Global
Investment
Research
Market Maps

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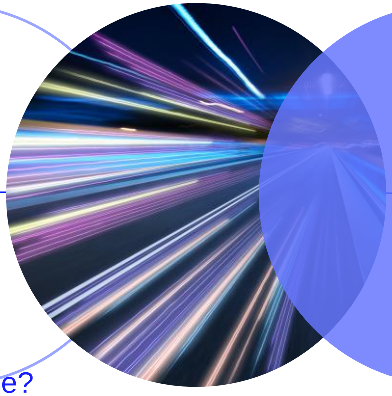
Global Wealth Research

Record high uncertainty and fiscal concern-led high rates is historically an environment more conducive to bonds over equities, and international equities over US equities



Top investment themes

1. Record high uncertainty, diverging growth and inflation risks
2. Rising uncertainty puts pressure on equity valuations vs bonds
3. Market leadership shifts as US equities lose dominance
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5. Alternatives (Listed infrastructure and commodities) shine
6. Unusual dollar performance; weakening in a risk-off environment
7. Decoupling markets provide more diversification opportunities

Top investment themes

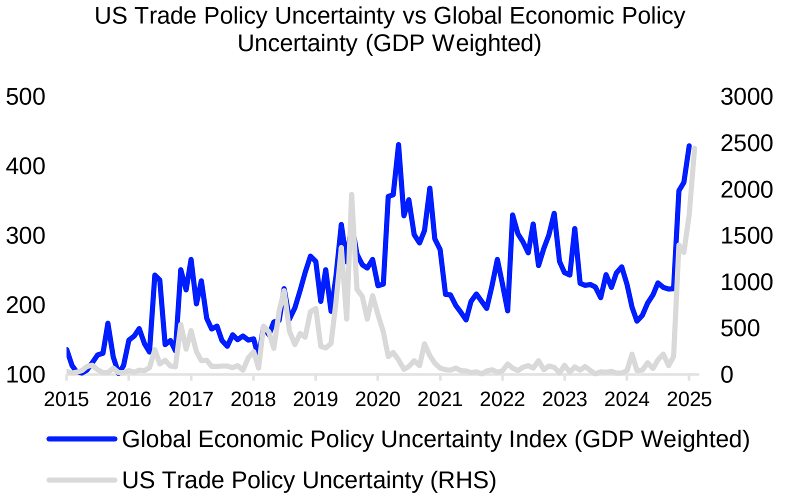
Diverging growth, persistent inflation risks and global uncertainty at record high

- IMF upgraded US growth forecasts in January 2025. Yet since February, the US economy has shown signs of weakness, with softer manufacturing data, declining consumer sentiment (important since private consumption is >2/3 of US GDP) and fiscal spending reduction plans, alongside broad policy changes. Headline inflation has moderated but short-term inflation expectations are rising. These are all signaling that growing trade and policy uncertainty is starting to weigh on the [global] macroeconomic outlook.
- Higher risk from weak fiscal positions and uncertainty are getting priced into DM sovereign bonds. Longer-term risks are rising in Europe and the US, leading to steeper 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.

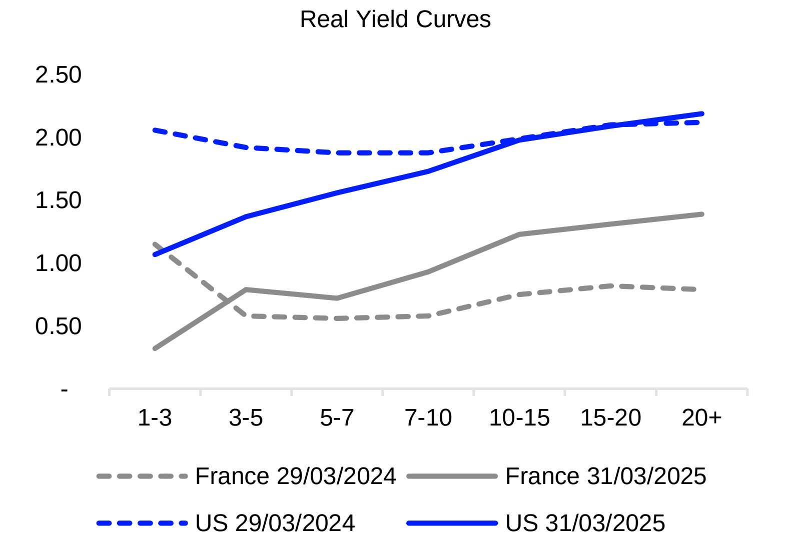
Rising uncertainty puts pressure on equity valuations vs bonds

