

Navigating long-term investments amid short term volatility

SUMMARY KEYWORDS

Capital markets, asset allocation, investment assumptions, equity returns, fixed income, valuation, currency impact, geopolitical tensions, US dollar, euro appreciation, productivity growth, global trade, inflation, portfolio construction, market volatility.

SPEAKERS

Speaker 2, Arunima Sharan, Speaker 1, Jonathan Griffiths

Speaker 1 00:00

You're listening to the OMFIF podcast, the show that explores the latest insights and discussions on Global Finance, Economics and Policy. For people who love staying informed about the rapidly evolving landscape of the financial world. Join us as we break down complex topics, interview key thought leaders and provide essential insights to keep you informed about the evolving world of finance. Hello

Arunima Sharan 00:24

and welcome to the OMFIF podcast. My name is Arunima Sharan, Senior Economist at OMFIF Economic and Monetary Policy Institute, and today, I'm delighted to be joined by Jonathan Griffiths, senior investment specialist at Capital Group. We'll be discussing the 2025 capital markets assumptions that Capital Group recently published, and the thinking behind some of them and the changes expected. Jonathan, thank you very much for joining us today. Thanks Great to be here. So to dive straight in, could you provide us with an overview of your 2025 capital market assumptions? What are some of the significant changes that you would highlight relative to last year or previous years, sure.

Jonathan Griffiths 01:04

Thanks. So I think it's probably important just to sort of set the scene and the context first. So our capital market assumptions are designed to give expected returns, volatilities and correlations over the next 20 years. That's deliberately long. It's longer than some of our some of our competitors, but really that's designed to encompass two full market cycles, and it's aligned with our long term approach to investment as as an asset manager, and we think it's helpful as a guidance for strategic asset allocation, really long term stuff rather than, rather than shorter term stuff. So we have expected returns across a wide range of equity and fixed income asset classes, available in dollars and in euros. We release these for public consumption, as I mentioned in many other asset managers do this. We think this can help us allocation asset allocators. A lot of people take these in and then compare different different managers and see what some of the differences are. But also, importantly, we use them for

internal consumption. So we have a very large multi asset solutions business, and this is one factor into how we construct portfolios, important, given the timing and especially what's going on in the market. So we released these in February this year, earlier this year, so before, before Liberation Day, and importantly, and what sort of happened in April, and we use valuations as of September 2024 Now, clearly there's been a lot of volatility and uncertainty since then, driven by the tariffs and whatnot. However, I think there's still quite a lot of information that's useful that we can share here, particularly how we construct the CMAS thoughts on longer term themes and how that you know how some of these longer term themes may make it more relevant for a long term investment approach. So to jump in at a very high level summary, compared to last year, the high level rate of return expectations are lower across equities and bonds, but still meaningfully attractive, really recognizing that some of the returns, particularly in equities that we saw over 2023 and 2024 were quite outsized relative to what we've seen before, particularly in the US. So high level. Why those have come down in equities? It's from valuations, high valuations and concentration, mostly in the US, but also outside, in pockets as well. Whereas within fixed income, it's somewhat sort of easier and simpler to think about return expectations, because low it's, you know, starting yields can act as a good, forward looking indicator, and yields, yields are lower there, but again, still attractive and absolute returns in currency. We expect the US dollar to depreciate against other major currencies by about 50 basis points per annum. This is despite productivity differentials. We think the productivity growth is quite strong in the US, but also recognizing that it's the US. Value is us. Dollar is quite rich at the moment, and it's been steadily increasing over the past 10 years. Euro is expected to appreciate versus the dollar by about 30 basis points, recognizing sort of an undervaluation there. We can go into some of them, but Acqui so all country, world, all country, world equities, 6.3% return expectations in dollar, 6.6 in Euro, global aggregate bonds 4% in dollar, 4.3% in euro and global ag hedged into Euro at 3.4% and these are all nominal returns per annum over the next 20 years. Thank

Arunima Sharan 04:27

you. That's a great overview, and you mentioned quite a lot of topics. I will go and get you through the conversation. Could you talk a little bit about how you construct these assumptions and what are the key inputs and assumptions that go into it,

