

# Macro Monthly

Economic insights and asset class views

**UBS Asset Management | March 2025**

For global professional / qualified / institutional clients and investors



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## American 'Un'-exceptionalism?

### Highlights

- US stocks have meaningfully underperformed ex-US counterparts year to date. We explore whether this theme has legs.
- Still elevated valuations, high concentration, and a narrowing growth advantage are headwinds for the US. But we still expect US companies to deliver strong earnings growth in 2025.
- Cheaper European and Chinese stocks have the potential to re-rate further, but there remain questions on whether policymakers will do what it takes to drive growth.
- We favor a balanced global equity allocation with an emphasis on quality, combined with selective exposures to European banks and Chinese tech where we expect further re-rating.
- Elsewhere, we continue to like duration, gold and JPY as hedges against downside risks to growth and broader policy uncertainty.

Cracks have emerged in the US exceptionalism theme, with the S&P 500 index flat this year compared to the All Country World ex US index's 6% performance. Markets such as the Eurostoxx 50 and MSCI China are up 11% and 18%, respectively, in just two months.

In our December [Macro Monthly](#), we discussed what could undermine the US exceptionalism theme which has captivated markets for nearly 15 years, including a narrowing US growth advantage, mixed risks in Trump's policy agenda and high US sector concentration.



**Meena Bassily**  
Director  
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Much of this performance convergence has played out in a very short time period. The question is whether this ex-US outperformance is one of the several multi-month counter-trend moves over the last 15 years that ultimately investors were better off ignoring and sticking to the US, or if this convergence has legs. Here we evaluate the cases for and against further ex-US outperformance in 2025.

While we do not see enough to go outright underweight the US vs. ex-US markets, we argue for a globally balanced equity allocation. More broadly, we reiterate our overweight to duration, as discussed in our January [Macro Monthly, Buying Bonds](#). We maintain portfolio hedges in gold and the JPY.

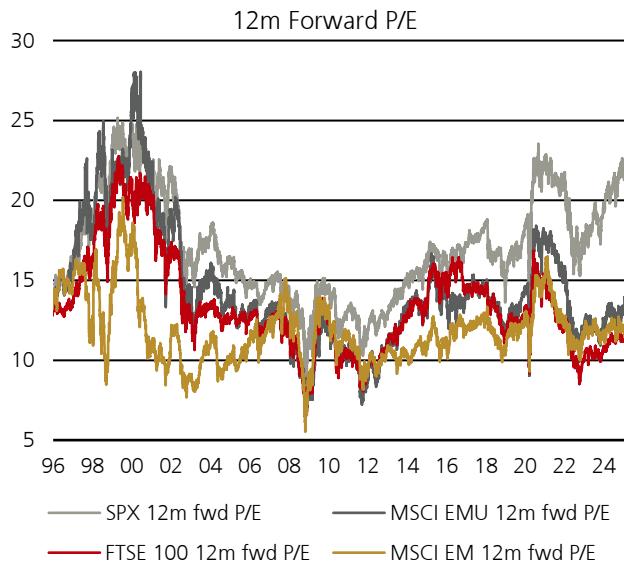


## The case for continued ex-US outperformance

Why would global equity market convergence continue?

First, of course, the bar remains high for US relative to ex-US in terms of valuation. Despite the year-to-date moves the US is still expensive outright, and relative to the rest of the world on nearly all established valuation metrics, including sector-adjusted.

### Exhibit 1: US equity valuations have a higher bar to beat



Source: UBS Asset Management, Macrobond. Data as of February 2025.

Second, US economic growth is still good, but 'less exceptional.' We are moving from an economy that was running close to 3% real GDP growth over the last few years to one running closer to 2%. This is a function of moderating real incomes, a slowing in immigration which had started before Trump, the fiscal impulse coming off, and interest rates that remain too high for the housing market.

Third, there is more evidence in consumer and business surveys that the risks to growth from the Trump administration are more balanced than the initial narrative had suggested.

Immediately after the election, the market was focused on how a business-friendly administration would begin tax cuts, deregulation and evoke animal spirits – leading to increased optimism and investment.

However, some real downside risks to growth have emerged in the Trump administration's first several weeks. Greater uncertainty around tariff policy, the rapid and unstructured cost cutting by the Department of Government Efficiency, and the potential scale of deportations are weighing on confidence. The distribution of risks to US equities this year has shifted from a fiscally driven yield spike to a more severe growth slowdown caused by policy uncertainty.

