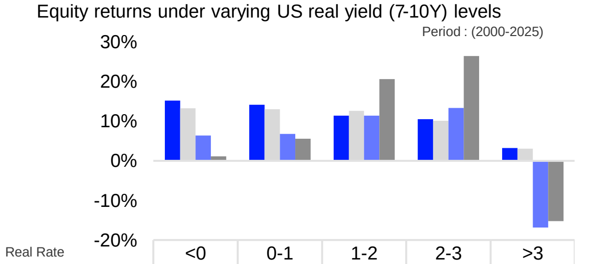


Chart 2: Higher US real yields above 1% has generally supported non-US equities historically. With real yields near 2%, All-World ex-US and particularly EM equities have the potential to benefit from the US real rate environment.



Real Rate	<0	0-1	1-2	2-3	>3
Russell 1000	15%	14%	11%	11%	3%
Russell 2000	13%	13%	13%	10%	3%
All World ex-US	6%	7%	11%	13%	-17%
Emerging	1%	6%	21%	27%	-15%

Financial Markets Overview

Divergence and changes in global growth: The global economy was relatively steady in 2024, but 2025 is shaping up as a year of regional divergences and changes. The IMF had consistently upgraded (up to January 2025) US growth projections for 2025, while downgrading Europe. Yet in February, the US economy showed signs of weakness, with softer manufacturing data, declining consumer sentiment and lower fiscal spending reduction plans raising concerns about policy uncertainty, starting to impact [global] economic health.

Inflation risks linger, despite policy easing pressures: Inflation has moderated across developed markets, yet central banks remain wary. In the US, short-term inflation expectations have increased, causing an inversion in the breakeven inflation curve over the last year. In Europe, short-term inflation expectations have also increased but are lower than in the US.

Escalating trade tensions lead to an all-time high global economic uncertainty – potential impact for countries & asset classes: Fast changing and uncertain US trade policies and countermeasures by other countries have led to record high economic uncertainty. Nations with a high US revenue dependence and export-intensive GDP remain vulnerable (Canada, UK, Germany, France). Equity indices with a high beta to the US face potential for greater volatility. Meanwhile, EM have reduced their reliance on DM, with exports to advanced nations declining from 71% of total trade in 2000, to 52% in 2024. Higher uncertainty has historically favored bonds over equities.

Sector and country rotation in equities: Technology lags, US equity leadership in question, while Europe gains ground: US equities fell over 3M, marking the first negative 3M for US stocks since Oct-23. Meanwhile, China, Europe ex- UK and UK equities outperformed. The FTSE Developed Europe ex UK posted its strongest yearly start against the US since 2001. The rotation out of the US is a continuation of the trend in recent years of many non-US markets playing catch-up to US equities, and the potential impact of historically high US valuations (high valuations are associated with subsequent lower equity returns). Valuations have moderated in the US but improved in Europe and the UK over 3M. Earnings expectations have improved globally, but expectations for the US now lag that of other developed markets. In the US and UK, tech stocks lagged broader indices, unlike in EM & Developed Asia.

Emerging markets rally, but not uniformly: The IMF projects EMs to outpace DM at an accelerating rate post-2026. However, economic growth has not always translated into market returns − some EM equity performances were lower than what their GDP growth would have suggested. Does this signal an opportunity for EM equity re-rating? In early 2025, China, Brazil, Mexico, and South Africa have outperformed their developed market peers, with valuations supporting further gains. Fixed income markets have mirrored the resurgence in EM. Over 12M, local currency EM bond yields (EMGBI) have declined more than those in developed markets.

Sovereign bonds reflect rising risk premia: Investors are demanding higher real yields on UK, German, and Japanese government bonds amid concerns over debt levels, uncertainty and growth concerns. The 10-year US term premium is close to the highest level in a decade, Fed uncertainty about the terminal rate increased, and breakeven inflation rose in the US, Canada, and Japan over 3M.

US credit markets show signs of strain: Credit spreads remain historically tight, reflecting improved corporate balance sheets, but a sentiment shift is beginning to widen the risk premia. US investment grade (IG) & high yield (HY) spreads have risen from their lows, while spreads in Europe & EM have continued to compress. February saw the largest monthly increase in US HY spreads since October 2023.

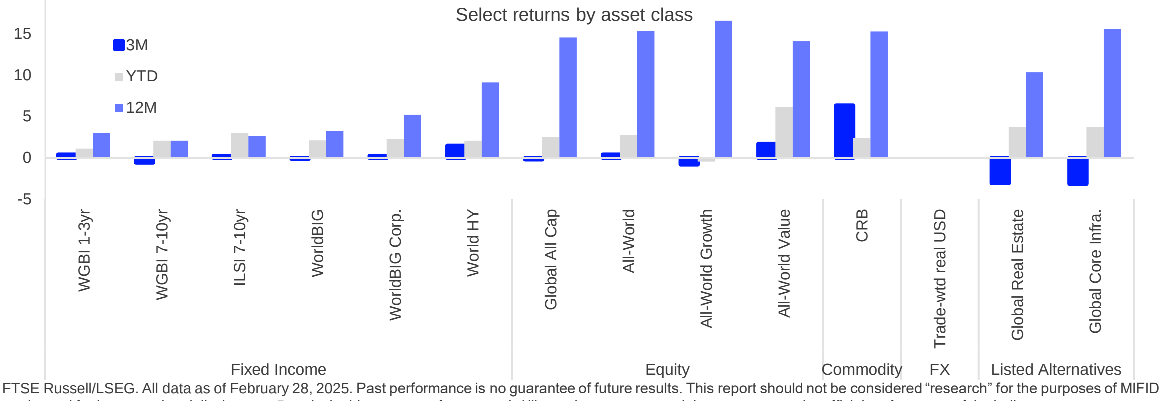
The US dollar's strength reflects risk aversion, not just rates: The US dollar has gained over 3M, largely due to rising risk aversion rather than rate differentials. The euro has depreciated more sharply than rate spreads suggest, while the yen has strengthened on expectations of tighter Bank of Japan policy. Most non-US markets returned were better in local currency terms over 12M, underscoring the importance of currency hedging for global investors. USD weakness in February amid uncertainty was contrary to the usual pattern.

Sectoral shifts in listed real estate and infrastructure's growing role in asset allocation: Structural shifts in listed real estate (LRE) are reshaping index composition, with sectors like data centers, healthcare and self-storage gaining prominence. Short-term performance remains tied to the rate cycles and the ongoing government downsizing trends could have ripple effects on LREs in the medium term. Listed infrastructure on the other hand has offered a rare mix of recent strong returns, which are comparable to equities, and stable high income, which is comparable to real estate and fixed income.

Commodities reflect slowing growth and structural shifts: Forward curves suggests oil prices are expected to decline to low $60s within two years, reflecting softer global growth expectations. Meanwhile, gold and copper have surged – gold by 40% over 12M, largely driven by central bank buying, and copper by 12%, reflecting long-term demand from the AI and green transition. Central banks in China, Turkey, Hungary, and Poland have ramped up gold reserves, signalling de-dollarization and geopolitical concerns.

Potential for continued market volatility, decoupling seen in equity markets: Diverging economic paths and policy uncertainties are driving greater return dispersion in both developed and emerging markets. Country equity correlations are waning, with the Russell 1000 vs EM Equity correlation nearing zero over 1Y, and US equities getting less correlated to other DM too. Investors with specialized insights may view this as new opportunities, while for most it increases the case for diversification.

Chart 1: Over 3M, commodities outperformed other asset classes, while within equities value outperformed growth. Over 12M, equities outperformed, while Global Core Infrastructure and Listed Real Estate delivered returns similar to global equities. Within fixed income, only World HY had returns that were comparable to equities and listed alternatives over 12M (USD returns.)



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Macroeconomic Backdrop

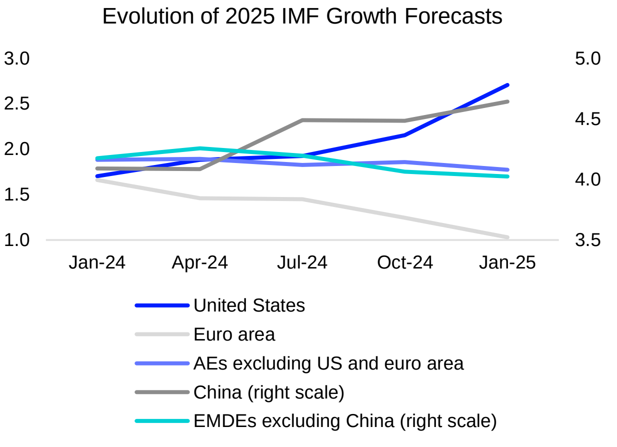
Regional divergences in global growth widen and record high policy uncertainty clouds the outlook.

Global growth was stable in 2024, while 2025 is shaping up to be a year of regional divergence, according to the IMF forecasts. US growth forecasts in 2025 have been repeatedly revised upwards, while expectations for Europe's GDP have been downgraded. Projections for China have seen a slight upward revision, whereas overall growth expectations for both emerging and developed markets have remained largely unchanged (Chart 1).

These projections were through January 2025 and changed in February: US Manufacturing PMI came at a lower level than in January, ISM New orders (more forward-looking) returned to contraction levels (Chart 2), while US consumer sentiment weakened (Chart 5). These are all signaling that growing trade and policy uncertainty is starting to weigh on the macroeconomic outlook (Chart 3).

Though inflation eased across developed markets in 2024, challenges remain. For most central banks, price pressures are still a concern. Over 12M, the US breakeven inflation curve inverted, as short-term inflation expectations increased (mostly over 3M). In Europe, the breakeven inflation curve stayed steady, except at the shorter end (Chart 4).

Chart 1: The IMF's growth projections for 2025 have been revised upward for the United States and China, while forecasts for Europe have been downgraded in the last twelve months.



Source: IMF, World Economic Outlook Jan 24, April 24, July 24, October 24 and Jan 25 Reports & Updates.

Chart 2: In February, the Manufacturing PMI declined from January's level and the more forward-looking ISM new orders returned to contraction. However, the Services PMI remains expansionary.

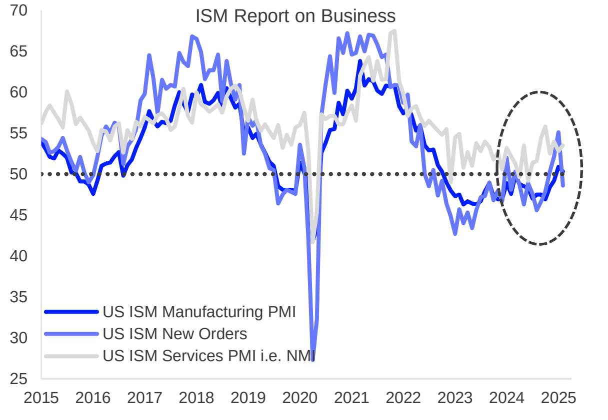


Chart 3: US economic policy uncertainty is above average since US trade policy uncertainty is at historic highs. With counter policies by others, the Global GDP-weighted Economic Uncertainty index is at an all-time high since 1997.

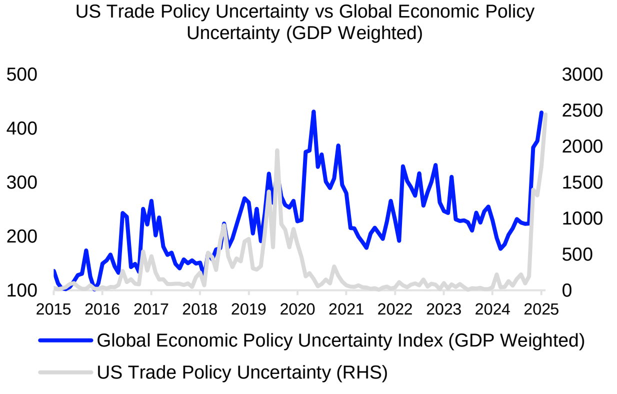


Chart 4: Over 12M, US short-term inflation breakevens have risen (most of the increase in recent months), more than long term peers, resulting in an inverted curve. The European curve has flattened.

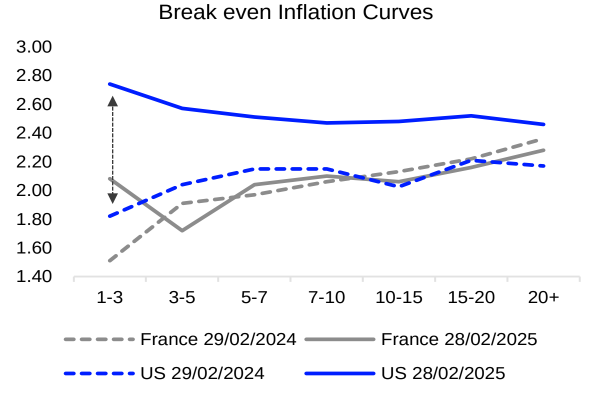
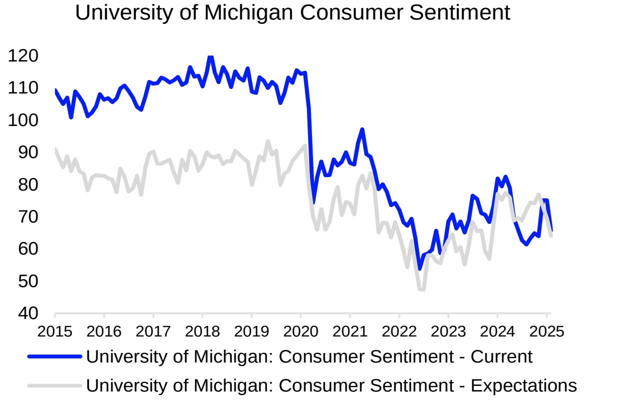


Chart 5: The University of Michigan's (US) consumer sentiment surveys have weakened over the 1M. Current consumer sentiment is lower than the 3M, and consumer sentiment expectations are at their lowest point in 12M.



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Macroeconomic Backdrop (Continued)

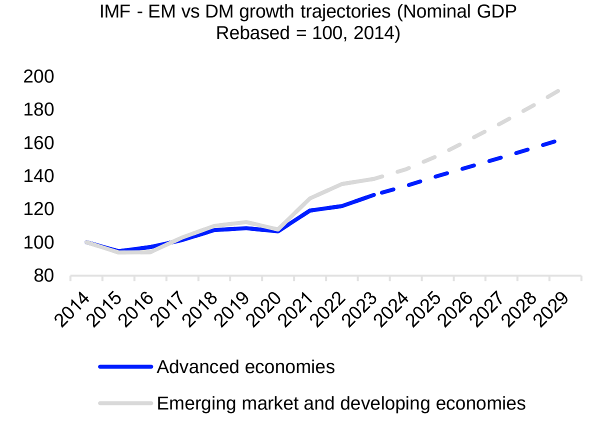
Diverging growth paths and increased economic uncertainty raise the probability of higher dispersion and volatility.

EMs are set to play an increasingly dominant role in global growth. The IMF expects them to outpace DMs at an accelerating rate post-2026 (Chart 1). Yet, the relationship between economic growth and market performance can be uneven. While equity returns in developed markets have largely tracked GDP expansion over the past decade, some EMs have seen their stock markets lag what economic fundamentals might suggest. Does this create a potential for re-rating up for EM equities? (Chart 2).

Divergent growth is not just globally but also within Europe; Spain is pulling ahead, while Germany (once the regional powerhouse) is expected to catch-up only by 2026 (Chart 3).

