Investment Strategy Insights

Monthly Views From Our Diverse Global Investment Teams

PineBridge® INVESTMENTS

Assessing Bull and Bear Scenarios for Our 2025 Outlook

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At the heart of our 2025 outlook is the impact of Donald Trump's US election win. We expect that Trump 2.0 will adopt a disinflationary pro-business agenda that stimulates supply-side forces in some sectors while also imposing inflationary populist supply-side constraints like tariffs and immigration restrictions. The year ahead is likely to be a tug-of-war between these opposing forces. To build a comprehensive outlook, we look beyond our base case and consider what can go wrong, or more right, and the implications for various asset classes.

Our baseline scenario envisions a resilient US economy, bolstered by improved small business performance with a firmer profit trajectory, pointing to a stable employment backdrop. A resurgence in productivity and investment is expected to offset some of the inflationary impact of Trump's initial policies, with the Fed poised to gradually lower policy rates if inflation moderates as anticipated.

In terms of asset classes, we expect equities to benefit from rising growth and productivity, supported by pro-business policies and global rate cuts, which should boost consumer and business spending despite challenges from populist measures. Fixed income markets, particularly US mortgage-backed securities (MBS) and Asia high yield, remain attractive amid generally tight credit spreads. As we anticipate a gradual decline in US inflation and a potential shift in policy focus by 2026, the environment may favor a strategic pivot back to an overweight in duration.

So what could go wrong? If productivity growth fails to counteract inflationary populist policies, leading to higher inflation, we may see fewer rate cuts and an unfavorable combination of slower growth and higher inflation. This could challenge equity markets, particularly given their currently elevated valuations. For fixed income, this scenario could mean higher all-in yields, with credit spreads unable to tighten much further to offset the rise in risk-free yields. A resurgence of inflation remains the most disruptive outcome for multi-asset portfolios, with few places to hide across financial markets.

Another downside scenario could arise from significant investments in AI that have yet to yield corresponding revenue growth. With high expectations surrounding these AI initiatives, if AI-driven investments fail to enhance productivity or generate new revenue streams, the gap between investments and returns could become unsustainable. Waning investor confidence might then hurt market valuations for AI-centric companies, especially in the tech sector. Their large weight in leading indexes would be a drag on overall market performance.

But what could go (even more) right? There's always potential for a market bubble akin to what was seen in the mid-1990s, when the economy sustained growth and successfully avoided high inflation, culminating in a tech boom driven by significant technological advancements. In such a scenario, interest rates might continue to decline or at least remain contained, leading to an equity market melt-up; stretched valuations can always become even more stretched, as the mid-1990s attest, and benign economic conditions coupled with rapid technological prospects may trigger such an outcome.

Overall, we see a net positive setup for the coming year, with two-sided risks amid elevated market volatility. The interplay between inflationary and disinflationary forces under Trump 2.0 will critically shape market behavior in 2025; despite slower progress on inflation more recently, we anticipate that disinflationary trends will increasingly prevail as the year progresses. Yet investors should bear in mind that the risk of exogenous events is omnipresent in this period of elevated geopolitical turmoil. With such a wide range of potential outcomes, a nimble and dynamic approach to risk management will be critical.

About This Report

PineBridge believes that not only do differences of opinion make markets, but they also foreshadow substantial moves ahead as these differences are resolved. Once a month, investment leaders from our global multi-asset, equities, and fixed income teams meet to share their diverse viewpoints. This report reflects those discussions and debates by providing insight on the topic of the month along with snapshots of our asset class views and convictions across the firm.

Conviction Score (CS) and Investment Views

The Conviction Scores shown below reflect the investment team's views on how portfolios should be positioned for the next six to nine months. 1=bullish, 5=bearish, and the change from the prior month is indicated in parentheses.

