Janus Henderson
INVESTORS

MARKET GPS

MULTI-ASSET QUARTERLY

Q1 2025

Data dependent:
Higher U.S. rates roil the global economy and markets

The Janus Henderson Multi-Asset Team applies a “partnership and transparency” approach, providing access to differentiated insights, disciplined investments, and world-class service. This quarterly update shares the team’s views on market dynamics as well as the dashboard that informs their positioning across Janus Henderson’s range of multi-asset models and portfolios.

Macro overview

- Cautious risk taking is still possible in a late-cycle economy, but elevated valuations and higher rates dampen our enthusiasm.
- While the U.S. economy continues to show resilience, the price is likely fewer rate cuts in 2025 than previously anticipated.
- The expectation of additional stimulus in China presents a tactical opportunity; elsewhere, flagging growth and lack of a catalyst give us little reason to be excited about Europe.



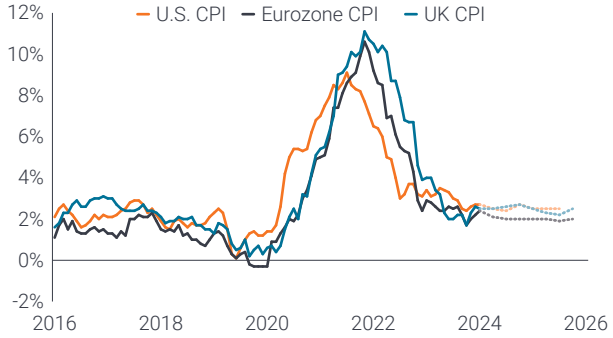
Adam Hetts
Global Head
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Portfolio Manager,
Multi-Asset

Expectations for pro-growth policies by the incoming U.S. administration further encouraged investors to price in an extended economic cycle. Equity valuations were quick to adjust, leaving less room for additional gains. Growth expectations – and sticky inflation – also sent bond yields back to levels that investors could find more attractive. While a strong U.S. dollar presents headwinds for broader emerging markets, the expectation of additional stimulus could give China a near-term lift.

Global inflation going nowhere fast

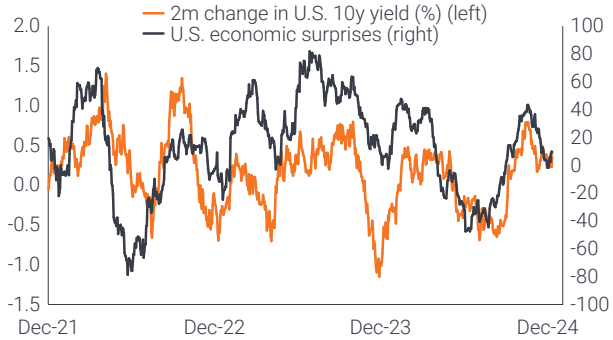
While economic resilience may keep U.S. inflation above the Federal Reserve's target, the lag provided by housing should exert downward force.



Source: Bloomberg, as at 03 Jan 2025. Dotted lines are Bloomberg consensus forecasts.

Growth surprises waning – or reawakening?

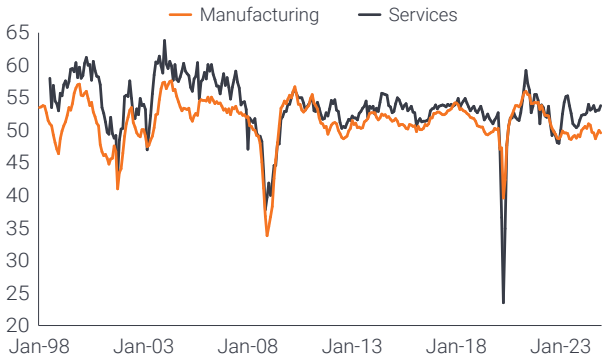
Additional upside surprises to economic growth and/or inflation could result in more upward pressure on Treasury yields.



Source: Datastream, Janus Henderson Investors, as at 07 Jan 2025.

