Global Investment Research
Market Maps

FTSE RUSSELL
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Asset Allocation Insights

USD EDITION

QUARTERLY REPORT | **JUNE 2025**

Macro decoupling increases diversification opportunities amid sustained volatility. Increased role for Fixed Income, Alternatives and International (ex US) Equities.

Macro backdrop conducive to high volatility and dispersion
Global growth faces headwinds (IMF) due to continued high uncertainty and tariff impacts. Inflation vs growth concerns differ between the US and other DMs, leading to divergent central bank paths.

Equity market leadership shifts: Developed Europe shines, while the US underperforms
Dev Europe ex UK equities led performance YTD. The UK & China also outperformed the FTSE All-World, while the US lagged. The change in leadership is underpinned by valuations that have compressed in the US but expanded in other markets. US valuations remain more expensive than most markets, while earnings growth is expected to lag, suggesting the US could continue to underperform.

Greater role for fixed income in multi-asset portfolios
Yields backed up to pre-GFC era, curves steepened due to uncertainty, fiscal expansion & higher term premium; positive for ALM & income investors. YTD returns in FI (~6% for rates, ~5% for credit) match that of equity (~6%). Lower stock-bond correlations have brought back the diversification benefits of FI.

Alternatives: Listed infrastructure and commodities (mainly gold) highly accretive in portfolios
Listed infrastructure delivered equity-like total returns, high income yield and low correlation to equities. Gold shone on the back of high uncertainty and structural geopolitical risk led demand.

Tailwinds for emerging markets (EM)
EM expected to outgrow DM at an increasing rate post-2026 (IMF). Over 3M, EM equities (6.0%) outperformed DMs (2.6%). EM 7-10yr govt bond spreads vs US have tightened since 2022 (sign of resilience), while their equity valuations relative to macro growth lag those of DMs (scope for re-rating).

The US dollar no longer the safe-haven; currency hedging became more important
In an unusual pattern, Euro, Yen and many currencies strengthened vs the US dollar in a stress environment. Bigger role of currency returns raise the importance of hedging decisions.

Macro decoupling leads to increased diversification opportunities
Decoupling in equities led by US diverging from international markets (true for the UK & Developed APAC with a smaller margin). EM equity correlation with most geographic areas (in equity & fixed income) fell to <0.5. Commodity correlation to stocks and bonds turned more negative. Correlations within FI decreased, but to a lesser extent than in equities.

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AUTHORS

Indrani De, CFA, PRM
Head of Global Investment Research
FTSE Russell
Indrani.De@lseg.com

Zhaoyi Yang, CFA, FRM
Sr Manager, Global Investment Research
Zhaoyi.Yang@lseg.com

Henry Morrison-Jones, CFA
Manager, Global Investment Research
Henry.Morrison-Jones@lseg.com

Chart 1: US uncertainty surged to a decade high, in response to changing goods tariffs. Equity volatility picked up more in the US than the rest of the world, but spillover effects are obvious as trade policies matter to partners.

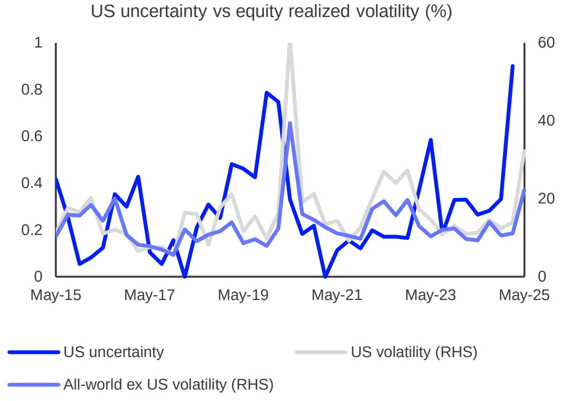
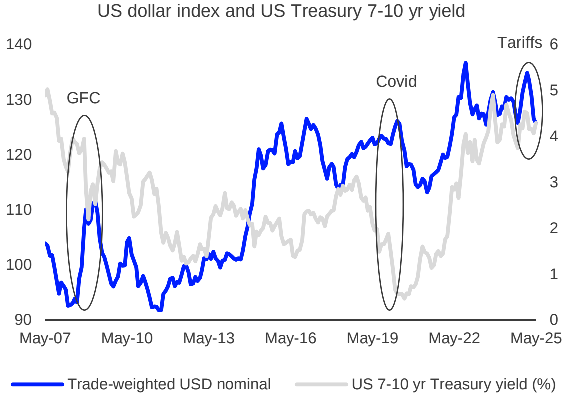


Chart 2: Neither the weakened US dollar nor bearish Treasuries have proved reliable safe havens on tariff shock, unlike during GFC or Covid. The double whammy of US debt downgrade and tariffs may have led to this unusual case.



Source: FTSE Russell/LSEG and US Federal Reserve. All data as of May 31, 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.

Financial Markets Overview

The announcement of tariffs on April 2nd sent shock waves through financial markets. Subsequent de-escalation of trade tensions in May contributed to a broad 'risk-on' mood in recent weeks. However, **policy uncertainty and the resultant downside risks remain high, creating a backdrop that is conducive to high volatility.**

Divergent inflation expectations lead to divergent monetary policy between the US and the rest of the world. While global growth is slowing and tariffs raise inflation concerns, **the trade-off between growth and inflation concerns differs across the world**. US, as the epicenter of higher tariffs with every trading partner, faces both inflation and growth concerns, while rest of the world worries more about slower growth. **Macro divergence lays the ground for higher dispersion across geographic markets.**

Higher risk from deteriorating fiscal positions and uncertainty-led increases in term premium is getting priced into DM sovereigns, particularly so in US Treasuries. **Steepening yield curve**s are now mostly a global phenomenon.

Credit spreads gyrated with tariff moves, with some spread widening as investors demand higher risk premia over rising inflation and policy uncertainties. However, **credit markets responded to tariff shock in a restrained way (compared to Covid & post-Covid inflation shocks), as liquidity conditions remain benign. Euro bonds outperformed the US & EM broadly (in USD terms)**, with a stronger Euro leading to currency benefits. Euro bonds still trade cheaper than their US & EM equivalents.

US equity underperformance in 2025, a significant reversal of its role as the best performing equity markets in the GFC-2024 era, has largely been driven by compression in valuation. Still high current P/Es, real yields and other macro indicators suggest this trend could continue. Meanwhile **higher growth estimates in other markets with lower valuations vs the US, make a case for continued convergence in cross-regional valuations**, but sentiments indicate risks remain in Europe.

While policy uncertainty puts downward pressure on growth globally, **EM growth is still expected to be 2.6x that of DM**. Within equities, EM outperformed DM over 3M, but lagged in fixed income (largely due to China effect). There is **wide dispersion within EM equities, reflecting their relative exposure to US tariffs** (dependent on whether they run trade deficits or surplus with the US).

Commodities exhibited high dispersion, as slowing growth and rising uncertainty favored gold, while growth concerns dampened oil & copper. Structural de-dollarization also favors gold, and AI and green transition demand offsets some cyclical weakness for copper. The relationship of gold vs oil today is a sharp reversal from Sept 2023. Over 1Y, gold returned 40%+ vs 10%+ for most equities & alternatives.

Listed infrastructure & real estate had healthy returns, just behind that of equities in last 12M. They are less correlated to equities than to fixed income. Listed infrastructure had a low correlation to equities over 12M. **High return and low correlation to equities highlight the portfolio benefits of listed infrastructure.**

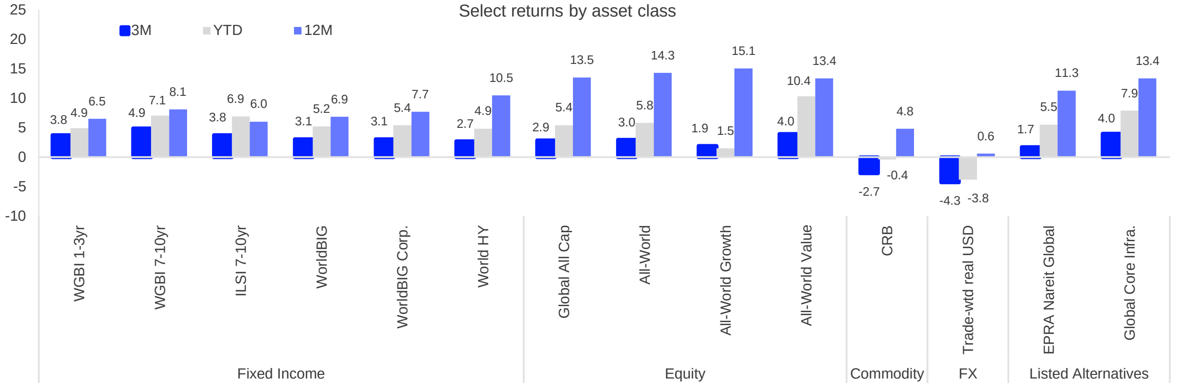
The US dollar did not exhibit its usual safe-haven status in the stress period following wide-ranging US policy uncertainty since the start of 2025. The recent US credit rating downgrade was another headwind for the US dollar. **The high share of currency return in G20 equity total returns in USD in the last 3M highlights the growing role of portfolio hedging decisions.**

Capital flows are reflecting the changing and uncertain environment. 3M investor flows diverge sharply from 12M patterns as **investors turn towards defensive equity sectors, commodities and alternatives**.

In 1Y vs 3Y, the return gap between equities and fixed income narrowed, and volatility for both asset classes broadly drifted lower, despite higher uncertainties, thus improving the return/risk ratios. This implies a **growing role for FI in multi-asset portfolios**.

The last **12 months have boosted diversification opportunities**. Declining stock-bond correlation helps fixed income again provide diversification to equities. 1Y vs 3Y correlation differences show a broad-based geographic decoupling, with significant correlation declines in most asset classes. The decoupling is stronger in equities than in fixed income, largely driven by US equities which diverged from international markets. UK and Developed APAC equities also decoupled from other markets, but by a narrower margin. EM equity correlations mostly dropped by ~0.2-0.5 and had <0.5 correlation with most geographic areas, in both equity and fixed income. Commodities turned more negatively correlated to both stocks and bonds. Correlations within fixed income also decreased broadly, though to a lesser extent than for equities. The exceptions were: Treasuries become more correlated to inflation-linked bonds and real estate's correlation with World high yield credit rose to 0.93.

Chart 1: Sovereigns and IG corporates outperformed equities over 3M (in USD), resulting in fixed income delivering returns that were comparable to equities YTD. Within equities, Value significantly outperformed Growth YTD. Commodities posted losses over 3M, alongside the US dollar, trimming 12M gains. Over 12M, global equities led gains across asset classes, with Global Core Infrastructure and Listed Real Estate not far behind, then followed by World HY.



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Macroeconomic Backdrop

De-escalation of trade tensions in May contributed to a broad 'risk-on' mood in recent weeks, however policy uncertainty and the resultant downside risks remain high.

The IMF reduced 2025 growth forecasts across all major markets in April (Chart 1). Soft and hard data series have begun to diverge in the US, with business and consumer-related survey data weakening to begin the year but both the retail sales and private capital investment components of GDP have remained strong (Charts 2 & 3). US hard data may still be strong given Q1 distortions to front-run tariff impacts, but the expected convergence of soft & hard data increases the potential for continued financial market volatility**.**

Q1 GDP growth was negative in the US but broadly positive for most other developed markets. Net exports were a major negative contributor to US GDP growth in Q1 but a major positive contributor to other markets.

IMF forecasts indicate that EMs are expected to grow at a quicker rate than DMs in the coming years (Chart 4). Forecasts also show that while US growth is expected to moderate in 2025 and 2026, other developed markets are expected to see some recovery in growth in 2026 and beyond (Chart 5). US GDP growth in 2026 is now forecast to be below economic potential, indicating significant economic slack.

Chart 1: The IMF lowered its 2025 GDP growth forecasts across all major markets in April on the back of heightened trade policy uncertainty, suggesting that the impact of tariffs would be broad based.

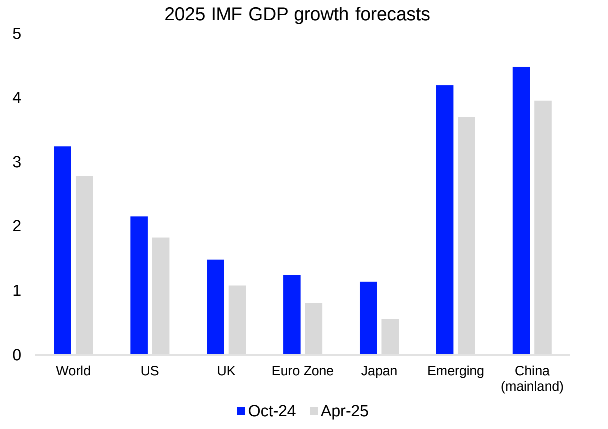


Chart 2: The University of Michigan consumer sentiment survey reached its lowest point since 2022 in April 2025. Despite this, y/y US retail sales growth has continued to rise with tariff impacts yet to be felt.

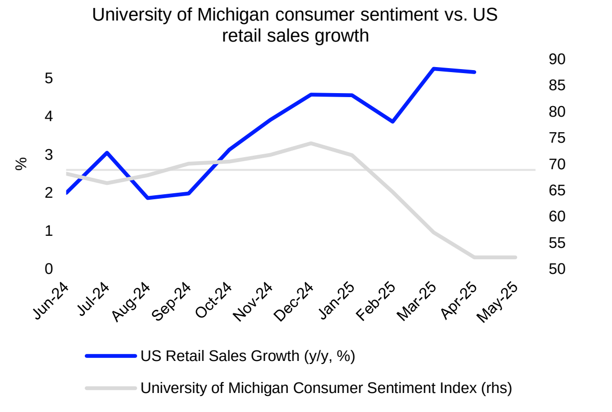


Chart 3: US Manufacturing PMI has weakened YTD, falling to 48.5 in May. However, the private domestic fixed investment component of GDP growth has yet to see significant softening, instead growing +1.9% q/q in Q1.

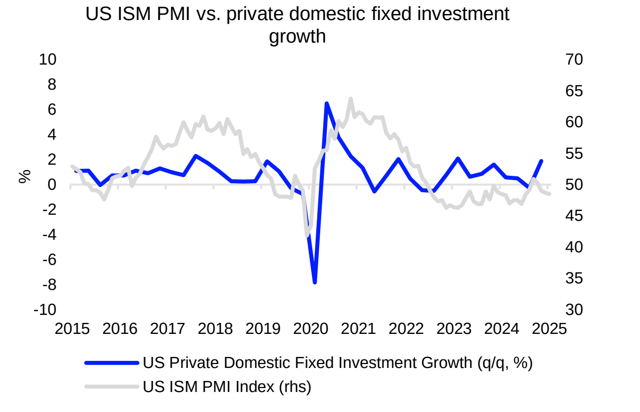


Chart 4: The IMF predicts that emerging markets will outgrow developed markets at an increasing rate post-2026, highlighting their growing importance in the global economy.

