PIAS

PROFESSIONAL INVESTMENT ADVISORY SERVICES

# Quarterly Investment Outlook

## April 2025 | Q2 2025

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# ASSET CLASS OVERVIEW

| Asset Class | Current View | Previous View |
|---|---|---|
| **EQUITIES** | **Slight Positive** | Slight Positive |
| U.S. | **Slight Positive** | Slight Positive |
| China | **Neutral** | Neutral |
| Europe | **Slight Positive** | Neutral |
| Japan | **Neutral** | Neutral |
| Singapore | **Slight Positive** | Slight Positive |
| Emerging Markets | **Neutral** | Slight Positive |
| **FIXED INCOME** | **Slight Positive** | Slight Positive |
| Investment Grade Govt Bonds | **Slight Positive** | Slight Positive |
| Investment Grade Credits | **Slight Positive** | Slight Positive |
| High Yield | **Neutral** | Slight Positive |
| **ALTERNATIVES** | | |
| Gold | **Slight Positive** | Slight Positive |
| Oil | **Neutral** | Neutral |

# ECONOMIC OVERVIEW

- Global equities had enjoyed a post U.S. elections rally that continued from late last year into the start of the year. However, the positive momentum was upended on rising trade tensions as the new U.S. administration dished out tariff threats. The U.S. equities particularly, retreated from records highs, erasing gains from the post-elections surge. On 2 April, U.S. President Trump shocked the market by announcing a sweeping 10% baseline tariff on all trade partners, along with additional 'reciprocal' higher rates for major trading partners such as China, Japan, India and the EU. Notably, China will face 34%, Vietnam 46%, Taiwan 36%, Japan 24% and the EU 20%. These tariff rates far exceeded market expectations and seemed to be based solely on the respective country's trade deficit with the U.S. In response, global markets declined sharply on fears of a global recession and the upending of international trade.

- **If the tariffs announced are to be fully implemented, they could raise US core PCE inflation by almost 2%, while reducing growth by 1 to 3%, according to Goldman Sachs' research.** This gave rise to fears of stagflation where growth is slow, yet the upward pressure on inflation could delay Fed rate cuts. Federal Reserve Chair Jerome Powell had initially taken the view that tariff-induced inflation will be 'transitory' but later had acknowledged that the larger-than-expected tariffs will boost inflation and slow growth, and Fed will wait before further rate moves. **Economic growth is shifting to a lower gear this year on rising geoeconomic tensions, and the odds of tariffs tilting the U.S economy into recession has become higher. While the upward pressure on inflation could complicate the job of policymakers, we believe the Fed has sufficient allowance for policy easing to prop up the economy should recessionary risks spiral up.**

- The arrival of DeepSeek, China's low-cost AI model, also rattled the U.S. markets, particularly the technology giants. Notable tech giants corrected on high valuations multiples with concerns about US tech dominance. **While new entrants can alter the AI landscape, it may also contribute to the overall adoption of the AI technology and yesterday's winners remain well-placed to benefit from the ongoing AI theme.** Another factor for China equities' positive momentum is the expansion of fiscal expenditure and raising of growth targets to 5% for 2025**. While these actions are viewed as positive for market support, the price push may not have a long-term positive impact as the key issue to be addressed is household income and job stability to ultimately drive consumption. China's economy also remains under pressure from its fragile property sector and the ensuing trade conflicts.**

- As a result of the U.S. shifting its security commitments and focus away from Europe, nations in the bloc have been announcing plans to ramp up military spending. Particularly, Germany's fiscal plan to ramp up defence and infrastructure expenditure will uplift economic growth, and this boosted the momentum of European equities. Notably, **Germany's 500-billion-euro infrastructure fund is estimated to add about 2% to its GDP per year on average over the next 10 years. While Trump's tariffs will impact on European goods, the sizable fiscal stimulus, supportive ECB monetary conditions and easing geopolitical tensions between Russia and Ukraine, gave rise to our upgraded constructive view on Europe.**