- Though originating from the policy changes in the US, policy responses abroad have amplified the shock, pushing global GDP-weighted uncertainty to a record high.
- Historically, such surges in uncertainty tend to benefit bonds over equities—a relationship reflected in the 57% correlation between changes in uncertainty and relative bond-stock valuations.

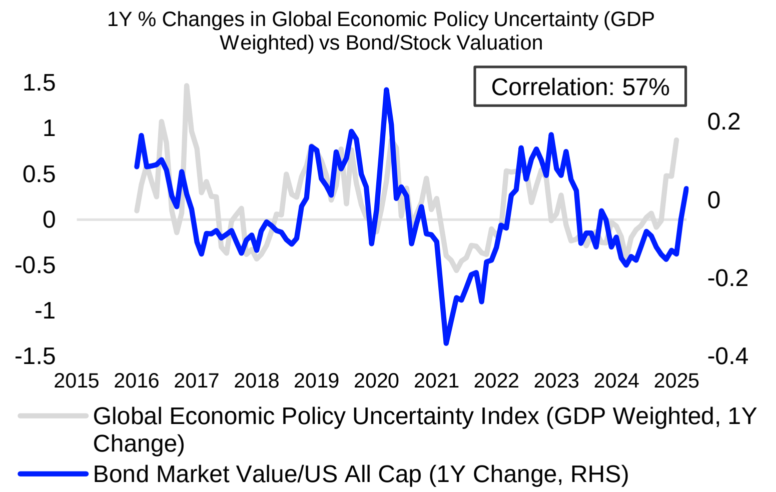
US economic policy uncertainty is above average since US trade policy uncertainty is at historic highs. Due to counter policies by others, the Global GDP-weighted Economic Uncertainty index is at an all-time high since 1997.



Short-term inflation has inched closer to target, but with longer-term uncertainty rising in both Europe and the US, real yield curves have steepened. Real yields in the US remain higher than in Europe, across tenors.



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.



Source: FTSE Russell/LSEG. All data as of March 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.

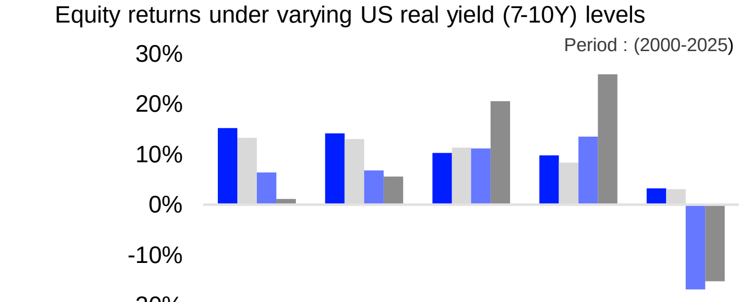
Market leadership shifts as US equities lose dominance

- US real yields above 1% have historically coincided with a stronger performance in non-US equities. With real yields now near 2%, non-US equities, and particularly emerging market equities, may stand to benefit.
- Year to date, China, Developed Europe ex UK & UK have outperformed the FTSE All World, while the US has underperformed. US equities saw their first 6M loss since January 2023. Over 12M, China, Emerging Markets and the UK have outperformed the US. FTSE Developed Europe ex UK has posted its strongest yearly start since 2001 versus the US.
- This is a sharp change from the post-GFC/Post Eurozone crisis world; during 2011-24, FTSE USA returned 3.1x FTSE All-World ex USA.

