M&G Investments

# Investment Perspectives H2 2025 Outlook: Steady sailing in choppy waters

# Contents



**The value of investments will fluctuate, which will cause prices to fall as well as rise and you may not get back the original amount you invested. Wherever mentioned, past performance is not a guide to future performance. The views expressed in this document should not be taken as a recommendation, advice or forecast and they should not be considered as a recommendation to purchase or sell any particular security.**

# Introduction

The first six-months of 2025 have been nothing but eventful. But, whilst the Trump tariffs show was unquestionably the main event, as we move further into the year, the investment landscape will continue to shift led by factors other than simply this. Political, economic and monetary developments are all currently in play and combined are increasing levels of uncertainty within financial markets.

In our previous edition of Investment Perspectives, we questioned whether markets were being too optimistic in their assumptions for economic growth. Were the underlying conditions really in place to satisfy investor expectations for a resumption of ‘normalised’ growth? Now, in addition to existing fiscal constraints in the US and UK, we have to add into the mix a protectionist US trade policy. This is likely to weaken confidence in US markets, increase borrowing costs and trigger a reassessment of global portfolios.

Investors are already re-evaluating the size of existing US allocations, seemingly receptive to shifting capital toward other destinations. Indeed, our analysis suggests US equities appear expensive with more value evident in other markets. Europe, and Germany in particular, with its supportive monetary policy, improving economics and more favourable valuations may prove to be a prime beneficiary.

For investors, all this uncertainty presents challenges, but also reinforces the need to remain grounded and maintain perspective. In this, our mid-year Investment Perspectives, the CIOs from our Fixed Income, Equities and Private Markets teams discuss how they are navigating the current environment and identify where they believe the greatest opportunities for investors currently lie.

# Preparing for the rotation

**Mason Woodworth,**
Head of Investment Solutions

## Key takeaways

- Financial constraints, macroeconomic headwinds and uncertainty are making it harder for politicians to achieve economic growth and tackle rising debt levels.
- President Donald Trump's trade policies have reduced confidence in US assets and after years of concentration in the US market we could see an investment shift as investors rebalance their portfolios.
- With an improving economic backdrop, relatively supportive monetary policy and favourable valuations compared to the US, European assets could also benefit from a rotation away from the US.
- Navigating uncertainty requires agility, diversification, and strategic asset reviews, with potential opportunities lying in active management and readiness to capitalise on emerging market shifts.

In the foreword to our last edition of Investment Perspectives, we discussed how policymakers were counting on creating the conditions for economic growth in order to tackle already high and still rising levels of debt.

The issue remains central to political debate but politicians are arguably finding it harder now to achieve growth, given the financial constraints, macroeconomic headwinds and uncertainty they are facing.

Additional measures are being discussed, but the key question is whether any or all of these are sustainable and sufficient to substantially change the debt trajectory and with it economic resilience to potential shocks.

In the US and UK, spending cuts are on the agenda as the sustainability of government finances comes under scrutiny. The US established DOGE (the Department of Government Efficiency) in an attempt to achieve massive savings. The effectiveness of such programmes and their ability to materially change deficits in the near-term is very much in question. Both countries appear to have very little fiscal headroom.

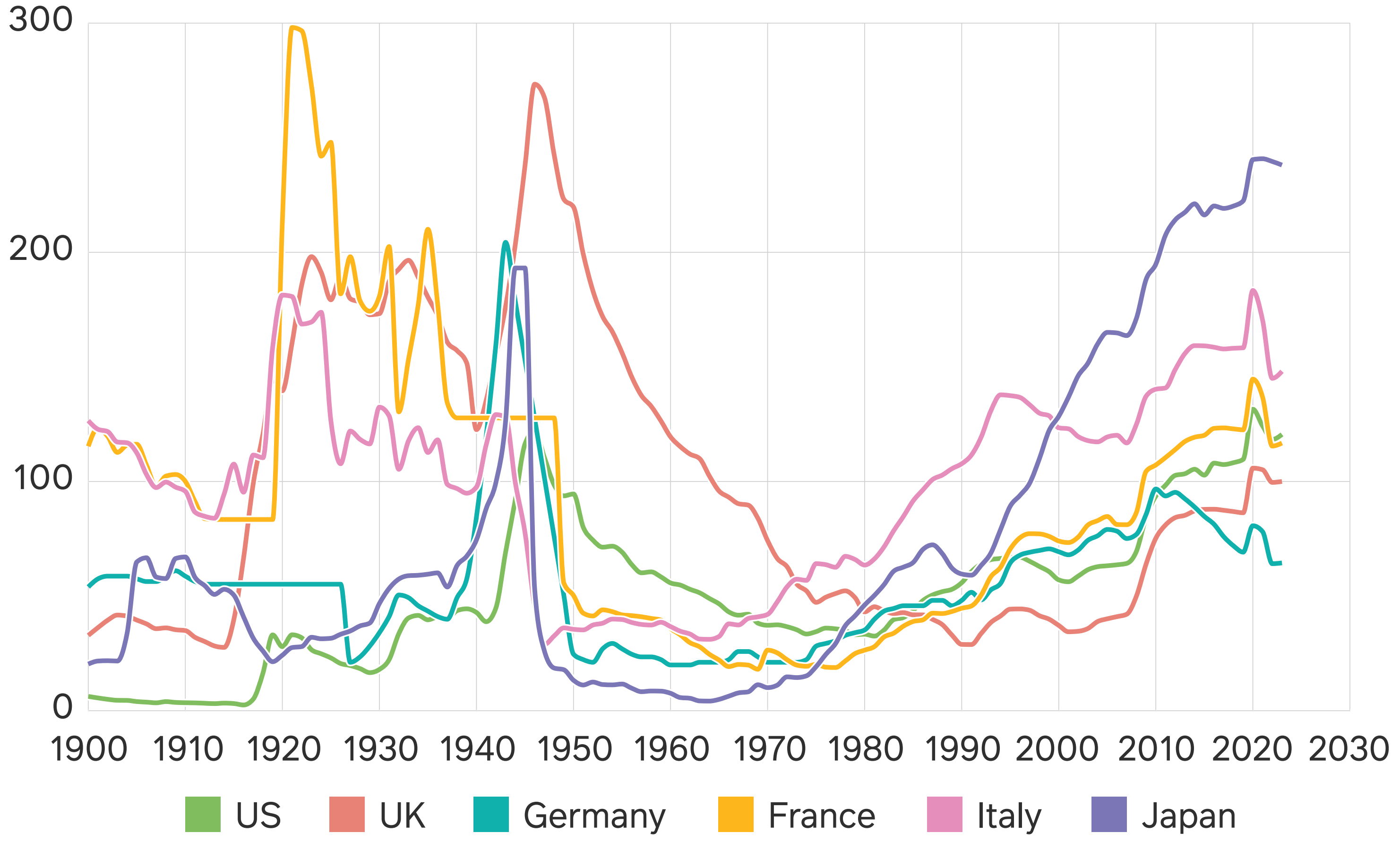
President Trump may have hoped that import tariffs would raise significant revenues, which, combined with reduced government spending, would enable him to cut taxes. However, the most likely outcome of his protectionist policies is that it brings US debt sustainability into question.

