



# TACTICAL ASSET ALLOCATION UPDATE

Q1 2025





# Multi-Asset Tactical Asset Allocation update: Q1 2025

Tactical Asset Allocation (TAA) is one of the five stages of the Liontrust Multi-Asset (MA) investment process – the others being the Strategic Asset Allocation (SAA), fund selection, portfolio construction and ongoing monitoring.

This quarter we reduced our ranking for investment grade corporate bonds from a positive four to a neutral three, and our neutral ranking for convertible bonds from a neutral three to a negative two on our scorecard. Our Multi-Asset funds and Managed Portfolios have benefitted from investment grade credit since raising our ranking from neutral to a positive four in the third quarter of 2023, but spreads have become tight; we believe it is time to take some profits and better spend our risk budget elsewhere. Technology companies dominate the convertibles sector, and we prefer to invest in the sector via equities and bonds, which offer better value than the expensive convertibles market.




The Multi-Asset Investment team has a medium-term view – 12 to 18 months – of the prospects for each asset class and this forms the TAA. Each asset class is assigned a rating from one to five, with one most bearish and five most bullish. In the Portfolio Construction process, our TAA policy is combined with the SAA, manager selection and mandate parameters to create holdings targets for each of our funds and portfolios. The scores referred to in this document reflect the target view (not the actual position) for every asset class and the investment team builds towards this within the funds and portfolios over time. Having a 12- to 18-month view means the team will increase positions when the valuations of the asset classes are attractive; its core approach is to buy low and it will not overpay for assets, however highly they score. The TAA policy is applied consistently to the Liontrust MA team’s funds and portfolios through the portfolio construction process.

Our overall ranking for markets remains a positive four. We believe market fundamentals remain solid and on balance, the global economy remains relatively buoyant, inflation has fallen, Unemployment is low, consumers continue to spend and companies are generating decent revenues.

The team reviews the TAA every quarter, but it is important to stress that this does not reflect a quarterly view. The rating is only altered up or down when there is a fundamental change in the assessment of a particular asset class, and by taking a longer-term view, the team seeks to ignore short-term market noise and avoid trying to “time the market”. The table shows the latest TAA and includes all asset classes scored by the team, regardless of whether they are included across the funds and portfolios. The direction of travel arrow shows the last change in the TAA, whenever this occurred.

Our investment process is long-term in nature and is designed to be both patient and disciplined. There have been periods in the past when greater intensity of trading has been followed by quarters with relatively little activity. The team does not trade needlessly, thereby reducing the risk and cost of over-trading. The periods of heightened activity have occurred during market dislocations that presented opportunities or challenges for us. However, over the longer term, the team has demonstrated significant activity.

When thinking about our longterm investment process and the TAA element within it, we may move ‘early’ into a TAA view rather than try to time it too accurately because it is all too easy to miss the bottom and the strong turns in markets when they come. We do not believe we can time our entry or exit into an over or underweight market view perfectly, and as such we look to move when our TAA scores change, and market dynamics dictate an attractive entry point.

|                                  |  |   |  |   |  |                     |
|----------------------------------|--|---|--|---|--|---------------------|
|                                  | 1  | 2 | 3  | 4 | 5  | Direction of travel |
| Overall                          |  |   |  | ● |  | ↗                   |
| Cash                             | ●  |   |  |   |  | ↘                   |
| UK gilts                         |  |   | ●  |   |  | ↗                   |
| Short duration gilts             |  |   | ●  |   |  | ↗                   |
| Global government bonds          |  |   | ●  |   |  | ↗                   |
| Investment grade corporate bonds |  |   | ●  |   |  | ↘                   |
| Index-linked bonds               |  | ● |  |   |  | ↘                   |
| High yield                       |  |   |  | ● |  | ↗                   |
| Emerging market debt             |  |   | ●  |   |  | ↘                   |
| Convertibles                     |  | ● |  |   |  | ↘                   |
| Equity overall                   |  |   |  | ● |  | ↗                   |
| UK equity                        |  |   |  | ● |  | ↗                   |
| UK small caps                    |  |   |  | ● |  | ↗                   |
| US equity                        |  |   | ●  |   |  | ↗                   |
| US small caps                    |  |   |  | ● |  | ↗                   |
| European equity                  |  | ● |  |   |  | ↘                   |
| European small caps              |  |   | ●  |   |  | ↗                   |
| Japanese equity                  |  |   |  | ● |  | ↗                   |
| Japanese small caps              |  |   |  | ● |  | ↗                   |
| Asian equity                     |  |   |  | ● |  | ↘                   |
| Emerging markets equity          |  |   |  | ● |  | ↘                   |
| Real assets                      |  |   | ●  |   |  | ↗                   |
| Alternatives                     |  |   | ●  |   |  | ↗                   |



Asset Allocation quarterly update

Tactical Asset Allocation (TAA) for the Liontrust Multi-Asset (MA) target risk-rated funds and portfolios from March 2025.