Signs of credit stress in Developed Markets

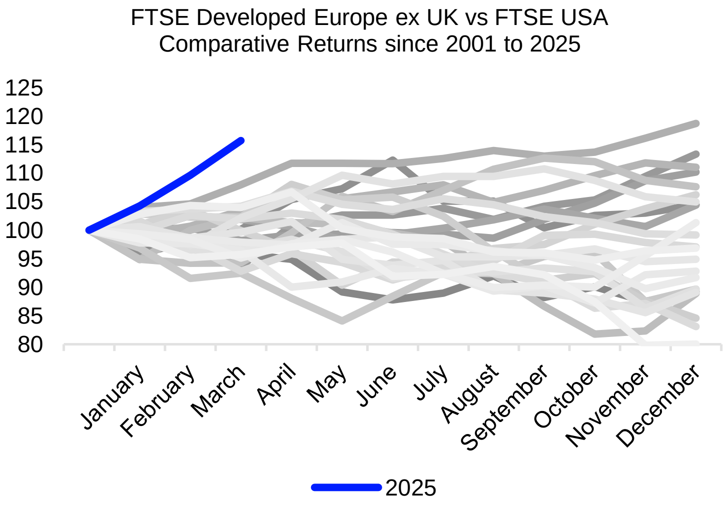
- Credit spreads remain historically tight, reflecting improved corporate balance sheets, but a sentiment shift is beginning to widen the risk premia.
- Europe and US high yield (HY) spreads have risen significantly from their lows over 3M, while the rise in EM spreads have been relatively limited.
- Over 3M, US HY spreads saw the largest increase since July 2022. It lines up with tightening bank lending and signs of slowdown in the US.

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.

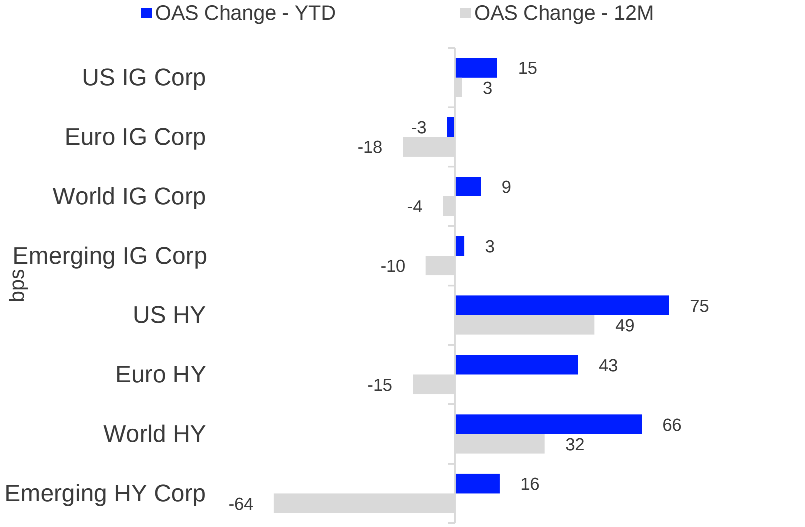


Real Rate	<0	0-1	1-2	2-3	>3
Russell 1000	15%	14%	10%	10%	3%
Russell 2000	13%	13%	11%	8%	3%
All World ex-US	6%	7%	11%	14%	-17%
Emerging	1%	6%	21%	26%	-15%

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.



YTD, US IG & HY spreads have widened from historical lows. The spread widening in US HY is more than in Euro & EM HY. In IG, spread widening is primarily in the US. The diverging pattern for the US vs Euro & EM is noteworthy.