Speaker 2 04:41

sure. So for both equities and fixed income, we take a building block approach, which is, which is, I think that's fairly common, but building blocks can vary from from asset manager to asset manager, and it's important that our CMAs are not entirely quant driven. It has, it obviously has a big part to play. But we're not solely reliant on historical results. There's a recognition that, you know, history can rhyme, maybe, but often, often doesn't repeat. So we take in many, many inputs. It's, it's, we have a CMA committee that oversees the approval and any work that needs to be done. But we take in inputs from many analysts, whether that be macro, currency, equity and bonds. We really want diverse opinions here to help shape different scenarios. And scenarios is quite important, and maybe we can discuss that a little bit later, looking at sort of more extreme, extreme outcomes and thinking what can happen there. So on equity, it's its five building blocks that we use. The first of them is expected real GDP growth plus inflation. The second is dilution and accretion. So what I mean by here is it's thinking about the difference between economic GDP growth and earnings per share growth. So how the growth of an economy can differ from earnings per share and really that's based around share issuance

and buybacks. So if there's more buybacks by companies, obviously there's less shares out there, and so there's greater earnings per share, all else equal, and net dilution or accretion can vary quite a lot between different markets in different economies for different reasons. We then add on the dividend yield, and here we're looking at not only the prevailing yield, but also the historic yield through time. Tends to be less deviation here, and you sort of, you get out things like the US, as yield has changed, it's come down over time. Europe, yield tends to typically be higher based off different types of companies. And then there's valuation, as I mentioned this, this is an area that gets a lot of interest, and we take a fairly nuanced approach here, which, again, maybe I can go on into a bit more detail, but we call this fair value cape with global linkages. Effectively, it's a lot more complex and detailed than your standard sort of PE ratio. And lastly, there's currency. So to summarize those five expected real GDP, growth plus inflation, net dilution, or accretion, dividend yield, valuation and currency. I'll quickly touch on fixed income. So again, it's a building block approach. But as I mentioned earlier, fixed income is a little bit a little bit simpler, perhaps in how we do this. So for fixed income, the building blocks are the current yield, which is a good indicator of forward results. It's the ending spread which we take relative to intermediate us, treasuries, the terminal yield, and then default losses and currency. So default losses obviously mainly relevant lesser investment grade, more for high yield and EMD, that sort of thing. And then, with the terminal yield, we are the way we where we think about this is that the yield will where it is now. It will get to the terminal yield within 10 years, and then stay the same for that, for that further remainder. So it's a gradual and then, and then, sort of, then sort of tapers off.

Arunima Sharan 07:53

Yeah, thanks. So coming back to what you mentioned, a little bit about the valuations, and I was wondering if you could go into a little bit more detail there about what approach you take and how you think about that,

Speaker 2 08:04

sure. So, as I mentioned, we use something called fair value cape with global linkages, which, which is a bit of a mouthful. So I'll, sort of, I'll sort of break up those, those pieces so, so Cape cyclically adjusted PE ratio, also known as the Shiller PE ratio. Now this is, this is fairly standard when looking at long term. So it's recognizing that the trailing PE ratio will contain too much recency bias. It's obviously based off the single year earnings, and it's not ingested for inflation, and it's based off the current index composition, or the current current current companies there. So what Cape does is your denominator, your earnings. It looks at average inflation adjusted earnings over the past 10 years. It helps to smooth out that shorter term volatility. So that's the cape side really looking at longer term views there. Now fair value is quite interesting. It's really saying we can look historically at how the interest rate or the growth environment, and we're really trying to say, are the current valuations sustainable going forward, if we think about over the shorter term here, valuations have looked expensive for a number of years now in the US in particular, and yet they've been sustained and continue to grow. So are there drivers here to suggest that may continue going forward. So in the case of the US, we've had lower growth, lower rates and higher growth compared to history. But going forward, in a more optimistic scenario, which is more aligned with what we had, certainly at the back end of the last year, with with the power of AI and the product differentials there in the US, this could lead to relatively higher productivity growth for the US versus the rest of the world. So finally, we've got global linkages, and this is saying that a country or a market's earnings are not insulated from shocks to other markets. So for the US, if you take a revenue