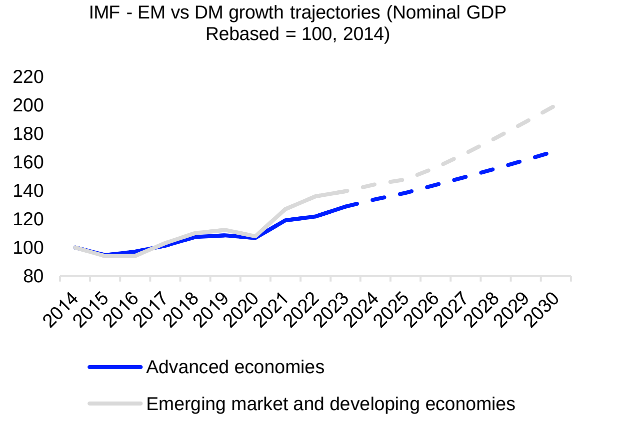
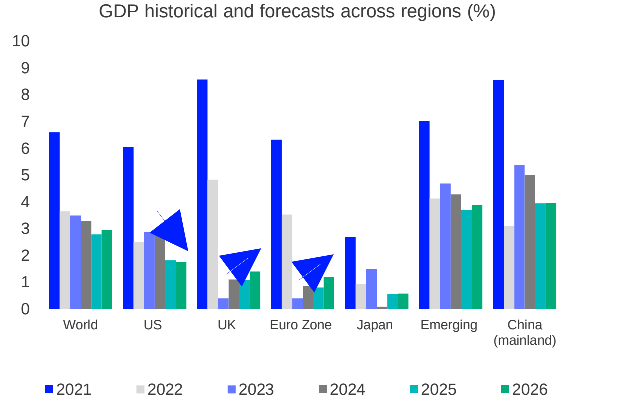


Chart 5: Looking out to 2026, the IMF expects growth to pick up in the UK and Euro Zone but moderate in the US and China. Other developed markets are expected to catch up with the US as growth returns to potential.



Macroeconomic Backdrop (Continued)

Divergent inflation expectations leads to divergent monetary policy between the US and the rest of the world.

While inflation has made significant progress over the past two years (Chart 1), concerns remain, especially in the US. For most DMs, 1-3 year inflation breakevens is now below 2%, while for the US, breakevens have continued to rise over the last year (Chart 2). Rising inflation expectations could restrict monetary easing in the US. Since the US election, the US has already seen one of the sharpest reversals in forecasts for rate cuts in 2025 (Chart 3). The US is now an outlier among DMs.

Historically, while equity returns in developed markets have largely tracked GDP expansion over the past decade, some EMs have seen equity performance lag what economic fundamentals might suggest (Chart 5). If using the relationship between GDP growth and equity performance as a barometer, emerging market growth forecasts indicate the potential for a re-rating or catch up in equity performance looking forward. For developed market economies, IMF forecasts of a narrowing growth gap between the US and non-US developed markets suggest that differences in equity performance between the US and the rest of the world should also narrow.

Chart 1: Although inflation across most DM economies has made significant progress, it remains stubbornly above central bank targets for many markets, demanding caution from central banks.

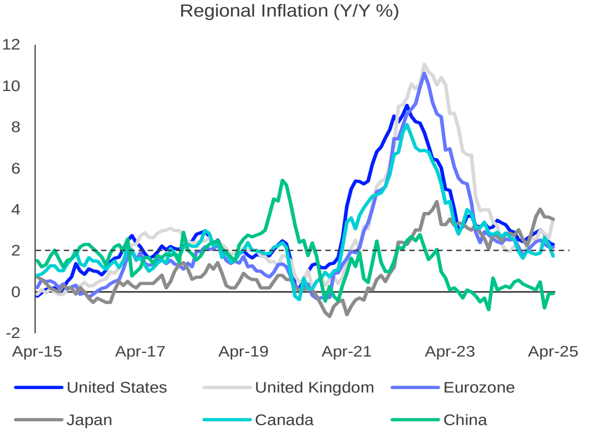


Chart 2: In the US, short term inflation expectations have increased markedly, adding additional complexity to central bank decision-making. In Europe, short term inflation expectations are lower than in the US.

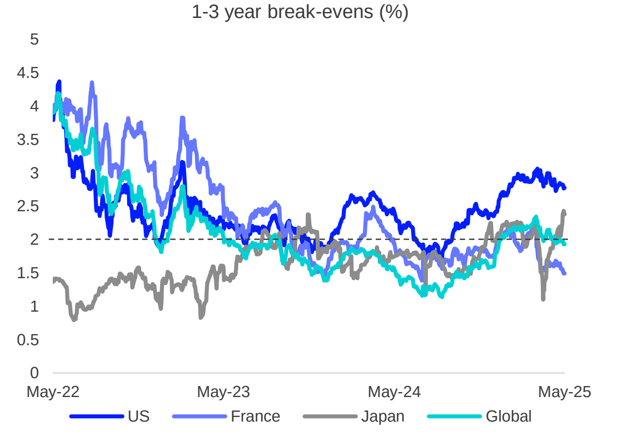


Chart 3: Forecasts for end-2025 policy rates across developed economies show that since the US election, the US has seen the sharpest reversal in expectations for policy rate cuts among its peers.

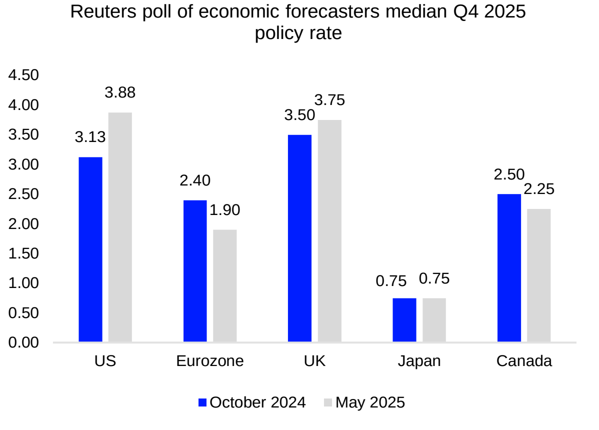


Chart 4: Policy uncertainty remains high, yet recent risk-on momentum has led equities to outperform bonds. Correlations between policy uncertainty and Stock/Bond valuations indicate that (US) equities have downside risk.

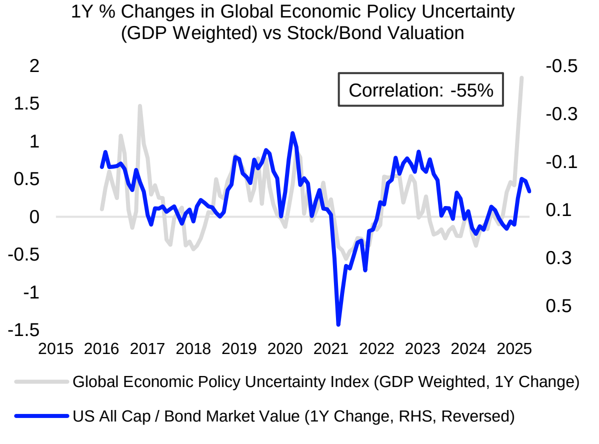
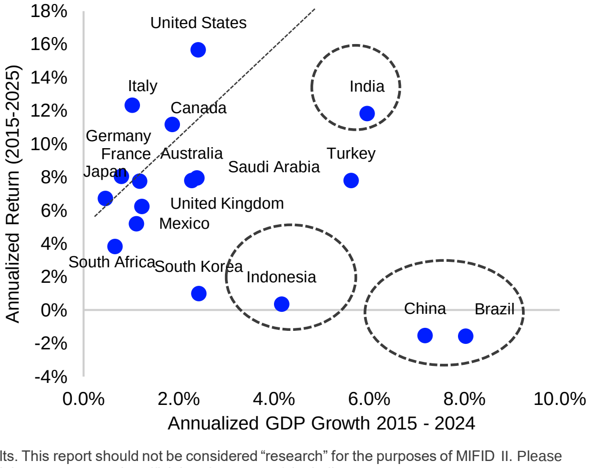


Chart 5: Over 10Y, equity returns have aligned with GDP growth in DMs but not EMs. This, along with (IMF forecasts) of US growth moderating and high EM growth, could suggest structural tailwinds to EM equities.



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Trade policy uncertainty: how did markets fare through the volatility?

The announcement of tariffs on April 2nd sent shock waves through financial markets. However, the original announcements were soon superseded by announcements of delays or trade talks that re-kindled optimism, leading to a bounce-back in many market segments. By the end of April, most equity markets had almost fully retraced, but there was a divergence, with the US and China trailing Europe and APAC in USD terms (Chart 1). Despite the retracement, the extreme volatility seen during April is an indication of potential risk in the market (Chart 2). While equity markets retraced quickly, currency markets did not, with most developed and emerging currencies appreciating against the USD, which did not play its traditional safe-haven role (Chart 3). These currency moves drove a surprising wedge between returns in local currencies and in USD, bringing the importance of currency hedging to the fore (Chart 4). Disentangling the impact of trade policy uncertainty on the cross-section of industry returns was complicated by several other global drivers, including a) the dramatic drop in oil prices, which pulled down the Energy industry, b) steepening of yield curves that helped extend the run of Financials, and c) the resurgence of global Tech after a weak Q1. In addition, Health Care was dragged down, perhaps by other policy uncertainty in the US (Chart 5). In fixed income, most sovereign yield curves saw a steepening during the two-month period but there was a divergence between Europe / Asia-Pacific, where yields fell, and the US (and Canada), where yields rose (Chart 6).

Chart 1: The tariff announcements led to a sell-off, followed by a rapid rebound, although China and the US were both still negative at the end of April. In May, optimism led to a continued run-up.

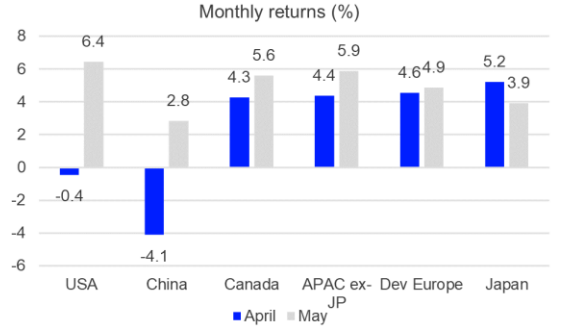


Chart 2: Equity volatility spiked as the sell-off was followed by a rapid rebound. As equity markets retraced after tariffs were paused, volatility quickly dropped to be even lower than before the initial announcement.

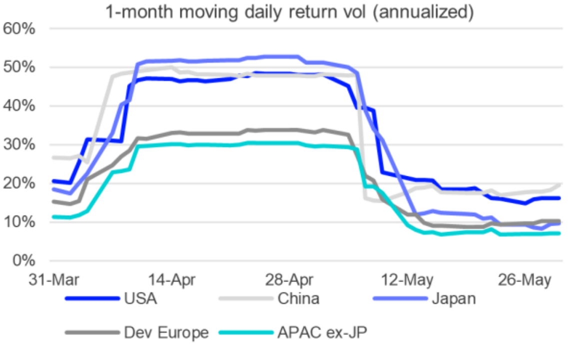


Chart 3: Most currencies strengthened against the USD during April, and those moves did not reverse, leaving the Swiss franc, Euro, British pound and Japanese yen acting as safe-haven currencies.

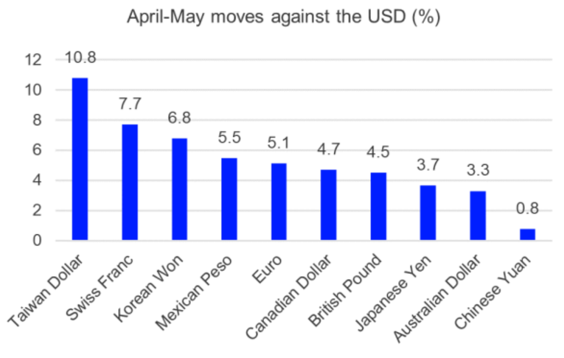


Chart 4: The large currency moves created an outsized difference between international equity returns in different currencies as the falling US dollar strengthened most non-US returns in USD terms.

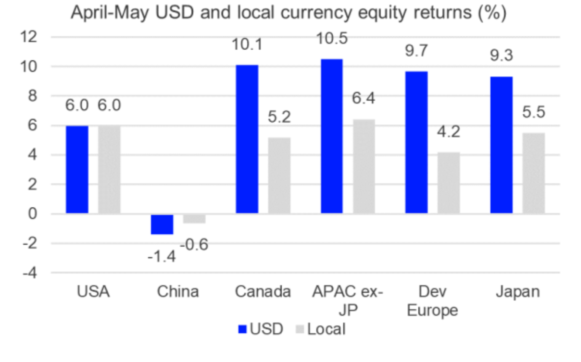


Chart 5: Cross-sectional industry returns were affected not only by tariff dynamics, but the drop in oil prices (Energy was the worst performer), the steepening of yield curves (Financials) and the rebound in Tech.

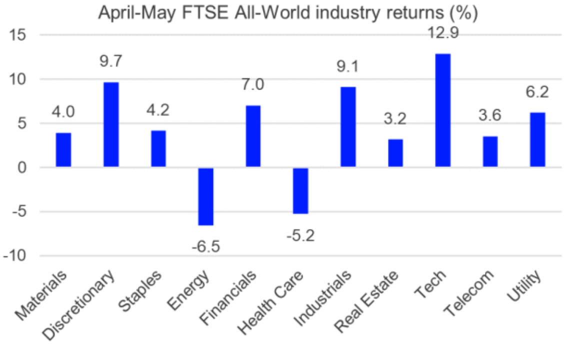
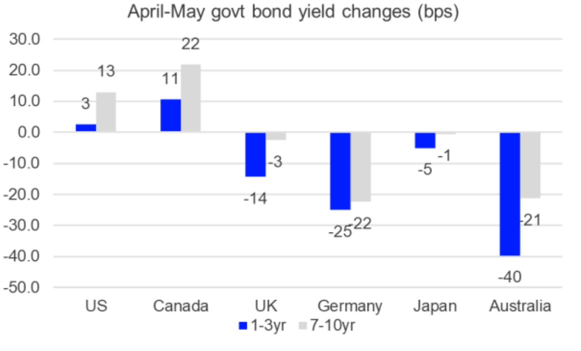


Chart 6: While most countries saw yield curve steepen, the US and Canada saw rising rates, while yields in Europe and Asia-Pacific generally fell over the two-month period.



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Sovereign Yield Curves

Uncertainty-led increases in term premium and higher risk from deteriorating fiscal positions getting priced into DM sovereigns. Long-run estimates of Fed rate at 8-year high.

Both real yield and term premium (Charts 2&3) have driven 10-year sovereign yields higher in recent 3M, which stabilized near levels last seen pre-GFC. US Treasury investors now demand a higher rate of return from rising US fiscal risk, confirmed by Treasury's downgrade (Moody's), with 7-10-year yield climbing to 4.3%. Only Chinese yields remain on a downward trend, well below global peers and approaching yields of JGBs.

