FRONTLINE DISPATCHES:
A VIEW FROM CIO MEETING ROOMS IN EUROPE

JULY 2025

CIOs have had a bumpy ride in recent weeks as they continue to navigate choppy financial markets and a persistent landscape of volatility. While asset prices have recouped their losses, with major indices recouping losses and hitting records at the half-year mark, the broader undertone remains one of nervousness.

A combination of unpredictable tariff policy developments, easing rate expectations and increasing fiscal worries is weighing on U.S. Treasuries and the dollar. For global portfolios, this can be a double-edged sword. A weaker greenback overhauls the appeal of international assets, though a higher term premium on U.S. debt could pressure other asset classes.

While it is too early to gauge the effect of elevated geopolitical uncertainty and higher tariffs in hard economic data, there will likely be a lasting impact on the global economy and asset classes. Heightened tensions in the Middle East also herald an era of prolonged market turbulence.

As we meet with our clients against this backdrop, we reveal some of the key insights CIOs are sharing as they head into the second half of the year.

1/ AN EVOLUTION OF THE ALLOCATION MODEL

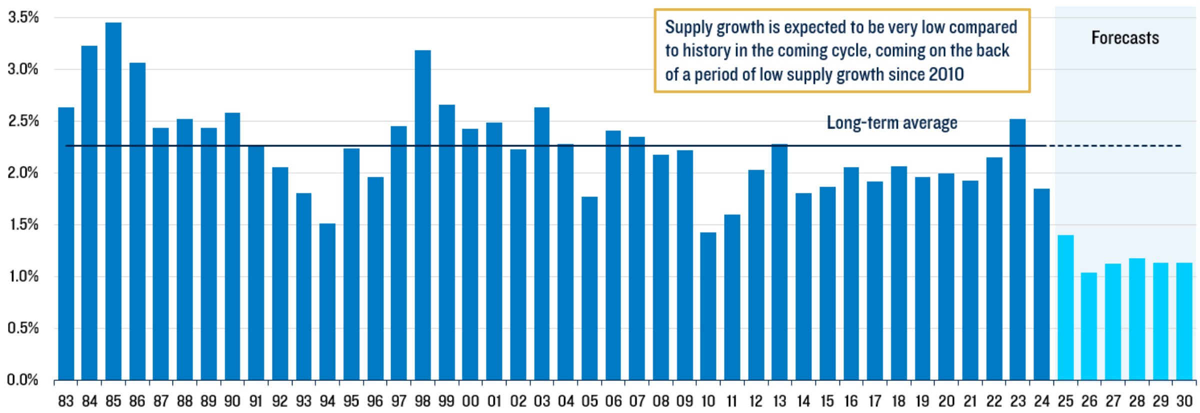
If there is one imperative for institutional investors from the current market regime, it is the need to maintain flexibility to adapt to changing market conditions. A growing number of our clients are considering a Total Portfolio Approach, marking a significant evolution from the traditional Strategic Asset Allocation model. CIOs are proposing strategic portfolios for more frequent board review, highlighting a spectrum of portfolio management approaches, including hybrid models.

Why TPA? This model is allowing institutional clients to allocate their risk budget to strategies which may be well positioned to outperform in changing market conditions. We estimate that adopting TPA can enable investors to be twice as active in their asset allocation and could produce around 1% per annum additional risk-adjusted return.

2/ GREEN SHOOTS – EVERY (TARIFF) CLOUD HAS A SILVER LINING

A shift towards increased office attendance and a gradual return to pre-pandemic working patterns, has introduced fresh challenges and opportunities for CIOs navigating Europe's evolving property landscape. Top firms like HSBC and Blackrock are running short of office desks as they encourage workers back to the workplace. The region's low supply environment, paired with low vacancies and obsolescence trends, supports rental growth while containing value downside after recent corrections. Low liquidity restricts pricing momentum but could create acquisition opportunities for well-capitalised strategies. Key sectors include living, urban infrastructure such as logistics and self-storage, and data centers due to demand-supply gaps. It is in these sectors that credit opportunities can arise from refinancing needs and attractive entry valuations.

Exhibit 1: Annual Global Real Estate Supply Growth – Advanced Economies (%)



Sources: Oxford Economics, CoStar, Cushman & Wakefield, JLL, PMA, PGIM Real Estate. As of June 2025.
Forecasts are not guaranteed and may not be a reliable indicator of future results.

3/ IT WAS THE BEST OF TIMES...