- The MA Investment team updates its TAA views every quarter. These are applied in a timely manner to all the risk-profiled MA investment solutions.
- The TAA is one of many steps in the Liontrust Multi-Asset investment process.
- Liontrust MA Dynamic Passive and Blended funds, and the Managed Portfolio Service (MPS) are managed to risk-profiled mandates.\*
- These Multi-Asset investments are managed according to bespoke asset allocations that aim to optimise returns for a given level of risk. They aim to provide the highest expected return for a given risk target (risk levels 1-8) over the relevant investment period.
- The SAA of the solutions is intended to provide a long-term baseline allocation around which the portfolio managers may express TAA views. Due to their long-term nature, the SAAs are updated once a year.
- The TAA views form the basis of holdings level portfolio targets, to which the portfolio managers will rebalance in an appropriate timeframe.
- Our investment team closely monitors the funds and portfolios to ensure they are on track to meet their investment objectives and that they are closely aligned to the asset allocation targets. They are reviewed regularly and adjusted as required.
- The asset allocation targets are reviewed each quarter to reflect market opportunities.

Rebalancing of the asset allocation

Adjustments to the target asset allocations this quarter reflect changes in both the annual changes to the SAA and the quarterly TAA update. The new SAA includes changes to our fixed income target allocations, mostly to increase diversification from a geographical and interest rate standpoint. As a result, the allocation to global investment grade bonds has been increased and broadened. We have also added a short-duration global investment grade credit component. Other changes include increasing the targets for medium-duration gilts in risk levels 1-6; reducing the targets for short-duration gilts in risk levels 1-5; and cutting the targets for UK corporate and global high yield bonds in risk levels 1-6.

Other SAA changes include increasing the targets for all equity regions, including the UK, Europe ex-UK, US, Japan, Asia Pacific ex-Japan and emerging markets, in risk levels 1-5 and trimming them for risk levels 6-7. The allocation targets for alternatives in risk levels 1-3 have been cut while they have been raised in risk level 6 and a target has been created for risk level 7. The cash targets have been reduced in the two lowest risk levels (1-2).

The TAA changes include raising the cash targets in the lowest two risk levels; trimming the targets for medium-duration gilts in risk levels 1-2 and 4-6 and increasing those for short-duration gilts in levels 4-5; cutting the targets for UK corporate bonds in risk levels 1-6 and increasing it in risk level 7; increasing the targets for global high yield bonds in risk levels 1-4; trimming the targets for UK equities in risk levels 3-5 and increasing it in level 7; increasing the targets for Asia Pacific ex-Japan equities in risk levels 3-6; cutting the targets for emerging market equity in levels 1-2 and increasing it in level 6; and increasing the targets for alternatives in levels 1 and 3-6, and cutting it in level 7.

The net effects of these changes are as follows for each of the risk profiles.

\*Risk level 1 uses a 7-year forward-looking investment time span instead of the 15 years used for risk levels 2-8. Our Dynamic Passive range uses risk levels 1-7, our Blended range uses 2-6, and our Managed Portfolio Service (MPS) uses 1-8.

- 1

In **risk level 1 (Prudent)**, the overall target for equities has been increased from 21.5% to 22.5%. Within equities, target exposures have been raised from 4.1% to 4.4% for the UK, from 1.8% to 1.9% for Japan, from 3.2% to 3.4% for Asia Pacific ex-Japan, from 1.1% to 1.4% for Europe ex-UK and from 5.4% to 6.1% for the US. The target for emerging markets has been cut from 5.9% to 5.3%.

Overall fixed income exposure has been raised from 50.0% to 52.0%. Within the asset class, the target has been raised for UK government bonds from 4.3% to 7.8%. Targets have been cut for UK corporate bonds from 15.5% to 6.0%, short-duration gilts from 13.8% to 12.8%, and global high yield bonds from 11.5% to 10.5%. Targets have been introduced at 2.8% for global short-dated corporate bonds, at 4.4% for global government bonds and 7.8% for global corporate bonds.

