Manulife
Investment Management

Asset allocation views: diversifying in uncertain times

As we mark the close of the first half of 2025 as an investment team, we find it healthy to look back and reflect on some of the key drivers of markets over the prior period. And as we sit here today and evaluate year-to-date performance, we can see that the S&P 500 is up about 6 percentage points while global stocks are up about 10 percentage points. And when we think about that in the context of the environment, we would view markets as having been quite resilient over this six-month period. And that's given the fact that there's been a tremendous amount of risk and volatility that the markets had to contend with, including the implementation of trade- and tariff-related policies across the globe, Middle East tensions rising, seeing things like oil prices fall off quite precipitously, credit spreads wide now, the dollar depreciating pretty significantly, and the list goes on and on. And in the face of all those events, equities have been able to, you know, put up returns, respectable returns in that 6 to 10% range, which we believe is again resilient and quite impressive. However, as investors, what we're focused on is less about what's happened and more about what is going to happen and what we can expect over the next six months. And as part of this video, we want to provide just a few quick updates in relation to that. So first off, on the macro side of things, as we talk to our strategists and economists internally, the positive news is that we anticipate and forecast as part of our base case positive economic growth—here in the U.S. and across most major economies that we forecast. And that will avoid a recession as we think about the second half of 2025.

Now the asterisk to that viewpoint, though, is that we have been and will likely continue to see the level or magnitude of economic growth cool off or slow. And that's really been underway now for a couple months. If we think about the U.S., you could look at indicators related to the housing market. You can look at things like jobless claims that come out each week as indications or signposts of that slowing. But it's not all bad when it comes to the idea that the economy is slowing because in our view, it can serve as an impetus for the Federal Reserve to ease back its monetary policy. And in fact, our team's base case view is we'll see three cuts from the Fed in the second half of 2025, which we believe would be a positive going down the road as the Fed cuts could in fact lead to improved business and consumer confidence and help push forward capital and investment spending, among other things. Now when it comes to markets and we think about risk assets or equities in particular, what we would tell you is that our platform is generally overweight equities today, but that overweight is generally modest. It's modest from the standpoint of there's still plenty of risks that we're going to need to contend with as we look ahead. Most notably, we have a trade deadline or tariff-related deadline in early July that's been looming at the market we'll have to face. In addition to that, markets have rallied pretty sharply in the second part of Q2 and with that, valuations have snapped back quite quickly. But with all that said, you know when we evaluate equities in general, our view is that fundamentals remain in strong shape and that sentiment and technicals remain pretty healthy at the moment. And so we're pretty comfortable with that posture. Now what's maybe more interesting is underneath the hood of equities and the idea that geographic diversification is actually working for the first time in some time, we've seen leadership for many non-U.S. equity markets over the first half of 2025, and we believe that could continue. And that's not to say we don't like the strong growth characteristics that are related to U.S. equities. It's more about seeing some of these factors we haven't seen in a while crop up in non-U.S., like the fiscal impulse turning positive in places like Europe, seeing positive, incremental positive stemming from currency returns outside of the U.S., and the fact of the matter is many of these markets trade at a relative valuation discount, making them more attractive. So that's like a key theme we're focused on.

When we move over into the fixed income space, what I would tell you is that with our view on the economy and the fact of the matter is the economy remaining on a decent footing, we believe we can clip coupons and those coupons today traded at pretty healthy levels and we think that that's a good thing for our portfolios and for our investors. When it comes to the yield curve, we've been biased more towards the shorter end. So we've been dialed into the shorter end and intermediate end of the yield curve and have been underweight or less favourable towards towards the long end. And then the last update we wanted to share is the notion or the idea in the current macro landscape of using commodities in portfolios. We believe in an environment where growth again is cooling, but inflation remains a risk factor that investors still have to contend with. The usage of commodities from a portfolio construction point of view can make a lot of sense, and using investments like gold, which has been certainly helpful to have in portfolios over the last several months, can make a big difference in the current environment. So those are the key points we wanted to share with you all today. We'd encourage you to visit us at our website for more information and content, and we'll be back to you soon with further updates. Thank you so much for your time, have a great day.

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