Finally, one cannot discuss US markets without considering the Magnificent 7, which are responsible for half the US outperformance vs. international equities over the last 10 years. While large cap tech continues to put up excellent earnings, the scale of growth is set to decline relative to other companies. This along with questions around the return on investment from

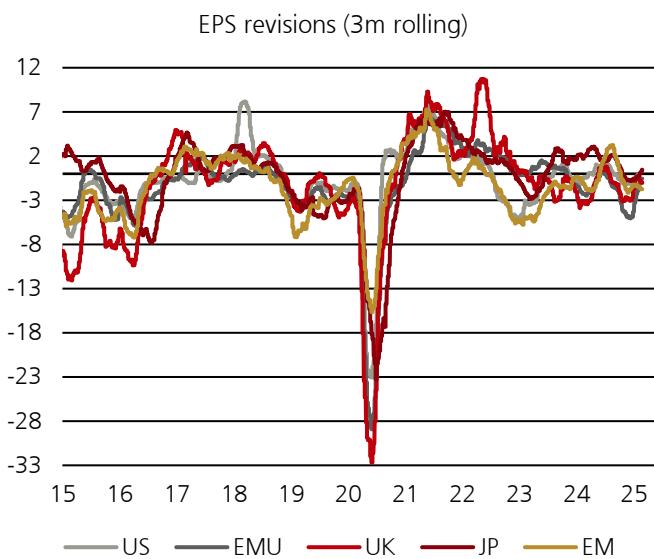
AI capex, particularly in the context of Deepseek (discussed below), raises risks for the concentrated US market.

## The Case for Europe

So that's the potential downside for US markets, what about the upside in Europe?

First, there's actual improvement in corporate fundamentals. It's been a strong earnings season in Europe, across various sectors, with luxury, banks and industrials all beating expectations. Earnings expectations overall look to have clearly bottomed out, and revisions have improved relative to other regions.

### Exhibit 2: Euro Area earnings revisions may have bottomed



Source: UBS Asset Management, Macrobond. Data as of February 2025.

We've seen several months of positive economic surprises in aggregate, and credit demand has been picking up – helped by the European Central Bank's cutting cycle. In addition, real incomes remain positive and the European consumer has plenty of excess savings to put to work.

There's also been a rise in the odds of a ceasefire in the Russia-Ukraine war, which has been reflected in a decline in natural gas prices since the US started talks with Russia. Lower energy costs can boost businesses and consumer sentiment, and disproportionately help large energy importers in Europe.

In Germany, the new centrist coalition should be more business friendly and stable. Incoming Chancellor Merz has confirmed ongoing talks for increased debt-financed defense spending, bypassing the need for a constitutional change.

While no policy changes have yet occurred, such urgency and willingness for Germany to use its fiscal space is an encouraging sign. The Trump administration's more confrontational approach to Europe has its benefits, in the sense that it may shock European leaders into action.

There is a broader recognition that Europe needs to grow to remain a player in this increasingly multi-polar world. France has announced significant investments in AI, and the European Commission is focusing on productivity, competitiveness and deregulation.

It often takes a crisis to get European policy moving in a cohesive direction that strengthens the bloc in economic and political terms, and one can certainly argue that Europe is in a crisis given the geopolitical developments of recent weeks. Ironically, Trump's challenge to Europe may ultimately make the region's economy and policy stronger.

### The return of China tech

In the east, China's progress on AI is impressive. DeepSeek made a powerful breakthrough in cost effective AI – and it was the US sanctions on China that forced them to innovate in the use of less powerful chips. Earnings have started to strengthen with large tech companies reporting strong results and encouraging guidance. President Xi's stance on technology appears to have shifted, as he has conducted high-profile meetings with the founders and CEOs of China's leading tech companies, an important signal.

Trump has placed 10% tariffs on China related to fentanyl and plans to increase tariffs by another 10%. Nevertheless, there has been reporting that Trump ultimately wants to make a grand deal with China, reducing tariff/export controls in exchange for a series of economic and geopolitical concessions. Anything remotely like this would be a meaningful positive and could unleash a wave of global capital back into Chinese assets that many previously labeled uninvestable.

