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Market risks are increasing, but funding ratios remain comfortable

Most market moves at the end of 2024 have been reversed in early 2025. Pension funds are still enjoying a strong financial position on average, but the current environment has become highly unstable.

Market review: From measured optimism to growing instability

From the end of October 2024 to mid-March 2025, financial markets navigated a **complex landscape** shaped by geopolitical developments, including threats of US tariffs.

In the United States, the S&P 500 rose by 2.4% in the fourth quarter, buoyed by a rally in November following the presidential election. However, December saw a decline of 2.4%, largely due to a hawkish shift from the Federal Reserve that surprised many investors. 2025 began positively, but current **tariff threats** had a very strong negative impact on the S&P, losing around 10% from mid-February to mid-March. US Treasury yields rose significantly during Q4 2024, with the 10-year yield moving from 3.8% to 4.6%. This rise reflected expectations of fewer rate cuts in 2025, but recent concerns on growth due to tariffs lowered the 10-year rate to 4.2% in February.

In Europe, equity markets struggled in Q4 2024, with the MSCI Europe index declining by 2.9%. This was followed by a strong rally at the beginning of 2025. The European Central Bank (ECB) cut its key deposit rate to 2.75% in January 2025, down from 3.0% in December, in an effort to stimulate the economy amid signs of stagnation. Long interest rates fluctuated during Q4 2024 and early 2025, but those rates rose sharply in early March (from 2.3% to 2.7% for the 10Y Euro swap rate), despite an additional ECB rate cut.

Inflation remained a central theme throughout this period. In the US, headline inflation rose to 2.6% in December, while core inflation remained stable at 3.3%. The Federal Reserve maintained its target range for the federal funds rate between 4.25% and 4.50%, adopting a cautious approach to rate cuts.

Currency markets reflected these dynamics, with the US dollar strengthening significantly, gaining 7.6% in the fourth quarter against a basket of currencies. In contrast, the euro weakened by 7.0% against the dollar. These effects were mostly reversed in early March.

Globally, the period from October to mid-March was neutral for US equities and positive for European equities, while interest rates went down both in the US and EU. These developments were **very volatile**, with a strong differentiation between geographies. Political uncertainties suggest that future behaviour of markets will likely remain highly volatile.

Impact on pension funds

In the US, funding ratios increased due to both higher yields, which lead to a reduction in liability valuations and a strong equity market that **benefited assets.** This trend continued in January, but reversed in February.

In Europe, variations in funding ratios where mainly driven by interest rates until the end of January, following a reverse pattern in the long-term Euro rate, with the additional help of positive equity performance.

In the UK, funding ratios were **stable** from the end of October to end of January, with February being negative due to lower yields. The full impact from current equity market movements has yet to be seen in March.

Pension Funding ratios

	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/03/2024	30/06/2024	30/09/2024	31/10/2024	30/11/2024	31/12/2024	31/01/2025	28/02/2025
Netherlands	100.2%	114.3%	115.8%	114.6%	116.7%	120.4%	119.4%	117.3%	115.9%	117.3%	119.1%	
UK	95.5%	107.7%	136.5%	142.8%	146.5%	149.4%	148.4%	126.0%*	125.7%*	125.7%*	127.0 %*	126.1%*
US	87.9%	95.5%	98.2%	97.8%	100.2%	100.9%	100.9%	101.2%	102.5%	102.5%	103.5%	102.6%

Sources: - UK data: Purple Book, PPF S179 funded status. - Netherlands data: Dnb - US data: Aon Pension Risk Tracker

Overall, the funding situations across all regions is **still very positive.** Nevertheless, current geopolitical instabilities lead to higher risks not only on equities, but also on interest rates and inflation. Pension funds should therefore make sure that their hedging policies concerning the latter two are **managed carefully** in accordance with the current environment and their risk appetite.

Advertising

WATCH THE REPLAY
The Amundi Pension Fund Club 2025

Pension strategies 2025: adapting to geopolitical volatility while focusing on return engines

Our 2025 online pension fund event took place on March 13 2025.

Vincent Mortier, *Amundi Group CIO*, and **Anna Rosenberg**, *Head of Geopolitics at the Amundi Investment Institute*, explored the risks and opportunities for pension funds in 2025 in the context of the current market volatility and uncertainty.

This was followed by a focus on two asset classes that can provide alternative sources of future growth in this ever-changing environment: real assets and Asian emerging markets.

Prof. Amin Rajan, *CEO of CREATE Research*, took a retrospective look at what has been driving and constraining pension allocations to these two asset classes, before **Peter Derendinger**, *Vice-Chairman & CEO, Amundi Alpha Associates*, and **Rajiv Nihalani**, *Senior Emerging Markets Investment Specialist*, dug into the main opportunities.

