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# Governed Portfolios

## An active approach

In our view, there's no such thing as passive investing in multi asset. We keep the broadly diversified asset mix of our Governed Portfolios under constant review and we manage exposures actively at the asset class and security level.

## A lot of uncertainty in the world economy

At the start of April, 'Liberation Day' tariffs announced by US President Donald Trump saw equity market volatility spike to levels last seen during the Covid-19 sell-off. The S&P 500 index recorded its fifth-worst two-day decline since World War II and even moved into bear market territory over the month (down 20% from its highs).

While the direct impacts of tariffs look better than initially seemed, we're still left with a 10% universal tariff, substantial rates on aluminium, steel and autos, extremely high tariffs threatened on China, and additional tariffs on Canada and Mexico – the two largest trading partners of the US. All this is likely to be a considerable drag on global growth.

Despite this, since mid-April, stocks have been rising steadily higher, supported by a 90-day pause to reciprocal tariffs and a US-China trade deal that eased fears of a trade embargo between the world's two largest economies.

Geopolitical tensions in the Middle East were also a central theme, with conflict between Israel and Iran escalating. Oil prices surged, with Brent recording its largest daily jump since 2022, and gold reached new all-time highs as investors looked for safe havens. Fortunately, the Israel-Iran escalation was short-lived.

Commodity prices eased back to pre-escalation levels and risk appetite improved across the board, taking global equities to fresh highs.

## Tactical positioning: overweight emerging markets, neutral on commodities

Royal London Asset Management moved its tactical position in the US from underweight to neutral to overweight as earnings expectations have improved significantly amid easing recession fears. It remains overweight emerging market stocks, which continue to outperform, and close to neutral in commodities. Royal London Asset Management still sees a lot of uncertainty in the economy and a risk of global economic slowdown.

## Latest tactical positions

	Overweight	Neutral	Underweight
Equities	↑		
Property			↓
Commodities		↓	
High yield bonds	↓		
Government bonds			–
Index linked bonds			↑
Corporate bonds	↓		
Asset-backed securities		↑	
Absolute return strategies (including cash)			↓

Source: Royal London Asset Management, as at 3 July 2025.

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## Strategic asset mix is an active choice: broadly diversified for greater resilience

### Seeking inflation-beating returns

The Governed Portfolios are designed to maximise long-term returns after inflation for a given level of risk.

Different asset classes offer their best returns at different times, as shown below. The black box shows Governed Portfolio Growth performance. We believe that blending asset classes offers a smoother journey and a better risk/return trade-off.

We build resilience by diversifying broadly, including real assets and inflation hedges – like equities, commercial property and commodities – and by holding less in fixed income when yields are low.

### Regular strategic review

We keep the strategic asset allocations for each portfolio under constant review to ensure the mix remains appropriate for its specific risk target and to respond to changing valuations.

Year	2020	2021	2022	2023	2024	Year to date
1	Global Stocks +14.3%	Commodities +28.3%	Commodities +30.7%	Global Stocks +16.0%	Global Stocks +20.2%	UK Stocks +9.1%
2	IL Gilts +11.0%	Global Stocks +20.1%	Cash +1.4%	Global HY +11.9%	Mixed Asset +10.0%	Global HY +4.4%
3	Gilts +8.3%	UK Stocks +18.3%	UK Stocks +0.3%	Corp Bonds +8.6%	UK Stocks +9.5%	Corp Bonds +3.5%
4	Corp Bonds +7.8%	Mixed Asset +13.8%	Mixed Asset -6.9%	UK Stocks +7.9%	Global HY +8.9%	Gilts +2.5%
5	Global HY +5.0%	Property +12.3%	Global Stocks -7.8%	Mixed Asset +7.6%	Commodities +7.3%	Cash +2.2%
6	Cash +0.2%	IL Gilts +4.2%	Property -8.8%	Cash +4.7%	Cash +5.2%	Property +1.3%
7	Mixed Asset +0.2%	Global HY +2.8%	Global HY -12.6%	Gilts +3.7%	Corp Bonds +1.7%	Mixed Asset +1.0%
8	Property -4.4%	Cash +0.1%	Corp Bonds -17.7%	IL Gilts +0.9%	Property +1.6%	Global Stocks +0.8%
9	Commodities -6.1%	Corp Bonds -3.1%	Gilts -23.8%	Property -0.7%	Gilts -3.3%	IL Gilts -0.6%
10	UK Stocks -9.8%	Gilts -5.2%	IL Gilts -33.6%	Commodities -13.1%	IL Gilts -8.3%	Commodities -3.6%

Source: Lipper, Royal London, as at 30 June 2025. Other than YTD, columns are full years. Mixed Asset return based on the Royal London Governed Portfolio (GP) Growth net of 1% Annual Management fee. All other returns are shown gross of fees.