Uncertainty usually fuels equity volatility, though the relationship is usually stronger with unexpected events and actual policy change (Chart 4). Amid this shifting backdrop of economic growth divergence, heightened uncertainty and its impact on higher equity volatility, return dispersion within countries has widened across both DM and EM, underscoring the need for selectivity in a more fractured investment landscape (Chart 5).

Chart 1: The IMF predicts that emerging markets will outgrow developed markets at an increasing rate post-2026, highlighting their rising importance in the global economy.



Source: IMF, World Economic Outlook Jan 25 Update.

Chart 2: Over 10Y, equity returns have aligned with GDP growth in DMs. However, in some emerging markets, equity performance has lagged behind what GDP growth would suggest.

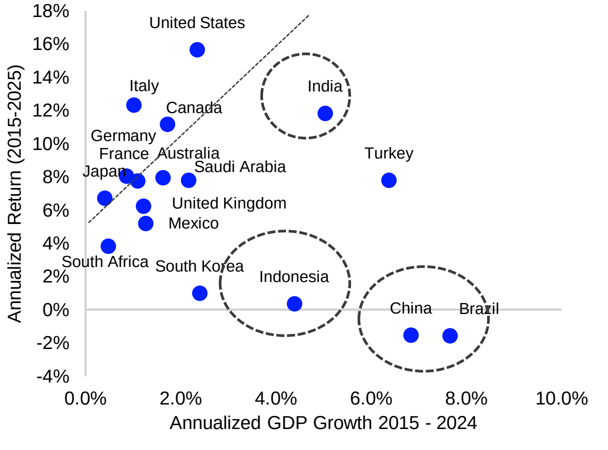


Chart 3: Growth expectations are also diverging within Europe. Spain is expected to grow faster, Germany is expected to catch up by 2026. IMF revised Spain's growth expectations higher & Germany's lower in Jan 2025.

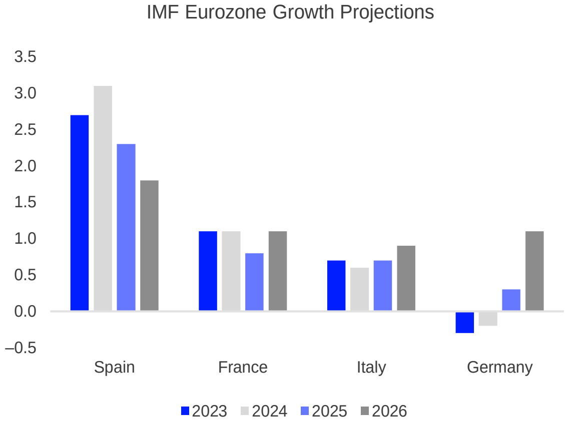


Chart 4: Higher uncertainty has usually coincided with increases in equity volatility (US Elections in 2016 & 2024 were exceptions). Uncertainty arising from economic sources have a greater impact on equity volatility.

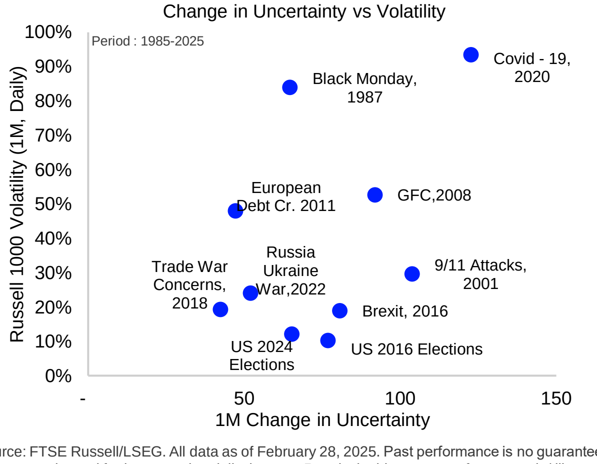
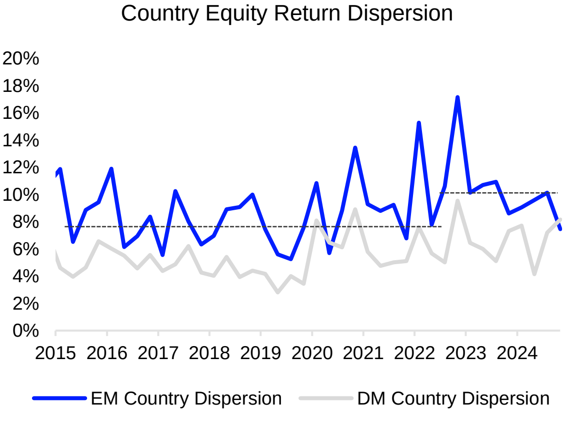


Chart 5: Reflecting heightened uncertainty and the growing need for selectivity, quarterly return dispersion within countries has risen in both developed and emerging markets (even more so in DM than in EM).



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Trade policy uncertainty: Who's impacted and who's relatively shielded?

US policy changes and continuing uncertainty, alongside policy reactions by other countries, are reshaping global markets. Direct exposure to US markets is a direct source for this risk. FTSE Canada and FTSE UK lead in US revenue exposure at 32.8% and 27.7%, respectively, while FTSE Germany, FTSE France, and FTSE Mexico also maintain strong trade ties with the US (Chart 1). Yet, exports to the US as a % of GDP from Canada, Mexico, and China have declined since 2022, with China's exports to the US steadily shrinking over the past decade (Chart 2). Export dependency amplifies the vulnerability to trade disruptions. Germany and South Korea are the most export-reliant economies within the G20, whereas the US and Brazil are the least exposed (Chart 4). Combining macroeconomic export dependency with US revenue exposure highlights economies most at risk from trade tensions. Germany, the UK, Canada, and France fall into the high-tariff risk category, facing direct trade barriers and supply chain fragmentation. South Korea and Mexico, while less reliant on US revenues, remain vulnerable to global trade shifts. Meanwhile, China, India, Brazil, and Indonesia, with lower export dependency and diversified trade links, are better insulated (Chart 4). EMs are increasingly reducing their reliance on developed economies, with exports to advanced economies falling from 71% in 2000 to 52% in 2024 (Chart 5). However, US trade uncertainty could still fuel equity volatility in other countries based on their beta to US equities, with South Africa, Germany, and Brazil most exposed, while China and India remain more insulated (Chart 6).

Chart 1: FTSE Canada and FTSE UK lead in US revenue exposure at 32.8% and 27.7%. Germany, France, and Mexico also show significant dependencies, underscoring robust trade ties with the US.

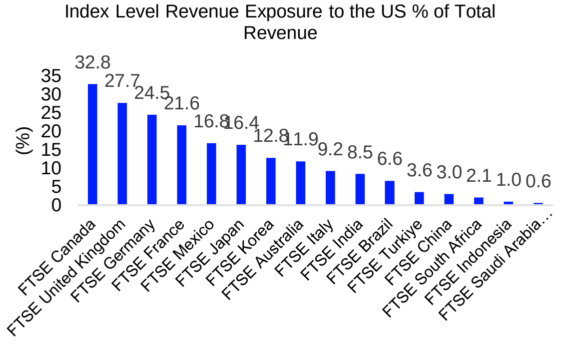


Chart 2: US exports from Canada, Mexico, and China have been declining since 2022. Moreover, China's exports to the US as a percentage of GDP have been decreasing over the past decade.

Chart 3: Germany and South Korea are the most export dependent within the G20, while the US and Brazil are less vulnerable. Higher export reliance increases susceptibility to trade disruptions.

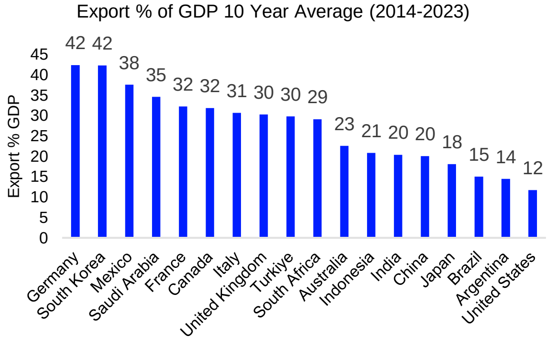


Chart 4: Countries with both higher export intensity (higher exports as % of GDP) and Index Level US Revenue exposure (Germany, France, UK, Canada) face direct trade barriers and potential supply chain fragmentation.

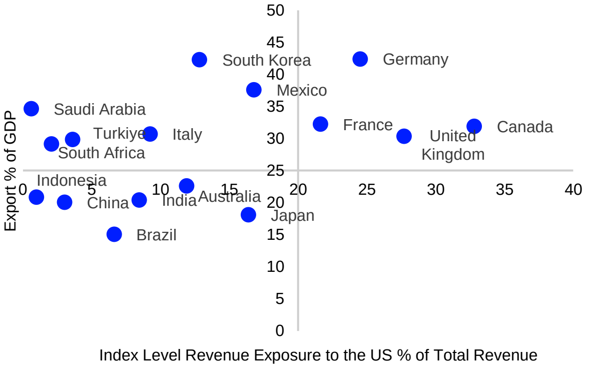


Chart 5: EMs are becoming less dependent on DMs on exports and diversifying their trade relationships within EM. % of EM exports to Advanced Economies has decreased to 52% by 2024 from 71% in 2000.

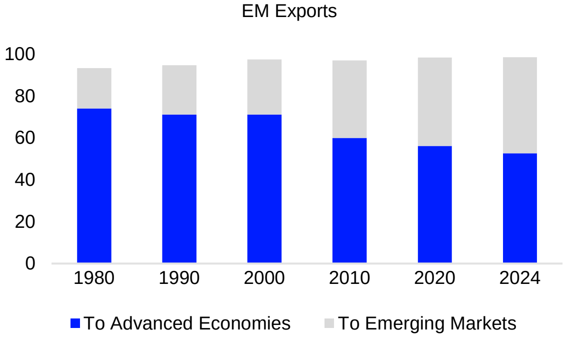
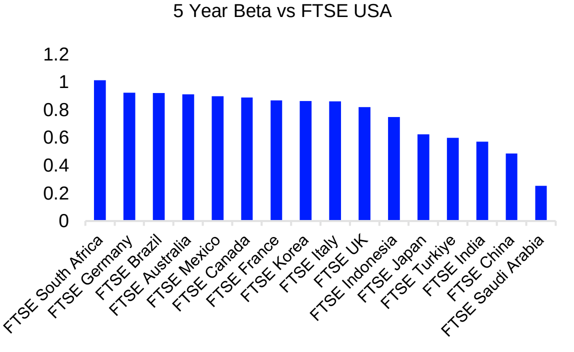


Chart 6: US equities, at the epicenter of trade uncertainty, may remain volatile, with spillover effects on South Africa, Germany, and Brazil equity markets the most, while China and India remain less exposed.



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Sovereign Yield Curves

Higher risk from deteriorating fiscal positions and uncertainty is getting priced into DM sovereign bonds.

Both short- and long-term premia have climbed significantly, with the 10-year ACM term premium staying close to the highest level in a decade (Chart 1). Debt level and/or growth concerns are leading investors to demand higher real yields for UK, Germany and Japan. Over 3M, breakeven inflations have increased notably in the US, Canada and Japan (Chart 2).

Monetary policy uncertainty is adding to these shifts. The dispersion of FOMC participants' US longer-run rate projections for the federal funds rate has widened, closely tracking the rise in longer-term (7-10 year) real yields, as investors demand higher compensation for greater uncertainty (Chart 3). Longer-term risks are rising in Europe and the US, leading to steepening real yield curves. On a relative basis, Europe's lower debt levels and more stable inflation expectations are keeping real yields lower compared to the US (Chart 4).

Despite a brief rebound in Q3 2024, foreign appetite for US debt remains on a long-term downward trajectory. Falling international interest in US Treasuries could pose additional risks against a backdrop of deteriorating fiscal deficit currently sitting close to 6.5% of GDP (Chart 5).

Chart 1: Short & long-term Term Premia (3Y, 10Y) have risen significantly, with the 10Y ACM term premium staying close to the highest level over the last decade. This puts upward pressure on sovereign bond yields.

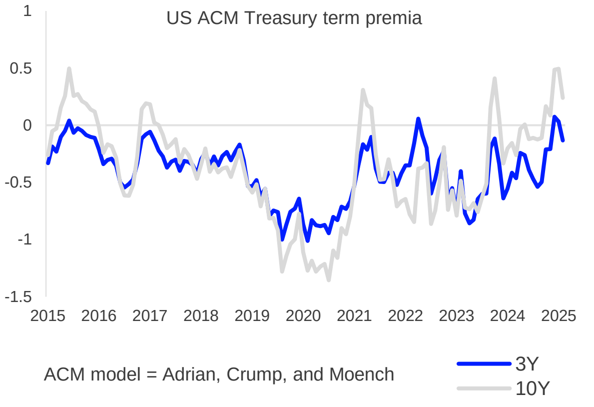


Chart 2: Real yields increased in the UK, Germany and Japan, where debt levels and uncertainties are high and rising. Breakeven inflation rates have climbed in the US, Canada and Japan.

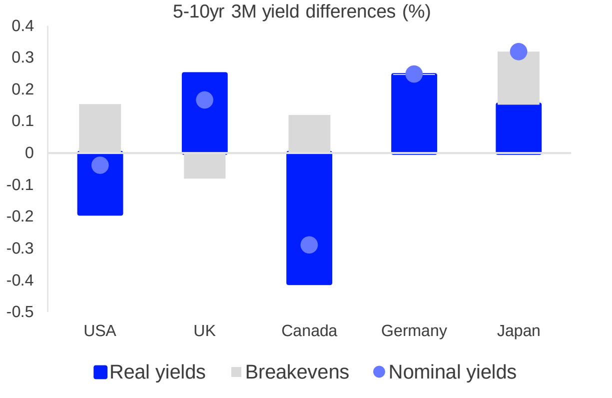


Chart 3: The range of FOMC participants' longer-run federal funds rate estimates has increased, correlating with higher 7-10 year real yields, as investors demand higher compensation for greater uncertainty.

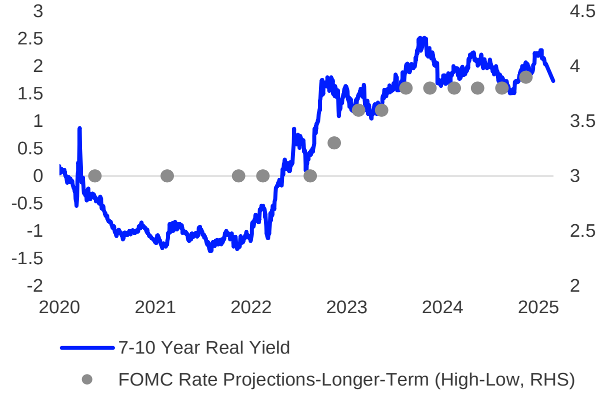


Chart 4: The short-term inflation numbers have inched closer to target, but with longer-term uncertainty rising in both Europe and the US, real yield curves have steepened.