G7 yield curves continued steepening (Chart 4), particularly the 20s/2s curves, pricing in more monetary easing (for Europe and UK) & long-term fiscal strain risks (bear steepening in the long end). Ultra-long JGB yields increased due to shocks from both demand (central bank tapering & lower demand from Japanese life insurers) and supply (issuance trim). It's worth noting that what happens to JGBs may affect US Treasuries, given that Japan stands as the largest foreign creditor of US debt.

Longer-run expectation for Fed funds rate had increased by March, reflecting planned tariff increases, although the magnitude and persistence of such effects were unknown. Higher costs pass-on to consumers may result in a more rapid inflation resurgence, slowing down the Fed's easing pace.

Chart 1: G7 7-10-year yields have reversed to pre-GFC levels, including JGBs, which are completely out of the zero-rate trough seen during the Covid shock. But Chinese bond yields have continued to fall to new lows.

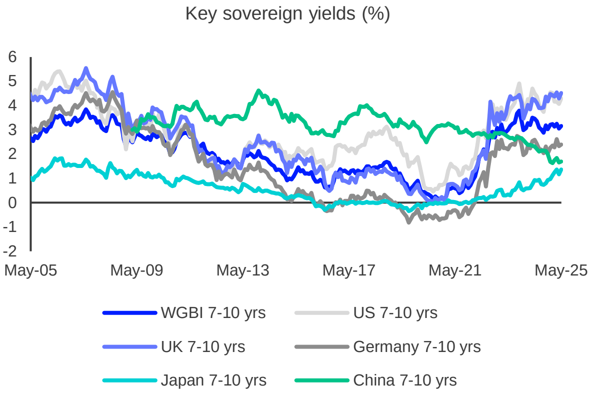


Chart 2: Real yields increased over 3M, led by the UK and Canada, driving nominal yields up across the board. Breakeven inflation reduced the most in the UK, with April household bill hikes deemed as a one-off.

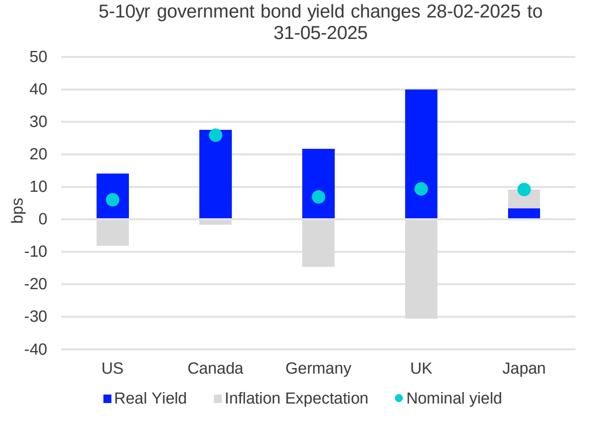


Chart 3: Another boost - Term premium increased, reaching a new 10-year high. It has added to higher 10-year sovereign yield over 3M, despite market inflation expectation easing a bit.

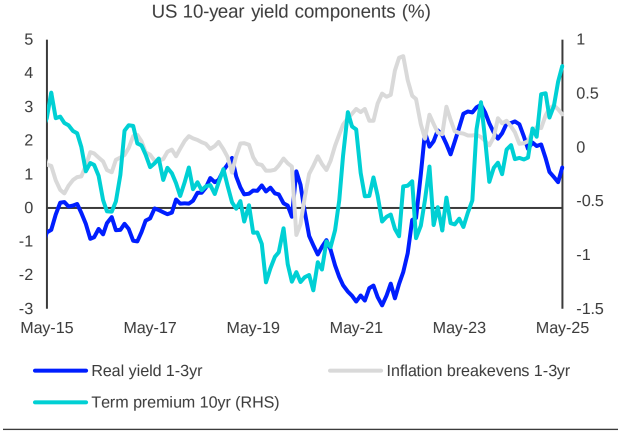


Chart 4: Major G7 20s/2s curves bear steepened, largely driven by yield increases in longs. JGB curve remains the most steepened, despite the outlook of lower supply preventing yields from surging higher.

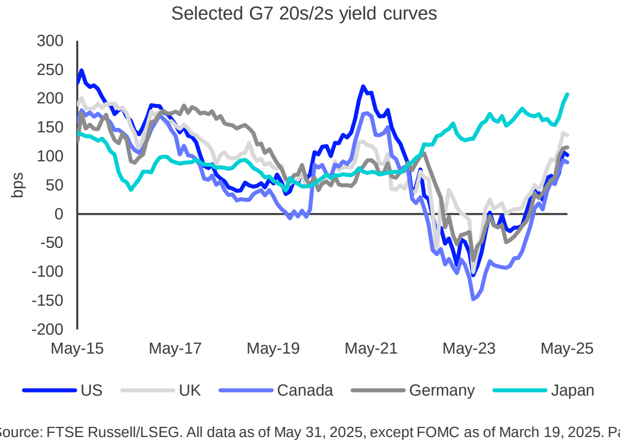
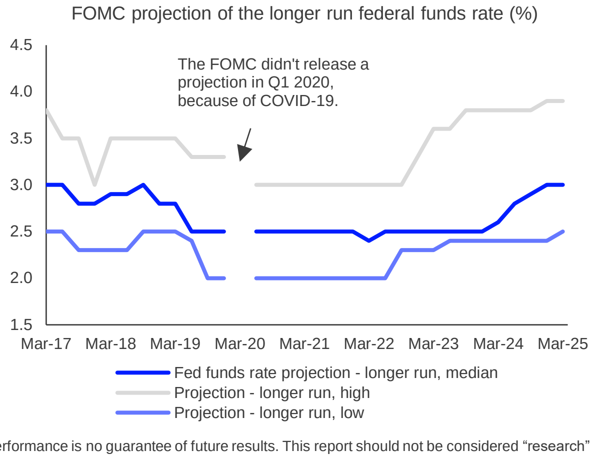


Chart 5: Projections of the longer-run Fed funds rate have increased to 3% in March, prior to the higher tariff policy effective from April. The upper and lower end of the range also rose, after staying still >1 year.



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Credit

Credit spreads moved with tariffs, and investors demand higher risk premia following policy uncertainties. Euro credit outperform the US and EM broadly.

US corporate bond spreads have largely been driven by tariff news and trade talk progress between the US and its major trading partners over 3M (Chart 1). Spreads surged to recent highs on heightened risk aversion, due to higher uncertainty, before falling back to pre-tariff levels. Tariff pause and trade agreements between the US and its major counterparts like China and the EU eased some tensions.

HY debt, a canary in the coal mine: HY spreads broadly widened over 3M, whereas IG spreads only did so marginally. 3M changes were less pronounced vs intra-month (Charts 4 & 5 show daily movement), as temporary trade war truce have pulled spreads back from their April 7 peaks. Spread volatility spiked, more so in HY than IG, in line with equity volatility.

Despite wider spreads, Euro corporates posted substantial 3M returns of 9.7-9.8%, boosted by a stronger EUR/USD. EM corporate returns were almost flat over 3M (0.3% in both IG and HY), only outperforming US IG (-0.4%). Euro HY (13.1%) overtook EM HY (9.1%) as the top 12M performer. Euro IG also delivered double-digit 12M returns (11.4%). (Chart 3)

Chart 1: US credit spreads surged on tariff updates, reaching cycle highs of 122bps for IG and 474bps for HY around April 7. Immediately after the tariff pause April 9, spreads tightened sharply – but still higher than end-24.

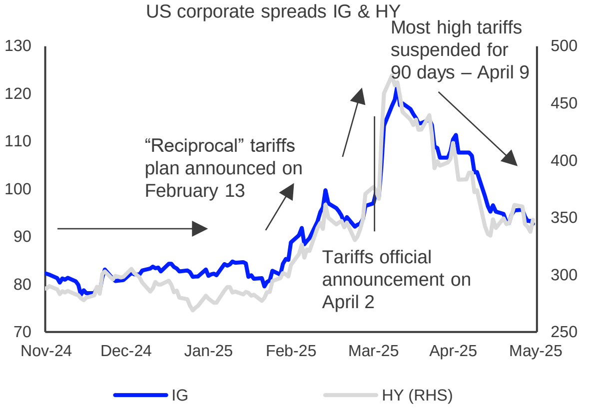


Chart 2: Over 3M, HY spreads have widened globally – slightly more in Europe and EM than in the US. 3M moves in IG were muted. Notably, Euro spreads narrowed in both IG and HY over 12M, as did EM HY.

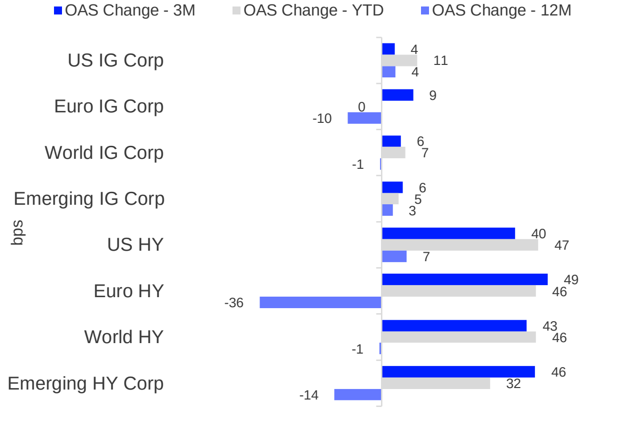


Chart 3: Significant 3M returns of Euro bonds were dominated by Euro's appreciation versus the dollar, extending YTD returns to 11.4% in IG and 12.0% in HY. YTD, IG (5.4%) outperformed HY (4.9%) globally.

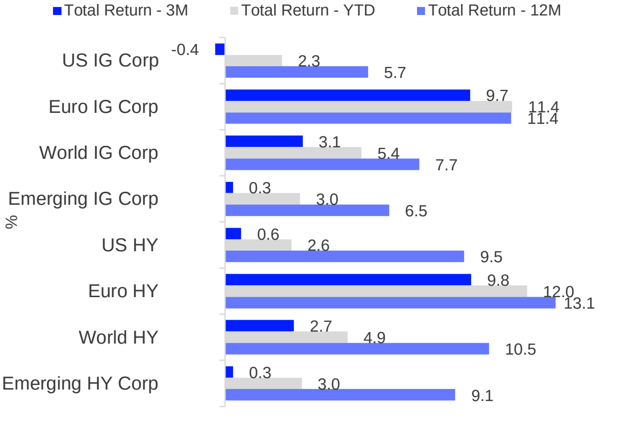


Chart 4: Euro IG (87bps) still maintained a narrower spread than US IG (93bps), but with a tightening gap. World IG spreads fell back near decade lows (12th percentile), despite tariff-driven moves intra-month.

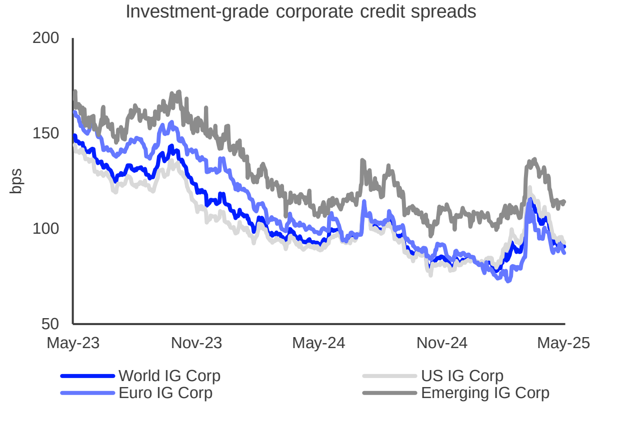
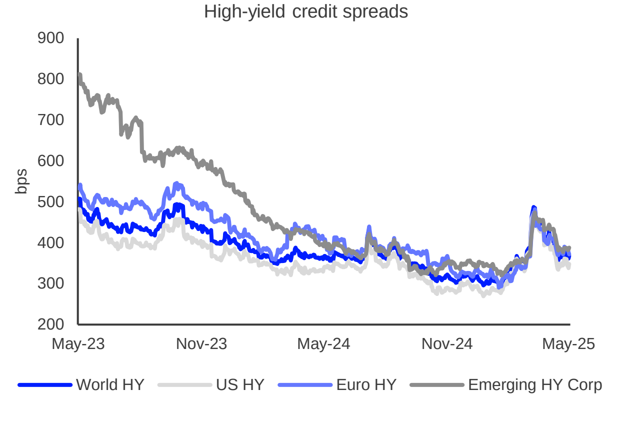


Chart 5: US HY spreads (348bps) stayed lower than Euro HY spreads (372bps). Emerging HY spreads have converged significantly towards US and Euro peers (vs 2023), helped by Chinese HY recovery.



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Credit (Continued)

Credit markets responded to tariff shock in a restrained way (compared to Covid & post-Covid inflation shocks), as liquidity conditions remain benign. Euro corporate bonds trade cheaper than US and emerging markets.

Higher duration risk-adjusted returns vs 3M ago indicate that investors became more risk-averse during geopolitical and trade policy uncertainties. Within HY, the gap between the highest, EM (2.25), and the lowest, Euro (1.86), widened over 3M.

Risk-aversion affects valuations – IG valuations show a stronger comeback than HY. Ongoing trade negotiations are likely to keep uncertainty elevated, posing risks to HY valuations.

Tariff effect proves significant within a 10-year history – a large scale of shifts in spread percentile (Chart 2) and CMDI (Chart 4), but still not as influential as the Covid shock in 2020 or the inflation shock during 2022-23. Region wise, Euro corporate bond valuations remain more attractive (cheaper) than peers (Chart 3). This is despite US & Emerging corporates becoming cheaper over 6M, while Euro IG has become much more expensive since November 2024 contrary to the lower valuations of its corporate peers.

In contrast to the equity and HY bond markets turbulence, US liquidity conditions and market implied default rate are little changed (Chart 5).

Chart 1: Yield per unit of duration risk has increased more aggressively in high yield vs investment grade over 3M. It has stayed the highest in emerging markets vs (US & Euro) in both HY (2.25) and IG (0.99).

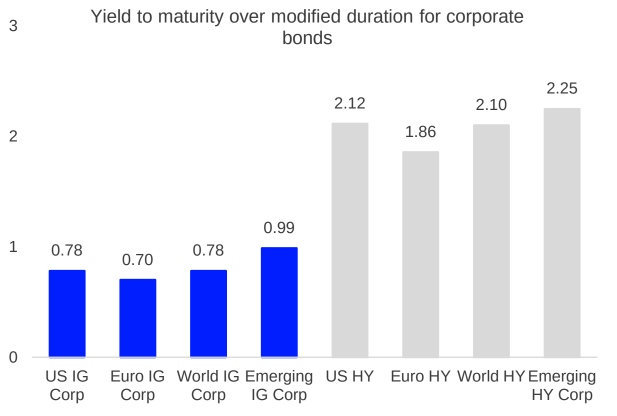


Chart 2: IG valuations reversed back near 10-year high levels in May, after the tariff shock in April, while the reversal was less powerful in HY. The tariff tension eased a bit, but uncertainty remains as trade talks continue.