The overall target for cash has been trimmed from 20.0% to 18.5% and for alternatives from 8.5% to 7.0%.
- 2

In **risk level 2 (Reserve)**, the overall target for equities has been raised from 29.5% to 35.0%. Target increases within the asset class include the UK from 5.1% to 5.9%, Japan from 2.4% to 2.8%, emerging markets from 7.4% to 8.0%, Asia Pacific ex-Japan from 4.0% to 4.5%, Europe ex-UK from 2.1% to 2.9%, and the US from 8.5% to 10.9%.

Overall fixed income exposure remains at 54.0%. The target exposure for UK government bonds has been increased from 4.3% to 6.8%. Target cuts include UK corporate bonds from 22.5% to 9.5%, global high yield bonds from 10.5% to 8.5% and short-duration gilts from 11.8% to 10.8%. Targets have been introduced at 4.0% for global short-dated corporate bonds, 4.5% for global government bonds and 10.0% for global corporate bonds.

The overall targets for cash have been reduced from 8.0% to 5.5% and for alternatives from 8.5% to 5.5%.
- 3

In **risk level 3 (Moderate)**, the overall target for equities has been raised from 40.0% to 46.0%. Within equities, all target exposures have been increased, including the UK from 7.0% to 7.3%, Japan from 3.7% to 4.1%, emerging markets from 9.6% to 10.7%, Asia Pacific ex-Japan from 5.5% to 6.6%, US equities from 11.7% to 14.0%, and Europe ex-UK from 2.5% to 3.3%.

Overall fixed income exposure has been cut from 52.0% to 48.5%. Within the asset class, target cuts include short-duration gilts from 5.8% to 3.8%, UK corporate bonds from 28.0% to 12.5% and global high yield bonds from 9.0% to 7.0%. The target exposure for UK government bonds has been raised from 4.3% to 5.3%. Targets have been introduced at 4.8% for global short-dated corporate bonds, 3.7% for global government bonds and 11.5% for global corporate bonds.

The overall target for cash has been kept at 2.0%, while that for alternatives has been cut from 6.0% to 3.5%.
- 4

In **risk level 4 (Intermediate)**, the overall targets have been raised from 56.0% to 59.0% for equities and from 2.0% to 3.5% for alternatives. They have been reduced from 40.0% to 35.5% for fixed income and kept at 2.0% for cash.

Within equities, target exposure increases include Japan from 4.8% to 5.1%, Asia Pacific ex-Japan from 7.5% to 7.8%, emerging markets from 12.5% to 13.2%, the US from 17.4% to 18.7% and Europe ex-UK from 4.4% to 4.8%. The target for the UK has been kept at 9.4%.

In fixed income, the target exposure has been raised for UK government bonds from 3.8% to 4.0%. Target reductions include short-duration gilts from 0.3% to zero, global high yield bonds from 6.5% to 4.5%, and UK corporate bonds from 27.5% to 12.0%. Targets have been introduced at 4.2% for global short-dated corporate bonds, 1.8% for global government bonds and 9.0% for global corporate bonds.

- 5

In **risk level 5 (Progressive)**, overall asset class targets have been raised from 68.0% to 70.5% for equities and from 1.0% to 3.5% for alternatives, while that for fixed income has been reduced from 29.0% to 24.0%, and for cash it has been kept at 2.0%.

Within equities, target exposure increases include Japan (5.6% to 5.9%), Asia Pacific ex-Japan (9.1% to 9.3%) emerging markets (15.2% to 15.7%), the US (21.0% to 22.3%) and Europe ex-UK (5.3% to 5.6%). The target for the UK has been trimmed from 11.8% to 11.7%.

Within fixed income, the target exposure for UK government bonds has been raised from 2.8% to 3.0%. Target reductions include short-duration gilts from 0.3% to zero, global high yield bonds from 5.5% to 3.5%, and 19.5% to 7.5% for UK corporate bonds. Targets have been introduced at 2.8% for global short-dated corporate bonds, 6.0% for global corporate bonds and 1.2% for global government bonds.
- 6

In **risk level 6 (Growth)**, overall target exposures have been increased from 10.5% to 11.5% for fixed income and from 1.0% to 3.5% for alternatives. The target for equities has been cut from 86.5% to 83.0%, while that for cash remains at 2.0%.