based approach, approximately two thirds is coming from domestic revenue and a third from. Outside the US or international. So for Europe, this is about 5050 as well. So 50% coming from Europe, 25 from the US, and 25 coming from em. So it's saying that if we have, for example, lower optimism on markets outside the US, then that could bring the us down. All else equal. And similarly for other markets. So bringing it all together, maybe putting some numbers, some numbers around that. And again, we move on to how these may have sort of current thinking around this. But back in September, and a lot of this still holds so us, valuations were undoubtedly higher when you look at history on Cape ratio going back to the 1969 which is the start of the MSCI USA index, which is what we use as a proxy for there it was in the top decile. So valuations were in the top decile even off that of that long term Cape approach. And if we were to take that alone, it would mean that. So solely looking at the valuation impact and a mean reversion, getting that top decile back to the media. That's a minus 2.2% per annum valuation impact, which is really quite big over 20 years, when we add in the fair value cape with mean reversion, that drops heavily. That's only going down to minus 20 basis points. Now there's quite a big gap there. Clearly standard mean reversion, minus 2.2 our fair value Cape mean reversion, global linkages going to end the minus nought point two. So what we do here is we blend the two, because we recognize that it's probably going to be some there is probably going to be mean reversion, but we want to sort of taper it and temper it to come out lower so that minus 2.2 ends up being minus 1.1 so still meaningful reduction in US valuations, but not as high as a classic mean reversion.

Arunima Sharan 11:48

Yeah, talking about maybe current situations and changes to that. The CMAs are based on a 20 year time horizon. And how do you in that incorporate geopolitical tensions which change, and in particular, given the speed at which the current US administration is moving with its policies, how does that factor in and how do you reconcile that?

Speaker 2 12:11

Yeah, so, so this is obviously a really hot topic at the moment, and it's something that gets a lot of attention in our CMAs annually, perhaps particularly so, because when we were putting these together, like I said, the valuations were based off September, but these were published early this year. So there's in between. Then we knew that Trump was going to become president, and we obviously have some sort of some sort of idea about what he might want to do as president based off his first term, and also what he's been what he was saying at the time. So as I mentioned, we take a 20 year time horizon. So we're really trying to look across the valley, so to speak, less focus on shorter term noise, but looking for potential signs and potential outcomes that could really shape things quite dramatically, that would impact those 20 year numbers. So one of the things we do is we ask our macroeconomics, macro economists, sorry to review multiple scenarios. So two of them that we've been looking at recently, more than four of them we've been looking at recently, are something along the lines of a more bullish scenario, such the implications of AI, a technologically driven, good scenario there, there's inflation as well, and interest rates, whether that's going to be higher for longer or persistent inflation. And then there's geopolitical such as whether they be tariffs, economic related or or even a lot of conflict related. So, you know, expansion, expansion there. So as I mentioned, we already knew that Trump will become president, and that incorporated some of these potential outcomes. This included both positive impacts, such as the boost in fiscal spending, corporate tax cuts and reduced regulatory burden, but also being mindful of higher tariffs, reduced immigration and the higher inflation as a

counterbalance. So at this point, we were still fairly optimistic. I don't think anyone expected the tariffs to hit as hard as they have done, and even that still sort of very much up for debate again, taking a very short time scenario. What we've seen in April is a lot of sort of to and froing, a lot of very extreme suggestions coming a bit more, a bit more tempered and coming back. This is, this is, you know, quite kind of what we've seen there. So it's a bit hard at this point to take a real long term, concrete scenario about what will happen. Now, we have considered creating shorter CMAs, looking at maybe 10 years, but, and that's something that we're still we're still sort of thinking about that's going to take a bit longer. It's not something we intend to releasing imminently, but when we think about our own portfolio solutions, that's what's really driving that longer term approach. And we believe, when we build our own portfolio solutions, we believe it's important to let the underlying managers within the funds adjust their portfolios. That sort of gives you that bottom up tactical asset allocation, that shorter term views, rather than constantly sort of going in and revising and adjusting from it from a top down perspective. Yeah.

Arunima Sharan 15:00

Yeah, focusing on tariffs a little bit more, given that it is the word of the day, the month the year, almost assuming that they create global trade wars and increase inflation. How would this impact return expectations? How do you position your asset allocation for less global trade?

