

SETTING THE SCENE

Ride the policy noise and shifts

A rewiring of the global economy is forcing investors and policymakers to proceed with caution. Such prudence is justified. There may be superficial parallels with the trade shock delivered by the pandemic, but limited lessons can be drawn from the temporary disruptions that occurred at the start of the decade. Today, the US administration’s approach to commerce, security and international relations is ushering in structural changes that will outlast its tenure.

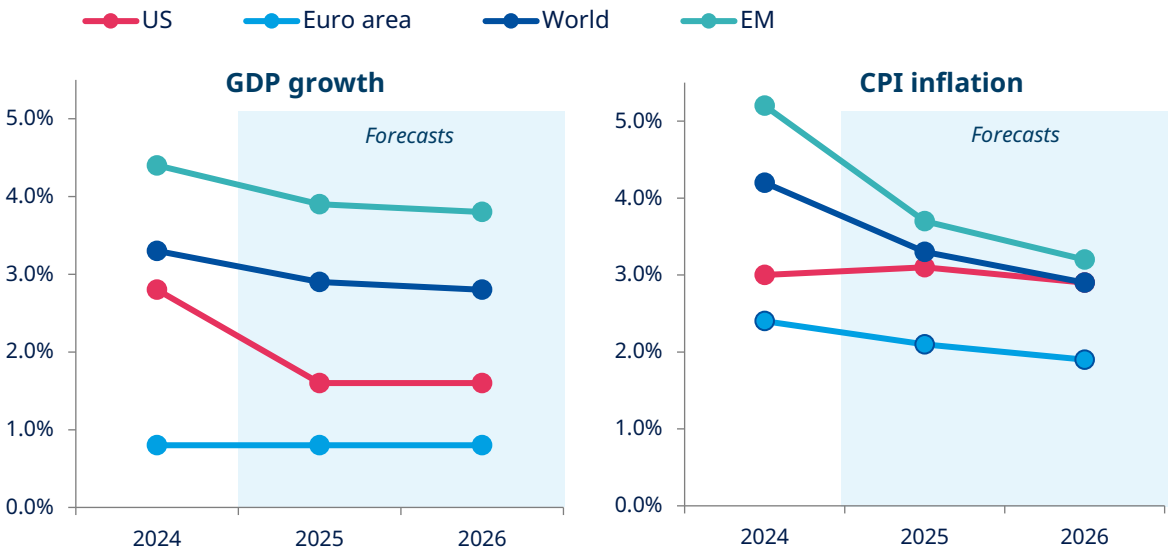
**It is all too easy to focus on the negative aspects of such shifts.** It is true that unpredictable policymaking is an unfavourable backdrop for investment and consumption, and it increases the difficulty of forecasting how economies will perform. Even the International Monetary Fund is now producing ‘reference trajectories’ rather than projections. Uncertainty about the economic outlook, or even the rules of engagement when it comes to international trade and diplomacy, is also triggering elevated levels of market volatility.

**But there are some positives that will influence asset prices. Most major economies have so far proved relatively resilient despite the flux.** For example, US growth may slow to 1.6% this year, below its potential, but the Federal Reserve will probably manage the delicate balancing act that is required to avert recession while keeping inflation in check. Also, while the US administration has made tariffs and security its priority, planned tax cuts and deregulation are likely to mitigate the toll that trade levies may take on US economic activity in the coming year. **As a result, a corporate profit recession is unlikely.**

**Europe is another source of optimism.** Germany’s commitment to increasing investment and defence spending was a game-changer. There is also a broader political consensus that **the continent must press on with the changes** that are needed to ensure its international clout matches its economic heft, although this may take a little time. Even so, the European Central Bank has more leeway than the Federal Reserve to support growth given the inflation outlook on each side of the Atlantic. **The buoyancy of the single currency,** which looks likely to persist, reinforces this dynamic by making imports cheaper in euro-denominated terms.