A split among U.S. Purchasing Manager Indices

Economic – and employment – growth has been a function of the services sector, but any sustained uptick would likely require a contribution from manufacturing.



Source: J.P. Morgan, Janus Henderson Investors, as at 07 Jan 2025. J.P. Morgan Global PMI indices.

> "The extended economic cycle bodes well for medium-term investors, but is also driving short-term volatility as the market prices higher rates."
>
> **Janus Henderson Multi-Asset Team**

Equities

With U.S. equity valuations roughly 30% more expensive than their long-term average, we've moderated our view toward the asset class.

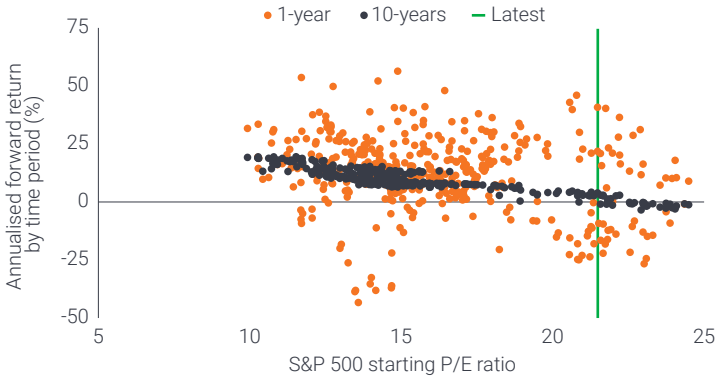
U.S. midcap shows modest valuations and earnings projections, while rates have turned from a tailwind to headwind once again for small cap.

While it will take time, we believe China's ongoing stimulus should eventually provide a boost to earnings.

Although the possibility of pro-business policies should reinforce U.S. economic exceptionalism, repeating the gains of the past two years is a tall order given elevated valuations. A late-cycle economy is quite different from the typical cyclical upswing needed to boost value stocks' earnings. Similarly, small caps can no longer count on the rate cuts that would provide support to their often-leveraged balance sheets. While both Europe and China are cheaper than U.S. stocks, only Beijing has the wherewithal to materially boost output.

Valuations are a matter of perspective

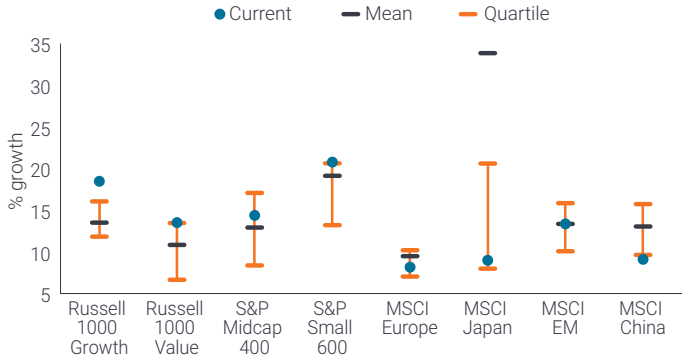
While high earnings multiples are bad for equity prospects over the long term, they mean very little for nearer-horizon equity returns.



Source: Datastream, as at 31 Dec 2024.

U.S. valuations and earnings set a high bar

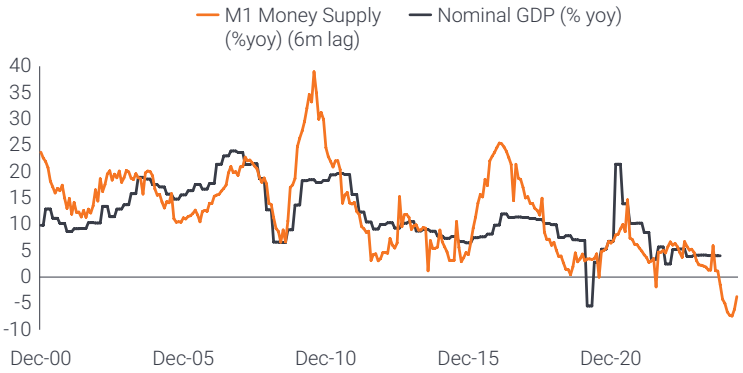
High multiples mean the U.S. will depend on beating high earnings expectations, while the rest of world has more modest expectations.