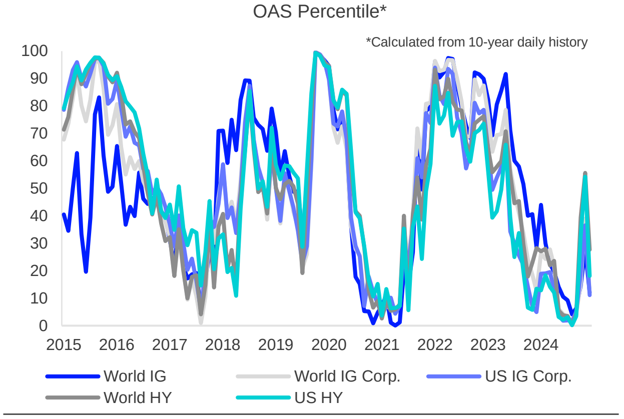


Chart 3: Valuations remain more attractive in Euro bonds than the US and Emerging. But Euro HY valuation became cheaper than 6M ago vs Euro IG Corp turned more expensive amid the risk aversion sentiment.

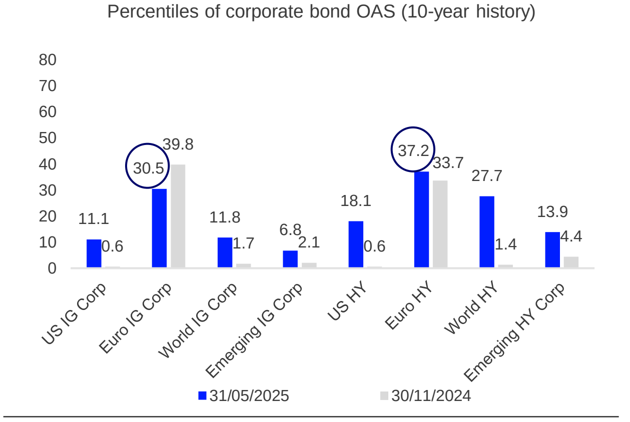


Chart 4: Corporate bond market disruption by tariffs is also captured by the distress index – a Q2 spike led by HY. IG is more shielded, as the creditworthiness implies, unlike during 2022 when rate risk dominated.

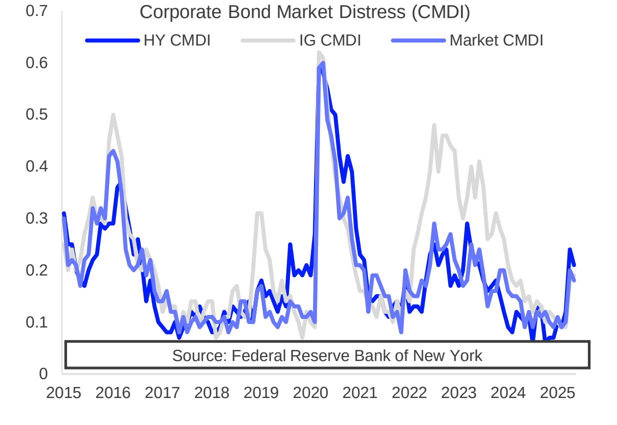
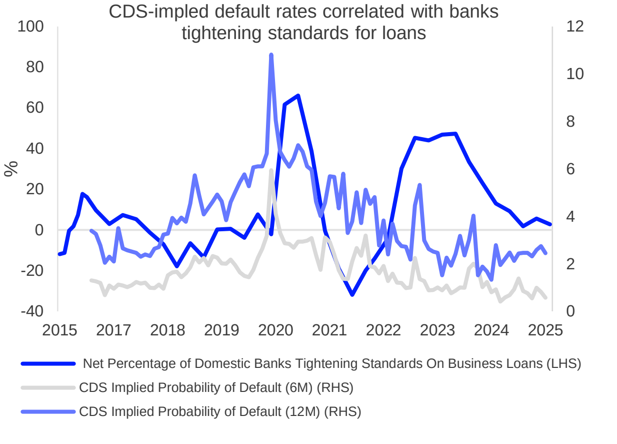


Chart 5: US liquidity conditions remain favorable, boosting market confidence – CDS-implied probability of default has stayed pretty much insulated from the tariff shock.



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Equities

US underperformance in 2025 has largely been driven by valuation compression, but current P/Es and real yields suggests this trend could continue.

Equity market performance was broadly positive over 3M in USD (Chart 1), led by strength in Developed Europe ex UK and Japan. YTD, the US has underperformed other major markets as policy uncertainty and risks to its growth and inflation outlooks have caused investors to become wary of higher valuations. As of May, the correlation between valuations and subsequent 10Y returns continue to suggest significantly lower returns for the US compared to those in recent years (Chart 3).

Changes in valuation appear to have been the main driver of underperformance in US equities YTD (Chart 2). However, the historical relationship between real yields and valuations suggest that further re-rating may be necessary (Chart 4). Europe, the UK and China have benefitted from a positive re-rating in valuations.

In April, the percentage of companies with negative earnings revisions picked up as trade tensions and the resultant risk to earnings caused analysts to revise estimates. However, the number of negative earnings revisions were notably lower in May, falling back towards 2-year mean levels. Any further escalation in trade tensions could re-accelerate downward earnings revisions, which sit as another downside risk to equities.

Chart 1: YTD, the US has underperformed FTSE All-World, while Developed Europe ex UK, UK and China have outperformed. Over 12M, the US narrowly outperformed, while China led other major markets.

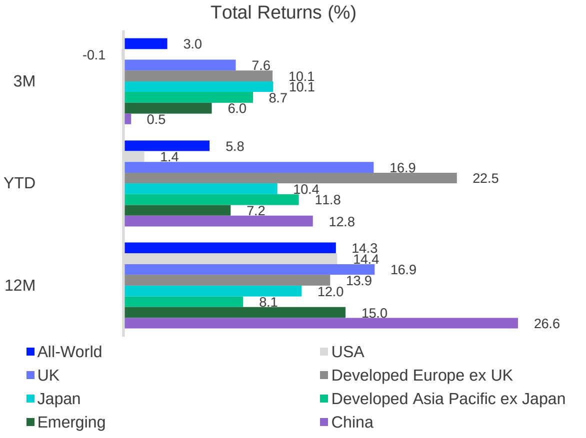


Chart 2: Changes in valuation have been a negative contributor to US equity performance YTD, while in Europe, the UK and China have benefitted from a positive re-rating in valuations.

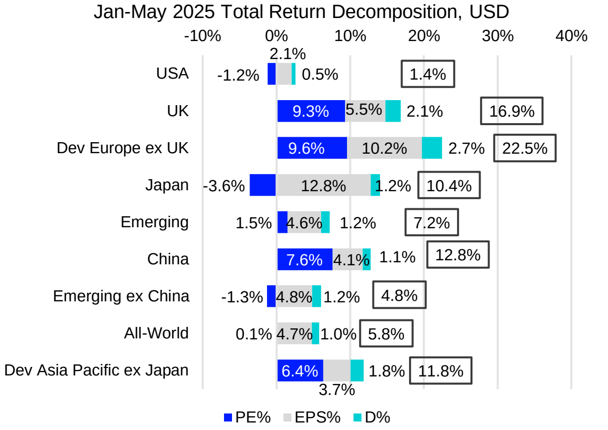


Chart 3: Historically, higher valuations have been negatively correlated with 10Y equity returns. Despite some decline in valuations YTD, current levels imply lower forward-looking returns for the Russell 1000.

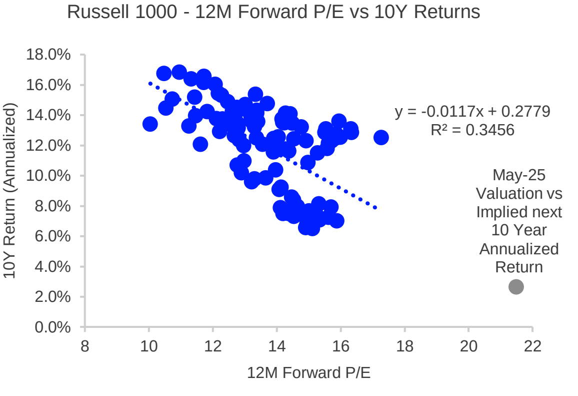


Chart 4: Historically, higher real yields have been correlated with lower equity valuations. However, since 2022, this relationship has diverged in the US, as valuations have continued to rise despite higher real yields.

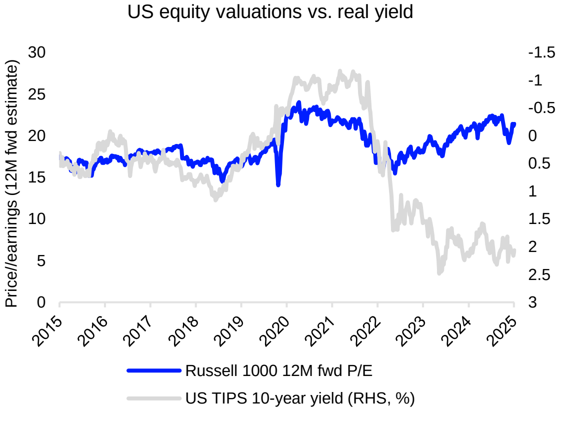
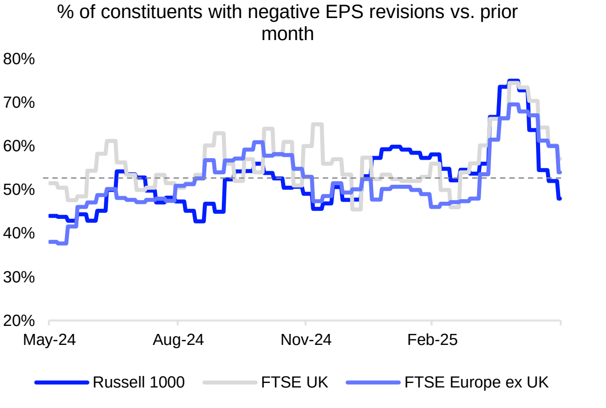


Chart 5: Negative EPS revisions rose in April as policy uncertainty reached peak levels. However, de-escalation of trade tensions in May saw the number of negative revisions fall back towards 2-year mean levels.



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Equities (continued)

Growth forecasts make a case for continued convergence in cross-regional valuations, but risks remain in Europe.

In the context of stretched valuations, markets outside of the US appear less risky. Notably, while valuations for the FTSE USA index still sit close to 10-year highs, valuations for other developed markets, including the UK and Europe sit slightly above their 10-yr mean. Japan remains one of the only major markets with valuations below 10-year mean levels (Chart 1).

FTSE Developed is now forecast to see higher earnings growth than FTSE USA over 2Y (Chart 2), making the case for some narrowing in cross-market valuations between the US and its peers. However, survey data in Europe suggest caution, with current levels of the IFO business climate survey implying that further earnings downgrades may be warranted (Chart 3).

The rally following the news of US-China trade discussions in May was relatively broad based, even in countries where no formal deal has been reached. This suggests that any further de-escalation is likely to encourage an 'everything rally' rather than one isolated to only those directly affected markets (Chart 4). In the US, retail equity ownership, a traditionally contrarian indicator of risk, now exceeds levels seen during the dot-com bubble, pointing to stretched retail investor sentiment (Chart 5).

Chart 1: US valuations remain near 10-year highs while other developed markets, including Europe and the UK, are only slightly above 10-yr mean levels. Lower than LT valuations in Japan make it an outlier among peers.

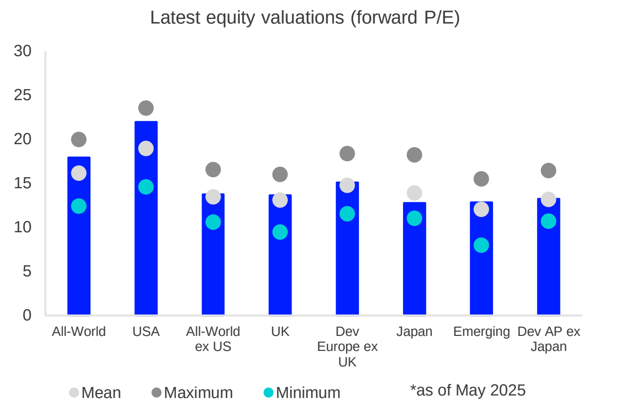


Chart 2: (IBES) 2Y EPS growth forecasts improved for developed markets over 3M but remain lower than 12M ago. FTSE Developed is expected to see faster growth than FTSE USA, and FTSE EM the fastest.

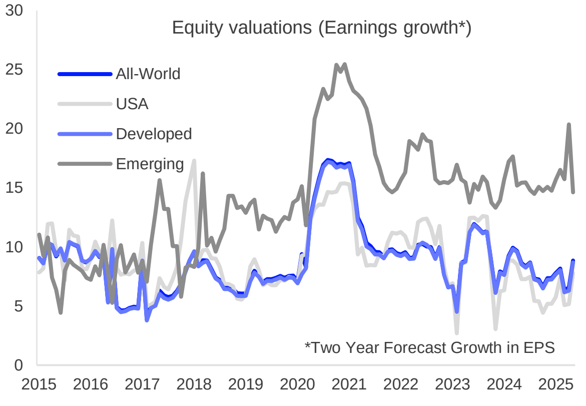


Chart 3: Survey data in Europe suggest caution, with current survey data implying further earnings downgrades may be warranted for the FTSE Developed Europe ex UK.

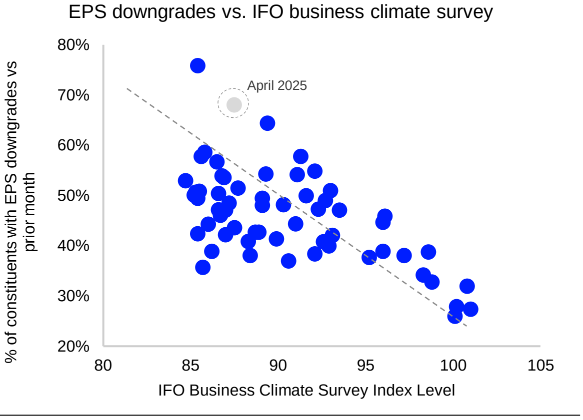


Chart 4: The rally in equities following the news of US-China trade discussions in May was relatively broad based, even in countries where no formal deal has yet been reached.