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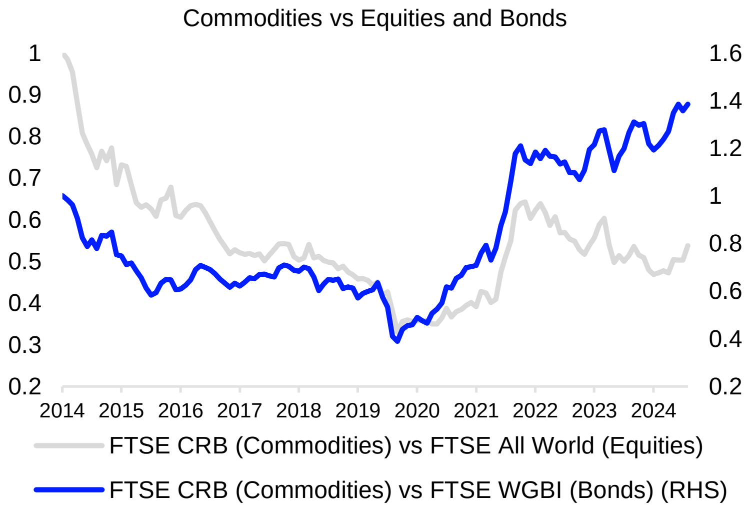
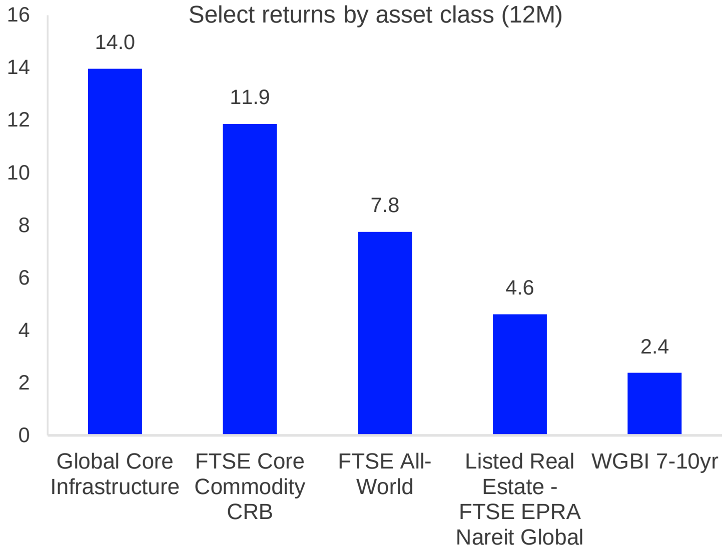
Alternatives shine – Listed infrastructure and commodities benefit from structural shifts, commodities provide diversification to stocks & bonds

- Since 2020, commodities have outpaced government bonds and, despite early gains over equities, have given up some of that lead since 2022.
- Forward curves now suggest oil could fall to the low $60s over the next two years, in line with softer global growth expectations. In contrast, gold has surged 40% over the past year, largely on central bank demand, while copper has risen 11.5%, supported by structural demand from AI and the green transition.
- Over 12 months, listed infrastructure and commodities have outperformed equities, while fixed income and listed real estate offered attractive yields (3.9% and 4.0%, respectively). Listed infrastructure stands out by combining both income yield (3.4%) with solid returns.
- Gold has topped all assets with a return-to-risk ratio of 3.5 in the last 12 months, followed by US and global high yield at 2.1. Commodities and infrastructure have led among alternatives, while emerging markets and the UK were the only equity regions in the top 10. The US large cap Russell 1000, once a consistent outperformer, has dropped out of the top-performing asset classes on a risk-adjusted basis.

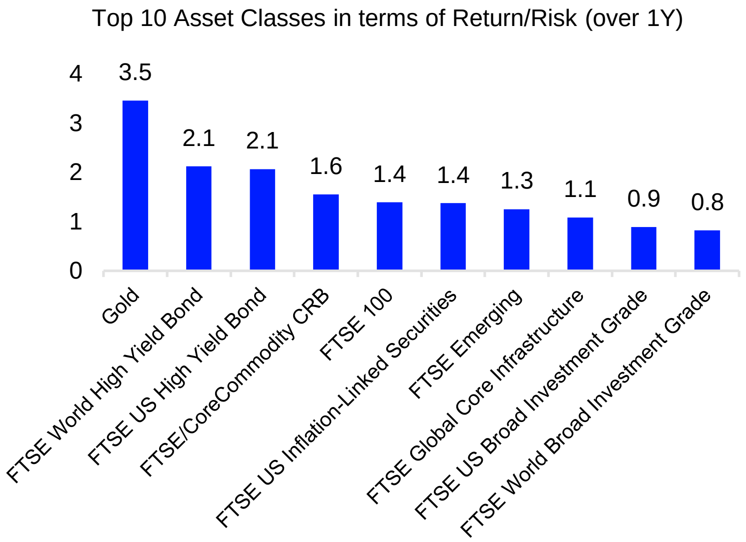
Commodities have outperformed government bonds since 2020. While it rallied against equities since 2020, commodities have given up some of those gains since 2022.



Over the past 12 months, infrastructure and commodities outpaced both equities and government bonds in total returns. Listed real estate also outperformed government bonds, reflecting demand for yield and inflation protection.