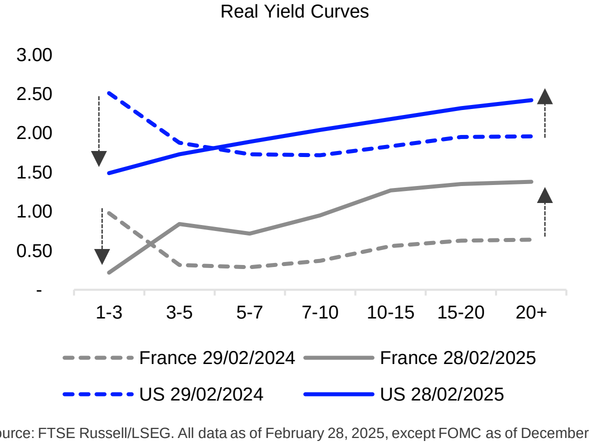
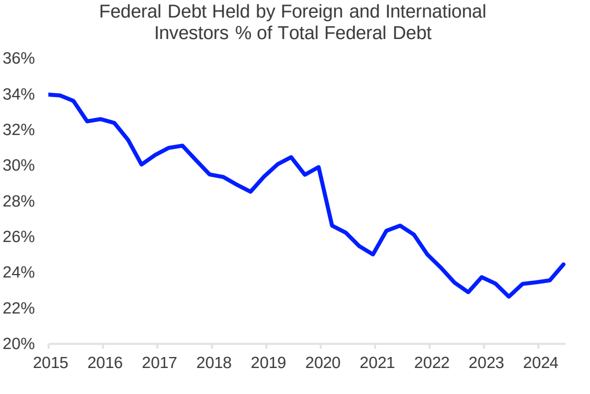


Chart 5: Foreign holdings of US debt have continued their downward trend. Declining international interest in US Treasuries poses risks amid a deteriorating US fiscal deficit currently sitting close to 6.5% of GDP.



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Credit

Credit spreads remain tight, supported by improved corporate leverage, but show signs of shifting sentiment and rising risk premia, particularly in the US.

Credit markets have seen a sustained compression in risk premia, with the share of credit risk premium declining over the past 5Y to near decade lows (Chart 1). This tightening has left spreads across investment grade (IG) and high yield (HY) markets historically narrow, though recent movements suggest a shift in sentiment particularly in US credit.

As of Feb-end 2025, spreads for World IG (85bps), US IG (89bps), and EM IG (108bps) hovered near their lowest levels in over a decade, with Euro IG (78bps) now trading at a tighter spread than US IG. Over 3M, US IG and HY spreads have widened from their lows, while European and EM HY spreads have continued to tighten (Chart 2). The move in US HY in February (+33bps) was the largest monthly spread increase since October 2023 (Chart 4 & 5).

Over 3M, EMs have led the total returns in both IG and HY, while Euro IG has declined. YTD, US and Euro HY posted similar returns (2.0%), despite higher US yields, highlighting the impact of recent spread movements. Over 12M, EM HY Corp have led global credit gains (Chart 3).

Chart 1: The share of the credit risk premium (option-adjusted spread as a share of total yield) has been declining over the past five years and is now near its ten year lows.

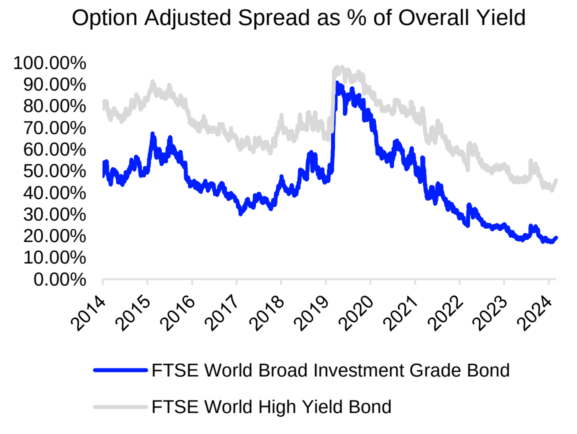


Chart 2: Over 3M, US IG & HY spreads have widened from historical lows, while European & EM HY spreads have tightened. The diverging pattern in spread movement for the US vs Euro and EM is noteworthy.

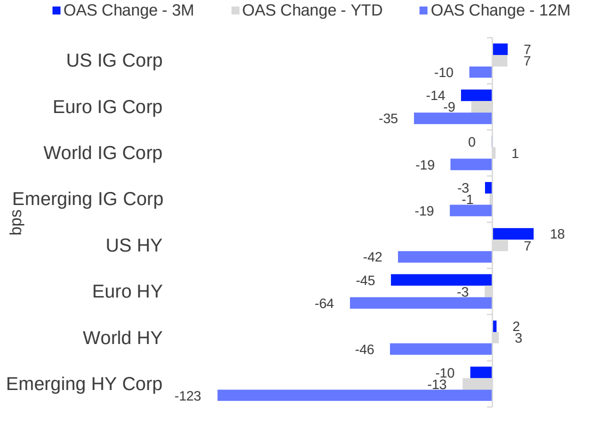


Chart 3: Over the past 12M, EM HY Corp led credit gains, while Euro IG and HY lagged and US HY generated double-digit returns. Over 3M, EM led returns within IG and HY & Euro IG returned negative.

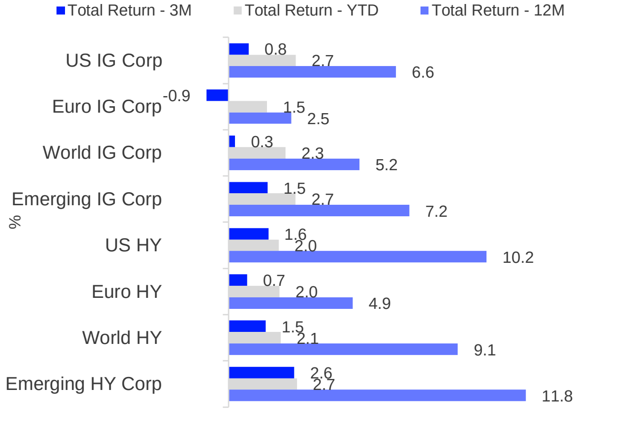


Chart 4: World (85bps), US (89bps), and EM IG Credit (108bps) spreads are near their lowest in over a decade. Euro IG (78bps) now has a narrower spread compared to US IG.

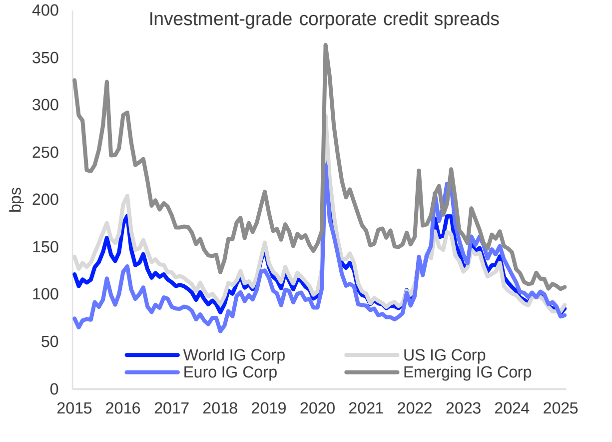
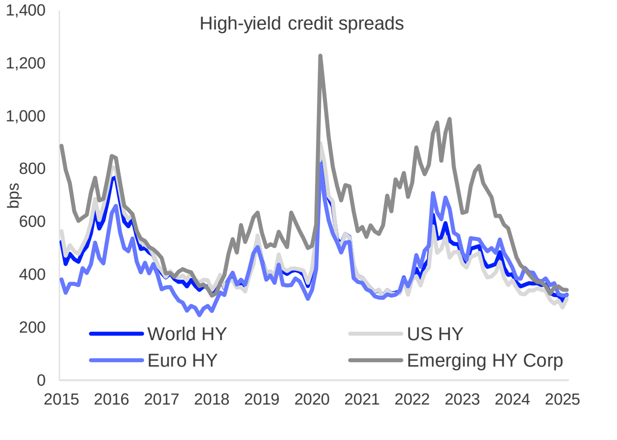


Chart 5: HY spreads continue to stay near decade lows. However, In February 2025, US HY (+33bps) and World HY (+24bps) spreads have seen their highest monthly increase since October 2023.



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Credit (Continued)

Credit markets show distinct trends: Shifting valuations, changing risk-adjusted returns and tightening lending conditions are testing sentiment and corporate resilience.

Emerging markets continue to offer the highest return per unit of duration risk in both IG and HY credit. However, this measure has declined over the past three months, with EM HY (-0.05) and Euro HY (-0.13); investors are getting less paid for duration risk (Chart 1).

Valuations paint a mixed picture. IG spread valuations remain near decade highs across most regions, except in Europe, where valuations have also become more expensive recently. US IG valuations, by contrast, have become cheaper (Chart 2). In HY markets, valuations remain historically high. Euro HY valuations moved into more expensive territory, while World HY and US HY valuations have become cheaper (Chart 3).

Corporate fundamentals have shaped credit dynamics over the last 10Y. Improving leverage ratios among US and European large caps, and European small caps, over the past decade have supported tighter spreads. In contrast US small caps have added leverage and could be a concern (Chart 4). In Q1 2025, tighter lending standards by US banks are an emerging headwind. This is coinciding with a modest widening in US HY spreads (Chart 5).

Chart 1: Return per unit of duration risk is highest in emerging markets (for both IG & HY). This ratio has declined for EM HY (-0.05) and most for Euro HY (-0.13) vs our previous Dec-24 report.

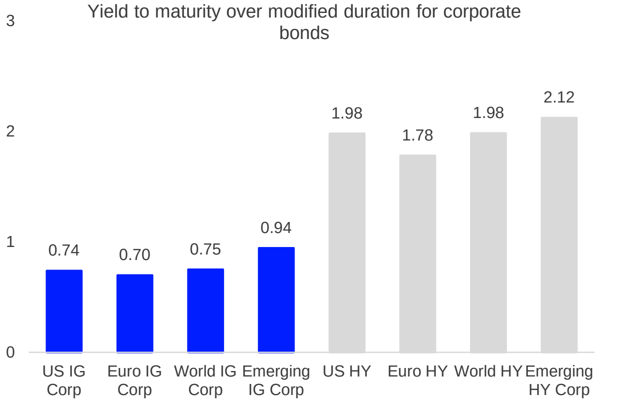


Chart 2: IG valuations are close to historical high levels over 10Y, except in Europe. However, over 3M, valuations have become more expensive in Euro IG, whereas valuations slightly cheaper in US IG.

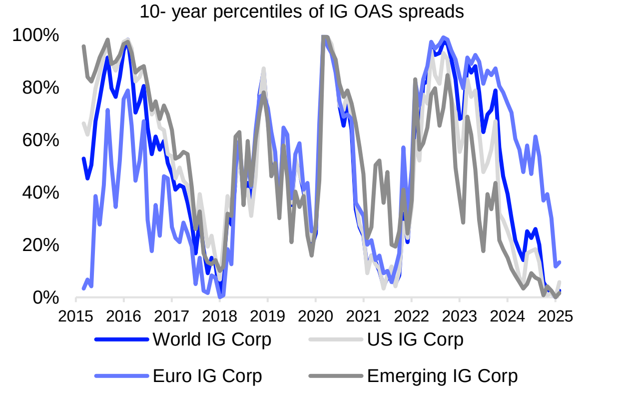


Chart 3: HY valuations continue to stay high compared to 10Y. Over 3M Euro HY valuations have become more expensive , while World HY and US HY valuations slightly cheaper.

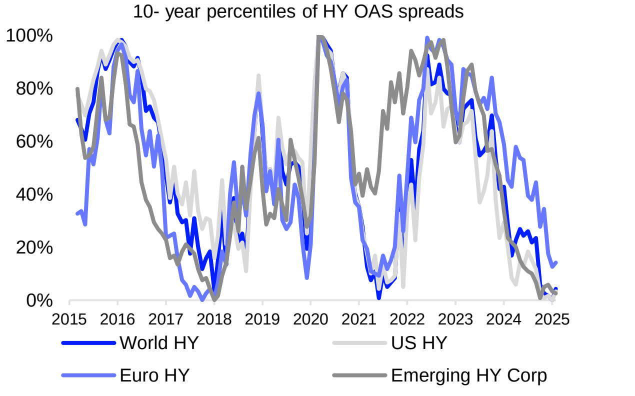


Chart 4: Lower leverage ratios among US and European large caps, and European small caps over the past decade have supported tighter credit spreads. In contrast, US small caps are more levered now.

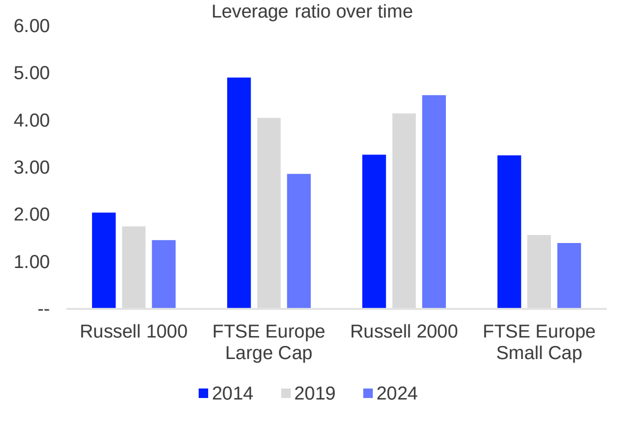
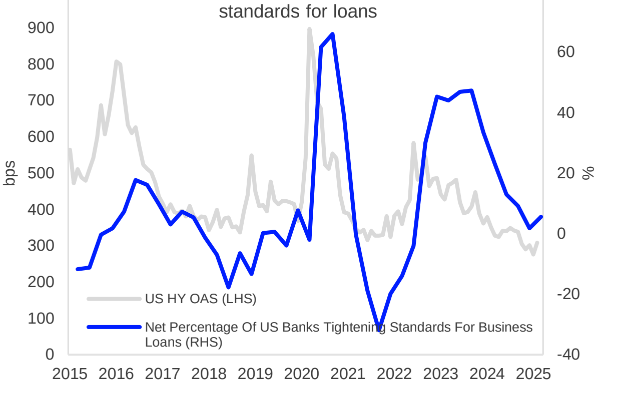


Chart 5: The net percentage of US banks tightening their lending conditions on business loans have increased in Q1 2025, which coincided with a slight increase in US HY spreads.



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Equities

Shifts in equity market leadership and valuations raise questions about the sustainability of US outperformance.

US and Developed Asia equities declined over 3M, while global equities remained flat (Chart 1). This marked the first 3M loss for US equities since October 2023. China and UK outperformed the US over 12M, signaling a shift in relative strength. European markets have also gained momentum. The FTSE Developed Europe ex UK had a strong start to 2025, delivering its best relative performance against the US since 2001 (Chart 3).

Historically, the FTSE USA's performance relative to the FTSE All-World ex-US has been cyclical, but in recent years, US equities have decisively outpaced global peers. The 5Y Z-score of this US outperformance, while it fell recently from historic highs, is still around 2 standard deviations compared to the average (Chart 5). Since early 2024, a key theme in this report was non-US markets playing catch up, and now the signs of rotation out of US seem much clearer.

Valuations may further temper future returns. Long-term US equity returns have been negatively correlated with higher starting valuations, suggesting muted gains over the next 10Y (Chart 2). The strength of this relationship is stronger for large cap & large cap growth stocks (Chart 4), indicating these segments of US equities could be most at risk.

Chart 1: YTD, China, Developed Europe ex UK & UK outperformed the FTSE All World, while US underperformed. Over 3M, US equities saw the first negative 3M return since Oct. 2023. Over 12M China & UK outperformed the US.