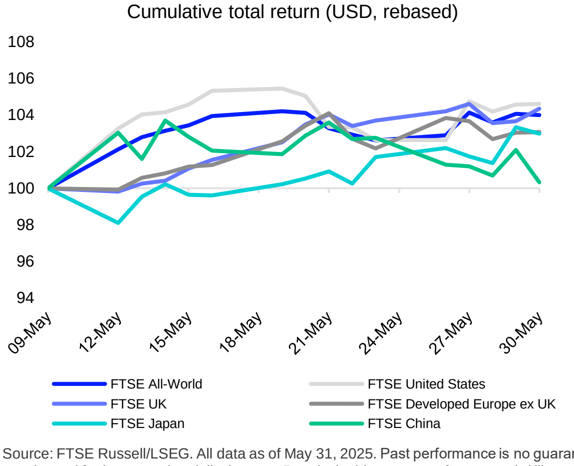
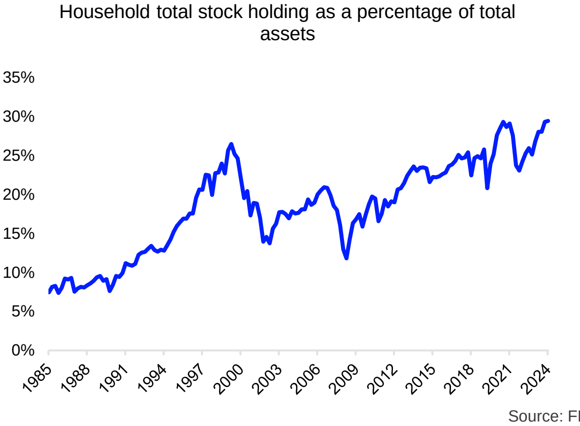


Chart 5: Retail equity ownership in the US remains one key risk, with US household total stock holding as a percentage of total assets now exceeding levels seen during the 1990s-2000s dot-com bubble.



Source: FRED

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Emerging Markets

Policy uncertainty puts downward pressure on global growth, but EM growth expected to be 2.6x that of DM. Within equities, EM outperformed DM over 3M, but lagged fixed income (largely China effect). Dispersion within EM reflects their relative exposure to US tariffs.

Growth forecasts were downgraded globally over 3M, yet financial markets posted positive returns in US dollar terms. EM's outperformance vs DM in 3M, in both equities and ex-China rates, is in-line with their stronger growth outlook and reduced risk perception (compressed sovereign spreads).

Within EM, countries with lower exposure to US tariff hikes (due to trade deficit with the US) benefitted on a relative basis, and so Brazil led YTD gains in both equities and fixed income (Charts 2 & 3). China's 3M performance was more subdued than peers across equity/fixed income/currency, not surprising given its centrality in US trade policy changes.

EM 7-10-year sovereign spreads versus US Treasuries have generally narrowed since the Fed's monetary tightening started in 2022, even turned negative for some (e.g., China, Thailand, Malaysia). The Fed being on hold, rating downgrade of US debt, higher term premium, and most EM central banks being in easing mode, may further reduce EM sovereign spreads. Chart 5 indicates that FX volatility risk premium is now generally priced in EM govt bond yields.

Chart 1: The IMF revised down its 2025 growth projections across the board (in both DM and EM), reflecting downside risks from trade policies. Fiscal support may help growth in China and Europe.

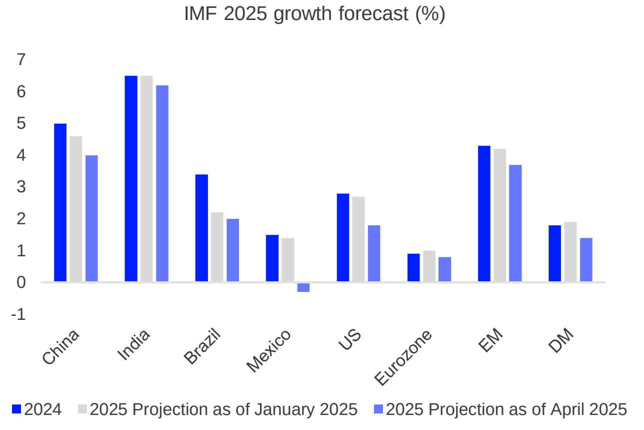


Chart 2: Over 3M, EM equities (6%) outperformed DMs (2.6%), boosted by heavily-weighted India and Brazil. Saudi Arabia lost 6.9%, after sharp declines in May. Brazil (21%) overtook China as the top YTD performer.

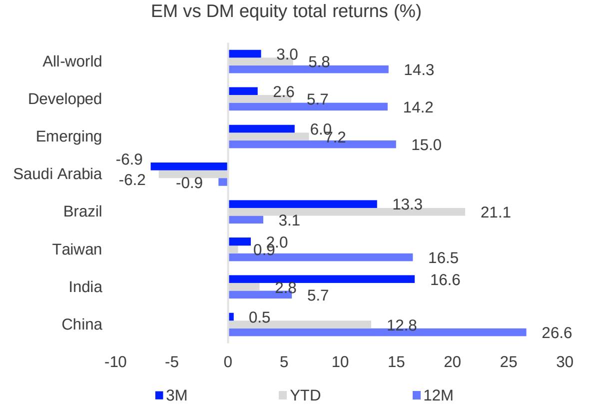


Chart 3: Within fixed income sovereigns, EMGBI (3.3%) underperformed DMs (5.2%) due to a high share of China (only up 2.1%). Brazil, Mexico, Malaysia and India led gains in EMs over 3M. Brazil shows a strong comeback in 2025.

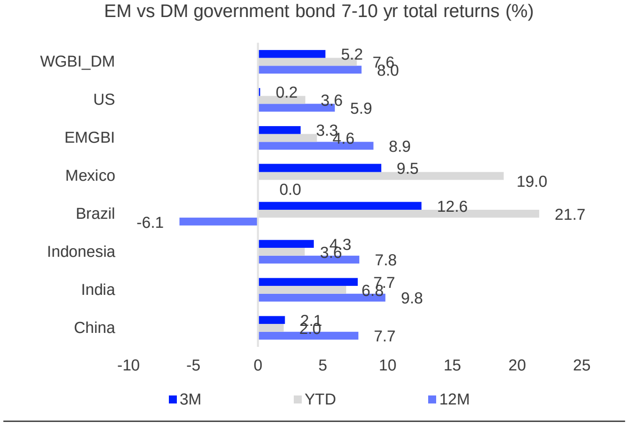


Chart 4: EM 7-10yr govt bond spreads vs US mostly tightened since 2022, due to diverging policy rates and higher Treasury yield. Spreads are now near multi-year low, staying negative for several Asian markets.

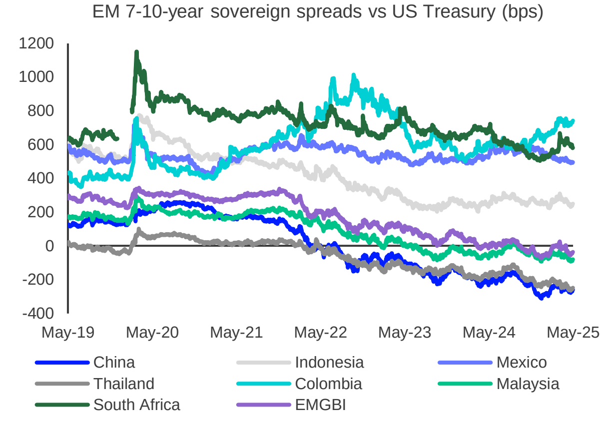
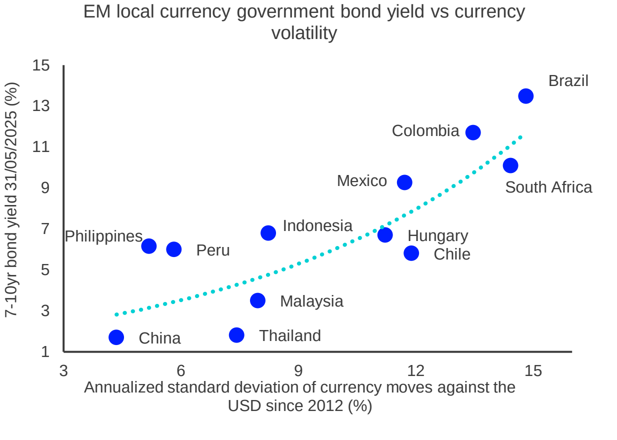


Chart 5: EM local currency govt bond yields as of end-May show a positive correlation with exchange rate volatility. This may imply investors demand higher risk premium for holding more volatile currencies.



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Commodities

Commodity returns diverged as slowing growth and rising policy uncertainty favors defensive metals. Structural demand offsets some cyclical weakness for copper.

Commodity returns have diverged over 12M, as defensive commodities, such as gold, have benefitted from concerns around structurally higher inflation and policy uncertainty, while cyclical commodities, such as copper and oil, have seen headwinds over a weakening global growth outlook (Chart 1). Over 12M, the broader FTSE Core Commodity CRB index has risen 4.8%, driven by a ~42% surge in gold, while copper and crude oil returned ~(-)4% and ~(-)22% respectively.

WTI prices fell in April following the Liberation Day tariffs. Forward curves also declined and are indicating expectations for lower oil prices for the next few years than was expected by market participants even 3M prior (Chart 4). For copper, more recent YTD returns have been positive, with structural drivers such as global electrification helping to dampen the impact of volatile economic data. Steepening real yield curves also historically signal a favorable environment for copper (Chart 5). Historically, gold prices have tended to increase during periods of elevated economic policy uncertainty (Chart 2), which has been a key theme in recent months – adding to the structural drivers of higher gold prices, including increased central bank holdings of the asset, driven by de-dollarization and economic fragmentation (Chart 3).

Chart 1: Gold has led performance over all 3 periods, fuelled by concerns of structurally higher inflation and policy uncertainty. Cyclical commodities have seen mixed performance, with global growth concerns a headwind.

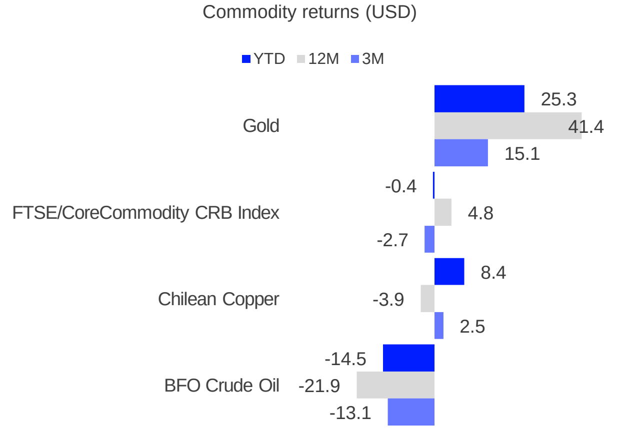


Chart 2: Historically, gold prices have tended to increase during periods of elevated economic policy uncertainty. Recent rises in policy uncertainty have acted as a tailwind to gold prices.

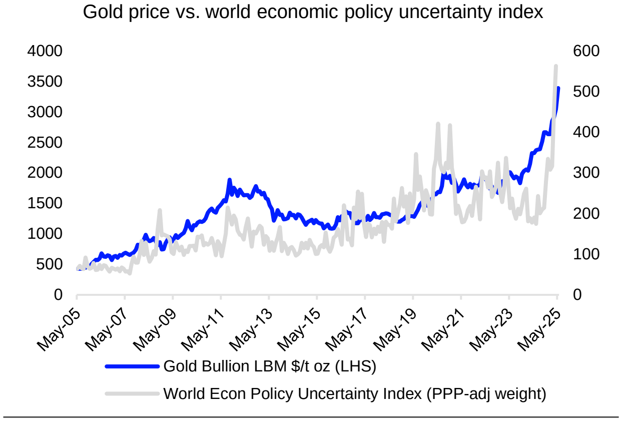
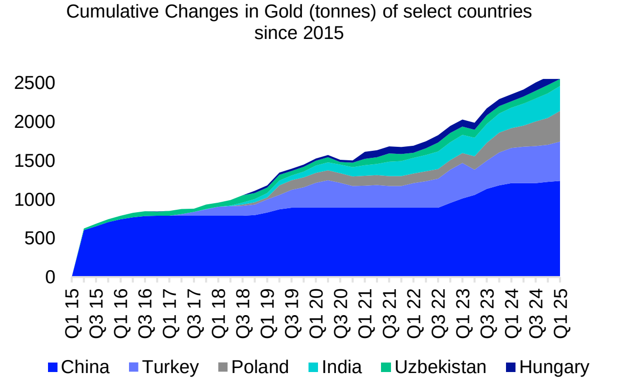


Chart 3: De-dollarization and economic fragmentation have also been structural tailwinds for gold as central banks have increased gold holdings over 10Y, most notably in China, Turkey, Hungary and Poland.



Source: World Gold Council

Chart 4: WTI prices fell sharply by ~$10/barrel in April following the 'Liberation Day' tariffs. Forward curves also fell and are indicating expectations of lower prices in future years than was expected 3M ago.

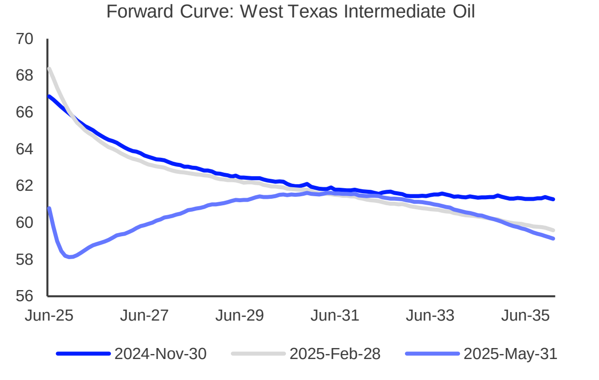
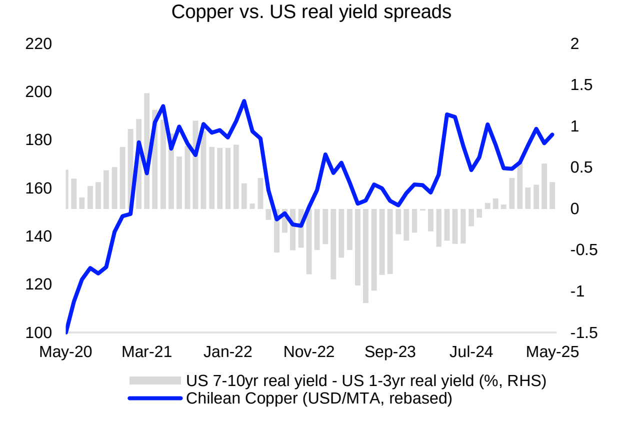


Chart 5: While copper has largely traded rangebound between $165-$190/MT since mid-2024, we note that a positive sloping US real yield curve (such as we're seeing now) tend to be favorable for copper price movements.



Source: FTSE Russell/LSEG. All data as of May 31, 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

12M correlations and recent relative performance highlight the diversification benefits of listed alternatives.

Both FTSE Global Core Infrastructure and FTSE EPRA Nareit Global Real Estate have seen strong performance over 12M, returning 13.4% and 11.3%, respectively. In addition to higher returns over 12M, infrastructure also saw lower volatility than listed real estate over the period (Chart 1). Both indices also exhibited lower correlation to equities than to FI, especially listed infrastructure, which saw a 12M correlation with FTSE All-World of 0.4 (Chart 2), highlighting its potential for diversification. Over 12M, we also note that listed real assets have been more correlated with fixed income than equities.