Speaker 2 15:20

Sure, I mean, the one liner on this is, if we're going into a if things stay as they are without negotiation, then I think it's fair to say that returns are going to come down across the board. I think that, I think that's kind of, that's kind of fairly obvious. But as mentioned earlier, we're looking across this across different different times of scenarios, and there's, there's sort of two axis that we use from that. So one of the things that we're doing is we're looking at a sort of a nearer to midterm scenario, and then one is much longer term. But it's important that this is it's an art, not not a science. These are designed to help us have conversations, but we're not really anchoring on one particular outcome. We're just trying to shape it and look at look at various outcomes. And we think that all we think by having that varied approach would be more confident in our final allocations. And it helps for discussions, almost like we're having now and with clients, around how we've ended up with these certain expectations. So when we're thinking about that first sort of midterm scenarios. We're thinking about this in a two by two grid. So if you can sort of visualize, visualize that a two by two grid, where the x axis is hard economic power and the Y, X Y axis is hard military power. So if you visualize that, then in the top right is more where we've been recent times, softer economic power, softer military power. And economically speaking, arguably This is the best in terms of return expectations. So you get higher GDP and inflation returning near to target now the top left, which is harder economic but still softer military, is more it's arguably where we are now. But again, views differ from our various from our various economists here. So this is in essence saying that tariffs in some form are here to stay. We see GDP drop, and indeed, we've seen the IMF release that recently GDP dropping. We see higher unemployment, higher inflation coming out about three and a half percent within the US, so not as high others that we've seen, but still not at Central Bank target, and generally that means weaker returns than what we've been forecasting today. So the other two boxes, so this is our sort of bottom two boxes on our on our two by two grid is thinking about more sort of military expansion and military power. So this could be an escalation of what we're seeing in Russia or Ukraine, or it could even be us and Greenland, something, something happening there. So if we look at the bottom right, so this is where we've got hard military power, but

softer economic power. So tariffs, to some extent, but not as they are now, then we end up with this idea of sort of spheres of influence globally. So you'd have sort of the, like the major pattern of the, sort of the return of the major powers, so to speak, Europe, US, China and, you know, perhaps Russia in there as well. So in this scenario, GDP, inflation and unemployment estimates fall somewhere between, between those first two quadrants. So a little bit higher, lower, lower GDP than what we got now, bit higher inflation, somewhere in between. Now the bit, sort of the scarier scenario, if you will, is the bottom left. So this is hard economic and hard military, which we call an isolationism scenario. And this brings things sort of quite heavily down, GDP estimates like way down, maybe like, point 5% per annum, they are much higher inflation estimates, much greater unemployment as well. So that sort of covers the four basis there. And like I said, we're not really anchoring on any particular quadrant at this stage, but that sort of, that sort of helps, helps that side of thing. Maybe I'll move slightly on, because I think it's probably, there may be a bit more interest in the in this sort of this isolationism quadrant as well. So, so taking a longer term that was sort of our midterm scenarios, our longer term scenarios, we're only really looking at two in particular, and they are the more real extremes. There's the AI tech utopia, where everything's pretty rosy. And then there's this sort of American retreat this isolationism idea. So this would see the US retreat from the global trading system much greater, limited immigration, a big shift in trade patterns and limited or strategic access to strategic goods. And what I mean by that is things like aerospace and defense. So we know that the US exports quite a lot of military jets and military jets and military equipment that would be used as a geopolitical bargaining tool, rather than a, you know, helping, helping these countries out, and a lot of, you know, counter action large defense spending outside the US. So what does that mean for returns, or low yields, and then high inflation, so very low. Uh, real yields and a much flatter yield curve. In this scenario, we'd expect dividend payers on the equity side to do better than growth or more, sort of like value, value oriented companies, staples, utilities, things that people need, multinationals being weaker and ex us to outperform us, particularly those that are able to more dynamically adjust their trade. This would also benefit em potentially, as we think about sort of a continuation of what we see now with the idea of onshoring or near shoring, or friend shoring. You know, a different, different thing going on there. Unsurprisingly, volatility increases, dollar would weaken, and correlations would increase. And maybe I'll maybe I'll stop there, but I can go on a bit more if

Arunima Sharan 20:45

needed. Yeah, maybe touching upon what you mentioned a little bit with the EMS in countries that can more dynamically adapt in this more uncertain, volatile environment. Are there specific markets that you're expecting to generate higher returns. What is driving this? If you could give a couple of examples or situations you're looking at