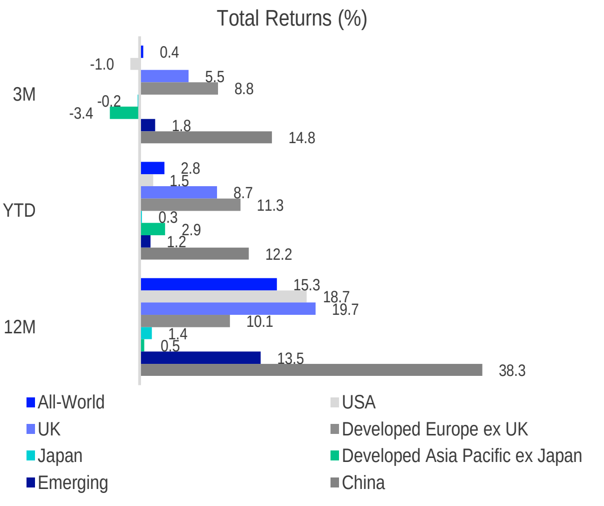


Chart 2: Historically, higher starting valuations have been negatively correlated with subsequent 10Y equity returns. Feb-25 valuations suggest significantly lower returns (2.2%) are possible over next 10Y.

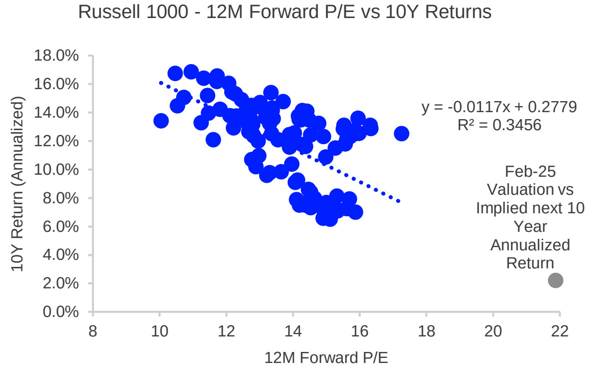
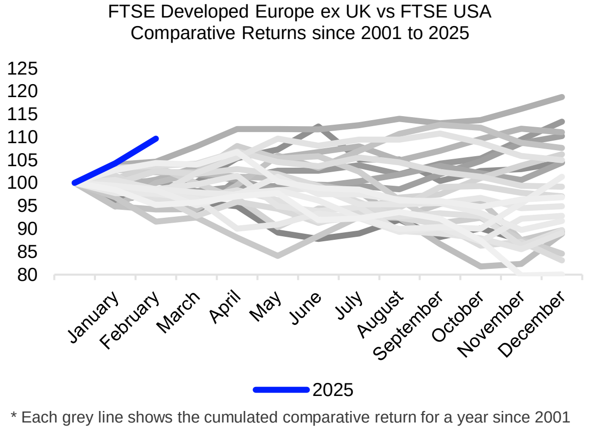


Chart 3: FTSE Developed Europe ex UK had a strong start to the year. When juxtaposed with the returns from the US, this marks their most favorable relative performance since 2001.



* Each grey line shows the cumulated comparative return for a year since 2001

Chart 4: US large-cap equities show a stronger link between starting valuations and subsequent 10 year returns than small caps, while growth stocks are more valuation-sensitive than value stocks.

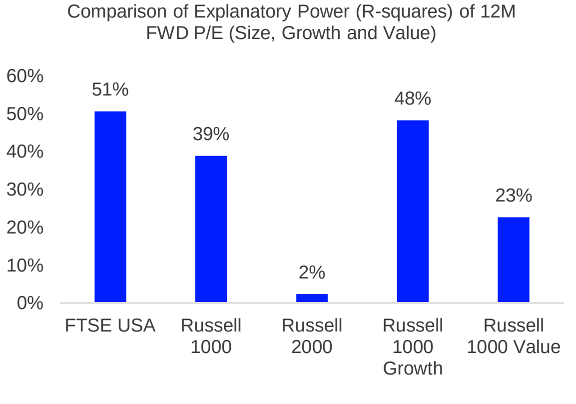
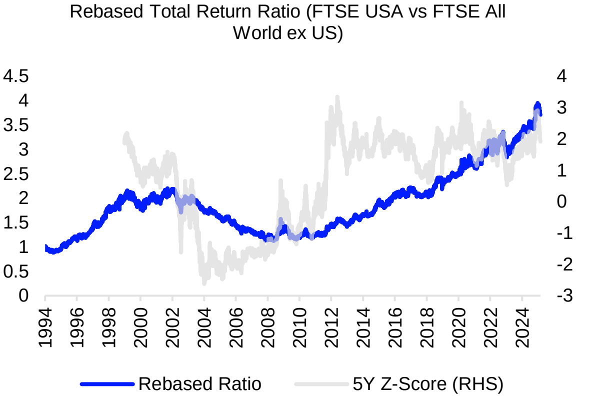


Chart 5: Historically, the performance of the FTSE USA relative to the FTSE All-World ex US has exhibited a cyclical pattern. In recent years, the US outperformance has reached extremes, and for longer than in past cycles.



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Equities (continued)

Rotation underway: Technology lags, valuations moderate in the US but expand in Europe and the UK. Expected earnings growth in the US lags other parts of the world.

Financials, Telecom and Consumer Discretionary have led over 3M, within the FTSE All-World index. Technology has lagged headline indices in the US and UK but outperformed in EM and developed Asia (Chart 1). Tech has higher valuations in the US and UK, where valuations have (excluding real estate) fallen the most (compared to our previous report) over 3M back. Yet even after this decline, US equities trade near decade highs, with valuations exceeding other regions not just at the index level but across nearly all 11 industries.

Industry return dispersion was highest in the UK and EM, and lowest in the US. The dispersion in the All-World has decreased since our last report 3M ago (Chart 1, 2, 4).

Earnings expectations have improved across markets over the past 3M but remain below levels 12M back. EMs are projected to have the highest earnings growth, whereas US earnings growth is expected to be lower than that of DMs. The equity risk premia, though low by historical standards, have risen in the US and Developed Asia (ex-Japan) but declined in the UK and Europe, reflecting shifting risk perceptions (Chart 3&5).

Chart 1: Over 3M, Financials, Telecom & Consumer Discretionary have led within the FTSE All-World. Increased AI-driven data-center demand helped Telecoms in the US and EM, while Tech underperformed headline indices in the US and UK but outperformed in EMs and Developed Asia.

3M Regional Industry Returns (TR, USD)

	All-World	US	UK	Dev Eur ex UK	Japan	Dev AP ex JP	Emerging
Index Return	0.4	-1.0	5.5	8.8	-0.2	-3.4	1.8
Basic Materials	-2.9	-4.0	-8.5	7.5	-5.6	-9.6	-5.7
Consumer Disc.	1.7	-1.0	0.0	12.6	7.3	-2.8	11.4
Consumer Staples	0.7	1.2	-0.6	7.3	-5.9	-3.4	-5.2
Energy	-3.4	-4.3	7.1	2.6	-0.8	-3.4	-7.6
Financials	3.7	0.8	18.2	17.2	2.7	-2.0	2.2
Health Care	0.9	1.3	11.7	1.5	-9.3	-6.4	-3.2
Industrials	-1.1	-2.9	4.6	8.4	-3.6	-0.8	-6.9
Real Estate	-2.3	-2.7	-5.9	-2.4	3.6	-7.1	2.3
Technology	-0.4	-1.3	-5.1	8.5	1.2	1.7	3.9
Telecoms	3.6	1.4	0.8	8.7	-1.6	-2.9	17.0
Utilities	-2.8	-2.8	-4.9	1.3	-5.4	-3.6	-6.1
Range	**7.1**	**5.7**	**26.7**	**19.5**	**16.5**	**11.3**	**24.6**

Chart 2: Compared to our previous report 3M ago, valuations in Technology have declined the most in the US and UK, where Technology valuations are higher compared to the rest of the world.

Forward P/E Industry Valuations

	All-World	US	UK	Dev Eur ex UK	Japan	Dev AP ex JP	Emerging
	18.0	22.3	13.3	15.1	11.7	12.9	12.6
Basic Materials	14.8	21.1	11.4	16.4	10.7	14.7	10.4
Consumer Disc.	21.7	28.9	18.8	16.3	12.7	10.3	14.7
Consumer Staples	17.8	18.4	17.1	17.5	18.1	13.2	17.5
Energy	12.0	14.7	9.4	8.9	7.9	11.0	8.7
Financials	12.6	17.1	9.9	10.2	11.1	12.2	8.7
Health Care	18.2	18.2	14.3	17.4	21.6	29.7	23.2
Industrials	19.9	23.4	20.2	19.0	14.0	14.7	14.1
Real Estate	13.4	37.2	15.9	13.9	2.3	14.7	10.5
Technology	24.5	26.4	25.8	26.6	18.8	9.5	16.5
Telecoms	14.9	13.9	9.7	16.7	16.7	12.4	20.7
Utilities	15.3	18.5	11.8	12.6	6.7	12.2	11.7

Chart 3: (IBES) 2Y earnings growth forecasts (%) improved over 3M across markets but still lower compared to 12M ago. EMs have higher earnings growth forecasts, while US earnings growth is now below that of DMs.

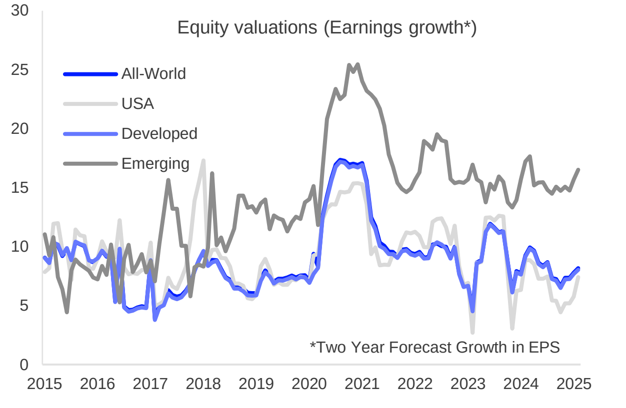


Chart 4: US forward valuations are near 10-year highs but have declined the most in the past 3 months (compared to our previous report). Europe and the UK have improved the most. EM are at above-average valuations.

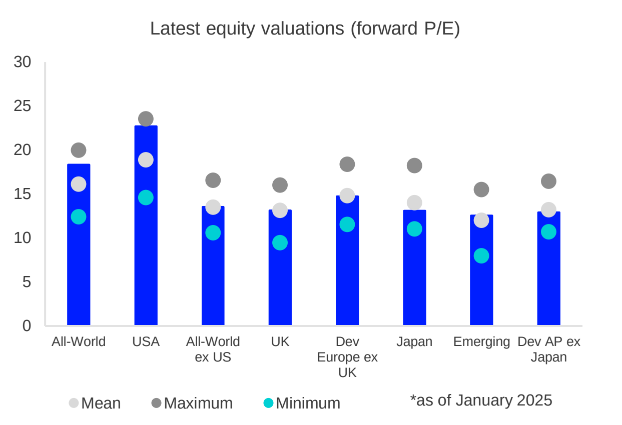
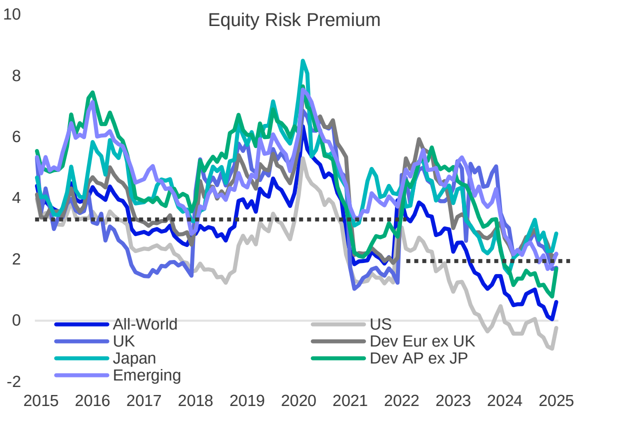


Chart 5: The equity risk premia in recent years remains low compared to 10Y history. It has increased over the last 3M in the US and Developed Asia ex Japan. In contrast, it has declined in the UK and Europe.



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Emerging Markets

Many emerging markets deliver strong equity & fixed income returns that outperform the DM, but it's a diverse asset class.

EMs have begun 2025 on solid footing, with China, Brazil, Mexico, and South Africa all outperforming the DM index. Over 12M, China, South Africa, and Taiwan have led global equity returns. Valuations could further support this trend—while Brazil, Mexico, and South Africa trade near their 10-year lows, India and Taiwan remain slightly above their historical averages. In contrast, DM equities are priced near decade-high valuations (Chart 2).

Bond markets have also reflected this EM resurgence. Over 12M, local currency EM bond yields (EMGBI) have fallen more than their DM counterparts (WGBI) (Chart 4). HY EM government bonds have particularly outperformed World HY, while EM corporate investment-grade debt has also delivered stronger returns than global IG corporates (Chart 5).

However, EMs are far from uniform. Growth expectations vary widely—India is forecast to slow to 6.5% and China to 4.5% by 2026, while Brazil (2.2%) and Mexico (2.0%) expand at more modest rates. Structural differences show up in industry weights (Chart 3). Similar divergences appear in bond markets, where rates have risen in Brazil amid rate hikes but fallen in China due to increased stimulus (Chart 4).

Chart 1: Over 12M, China, South Africa and Taiwan have outperformed DM and All-World. EMs also had solid start to 2025 with China, Brazil, Mexico and South Africa all outperforming Developed markets.

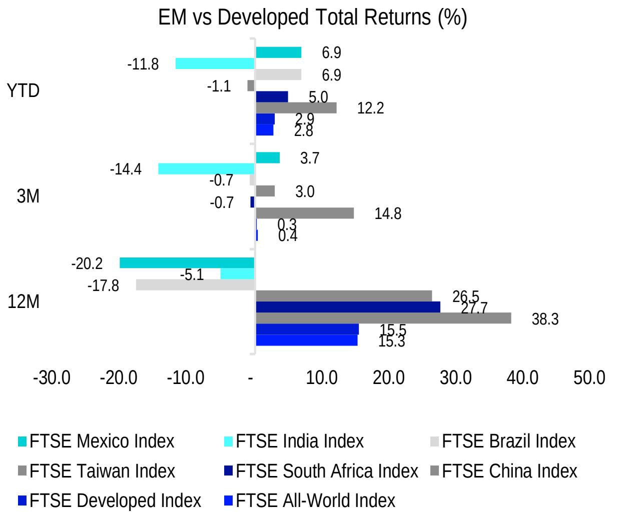


Chart 2: Valuations across EMs have diverged relative to their own historical ranges. Brazil, Mexico, and South Africa trade near their 10Y lows, while India and Taiwan remain above their historical averages.

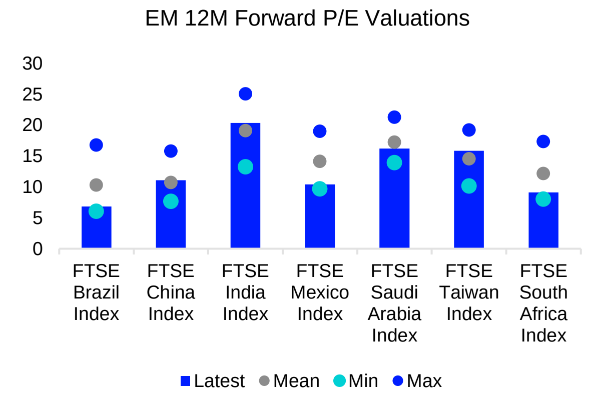


Chart 3: Industry weights highlight the stark differences within EM economies. Technology dominates in Taiwan (77%), while South Africa has the highest exposure to Basic Materials at 21%, and Brazil has 22% weight in Energy.