Within equities, target allocations have been trimmed from 13.8% to 13.3% for the UK, 7.1% to 6.8% for Japan, 10.6% to 10.5% for Asia Pacific ex-Japan, 18.7% to 18.1% for emerging markets, 28.5% to 27.1% for the US and 7.8% to 7.3% for Europe ex-UK.

Within fixed income, the target exposure has been raised from 1.5% to 3.0% for UK government bonds. Target reductions include 3.5% to 1.0% for UK corporate bonds, and 5.5% to 3.5% for global high yield bonds. Targets have been introduced at 1.2% for global short-dated corporate bonds, at 2.2% for global corporate bonds and 0.7% for global government bonds.
- 7

In **risk level 7 (Adventurous)**, the overall target exposure for equities has been cut from 97.0% to 93.0%, while targets have been raised for fixed income from 1.0% to 3.0% and zero to 2.0% for alternatives. The cash target remains at 2.0%.

Within equities, there have been small reductions to target exposure of 32.3% to 31.2% for the US, 8.0% to 7.4% for Europe ex-UK, 15.1% to 15.0% for the UK, 8.2% to 7.8% for Japan, 12.0% to 11.4% for Asia Pacific ex-Japan and 21.4% to 20.2% for emerging markets.

Within fixed income, the target exposure has been raised for UK corporate bonds from 1% to 1.5%. Targets have been introduced at 0.7% for global short-dated corporate bonds and 0.8% for global corporate bonds.
- 8

In **risk level 8**, overall target exposures have been kept at 98.0% for equities, 2.0% for cash and zero for fixed income and alternatives. Within equities, target exposures remain at 15.3% for the UK, 8.3% for Japan, 12.3% for Asia Pacific ex-Japan, 22.1% for emerging markets, 32.2% for the US and 7.8% for Europe ex-UK.