This has been amplified by reduced demand for US assets, significant weakening of the US dollar and, prompted by policy twists and turns, increased government borrowing costs as bond yields have risen.

Interestingly, Germany appears to be heading in the opposite direction. The new chancellor, Friedrich Merz, has taken advantage of Germany's relatively low cost of borrowing to fund a €500 billion infrastructure investment plan, as well as removing the country's so-called 'debt brake' to increase defence spending. After years of financial probity, Germany is one of the few nations that has the scope to spend more and invest in growth.

**Germany's debt level offers room to manoeuvre**

(Gross govt. debt as share of GDP, %)




Source: LSEG Datastream/Fathom Consulting, December 2023.

Comparing Germany and the US highlights their contrasting economic situations but also frames a potentially interesting opportunity for shifting investment. Trump's tariff policies and his general approach to policy-making have unsettled many investors and knocked confidence in US assets. On the other hand, European, and particularly German, assets have benefited from investors seeking alternatives to the US market lately.

If Trump's trade strategy leads to a new economic reality, one potential consequence could be portfolio rebalancing and greater exposure to markets beyond the US, including Europe.

## Portfolio rotation

At the time of writing there appears to be a lull in the tariff turmoil – the temporary truce between US and China and the 90-day pause of reciprocal tariffs have boosted investor confidence. While stock markets may have recovered from their initial swoon, it is hard to ignore the notable rotation away from US assets after the April 2 announcement.

In recent years, the US market has been a reliable source of investment returns. Consistent outperformance has contributed to the notion of US exceptionalism. However, the 'sell the US' trade that followed 'Liberation Day' offered a glimpse of a potentially enduring investment shift.

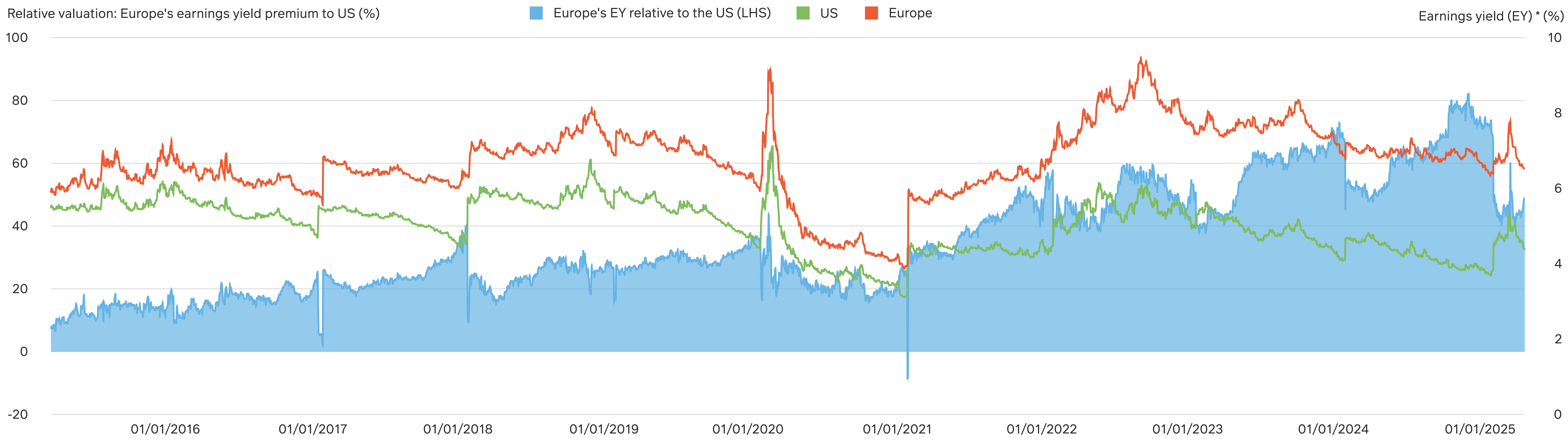
Investors' portfolios have arguably been concentrated in US assets lately; this is likely to be a hard habit to break but it seems as if investors have recognised that alternatives exist. Secular shifts in economic activity, to a degree driven by US policies, over the coming years will likely present investors with a wide range of opportunities beyond the US.