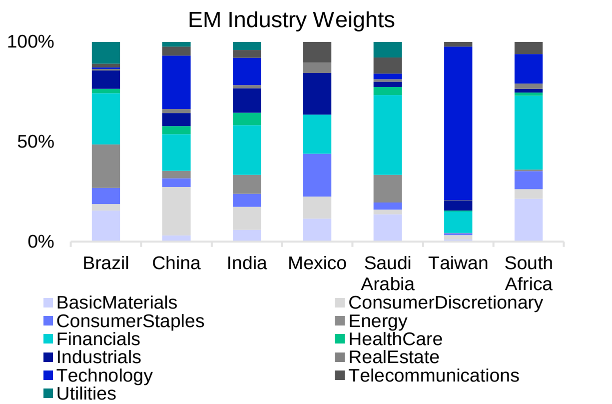


Chart 4: Over 12M, local currency yields in EM fell more than WGBI but diverged across markets. Brazil's yields rose as its central bank hiked rates, while China's declined amid rising stimulus.

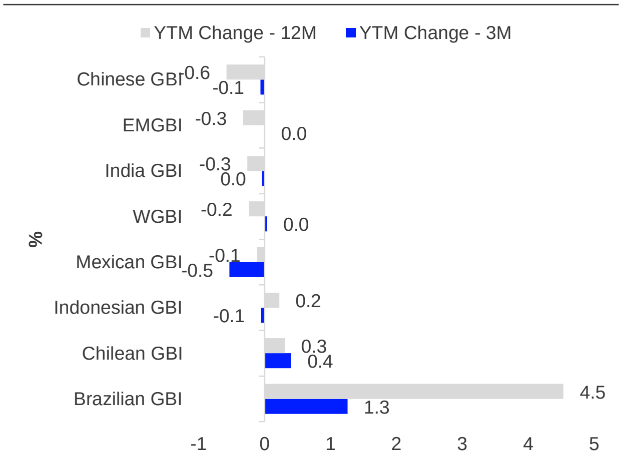
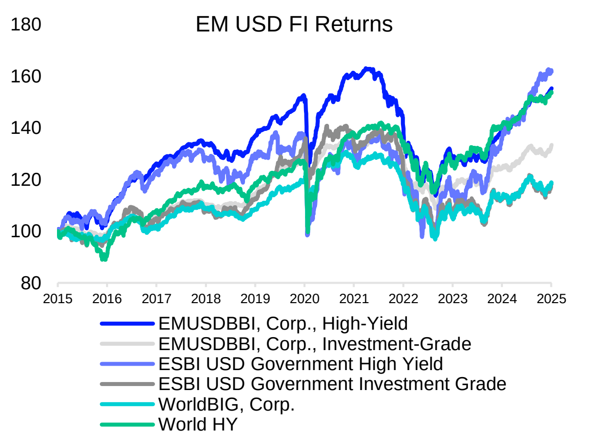


Chart 5: Over 12M, EM HY bonds have outperformed World HY. Within HY, outperformance of EM government HY was particularly notable. EM corporate IG delivered higher returns than global IG corporates.



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Commodities

Commodities are pricing in slower growth and structural shifts, including reserve diversification. A diverse asset class outperforming stocks & bonds in the recent era.

Commodities are becoming a dispersed asset class. The WTI forward curve has moved lower year-to-date, with oil prices now expected to retreat to low $60’s within two years. Weaker oil price expectations point to slowing global demand (Chart 1).

Over 12M, the broader FTSE CoreCommodity CRB index has risen 15.2%, driven by a 40% surge in gold and a 12% gain in copper, while crude oil has declined by 12.2%, and similar trends hold over 3M (Chart 2). Copper’s strength reflects long-term structural demand from the green transition and AI transformation. Meanwhile, gold is further supported by central banks, which have been steadily increasing their gold holdings, most in China, Turkey, Hungary, and Poland, reflecting geopolitical uncertainty, de-dollarization, and economic fragmentation (Chart 3). Despite broad-based dollar strength, commodity exporters’ currencies have moved in line with or weaker than importers, indicating limited optimism for broad commodity prices in the medium term (Chart 5).

Commodities have outperformed government bonds and equities since 2020 but have lost some gains vs equities since 2022 (Chart 4). Their relative performance against major asset classes in the post-Covid era speaks to their role in portfolios.

Chart 1: WTI forward curve has further moved down YTD & forward pricing suggest oil price to retreat to low 60$ within 2Y. Lower oil price expectations indicate lower global demand and slower expected growth .

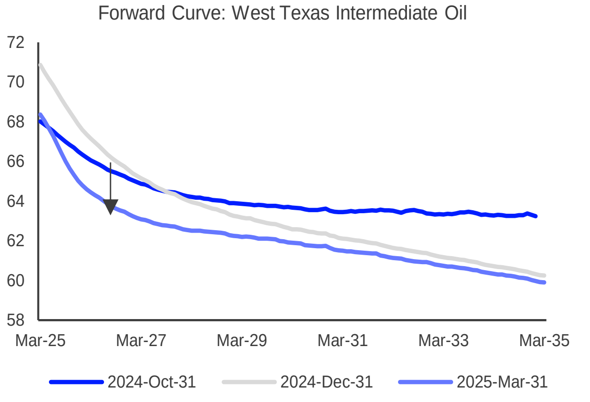


Chart 2: Over 3M, Commodity CRB is up 6.3%, with gold 7.7%, copper 5.6% and crude is 0.5%. Similar trends hold over 12M. Copper benefits from structural trend of green & AI transition, while oil is a cyclical story.

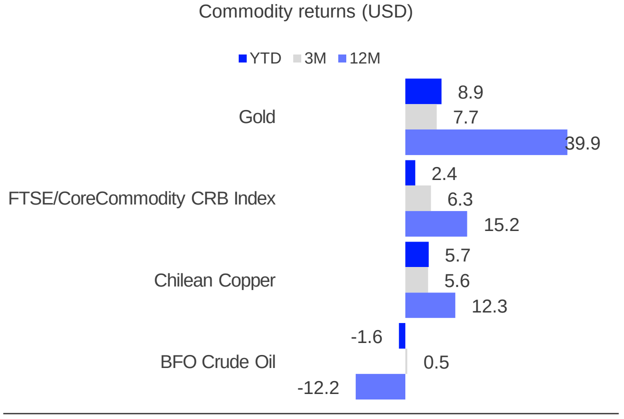
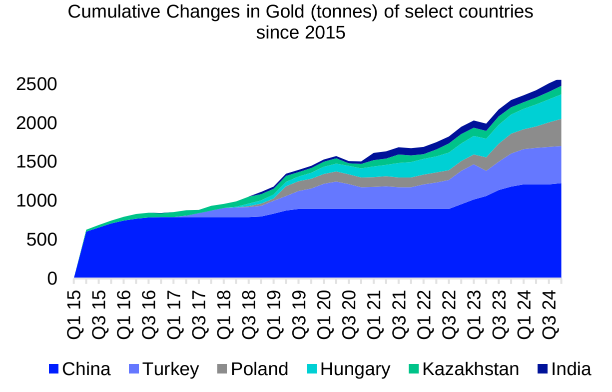


Chart 3: Central banks have increased their gold holdings over 10Y, most notably in China, Turkey, Hungary and Poland. This reflects geopolitical stresses, de-dollarisation and economic fragmentation.



Source: World Gold Council

Chart 4: Commodities have outperformed government bonds since 2020. While it rallied against equities since 2020, commodities have given up some of those gains since 2022.

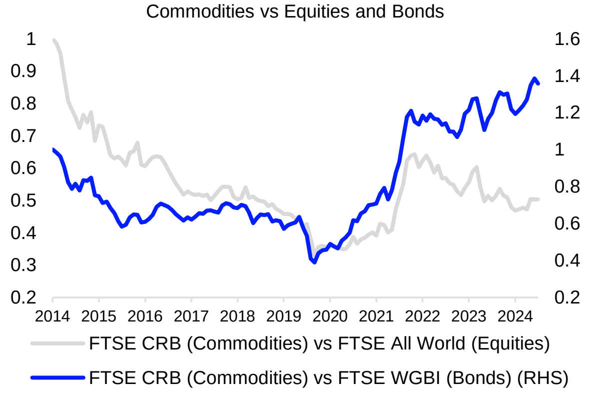
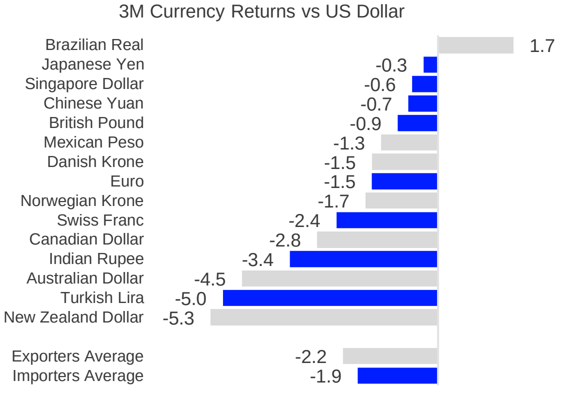


Chart 5: Over 3M, USD strength was broad-based, yet currencies of commodity exporters have moved in-line or lightly weaker than of importers. Markets show little optimism for broad commodity prices in the medium term.



Source: FTSE Russell/LSEG. All data as of February 28, 2025 (Gold purchase data as of Q3 2024). Past performance is no guarantee of future results. This report should not be considered “research” for the purposes of MIFID II. Please see the end for important legal disclosures. Results in this report are for research / illustrative purposes and do not represent the official performance of the indices.

Listed Alternatives

Structural changes in listed real estate (LRE) affect index weights, while cyclical rate movements impact short-term sector performance. Listed infrastructure returns match global equity.

DM LREs declined by 3.1% over 3M, with data centers and self-storage − previously strong performers − underperforming significantly. Healthcare LREs outperformed over both 3M and 12M, benefiting from sector-specific resilience such as demographic shifts and stable income streams (Chart 1). DM listed real estate has a high weight in the US (66%), and current government downsizing in DC is expected to have ripple effects on LRE well into the medium term.

Over 5Y, LRE has had structural shifts. Data centers gained prominence along with healthcare, while retail and office assets have struggled. These trends have reshaped index composition, with alternative sectors gaining prominence. Over 5 years, performance has mirrored earnings growth, led by data centers and self-storage (Chart 2 & 3).

Global infrastructure posted positive returns over 12M, driven by DMs, whereas EM infrastructure lagged over both 3M and 12M. Infrastructure returns were close to global equities over 12M (Chart 4& 5).

Chart 1: Over 3M, DM listed real estate declined by 3.1%. Data centers and self-storage, previously strong performers, lagged significantly. Healthcare LREs outperformed over both 3M and 12M.

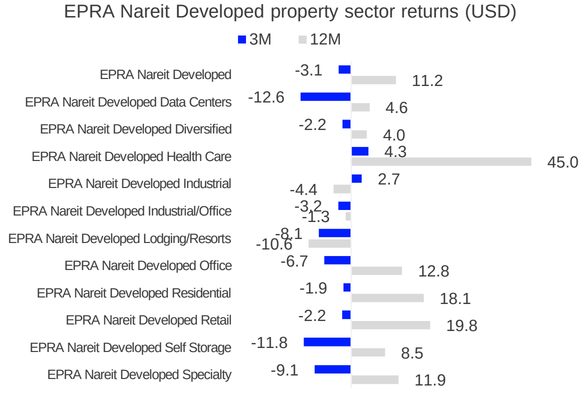


Chart 2: Over 5 years, economic shifts have boosted data centers, specialty, and healthcare, while retail, residential & office have declined amid structural challenges. This resulted in shifts index weights.

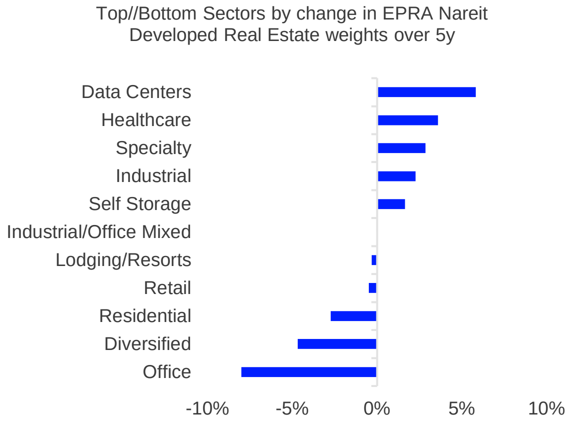
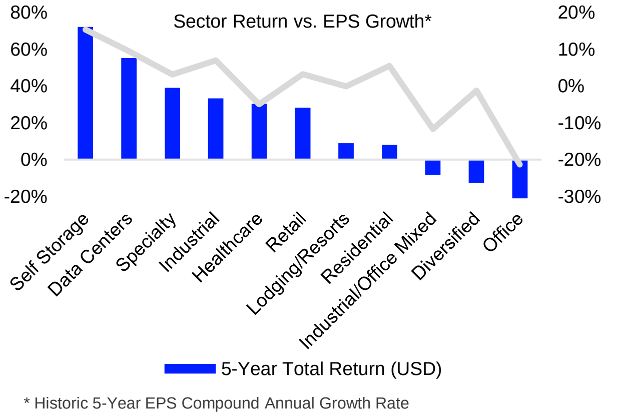


Chart 3: Alternative sectors have led returns over 5Y, with data centers and self-storage outperforming, performance leadership has largely followed historic earnings growth, driven by structural trends.



* Historic 5-Year EPS Compound Annual Growth Rate

Chart 4: Global Infrastructure posted gains over 12M led by DM. EM Infrastructure have posted negative returns over 3M and 12M.

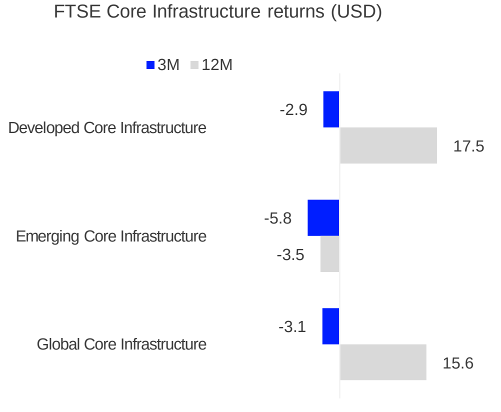
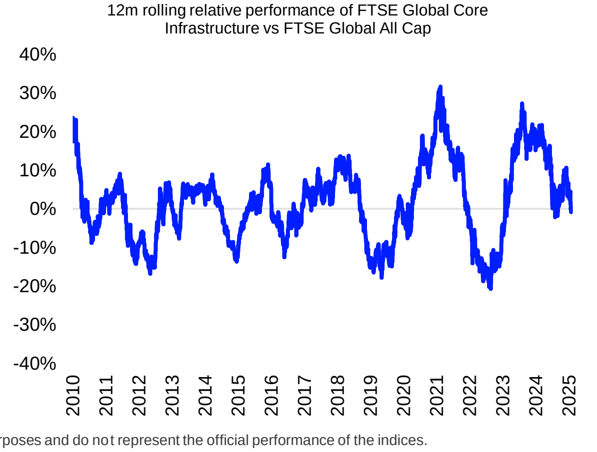


Chart 5: Listed Infrastructure's main driver is the underlying economic growth in that region, and their returns still being in-line with that of global equity points to their role in portfolio diversification.



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Currencies

The US dollar: Beyond rate differentials, risk aversion takes the lead. Key implications for portfolio hedging.

Historically, the USD tends to gain value during risk-off periods, as seen over 3M, where USD gained. Yet, significant uncertainty from the US in February has somewhat diminished this strength (Chart 1). USD weaking in period of risk aversion is unusual and something to keep an eye out on.