Within listed real estate, 12M sector performance has been led by data centers and healthcare. Industrial/office and lodging/resorts were the only sectors with improved 3M vs. 12M performance, signaling a recovery for two sectors that have seen structural headwinds in recent years (Chart 3).

For global infrastructure, regional performance leadership has shifted recently, with Emerging outperforming Developed markets over 3M, but lagging over 12M (Chart 4). 12M rolling relative performance for listed infrastructure vs equities has picked up YTD amid higher equity volatility but is just above LT average and highlights the benefits of this asset class.

Chart 1: Over 12M, FTSE Global Core Infrastructure & FTSE EPRA Nareit Global Real Estate gained 13.4% & 11.3% in USD, respectively; a slightly lower return than FTSE All World (Equity), but with a higher volatility.

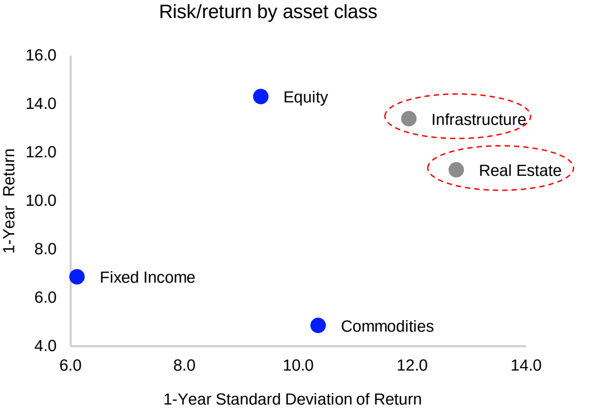


Chart 2: Both global infrastructure & global listed real estate had a low 12M correlation with equities, especially infrastructure, which saw a 12M correlation of 0.4, highlighting its potential for portfolio diversification.

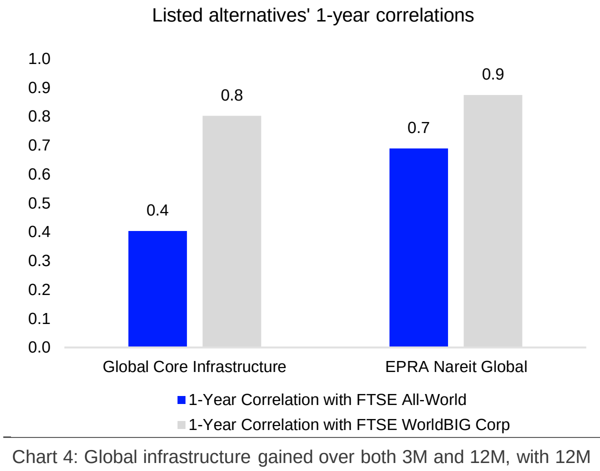


Chart 3: Industrial/office and lodging/resorts were the only Listed RE sectors with improved 3M vs 12M performance, signaling a recovery for two sectors that have seen structural headwinds in recent years.

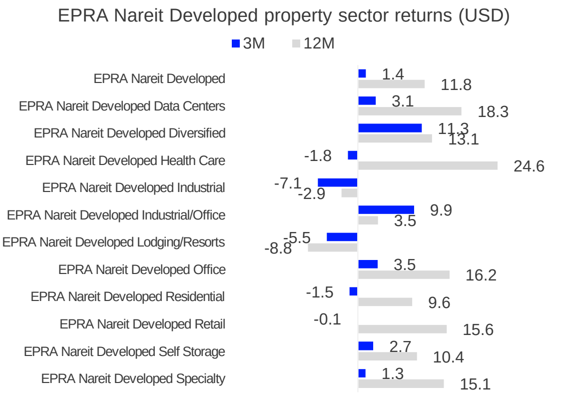


Chart 4: Global infrastructure gained over both 3M and 12M, with 12M performance led by Developed, while more recent performance was led by Emerging Markets.

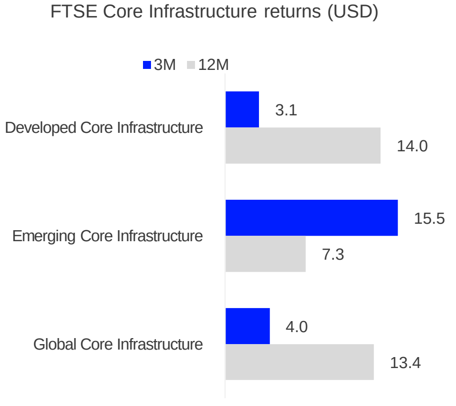
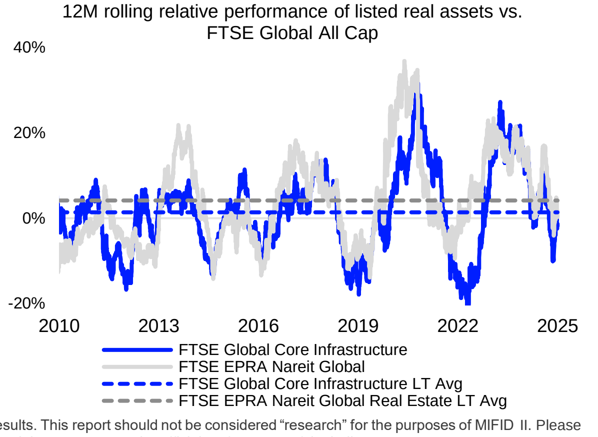


Chart 5: 12M rolling relative performance for listed real assets vs equities has picked up YTD. LT outperformance, despite low correlations (Chart 3), highlights the diversification benefits of listed infrastructure.



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Currencies

The USD did not exhibit its usual safe-haven status during the stress period from tariffs. The high shares of currency returns in the G20 equity total returns highlight the growing role of portfolio hedging decisions.

The US dollar has fallen sharply over 3M, which is unusual, given that USD typically strengthens in risk-off environments as a longer history tells. US debt downgrade, tariff shock, weakened economic outlook, and geopolitical uncertainty may have all contributed.

Unlike its peers, Japan-US interest rate differential maintains a positive correlation with the JPY/USD (Chart 3), as diverging monetary policies remain a key driver of the Japan-US spread.

Currency hedging more important than ever? The effect of FX moves on equity returns in recent 3M is significant for a bulk of G20 markets (Chart 4). Currency hedging has re-emerged as a crucial component of effective portfolio management.

Major EM currencies rose vs USD over 3M (Chart 5): Mexican peso gained 5.8%, aided by USMCA-compliant goods exempt from new US tariffs. But a sharp downgrade in Mexico's growth may add downside risks to the peso in the long term. Thai baht (up by 12.1%) led gains in Asian EMs over 12M, helped by a high correlation with gold, rather than the economic outlook.

Chart 1: USD has continued to fall since February, as global trade tensions intensified and uncertainties remained high. Rising US debt risk led to fiscal concerns in the longer term, in addition to the short-term market turbulence.

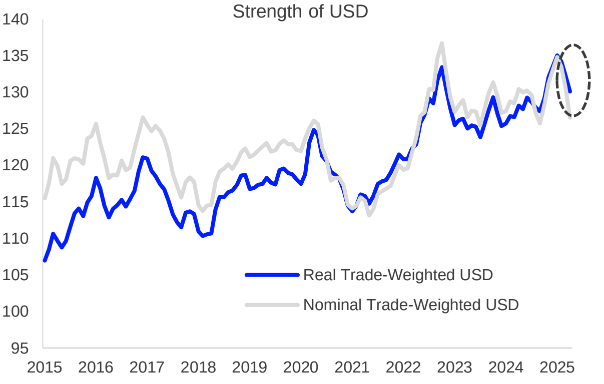


Chart 2: Euro gained 9.2% vs USD on 3M, only behind SEK/NOK/CHF, more than rate differentials could imply. The recent rally has been more driven by factors such as the outlook of economy and government debt.

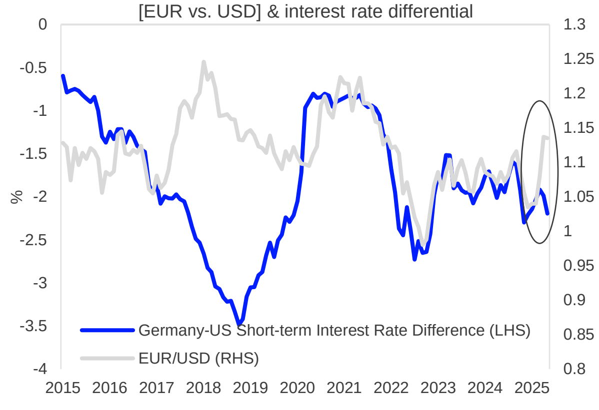


Chart 3: Japanese yen rose 4.4% over 3M, despite a retreat in May. The BoJ's hawkish policy stance vs the Fed's easing trajectory remains an important driver of the yen rise against the dollar.

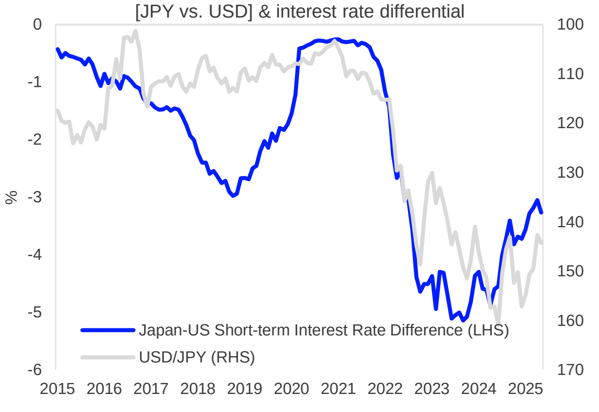


Chart 4: 3M return breakdowns for G20 equity markets show a notable impact of currency returns on total returns for dollar investors. Currency hedging has become more important in portfolio management.

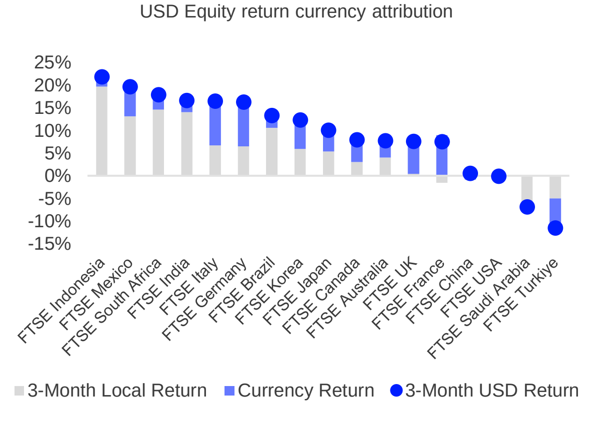
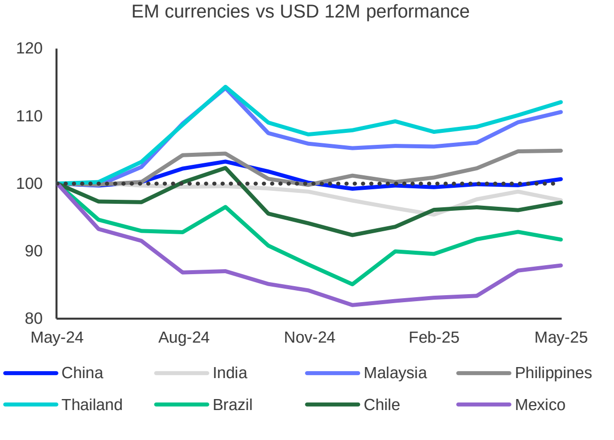


Chart 5: EM Asian currencies have outperformed LATAM peers over 12M, led by Thai Baht. Mexican peso remained weaker over 12M, despite a strong rebound in 3M. CNY less volatile.



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Capital Flows

3M investor flows diverge from 12M patterns as growing uncertainty turns investors towards defensive equity sectors, commodities and alternatives.

Over 12M, US and emerging markets have seen the strongest equity inflows on a relative basis. However, 3M flows have echoed recent performance leadership, as investors increased allocation to European equities since March, alongside weaker flows in the US and emerging markets (Chart 1).

In the US, sector flows have also diverged from 12M patterns. While technology and financials equity funds saw the largest inflows over 12M (Chart 2), both sectors have fallen out of favor over 3M (Chart 3). Instead, investors have shifted towards more defensive sectors, including utilities and gold/precious metals.

Within fixed income, North America and Emerging Markets have seen outflows over 3M (Chart 4). For the US, higher short-term inflation expectations and policy uncertainty caused investors to reduce exposure to the region. For Emerging Markets, China was the main source of outflows, as weakening sovereign spreads and trade policy uncertainty weighed. Japanese bond flows have also been strong over 3M and 12M, reflecting higher dollar hedging costs for domestic investors.

Within cross-assets, commodities and alternatives have seen recent strength as investors diversify (Chart 5).

Chart 1: Recent regional equity flows diverged from their 12M patterns, with European-mandated equity funds receiving the highest flow as a % of AUM, as investors followed recent performance momentum.

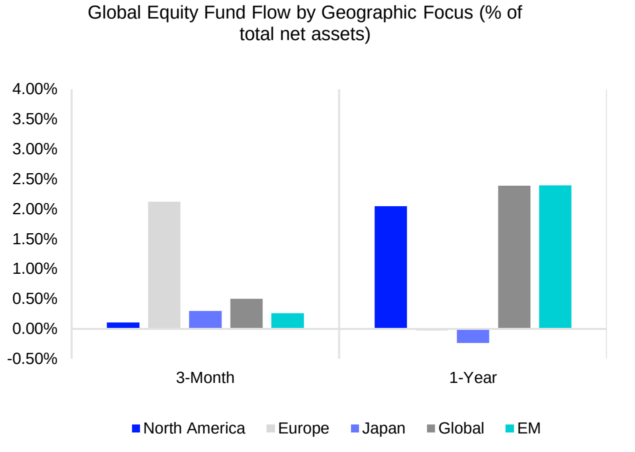


Chart 2: 12M US Equity sector flows saw cyclicals and growth-oriented sectors such as Technology, Financials and Industrials attracting most of investor attention.

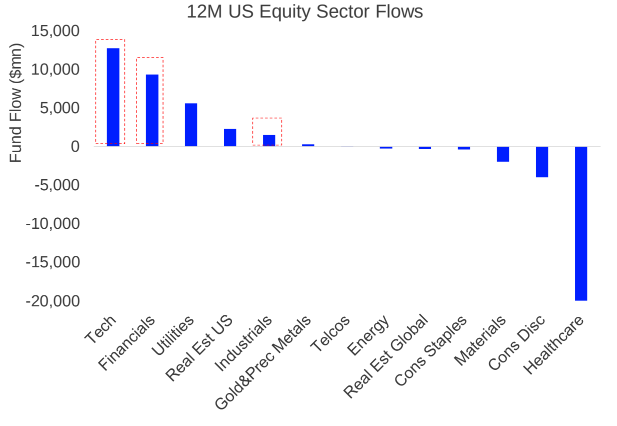


Chart 3: More recently, investors turned towards more defensive equity sectors in the US, with 3M equity sector flows showing Utilities and Gold/Precious Metals funds as having the largest inflows.