Global Macro

Sam McDonald
Sovereign Analyst,
Global Emerging Markets
Fixed Income

CS 3.00 (unchanged)

The US economy remains robust as we move into the end of the year, but the outlook for 2025 is less clear. In the face of gradual economic slowing, the "soft landing" scenario remains in play and tailwinds from looser financial conditions should support growth. While lower used-car prices helped October's Consumer Price Index (CPI) and Producer Price Index (PPI) numbers show continued improvement, there could be a blip in the Personal Consumption Expenditures (PCE) price index before we see the expected lower numbers for November and December. Softer house and rental price increases should be supportive, and the CPI and PPI reports point to softening insurance prices. The outlook for 2025 is less clear, but inflationary pressures are moving to the upside as the impacts of tariffs, deregulation, immigration policy, and tax cuts play out. Additionally, residual seasonality in the first quarter will add an upward bias to core PCE.

The US labor market continues to soften but is not expected to fall off a cliff in the near term. The latest initial claims have fallen back to 217,000 after a peak at 260,000 following the impact of strikes and hurricanes. The Job Openings and Labor Turnover Survey (JOLTS) and Indeed's New Postings continue to point to softening labor demand, but the pace is a more gradual slowing. The expected new restrictions on immigration will tighten the labor market in 2025.

Consumer demand remains healthy overall but continues to moderate. October headline retail sales came in above expected at 0.4%, with positive revisions to September. Nonetheless, the control group fell by 0.1% and the ex-autos category increased by just 0.1% month over month. Real consumption growth is set to slow to around 3% in the fourth quarter, down from 3.7% in the third quarter but still robust. The moderation in labor income points to lower consumption growth in 2025, but rate cuts should be supportive for goods consumption.

Europe remains on the weaker side, but a cyclical recovery continues as domestic demand recovers. Real wages have now adjusted, and the labor market outside of Germany has been broadly resilient. The final step in the path to rising household consumption would be a decline in the rate of savings, which rate cuts by the European Central Bank (ECB) and declining consumer pessimism make more likely. Nonetheless, the structural outlook for industrial and export-oriented countries remains subdued.

Rates

Gunter Seeger
Portfolio Manager, Developed
Markets Investment Grade

CS 3.00 (unchanged)

Inflation is not under control, US Treasury liquidity is poor, and global geopolitical risk is high and will remain so through January. With the risk-reward tradeoff remaining weak and an outsize move in either direction highly probable, we remain neutral through the end of the year – a time when any trades will be expensive. We have been neutral duration from 3.70% on the US 10-year, which occurred before the Federal Reserve cut rates 50 basis points. Sit tight.

Credit

Steven Oh, CFA
Global Head of Credit and Fixed Income

CS 3.50 (+0.25)

The US election's red sweep bolstered already strong risk sentiment in anticipation of stimulative policy measures. Offsetting the positive fundamental outlook, however, are the more restrictive trade/tariff actions planned and a less accommodative Fed. While the net outcome should further support tight credit spreads for the coming year, current valuations already reflect a hyper-bullish sentiment and trade at our bull-case scenario. As a result, with minimal room for additional spread compression, we have become somewhat more defensive.

As noted previously, positioning the portfolio with a defensive bias is not about tilting toward higher quality. Instead, it is about maintaining a more neutral beta posture and higher levels of geographic and asset-class diversification. In addition, it means adding "dry powder" assets that exhibit elevated coupon yields, such as investment grade CLO debt. Since nothing is cheap on an absolute basis in the credit space, defensiveness is about maintaining yield exposure while targeting relative value opportunities.

The strong fundamental outlook combined with a robust technical picture due to excess net demand should maintain spreads in a tight range to generate near-coupon returns in the year ahead. Greater concerns about growth trajectories in Europe and China may dampen non-US risk appetites, but that could result in more attractive total-return opportunities should the gap widen on tariff announcements.

Currency (USD Perspective)

Anders Faergemann
Senior Sovereign Portfolio Manager, Emerging Markets Fixed Income

CS 2.75 (-0.25)

Interest rate differentials are back in the driver's seat. The US/Germany two-year rate spread is back above 200 basis points (bps), with the Fed's and the ECB's divergent policy expectations possibly driving the spread wider, supporting the US dollar. Other factors, such as an extension of US exceptionalism, are US-dollar positive, while Trump 2.0 could be damaging to Europe's recovery, compounding the negative outlook for the euro.