Historically, the dollar has a 59% correlation with weighted policy rate spreads, yet its recent 3M strength appears less driven by rate dynamics and more by risk aversion (Chart 2). Notably, the euro, which closely tracked the German-US rate differential since 2020, has depreciated by 6.8% since late September, a sharper decline than rate spreads alone would imply (Chart 5). The divergence in FX behavior signals a shift in market drivers beyond monetary policy alone. Meanwhile, the yen has strengthened over 4% against the dollar year-to-date, in line with improving Japan-US rate differentials, as the Bank of Japan raised rates to their highest level in 17 years (Chart 4).

The strong USD over 12M has weighed on global equity returns, with non-US markets generally outperforming in local currencies but lagging in USD terms − underscoring the importance of currency hedging for global investors (Chart 2).

Chart 1: Over the long term, USD typically strengthens in risk-off environments, which occurred over 3M. However, extreme uncertainty from the US in February has slightly weakened the US dollar's strength.

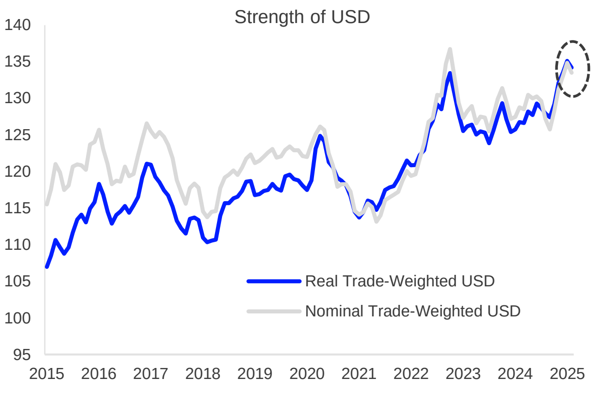


Chart 2: A stronger USD over the past 12M has impacted global equity returns, with non-US equities performing better in local currencies in most cases, highlighting the importance of hedging.

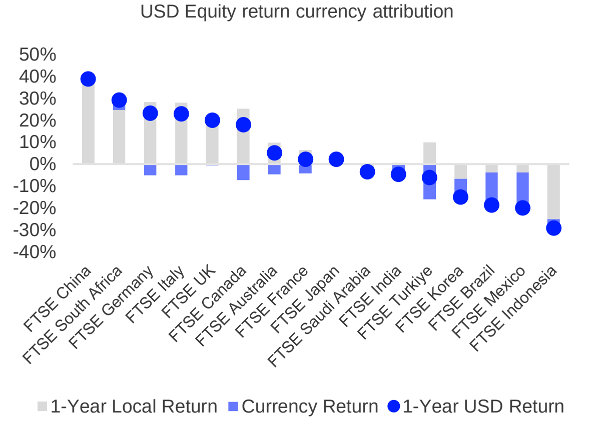


Chart 3: USD has historically exhibited a 59% correlation with weighted policy rate differentials. However, its recent surge appears less driven by rate differentials, suggesting other factors at play.

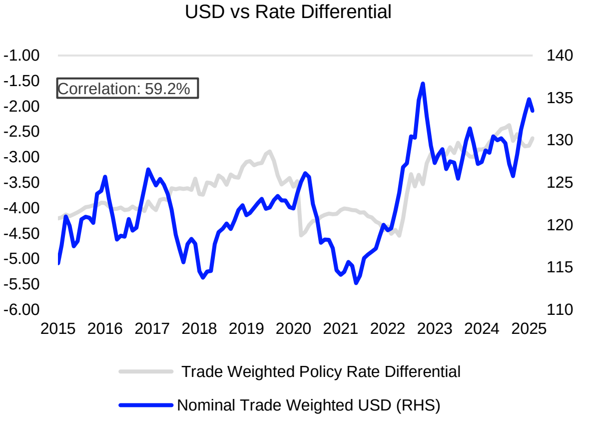


Chart 4: YTD, JPY gained over 4% against USD, in-line with an improvement in Japan-US rate differentials, as BOJ hiked rates to their highest levels in over 17 years.

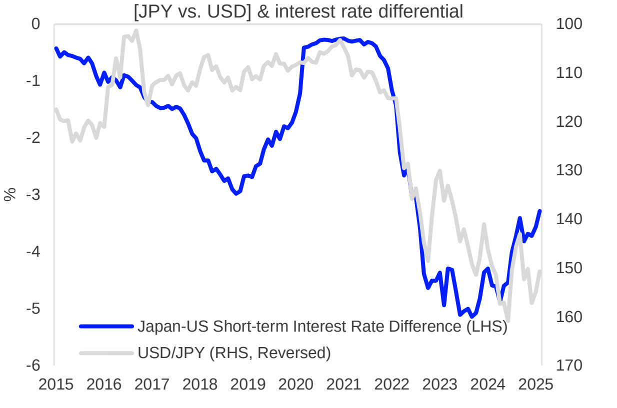
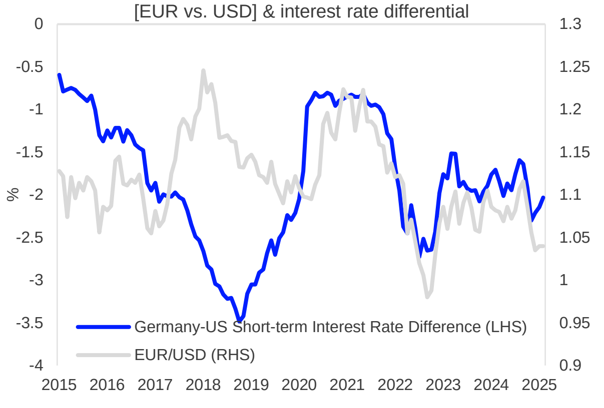


Chart 5: Since 2020, EUR/USD has closely tracked the German-US rate differential. However, since the end-Sept 24, the euro has depreciated by 6.8%, more than what differential alone would suggest.



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Capital Flows

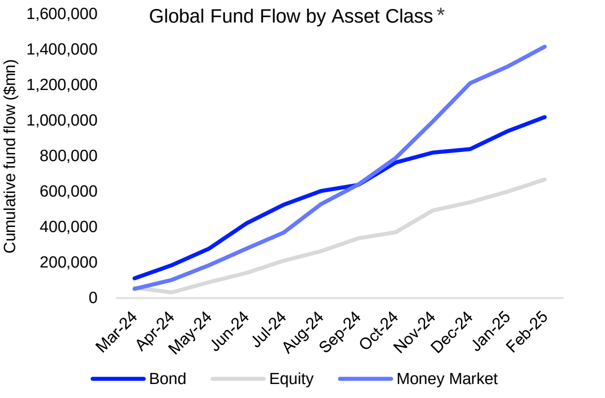
Investor flows shift within countries, bond segments and equity sectors, yet remain strong in money markets, as uncertainty takes stage.

Investor flows were broadly positive across asset classes over 12M, despite growing uncertainty and increasingly cautious central banks. Yet money market funds remained the preferred destination for yield-seekers, offering stability amid uncertain macroeconomic conditions. Over 12M, bond funds received higher flows compared to equity funds (Chart 1).

Global bond funds have led inflows relative to assets under management (AUM) over both 3M and 12M, benefiting from their diversified exposure. European and US bond funds followed, while flows into EM and Japan bond funds lagged (Chart 2). Within fixed income, demand has shifted: over 3M, flows into US government bond funds turned negative, and high yield and corporate bond inflows stalled. Mortgage-backed securities, however, continued to attract capital (Chart 5).

In equities, emerging market funds saw the highest inflows relative to AUM over 12M but weakened more recently. US equity funds maintained steady inflows, while first time over 12M, European funds saw inflows (Chart 3). At the sector level, US financials and industrials outperformed technology in flow % terms, reflecting shifting investor preferences.

Chart 1: Over 12M, every asset class has seen positive inflows. Amid rising uncertainty and cautious central banks, money market funds remain a favored option for yield-seekers. Bond flows were higher than equity flows.



*Nominal fund flows in USD per asset class.

Chart 2: Over 12M, bond funds with a diversified global mandate received the highest flows compared to their AUM. Europe and US mandated bond flows as a % of AUM were the next highest, while EM and Japan lagged.

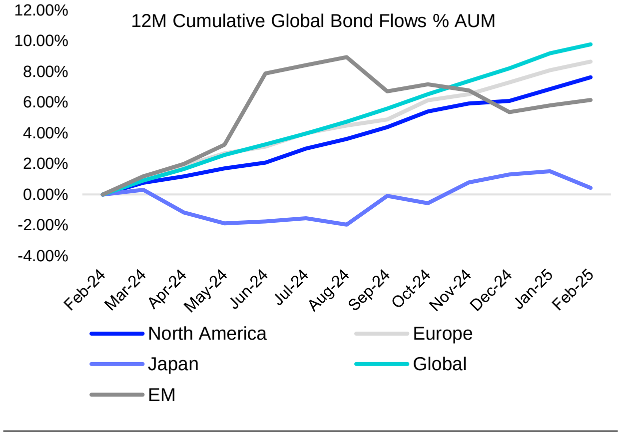


Chart 3: EM mandated equity funds received the highest flow as % AUM over 12M but lagged over 3M. Europe funds received positive inflows YTD. US Funds continued to receive positive flows.

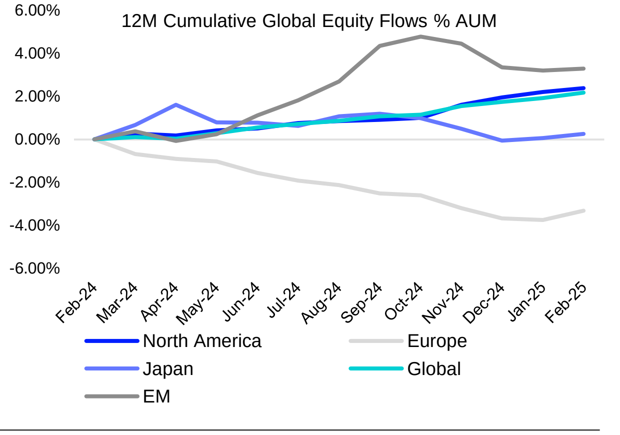


Chart 4: Over 12M, US Financials and Industrials mandated equity funds had higher flows as % AUM compared to US technology sector mandated funds. US Healthcare have seen outflows over 12M.

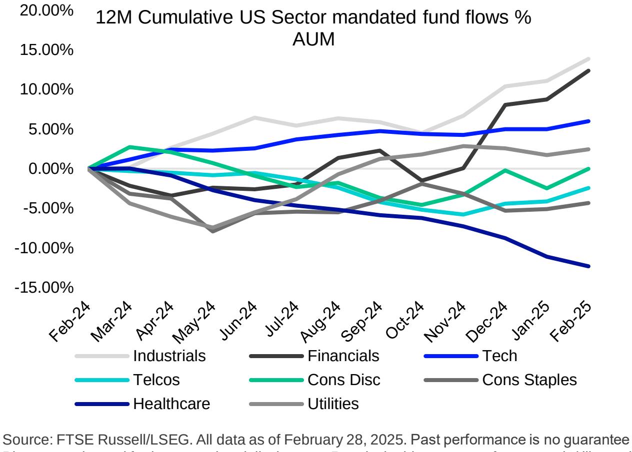
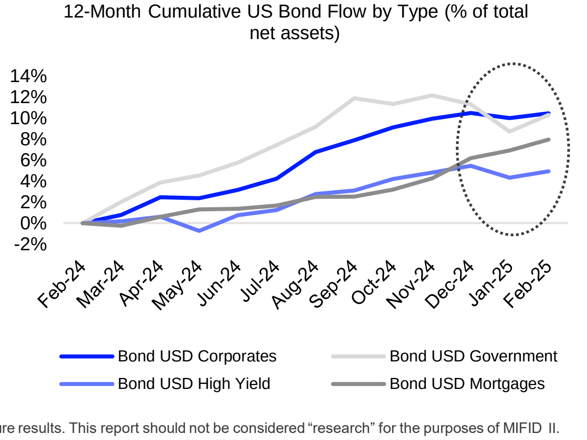


Chart 5: Over 3M, flows as % AUM into USD government bond funds were negative, while HY & US Corporate fund flows stalled. Mortgage USD bond funds continued to attract interest.



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Cross-Asset: Equities and Fixed Income

Macro backdrop indicates downside risk to US equity and continuing high stock bond correlation. Ex-US, equities moved from playing catch-up to outperforming the US.

Over 12M, infrastructure, equity and commodities have delivered similar high returns. Fixed income and listed real estate offered high yields. Listed infrastructure uniquely combined strong returns with high income yields (Chart 1).

The 12M stock-bond correlation remains near its lowest level since August 2022 as inflation fell yet remains well above its long-term average, as inflation remains above target. Historically, inflationary periods tend to see elevated stock-bond correlation (Chart 3). US stock-bond valuations have retreated with recent equity losses & bond market gains. Yet the equity valuations remains high relative to macro conditions (Chart 2). This divergence was fueled by the largely valuation-driven equity rally in 2023-24, heightening susceptibility to sentiment shifts & correction risks (Chart 5).

In a noteworthy shift in global equities, non-US equities played significant catch up with US equities in recent years. 2021-2023 saw the ratio of non-US equities as a % of US equity returns getting higher compared to the post-GFC era (Chart 4). This was an early sign of the current equity rotation; YTD most of these non-US regions are now outperforming US.

Chart 1: Over 1Y, Infrastructure, Equity & Commodities achieved similar high total returns. Fixed Income & Real Estate offered high income yields. Infrastructure was notable for having high total return & income yield.

1Y Annual	Income Yield %	Return/ Risk	Risk	Total Return %
Equity	19	18	8.6	15.3
Fixed Income	3.9	0.5	6.4	3.2
Commodities	--	17	8.9	15.2
Real Estate	4.0	0.7	14.3	10.3
Infrastructure	3.5	12	13.1	15.6

3Y Annualised	Income Yield %	Return/ Risk	Risk	Total Return %
Equity	2.1	0.6	15.8	8.8
Fixed Income	3.7	-0.4	9.3	-3.7
Commodities	--	0.8	12.8	10.7
Real Estate	4.1	-0.2	19.0	-3.1
Infrastructure	3.4	0.2	16.0	3.2

Chart 2: The ISM PMI remained > 50 but declined in February, while US stock-to-bond valuations fell (in-line with past relationship). Yet US stocks relative to bonds remain higher than this past relationship would indicate.

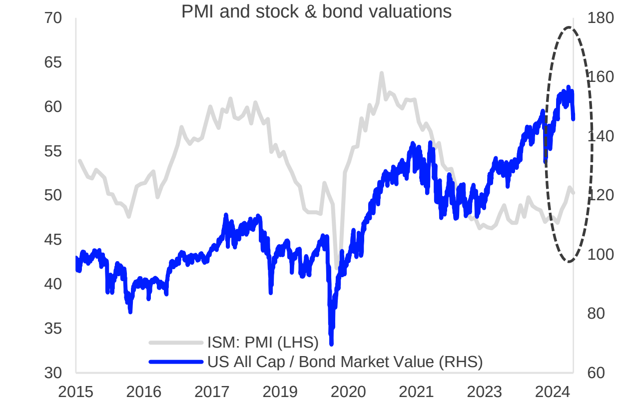


Chart 3: The 12M stock-bond correlation has remained near its lowest levels since August 2022, yet it is still above the 10Y average of approximately 0.4. In inflationary environments, stock-bond correlations tend to remain high.