Source: Datastream, Janus Henderson Investors, as at 09 Jan 2025. Chart shows the current % growth projection versus the ranges over the last 20 years.

China's bag of policy tricks

Typical lags of stimulus impact mean the near-term Chinese story may take quarters, not months, to unfold.



Source: Datastream, Janus Henderson Investors, as at 06 Jan 2025.

> "Meaningful global dispersions in multiples and earnings expectations create opportunities for diversification across countries and sectors."
>
> **Janus Henderson Multi-Asset Team**

Equities dashboard

	- -	-	=	+	++	Views
U.S.			←			Expectations for strong growth and expensive valuations leave little room for disappointment
Large Cap Growth						AI remains a key driver of growth, but expectations and valuations are very elevated
Large Cap Value			←			Expensive vs history but there is still room for earnings growth, although expectations lag those for growth stocks
Mid Cap						A soft landing should support earnings and valuations remain around average
Small Cap						While a soft landing should be supportive, higher-for-longer interest rates could be a challenge
Developed ex U.S.						Drags in key countries should be balanced by a U.S. soft landing and continuing global cycle
Europe		←				Political uncertainty looks to be less priced in for Europe, although we are monitoring some signs of better growth
Europe ex UK		←				Domestic and international uncertainty are a concern, with valuations not cheap enough to offset this
UK						Perpetually cheap due to its sector mix but less so once sector adjusted
Japan		→				The outlook for domestic demand is improving while higher-for-longer U.S. interest rates should prevent a sharply stronger yen
Emerging Markets (EM)			←			Expensive and faces drag from a strong dollar, but China stimulus could be a boost
China						Renewed stimulus should drive at least a short-term rally, although concerns about structural issues persist
EM ex China			←			Higher-for-longer U.S. interest rates and a strong dollar are a concern, but may be boosted by China stimulus

Underweight Neutral Overweight ← → Change from last quarter

Fixed Income

The backup in U.S. yields merits an upgrade for Treasuries and investment-grade corporates to a more neutral outlook.

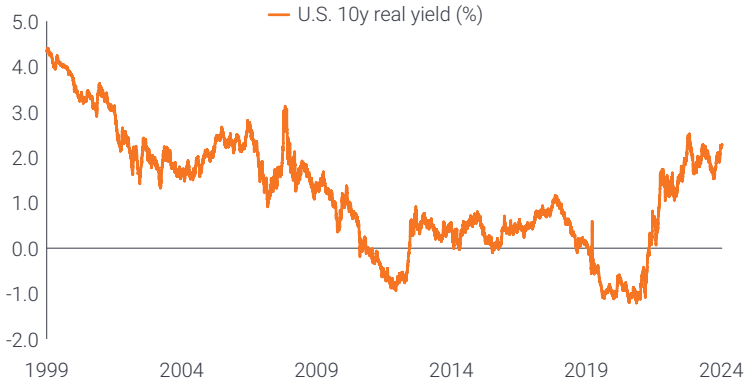
Corporate spreads are tight, but an extension of the cycle and sound balance sheets should result in select opportunities in higher-quality issuance.

We expect rate volatility to persist until there is greater clarity on U.S. fiscal policy and the trajectory of inflation.

Yields across the U.S. Treasuries curve have risen and the term premium has reemerged as investors wait to learn how the incoming administration's policies will impact growth and inflation's trajectory. At current levels, bond yields once again may appeal to investors seeking attractive income streams. With U.S. rates potentially range bound and other regions positioned to cut, global bonds can again complement riskier assets.