Europe could be a strong contender for investors looking to diversify their portfolios and rotate away from the US. While starting from a low base, Europe demonstrates an improving economic backdrop, declining inflation, relatively supportive monetary policy and stimulus measures. European assets also look set to benefit from favourable valuations and a shift in momentum.

European stocks remain attractively valued, in our view, compared to their US counterparts, primarily through lower valuation metrics and potentially higher earnings opportunities (a 2% earnings yield differential).

The shift lower with limited recovery in the dollar and US Treasury risk premium signals an inflection point in investor sentiment that has been influenced by US political and economic uncertainties.

### US equity trading at a premium to Europe



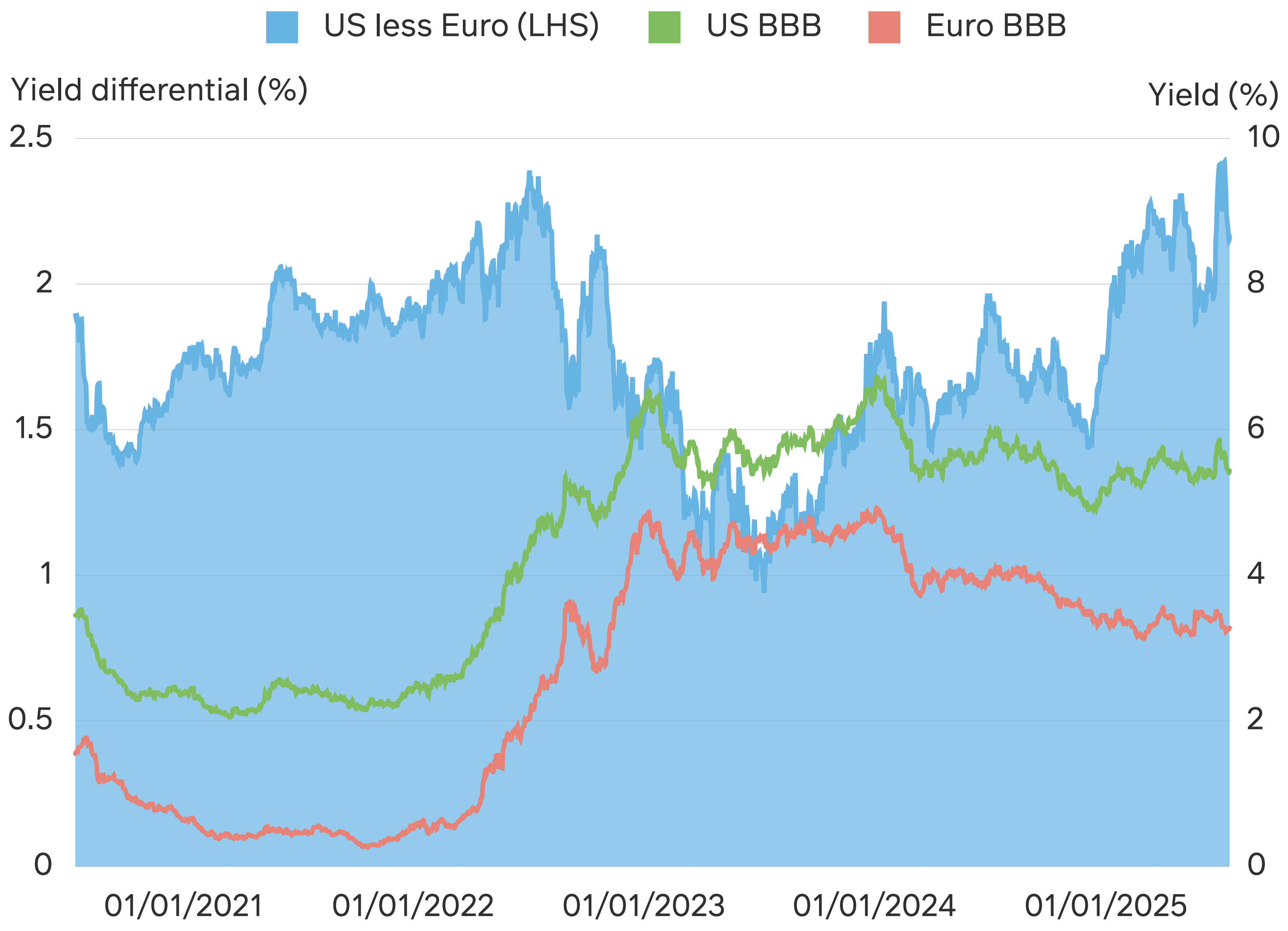

Source: Bloomberg, May 2025. US and Europe represented by MSCI indices. * Earnings yield is the reciprocal of the price-to-earnings (P/E) ratio; a higher earnings yield suggests a lower valuation.

Monetary policy, political uncertainties, and shifting investor sentiment have increased funding pressures on US corporates compared to their European counterparts. This is reflected in the wider BBB credit spreads, which indicate higher borrowing costs for US companies.

As a result, US firms face less favourable borrowing conditions, potentially leading to more frequent credit rating downgrades and an increased risk of defaults, especially at the lower end of the investment-grade spectrum.