Widening cyclical and structural growth differentials between the US and the eurozone favor the US, as the US exceptionalism theme has been resurrected by recent US data revisions, notably in gross domestic income. A higher US savings rate appears to bolster prospects for US consumption. In contrast, the German savings rate remains persistently higher but provides no growth impetus.

The combination of a stronger-than-expected undercurrent in the US economy and Trump's clear victory may spark a period of higher inflation, causing the Fed to slow its rate-cutting until a clearer economic outlook emerges. Recent IMF meetings suggest the terminal rate for the process is now higher than it was pre-Covid. The magnitude and sequencing of Trump's policies will create uncertainty in the coming months, with China perhaps being most affected by tariffs but Europe facing steps that could dent growth as well.

We have lowered our euro/US dollar forecast to 1.05 over 12 months, with a view that the bulk of the US dollar strength ought to arrive in the first half. The market may naturally exacerbate some of the strong US dollar forces, pushing it to overshoot in the short term and bring parity into play if the market persistently prices in US exceptionalism as a potential structural change.

Emerging Markets Fixed Income

Joseph Cuthbertson
Sovereign Analyst, Global Emerging Markets Fixed Income

USD EM (Sovereign and Corp.)
CS 3.00 (unchanged)

Local Markets (Sovereign)
CS 3.00 (+0.50)

The macro environment remains favorable for most emerging market economies, with solid fundamentals remaining intact. This strength is reflected in the number of sovereign credit rating upgrades, which is making 2024 the best year for upgrades since 2011. As we go forward, upgrade candidates – including several potential rising stars – far outweigh downgrade candidates in number as well as in aggregate index weight.

Into 2025, we expect the growth differential between emerging and developed markets to stay favorable for EMs. While President-elect Trump's win creates headwinds for some EM countries, we continue to stress the overall solid fundamentals in EM, which we expect to remain intact. Our expectation for commodity prices is also optimistic for the asset class. Early estimates for 2025 hard-currency issuance by EM sovereigns show a small net negative number, which offers a positive technical.

We expect that the market will differentiate among EM issuers, benefitting those whose fiscal and monetary policies are sound or on the right path. International financial institutions and external support continue to provide positive momentum for Egypt, for example, while we also expect the market to differentiate among names that could benefit from Trump administration policies, such as Argentina, India, and even Turkey. More persistent inflation and the anticipation that the policy mix under the new administration will keep the Fed more cautious, as well as the added uncertainty around the sequencing of policy-making and any second-order effects from those policies, will likely keep EM central banks cautious. That translates into a slower pace of cuts, especially in the face of a potentially stronger US dollar.

In the corporate space, EM's fundamental picture remains resilient. Third-quarter results are coming in with a positive skew. The default expectation for 2025 for the CEMBI BD HY index is 1.7%, which is at the lower end of the 10-year range. While supply expectations for 2025 in gross terms are higher than projections for 2024, they are lower in net terms (at -$83 billion in US dollars), which underpins a firmly positive technical for EM corporates.

Multi-Asset

Deanne Nezas, CFA
Portfolio Manager,
Global Multi-Asset

CS 2.50 (-0.25)

We have become more constructive, as private income and household savings in the US were revised upward, revealing a stronger and more resilient picture for small business and US employment. We view further slowing as a return to trend and analogous to other mid-cycle slowdowns.

While the income and savings revisions are additive to other factors supporting US resilience, we do not see such support outside the US. China, in particular, has not acted to address its rapid deceleration, putting a drag on Europe as well as emerging markets dependent on exports to China. We expect China's upcoming fiscal boost to aim for stabilization, rather than recovery, as China considers the impact of tariffs and their potential inability to circumvent them under the new Trump Administration.

President-elect Trump's decisive win likely ushers in disruptive "run hot" policies in the US with a focus on tariffs imposed on China, deregulation, and a partial reversal in the rise in immigration. Such actions likely will boost US equities and the US dollar, although they could introduce risks for the bond market. As we move into 2026, however, the picture could change as broader tariffs and fiscal easing from the extension or potential enhancement of the 2017 Tax Cuts and Jobs Act may cool economies outside the US.