Silver lining: Economic optimism shows in real yields

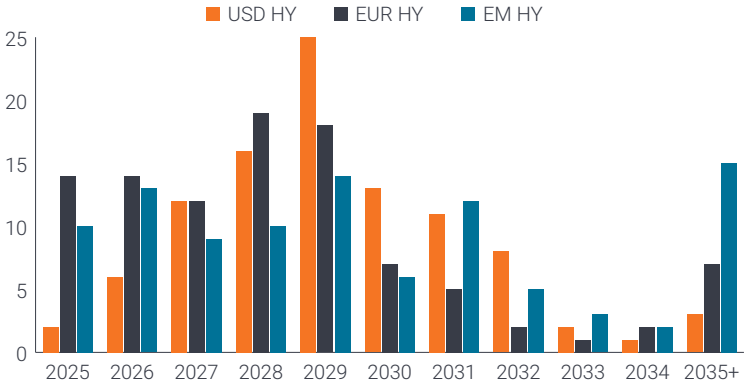
Real yield increases have been the primary driver of higher nominal rates, likely owing to the impact of increasing productivity on economic output.



Source: Bloomberg, Janus Henderson Investors, as at 07 Jan 2025.

A distant maturity wall

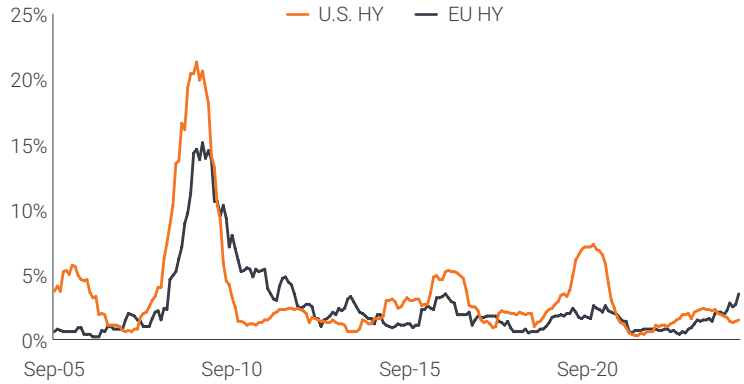
Although high-yield spreads are narrow, and rates – at least in the U.S. – may not fall, there are few red flags for credit as maturities have been extended and balance sheets are largely sound.



Source: Bank of America, Janus Henderson Investors, as at 31 Dec 2024.

Stresses in Europe?

In contrast to the downward trend in U.S. defaults, European high-yield corporates have registered a rise, likely due to sustained economic strain.



Source: Bank of America, Janus Henderson Investors, as at 31 Dec 2024.

> "Recent pain on core bond prices leads to more attractive government yields, a boon to multi-asset portfolios."
>
> **Janus Henderson Multi-Asset Team**

Fixed income dashboard

	- -	-	=	+	++	Views
Sovereign bonds			■			Renewed concerns about upward inflation pressures have sent yields to more attractive levels again
U.S.		→	■			Higher yields have improved the attractiveness, although a strong labour market and sticky inflation are concerns
UK			■			Sticky wage growth and surprisingly strong economic data are offset by concerns about building interest rate risks
Eurozone			■			Signs of weakness at the core of the Eurozone econorny are balanced by an improving global picture
Inflation-linked			■			Recession fears ebbing and the geopolitical threat of higher oil prices has already led to a rise in inflation expectations
Investment grade		→	■			High sovereign yields and a benign outlook for fundamentals have made the asset class more attractive
U.S.		→	■			The rise in U.S. Treasury yields has improved the overall outlook for the asset class, even if credit spreads offer little value
Euro			■			Credit spreads remain off their lows and duration risk is lower
High yield			■			Yields remain attractive in our view, but the market is expensive except for the lowest-rated parts
U.S.			■			Credit spreads look very tight outside of the lowest-rated segments, but we believe the yield is still attractive and default rates rising, although still low
Euro			■			While credit spreads look a little less tight than the U.S., lower valuations are only really found at the worst ratings
Securitized			■			Agency MBS mainly dictated by sovereign yields; higher yielding securitized is attractive versus corporates
Hard currency EM debt		■				Credit spreads look tight in higher-rated debt and higher-for-longer U.S. interest rates are likely to be a headwind
Local currency EM debt		■				Expectations for a slower path of U.S. interest rate cuts and a strong U.S. dollar likely to weigh on EM currencies

■ Underweight ■ Neutral ■ Overweight ← → Change from last quarter

Alternatives and currencies

The combination of geopolitical risk, persistent inflation, and rich valuations calls for prioritizing diversification and protecting against downside risk.