European corporates benefit from more stable economic conditions and accommodative monetary policies, maintaining lower borrowing costs.

**US vs Euro BBB yields**




Source: Bloomberg, May 2025.

## Navigating uncertainty

Going forward, finding stable sources of returns that meet investors' aspirations is likely to become trickier. The level of volatility and details of changes in the macro landscape are challenging (if not impossible) to forecast. Staying nimble and ready to seize global opportunities when they become clear could be the key to unlocking investment success in this new era.

In a world of uncertainty and potentially shifting forces, there will likely be opportunities for investors to identify the winners and (hopefully) avoid the losers. In both equity and credit markets, we believe selection will be essential, particularly in relation to assessing the visibility of company earnings or a company's ability to service its debts.

In this environment, there are a number of factors that investors might consider to navigate the uncertainty. Relying on historic correlation and covariance could lead to unexpected risk as relationships change or break down.

A potentially key way to reduce risk would be increasing the exposure to assets that have direct relationships to your liabilities or requirements. For example in terms of currencies, unhedged exposures could be increasingly risky and hedging could become expensive: increasing investments in base currency assets could mitigate both risks.

In the short-term, investors may benefit from preserving liquidity and flexibility. Being agile and ready to take advantage of opportunities that arise, could be valuable in turbulent markets. Volatility can present opportunities for active investors. With a defined strategy in place, they may get the chance to identify specific opportunities and enter at attractive levels.

Another useful step investors might take is reviewing what they own. This is not likely to be a market environment that lifts all boats. There are choppy waters and some assets will end up on the rocks. Understanding each asset's exposure to uncertainty and assessing whether it is delivering what is expected could also be valuable.

From a longer-term or strategic perspective, investors might look to reduce their portfolio concentration. The US market has been seen as the 'winner takes all' for many years but it could be helpful to diversify exposures to specific risk holdings. Rebalancing away from the US and increasing exposure to Europe or Asia, for instance, could better match the potential secular shift that is under way and also individual liabilities.

## Opportunities for active management

Looking ahead, public assets could face dislocations, but there is arguably plenty of value in the broad market after a period of concentration and US dominance. It will likely be harder to spot winners but patient selective fundamental investors could thrive.

In private markets, higher borrowing costs could be challenging for riskier, esoteric businesses and/or those with longer term cash flows exposed to the uncertainty. Notwithstanding the challenges, there could be opportunities for expert debt investors to capture and increased incentive for companies to finance through parties more willing to assess their specific conditions.

Trump has arguably sparked a fundamental reorientation in financial markets, the consequences of which will play out over the coming months and years. In an increasingly uncertain environment, a realignment in economic and investment priorities should present opportunities for active management outcomes to really differentiate.

# Valuation framework: Assessing valuation signals across a spectrum of asset classes

**Stuart Canning,**
Global Macro Fund Manager

## Key observations

- Market volatility at the start of 2025, particularly following the 'Liberation day' announcement, did little to change broad valuation conclusions.
- The only notable changes were reductions in the compensation for risk in equity markets across Europe, South America and China.
- European and UK cash rates declined due to policy easing.
- Developed market government bond yields are relatively unchanged at longer maturities.
- Corporate bond spreads in developed markets widened, especially for riskier issues, before reversing rapidly, having limited impact on all-in yields.

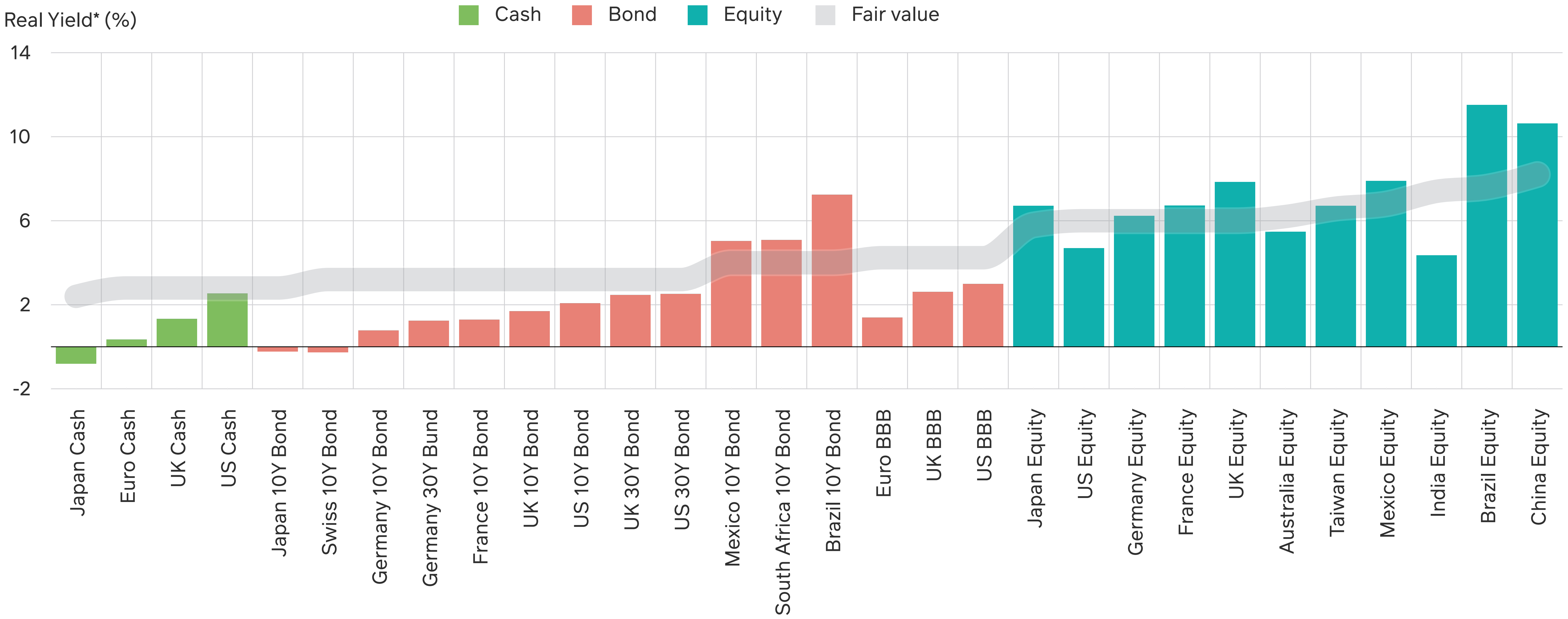
The valuation framework compares the real yields of a spectrum of global assets with an assessment of their 'fair value', which is calculated using the M&G Global Macro team's proprietary analysis.