Past performance is not a guide to future performance.

## An active tactical overlay:

### A robust research-led process

Trends and turning points in markets create opportunities for a genuinely active manager. Royal London Asset Management's tactical process is grounded in research, with back-tested models to guide strategies at the cross asset level, along with those focused on regional or sector positions within each asset class.

Each model draws on a range of fundamental, valuation or technical factors to help us make good decisions. As an example, the Investment Clock below links asset class rotation to the stage of the global business cycle as defined by trends in growth and inflation. Different investments offer their best or worst returns at different times.

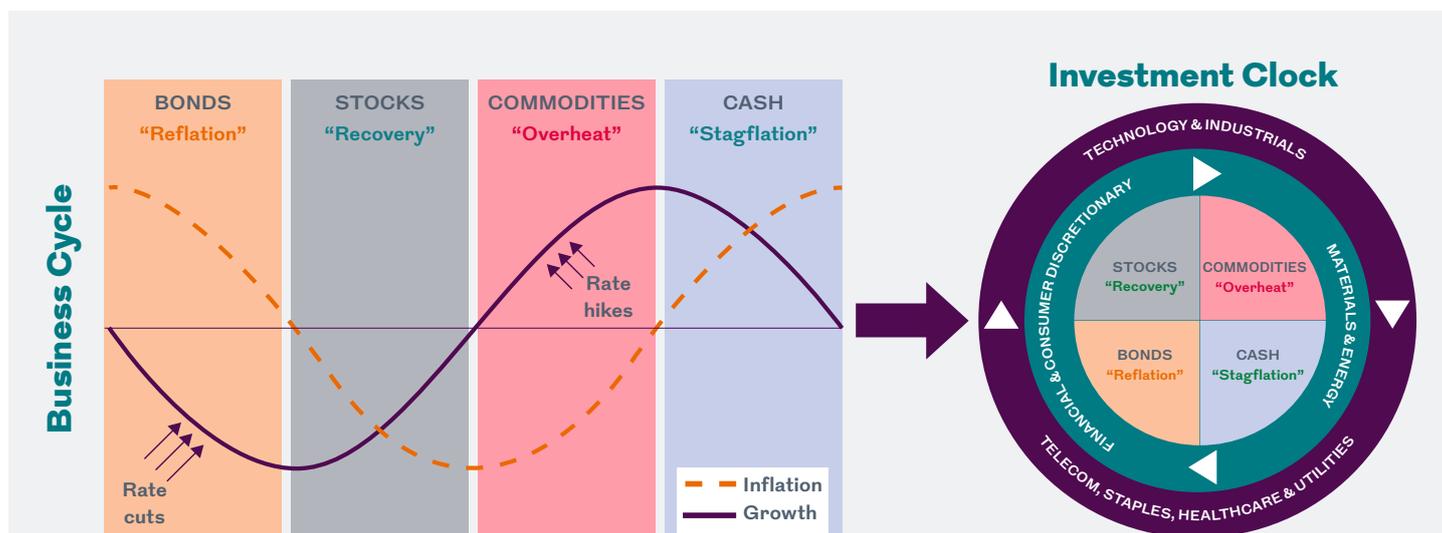
### Investment Clock moves into Stagflation

The Investment Clock model has now moved into Stagflation, a time in the cycle where slowing growth and rising inflation can lead to poor returns for both stocks and bonds (see chart below).

The data going into this model has not yet factored in where tariffs will ultimately end up, and their eventual impact.

On the growth side, GDP (gross domestic product) forecasts remain pessimistic, and business confidence has been beaten up by policy uncertainty. GDP is the total monetary or market value of all goods and services produced by a country. At the same time, inflation expectations have risen despite lower oil prices.

The economy remains uncertain. If we see a global recession, growth will weaken and inflation will most likely fall as commodity prices slide. This would move the Investment Clock into the Reflation phase where central banks tend to cut interest rates and government bonds outperform.