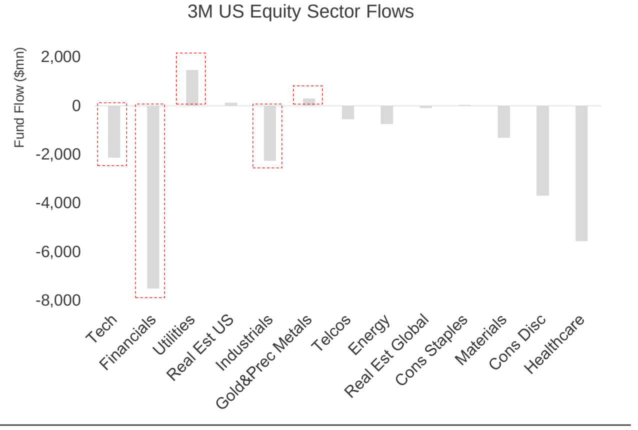


Chart 4: Over 3M, US and EM mandated bond funds received the largest outflows, as investors diversified from regions with higher policy uncertainty. Flows to Japan remained strong over 12M and 3M.

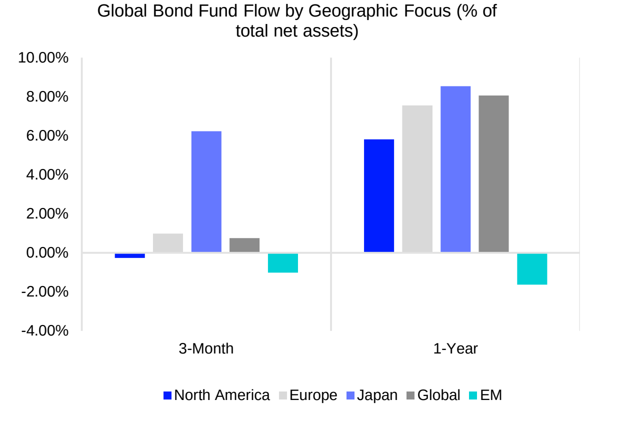
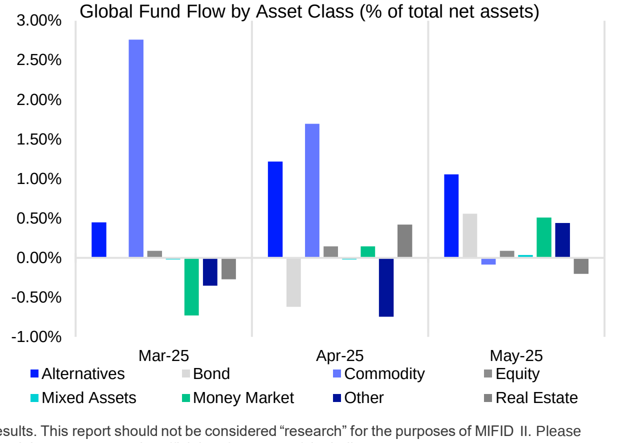


Chart 5: Within cross-assets, commodities and alternatives have seen the greatest momentum in flows over 3M, as equity volatility and rising yields have caused investors to diversify from bonds and equities.



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Cross-Asset: Equities and Fixed Income

Infrastructure and real estate had healthy returns, just behind that of equities. Diversification benefit re-emerged as stock-bond correlation declined. Multiple indicators point to downside risk to US equity.

Equities had the highest return among broad asset classes in 1Y, but infrastructure & real estate were closely behind (Chart 1). 1Y Volatility was lower than in 3Y for all major classes, despite the tariff uncertainty, boosting 1Y risk-adjusted returns.

US stock relative to bond valuations have decoupled from macro conditions; equities becoming richer (esp. since pause on tariffs) even as PMIs weakened. On a positive note, the 12M stock-bond correlation fell sharply over 3M, down to 0.32 – a level last seen in January 2022 (Chart 3), as inflation eased towards targets globally.

The YTD trend of US equities underperforming global peers is not surprising given many indicators; US equities have negative equity risk premium (ERP) after hovering around zero for almost two years and yield less than other local risk assets like US HY (Chart 4). The US also has the widest income yield gap between equity and 7-10-year sovereign, with the lowest equity DY of 1.2% and the highest sovereign yield of 4.2%. This echoes the implication of Chart 2 − US equity valuation being too high vs the broader US fixed income market.

Chart 1: Equity remained the top performer, but infrastructure and real estate caught up quickly over 1Y. Real estate and fixed income have offered higher income yields, as the Fed delayed easing.

1Y Annual	Income Yield %	Return/ Risk	Risk	Total Return %
Equity	1.9	1.5	9.3	14.3
Fixed Income	3.8	1.1	6.1	6.9
Commodities	--	0.5	10.3	4.8
Real Estate	4.0	0.9	12.8	11.3
Infrastructure	3.4	1.1	11.9	13.4

3Y Annualised	Income Yield %	Return/ Risk	Risk	Total Return %
Equity	2.1	0.8	15.3	12.8
Fixed Income	3.8	0.1	8.7	1.1
Commodities	--	0.1	11.8	1.8
Real Estate	4.2	0.0	18.6	0.8
Infrastructure	3.4	0.3	15.2	4.2

Chart 2: The ISM PMI declined further in May from the January high, as US stock-to-bond valuation recovered from early-April lows, after the tariff sell-off and rebound. Stock/bond ratio still higher than what PMI implies.

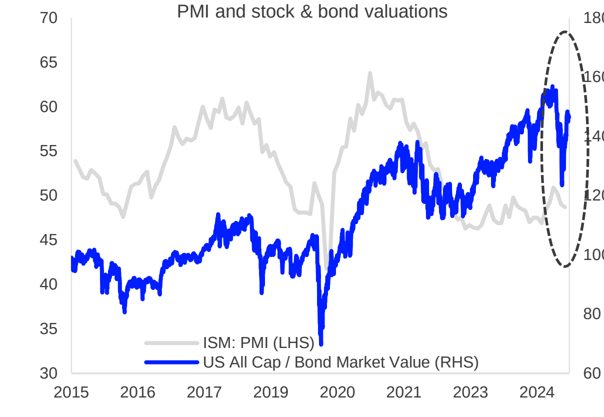


Chart 3: The 12M stock-bond correlation has fallen sharply since March, down to below the 10Y average of 0.37. Diversification benefit emerged amid tariff chaos. Inflation easing towards target levels may also have helped.

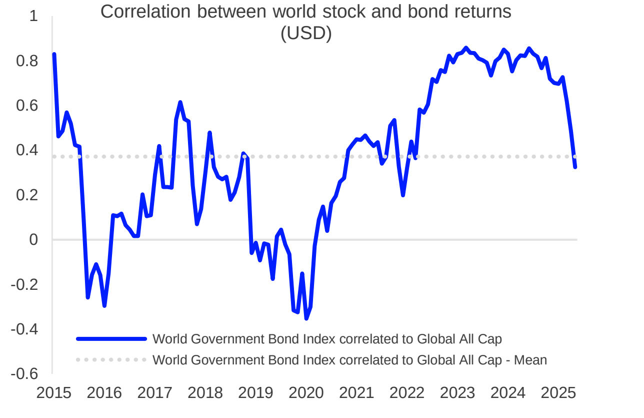


Chart 4: The US equity risk premium has been mostly negative since September 2023, and the Fed's easing did not help much in lifting the premium. US HY spreads have offered higher risk premium than equities.

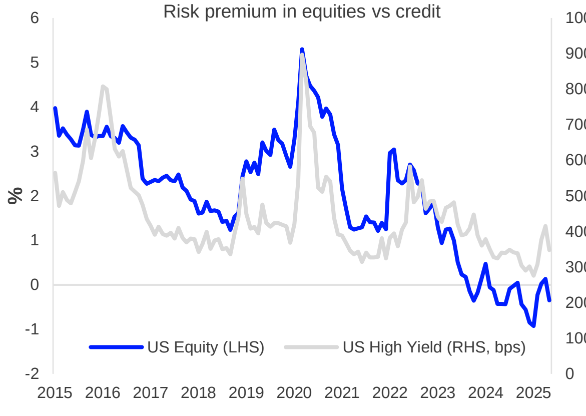
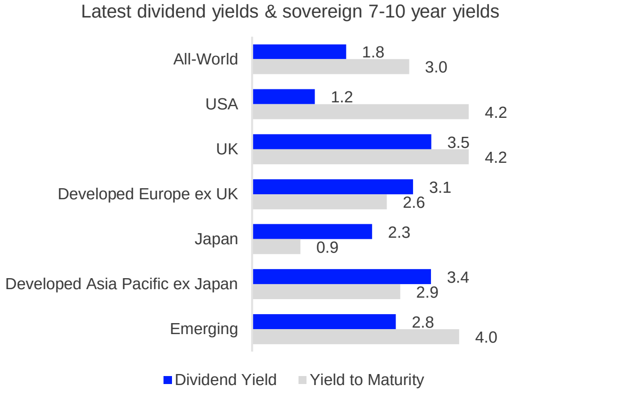


Chart 5: Dividend yield is higher than sovereign yield (a positive for equities) in Dev Europe ex UK (with ECB's easing), Japan and Dev APAC. US has the lowest dividend vs sovereign yield premium (-3%).



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Cross Asset: Return and Risk (continued)

Increased uncertainties boosted (risk-off) gold, while growth concerns dampened oil and copper. Gold vs oil relationship is now in a sharp reversal from September 2023. Over 1Y, gold delivered strong returns of 40%+ vs 10%+ for most equities and alternatives. In 1Y vs 3Y, the return gap between equities and fixed income narrowed, and volatility for both asset classes broadly drifted lower, despite higher uncertainties, thus improving return/risk ratios.

Over 1Y, uncertainties increased with the US tariff shock, resulting in downgraded global growth forecasts and divergent central bank policies. Therefore, gold took the lead (41.4%) by a large margin, as sovereigns and private sectors navigated through high levels of uncertainty. FTSE 100 (16.6%) and Emerging equity (15%) led solid returns among risk assets. Alternatives fared well: global core infrastructure (13.4%) and EPRA Nareit (11.3%). Riskier fixed income like World HY (10.5%) & US HY (9.5%) outperformed the World Govt 7-10Y (8.1%) and 7-10Y US Treasuries (5.9%). Oil declined significantly 1Y (-21.9%). It was a mixed picture where a risk-off asset did best by a large margin, while in other asset classes, the riskier segments did better.

3Y data was significantly impacted by recent 1Y, and gold still outperformed oil and copper, but the sentiment reversal over this period can be seen through how much oil was outperforming gold on a trailing 3Y as of Q3/2023. US and UK large caps, Developed Europe, and Japan (returns of 11.4-14.3%) outperformed Emerging (6.8%) and Developed APAC ex Japan (2.9%).

The return/risk ratio for gold has improved over 1Y (3.4) vs 3Y (1.6) and is the highest among all asset classes. FTSE 100 (1.5) and Emerging (1.4) show a higher risk-adjusted return than their equity peers. EM return/risk over 1Y (1.4) is higher than 3Y (0.4). World HY (3.1) and US HY (2.8) also have high return/risk ratios over 1Y, compared to only 0.8+ for 3Y. Over 3Y, the top two return/risk performers are gold (1.6) and World HY (0.9), while the bottom 2 are oil (-0.9) and World ILSI (-0.1).

Chart 1: Over 1Y – almost all asset classes posted positive returns despite consistently high uncertainty. Gold stands out with 41.4% returns, followed by FTSE 100 (16.6%), Emerging (15%), and Developed Europe (13.9%). Global Core Infrastructure (13.4%) & EPRA Nareit (11.3%) not far behind US large caps (13.7%). Within FI, World HY (10.5%) outperformed. Measured by risk-returns, Gold (3.4) and World HY (3.1) among the best vs Oil the worst (-1.2).

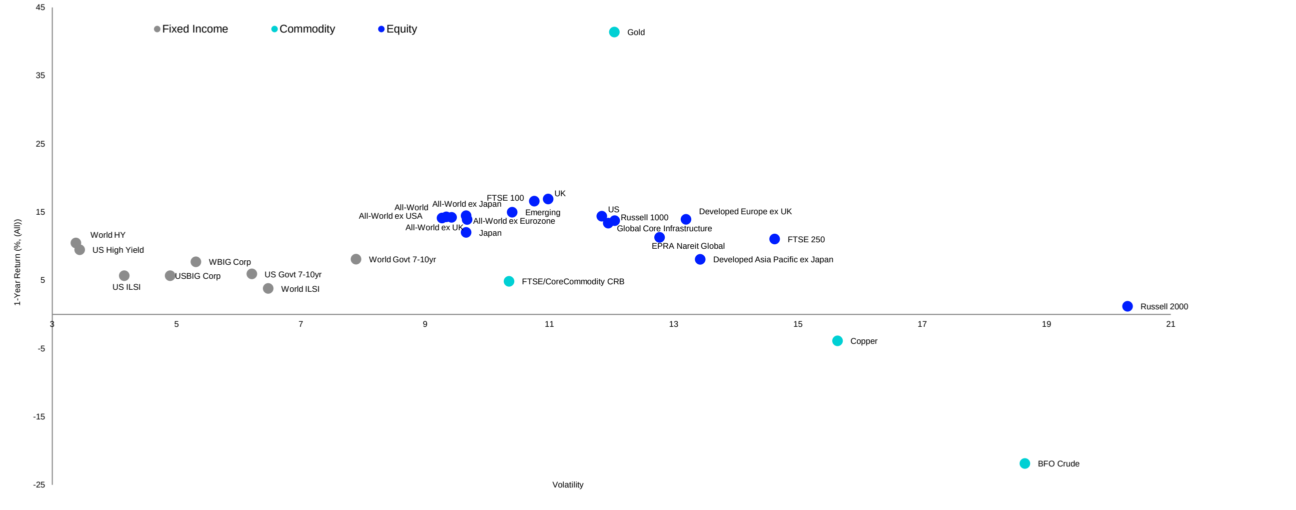
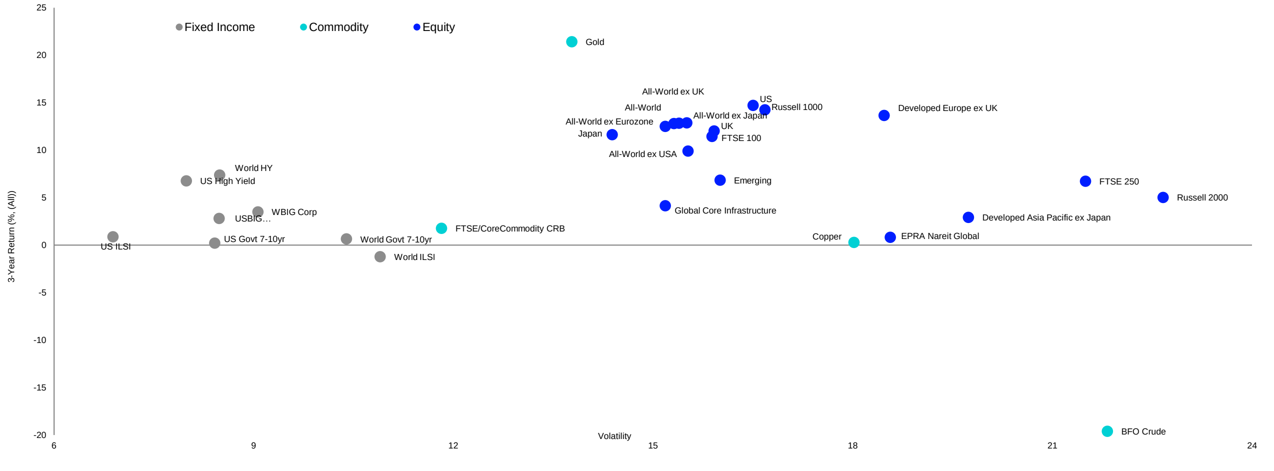


Chart 2: Over 3Y – gold (21.4%) outpaced oil (-19.6%) by a wide margin, in terms of annualized return, driven by safe-haven demand and challenging growth outlook. This is quite the opposite of oil beating gold 3Q23. US large-cap equities (14.3%), Developed Europe ex UK (13.7%), Japan (11.6%), and FTSE 100 (11.4%) managed double-digit returns. In FI, high yield outperformed sovereigns. Gold (1.6) the top return/risk vs oil (-0.9) the bottom.