When an asset's real yield is higher than the estimate of fair value, it is considered to be attractively valued; if lower, the asset's current valuation would be considered expensive.

- Our proprietary valuation framework indicates that cash remains a competing asset.
- Real (inflation-adjusted) yields on fixed income look relatively attractive.
- Valuations of some equity markets are elevated and for others compensation for risk has reduced since the end of 2024.

# Real yield against an assessment of fair value

**Sample of assets, showing a real yield against an assessment of neutrality**




*Real yields. Cash/bonds are nominal yields deflated by 10y breakeven inflation. Exceptions are Switzerland and India (no breakeven) and UK (breakeven is RPI) where 20y average CPI figure is used.

Equities use 12m forward EPS deflated by Bloomberg consensus 12m forward inflation expectation over price. The above data is a hypothetical representation for illustrative purposes only and is not representative of any M&G product or strategy. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

## Valuation overview

The following observations relate to the valuation framework.

### The bigger picture

**Cash remains a competing asset** – the US policy (cash) rate remains the dominant issue for global investors, both its current level and future trajectory. The return on US cash is often viewed as a 'risk-free' benchmark that other investments must surpass to justify the additional risk.

**Real yields look appealing** – real (inflation-adjusted) yields on fixed income are currently attractive when compared to most of the past twenty years, and they appear reasonable within the broader context of the past thirty years. Furthermore, corporate bond spreads in developed markets have widened since the start of the year.

**Elevated valuations of some equities** – from a long-term perspective, compensation for risk remains low in the equity markets of the US, India, Taiwan and Australia. Other global equity markets appear relatively attractive, though less so than they have done in recent years. Indeed, the most notable moves since the end of 2024 have been a reduction in the compensation for risk in equity markets in Europe, South America and China.

### Cash

**Policy easing needed** – all asset valuations continue to suggest a need for easing in global policy and inflation. Confidence that policy rates are ultimately on a downward trajectory in the US and UK remains high. However, any upward pressure on real cash rates may exert pressure on other assets, as witnessed in 2022, given relatively low levels of risk premia on offer at present.

**Japan the outlier** – Japan continues to stand out as a region where rates are expected to rise.

**Rate cuts in emerging markets** – policy rates are also anticipated to fall in many emerging economies.

## Bonds

**Steeper yield curves** – yields on longer-dated developed market government bonds remain elevated. A significant change in the first half of 2025 is the steepening of government yield curves, with shorter maturity yields generally declining.

**Economic weakness could see yields fall** – economic uncertainty has increased volatility in bond markets, calling into question their status as 'safe' assets. However, even with near-term rate cuts already factored in, there remains potential for bonds to rally if growth challenges emerge.

**More attractive credit spreads** – for corporate bonds the additional yield offered for default risk in the UK and Europe has widened for more speculative (High Yield) issues. However, spreads remain relatively narrow for more secure (AAA) companies.

**Investors compensated for emerging market risk** – certain emerging markets, including Brazil, Mexico and South Africa, are presenting more attractive levels of risk compensation.

## Equities

**Focus on US valuations** – currently, the main talking point from a valuation perspective in equity markets revolves around the levels of US equities. Valuations swiftly eliminated any additional risk premia related to the 'Liberation Day' tariffs as share prices rebounded to pre-announcement levels.

**'Cheaper' markets have lost some of their appeal** – continued strong gains from Europe and China have reduced their attractiveness relative to the end of 2024.

**Strong earnings growth required to meet expectations in selected markets** – from a long-term perspective, the compensation for risk remains low in the equity markets of the US, India, Taiwan and Australia.

# CIO Perspective: Time in the market rather than timing the market

**Fabiana Fedeli,**
CIO Equities, Multi-Asset and Sustainability

## Key takeaways

- Trade negotiations have helped markets become more positive about tariffs but we should not be complacent: it is still early days.
- Global investors are realising that there are alternatives to diversifying portfolios from US assets. We do not believe complete divestment is warranted.
- The increasing speed of market movements is an added complexity for investors. Data shows that time in the market is a more effective source of returns that trying to time the market.
- We see opportunities in AI-related semiconductors and European stocks that are placed to benefit from increased defence and infrastructure spending.

Equity markets, particularly in the US, appear to have turned the corner after the turmoil created by President Trump's tariff policies. The apparent willingness of the Trump administration to engage in negotiations and the first positive signs coming from the UK and China are offering risk markets hope that visibility on policy and macro is slowly returning.

