EUROPEAN CENTRAL BANK

EUROSYSTEM

INSTITUTIONAL INVESTOR DIALOGUE

25 June 2025, from 13:00 to 15:00 CET
(online event)

Participants

- Representatives of Allianz Global Investors, APG Asset Management Amundi, Aviva Investors, Fidelity Investments, Generali, GIC Private Limited, J.P. Morgan Asset and Wealth Management, Legal & General Investment Management, Nissay Asset Management Corporation, Nomura Asset Management, Norges Bank Investment Management, Santander Asset Management, State Street Global Advisors, UBS Asset Management and Zurich Insurance Group
- Members of the Governing Council of the ECB (or their alternates)
- ECB officials from the Directorates General Market Operations, Macroprudential Policy and Financial Stability, Economics, Secretariat and the Compliance & Governance Office

Summary

Outcome of the survey of participating members

The meeting started with a presentation of the results of a survey conducted among the participating investors. The results highlighted that the future policy rate path remains the most critical element of the ECB's monetary policy actions. Moreover, uncertainty about the economic outlook continued to be seen as the main potential trigger of higher volatility in financial markets (30% of respondents, down from 50% in November 2024), while trade policy (20%) and rising fiscal debt deficits (20%) are increasingly relevant. Similarly, trade policy and the outlook for fiscal policy also rose in prominence as the anticipated drivers of the EUR/USD exchange rate, alongside macroeconomic fundamentals. In terms of G3 currency allocations, respondents indicated a shift away from US dollars and a significant increase in planned allocations to the euro and the Japanese yen. Notably, almost 50% of respondents indicated plans to reallocate toward the euro, while more than 60% are planning to reduce the US dollar allocation. With respect to geographical allocations, almost 70% of respondents planned to increase their asset allocation to Europe and Emerging Asia (excluding China) over the next 12 months. More than 45% of respondents are expected to decrease their allocations to North America, marking a significant reversal from the November survey. Somewhat more than half of respondents anticipated a decline in the role of the US dollar as an international reserve and trade currency over the next three years, while slightly over 40% expected the euro's relevance to grow. In a similar vein, respondents were evenly split in their views on the safe haven role of European government bonds, with half expecting the role to remain unchanged and the other half foreseeing a greater role, particularly in jurisdictions perceived as having previously had higher credit risk.

The subsequent discussion focused on the geographical diversification of current asset allocations, with a number of participating investors reporting that their customers were scrutinising concentration risks in their US assets and their US dollar exposure. At the same time, several participants highlighted difficulties in finding adequate alternatives to US financial markets in terms of size, liquidity and depth. In their view, hedge funds and other fast-responding investors may have reduced US dollar exposure in the wake of the tariff announcements by the US administration, and institutional investors may have adjusted their tactical allocations, but it is still to be seen if a broader shift in strategic asset allocations by institutional investors away from US assets would take place and at what pace. In this context, a distinction was made between asset allocation and currency allocation. The US dollar’s typical correlation with equity prices that acted as a natural hedge for foreign investors has broken down recently. This has triggered a re-thinking of currency allocations, with exposure to US risk often being adjusted via currency hedging rather than outright selling of the asset holdings. In the broader discussion on allocations, participants reported that alternative assets remained popular, with private credit having seen particularly strong growth, mainly in the US. Mixed views were expressed on the risk related to this asset class, however, with on the one hand a high vulnerability to an economic downturn and some perceived opacity, but on the other hand an investor base with realistic expectations on the risks and liquidity of this asset class. Regarding the landscape for environmental, social and governance (ESG) focused investments, for which a majority of surveyed investors reported a decrease in momentum comparison to one year ago, participants mentioned that clients’ attitudes on the topic have been more nuanced as of late. Focus was reported to have shifted in this respect to ensuring adequate long-term risk-adjusted returns, with efforts being made to adequately capture climate factors as one of the risks that need to be adequately factored into asset managers’ risk models.

Global investment trends

The participant introducing the global investment trends argued that the current market environment is characterised by shifting cross-asset correlations. It was conjectured that the US may be losing some of the exceptional features it had previously enjoyed in the global economy. The announcement of trade tariffs, more restrictive immigration policies and fiscal expansion by the US administration has caused heightened economic uncertainty and possible risks of increased inflationary pressures. This had caused investors to question the traditional safe-haven role of the US dollar. Moreover, with the negative correlation between stocks and bonds that many asset allocations are based on breaking down, US dollar and US treasuries seems to have lost their traditional role as hedge in risk-off environments. The presentation explored some of the market implications of these developments, including diversification away from US assets and a weakening of the US dollar.

The discussion delved into various observations about risks associated with the current global economic landscape. Some participants pointed to increased investor awareness of their overexposure to the US dollar and US assets, which prompted tactical adjustments and renewed emphasis on greater diversification. Moreover, some participants observed that in addition to changing correlations, levels of volatility had also been diverging: fixed income returns had been increasing, whereas equity returns had been stable and below long-term averages in certain jurisdictions, creating challenges for multi-asset portfolios.

Long-term attractiveness of European assets in times of shifting asset allocations

The participant presenting on the long-term attractiveness of European assets, highlighted that the euro area has historically played a strategic role in portfolios, even though structural market returns have not always lived up to expectations. From a long-term perspective, the euro area was seen as having an opportunity to enhance its attractiveness, especially amid shifts in the global order. This could be supported by upholding commitments to policy stability, rule of law, transparency, and trust. Moreover, the euro area could further gain in attractiveness as a place to invest by advancing on Capital Markets Union, reducing regulatory burden, leveraging joint fiscal policy and remaining committed to the sustainability agenda, thereby maintaining its position as global leader of the green transition. By fostering more vibrant domestic equity and bond markets, the euro area could establish itself as a viable alternative to the US for international investors, encouraging a shift in strategic asset allocation and hedging activity towards the region.

The discussion highlighted that more structural shift of portfolio allocations towards the euro area would take time and ultimately depend on the continued efforts to create the conditions for attracting foreign investors and for euro area investors repatriate their foreign investments. In this regard, it was highlighted that despite some concerns over the speed of reforms in the euro area, there is an emerging recognition among investors of the need to invest in the region’s fundamentals given the strength and independence of European institutions, which should act as a positive boost for capital markets. Participants recognised the growing momentum to address fundamental challenges, including fiscal spending on infrastructure and defence, fostering financial market depth, and boosting corporate profitability and valuations. It was noted that the positive sentiment was clearly visible in the growing interest of some investors, notably from Asia. Therefore, acceleration towards structural reforms, in order to seize the opportunity presented, was mentioned as critical to solidify the euro area’s role as a credible alternative to the US markets in global investors’ portfolios.