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Quilter

Investor trends survey

Q1 2025

*Welcome to the latest edition of our investor trends survey, a quarterly survey of the views of our **WealthSelect global partners**, a select group of high-quality asset managers. This edition is based on responses received in the first quarter of 2025.*

Executive summary

Our latest survey found:

- While the recent spike in gilt yields has subsided, weak growth may mean that spending cuts, rather than tax hikes, are the required medicine in the upcoming Spring Statement.
- The early days of Donald Trump's second presidency has seen investor bullishness. However, inflation expectations are on the rise.
- Although growth expectations remain weak, European outperformance may be sustained if we see ongoing cuts to interest rates by the ECB.
- We are likely entering a heightened period of monetary policy divergence in developed markets as US growth comes at the expense of UK and European economic struggles.

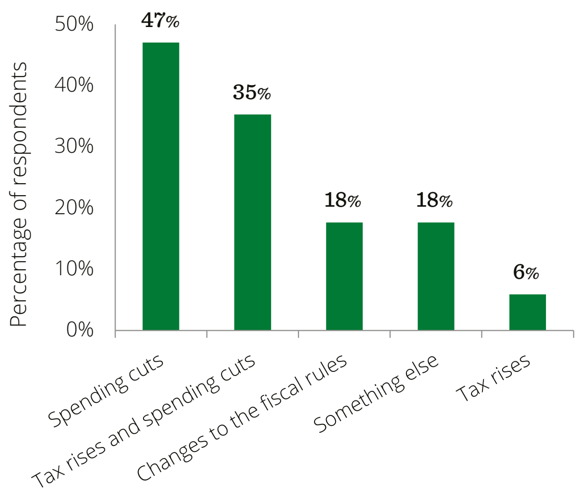
Key findings

UK economy backed into a corner

The first quarter of 2025 saw volatility in investment markets. Inflationary fears became more entrenched and global bond yields rose off the back of a strong and resilient US economy. Unfortunately, the UK found itself caught in the crossfire as it prepares to unleash a wave of government borrowing to fund its spending commitments.

Our latest survey shows that investor forecasts for GDP growth in 2025 have slipped to 1.12% from 1.25% since the previous quarter. Investors predominantly see spending cuts as the only way forward for the chancellor with nearly half (47%) expecting spending cuts in the Spring Statement. Just over a third (35%) think cuts will be coupled with further tax rises. Whilst just 6% think tax rises will be used on their own. This highlights that Labour may have gone far enough with it's tax-raising policy. Indeed, one respondent saw 'little scope for further tax rises without triggering very negative sentiment from businesses'.

What are you expecting in the Spring Statement?



"Investors predominantly see spending cuts as the only way forward for the chancellor with nearly half (47%) expecting spending cuts in the Spring Statement."

Lindsay James, Investment Strategist, Quilter

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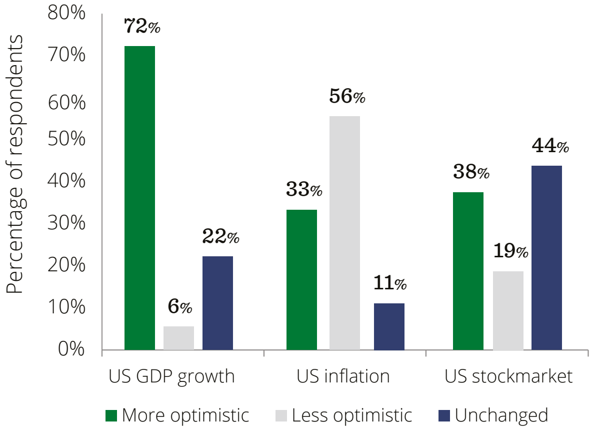
Trump whirlwind presents challenges

Despite all the executive orders and rhetoric, two key topics stand out from the early days of the Donald Trump presidency – Ukraine and tariffs. While we await the proposed peace deal in Ukraine, and the aftershocks this will cause, we know more about his approach to trade policy.

Trump is taking a hard stance on tariffs and has followed through with some heavy import taxes, surprising markets with recent tariffs on Mexico and Canada. Investors expect tariffs to be targeted rather than universal, with 88.9% believing Trump will continue down that route. However, this is clearly giving investors some challenges to navigate.