A strong U.S. dollar does no favors for emerging markets and commodities importers that must pay in the U.S. currency.

While diverging economic trajectories can create opportunities, investors must remember how quickly a crisis can reverberate through the global economy, sending correlations higher.

The global economy may be facing a dollar problem. Higher rates may pull capital toward the U.S., limiting the ability of European countries to lower rates to support their economies. Emerging markets, meanwhile, must balance the trade-offs between selling into the U.S. market and facing competition for capital, as well as higher imported commodities prices.

Alternatives	- -	-	=	+	++	Views
Real assets						
Property						Concerns about a move higher in government bond yields are likely to be a near-term headwind
Infrastructure						Assets remain cheap and tend to be of higher quality than some other segments
Renewables		←				Concerns about the support for the space as the global political winds shift
Private Equity						Strong public markets and lower interest rates in a soft landing environment are a tailwind
Gold			→			Rising global uncertainty and government diversification of reserves are offsetting concerns from a higher dollar and yields

	Currency vs column header					Views
Currencies	$		€		£	
U.S. dollar vs					–	A shallower path of rate cuts and elevated political uncertainty are supporting the dollar
Euro vs					–	The ECB looks more likely to need to keep cutting than elsewhere, removing support for the euro
Sterling vs						Sterling has struggled given poor confidence in policymakers but current levels price in significant downside
Japanese yen vs	+		+		+	The BoJ is taking a very cautious approach to raising interest rates, leaving the yen mostly sensitive to other factors

Underweight Neutral Overweight ← → + – change from last quarter

Definitions, Indices, & Risks

Definitions

10-Year Treasury Yield is the interest rate on U.S. Treasury bonds that will mature 10 years from the date of purchase.

Consumer price index (CPI): A measure that examines the price change of a basket of consumer goods and services over time. It is used to estimate inflation.

Correlation: How far the price movements of two variables (eg. equity or fund returns) move in relation to each other. A correlation of +1.0 means that both variables have a strong association in the direction they move. If they have a correlation of -1.0, they move in opposite directions. A figure near zero suggests a weak or non-existent relationship between the two variables.

Credit spread: The difference in yield between securities with similar maturity but different credit quality, often used to describe the difference in yield between corporate bonds and government bonds. Widening spreads generally indicate a deteriorating creditworthiness of corporate borrowers, while narrowing indicate improving.

Default rate measures the failure of debtors (such as a bond issuer) to pay interest or to return an original amount loaned when due.

Duration measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

Earnings per share (EPS): EPS is the bottom-line measure of a company's profitability, defined as net income (profit after tax) divided by the number of outstanding shares.

High yield bond: Also known as a sub-investment grade bond, or 'junk' bond. These bonds usually carry a higher risk of the issuer defaulting on their payments, so they are typically issued with a higher interest rate (coupon) to compensate for the additional risk.

Investment-grade bond: A bond typically issued by governments or companies perceived to have a relatively low risk of defaulting on their payments, reflected in the higher rating given to them by credit ratings agencies.

Late cycle refers to the final phase of an economic cycle before a recession. Economic activity often reaches its peak and growth slows but remains positive.

Monetary Policy refers to the policies of a central bank, aimed at influencing the level of inflation and growth in an economy. It includes controlling interest rates and the supply of money. **Monetary stimulus** refers to a central bank increasing the supply of money and lowering borrowing costs. **Monetary tightening** refers to central bank activity aimed at curbing inflation and slowing down growth in the economy by raising interest rates and reducing the supply of money.

Private assets are investments that are not publicly traded or listed on a public stock exchange.

Purchasing Managers' Index (PMI) is a survey that acts as a leading insight into the prevailing direction of economic trends, based on the view of managers across 19 industries. The index is based on five indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

Ratings/Credit quality ratings are measured on a scale that generally ranges from AAA (highest) to C (lowest).