- Indian equities had experienced notable volatility in the first quarter from an economic slowdown largely attributed to weak urban demand, subdued private investment, and persistent high food inflation that has hurt disposable incomes. **Given the moderating growth and lofty valuations, we turned neutral on India, on the back of incoming impact of tariffs on the country.** Similarly in Taiwan, stocks performances were influenced by concerns over U.S. tariffs and diminished enthusiasm for the AI play. However, Taiwan's export surged by a staggering 31.5% YoY in February, far exceeding expectations of 17%, driven by strong demand for AI-related technologies as companies sought to stockpile components in anticipation of tariff uncertainty. **While strong export gains in Taiwan are likely to persist throughout Q2 due to accelerating applications for AI, we may expect further volatility due to the ongoing trade tensions and the evolving AI landscape.**

- **Near-term volatilities in the financial markets are to be expected as tariff headlines could be a source of uncertainty in the upcoming period. Trump had said he is open to negotiations with trading partners. The eventual tariff rates could go both ways – be scaled back or raised in retaliation.** Notably, China had responded with a retaliatory tariff of 34% on American imports**.** It also remains to be seen if higher tariff costs will ultimately be absorbed by corporations or passed onto consumers. **Fiscal response by the government would therefore be crucial to cushion the impact to consumers and support sentiments. Market participants will be watchful of Trump's proposed tax cuts and deregulation to potentially offset the impact of tariffs. Policymakers continue to play a critical role in the delicate balancing act of managing inflation while navigating the potential of an economic hard landing.** Therefore, diversification is key, especially in uncertain times like the ensuing trade war sparked by Trump's tariffs. By spreading investments across different asset classes, sectors and geographical locations, investors can reduce exposure to any single economic or political shock. The fresh round of tariffs is likely to create volatility in global markets, with tech and manufacturing sectors facing the most immediate pressure. Maintaining a well-balanced portfolio will be crucial in navigating the uncertainties ahead.

## EQUITIES

### U.S. — Slight Positive

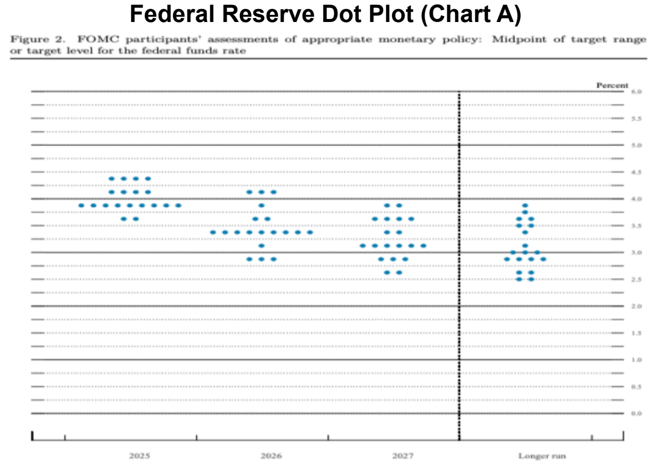
- **With the new U.S. administration settling in, the S&P 500 sank from record highs, wiping out most of the post-election gains from late last year to early this year, as uncertainties emerged on White House's trade policy with a shocking announcement on 2 April 'Liberation Day' of a sweeping 10% baseline tariff on all trade partners, along with additional 'reciprocal' higher rates for major trading partners.** Investors are pricing in the potential impact of tariffs reigniting inflation, hurting consumer and corporate sentiments. Yet at the same time, the labour market remains healthy, and the current economic slowdown may not warrant too many Federal Reserve rate cuts, giving rise to stagflation fears.