Speaker 2 21:05

Sure, so even even, like before we we started thinking about these CMAs with what's gone on, em and Japan were coming out as areas of higher return expectations. And if we think about what I've just said this idea of like the US doing worse than outside the US, this, this could well continue going forward. So in Japan, it's really been an outlier in terms of macroeconomic environment over the past few years, because most central banks have been cutting interest rates, and whilst Japan has been increasing and we're finally starting to see signs of reflation after a long period of low inflation and low growth, and we're starting to see shareholder reforms coming through, more corporate reforms going through. So

we're optimistic that will continue. Examples of that being more disclosure of activist stakes by companies, increased buyer backs to return value to shareholders. So generally there, we've increased our assumptions for inflation and growth, which is a good thing for Japan. We also expect the yen to strengthen versus the Dollar as well. So in that one, we're seeing an expected return of 7.3% per annum in euros over the next 20 years. Now that comes down in under a broader American retreat scenario, but it's still one of the highest. Now, em is also higher, and em is often high in CMAs, and we recognize this is em has been a bit painful for asset allocators, because it's often come out as one of the highest expected, but it hasn't really lived up to its nature. But we do believe that it will be good. It will be better going forward. So return expectations for em are coming out 7.1% per annum in Euro terms. But clearly there's a huge amount to unpack here, because there are a lot of emerging market countries. If you think about the two the two biggies, it's China and India. Now China is is has been adjusting for a number of years to really be really adjusting to the size of the economy that it's become. You've had a huge amount of investment in China that's working its way through the economy, and that's that's having some issues along the way. You think the housing market here, and the government's had to intervene there to help prop it up, and also within the banking sector as well. But ultimately, China's adapting to a more normalized growth rate for account for a country that's moved to a middle income economy, and it's understandable that it you know, the historic GDP growth rates of five to 6% just, just cannot be sustained. They'd simply consume too many resources, for a start. So China remains a little bit weaker, but still two to 3% GDP growth. GDP growth is not to be sniffed out. That's still pretty strong. Now India, we do believe, has some have some higher, some good prospects there, because it's somewhat further behind that journey that China has gone on in terms of its development, so greater prospects for cyclical and structural growth there. Now the demographic issues will come in India. It women, it's something that impacts the entire globe, but we think it's going to come later than China. That's that those are the sort of the big two when we think about some of the smaller ones. But you know, equally quite important, a number of em countries have done well in the post COVID Supply Chain reorganization. Think Thailand, Thailand, Vietnam, Indonesia, and these may do well in a tariff driven reorganization as well. We recognize that some of these countries are heavily hit by tariffs, but they may be able to offset some of that as supply chains move around. But fundamentally, em, as I mentioned, there's a lot of countries. There's lot of to unpack here, so it's not monolithic. So when one of the things that we do at Capital Group is we like to focus on where a company generates its revenues, not where it's domiciled. So DM can generate significant revenues from em and vice versa, and an active approach can add value here. This sort of also links back to what I said about global linkages as well. You know, you may be. More us, certain, US companies may more, may be more heavily impacted to what's going on in emerging markets and vice versa.

Arunima Sharan 25:07

Yeah, definitely. And on the asset side, maybe moving to fixed income, where returns can be somewhat easier to predict. What would you want to call out there?

Speaker 2 25:18

Sure. So on fixed income, as I mentioned, it's a building block approach we take here, but it is somewhat easier, because we're, you know, the starting yields can act as a good indicator of forward looking returns. Now they've come down understandably, but still attractive, very attractive, if we look at, you know, the past 10 years return expectations are considerably higher based off of higher starting