Gold delivered the strongest risk-adjusted returns over 12M, followed by high yield credit. Commodities and infrastructure outperformed, while EM and UK led equities. Russell 1000 fell out of the top performers.



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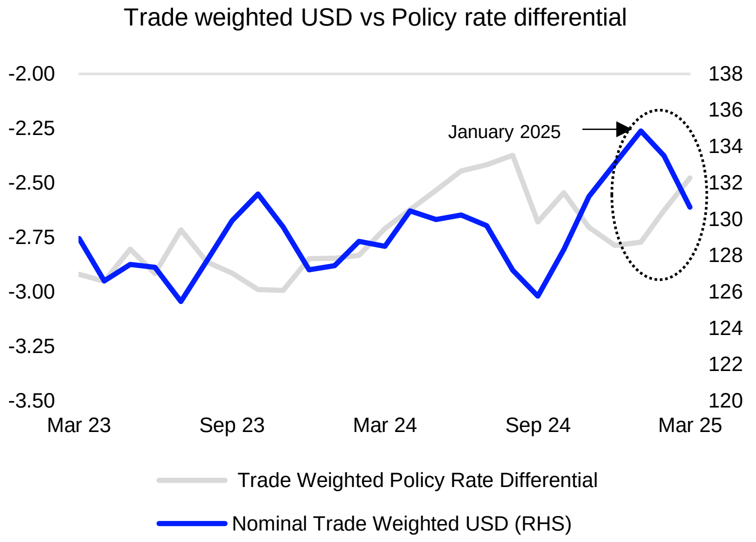
The US dollar breaks its usual risk-off pattern since February – implications for portfolio hedging

- The US dollar's historically tight link to interest rate differentials has weakened, suggesting monetary policy divergence is no longer the sole driver. Moreover, as a traditional safe-haven, the dollar's recent weakness amid a risk-off environment is particularly unusual.
- Currencies play a vital role in portfolio returns. Over 12M, most non-US equity markets posted stronger local currency returns than in USD terms. Canada returned 17% locally but only 10% in USD; Brazil and Turkey saw positive local returns (4% and 10%) but negative dollar returns (-9% and -6%). The growing performance gap highlights the role of currency hedging for global investors.

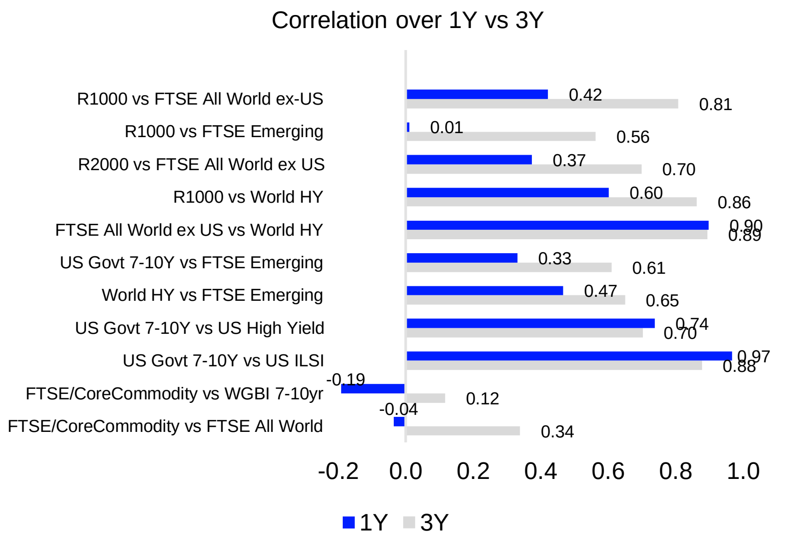
Changing Correlations and decoupling markets imply a fresh look at portfolio diversification

- Recent shifts in one- versus three-year correlations reveal a changing market landscape. US equities have increasingly decoupled from global peers, while emerging market stocks now show near-zero correlation with the US. Commodities, meanwhile, have offered greater diversification.
- The 12-month stock-bond correlation remains near its lowest since August 2022, though still above its 10-year average of 0.4. In inflationary regimes, such elevated correlations tend to persist, limiting the diversification benefits of traditional stock-bond portfolios. That in turn increases the need for alternate sources of diversification, such as from commodities and other alternatives.
- High yield is much more closely correlated to equities than other parts of fixed income. World HY became much less correlated with the Russell 1000 (0.60 over 1Y vs 0.86 over 3Y), whereas its correlation has stayed the same over 1Y vs 3Y, with the All World ex-US (~0.89), reinforcing the unique path of US equities.
- Listed infrastructure has exhibited a 0.56 correlation with global equities over the past year, underscoring its potential as a diversifier in multi-asset portfolios. Listed real estate had a correlation of 0.79 with global equities and provided less diversification.