While this appears to be a genuine US policy reset from the days of complete uncertainty in early April, we should not be complacent. Negotiations between any parties can always break down. Importantly, we have only had initial signs of a reprieve between China and the US, and there has been no evidence of a breakthrough in European negotiations. It is still early days.

## Diversifying portfolios

While the short-term prospects for the global economy may seem improved, longer-term the position of the US Treasury market and of the US dollar, while still unchallenged, is likely to have begun a process of dilution.

Empires fall, but they don't fall in one day. US exceptionalism is alive in the form of strong intellectual capital, deep capital markets, and a culture that fosters entrepreneurship. But this doesn't mean that the US market is the only game in town.

> **"We are seeing a slow decay in the belief that there is no alternative to investing in US assets."**

Global investors appear to have woken up to such a realisation. We are seeing a slow decay in the belief that there is no alternative to investing in US assets. In my opinion, there still is no alternative that would warrant completely divesting from the US. However, there are options to diversify our portfolios and this is a topic we are increasingly discussing with clients.

## When the macro is uncertain, focus on the micro

In a market where the macroeconomic environment is highly uncertain, we believe the best course of action is to focus on the microeconomic environment. This means focusing on specific securities, on the resilience of their businesses, on their exposure to positive drivers and ability to withstand the negative ones.

Any market, even one with broad undercurrents as the one we are in, is bound to generate both winners and losers. This will continue to be our approach toward equity markets for the second part of the year, just as it has been thus far.

And let's not forget, whether or not the Trump administration has genuinely pivoted from the shock and awe stage of tariffs, companies are likely to start making longer-term plans to derisk their supply chains and end-demand exposures.

This is not necessarily a case of looking for a sector or a country to be more cautious or bullish on but, rather, one of examining circumstances and fundamentals on a company-by-company basis.

## Identifying opportunities in AI-related semiconductors, Europe and India

Since early April, we have found opportunities in AI-related semiconductor names, in the US as well as more broadly across Europe and Asia. The long-term fundamentals remain intact, in our view, and recent earnings announcements showed that AI capital expenditure (capex) remains very resilient.

We also see opportunities among European stocks. A number of European companies are well-placed to benefit from the increased defence spending as well as from the €500 billion infrastructure fund from Germany.

As the European economy is very interconnected, the fiscal spending could impact companies beyond Germany and across Europe, as well as sectors beyond defence and construction, including, for example, utilities and specialty industrials. And while European markets have performed strongly year-to-date, we believe valuations in many areas remain attractive.

If we continue to have volatility related to the trade war, one country where we find idiosyncratic opportunities is India. More than 70% of revenue generated by India's largest 200 listed companies is domestic.

## Beware the velocity of markets

While market volatility can provide fruitful opportunities for active managers focused on company fundamentals, the constant evolution of market behaviour creates an additional layer of complexity for investors.

One key development, evident to those who sit daily in front of their screens, is the increased velocity of market movements. Even before the tariff announcements, the S&P 500's drawdown from its high year-to-date (between the second half of February and the first half of March) was the eighth fastest correction since 1929.

And on 7 April, we all witnessed the pre-market move in the E-minis (futures indices) staging an approximately US$2.5 trillion market cap gain in the space of a few minutes. In the same week, Japan's Topix registered its fifth largest volatility spike since 1975[1] and, in early May, the Taiwanese dollar experienced a sharp two-day surge and posted its steepest one-day gain in nearly four decades (labelled a rare 19-standard-deviation event[2]).

Enabled by easier market access, herd behaviour is on the rise and is increasingly erratic, as many make futile attempts to time the market moves.

[1] Source: Bloomberg. M&G. Topix Index. Calculated using annualised standard deviation of 10-day price moves over a 50 year period.
[2] Source: MUFG.

## Time in the market, rather than timing the market

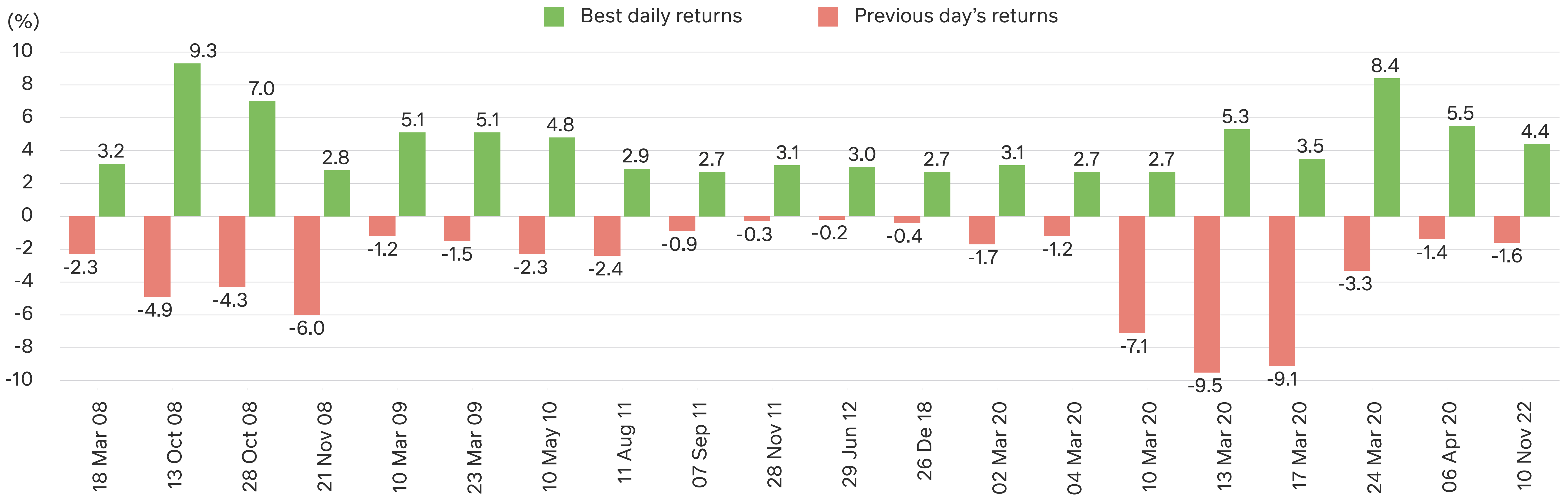
The compounding power of returns via time in the market, rather than timing the market, is well documented. Analysis of the daily returns for the MSCI AC World and S&P 500 indices over a 20-year period reveals that if you had missed just 20 of the best return days, you'd have lost almost two thirds of your annualised returns over the period (MSCI AC World: 8.2% vs. 2.8%;S&P 500: 10.4% vs 3.5%)[3].