yields. And I mentioned the terminal yield, gradual reduction over the next 10 years and then steady for the remainder. Steady for the remainder. So compared to last year, yields have come down, but absolute returns remain attractive, and for US Treasuries, we end up with a terminal yield of 3.9% this is us 10 year treasuries. This is based off the higher R star, or also known as the neutral rate, or equilibrium rate of interest, of one to 1.25% inflation of 2.2 2.25% and additional risk term premium. So one way, no 1.25 have 2.25 add a little bit more for your to your 10 year return premium. End up at 3.9 what that translate to is a US ag return of 4.6% in dollars and 4.9% Euro terms. So pretty attractive euros coming out a bit lower than that, which is based off of lower inflation estimates and a lower neutral rate, and also a recognition, certainly at the time, that the US has been benefiting, and we believe will continue to do so from greater productivity differential, and that will support higher rates. So So in broadly, yes, in developing an investment grade fixed income returns look, look pretty attractive now for high yield and EMD, higher higher returns in absolute high yield has gone through quite a lot of changes in recent years. The index composition, this is looking at the Bloomberg us, high yield, 2% issue of CAP quite well known. We've seen Triple C rated bonds come down as competition and BBs go higher, and part of this is due to the rise of private markets. So things like leverage buyout financing now more apart private markets than what we've seen in in the public markets. And so our estimations of default losses have come down high yield, 6.5% per annum in Euro terms. EMD, I'll just touch on that one to finish, to finish off with, and then talk a little bit more about the you know this, this idea of American retreats. So. EMD, similarly, the hard currency index has gone through material changes through time. It's much more diversified now, but has much more met a lot number, greater number of smaller issuers from Frontier Markets and in lower rated issues. So we do expect spreads will widen, but, and we've seen that historically, but we also think default losses will be slightly higher as well within local currency, which it's almost the opposite. We've seen a shift to higher quality credit and sovereignty in Asia with the inclusion of China, which has become a bigger and bigger portion, and more recently, India. So returns for EMD coming out at around about 7% per annum, so remaining attractive there, but mindful mentioned volatilities higher in these asset classes, it's not simply a case of allocating to the best performing asset class. It's about thinking about your overall objectives and the role that these assets can play now, under a more rocky scenario going forward, terminal yields are lower across the board. That really just is the main input for driving down return expectations, although more so for USD assets, because currency is a bit bigger so your non US dollar currencies may sort of somewhat offset that doing better than doing better than dollars.

Arunima Sharan 28:43

Yeah. Speaking of currencies which are harder to predict, what's your view more specifically on the US, Dollar and Euro over the next 20 years? What's the rationale behind this and how should funds manage this currency risk?

Speaker 2 28:58

Sure. So I think I mentioned earlier that US is expensive. I think that's fairly well that's fairly well accepted. So we do, do, we do expect that to come down by about 50 basis points per annum relative to a basket of global currencies. And we also do expect the euro to depreciate against the dollar. This is coming from that productivity differential. However, I mentioned good things in Japan. So we do expect the yen to appreciate. So US dollar coming down broadly, Euro depreciating against the dollar, and then yen appreciating. However, if we see Contin conditions continue to deteriorate, and even you

know the US dollars, global reserve currency state, is coming under threat. That could lead to a more significant weakening, which could be actually more beneficial for Euro and yen, but that really feels too far off to join any meaningful conclusions this stage. We're wary of some of the currency movements that we've seen year to date. But for a longer term perspective, that's a lot harder to figure out at the moment. So with regards to hedging. He the higher rates we think about interest rate differentials here, which play a big part in hedging so higher rates for the US are expected to continue, and that'll act as a headwind for Euro denominated investors. So around about a 1% lower return compared to unhedged in Euro, and 1.5% for global for us asset classes. So our general rule of thumb, but I stress it really depends on an individual scenario, is in our multi asset portfolios, and our solutions is that we leave the equities unhedged, which is reflecting that there will be volatility in currencies Within equities, but broadly the returns are higher and that will wash out over time to some extent. Now, investment grade, fixed income, it's, it's, we do, we, we do hedge their currency relative to the size of the total return plays a bigger part, and also, importantly, hedging and play a big part in low, reducing volatility. So again, long term perspective, that's our general views, but depends on individual scenarios and portfolios.

Arunima Sharan 31:02

Yeah, and maybe to sum it all up, how are you currently thinking about portfolio construction in your own solutions?