- Cash

UK government bonds

Short duration gilts

UK corporate bonds

Global government bonds

Global corporate bonds

Global short-dated corporate bonds

High yield
- UK equities

Europe ex-UK equities

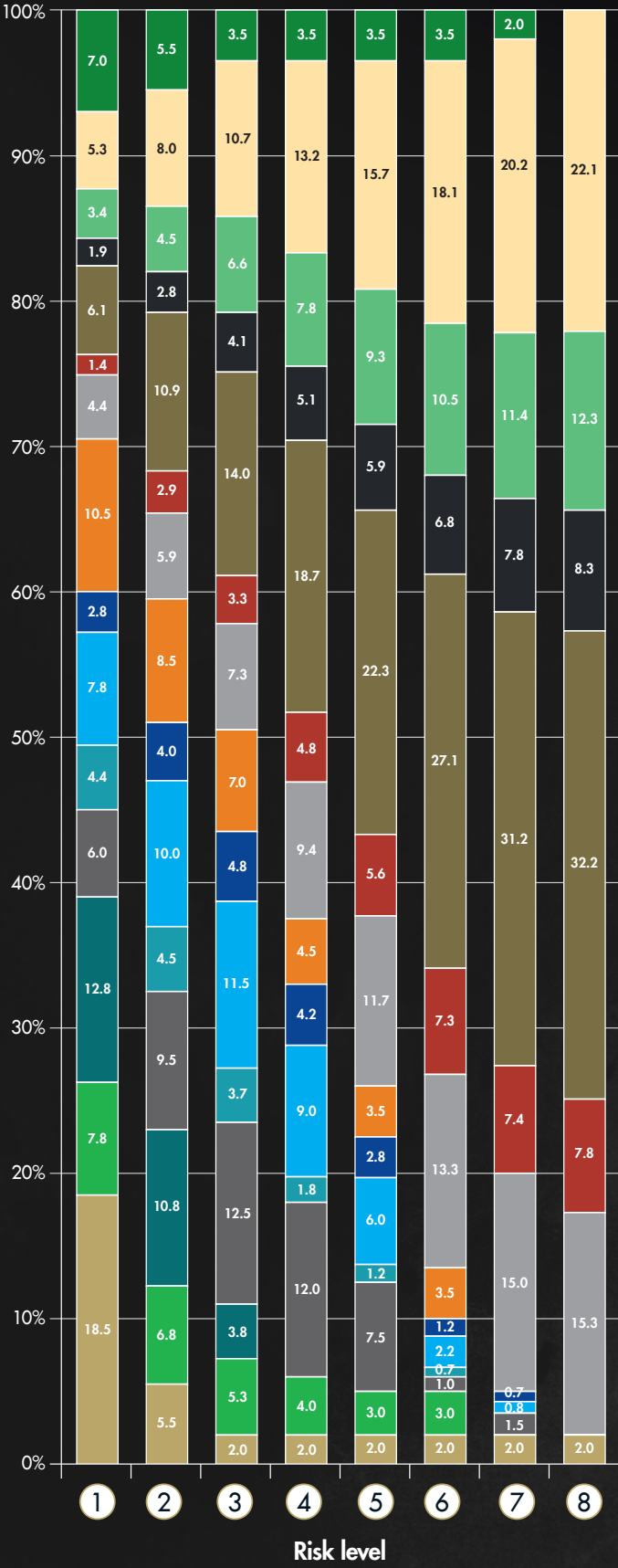
North America equities

Japan equities

Developed Asia Pacific (ex-Japan) equities

Emerging market equities

Alternatives



Source: Liontrust. The chart above shows the new TAA breakdown effective March 2025

Drivers of asset allocation updates

| Asset class          | Q1 2025 Score | Direction of travel | Commentary   |
|----------------------|---------------|---------------------|--|
| Overall              | 4             | ⬆️                  | <p>We have kept our overall ranking at a positive four, having raised it from three in the first quarter of 2023.</p> <p>The key drivers of markets that we highlighted at the start of last year are still in play today. They include multi-polarity: a diverse and diverging world, whether it be in terms of inflation, interest rate policy or growth and both domestic and international politics.</p> <p>Financial markets are finding some support from a global economy that continues to rumble along. The support is conditional and judicious in that selloffs are focused on areas of the market that prove to be of concern rather than more broadly. There is also, arguably, less naivety in markets compared with last year: optimism remains, but it is cautious due to the political uncertainty.</p> <p>It is important to have a diverse range of drivers within investments. History shows that the outperformance of any particular asset, sector or market eventually ends. It is prudent to remain meaningfully diversified when building investments to take advantage of a range of market drivers.</p> <p>This approach should be applied through a disciplined investment process and with the patience to look through the short-term noise – which could generate plenty of challenges to optimism this year – and focus on long-term fundamentals.</p> |
| Cash                 | 1             | ⬇️                  | <p>We cut our ranking for cash from a neutral three to a negative one in the first quarter of 2024. Inflation appears to have peaked and has fallen (although it is now proving to be sticky in the US). Interest rates have fallen, thereby making cash less attractive. Many people had become fixated on cash after the interest rate hikes of the current cycle. However, the real return that can be achieved on cash is unattractive and capital markets may provide a better alternative for those with a longer time horizon or greater risk budget. Cash remains a useful source of short-term liquidity.</p>   |
| UK gilts             | 3             | ⬆️                  | <p>We raised our ranking for UK gilts from two to a neutral three in the first quarter of 2023. We believe that gilts remain reasonable value and continue to provide a useful function as portfolio insurance in times of market duress while giving a decent level of income, too. With yields rangebound around 4%, they are an effective diversifier and offer the prospect of delivering real returns over the medium term. UK interest rates remain elevated and the yields on 10-year gilts have now even exceeded those seen during the Truss debacle. As such, we see opportunities to take advantage of the higher yields that are available on longer-duration gilts.</p>   |
| Short-duration gilts | 3             | ⬆️                  | <p>Short-duration gilts should be less sensitive in price terms to yield increases, but they will likely underperform longer duration gilts if the UK base rate falls further.</p>   |