- In March's FOMC meeting, Federal Reserve's had reduced the GDP growth forecast from 2.1% to 1.7%, while holding rates steady at 4.5%. While acknowledging the moderating economic growth, Fed chief Jerome Powell had viewed the tariff inflation as 'transitory', and adopting a 'watch-and-see' attitude**.** March's Fed dot-plot reveals that policymakers expect to cut borrowing rates twice in 2025 (**Chart A**). Meanwhile, the job market remains resilient with March's release of unemployment data at 4.2%. Elevated inflation could complicate the job of the Federal Reserve as policymakers may need to see a stronger sign of a weakening labour market based on its dual mandate before cutting rates. The market is currently expecting 3 quarter-point rate cuts this year on the tariff shock**. Although the likelihood of tariffs pushing the U.S. economy into a recession is rising with inflation complicating policymakers' tasks, we believe the Federal Reserve will adopt a proactive approach and has ample space for policy easing to stimulate the economy,** given the current Fed fund range of 4.25% to 4.5%.

- **U.S. megacaps suffered on earnings sustainability concerns, particularly from the emergence of China's cost-efficient AI model, DeepSeek in end January.** China's participation in the global AI competition serves as a potential game-changer, interrupting the long-running notion of 'US exceptionalism'. The high valuation multiples of US megacaps were questioned, sparking a sell-off in AI-related stocks. While the AI industry is evolving with new contenders, models operating on lower cost may help **to increase the adoption of AI in the long run and ultimately bolster the demand for computing power and infrastructures of AI that have benefitted from the rapid growth of the technology so far. The past outperformers are still in good positions to capitalize on the trend.**

- **Looking ahead, fluctuations in the near term are to be anticipated as headlines surround trade negotiations or retaliations.** Trump has indicated a willingness to negotiate with trading partners and the final tariff rates could either be reduced or increased in retaliation. Notably, China has responded on 5 April with a retaliatory tariff of 34% on American imports. It remains to be seen whether higher tariff costs will be absorbed by corporations or passed on to consumers. **Government fiscal responses will therefore be crucial to mitigate the impact on consumers and support market sentiment. Market participants will closely monitor Trump's proposed tax cuts and deregulation as potential measures to offset the impact of tariffs.** Treasury Secretary Scott Bessent remarked that he is "*not worried about the markets and over the long-term, if good tax policy is put in place, along with deregulation and energy security, market will do great*". **This demonstrates the U.S. administration's patience for short-term pains over long-term gains as they aim to lower yields and weaken the greenback to help Trump implement additional tax cuts and other pro-growth policies. These, in turn, could bolster the US markets, supported by easing monetary policies. With these reasons, we retain our slight positive stance as we believe US equities could still gain in 2025, albeit be at a more moderated fashion, relative to the exuberance experienced in the past 2 years.**

**Federal Reserve Dot Plot (Chart A)**



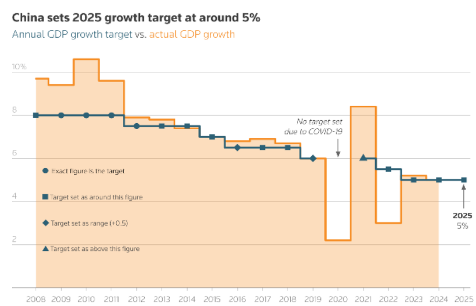

Source: Federal Reserve, March 2025

## China — Neutral

- Concerns over geopolitical tensions are putting additional pressure on China's economy. In early April, U.S. has raised levies on Chinese products to at least 54%. At the same time, the indebted property sector, deflation, and weak consumption continue to raise doubts. However, the **recent unveiling of loosening policies, along with the AI narrative, could provide much-needed tailwinds for China**. The CSI 300 Index remained relatively flattish in Q1 2025 after recovering from January's dip, while the Hang Seng Index (H-shares) rose by around 21%, largely driven by foreign flows into China's tech stocks. However, it has since retreated below 24,000 due to deflation fears and falling consumer prices, indicating a volatile, externally driven market. **China's consumer prices dropped 0.7% YoY in February 2025, marking the first deflation since January 2024**, which was attributed to weaker demand following the Spring Festival.