Is the sunset of DB on the horizon? [The government plans](#) to double the number of UK pension 'megafunds' by 2030 (a 'megafund' is defined as a multi-employer DC pension scheme or LGPS managing at least £25 billion in assets). While the media has focused on the likely consolidation of LGPS pools, we believe the proposed consolidation of corporate DC schemes to boost UK domestic investment also gives rise to new questions. Additionally, the pressure to release the surplus in closed DB schemes to support growth may also be a source of tension. This includes the voluntary nature of the move, trustee obligations, and the complexity of managing scheme surpluses tied to long-term governance. Industry watchers say that mandating UK pension funds to increase UK investments runs the risk of investing in lower-quality assets at unattractive prices. However, operating at a megafund level will allow CIOs to invest in big infrastructure projects and private businesses, potentially reversing a multi-year decline. Domestic investments from UK pension funds amounts to 20% of defined contribution assets currently compared to more than 50% in 2012, according to official data.[1]

4/ U.S. EXCEPTIONALISM SCEPTICS

President Donald Trump's focus on tariffs has prompted CIOs to trim growth expectations for an economy already struggling with restrictive monetary policy settings. OECD expects the U.S. economy to grow at only 1.6% in 2025 compared to 2.8% in 2024.[2] As a result, asset allocation conversations continue to focus on optimal strategies outside the U.S. with Europe garnering the dominant attention span. The fiscal U-turn in Germany represents a structural change in outlook for European bonds (see [Germany fiscal brake release](#)) while Asia is increasingly seen as a leader in the global tech race. Though the risk of a global recession has reduced significantly, U.S. exceptionalism is being increasingly questioned in the backdrop of increased trade barriers and diminishing consumer confidence. Moreover, traditional market dynamics, like the dollar's role as a safe haven during equity market turmoil, are faltering, further weakening the appeal of U.S. assets. Emerging market debt remains a bright spot for investors with spreads reflecting attractive yields and a stable growth outlook. In a cash-rich world, an index yield of nearly 8% is rewarding for asset allocators.[3]

5/ EMERGING MARKETS IN THE SPOTLIGHT

No prizes for guessing which markets have weathered the 2025 turbulence so far. Emerging Markets have come a long way from being defined by their outsized volatility and political risks. Though the U.S. remains an important economic force, its dominance as an export destination for emerging markets has structurally declined to 14% today vs 20% in 2000 for the CIOs we are speaking to[4]. During that period, EM exports have grown five-fold, driven by

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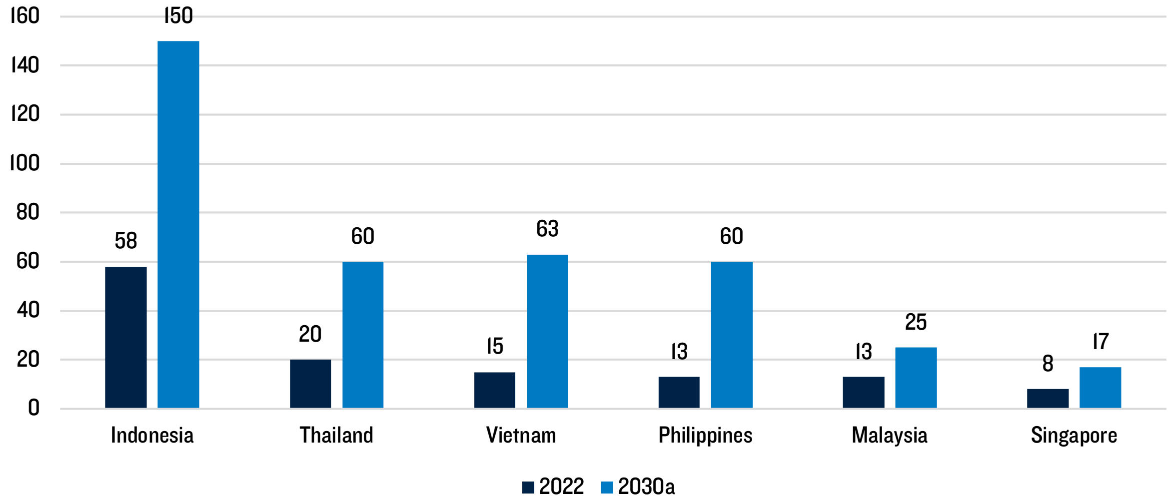
[1] May 2024, Gov. UK, Pension plan to double £25 billion+ megafunds, boost investment and improve returns to savers, Accessed June 2025
[2] OECD Economic Outlook, Volume 2025 Issue 1, Accessed June 2025
[3] J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified – High Yield, Accessed June 2025
[4] World Bank Data, December 2024

the rise of intra-regional trade and an EM-led global value chain. One example is Chinese electric vehicle manufacturers. The fully connected EV is a digitalised platform that has often been described as a "smartphone on wheels." In India and elsewhere, companies are pioneering social media and digital payment platforms that are often faster, more efficient, and more convenient than those in developed economies. See what's driving emerging market opportunities today.

Exhibit 2: Ecommerce Spending Is Growing Asia, with Significant Potential Going Forward

E-commerce Market Volume in Southeast Asia from 2022 to 2024, with Forecasts to 2030, by Country
(USD billions)



Sources: Bain & Company; Google Temasek Holdings. As of December 2024.
Forecasts are not guaranteed and may not be a reliable indicator of future results.

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