Overall, and perhaps unsurprisingly, most investors (72%) see Trump's presidency providing more optimism for already strong GDP growth. However, on the flipside, a majority (56%) is also becoming less optimistic about the path for inflation. If this rings true, interest rates will have to take somewhat of a pause from the path downwards investors originally hoped for.

Since the US election are you more or less optimistic about...?



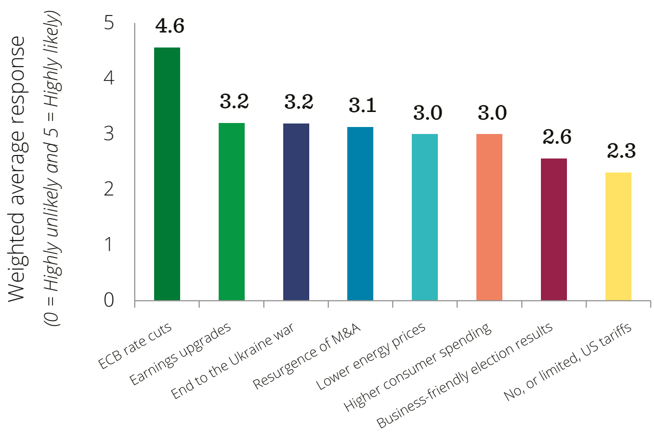
When it comes to the stock market, historically Trump's favoured measure of his popularity, investors have become more bullish. In our survey, 38% are now more optimistic on the performance of US equities, with just 19% becoming less optimistic. Investors expect the Trump administration to be business friendly, despite his initial prioritisation of spending cuts rather than tax cuts.

Rate cuts to propel European outperformance

In the previous edition of this survey, investors overwhelmingly believed that Europe would be the worst performing equity region in 2025. For now, this has proven to be a somewhat shortsighted call as European equities have been the star turn so far this year. Now, much of this isn't because of improved company fundamentals per se, or an improved economic backdrop. Those surveyed lowered their forecasts for 2025 GDP growth slightly from 1% to 0.9%. Instead, a modest improvement in sentiment has been enough to reverse the market downtrend, with sources of optimism stemming from a potential peace deal in Ukraine and hopes of looser fiscal policy following elections in Germany.

While sentiment shifts can be fickle, the European economy will benefit from ongoing rate cuts from the European Central Bank. Indeed, investors saw this as the most certain catalyst for stronger performance in European equities in 2025, particularly at a time where US rate cuts are becoming more uncertain. The stimulative effect of substantially increased defence spending was also cited as a potential catalyst by one respondent.

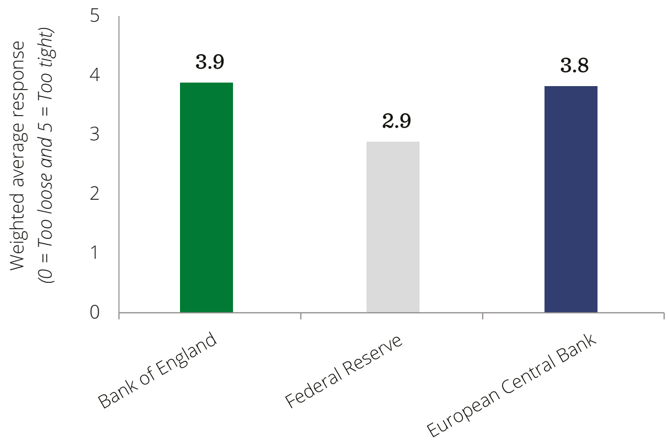
What is the most likely catalyst for stronger European equity performance in 2025?



Era of greater monetary policy divergence

Should interest rate cuts come from the ECB as expected, then investors will not be surprised to see the developed world in an era of monetary policy divergence, as economic growth dominates concerns over inflation. When those surveyed were asked if monetary policy from the Bank of England, Federal Reserve, and ECB was too loose or too tight, the vast majority saw the Fed getting the balance right, with the BoE and ECB viewed as continuing to be too restrictive.

Has central bank policy been too loose or too tight?