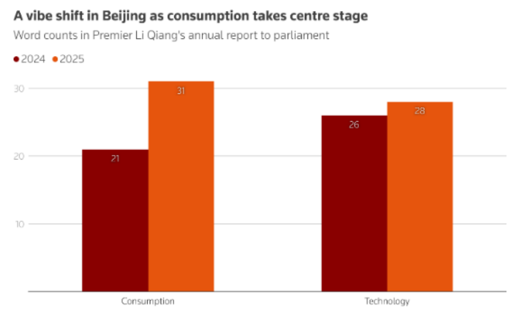
- In January, Chinese AI software company DeepSeek launched its AI model R1, coinciding with Trump's inauguration. The model is said to at least match or even surpass OpenAI's ChatGPT o1 on key benchmarks while operating at a fraction of the hardware cost and its R2 model is planned to be released in early May. The initial model has also received endorsement from top Chinese leaders and has been deployed in several Chinese city governments and large Chinese companies' systems. To further solidify the AI narrative, China's top leader met publicly for the first time with Chinese tech CEOs since launching a regulatory crackdown on the sector four years ago. This meeting is a positive sign, showing a willingness to cooperate rather than compete between the public and private sectors. **We believe a further crackdown is unlikely, as the government would not want to create additional uncertainty amid the current economic backdrop. Cooperation with the private sector would be advantageous to rival competition from the U.S. and boost investor confidence**.

**Beijing GDP growth target (Chart A)**




Source: Reuters, March 2025

**Word counts in Premier Li's report (Chart B)**




Source: Reuters, March 2025

- At China's annual National People's Congress (NPC) in early March, Beijing announced a GDP growth target of around 5% for 2025 (**Chart A**) and raised the official deficit target to 4% of GDP, its highest on record, up from 3% last year, with the additional expenditure of 1.3 trillion yuan ($179 billion) being partially financed through the issuance of off-budget special bonds. Additionally, local governments will be allowed to issue 4.4 trillion yuan in special debt, up from 3.9 trillion yuan. This year saw a greater emphasis on supporting consumption and cushioning the impact of the escalating trade war. The word "consumption" was mentioned 31 times in Premier Li's report on the country's major tasks for 2025, up from 21 times last year, while "technology" was mentioned 28 times, slightly up from 26 last year (**Chart B**). China wants to pivot from an export-driven economy to one that is consumption-driven, however, last year's 'cash-for-clunkers' and 'trade-in' programs did little to revive spending. **PBOC Governor Pan Gongsheng stated in January that China aims to increase residents' income, step up subsidy support for consumers, and improve social security to boost demand**. China's household spending is currently less than 40% of annual economic output and about 20% below the global average, this is the result of unstable jobs and incomes caused by business cost-cutting to remain competitive abroad. **While the government has signalled plans to boost consumption, market confidence remains low, as evidenced by the lack of movement in A-shares**.

- In further efforts to support the market, China's regulators have implemented short-term measures by requesting stock exchanges to restrict stock selling by some large mutual funds in January. Additionally, major state insurers and commercial insurance funds were asked to increase their investments in the A-share market. Regulators have encouraged state insurers to allocate 30% of new annual premiums to A-shares and instructed mutual funds to increase their A-share holdings' tradable market value by at least 10% annually over the next three years. **While we view these regulatory actions as positive for market support, the price push may not have a long-term positive impact as the key issue to be addressed is household income and job stability, which will ultimately drive consumer spending**. Policymakers have emphasized that a stable job market remains their top priority, however, its recent 30-points Special Action Plan for Boosting Consumption lack concrete steps and action plans which diminished confidence, furthermore, the recent retaliatory tariff from China will cause massive concerns over the foreseeable future. **That said, we believe that China can rely (to some extent) on its fiscal and monetary policies to cushion its economy, as well as on potential negotiations with the U.S. to reduce global trade disruptions. We remain neutral on China.**