| Asset class                           | Q1 2025 Score | Direction of travel | Commentary  |
|---------------------------------------|---------------|---------------------|---|
| Global government bonds               | 3             | ⬆️                  | <p>We raised our ranking on global government bonds from two to three in the third quarter of 2022. As yields have drifted up to levels considered more normal for the long term, government bonds have been afforded the opportunity to perform their classical role in portfolio construction of providing income and diversification. There is a good near-term prospect they will generate income in excess of inflation with the prospect of yield compression again during periods of market stress. Notably, yields of around 4.5% are available on US treasuries, thanks to interest rates having remained high due to stubborn inflation.</p> <p>We believe there are attractive benefits now too in diversifying beyond UK debt. This achieves greater diversification because of the various interest rate policies pervading around the world. In the future, we maintain that monetary policies may be less coordinated than they have been in the recent past, so we want to have greater diversity within our fixed income allocation.</p> |
| Investment grade (IG) corporate bonds | 3             | ⬇️                  | <p>This quarter we cut our ranking on investment grade credit back to neutral. Credit spreads in corporate debt have become very tight. The yields remain attractive because of the high levels of sovereign rates. Our tactical overweight has aided performance since raising our ranking from neutral to a positive four in the third quarter of 2023 and we believe it is time to take some profits and better spend our risk budget elsewhere. We also regard credit selection by active fund managers to be particularly valuable within the IG space.</p>  |
| Index-linked bonds                    | 2             | ⬇️                  | <p>We reduced our rating for index-linked bonds from three to two in the third quarter of 2022. Index-linked bonds have since become more attractive, but not sufficiently so to justify an increased allocation to them given their longer duration than conventional bonds. We do not regard the current value relative to gilts to be compelling.</p>  |
| High yield (HY)                       | 4             | ⬆️                  | <p>We raised our rating from a neutral three back to a positive four in the second quarter of 2024. Nominal yields are currently attractive at around 6-7%, which is analogous to long-term equity returns, even though spreads versus government bonds are only moderately attractive. These slim spreads on high benchmark yields result in attractive total yields.</p> <p>Companies here have a lower credit rating than investment grade, although their coverage of debts seems to be generally good. Due to the lower credit quality, there is more risk of default in this market, but the so-called ‘refinancing cliff’ when many companies must recycle their debt is still some way off. If interest rates continue to fall, then that should relieve the pressure. However, active credit selection is still preferable where possible in this sub-asset class that like the investment grade arena, offers plenty of scope for this.</p>   |

| Asset class                | Q1 2025 Score | Direction of travel | Commentary   |
|----------------------------|---------------|---------------------|--|
| Emerging market debt (EMD) | 3             | ⬇️                  | <p>We reduced our ranking on EMD from four back to a neutral three in the third quarter of 2023. Yields had compressed and investors should not underestimate the risks posed in a generally higher yield environment.</p> <p>Trump's victory in the US presidential election has also been a negative for EMD. Expectations that his policies of tax cuts and tariffs will spur inflation have pushed the greenback and treasury yields higher. US tariffs could also reduce demand for EM exports, weakening their currencies and debt investors' returns in dollar terms.</p> <p>On the positive side, we regard several emerging markets to be financially better positioned than their developed counterparts because they refrained from injecting extreme levels of financial support into their economies during the Covid pandemic and emerging market central banks have deep experience in fighting inflation. But our view remains that the idiosyncrasies of the emerging market environment are potentially better rewarded in emerging market equities.</p>   |
| Convertibles               | 2             | ⬇️                  | <p>We have downgraded convertibles from a neutral three to a negative two this quarter. Growth stocks and technology companies dominate the sector, and we already have plenty of growth exposure in our funds and portfolios. We prefer to get such exposure through equities and bonds, which offer better value than the expensive convertibles market.</p>   |
| Equities overall           | 4             | ⬆️                  | <p>We continue to rate equities overall a positive four and have a bias towards being overweight in them. The economic environment and outlook are reasonable, markets are still cheap and under-owned and there is a lot of cash waiting on the sidelines.</p> <p>Some of the largest companies in the world are currently trading at what can best be described as speculative valuations. These valuation levels – such as price earnings ratios that are multiples of long-term norms – may make sense if applied to small and more nimble companies whose profitability is increasing at a rapid pace. But when they are applied to companies whose revenues and profitability have already increased to levels that dwarf the GDP of small countries, a note of caution is sensible.</p> <p>We would expect President Trump to create more volatility in markets in some ways, but a patient, long-term disciplined approach can, we believe be meaningfully rewarding.</p> <p>A strengthening global economy would give a major boost to equities as it would likely cause an uplift in investor sentiment. But in our view, equities need not be highly correlated to the fate of their domestic economies, and they could deliver a good outcome even against a backdrop of insipid growth.</p> |
| US equity                  | 3             | ⬆️                  | <p>We would not write off the US market, but it does not feel right to overweight it at present. The AI-related stocks did very well in 2024. Consequently, they entered 2025 at high valuations which, if history is a guide, are looking stretched.</p> <p>We prefer, however, to moderate our US exposure rather than underweight it. We are seeing earnings and profitability being delivered across the index, not just among the mega caps.</p> <p>President Trump has hit the ground running since taking office with directives on immigration controls and tariffs, and plenty of geopolitical disruption. The conventional wisdom is that the deregulation and tax cuts he has pledged will be good for the stock market, but concerns are growing over tariffs.</p>   |