This leads into interest rate predictions with investors predominantly expecting to see US interest rates in the range of 3.76%-4.25% by the end of the year, indicating that one or two cuts are expected in 2025. However, nearly a third (31%) also expect no change from the current level we see today.

This contrasts sharply with the UK, where four in ten investors see rates coming down to a range between 3.26% and 3.75% by the end of 2025, with the same number expecting rates to still be at the current level by the end of 2026. Given UK growth has been considerably weaker than the US, investors are clearly expecting the BoE to have to step in to help prop up a stagnant economy, but the scope of cuts is ultimately limited by the global economic backdrop.

Meanwhile, in Europe, the race to the bottom well and truly belongs to the ECB thanks to its quicker actions to cut rates because of economic strife on the continent and lower inflationary pressures. This has resulted in investors expecting rates to drop below 2.5% this year, with four in ten indicating they expect to see interest rates in Europe at 2% or less. Whilst this could support the economy, the market is already pricing in rates of below 2% by year end.

A changing backdrop

Clearly, the economic fortunes for developed markets have diverged in recent years, with the US comfortably outgrowing its European peers. With inflationary forces, fiscal policy, and growth rates all varying considerably between regions, central banks will likely diverge to a greater degree than previously. As such return dynamics from global markets are likely to shift markedly throughout the year with consensus views from the start of 2025 already being called into question. Diversification, therefore, will be key for investors to navigate what is becoming a very clouded and uncertain macroeconomic environment.

Sentiment indicator

Q1 2025

Our sentiment indicator provides you with a 12-month outlook from our WealthSelect global partners. We asked each global partner how they think a range of asset classes such as equities and fixed income across different regions will perform over the next year.

The sentiment indicator is an indication of investment sentiment from a selection of asset managers. No-one can predict the future direction of stock markets and past performance is not a reliable guide for future returns.

Outlook guidelines

▲ A positive outlook – The asset manager believes the sector will perform positively over the next 12 months.

↔ A neutral outlook – The asset manager believes the sector's performance will be relatively neutral over the next 12 months.

▼ A negative outlook – The asset manager believes the sector will perform negatively over the next 12 months.

▼ Negative
↔ Neutral
▲ Positive
↑ Positive shift
↓ Negative shift

	Equities							Fixed income		
	UK	US	Europe	Japan	Asia Pacific ex Japan	China	Emerging markets	UK gilts	UK corporate bonds	US Treasuries
Alliance Bernstein	▲	▲	▼	▲	↔	▼	↔			▲
BlackRock*	↔	▲	↔	▲		▲	↔	↔		▼
BNY	↔	↔	▲	↔	▲		▲	▲	↔	
Columbia Threadneedle	↔	▲	↔ ↓	↔ ↓	↔	↔	↔	↔ ↓	↔ ↓	↔
Fidelity**	▼ ↓	▲	▼	↔	▼	↔ ↑	↔ ↑	↔ ↓	↔ ↑	↔
Invesco	▲	▲ ↑	▲ ↑	▲ ↑	↔	▲ ↑	↔ ↓	▲	▲	▼
JPMorgan	↔	▲	▼	▲			▼ ↓	↔		▼
M&G	▲	▼	▲	▲	▲		▲	▲	▼ ↓	
Pictet	↔	▲ ↑	↔	↔ ↓	↔	↔	▲ ↑	↔		↔
Wellington	↔	▲	▼	↔	↔	↔	↔	↔	↔	▼
Consensus	↔	▲	▼	▲	↔	↔	↔	↔	↔	▼

** The views of BlackRock are on a six- to 12-month horizon from a US dollar perspective. This material represents an assessment of the market environment as of February 2025 and is not intended to be a forecast or guarantee of future results. This information should not be relied upon as investment advice regarding any fund, strategy, or security.*

*** This is the broad investment view of the Fidelity multi-asset team. It does not necessarily represent the opinion or positioning of individual portfolio managers or Fidelity International more broadly. These views give an overall sense of their investment view, but do not indicate a specific numerical value or index in relation to their outlook.*

Important information

Investment involves risk. The value of investments may go down as well as up and investors may not get back the amount originally invested. Exchange rates may cause the value of overseas investments to rise or fall.

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