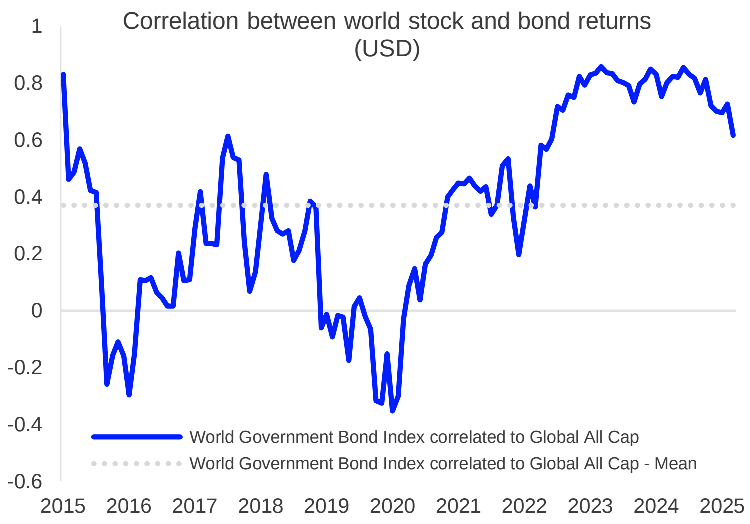
The USD has historically shown a 60% correlation with weighted policy rate differentials. However, its recent weakness—despite still-wide differentials—suggests shifting risk sentiment and recent uncertainty concerns at play.



Shifts in 1Y vs 3Y correlations reveal notable changes: US equities decoupled from global markets, and their correlations to EM equity fell close to 0%. Commodities offered more diversification to both stocks & bonds.



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.



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Appendix: List of indices used in report

Name	Mnemonic/Code
US Treasury 1-3yr	US_TSY1-3
US Treasury 7-10yr	US_TSY7-10
France 1-3yr	FR_TSY1-3
France 7-10yr	FR_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	ILSI_US
FTSE World High-Yield Bond Index	WHYM
Russell 1000 Index	R1000
Russell 2000 Index	R2000
FTSE Global All Cap Index	GEISLMS
FTSE USA Index	WIUSA
FTSE UK Index	WIGBR
FTSE Developed Europe ex UK Index	AWDEXUKS
FTSE Emerging Index	AWALLE
FTSE All-World Index	AWORLDS
FTSE Global Core Infrastructure Index	FGCII
FTSE USA All Cap Index	LMSUSA
FTSE All-World ex US Index	AWXUSAS
FTSE/CoreCommodity CRB® Index	RJEFCRT
FTSE World Government Bond Index	WGBI
US Economic Policy Uncertainty Index	USEPUPOLR
FTSE EPRA Nareit Global	ENHG
US Trade Policy Uncertainty Index	USEPTRPUR
Gold	GOLDBLN
Global Economic Policy Uncertainty	WDEPUCUPR
FTSE Australia	WIAUS
FTSE Brazil	WIBRA
FTSE Canada	WICAN
FTSE China	WICHN
FTSE France	WIFRA
FTSE Germany	WIDEU
FTSE India	WIIND
FTSE Indonesia	WIIDN
FTSE Italy	WIITA
FTSE Japan	WIJPN
FTSE Korea	WIKOR
FTSE Mexico	WIMEX
FTSE Saudi Arabia	WISAU
FTSE South Africa	WIZAF
FTSE Turkiye	WITUR
Nominal Trade Weighted USD	USCXTW..F

For more details regarding Index Construction for these and related FTSE Russell indices, and for ETFs and Mutual Funds linked to these FTSE Russell Indices, please reach out to your FTSE Russell Sales contact.

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