Real assets are tangible investments, such as gold, real estate, or oil, that have an intrinsic value due to their substance and physical properties.

Spreads/Credit Spread is the difference in yield between securities with similar maturity but different credit quality. Widening spreads generally indicate deteriorating creditworthiness of corporate borrowers, and narrowing indicate improving.

Volatility: The rate and extent at which the price of a portfolio, security, or index, moves up and down. If the price swings up and down with large movements, it has high volatility. If the price moves more slowly and to a lesser extent, it has lower volatility. The higher the volatility the higher the risk of the investment.

Yield: The level of income on a security over a set period, typically expressed as a percentage rate. For equities, a common measure is the dividend yield, which divides recent dividend payments for each share by the share price. For a bond, this is calculated as the coupon payment divided by the current bond price.

Indices

Citigroup Economic Surprises Index measures how economic data compares to market expectations.

MSCI China Index™ reflects the equity market performance of China.

MSCI Emerging Markets Index reflects the equity market performance of emerging markets.

MSCI Europe Index reflects the equity market performance of developed markets in Europe.

MSCI Japan Index reflects the performance of large and mid-cap companies in the Japanese market.

NASDAQ 100 Index is made up of equity securities issued by 100 of the largest non-financial companies listed on the NASDAQ stock exchange in the U.S.

Russell 1000® Growth Index reflects the performance of U.S. large-cap equities with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index reflects the performance of U.S. large-cap equities with lower price-to-book ratios and lower expected growth values.

Russell Midcap® Index reflects the performance of U.S. mid-cap equities.

Russell Top 200® Index measures the performance of the 200 largest companies in the Russell 1000 Index.

S&P 500® Index reflects U.S. large-cap equity performance and represents broad U.S. equity market performance.

S&P Mid Cap 400® Index measure the performance of the mid-range sector of the U.S. stock market.

S&P Small Cap 600® Index measure the performance of selected U.S. stocks with a small market capitalization.

Definitions, Indices, & Risks (continued)

Risks

Investing involves risk, including the possible loss of principal and fluctuation of value.

Alternative investments include, but are not limited to, commodities, real estate, currencies, hedging strategies, futures, structured products, and other securities intended to be less correlated to the market. They are typically subject to increased risk and are not suitable for all investors.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

Equity securities are subject to risks including market risk. Returns will fluctuate in response to issuer, political and economic developments. **Foreign securities** are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in **emerging markets**.

Fixed income securities are subject to interest rate, inflation, credit and default risk. As interest rates rise, bond prices usually fall, and vice versa. **High-yield bonds, or "junk" bonds**, involve a greater risk of default and price volatility. **Foreign securities**, including sovereign debt, are subject to currency fluctuations, political and economic uncertainty and increased volatility and lower liquidity, all of which are magnified in emerging markets.

Growth and value investing each have their own unique risks and potential for rewards, and may not be suitable for all investors. Growth stocks are subject to increased risk of loss and price volatility and may not realize their perceived growth potential. Value stocks can continue to be undervalued by the market for long periods of time and may not appreciate to the extent expected.

Inflation-linked bonds feature adjustments to principal based on inflation rates. They typically have lower yields than conventional fixed-rate bonds and decline in price when real interest rates rise.

Real estate securities, including Real Estate Investment Trusts (REITs), are sensitive to changes in real estate values and rental income, property taxes, interest rates, tax and regulatory requirements, supply and demand, and the management skill and creditworthiness of the company. Additionally, REITs could fail to qualify for certain tax-benefits or registration exemptions which could produce adverse economic consequences.

Securitized products, such as mortgage- and asset-backed securities, are more sensitive to interest rate changes, have extension and prepayment risk, and are subject to more credit, valuation, and liquidity risk than other fixed-income securities.

Smaller capitalization securities may be less stable and more susceptible to adverse developments, and may be more volatile and less liquid than larger capitalization securities.

Sovereign debt securities are subject to the additional risk that, under some political, diplomatic, social or economic circumstances, some developing countries that issue lower quality debt securities may be unable or unwilling to make principal or interest payments as they come due.

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