Global Equity

Ken Ruskin
Director of Research and Head of Sustainable Investing, Global Equities

CS 3.00 (unchanged)

The Republican electoral sweep has boosted US markets, with financials benefiting from expected deregulation and lower tax rates, and industrials benefiting from potential protectionist policies. The risk-on rally has also helped tech companies and "growthier" names in general as high-cyclical-growth and high-stable-growth stocks have outperformed at the expense of more mature companies.

The earnings season was relatively uneventful, with consumer spending remaining supported and inventory destocking winding down. Pockets of demand weakness remain in low-income consumer goods, semiconductors, and autos, as well as in other areas where the pandemic's pulling forward of demand has taken longer to normalize. The elimination of election uncertainty should help fundamentals.

The market remains very concentrated in terms of performance but has broadened out since the election. Continued policy uncertainty coupled with relatively high valuations could lead to a prolonged period of volatility.

Global Emerging Markets Equity

Taras Shumelda
Portfolio Manager,
Global Equities

CS 2.75 (unchanged)

Third-quarter earnings among global EM equities have been uninspiring, with almost 50% of companies lagging forecasts. Revisions in index earnings-per-share estimates for 2025 were -2%, with no change for 2026 estimates. Dominating the investment headlines are AI and its fundamental impact, China's economic growth, global trade tensions under the new US administration, two wars, and rising budget deficits in Latin America. These add disproportionate weight to the top-down factors in stock behavior.

In China, October sales at top real estate developers were up 7% year over year, but off a low base. China's peak shopping day, the 11 November "Singles' Day" festival for people not involved in a relationship, saw low- to mid-teens growth across consumer platforms. This year, the product return rate increased, denting profits. While October property sales, export data, and PMI numbers were stronger than expected, social financing and inflation continue to miss the mark. So far, most of the companies that have reported third-quarter earnings indicated they had not seen meaningful improvement in business trends.

In India, most companies missed quarterly projections. Consumer sectors reported weak numbers, attributing results to sluggish demand and margin pressures. IT services are expecting a gradual recovery in the second half of the 2025 fiscal year. Manufacturing exports remain weak across textiles, chemicals and engineering parts. Most banks have seen a moderation in credit extension and improvement in deposit growth, while margin and asset quality have remained stable.

Latin America, which continues to be pressured by budget woes, saw very mixed results in third-quarter earnings. In EMEA, the quarter was generally good, but renewed fears of war escalation are overshadowing the bottom-up picture, even if only temporarily.

On the portfolio level, we favor adding to financials and funding the additions with a shift from the consumer discretionary sector and chip manufacturers.

Quantitative Research

Qian Yang
Fixed Income
Quantitative Strategist

Our US Conviction Score improved slightly as credit spreads tightened by 8 bps. Curve flattening by 3 bps, however, partially offset the improving trend. Global credit forecasts have worsened and continue to be negative.

Our relative model favors EM over DM. In DM, the model favors brokerages, REITs, and financials and dislikes energy, consumer goods, and utilities. Among EM industries, it likes real estate and infrastructure and dislikes oil and gas and transportation.

Our global rates model forecasts lower yield for North America, the UK, and Oceania and higher yields for Europe and Japan. Real yield and slope momentum are the two main factors driving yield forecasts. The model also leans toward a globally steeper curve forecast, except for Australia.

The rates view expressed in our G10 model portfolio is overweight global duration. It is overweight New Zealand, Australia, Italy, Belgium, and the UK. It is underweight France, Germany, Japan, and North America. Along the curve, it is overweight the six-month, 10-year, and 20-year and underweight the two-year, five-year, and 30-year.

All market data, spreads, and index returns are sourced from Bloomberg as of 22 November 2024.

About PineBridge Investments

pinebridge.com

PineBridge Investments is a private, global asset manager focused on active, high-conviction investing. We draw on the collective power of our experts in each discipline, market, and region of the world through an open culture of collaboration designed to identify the best ideas. Our mission is to exceed clients' expectations on every level, every day. As of 30 September 2024, the firm managed US$203.1 billion across global asset classes for sophisticated investors around the world.

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