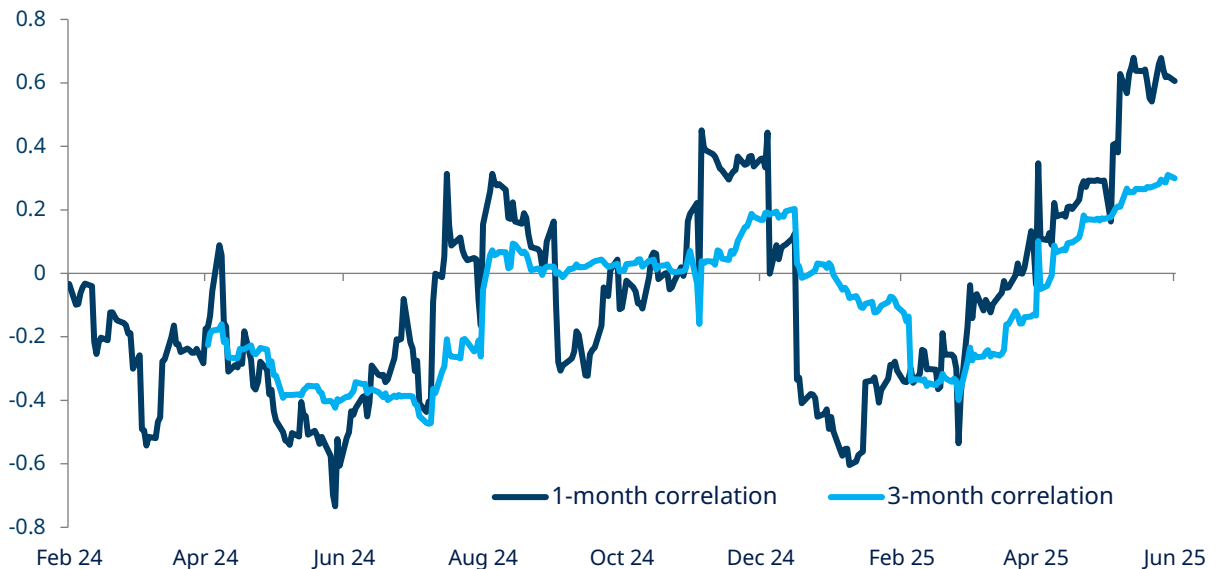
*Enhancing the resilience of portfolios and diversification are paramount in the current environment.*

Sub-par growth and more disinflation lie ahead



Amundi Investment Institute, IMF, Bloomberg. The table shows reference projections based on information available as of 10 June of 2025. Assumptions on tariffs as of 10 June of 2025, at face value, tariffs are 10% universal, 30% on China (20% Fentanyl and 10% reciprocal); under the section 232, 25% sectoral tariffs on Auto & Auto Parts, 50% on Steel and Aluminum (since the 4th of June). Sectoral tariffs on Canada and Mexico only for non-USMCA-compliant imports.

## Correlation between the US dollar and US stocks has turned positive



Source: Amundi Investment Institute and Bloomberg, as of 2 June 2025. Chart shows rolling correlation on daily data of DXY index vs S&P500.

Still, caution is warranted on a few fronts. In Europe, concrete steps will need to be taken to follow through on politicians' encouraging rhetoric. Germany, for instance, will need to press ahead with passing budget legislation if extra fiscal stimulus is going to help growth next year. And national politics will have to be put aside to create the much-needed Savings and Investment Union.

Also, **not all countries have the same leeway as Germany to deploy fiscal policy. Investors are increasingly sensitive to rising fiscal burdens and are demanding a higher premium for holding very long-dated bonds, even for benchmark US Treasuries.** Governments can adjust issuance plans to reduce the supply of such debt. But shortening the average maturity profile of public debt carries its own risks, which may put limits on how much supply can be calibrated. This points to a **further steepening of benchmark yield curves.** Nor will central banks have the same scope to embark on the bond-buying sprees that they did in past decades, when inflation was tamer and there were fewer trade frictions.

Portfolio allocation is also becoming more complicated as **some familiar relationships between asset prices are breaking down.** For example, investors can no longer count on the US dollar to function as a natural hedge when stocks fall; riskier assets and the greenback have tended to fall in tandem in recent months. Nor can stock and bond prices be relied on to move in opposite directions.

**Enhancing the resilience of portfolios becomes paramount** in this environment. **Hedging to reduce foreign exchange risks is a topic of rising importance, especially for non-dollar investors.** And diversification is ever more imperative.

This is true within asset classes as well as across a portfolio. **Focusing on long-term themes, rather than chasing day-to-day market swings, can help identify the segments of the equity market that may best withstand the current turbulence.** Such trends include the **rise in European defence spending, US deregulation, and corporate governance reform in Japan.** It is also worth looking for **investment opportunities in emerging economies** whose strong domestic demand prospects offer some insulation against trade frictions. India is one of the prime examples of such an economy.

Turbulence may be a feature of markets for a while as the new geoeconomic order takes shape. But the **uncertainty and policy noise are creating opportunities that are already evident.**

DYNAMIC ASSET ALLOCATION

Allocating in a polarised world

Our economic-financial cycle models (ref. in the chart below) suggest that a **late-cycle scenario is the most likely outcome, indicating a mildly risk-on allocation**. Incorporating geopolitical insights from historical parallels shows a greater likelihood of polarised outcomes, with potential shifts towards positive recovery phases and a significant probability (34%) of negative phases (contractions) that should be factored into asset allocation. The new normal of tariffs\* contributes to a persistent inflationary backdrop, increasing the risk of adverse outcomes such as **stagflation** or even higher inflation (**hyperinflation**). This heightens fragilities, as rising inflation will affect production costs through higher purchasing prices, putting pressure on profit margins. Consequently, we expect earnings growth to decelerate to 6%, but not an earnings recession, as recent results remain encouraging.