Importantly, very often the best return days were preceded by some of the worst return days. Therefore, if you had attempted to avoid the down-days, you may very well have missed the most prosperous up-days. This reveals the difficulty of trying to time the market.

## Weathering uncertainty

Over the second half of the year, we will continue to watch for any datapoints that may indicate a macroeconomic slowdown, particularly if signs of a global recession driven by lower consumer and corporate confidence continue to rise. And we will seek to weather the uncertainty by focusing on buying stocks rather than into broader equity markets.

**Often the best days follow the worst days**




Source: LSEG Datastream, M&G Investments, April 2025. MSCI AC World Index. Snapshot of daily total returns in USD, 2004-2024.

[3] Source: LSEG DataStream, M&G Investments. MSCI AC World and S&P 500 indices. Data: Annualised daily total returns in USD currency, 2004-2024.

# CIO Perspective: In uncertain times, it pays to be active

**Andrew Chorlton,**
CIO, Fixed Income

## Key takeaways

- With uncertainty the only certainty pertaining to the US economy, we believe there is potential for active investors to tap into short-term market dislocations.
- While the US remains in a state of economic limbo, other areas of the world are experiencing a divergence in fortunes, with growth in emerging markets set to outperform developed market counterparts.
- Meanwhile, within credit markets, spreads remain at historically tight levels and do not sufficiently compensate for the risks posed by the global economy. As such we believe it is important to be defensively positioned, by moving up in credit quality and remaining patient.

The 47th US President's sweeping tariff proposals set out on 2 April profoundly shook markets. Yet does the real shock still lie ahead? For bond investors and the Federal Reserve (Fed) alike, the true impact of this will only become apparent in the economic data of the coming months.

There are pervasive fears that the inflationary flame will be lit once more as companies pass on the added cost of tariffs to consumers, as well as due to the renewed impetus from fiscal spending in the form of Trump's $4.9 trillion 'big, beautiful' tax plan.

Not only would the tax bill act as an economic stimulus but it raises longer term concerns for bond investors about the sustainability of the US deficit: the tax plan could increase the budget deficit by $3.7 trillion over the next decade, according to the Joint Committee on Taxation. At the end of 2024, the US gross debt-to-GDP ratio was 122% and it could be set to rise further on additional tax cuts.

Given this situation, investors are seeking additional yield on US Treasuries to compensate for the additional fiscal risk, with yields on 30-year Treasuries climbing past 5% in May 2025 following Moody's downgrade of the US's credit rating from Aaa rating to Aa1.

However, the prospect of a recession also looms large, with tariffs potentially inhibiting growth in the US and damaging consumer confidence. As a result of these ongoing macroeconomic uncertainties, US interest rate expectations have been whipsawed throughout the year.

When the only certainty is uncertainty, we believe it is crucial to have an active approach to investing; this provides the potential to benefit from short-term market dislocations and adapt positioning as appropriate to the ever-changing landscape.

## Divergence

While the US remains in limbo, other areas of the world are experiencing a divergence in fortunes. As a whole, Europe is flirting with recession and the European Central Bank is advanced in its journey of monetary easing. However, within the bloc, differences in relative economic performance among countries are starting to show.

Contrary to previous years, when countries like Italy and Greece typically lagged behind the more economically 'stable' nations such as Germany and France, this is now not the case, as evidenced by periphery spreads now trading at, or near, their lowest levels in a decade.

Meanwhile, Germany has announced a strong fiscal stimulus in the shape of defence and infrastructure spending, which has caused significant steepening in the bund yield curve. The response to this event was in a marked contrast to the

US where the constant conflicting news flow has continued to roil markets: despite the decisive change in German fiscal policy, markets returned to relative stability in a swift manner.

Similarly, many emerging market (EM) countries are further along the interest rate cutting cycle, with the majority having won the battle against inflation. Currently real (inflation-adjusted) rates provide an attractive opportunity in EM, in our view, and could receive further support should the Fed also continue its cutting cycle. Meanwhile, the economic growth differential between EM and developed markets (DM) is positive, with EM projected to outgrow DM.

## Priced to (im)perfection

Weakness in corporate bond markets occurred after 'Liberation Day', with spreads widening meaningfully and quickly. However, following more positive developments in the trade war saga, spreads returned to their previous level, completing a round trip.

