

## Tactical Asset Allocation: Cautiously optimistic

- ▶ **Policy uncertainty and geopolitical tensions are likely to stay in the near-term.**
- ▶ **There are also reasons to remain optimistic over the medium-term.**
- ▶ **Remain neutral risk on our TAA positioning, with select overweight in equities.**

**Growth:** Global growth outlook has weakened, weighed down by rising trade tensions, geopolitical instability, and policy uncertainty. While growth remains resilient, signs of moderation are increasingly apparent. In Q1'25, the US economy contracted slightly, while the Eurozone and UK posted modest growth. China's economy rebounded strongly, surpassing expectations. Overall, growth surprises in the US have turned negative after briefly turning positive a few weeks ago. This contrasts with positive economic surprises in the UK, EM, Eurozone and Japan. Recent US hard data presents a mixed picture, with labor market cooling and housing sector softening, but business activity remains resilient. Despite historically weak consumer sentiment, slight improvements suggest gradual stabilization. We do not expect a global recession over the next 12 months. However, we expect US growth to slow below trend while avoiding contraction.

**Inflation:** Inflation is showing encouraging signs of easing despite ongoing tariff uncertainty. US CPI growth has slowed to its lowest level since early 2021, while producer price inflation saw its steepest drop since 2020, reinforcing optimism that inflationary pressures are in a downward trend despite tariff risks. Higher inventory-to-sales ratios among US corporations, cooling labor market and evidence of slowing consumer spending has helped cushion the short-term impact of tariffs. However, tariff risks could exert upward pressure on inflation in the second half. Despite that, we do not subscribe to the market's stagflation narrative. Instead, we anticipate that tariffs will dampen growth first before driving inflation higher, with price pressures likely to intensify gradually rather than immediately.

**Trade and fiscal policy:** At present, significant uncertainty surrounds US tariff policy, with the announced rates on 'Liberation Day' retreating slightly but still at their highest levels since the late 1930s. Despite legal challenges, the administration appears committed to its trade policy goals, particularly as it aligns these with fiscal planning. The One Big Beautiful Bill Act (OBBBA), passed by the US House of Representatives, aims to extend key provisions of the 2017 Tax Cuts and Jobs Act and inject significant government spending into infrastructure, social programs, and innovation, which will be financed through debt. The bill has further raised concerns over the rising US debt levels, projected to add up to USD5trn to already elevated debts levels in US. We expect uncertainty over trade and fiscal policy to weigh on the global market sentiment.

**Monetary policy:** We maintain our view that tariffs contribute to weaker economic growth before they feed into heightened inflation. We believe the Federal Reserve will likely prioritize measures to address the slowdown. We expect the Fed will cut the policy rate three times—resulting in a 75bp reduction—over the remainder of 2025. We anticipate rate reductions in July, September, and October of this year. Moving into 2026, we foresee one additional cut early in the year, bringing the federal funds rate to a range of 3.25%–3.50%. Meanwhile, we believe the ECB is approaching the end of its easing cycle, having already implemented eight rate cuts. We expect one final reduction in Q3 before the ECB pauses. In the event of a European recession, rates could fall below 1.75%, though this is not our base case. As for the BoE, downside risks to growth have increased recently, even as wage growth and inflation remain somewhat elevated. Consequently, we anticipate further easing from the BoE in the near term. Finally, we see BoJ staying on hold for the rest of the year. We expect two rate hikes from BoJ in 2026 in Q1 and Q3, taking the policy rate to 1% by the end of that year.

**Tactical Asset Allocation (TAA):** Acknowledging the risks of trade, fiscal and monetary policy uncertainty coupled with elevated geopolitical risks, we are cautiously optimistic in our TAA. Within equities, we maintain our neutral stance, keeping our preference for the US and Japan. Elsewhere, we remain neutral on Europe, but tariff risks will continue to weigh on the sentiment. We remain cautious on Asia Pacific excluding Japan, and other emerging markets (CEEMEA and LatAm). On the fixed income side, we maintain our neutral stance on the asset class. We remain neutral on DM Treasuries IG, DM Corporate IG, EM USD Sovereign IG, Global HY and cash but underweight on EM LCY IG and EM Corporate IG.

### Tactical trade ideas list (Exhibit 3 and 4)

- ▶ We closed our trade idea on high dividend yielders after the trade hit its target.