We favour a mild **risk-on allocation designed to withstand an inflationary regime** with downside risks, considering expensive market valuations and growth concerns. This involves a **well-diversified equity approach with a focus on valuations, pricing power, and margins** to identify areas that can withstand inflationary pressures, **alongside tactical duration management**. In **credit**, we favour **quality**, especially in Europe, where the risk/return profile is compelling. With stagflation risk, **hedges against equity downside** should be considered, while commodities and **gold** are becoming key hedges in case of hyperinflation. We also look at asset classes that thrive in inflation, such as **infrastructure**, which offers stable cash flows and benefits from government spending. **FX** will also play an increasingly relevant role, as changing USD correlation patterns will call for higher currency diversification and hedging.

Commodity focus

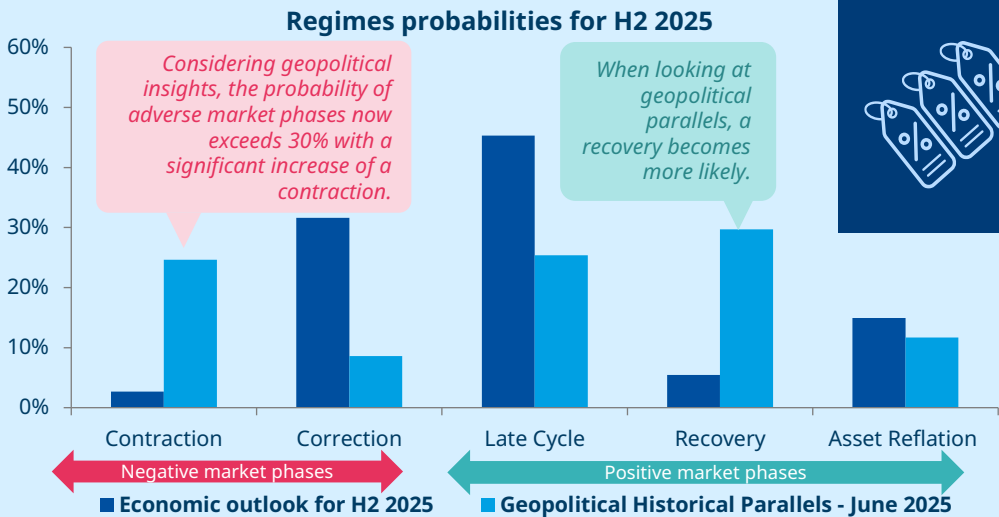
**Constructive outlook:**  
Within our base scenario of multi-speed growth with no recession expected in the coming quarters, we believe commodities will continue to benefit from structural and cyclical factors.

**Oil market volatility:**  
We maintain our targets of \$63-68 for Brent and \$60-65 for WTI based on current supply dynamics. Following Israel's attack on Iran, we expect oil volatility to remain high, with upside risks if tensions escalate. However, this could prompt the US and OPEC to increase production to curb inflationary pressure.

**Base metals recovery:**  
The base metals sector is poised for mid single-digit upside, as inventories decline below historical averages, indicating a rebalancing of demand and supply that could lead to price pressures, in our view.

**Gold as a strategic asset:**  
Gold serves as a key hedge against US fiscal and monetary policies, potential dollar debasement, and an excess supply of US assets. Gold prices could remain supported, even above our target of \$3,400, amid heightened geopolitical risks stemming from the Israel-Iran conflict.

A geopolitical perspective on the potential cycle evolution



**Geopolitical Historical Parallels:** we have analysed historical geopolitical parallels to gain insights into how this cycle could evolve. While these past periods share similarities with projected 2025 dynamics, each had a unique context. In addition, the world in 2025 is likely to face new challenges and opportunities, particularly in AI, climate change and shifting global power dynamics. Source: Amundi Investment Institute. Probabilities derived from Amundi proprietary models "Advanced Investment Phazer" and "Inflation Phazer". \*Tariffs as detailed in the assumption of our macro trajectories on page 28. \*\*Hyperinflationary with US CPI >6%. For phases definition see our paper "[Advanced Investment Phazer: a guide to dynamic asset allocation](#)".

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### DEFINITION ABBREVIATIONS

**Currency abbreviations:** USD – US dollar, BRL – Brazilian real, JPY – Japanese yen, GBP – British pound sterling, EUR – Euro, CAD – Canadian dollar, SEK – Swedish krona, NOK – Norwegian krone, CHF – Swiss Franc, NZD – New Zealand dollar, AUD – Australian dollar, CNY – Chinese Renminbi, CLP – Chilean Peso, MXN – Mexican Peso, IDR – Indonesian Rupiah, RUB – Russian Ruble, ZAR – South African Rand, TRY – Turkish lira, KRW – South Korean Won, THB – Thai Baht, HUF – Hungarian Forint, COP – Colombian Peso.

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