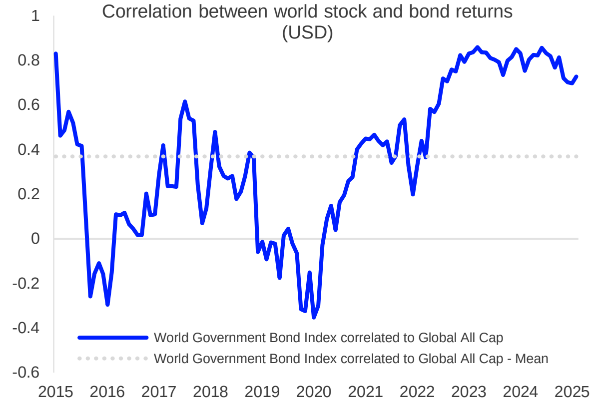


Chart 4: The ratio between Non-US vs US equity returns have been higher since 2021, compared to the GFC-Covid-19 era. This ratio almost doubled for overall All World ex US & most notably in Europe and EM.

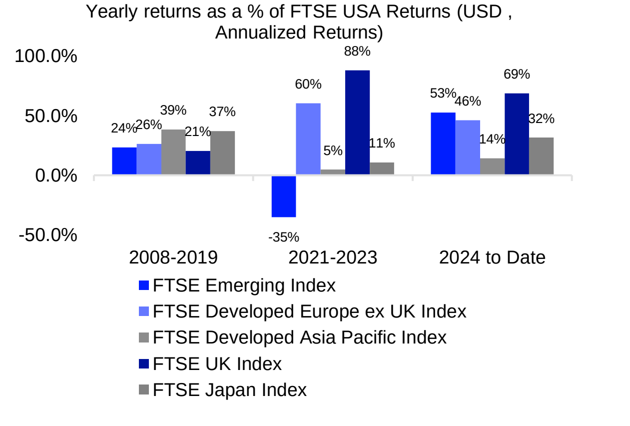
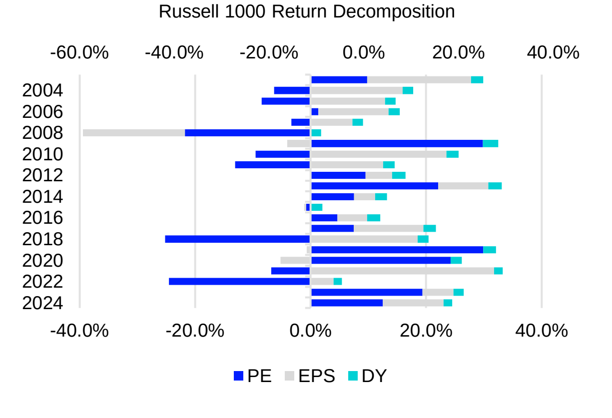


Chart 5: Following the 2011 European debt crisis, the Russell 1000 posted positive returns in 12 of 14 years. Valuation expansion expansion contributed 50%-90% of returns in 7 of those years.



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Cross Asset: Return and Risk (continued)

Increased uncertainties amid resilient growth and central bank policies supported assets across the risk spectrum; Gold, FTSE 100, US large caps, and alternatives had strong returns. Over 1Y, UK outperforming US, Gold with the highest Return/Risk, Return/Risk of EM & Europe ex UK improving significantly in 1Y vs 3Y, all point to shifts in market behavior.

Over 1Y, uncertainties increased amid resilient economic growth and measured central bank policy shifts. As a result, gold led (39.9%) yet risk assets posted solid returns led by FTSE 100 (19.3%) and US large caps (Russell 1000: 18.1%). Alternatives like listed global core infrastructure (15.6%) and CoreCommodity CRB (15.2%) had comparable returns. EM (13.5%) & Developed Europe ex UK (10.1%) equities had double-digit returns. Fixed income underperformed, with only US HY (10.2%) delivering comparable returns to risk assets, 7-10Y US Treasuries (5.1%) and World Govt 7-10Y (2.1%) lagged significantly.

Over the last 3Y, gold outperformed with an annualized return of 14.4%, fuelled by structural trends, including increased central bank acquisitions. US large-cap equities followed with a 12.1% annualized return, while the CoreCommodity CRB (8.5%), Developed Europe ex UK (8.0%) and FTSE 100 (7.5%) also had solid returns. Except for US HY (5.1%) and World HY (4.5%) and US IG (0.5), fixed income asset classes have seen negative returns.

Return/risk ratio for gold was highest both over 1Y (3.5) and 3Y (1.1). Over 1Y, US HY (3.2) and World HY (2.5) had high return/risk ratios. FTSE 100 (1.8) had a higher return/risk than Russell 1000 (1.7) and CoreCommodity CRB was identical to that of Russell 1000. EM return/risk over 1Y (1.3) was significantly higher than 3Y (0.1) and 5Y (0.3) and Developed Europe ex UK return/risk was higher over 1Y (0.7) compared to 3Y (0.4).

Chart 1: 1Y Risk-Return – Past 1Y had increased uncertainty yet resilient economic growth & measured central bank policies; an environment supportive of both risk-off & risk-on assets. Gold led with 39.9%, followed by FTSE 100 (19.3%) & US large caps (18.1%). Alternatives like Global Core Infrastructure (15.6%) & Commodities (15.2%) also performed well. FI underperformed as yields surged. In terms of returns/risk, Gold did best (3.5) & Oil the worst (-0.8)

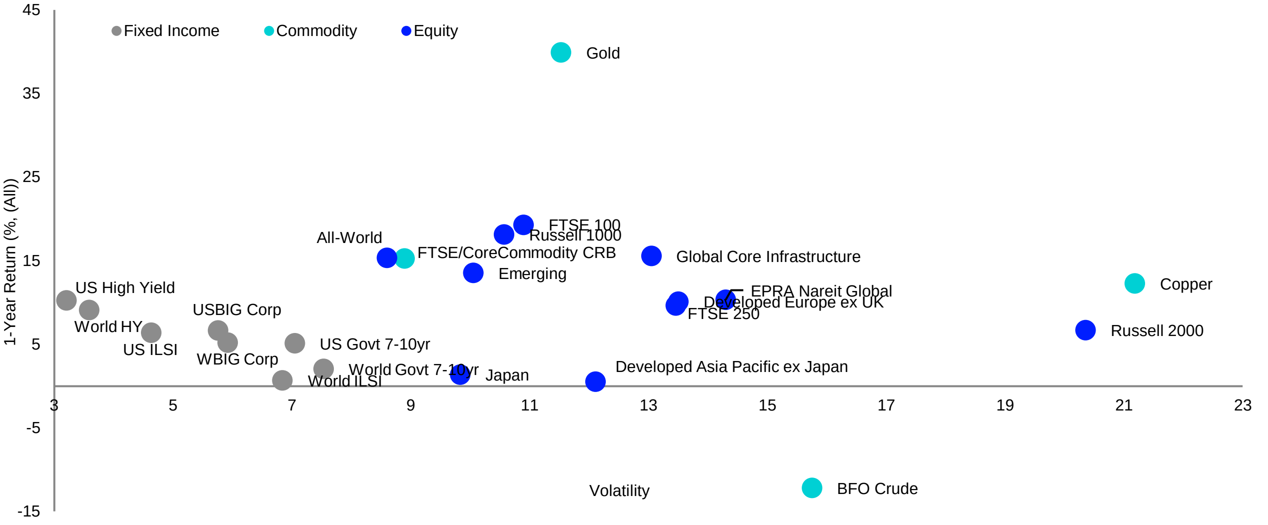
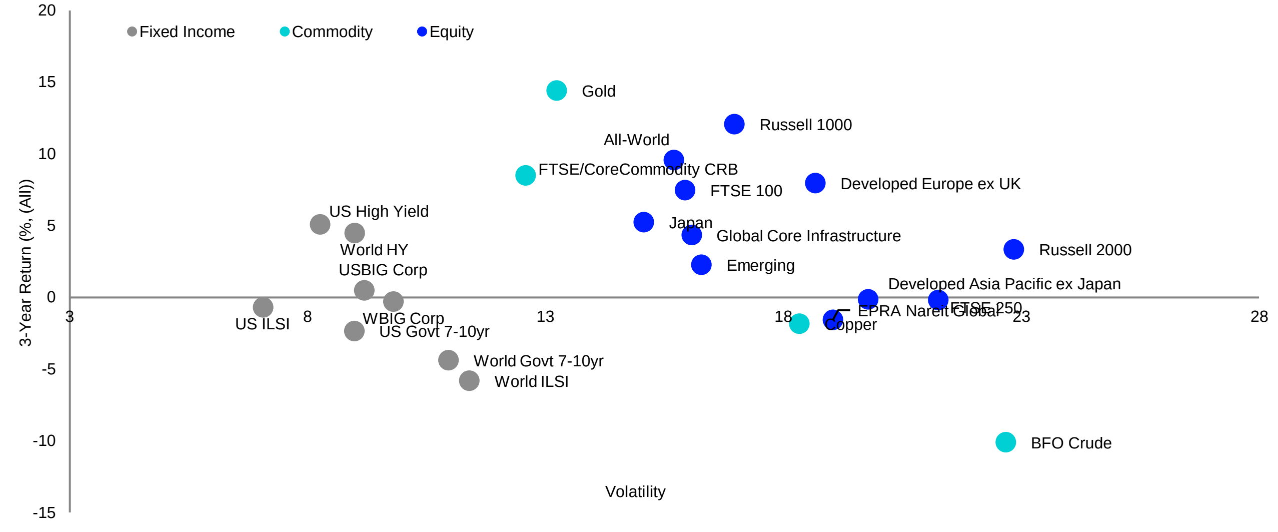


Chart 2: 3Y Risk-Return – Over 3Y, gold led with a 14.3% annualized return, driven by structural trends and central bank acquisitions. US large-cap equities followed at 12.1%. Commodities (8.5%), Developed Europe ex UK (8.0%), and FTSE 100 (7.5%) also performed well. Fixed income, except for US HY (5.1%), World HY (4.5%), and US IG (0.5%), saw negative returns. Gold had highest return/risk (1.1) whereas World ILSI had lowest (-0.5)



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Cross Asset: Correlations

A decoupling world; correlations show decoupling of US equities from non-US markets, EMs from the rest-of-world. Commodities provide diversification to both stocks & bonds, and in greater amount in 1Y compared to 3Y.

Understanding how correlations evolve across asset classes is fundamental for investors aiming to construct diversified portfolios and manage risk effectively, as changing relationships between assets can lead to unexpected shifts in portfolio performance. Over 3Y, equity markets have remained highly interconnected, with the Russell 1000 exhibiting a strong positive correlation (0.82) with the All-World ex-US index. However, over 1Y, the correlation between the Russell 1000 and the All-World ex-US index dropped to 0.48, (-0.34 difference). Even more strikingly, the correlation between the Russell 1000 and EM equities nearly vanished, falling from 0.58 over three years to just 0.03 over 1Y. Correlation of EM equities vs other regional equity indices was also significantly lower over 1Y compared to 3Y. Over 3Y, EM showed lower correlations with DM nominal and real rates compared to other equity regions.

The relationship between bonds and equities also saw different reactions to the changing market environment over 1Y. World HY became much less correlated with Russell 1000 (0.58 over 1Y vs 0.86 over 3Y), whereas its correlation stayed the same over 1Y vs 3Y, with the All World ex-US (0.89) reinforcing the unique path of US equities. Within fixed income, US HY bonds became more correlated with US Treasuries (0.84 over 1Y vs. 0.71 over 3Y), as spread compression heightened the sensitivity to interest rate movements. Meanwhile, Treasuries moved almost in lockstep with inflation-linked bonds over 1Y (0.97 over 1Y vs. 0.87 over 3Y), reflecting mounting concerns over US fiscal policy and increasing importance of real yields.

The R2000 had a lower and decreasing correlation to the FTSE All World ex US equities than the R1000, indicating its domestic bias. High risk equities and HY were highly correlated. Commodities provided diversification; gold & crude oil showed lower correlations with fixed income and equities over 1Y vs 3Y.

Chart 1: 3-Year Correlation – EM exhibited lower correlations with DM nominal and real rates than other equity regions. Commodities, including risk-on crude Oil and risk-off Gold, diversified both equities and fixed income. Listed real assets, (real estate and infrastructure), remained highly correlated with equities, though Infrastructure was less so. R2000 was less correlated to rest-of-world than R1000, confirming its domestic bias. Higher risk equities & HY were highly correlated.

	Russell 1000	Russell 2000	All-World	All-World ex USA	UK	Dev Europe ex UK	Japan	Dev Asia Pac ex Japan	Emerging	US Govt 7-10yr	US ILSI	US High Yield	USBIG Corp	World Govt 7-10yr	World ILSI	World HY	WBIG Corp	Global Core Infrastructure	EPRA Nareit Global	Gold	BFO Crude
Russell 1000	1.00	0.87	0.98	0.82	0.74	0.80	0.83	0.80	0.57	0.64	0.79	0.88	0.75	0.73	0.84	0.86	0.76	0.78	0.82	0.26	0.10
Russell 2000	0.87	1.00	0.84	0.71	0.69	0.67	0.73	0.72	0.45	0.54	0.64	0.79	0.64	0.61	0.70	0.75	0.64	0.72	0.80	0.12	0.08
All-World	0.98	0.84	1.00	0.93	0.84	0.89	0.90	0.89	0.71	0.71	0.83	0.90	0.83	0.81	0.90	0.91	0.85	0.83	0.88	0.37	0.07
All-World ex USA	0.82	0.71	0.93	1.00	0.92	0.95	0.90	0.95	0.86	0.75	0.81	0.83	0.87	0.86	0.90	0.89	0.90	0.83	0.89	0.50	0.02
UK	0.74	0.69	0.84	0.92	1.00	0.94	0.79	0.84	0.67	0.67	0.77	0.80	0.77	0.78	0.82	0.85	0.82	0.80	0.85	0.41	0.13
Dev Europe ex UK	0.80	0.67	0.89	0.95	0.94	1.00	0.84	0.86	0.68	0.72	0.80	0.83	0.81	0.83	0.88	0.89	0.87	0.78	0.85	0.47	0.04
Japan	0.83	0.73	0.90	0.90	0.79	0.84	1.00	0.83	0.72	0.75	0.79	0.82	0.86	0.83	0.85	0.86	0.87	0.76	0.79	0.39	0.03
Dev Asia Pacific ex Japan	0.80	0.72	0.89	0.95	0.84	0.86	0.83	1.00	0.85	0.67	0.76	0.78	0.80	0.78	0.84	0.83	0.83	0.83	0.90	0.47	0.01
Emerging	0.57	0.45	0.71	0.86	0.67	0.68	0.72	0.85	1.00	0.61	0.60	0.56	0.73	0.70	0.71	0.65	0.75	0.62	0.69	0.53	-0.10
US Govt 7-10yr	0.64	0.54	0.71	0.75	0.67	0.72	0.75	0.67	0.61	1.00	0.87	0.71	0.96	0.95	0.87	0.74	0.93	0.66	0.75	0.47	-0.21
US ILSI	0.79	0.64	0.83	0.81	0.77	0.80	0.79	0.76	0.60	0.87	1.00	0.86	0.88	0.88	0.94	0.86	0.88	0.78	0.83	0.47	-0.06
US High Yield	0.88	0.79	0.90	0.83	0.80	0.83	0.82	0.78	0.56	0.71	0.86	1.00	0.81	0.80	0.86	0.98	0.83	0.72	0.84	0.30	0.09
USBIG Corp	0.75	0.64	0.83	0.87	0.77	0.81	0.86	0.80	0.73	0.96	0.88	0.81	1.00	0.97	0.93	0.86	0.99	0.76	0.84	0.49	-0.17
World Govt 7-10yr	0.73	0.61	0.81	0.86	0.78	0.83	0.83	0.78	0.70	0.95	0.88	0.80	0.97	1.00	0.95	0.85	0.99	0.75	0.82	0.55	-0.16
World ILSI	0.84	0.70	0.90	0.90	0.82	0.88	0.85	0.84	0.71	0.87	0.94	0.86	0.93	0.95	1.00	0.90	0.95	0.83	0.89	0.55	-0.13
World HY	0.86	0.75	0.91	0.89	0.85	0.89	0.86	0.83	0.65	0.74	0.86	0.98	0.86	0.85	0.90	1.00	0.89	0.76	0.86	0.38	0.05
WBIG Corp	0.76	0.64	0.85	0.90	0.82	0.87	0.87	0.83	0.75	0.93	0.88	0.83	0.99	0.99	0.95	0.89	1.00	0.78	0.86	0.54	-0.13
Global Core Infrastructure	0.78	0.72	0.83	0.83	0.80	0.78	0.76	0.83	0.62	0.66	0.78	0.72	0.76	0.75	0.83	0.76	0.78	1.00	0.87	0.46	-0.04
EPRA Nareit Global	0.82	0.80	0.88	0.89	0.85	0.85	0.79	0.90	0.69	0.75	0.83	0.84	0.84	0.82	0.89	0.86	0.86	0.87	1.00	0.42	-0.04
Gold	0.26	0.12	0.37	0.50	0.41	0.47	0.39	0.47	0.53	0.47	0.47	0.30	0.49	0.55	0.55	0.38	0.54	0.46	0.42	1.00	-0.22
BFO Crude	0.10	0.08	0.07	0.02	0.13	0.04	0.03	0.01	-0.10	-0.21	-0.06	0.09	-0.17	-0.16	-0.13	0.05	-0.13	-0.04	-0.04	-0.22	1.00

Chart 2: Difference between 1Y and 3Y correlations (1Y correlation – 3Y correlation) show significant changes in asset class correlations in past 1Y. US equities decoupled from international markets, EM equities correlations dropped, commodities diversified more, US HY bonds aligned wih Treasuries, and Treasuries more closely tracked inflation-linked bonds.