| Asset class     | Q1 2025 Score | Direction of travel | Commentary   |
|-----------------|---------------|---------------------|--|
| US small caps   | 4             | ⬆️                  | <p>We raised our ranking for US small caps from a neutral three to a positive four in the first quarter of 2024, which meant we were well positioned for their strong performance last year.</p> <p>There is a school of thought that maintains that small caps should perform well under President Trump, benefiting from his localised vision for America, isolationism and pro-business and low tax stance. Against the backdrop of a strong US economy, they offer positive fundamentals. Lower interest rates would also benefit them because it reduces debt burdens disproportionately more for them than their larger peers. However, as much as the Federal Reserve continued to cut rates in the first quarter, there is a growing groundswell of opinion that the next move in rates will need to be up rather than down.</p> <p>As smaller companies, they present higher risk, but the quid pro quo is flexibility and nimbleness. They also tend to be quicker out of the blocks in a recovery and we are firm believers in a small cap premium longer term.</p>                                 |
| UK equity       | 4             | ⬆️                  | <p>The UK stock market has been grinding higher over recent months, having garnered more attention from global investors. It has proven to be less sensitive to the market noise driven largely by President Trump and the AI theme compared with some other markets. We had believed for some time that if sentiment changes, the UK could turn versus the other majors.</p> <p>Previously, many international investors may have deemed the UK political environment to be too challenging to merit adding to their UK positions, but this behaviour has, in our opinion, led to the UK being an undervalued market.</p> <p>The UK has become a relative haven of political stability compared with much of Europe following the general election in July after nearly a decade of uncertainty. This reinforces our confidence in the UK stock market, which has been driven by valuations and the potential for capital flows. However, it would be helpful if the political leadership painted a more positive picture of the economy so that the country could avoid talking itself into a recession.</p> |
| UK small caps   | 4             | ⬆️                  | <p>As in the US, smaller companies sold off during the rate rising cycle and arguably, they are priced at crisis levels. Longer term, we continue to believe in the small cap premium and the short-term re-rating could provide an opportunity. Overall, smaller companies in the UK should benefit from the same broad themes as the large cap market, with additional sensitivity to domestic economic conditions, whether positive or less so. They would be notable beneficiaries if interest rates continue to fall. UK small caps appear cheap not only to their domestic large cap counterparts but also to other markets. A more recent positive is that flotations of small caps have picked up, adding more choice and vibrancy to the sector.</p>  |
| European equity | 2             | ⬇️                  | <p>We cut our ranking for European equities from three to two in the fourth quarter of 2024. We had been neutral on European equities since raising the ranking from two to three in the first quarter of 2023. But having kept a watching brief, we now see the risks as increasing in the region. Its overall economy is looking challenged, not least its largest nation, Germany. Trade friction with China is unhelpful, while President Trump, who is noted for his antipathy towards Europe, has announced 25% tariffs on the European Union.</p> <p>Politics and especially geopolitics are notoriously hard to predict, but equities, bonds and other financial assets do not necessarily do badly just because political winds change.</p> <p>Europe must determine its place in the world economy going forward: it is questionable to what extent it can return to its position as an exporting powerhouse in the short term. However, Europe is still home to many multi-national businesses linked to global growth.</p>   |