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# Tactical Asset Allocation

Investment Strategy | June 26, 2025

## Tactical Asset Allocation

Exhibit 1: Tactical Asset Allocation with a 3m-6m view

Asset Class	Positioning					Balanced		
	SUW	UW	N	OW	SOW	SAA	TAA	Active
<b>Equities</b>						<b>41.2</b>	<b>42.1</b>	<b>0.9</b>
North America						25.8	27.8	2.0
Equal-wt. US						0.0	0.0	0.0
Europe						7.0	7.0	0.0
Japan						2.3	2.8	0.5
APac ex Japan						5.0	3.8	-1.2
EM ex Asia						1.0	0.7	-0.3
<b>Fixed Income</b>						<b>58.8</b>	<b>57.9</b>	<b>-0.9</b>
DM Treasuries IG						32.9	32.9	0.0
DM Corporate IG						12.5	12.5	0.0
EM USD Sovereigns IG						0.8	0.8	0.0
EM LCY IG						5.1	4.5	-0.6
EM Corporate IG						0.6	0.3	-0.3
Global HY						5.0	5.0	0.0
Floating rate notes (off-BM)						0.0	0.0	0.0
Cash						2.0	2.0	0.0
<b>Alternatives</b>						<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

### Colour legend

Current  Previous

Source: Bloomberg, Bloomberg BGN, Bloomberg Indices, Hedge Fund Research, MSCI, Standard & Poor's, LSEG Workspace, and ADCB Asset Management | Notes: \*Positioning recommendations: SUW = Significant Underweight; UW = Underweight; N = Neutral; OW = Overweight; SOW = Significant Overweight. \*\*Based on balanced risk profile. SAA = Strategic Asset Allocation; TAA = Tactical Asset Allocation; Active weight = TAA weight – SAA weight. Weights may not sum to 100% due to rounding.

Exhibit 2: Strategic Asset Allocation

	Cautious	Balanced	Aggressive
<b>Investment objective</b>	<b>Capital Preservation &amp; Moderate growth</b>	<b>Growth &amp; Income</b>	<b>Growth &amp; Moderate Income</b>
<b>Investor Suitability</b>	<b>Moderately Conservative</b>	<b>Moderate</b>	<b>Moderately Aggressive</b>
<b>Asset Allocation</b>			
Equity	20%	35%	65%
Fixed Income	65%	50%	20%
Alternatives	15%	15%	15%

Source: ADCB Asset Management

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## Tactical Trade Ideas

### Exhibit 3: Our high conviction tactical investment themes/trade ideas – open positions

New/Open positions	Asset class	RV?	Date opened	Current date	Performance	Target	Stop
UK gilts over other DM Sov.	Fixed income	Yes	14-Nov-24	25-Jun-25	-0.7%	5%	-5%
US Mortgage Backed Securities	Fixed Income		11-Apr-25	25-Jun-25	2.5%	5%	-5%
US Small Caps (Russel 2000)	Equities		6-Mar-24	25-Jun-25	3.3%	20%	-15%
Copper	Commodities		15-Jun-23	25-Jun-25	16.0%		
Indian equities	Equities		11-Apr-25	25-Jun-25	11.2%	20%	-10%
Silver	Commodities		10-Jun-25	25-Jun-25	-0.7%	20%	-10%
<b>Average</b>					<b>5.3%</b>		

Source: Bloomberg, and ADCB Asset Management

### Exhibit 4: Our high conviction tactical investment themes/trade ideas – closed positions

Closed positions	Asset class	RV?	Date opened	Date closed	Performance	Target	Stop
High dividend yielders index	Equities		6-Mar-24	10-Jun-25	15.1%	15%	-10%
Gold miner equities	Equities		17-Mar-25	2-Jun-25	20.8%	20%	-10%
SPW relative to SPX	Equities	Yes	6-Mar-24	10-Apr-25	-5.7%	15%	-10%
Gold miner equities	Equities		25-Nov-24	17-Mar-25	22.3%	20%	-10%
UST (7Y-10Y) over other DM Sov.	Fixed income	Yes	5-Jul-22	13-Nov-24	-1.1%		
EU IG Corp over US IG Corp	Fixed income	Yes	9-Jan-23	13-Nov-24	6.0%		
HK equities	Equities		14-Nov-22	13-Nov-24	13.3%		
Chinese hotels & leisure	Equities		14-Nov-22	13-Nov-24	-18.6%		
Chinese semiconductors	Equities		22-Mar-23	13-Nov-24	9.0%		
USDJPY	FX		6-Mar-24	26-Apr-24	-6.0%		
Dow Jones World Consumer Goods	Equities		25-Aug-23	6-Mar-24	1.5%		
Indian equities	Equities		22-May-23	6-Mar-24	31.3%		
Cybersecurity	Equities		22-Mar-23	6-Mar-24	26.9%		
GBPUSD higher	FX		15-Jun-23	20-Sep-23	-3.4%		
US Diversified banks over US Regional banks	Equities	Yes	13-Mar-23	13-Jun-23	24.8%		
Asia investment grade credit	Fixed income		9-Jan-23	14-Jun-23	1.8%		
USDJPY lower	FX		9-Jan-23	14-Jun-23	-6.1%		
GBPEUR lower	FX		9-Jan-23	14-Jun-23	-2.9%		
Gold	Commodities		14-Nov-22	14-Jun-23	9.7%		
Gold miner equities	Equities		14-Nov-22	14-Jun-23	13.1%		
<b>Average</b>					<b>7.6%</b>		

Source: Bloomberg, and ADCB Asset Management

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## Bloomberg Consensus projections (for indicative purposes only; not ADCB view)