Watch the Replay

2025 Outlook Main and alternative scenarios

	PROBABILITY **70%** **MAIN SCENARIO** Resilient multi-speed growth	PROBABILITY **20%** **DOWNSIDE SCENARIO** Renewed stagflationary pressure	PROBABILITY **10%** **UPSIDE SCENARIO** More disinflation with productivity gains
GEOPOLITICS	• Rising protectionism. • Re-routing of global supply chains. • Ukraine-Russia: ongoing fighting. • Middle East: talks and conflicts likely. • China-US: decline in relations. • US-Europe: relations under pressure.	• Autarchical new alliances challenging advanced economy democracies: worrying divergences among advanced countries. • Countries forced to choose between US and China. Global trade begins to decline.	• Geopolitical risk subsides. • Shifting power dynamic reshapes global trade, fostering balanced growth and prosperity.
INFLATION & POLICY MIX	• Disinflation trend still intact. • DM CBs to reach neutral rates in 2025. Most EM CBs at peak rates. • Divergent fiscal policies: US under scrutiny; EU consolidating; China expansionary.	• Trade protectionism weakens growth outlook. Central banks' response also constrained. • Elevated fiscal debt keeps the cost of debt high and constrains policy space.	• Stabilisation of inflation around central banks' targets (and inflation expectations remain anchored).
GROWTH PATH	• Back to potential growth. • Resilient multi-speed growth: subdued recovery in Europe, mild US deceleration. • Growth gap still favours EM. • India's growth potential revised up.	• Lower output and sharp reduction of migration into advanced economies lowers labour supply and growth. • Economic imbalances persist, further lowering potential growth (China, EU,...).	• Growth enhancing reforms lifting mediumterm growth potential. • Industrial / trade policies boosting investment and activity.
CLIMATE CHANGE	• Climate change hampers growth and exacerbates stagflationary trends. • Chinese dominance in critical minerals.	• Further policy delays imply more adverse climate events, hampering economic dynamism.	• From zero to hero: geoengineering, globally coordinated policies.

RISKS TO MAIN SCENARIO

LOW — PROBABILITY — HIGH

	10%	15%	15%	20%
	Central banks quantitative tightening combined with structural shift in US Treasury buyers	**Geopolitical crisis with global spill-overs**	**Market volatility rises sharply to reflect higher geo-economic uncertainty**	**Reacceleration of DM inflation, due to trade/ geopolitical tensions**
MARKET IMPACT – Positive	for cash and gold	for DM govies, cash, gold, USD, volatility, defensive assets and oil	for cash and gold	for TIPS, gold, commodity FX and real assets
MARKET IMPACT – Negative	for govies and expensive equities	for credit, equities and EM	for risk assets	for bonds, equities, DM FX and EM assets

Source: Amundi Investment Institute as of 20 February 2025.
DM: developed markets. EM: emerging markets. CB: central banks. USD: US dollar. TIPS: Treasury inflation-protected securities. FX: foreign exchange markets.

Cross Asset Investment Strategy Amundi asset class views

In focus this month

- **Credit attractive in search for income:** corporate fundamentals are robust, with companies enhancing their credit profiles. Supportive technical conditions, including higher yields attracting income-seeking investors and limited net supply, bolster demand.

Equity and global factors

REGIONS	Change vs M-1	--	-	=	+	++
US				●		
Europe					●	
Japan	▼				●	
EM				●		
China				●		
EM ex China				●		
India	▲				●	
Overall					●	

GLOBAL FACTORS	Change vs M-1	--	-	=	+	++
Growth			●			
Value					●	
Small caps					●	
Quality					●	
Low Volatility				●		
Momentum				●		
High Dividend				●		

Fixed income & FX

DURATION	Change vs M-1	--	-	=	+	++
US	▼			●		
EU					●	
UK					●	
Japan			●			
Overall					●	

CREDIT	Change vs M-1	--	-	=	+	++
US IG				●		
US HY			●			
EU IG					●	
EU HY				●		
Overall					●	

EM BONDS	Change vs M-1	--	-	=	+	++
China govt.				●		
India govt.					●	
EM HC					●	
EM LC				●		
EM corp.					●	

FX	Change vs M-1	--	-	=	+	++
USD					●	
EUR			●			
GBP	▲				●	
JPY					●	
CNY			●			

Source: Summary of views expressed at the most recent global investment committee held 19 February 2025, with US duration views updated as of 3 March 2025. Views relative to a EUR-based investor. Views range from double minus to double positive, = refers to a neutral stance. This material represents an assessment of the market at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. FX table shows absolute FX views of the Global Investment Committee.

▼ Downgrade vs previous month
▲ Upgraded vs previous month

To go further: The Amundi Research Center

Amundi Investment Institute

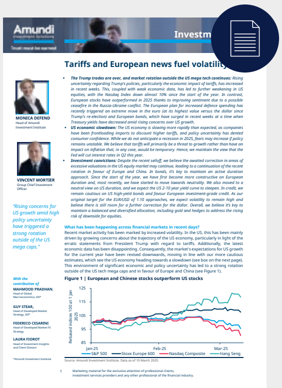
In an increasing complex and changing world, investors need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios. This environment spans across economic, financial, geopolitical, societal and environmental dimensions. To help meet this need, Amundi has created the Amundi Investment Institute. This independent research platform brings together Amundi's research, market strategy, investment themes and asset allocation advisory activities under one umbrella; **the Amundi Investment Institute**. Its aim is to produce and disseminate research and Thought Leadership publications which anticipate and innovate for the benefit of investment teams and clients alike.

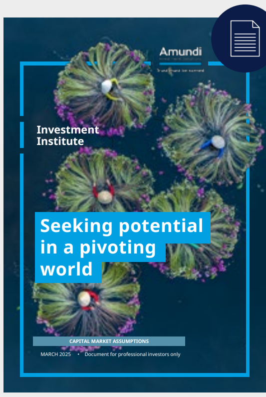
To find out more, please visit: research-center.amundi.com

ESG and Net zero

2025 Responsible Investment Views

Thematic Papers





IMPORTANT INFORMATION

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