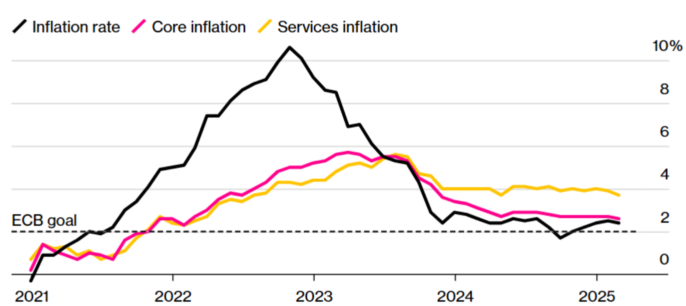
## Europe — Slight Positive

- Europe equities saw a strong upwards momentum since the start of the year, returning +11.8% (As of 24th March 2025). Despite the rally, the index is only trading at ~18x trailing P/E and forward P/E at ~14x which represents a discount of ~30% to ~40% relative to U.S. Equities (STOXX, March 2025). ECB has cut rates by 25bps putting interest rate at 2.50% in March's meeting; the central bank has signaled the willingness to further ease rates to support economic growth with inflation at the rear window. ECB revised expected GDP growth downwards for 2025 from +1.1% to +0.9%, citing uncertainty due to tariffs and U.S. policy. **Eurozone inflation moderated to +2.4% in the latest February numbers which allows more room for the ECB to ease rates (Chart A).** Services inflation which had been a sticker component in 2024 declined as well to +3.70% down from +4.0% which is encouraging for policymakers. **Market participants expect the ECB to continue easing rates on the backdrop of inflation easing and growth taking the front seat, putting the terminal rate at 2% by the end of 2025 in the absence of further deterioration in economic activity.**

- **As a result of the U.S. shifting its security commitments and focus away from Europe, nations in the bloc have been announcing plans to ramp up military spending.** Germany's new Chancellor announced he will implement a "Whatever it takes" fiscal plan with 3 key elements: Exemption of defense spending from debt brake measure, 500 billion euro infrastructure fund, and increase in structural deficit allowing the deficit to run at 0.7% of GDP. This has been welcomed by investors as it would boost economic growth, and the relaxation of debt rules will provide significant momentum for Germany which is regarded as the engine for Europe to roar; this has been reflected with German equities returning double digits since the start of the year.

- UK Equities also registered positive returns of +6.0% (As of 24th March 2025) with FTSE100 trading at a ~13x P/E and forward P/E of ~12x. **This represents a discount relative to U.S. equities and is viewed more favorably by investors who are weary of stretched valuations**. Latest GDP estimates saw the economy grow by +0.1% in 4Q 2024 which is a positive surprise as consensus previously estimated the British economy to shrink by +0.1%. The ambitious target set out by UK PM Starmer is to hit 2.5% of GDP on military spending by 2027 which will also help to boost GDP. The government's decision to reduce the regulatory burden across the board for businesses will help to lower the high regulatory costs they are currently facing, boosting investments and growth for the UK economy. That said, trade uncertainty coupled with an increased corporate tax burden resulted in a downward revision of growth estimates by BoE from 1.5% to 0.75%. This prompted the BoE to slash rates by 25bps, decreasing to 4.5%, and signaled the willingness to cut further but at a more cautious and gradual pace to prevent stroking inflationary pressures. **Market participants largely expect 2 rate cuts by the BoE as a response to growth concerns while avoiding easing too quickly which might fuel inflation.**

**Eurozone Inflation slows slightly (Chart A)**




Source: Bloomberg, Eurostat, March 2025

- **We turn slight positive for Europe given the impending fiscal spending by the bloc and a more supportive stance for economic growth generally. However, we note the downside risks including a potential resurgence of inflation should the effects of tariffs significantly affect businesses' costs.**

## EQUITIES

**Japan** **Neutral**

- **Japanese Equities registered a decline of -5.30% (As of 25th March 2025) since the start of the year highlighting the cautionary stance adopted by investors due to worries of a stronger Yen alongside an economy powered by strong exports and tourism.**