Given the current tightness of credit markets, it appears that the market is assigning negligible economic risks to the US administration's pullback from globalisation. However, we are cognisant that the current tight levels of corporate bond spreads are a function of a technical support in the market: following a long period of relatively unattractive yields in fixed income markets, investor demand has significantly increased.

**"We believe it is important to be defensively positioned, by moving up in credit quality and remaining patient"**

This has been driven by comfort that the carry (income) on offer can act as a buffer against any negative repricing of interest rates moving higher or credit spreads widening. With that, current spread levels imply a fairly stable outlook, in our opinion, but we believe significant risks remain and bond markets may be very susceptible to those risks.

We expect the coming months to be a waiting game to determine how policy evolves. With spreads at historically tight levels, we believe it is important to be defensively positioned, by moving up in credit quality and remaining patient.

If developments from here result in a repricing of risk, being defensively positioned potentially gives investors the opportunity to benefit two-fold: protecting capital as spreads move wider, and having dry powder to step into attractive opportunities as they are presented.

However, in the meantime, yields remain attractive, despite the narrowness of spreads. Spreads may be near historical tights but 'risk-free' government bond yields are at the higher end of the recent range. Investors are still paid a relatively attractive yield in government bonds and high quality ABS while we wait for corporate credit spreads to widen. We believe the opportunity cost of not owning too much credit risk is low.

## It pays to be active

With valuations tight, there is significant scope for an active manager to take advantage of selective opportunities. While we might be broadly cautious, we are able to take advantage of dispersion in the market and patiently wait for interesting opportunities. Not only can we differentiate by country and sector, but we can also select from among the different issuances of an individual company.

Credit is not a risk-free market. It is important that investors understand the risk being taken and whether they are being paid for it. We believe the key to successful outcomes is to maintain a flexible approach, taking on risk where there is sufficient compensation.

# CIO Perspective: Resilience in uncertain times

**Emmanuel Deblanc,**
CIO, Private Markets

## Key takeaways

- Recent recovery in private markets unlikely to be knocked off course by recent events, in our view. Secular growth drivers remain intact and will persist.
- Prospects for private credit more positive than before with margins and demand likely to improve. Private equity may suffer from higher funding costs and trickier operating environment for investments.
- Unlisted nature of private markets likely sheltering investors from the worst of short-term market volatility whilst preserving the long-term attractions of the asset class.

## Tariffs impact unknown

At the start of 2025, optimism was high that this year private markets would continue the rebound evident during the last 12-months. From an unsustainable peak in 2021, deal making and wider fund-raising activity had been subdued, though 2024 showed signs of a recovery. Momentum continued during the start of this year, then the Trump Tariff Tantrums began.

Whilst grabbing all the headlines, perhaps we can all acknowledge that nobody, or very few, actually know the end game here. The start of a global trade war or chaotic negotiating tactic leading to a reset of global tariff levels overall? Who knows? What can be reliably said is that market uncertainty and investor apprehension is now elevated, and that is unhelpful for market confidence and thus deal flow.

> "It is during times such as these that the value of long-term patient capital, characterised by private markets, really comes to the fore."

## The value of long-term patient capital

Public markets globally fell by more than 10% in the immediate aftermath of the tariff announcements but, post the 90-day pause, promptly rebounded. Looking at the start and finish points, you might have wondered what all the fuss was about. Bi-lateral trade negotiations are now underway, and the spread of possible outcomes has narrowed, but it is during times such as these that the value of long-term patient capital, characterised by private markets, really comes to the fore.

## Impact on different private market strategies varies

Despite the fireworks, it is possible recent developments may actually prove a positive for certain private market strategies. Credit spreads initially widened post-Trump, before coming back in somewhat. However, elevated perceptions of market risk and economic uncertainty normally prove to be preludes to wider credit spreads. And wider spreads, reflecting a higher discount over benchmark rates, should be positive.

On the demand side, should economic conditions deteriorate during the second half of this year, it is likely traditional banks retreat even further from certain lending segments in order to conserve capital. This would be good news for private credit boosting even further the ongoing migration from traditional to private lending. Both volumes and margins within the private credit space will be the beneficiaries.

Within real estate, it is doubtful the current recovery story will be materially derailed as we continue through 2025, albeit it could take longer. While possible, it seems unlikely a softer economic/corporate environment would noticeably impair current robust occupancy demand. Indeed, constrained supply and sustained evidence of growing rent levels suggest the present recovery in property is well grounded.

However, not every part of the private markets universe would be immune from a fall in market confidence and for private equity, life may become trickier. If the world settles for higher than current tariff levels, this may prove inflationary hampering the ability of central banks to lower rates as far or as quickly as previously expected. This raises financing costs for private equity. The operating environment for companies will also suffer perhaps extending holding periods with exits becoming harder.

## Robust long-term prospects

However, 'Liberation Day' is not going to materially change the medium-long term attractiveness for this asset class. The desire by fixed income investors to diversify their allocations into alternative credit strategies is not ending. Retrenchment by traditional banks from selected areas of lending is accelerating, not retreating. And governments will continue to encourage investors to build the energy solutions and critical infrastructure so badly needed.

A key attribute of private markets is the fact they are unlisted on public exchanges – whilst not immune, they can more easily weather buffeting from short-term events and market white noise. During the remainder of 2025, and beyond, private markets investors will continue to seek attractive long-term capital appreciation and/or reliable income. The secular growth themes driving private markets have not disappeared. On 2 April, the world perhaps became a little less certain, but the prospects for private markets remain robust.

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