Difference between (1 Year vs 3 Year) Correlation	Russell 1000	Russell 2000	All-World	All-World ex USA	UK	Dev Europe ex UK	Japan	Dev Asia Pac ex Japan	Emerging	US Govt 7-10yr	US ILSI	US High Yield	USBIG Corp	World Govt 7-10yr	World ILSI	World HY	WBIG Corp	Global Core Infrastructure	EPRA Nareit Global	Gold	BFO Crude
Russell 1000	0.00	-0.06	-0.04	-0.34	-0.37	-0.44	-0.29	-0.14	-0.55	-0.07	-0.24	-0.14	-0.12	-0.19	-0.27	-0.29	-0.19	-0.22	-0.16	-0.27	-0.16
Russell 2000	-0.06	0.00	-0.09	-0.31	-0.22	-0.43	-0.02	-0.24	-0.61	-0.01	-0.15	-0.09	-0.04	-0.08	-0.14	-0.22	-0.09	0.02	-0.16	-0.01	-0.33
All-World	-0.04	-0.09	0.00	-0.18	-0.24	-0.27	-0.22	-0.05	-0.46	0.02	-0.10	-0.02	-0.04	-0.07	-0.12	-0.14	-0.08	-0.15	-0.07	-0.21	-0.26
All-World ex USA	-0.34	-0.31	-0.18	0.00	-0.07	-0.05	-0.18	-0.07	-0.28	0.03	0.02	-0.01	-0.07	0.01	0.01	0.00	-0.03	-0.13	-0.06	-0.02	-0.40
UK	-0.37	-0.22	-0.24	-0.07	0.00	-0.10	-0.13	-0.16	-0.46	-0.01	-0.06	-0.18	-0.09	-0.03	-0.02	-0.17	-0.08	-0.02	-0.13	0.00	-0.44
Dev Europe ex UK	-0.44	-0.43	-0.27	-0.05	-0.10	0.00	-0.26	-0.18	-0.38	-0.07	-0.06	-0.21	-0.15	-0.12	-0.09	-0.14	-0.14	-0.19	-0.18	-0.01	-0.33
Japan	-0.29	-0.02	-0.22	-0.18	-0.13	-0.26	0.00	-0.26	-0.55	-0.04	-0.15	0.01	-0.13	-0.07	-0.12	-0.10	-0.12	-0.07	-0.05	-0.04	-0.30
Dev Asia Pac ex Japan	-0.14	-0.24	-0.05	-0.07	-0.16	-0.18	-0.26	0.00	-0.23	0.06	0.03	0.07	-0.05	0.02	-0.02	-0.01	-0.04	-0.22	-0.09	-0.09	-0.23
Emerging	-0.55	-0.61	-0.46	-0.28	-0.46	-0.38	-0.55	-0.23	0.00	-0.28	-0.21	-0.17	-0.38	-0.25	-0.28	-0.17	-0.31	-0.52	-0.34	-0.23	-0.25
US Govt 7-10yr	-0.07	-0.01	0.02	0.03	-0.01	-0.07	-0.04	0.06	-0.28	0.00	0.10	0.14	0.02	-0.01	0.06	0.13	0.03	0.11	0.16	-0.37	-0.26
US ILSI	-0.24	-0.15	-0.10	0.02	-0.06	-0.06	-0.15	0.03	-0.21	0.10	0.00	-0.04	0.08	0.04	0.02	0.00	0.06	-0.01	0.06	-0.23	-0.46
US High Yield	-0.14	-0.09	-0.02	-0.01	-0.18	-0.21	0.01	0.07	-0.17	0.14	-0.04	0.00	0.07	0.11	0.02	-0.04	0.07	0.04	0.10	0.03	-0.45
USBIG Corp	-0.12	-0.04	-0.04	-0.07	-0.09	-0.15	-0.13	-0.05	-0.38	0.02	0.08	0.07	0.00	-0.01	0.04	0.04	0.00	0.09	0.11	-0.33	-0.38
World Govt 7-10yr	-0.19	-0.08	-0.07	0.01	-0.03	-0.12	-0.07	0.02	-0.25	-0.01	0.04	0.11	-0.01	0.00	0.02	0.11	0.00	0.09	0.14	-0.34	-0.40
World ILSI	-0.27	-0.14	-0.12	0.01	-0.02	-0.09	-0.12	-0.02	-0.28	0.06	0.02	0.02	0.04	0.02	0.00	0.04	0.04	0.04	0.06	-0.20	-0.45
World HY	-0.29	-0.22	-0.14	0.00	-0.17	-0.14	-0.10	-0.01	-0.17	0.13	0.00	-0.04	0.04	0.11	0.04	0.00	0.06	0.04	0.09	-0.04	-0.60
WBIG Corp	-0.19	-0.09	-0.08	-0.03	-0.08	-0.14	-0.12	-0.04	-0.31	0.03	0.06	0.07	0.00	0.00	0.04	0.06	0.00	0.08	0.11	-0.28	-0.46
Global Core Infrastructure	-0.22	0.02	-0.15	-0.13	-0.02	-0.19	-0.07	-0.22	-0.52	0.11	-0.01	0.04	0.09	0.09	0.04	0.04	0.08	0.00	0.02	-0.14	-0.57
EPRA Nareit Global	-0.16	-0.16	-0.07	-0.06	-0.13	-0.18	-0.05	-0.09	-0.34	0.16	0.06	0.10	0.11	0.14	0.06	0.09	0.11	0.02	0.00	-0.12	-0.45
Gold	-0.27	-0.01	-0.21	-0.02	0.00	-0.01	-0.04	-0.09	-0.23	-0.37	-0.23	0.03	-0.33	-0.34	-0.20	-0.04	-0.28	-0.14	-0.12	0.00	0.18
BFO Crude	-0.16	-0.33	-0.26	-0.40	-0.44	-0.33	-0.30	-0.23	-0.25	-0.26	-0.46	-0.45	-0.38	-0.40	-0.45	-0.60	-0.46	-0.57	-0.45	0.18	0.00

Source: FTSE Russell/LSEG. All data as of February 28, 2025. Past performance is no guarantee of future results. This report should not be considered "research" for the purposes of MIFID II. Please see the end for important legal disclosures. Results in this report are for research / illustrative purposes and do not represent the official performance of the indices.

Appendix 1: List of indices used in report

Name	Mnemonic/Code
World Government Bond Index 1-3yr	WGBI_1-3
World Government Bond Index 7-10yr	WGBI_7-10
World Inflation-Linked Securities Index 7-10yr	ILSI_7-10
US Treasury 1-3yr	US_TSY1-3
US Treasury 7-10yr	US_TSY7-10
Germany 1-3yr	DE_TSY1-3
Germany 7-10yr	DE_TSY7-10
World Broad Investment-Grade Bond Index Corporate	WBIG_CORP
US Broad Investment-Grade Bond Index Corporate	BIG_CORP
Euro Broad Investment-Grade Bond Index Corporate	EBIG_CORP
Emerging Markets US Dollar Broad Bond Index Corporate – Investment-Grade	EMBBI_CORP_IG
Emerging Markets US Dollar Government Bond Index	ESBI
US High-Yield Market Index	HY_MKT_US
Pan-European High-Yield Bond Index - EUR	EUROPE_HYM_EUR
Emerging Markets US Dollar Broad Bond Index Corporate – High-Yield	EMBBI_CORP_HY
US Inflation-Linked Securities Index 10 yr+	ILSI_US_10+
FTSE World Broad Investment-Grade Bond Index (WorldBIG®)	WBIG
FTSE US Broad Investment-Grade Bond Index (USBIG®)	BIG
FTSE Euro Broad Investment-Grade Bond Index (EuroBIG®)	EBIG
FTSE World High-Yield Bond Index	WHYM
Russell 1000 Index	R1000
Russell 2000 Index	R2000
FTSE Global All Cap Index	GEISLMS
FTSE All-World Growth Index	AWORLDSG
FTSE All-World Value Index	AWORLDSV
Russell 1000 Growth Index	R1000G
Russell 1000 Value Index	R1000V
FTSE USA Index	WIUSA
FTSE UK Index	WIGBR
FTSE Developed Europe ex UK Index	AWDEXUKS
FTSE Japan Index	WIJPN
FTSE Developed Asia Pacific ex Japan Index	AWDPACXJ
FTSE China Index	WICHN
FTSE Emerging Index	AWALLE
FTSE All-World Index	AWORLDS
FTSE Global Core Infrastructure Index	FGCII
FTSE EPRA Nareit Global Index	ENHG
FTSE Europe ex UK Index	AWEXUKS
FTSE Asia Pacific ex Japan Index	AWPACXJA
FTSE USA All Cap Index	LMSUSA
FTSE Developed Index	AWD
FTSE All-World ex US Index	AWXUSAS
FTSE Global Large Cap Index	GEISLC
FTSE Global Small Cap Index	GEISSC
FTSE Developed Large Cap Index	LCD
FTSE Developed Small Cap Index	SCD
FTSE Developed Growth Index	DGWLD
FTSE Developed Value Index	DVWLD
Refinitiv Commodity Index	RTCI
FTSE/CoreCommodity CRB® Index	RJEFCRT
Russell 2000 Implied Volatility Index	RVX
Brazilian GBI	BR_TSY
Mexican GBI	MX_TSY
Chilean GBI	CL_TSY
Indonesian GBI	ID_TSY
India GBI	IN_TSY
Chinese GBI	CN_TSY
EMGBI	EMGBI
US GBI	US_TSY
German GBI	DE_TSY
Japanese GBI	JP_TSY
FTSE World Government Bond Index	WGBI
World Uncertainty GDP Weighted Average	WDEPUUNGR
US Economic Policy Uncertainty Index	USEPUPOLR
US Trade Policy Uncertainty Index	USEPTRPUR
World Inflation-Linked Securities Index	ILSI
FTSE Bitcoin Index	FTBTC
University of Michigan: Consumer Sentiment - Current	USUMCONCH
University of Michigan: Consumer Sentiment - Expectations	USUMCONEH

Appendix 2: Methodology Reference Guide

Report calculations

- Unless noted otherwise, all performance calculations are in US dollar.
- Methodology for calculation of Upgrade-Downgrade ratio in credit markets: Fallen angels, corporate bonds downgraded from IG − a minimum rating of BBB- with S&P, Moody’s or Fitch - to a HY credit rating of BB+ or below, are not included in the calculation of downgrade ratio, as they were not included in the high yield index.
- All credit spreads are with reference to the US 7-10 year Treasury bond index.
- Option-adjusted spread percentiles are calculated by comparing current index-level spreads (as of 28 February) to a fixed, historic 10-year window of month-end index-level OAS.
- Risk premium in equity is calculated as the earnings yield (E/P) of the All-World Developed index minus the yield of US Treasury 7-10 years. Risk premiums in high yield are their credit spreads relative to yield of US Treasury 7-10 years.
- Equity volatility is measured as rolling 24-month annualized volatility using monthly observations.
- Correlation matrix among asset classes is calculated using monthly returns over the time frame of analysis mentioned in the chart heading.
- Earnings yield is calculated as the inverse of PE ratios for the indices in these four asset classes - equity, fixed income, listed real estate, listed infrastructure.
- In currencies, Euro and GBP are quoted as number of US dollars per unit of foreign currency. Yen and CAD are quoted as number of units of foreign currency per unit of US dollar.
- Currency exporters and importers classification is based on the commodity exposure in the macroeconomy of the country.
- Fund flow to geographic markets based on geographic mandate of fund as defined by Lipper. Flow % of AUM is defined as the nominal dollar flow divided by previous month’s asset under management. Rebased cumulative fund flow commencing at the beginning of the 12 month period (sign inverted in rebasing if initial month flow is negative). Rebasing figure is sensitive to the first month’s flow. Figures subject to revision.
- Page 15 uses the Refinitiv/CC CRB Total Return index (US $). Page 9 used the RFV Commodities Price index. The return for commodities is very dependent on the index used, given the huge return dispersion among different commodities and their differing weights in the indices.
- For sustainable investment flows, the data used is the same as the Responsible Investment definition used by Lipper, a tighter definition than just the Ethical restriction.
- For US bond type flow data, the data used are the monthly bond fund flows in US domiciled USD bond funds, as defined by Lipper Global Fund Classification.
- Leverage ratio is defined as total debt divided by historic 12M EBITDA (latest fiscal year).
- In comparing equity dividend yields with sovereign 7-10 year yields, we are using the closest approximation. For Developed Europe ex UK that includes FTSE EMU Government Bond Index with 9 countries (DMs within Euro Area, namely Austria, Belgium, Finland, France, Germany, Ireland, Italy, Netherlands and Spain) and Developed APAC ex Japan is proxied by FTSE Asia Pacific Government Bond Index which apart from the 5 developed markets (Australia, NZ, Hong Kong, Korea and Singapore) also includes 5 EMs (China, Indonesia, Malaysia, Philippines, and Thailand).
- Trade-weighted policy rate differentials are calculated using the Nominal Trade-weighted USD index weights from the Federal Reserve at (https://www.federalreserve.gov/releases/h10/weights/). Historical policy rates are downloaded from LSEG. Yearly trade weights are multiplied with monthly levels of policy rates to calculate an aggregate trade weighted policy rate.
- All data is as of February 28, 2025, with the exception of the most recent FOMC projections that was released December 18, 2024.

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