Allspring

Central Banks: Not Doing Anything Is an Active Decision

Learn how central banks staying put is driving market trends and potentially reshaping investment strategies in 2025.

Authors	Date	Topic
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Key takeaways

- The interplay between geopolitical tensions and central bank policies is adding new layers of complexity to global markets.
- We are prioritizing global equities, nominal sovereign bonds, and commodities like gold to manage the challenges of macroeconomic uncertainty.
- A shift away from the U.S. dollar is evident, with the Japanese yen emerging as a preferred safe-haven currency.

We've seen a few key central bank decisions this week, as well as some macro data, and at a high level, no bureaucrat surprised markets. **The Federal Reserve (Fed) stayed on hold** with a "wait and see" approach to rates, and it continues to guide us toward a **potential spike higher in inflation driven by tariffs and continued risk of a growth slowdown**. **The Bank of England (BoE) cut rates** at its stated preference of once per quarter, with **mixed messaging on growth and inflation** looking forward. We continue to see the market overestimating the Fed's propensity to cut and the BoE having potentially made a policy mistake in the pace of its cutting cycles (i.e., the Fed can stay on hold and the BoE should be cutting more aggressively).

Active positioning from a multi-asset perspective has been fairly consistent throughout 2025, despite wild moves in the markets that we have seen over the past six weeks. We continue to support positioning that could **benefit from elevated macro uncertainty** and do not believe that earnings have re-rated sufficiently—particularly in the U.S. We expect net flows out of the U.S. over the year.

- **Equities:** We continue to prefer global developed and emerging market equities over U.S. equities. Within the U.S., we like value more than growth. The rally since the craziness of April has been a "pain trade," and we selectively are adding to bearish positioning.
- **Currency:** We continue to like being short the U.S. dollar (USD) over the medium term (six months), but we can see clear risks to this view. We expect the Fed to likely hold until at least the middle of summer. Should capital flows slow, the USD may come back into play, particularly in a heavy risk-off move depending on the catalysts. In terms of the USD view, our preferred long trade continues to be the Japanese yen. We still see fundamental value in the yen with potential catalysts on the horizon to unlock capital flows and a safe-haven bid.
- **Fixed income:** Within fixed income, we have continued to favor nominal sovereign bond exposure over credit in the U.S. and prefer developed market bonds in the U.K. and Germany over the U.S. For two quarters, we have had a general preference toward shorter-dated bonds against longer-dated bonds—particularly Europe.

- **Commodities:** Within commodities, we continue to like gold, with continued buying from central banks. We see the outlook for energy as mixed and highly data-dependent.

Many of our views are consistent with last month: ***Not doing anything*** **is an active decision.**

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