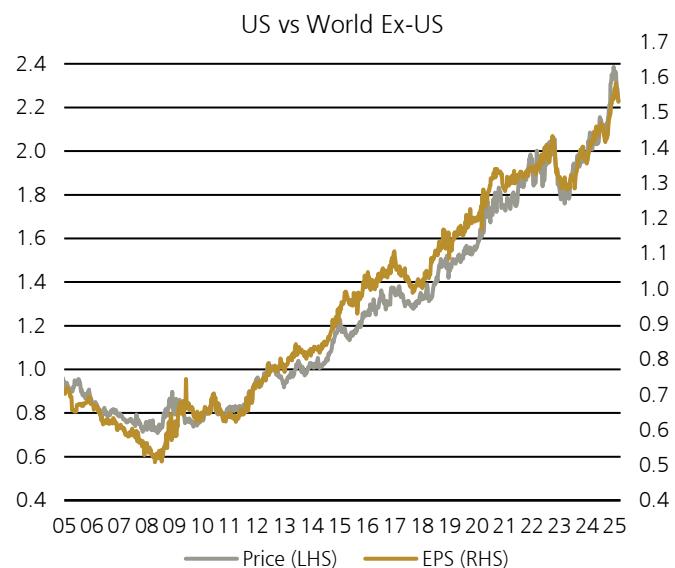
### The case for continued US exceptionalism

A case can certainly be made for continued ex-US outperformance, but what are the reasons to fade the recent ex-US enthusiasm and stick with what's worked for more than a decade?

First, quite simply corporate America has displayed year after year an ability to deliver on earnings compared to the rest of the world. And even if US economic growth is a little cooler than the last few years, we believe it's still going to be quite solid.

While valuations may limit upside potential for a re-rating, US companies are likely to deliver earnings outperformance.

### Exhibit 3: US earnings have justified US outperformance vs. the rest of the world



Source: UBS Asset Management, Bloomberg, Macrobond. Data as of February 2025.

Second, more tariffs are likely coming. In addition to the aforementioned plans to increase tariffs on China, Trump has made it clear that Europe is in the crosshairs next, calling for 25% tariffs on autos and other products in early April. Unlike threatened tariffs on Canada and Mexico which are being used as a negotiating tool to extract concessions related to the border, Trump repeatedly speaks to structural unfairness in trade with respect to Europe. It may prove more difficult for European leaders to coordinate and make adjustments to avoid a meaningful increase in tariffs, raising downside risks to growth.

Third, some of the market's recent enthusiasm on a near-term ceasefire in the Russia-Ukraine war may be misplaced. It remains unclear that Ukraine will get the security guarantees it needs for a lasting peace deal that will also be acceptable to Russia. Even if there is a peace deal, UBS Investment Bank estimates eurozone GDP would lift by 0.5 to 1% over three years – helpful, but not transformational.

Finally, the aforementioned hopes of change in European and Chinese policy delivering materially better growth outcomes are just that, hopes. In Germany, the centrist parties fell short of the two-thirds majority needed to reform the debt brake, so even though increased debt-financed defense spending is being discussed, the prospect of a large and persistent (multi-year) fiscal expansion is still low.

More structurally in Europe, it's one thing to talk about competitiveness, it's another for 27 countries to agree on the path forward given domestic political constraints.

In China, while there is certainly a positive tech story to tell, there are still large challenges for the broader economy and a need to rebalance toward consumption-led growth. The Japanification of China is ongoing and it's not yet clear that policymakers are willing to do what it takes to stabilize consumer sentiment.

### **Balance is key**

Year-to-date cross-market performance is a wake-up call for investors that have become overly focused on the US. The US now makes up nearly two thirds of the MSCI All Country World Index, with a lot of concentration in the Magnificent 7 that will increasingly need to show returns on investment from expansive capex.

Geographical diversification is important. The fact is, it's simply a lower bar for the rest of the world relative to the US. The US has consistently shown it can meet high expectations and justify an expensive valuation, but there are potential catalysts that can have legs outside the US and lead to outsized performance.

Taking all into account, we favor a balanced asset allocation across regions. We are not prepared to go underweight the US as we still think earnings growth is likely to outperform more growth challenged countries. Ultimately, owning a healthy mix of overvalued but historically dependable markets with undervalued assets that have more questions is a sensible approach. Globally, we like combining exposures to European banks and Chinese tech, which we believe have potential for further re-rating, with an overweight to the global quality factor, which is skewed towards high earning US companies.