| Asset class            | Q1 2025 Score | Direction of travel | Commentary   |
|------------------------|---------------|---------------------|--|
| European small caps    | 3             | ⬆️                  | When growth comes, we believe that European small caps should do better. We raised the ranking for European small caps back to three in the second quarter of 2023, which was in line with our neutral view on European equities at the time. They are more sensitive to the economy, which is a risk, but we regard them as broadly undervalued.  |
| Japanese equity        | 4             | ⬆️                  | We raised the ranking for Japanese equities from a neutral three to a positive four in the fourth quarter of 2023. We concluded that the inflationary regime in Japan, combined with improving corporate governance, could create a more positive environment for the economy and – crucially – the stock market to flourish. The country is amidst an inflationary environment for the first time in a couple of decades, which should encourage more consumption and, together with an improving corporate picture after years of underperformance, the evidence is constructive and worthy of an overweight.  |
| Japanese small caps    | 4             | ⬆️                  | We also raised our rating for Japanese smaller companies in the fourth quarter of 2023 from a neutral three to a positive four for the same reasons that we did so for their larger counterparts. We maintain that smaller companies in Japan should benefit from the same broad themes as the large cap market, with additional sensitivity to domestic economic conditions, whether positive or less so.   |
| Emerging market equity | 4             | ⬇️                  | <p>We are positive on emerging markets because of their strong economic and demographic fundamentals.</p> <p>The short-term outlook for EMs has not been helped by the US dollar strengthening and treasury yields rising on expectations that President Trump’s policies of tax cuts and tariffs will drive inflation and interest rates higher. The stronger dollar will make it harder for EMs to service their debts, which are often issued in dollars, but while US tariffs could reduce demand for EM exports in the short term, they are less likely to matter that much over the long run.</p> <p>There are several reasons why EMs may be more attractive to global investors going forwards, however. First, there is a more pro-growth stance in China, as seen by the massive stimulus package announced at the end of September. Second, while US-China relations remain complicated, the reorganization of strategic supply chains could create new opportunities for EM nations other than China. Third, commodity exporters, such as Latin American countries, could see commodity prices strengthening due to greater global demand.</p> |
| Asian equity           | 4             | ⬇️                  | <p>As with EMs, we regard Asia as benefiting from the reflation trade and loose monetary policies. It is also looking cheap compared to several other equity markets.</p> <p>A weaker US dollar would help provide a supportive environment, but this has been set back by the election of President Trump. The ‘Trump trade’ has strengthened the US dollar, and treasury yields have risen on expectations that his policies of tax cuts and tariffs will drive inflation higher. The stronger dollar will make it harder to service debts issued in dollars, while US tariffs could also reduce demand for China’s exports. There are already several tariffs in place on China so it is more a difference of degree rather than a difference of principle.</p> <p>Asian economies generally fared well through Covid but a lot clearly rests on China and how it supports its economy going forward. The massive stimulus package announced at the end of September by China will help in this regard.</p> <p>Risks remain from the perspective of global sentiment as well as regional political tensions.</p>  |

| Asset class  | Q1 2025 Score | Direction of travel | Commentary   |
|--------------|---------------|---------------------|--|
| Real assets  | 3             | ⬆️                  | Gold notably held its value during the global market selloff in August, underlining its role as a haven asset. Several central banks have reportedly been increasing their purchases of gold this year and it should also benefit from falling interest rates. Property still offers a reasonable yield pick-up compared to other asset classes, as well as some income protection against inflation. However, there is also uncertainty surrounding several property types in a post-Covid world: the anticipated demise of the office and high street retail sectors could be overstated but current pressures on tenants will have long-term repercussions. We tend to favour more specialist parts of the property market enjoying structural growth, such as healthcare, logistics and digital infrastructure. Property and infrastructure securities are often found to be trading at deep discounts to their Net Asset Values (NAVs). |
| Alternatives | 3             | ⬆️                  | Given time, the right hedge fund strategy could provide a diversified return stream compared to more traditional asset classes. However, we think that these funds would be unlikely to keep up with a strong market but should post reasonable returns in a constructive environment for risk assets. We have recently moved towards real assets in our ‘alternatives’ allocation, which could also offer an element of inflation protection.   |

The Liontrust Broker Desk is here to answer any questions you have

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## Key risks

**Past performance does not predict future returns. You may get back less than you originally invested.**

The Funds and Model Portfolios managed by the Multi-Asset Team may be exposed to the following risks:

**Credit Risk:** There is a risk that an investment will fail to make required payments and this may reduce the income paid to the fund, or its capital value. The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay;

**Counterparty Risk:** The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss;

**Liquidity Risk:** If underlying funds suspend or defer the payment of redemption proceeds, the Fund's ability to meet redemption requests may also be affected;

**Interest Rate Risk:** Fluctuations in interest rates may affect the value of the Fund and your investment. Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

**Derivatives Risk:** Some of the underlying funds may invest in derivatives, which can, in some circumstances, create wider fluctuations in their prices over time;

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