	Latest	Quarterly actual and forecasts						Annual actual and forecasts					Agg. 12M target price(f)
		Q1 25	Q2 25f	Q3 25f	Q4 25f	Q1 26f	Q2 26f	2024	2025f	2026f	2027f		
GDP Growth (% period average)													
US	2.1	2.1	1.7	1.2	0.9	1.3	1.4	2.8	1.4	1.6	1.9		
Eurozone	0.6	0.3	1.1	0.7	0.6	0.5	0.9	0.7	1.0	1.1	1.5		
UK	1.3	1.5	1.0	1.1	1.3	0.9	1.1	1.1	1.1	1.2	1.5		
Japan	1.7	1.3	0.8	0.6	0.1	0.4	0.5	0.2	0.8	0.8	0.8		
China	5.4	5.4	4.9	4.4	4.0	4.0	4.1	5.0	4.5	4.2	4.1		
India	7.4	6.3	6.5	6.5	6.1	6.2	6.5	9.2	6.3	6.3	6.5		
Inflation (% end of period)													
US	2.7	2.7	2.6	3.2	3.3	3.1	3.0	3.0	3.0	2.8	2.4		
Eurozone	2.3	2.3	2.0	1.9	1.8	1.7	1.8	2.4	2.0	1.9	2.0		
UK	2.8	2.8	3.4	3.5	3.2	2.8	2.1	2.5	3.2	2.3	2.0		
Japan	3.8	3.8	3.4	2.6	2.0	1.5	1.5	2.7	2.8	1.8	2.0		
China	-0.1	-0.1	-0.1	0.0	0.5	0.9	0.8	0.2	0.2	1.0	1.5		
India	3.7	3.7	3.1	3.4	3.5	4.5	4.6	5.0	4.6	3.8	4.2		
Policy rates (% end of period)													
Fed	4.5	4.5	4.5	4.3	4.1	3.9	3.7	4.5	4.1	3.5			
ECB	2.2	2.7	2.2	1.9	1.9	1.9	1.9	3.2	1.9	1.9			
BoE	4.3	4.5	4.3	4.0	3.8	3.6	3.5	4.8	3.8	3.3			
BoJ	0.5	0.5	0.5	0.6	0.7	0.8	0.8	0.3	0.7	0.9			
PBoC	3.0	3.1	3.0	3.0	2.9	2.8	2.8	3.1	2.9	2.7			
RBI	5.5	6.3	5.8	5.5	5.4	5.3	5.4	6.5	5.4	5.4			
10Y yield (% end of period)													
US	4.3	4.2	4.4	4.3	4.3	4.2	4.2	4.5	4.3	4.1			
Eurozone	2.6	2.7	2.6	2.6	2.7	2.7	2.8	2.4	2.7	2.8			
UK	4.5	4.7	4.6	4.5	4.4	4.3	4.3	4.6	4.4	4.2			
Japan	1.4	1.5	1.4	1.5	1.5	1.6	1.6	1.1	1.5	1.7			
China	1.7	1.8	1.7	1.6	1.6	1.6	1.6	1.7	1.6	1.6			
India	6.3	6.6	6.3	6.2	6.1	6.2	6.2	6.8	6.1	6.0			
FX (end of period)													
EURUSD	1.2	1.0	1.1	1.2	1.2	1.2	1.2	1.0	1.2	1.2	1.2		
GBPUSD	1.4	1.3	1.3	1.4	1.4	1.4	1.4	1.3	1.4	1.4	1.4		
USDJPY	145.2	156.8	144.0	142.0	140.0	138.0	137.0	156.8	140.0	134.5	130.0		
USDCHE	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.9	0.8	0.8	0.8		
USDCNY	7.2	7.3	7.3	7.2	7.2	7.2	7.1	7.3	7.2	7.1	7.0		
USDINR	86.1	85.5	85.2	85.5	85.7	86.0	86.0	85.5	85.7	85.7	84.7		
Commodities (end of period)													
Oil (Brent)	67.7	74.4	64.9	65.6	64.5	64.5	64.6	74.4	67.4	64.7	65.5		
Gold	3332.3	2606.5	3317.7	3350.0	3391.7	3428.0	3462.7	2606.5	3250.4	3481.0	3689.9		
Silver	36.3	29.0	34.1	36.4	36.9	37.2	37.6	29.0	35.1	37.8	40.1		
Copper	9810.0	8833.0	9591.4	9740.0	9693.4	9680.7	9675.8	8833.0	9606.8	9683.9	9718.4		
Equities (end of period)													
SPX Index	6092.2	5906.9	-	-	-	-	-	5906.9	6511.4	6556.3	6626.4		
SXXP Index	537.0	504.9	-	-	-	-	-	504.9	537.5	560.0	605.4		
FTSE 100	8718.8	8121.0	-	-	-	-	-	8121.0	8675.0	9000.0	9915.5		
Nikkei 225	38942.1	39894.5	-	-	-	-	-	39894.5	42675.0	-	43855.8		
MSCI China	76.9	64.8	-	-	-	-	-	64.8	-	-	91.6		
BSE Sensex	82755.5	78248.1	-	-	-	-	-	78248.1	-	-	91374.1		

Source: Bloomberg, and ADCB Asset Management

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