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Cross Asset: Correlations

Time for diversification? 1Y vs 3Y correlation differences show a broad-based decoupling. Global equities decoupled more than fixed income peers, largely driven by US equities. Correlations for UK and Developed APAC decreased by a narrower margin. Emerging markets had <0.5 correlations with majority of both equities and fixed income sleeves. Commodities turned more negatively correlated to stocks & bonds in 1Y compared to 3Y. Only fixed income assets' correlations held at rather high levels, even with real estate.

Uncertainties on monetary policies, US tariffs and rapid shifts between risk-on/risk-off sentiments have shaped quite a different picture of correlations among asset classes in the recent year. Growth concerns lingered, though inflation eased towards targets, adding to uncertainties. Several key facts for investors aiming to construct a diversified portfolio and manage risk effectively: 1) Equity correlations declined sharply (led by the US), after broad-based drops in correlation over 1Y. However, correlations of fixed income assets remained relatively high. 2) Within equities, R1000 had significantly low correlations with most other assets (except its domestic risk peer, US high yield) over 1Y. This is a sharp reversal relative to 3Y – where R1000 was highly correlated with other equities and rates. 3) Only the UK and Developed APAC ex Japan have maintained correlations with most other assets above 0.5. 4) Emerging equities correlations with most assets retreated to below 0.5 over 1Y, while 3Y correlations were above 0.5. 5) In contrast to equities decoupling, US Treasuries became more correlated to US inflation-linked bonds (not surprising given concerns over tariff-led inflation is most acute for the US), and World HY correlation with real estate increased towards almost 1. 6) Diversification benefits of commodities strengthened over 1Y, particularly in the case of crude oil, which had significant negative correlations with many assets. 7) Listed real assets, both real estate and infrastructure, exhibited higher correlations with rates than with equities over 1Y, after a steeper fall (1Y vs 3Y) in correlation with equities than with rates.

Chart 1: 1-Year Correlation – UK and Developed APAC equities had higher correlations with rates than other regions. R1000 showed the lowest correlation with other equities and fixed income, but its correlation with US HY and R2000 is high. Risk-on crude Oil had a much stronger diversification effect (mostly negative-correlated) than risk-off Gold. Listed real assets, both real estate and Infrastructure, were more correlated with rates than with equities.

	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	0.79	0.94	0.37	0.42	0.19	0.23	0.58	0.16	0.12	0.11	0.80	0.35	0.06	0.06	0.50	0.14	0.28	0.52	-0.50	0.08
Russell 2000	0.79	1.00	0.72	0.29	0.49	0.09	0.47	0.42	-0.08	0.27	0.24	0.72	0.46	0.21	0.23	0.47	0.29	0.61	0.56	-0.22	-0.11
All-World	0.94	0.72	1.00	0.67	0.65	0.49	0.46	0.81	0.37	0.30	0.29	0.88	0.50	0.32	0.33	0.73	0.40	0.40	0.69	-0.32	-0.12
All-World ex USA	0.37	0.29	0.67	1.00	0.88	0.91	0.74	0.91	0.63	0.55	0.55	0.65	0.60	0.75	0.78	0.89	0.77	0.54	0.75	0.26	-0.48
UK	0.42	0.49	0.65	0.88	1.00	0.88	0.73	0.74	0.26	0.63	0.63	0.66	0.70	0.70	0.77	0.81	0.76	0.73	0.79	0.16	-0.38
Dev Europe ex UK	0.19	0.09	0.49	0.91	0.88	1.00	0.61	0.73	0.37	0.46	0.49	0.45	0.46	0.65	0.70	0.73	0.65	0.43	0.59	0.32	-0.39
Japan	0.23	0.47	0.46	0.74	0.73	0.61	1.00	0.62	0.25	0.42	0.29	0.43	0.40	0.70	0.66	0.67	0.65	0.53	0.55	0.21	-0.54
Dev Asia Pac ex Japan	0.58	0.42	0.81	0.91	0.74	0.73	0.62	1.00	0.64	0.51	0.51	0.69	0.57	0.67	0.70	0.84	0.70	0.48	0.75	0.14	-0.37
Emerging	0.16	-0.08	0.37	0.63	0.26	0.37	0.25	0.64	1.00	0.31	0.37	0.45	0.38	0.38	0.41	0.58	0.46	0.11	0.43	0.19	-0.28
US Govt 7-10yr	0.12	0.27	0.30	0.55	0.63	0.46	0.42	0.51	0.31	1.00	0.95	0.49	0.94	0.84	0.86	0.65	0.90	0.72	0.79	0.14	-0.43
US ILSI	0.11	0.24	0.29	0.55	0.63	0.49	0.29	0.51	0.37	0.95	1.00	0.51	0.92	0.72	0.82	0.62	0.84	0.71	0.76	0.28	-0.31
US High Yield	0.80	0.72	0.88	0.65	0.66	0.45	0.43	0.69	0.45	0.49	0.51	1.00	0.71	0.40	0.43	0.85	0.53	0.56	0.82	-0.20	-0.19
USBIG Corp	0.35	0.46	0.50	0.60	0.70	0.46	0.40	0.57	0.38	0.94	0.92	0.71	1.00	0.74	0.79	0.76	0.87	0.81	0.90	0.02	-0.39
World Govt 7-10yr	0.06	0.21	0.32	0.75	0.70	0.65	0.70	0.67	0.38	0.84	0.72	0.40	0.74	1.00	0.97	0.76	0.97	0.70	0.78	0.33	-0.72
World ILSI	0.06	0.23	0.33	0.78	0.77	0.70	0.66	0.70	0.41	0.86	0.82	0.43	0.79	0.97	1.00	0.77	0.98	0.77	0.80	0.45	-0.68
World HY	0.50	0.47	0.73	0.89	0.81	0.73	0.67	0.84	0.58	0.65	0.62	0.85	0.76	0.76	0.77	1.00	0.83	0.70	0.93	0.15	-0.52
WBIG Corp	0.14	0.29	0.40	0.77	0.76	0.65	0.65	0.70	0.46	0.90	0.84	0.53	0.87	0.97	0.98	0.83	1.00	0.80	0.88	0.32	-0.66
Global Core Infrastructure	0.28	0.61	0.40	0.54	0.73	0.43	0.53	0.48	0.11	0.72	0.71	0.56	0.81	0.70	0.77	0.70	0.80	1.00	0.86	0.29	-0.47
EPRA Nareit Global	0.52	0.56	0.69	0.75	0.79	0.59	0.55	0.75	0.43	0.79	0.76	0.82	0.90	0.78	0.80	0.93	0.88	0.86	1.00	0.08	-0.46
Gold	-0.50	-0.22	-0.32	0.26	0.16	0.32	0.21	0.14	0.19	0.14	0.28	-0.20	0.02	0.33	0.45	0.15	0.32	0.29	0.08	1.00	-0.28
BFO Crude	0.08	-0.11	-0.12	-0.48	-0.38	-0.39	-0.54	-0.37	-0.28	-0.43	-0.31	-0.19	-0.39	-0.72	-0.68	-0.52	-0.66	-0.47	-0.46	-0.28	1.00

Chart 2: Differences between 1Y and 3Y correlations show significant declines for almost all asset classes in past 1Y, as de-globalization picked up. US equities decoupled from international markets. EM equities correlations mostly dropped by 0.2~0.5. Correlations among FI also decreased broadly, although to a lesser extent than for equities. By contrast, Treasuries becoming more correlated to inflation-linked bonds & real estate's correlation with World HY rising to 0.93 bucked the trend.

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	-0.08	-0.03	-0.42	-0.31	-0.58	-0.54	-0.20	-0.39	-0.47	-0.62	-0.08	-0.36	-0.57	-0.69	-0.34	-0.56	-0.47	-0.29	-0.61	-0.05
Russell 2000	-0.08	0.00	-0.11	-0.38	-0.18	-0.54	-0.20	-0.29	-0.49	-0.22	-0.35	-0.06	-0.15	-0.32	-0.40	-0.25	-0.30	-0.10	-0.23	-0.22	-0.21
All-World	-0.03	-0.11	0.00	-0.25	-0.19	-0.39	-0.41	-0.09	-0.33	-0.38	-0.51	-0.01	-0.31	-0.43	-0.51	-0.17	-0.42	-0.42	-0.20	-0.57	-0.20
All-World ex USA	-0.42	-0.38	-0.25	0.00	-0.05	-0.04	-0.16	-0.06	-0.22	-0.18	-0.23	-0.16	-0.26	-0.10	-0.11	0.00	-0.13	-0.31	-0.15	-0.19	-0.48
UK	-0.31	-0.18	-0.19	-0.05	0.00	-0.06	-0.06	-0.12	-0.40	-0.02	-0.11	-0.13	-0.06	-0.06	-0.05	-0.04	-0.06	-0.10	-0.09	-0.21	-0.50
Dev Europe ex UK	-0.58	-0.54	-0.39	-0.04	-0.06	0.00	-0.23	-0.14	-0.30	-0.24	-0.29	-0.36	-0.34	-0.17	-0.17	-0.15	-0.22	-0.37	-0.27	-0.10	-0.40
Japan	-0.54	-0.20	-0.41	-0.16	-0.06	-0.23	0.00	-0.23	-0.45	-0.29	-0.47	-0.35	-0.41	-0.11	-0.19	-0.17	-0.20	-0.25	-0.26	-0.16	-0.53
Dev Asia Pac ex Japan	-0.20	-0.29	-0.09	-0.06	-0.12	-0.14	-0.23	0.00	-0.22	-0.19	-0.23	-0.09	-0.26	-0.14	-0.15	-0.02	-0.17	-0.34	-0.15	-0.28	-0.32
Emerging	-0.39	-0.49	-0.33	-0.22	-0.40	-0.30	-0.45	-0.22	0.00	-0.26	-0.20	-0.08	-0.32	-0.28	-0.27	-0.04	-0.27	-0.55	-0.28	-0.30	-0.20
US Govt 7-10yr	-0.47	-0.22	-0.38	-0.18	-0.02	-0.24	-0.29	-0.19	-0.26	0.00	0.06	-0.17	-0.02	-0.10	-0.03	-0.06	-0.02	-0.04	-0.02	-0.34	-0.21
US ILSI	-0.62	-0.35	-0.51	-0.23	-0.11	-0.29	-0.47	-0.23	-0.20	0.06	0.00	-0.32	0.03	-0.14	-0.11	-0.23	-0.05	-0.13	-0.07	-0.15	-0.31
US High Yield	-0.08	-0.06	-0.01	-0.16	-0.13	-0.36	-0.35	-0.09	-0.08	-0.17	-0.32	0.00	-0.07	-0.32	-0.40	-0.13	-0.26	-0.19	-0.04	-0.40	-0.33
USBIG Corp	-0.36	-0.15	-0.31	-0.26	-0.06	-0.34	-0.41	-0.26	-0.32	-0.02	0.03	-0.07	0.00	-0.18	-0.13	-0.07	-0.10	-0.03	0.00	-0.42	-0.24
World Govt 7-10yr	-0.57	-0.32	-0.43	-0.10	-0.06	-0.17	-0.11	-0.14	-0.28	-0.10	-0.14	-0.32	-0.18	0.00	0.01	-0.05	-0.01	-0.12	-0.08	-0.24	-0.51
World ILSI	-0.69	-0.40	-0.51	-0.11	-0.05	-0.17	-0.19	-0.15	-0.27	-0.03	-0.11	-0.40	-0.13	0.01	0.00	-0.12	0.01	-0.11	-0.09	-0.08	-0.57
World HY	-0.34	-0.25	-0.17	0.00	-0.04	-0.15	-0.17	-0.02	-0.04	-0.06	-0.23	-0.13	-0.07	-0.05	-0.12	0.00	-0.05	-0.11	0.03	-0.17	-0.60
WBIG Corp	-0.56	-0.30	-0.42	-0.13	-0.06	-0.22	-0.20	-0.17	-0.27	-0.02	-0.05	-0.26	-0.10	-0.01	0.01	-0.05	0.00	-0.06	-0.04	-0.22	-0.51
Global Core Infrastructure	-0.47	-0.10	-0.42	-0.31	-0.10	-0.37	-0.25	-0.34	-0.55	-0.04	-0.13	-0.19	-0.03	-0.12	-0.11	-0.11	-0.06	0.00	-0.03	-0.18	-0.36
EPRA Nareit Global	-0.29	-0.23	-0.20	-0.15	-0.09	-0.27	-0.26	-0.15	-0.28	-0.02	-0.07	-0.04	0.00	-0.08	-0.09	0.03	-0.04	-0.03	0.00	-0.27	-0.44
Gold	-0.61	-0.22	-0.57	-0.19	-0.21	-0.10	-0.16	-0.28	-0.30	-0.34	-0.15	-0.40	-0.42	-0.24	-0.08	-0.17	-0.22	-0.18	-0.27	0.00	-0.11
BFO Crude	-0.05	-0.21	-0.20	-0.48	-0.50	-0.40	-0.53	-0.32	-0.20	-0.21	-0.31	-0.33	-0.24	-0.51	-0.57	-0.60	-0.51	-0.36	-0.44	-0.11	0.00

Source: FTSE Russell/LSEG. All data as of May 31, 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 Index	AWDEURS
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 31 May) 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 17 uses the Refinitiv/CC CRB Total Return index (US $). Page 12 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 May 31, 2025, with the exception of the most recent FOMC projections that was released March 19, 2025.

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To learn more, visit lseg.com/en/ftse-russell; email info@ftserussell.com; or call your regional Client Service team office:

EMEA +44 (0) 20 7866 1810
North America +1 877 503 6437

Asia-Pacific
Hong Kong +852 2164 3333
Tokyo +81 3 6441 1430
Sydney +61 (0) 2 7228 5659