### Historic asset class returns through business cycles

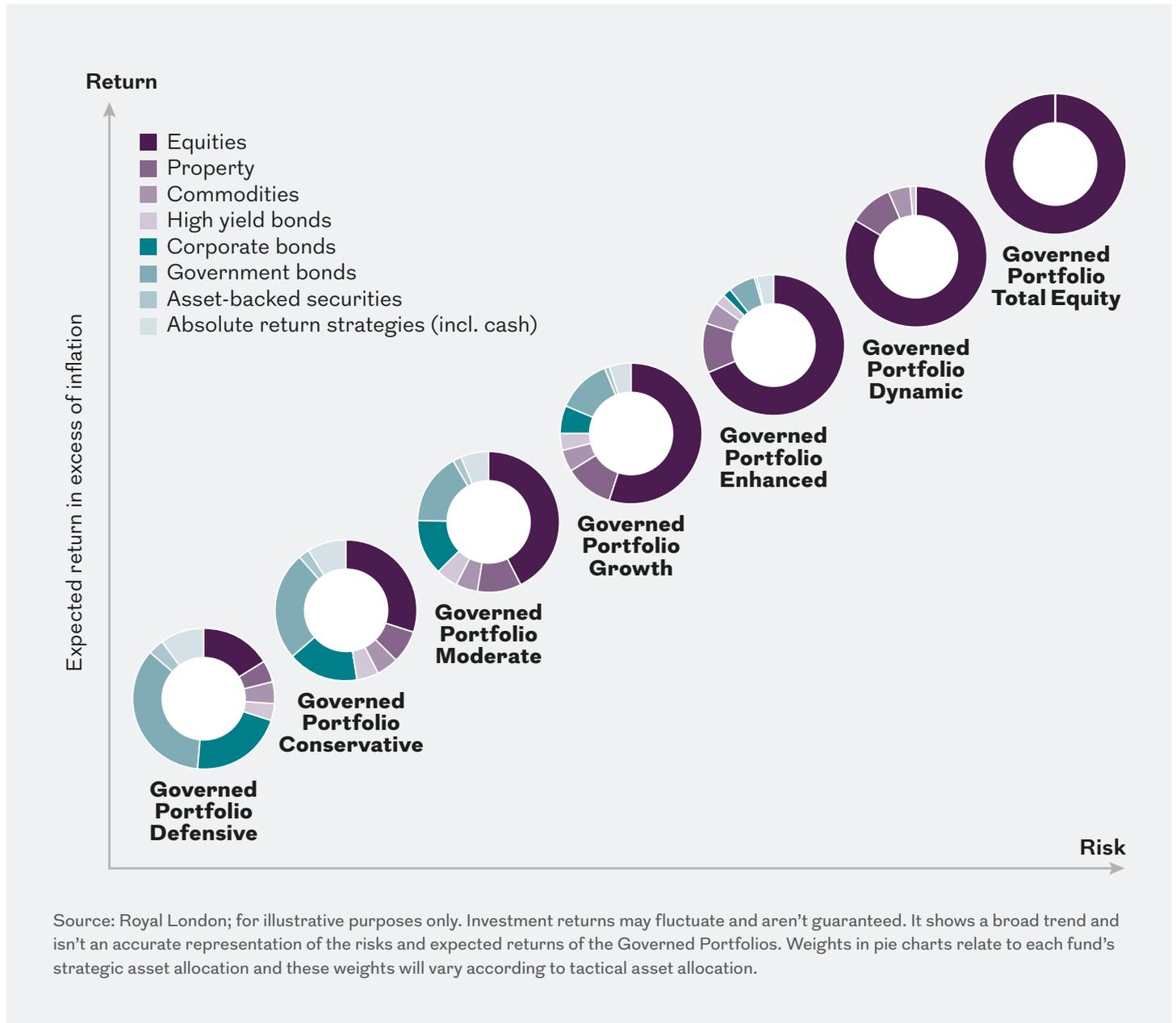
	Growth	Inflation	Bonds	Stocks	Commodities	Cash
Reflation	↓	↓	7.9%	-1.5%	-29.3%	2.6%
Recovery	↑	↓	4.1%	18.2%	-8.4%	1.1%
Overheat	↑	↑	-0.4%	8.9%	17.6%	-0.2%
Stagflation	↓	↑	-2.7%	-14.3%	37.1%	-1.1%
	Average return		2.1%	7.0%	1.7%	0.6%

#### Past performance is not a guide to future performance

Source: Royal London Asset Management for illustrative purposes only. Data in the table is based on an analysis of business cycles from April 1973 to December 2024. As at 1 January 2025. Indices used are ICE BofA US Treasury Index, DataStream US Equity Market Index, S&P Goldman Sachs Commodity Index and 3-month US Treasury bills.

## Our Governed Portfolio range

Our seven Governed Portfolios are a range of risk-graded investment solutions for clients who are saving into a personal or workplace pension. The portfolios are broadly diversified to strengthen their resilience and target opportunities across a wide range of asset classes. Portfolios are actively managed with regular tactical updates.





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