More broadly, we continue to favor duration as we think disinflation will continue and expect US growth moderation to continue. As the risks shift from higher inflation to lower growth, we think bonds will reassert themselves as diversifiers.

We continue to view gold as a good hedge to broader policy uncertainty with a structural tailwind of EM central bank buying. In FX we are long USD against EUR and CNH to hedge tariff risks, but we think the JPY move has legs as the Bank of Japan continues to tighten policy.

## Asset class views

The chart below shows the views of our Asset Allocation team on overall asset class attractiveness as of 27 February 2025. The colored circles provide our overall signal for global equities, rates, and credit. The rest of the ratings pertain to the relative attractiveness of certain regions within the asset classes of equities, bonds, credit and currencies. Because the Asset Class Views table does not include all asset classes, the net overall signal may be somewhat negative or positive.

	Underweight	Neutral	Overweight	
<b>Global Equities</b>				
US				US equities continue to have upside on healthy earnings growth. However, high concentration and increased policy uncertainty are downside risks.
Europe				European growth has shown signs of stabilizing while earnings revisions have turned higher from a low level. Other tailwinds have been EUR weakness, ECB rate cuts, and hope of a Russia-Ukraine ceasefire.
Japan				Solid earnings and higher nominal growth may continue to be offset by BoJ tightening and JPY strength.
Emerging Markets				China tech has seen a strong revival helped by AI advancements and signs of more political support for the sector. Still, we see challenges for broader Chinese markets given subdued growth.
<b>Global Government Bonds</b>				We continue to think inflation will decelerate this year, supporting the global easing cycle (ex. Japan). Valuations in most DM rates markets are attractive with rates still broadly restrictive.
US Treasuries				US duration has been helped by a potential slowing in US growth from high levels, Treasury Secretary Bessent's plan to lower the fiscal deficit, and lower oil prices. We see tariffs as a short-lived risk to USTs.
Bunds				Improved valuation, weak growth, slowing inflation, and ECB cuts are all supportive of Bunds. We think Germany has enough fiscal space to increase spending, without it having large impact on the curve.
Gilts				Valuations have improved, and we think the government will avoid a disorderly widening of the deficit.
JGBs				Wages and underlying inflation are accelerating while we expect the BoJ to continue tightening policy.
Swiss				Valuations are historically expensive and the SNB is already priced to cut rates to near zero this year.
<b>Global Credit</b>				Credit spreads remain tight, but we still look for positive total returns in global high yield amid resilient growth. We think EUR and Asia HY offer the best carry opportunities.
Investment Grade Credit				Demand for credit remains strong as cash becomes less attractive. Still valuations are expensive, and we expect returns to be primarily driven by carry and duration.
High Yield Credit				Decent credit quality and the supportive macro backdrop justify tight spreads, but compensation for downside risks is modest. HY bonds in Europe and Asia offer more attractive valuations and carry.
EMD Hard Currency				Many distressed EM issuers managed a restructuring and important reforms in 2024 clearing the way for lower default risk. Valuations are relatively more attractive than those of DM, but a strong USD is a risk.
<b>FX</b>				
USD				We have a slight USD bullish bias given positive yield differentials and to protect against tariff risk – though we do see two-way risks as positioning is long USD and tariffs may not be as large as feared.
EUR				We are slightly bearish EUR given rate differentials and tariff risks, though valuations are more attractive.
JPY				BoJ rate hikes, cheap valuations, and protective properties make us favor JPY vs. EUR and CNH.
CHF				We are negative CHF as we think the SNB will need to cut rates more, while valuations are expensive.
EM FX				Overweight ZAR given carry and a positive policy framework. Underweight CNH on tariff risk.
<b>Commodities</b>				Oil and gas prices have fallen since Russia-Ukraine ceasefire hopes have increased. We remain positive on gold, which is benefitting from persistent central bank demand and policy uncertainty.

Source: UBS Asset Management Investment Solutions Macro Asset Allocation Strategy team as of 27 February 2025. Views are provided on the basis of a 3-12 month investment horizon, are not necessarily reflective of actual portfolio positioning and are subject to change.

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