Speaker 2 31:12

So it's it's challenging. Like I said, we haven't anchored anywhere at this point in time. There's a lot of different outcomes, a lot of different scenarios. But I think it's important to remember, the US is ultimate goal from what they're doing, and that's the restoration of a prosperous middle class with a bright future. And the Trump administration is seeing manufacturing as the key to this, along with the trade balance being the path to success. So tariffs are the lever to achieve the goal, but probably not the actual goal itself. So there's potential for highly negative outcomes, but also potential to end in a place where tariffs are actually lower than where they've started, and we've already seen signs of that over the past few weeks. So how are we thinking of investing at the at the company level, there's this idea of an ideal company in this scenario, which is local, for local, local supply chains and high margins, but they don't really exist because of the way that everything's so globally interconnected. So thinking about it at a sector level, we obviously know that staples can play a role if there's a recession, consumer discretionary is highly challenged. Think, think autos as a prime example. They are semiconductors and pharma are interesting because they've obviously got challenges. There tariffs still to come, potential or something happening in the pharma and healthcare space, but company specific research reveals quite big differences between these companies, and there's a lot of sort of powerful secular trends in place there as well, thinking about AI integration, healthcare, innovation, and also this sort of an industrial Renaissance, is something else that we talk about which may do well if there's more onshoring going on. So that's sort of the sort of the company the sector now moving to general sort of asset allocation. So if you look back over the past, sort of last decade, it obviously, you know, has hindsight here playing a big part, but it's been a bit simpler, overweight us, overweight it and growth going forward, I think it's going to be a lot more important to have more robust portfolio that will consider downside protection. Dividend growers and dividend payers may, may do well in this scenario, because they're going to, if you think about what, how they grow that dividend, the characteristics that

they have that should support long term dividend growth and may do well, one thing I would say is it may be time to sort of rethink the core of your portfolio, because core, and I mean, sort of like true core here, you might think, for example, the MSCI World, or MSCI equities core. But over time, we've seen the US exposure get larger and larger there. Its general returns have been very strong as well, of course, to support that, but also, we've seen growth massively outperform value as well. So is your portfolio really core, so to speak, or does that need a bit of a rethink. And similarly, in your bond portfolios as well, it's really important to get the call right there. But remain remain flexible as well. So flexible strategies there, there can do well general, to sum it up in sort of into three words, which which meant may heavily align with what we do at Capital Group. It's maintain your long term approach, stay invested, stay true to your objectives, stay active, which can add value, particularly in during periods of market volatility, and stay flexible as well. I mentioned that a number of our multi asset solutions that we have incorporate multi asset funds and global portfolios as well that can adjust quickly as things move in the market, rather than relying on a strict building block approach that may become more under threat and require more top down overlay, more frequent overlay.

Arunima Sharan 34:51

So stay flexible in this volatile environment. This has been an incredibly insightful decision, but before we wrap up, I want. To ask if there's anything people listening or investors should be considering as they go through the 2025, capital market assumptions that we haven't covered yet, or that you'd like to highlight. I think,

Speaker 2 35:10

I think when thinking about because capital market assumptions really are all about the long term. You know, we've been talking to clients around this and even the ones with the shortest capital market assumptions were five years, most were 10 or 15 and the remainder in 20 years. So I would suggest maybe don't make any sort of neat near, near term knee jerk reactions. Importantly, because, because of what we've seen going on in the markets we've seen. I think the S and P 500 had its had one of its best days over the past decade or more, in April. So markets can bounce back very quickly. I think, I think that's going to resonate well with asset allocators. I don't think many people are materially shifting their portfolios around at this stage. We need the dust to settle a little bit more, so I'm already looking forward to see what what comes out of our 2026, capital market assumptions, and I'm hoping the dust has settled a little bit by then, and we'll have a bit of a clearer term, a clearer view of what's going to happen long term.

Arunima Sharan 36:15

Thank you, and thank you so much for sharing your insights throughout this conversation to our listeners. Thank you for tuning in. If you found this interesting, you can access the full document with the 2025 capital market assumptions on the Capital Group website, and I'm sure the 2026 document will be available there next year as well, and at OMFIF will be going and exploring some of these themes that we talked about today a little bit more in detail in our upcoming global public investors. So do you keep an eye out for that? Thank you all for listening. Thank

Speaker 1 36:46

you for joining us for this edition of the OMFIF podcast. If you found today's conversation engaging, make sure to stay tuned for additional thought provoking discussions on worldwide Finance, Economics and Policy by subscribing to our channel. Stay connected of the latest developments by following us on our LinkedIn page. OMFIF, Economic and Monetary Policy Institute.