- The latest data showed the Japanese economy expanding at a pace faster than what market participants had in mind, registering a 2.2% p.a. for Q4 2024 vs an estimate of 1.0%. This is primarily driven by strong business spending which signals the firm's confidence in the economy. However, consumer spending weakened slightly alongside imports that fell indicating possible weakness in consumer strength. Furthermore, tourism which has been a key driver of Japan's uptick in economic activity may be dampened as a result of BoJ's rate hikes as part of policy normalization. **That said, positive tailwinds arising from increase in wages for workers and changes made to personal income taxes will help to boost disposable income and in turn domestic consumption (Chart A).** Market participants are expecting the BoJ to hike to 1.0% by year-end, up by 50bps from current levels of 0.5%. However, BoJ officials noted how the path of policy normalization may be hindered by trade uncertainty and tariffs because of the U.S. administration. The BoJ is also expected to keep a close eye on wage negotiations between unions and companies while weighing the pace and timing of rate hikes. **Most market participants are of the view that the BoJ's rate hike cycle will be gradual in nature and not stifle growth of the economy.**

- **Another tailwind arising from corporate reforms is the impending TOPIX revision (1st stage), forcing companies to accelerate the unwinding of cross-shareholdings and the sale of strategic investments.** This will help to unlock capital for new growth projects, improving return on equity and stock liquidity which are positives for investors. However, after the rally seen in 2024 valuations for Japanese equities are no longer as cheap as before but remain attractive when compared to U.S. equities (~30% discount). Furthermore, forecasts for 2025 EPS growth estimates are at ~9% and have enjoyed upward revision in recent months and are expected to continue.

**Solid Uptrend. Japan's base pay gained at fastest clip in 32 years in January (Chart A)**


Source: Bloomberg, Japan Labor Ministry, March 2025

- **We remain neutral for Japanese equities given the uncertainties on trade which can have negative implications on consumer confidence and a global slowdown in economic activity may dampen tourism as well. However, corporate reforms and strong balance sheets are tailwinds that investors can look forward to in the year. Furthermore, a cautious BoJ translates to an accommodative stance which will be supportive for Japanese equities moving forward.**

EQUITIES

**Singapore** **Slight Positive**

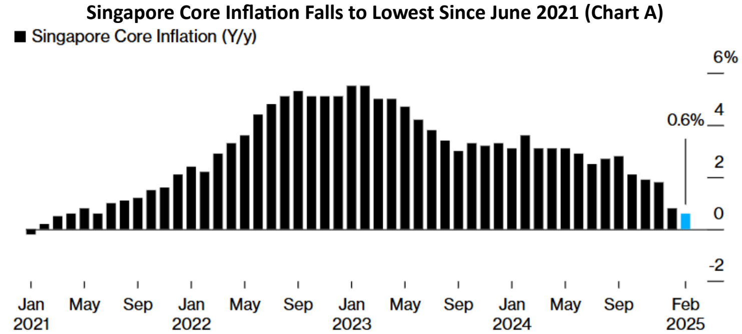
- **Singapore's inflation continued to moderate, with core inflation coming in at +0.6% versus +0.7% consensus estimate (Chart A).** Overall inflation also slowed to +0.9% vs estimates of +1.0%, highlighting how price pressures are easing. This is mainly driven by lower energy prices, food and private transportation costs. MAS expects inflation to continue easing and core inflation to fall between 1% to 2%. Latest GDP figures showed the Singapore economy expanded by 4.4% in 2024 which is higher than estimates of 4.0%. This is primarily driven by Wholesale Trade, Finance & Insurance and Manufacturing sectors which registered +6.7%, +6.1% and +7.4%; such strong numbers are primarily due to positive shifts in global trade and sentiments. MTI expects sustained global demand for electronics and chips which will allow Singapore's manufacturing and wholesale trade to remain strong in 2025. However, escalating tariffs and trade policy uncertainty may weigh down on Singapore's exports; this is reflected in the unchanged growth estimates for 2025: +1.0% to +3.0%. Singapore's total trade activity remains healthy growing at +4.6% in the latest figures despite the heighted volatility and uncertainty globally due to Trump's administration new trade policies and reshaping of global supply chains. Electronics Non-Oil Domestic Exports ("NODX") and Non-Oil Re-exports ("NORX") grew at +6.9% and +12.8% respectively, building on the strong momentum seen in January figures. February Electronics PMI figures came in at 51.0 and remains the key driver for manufacturing output. Overall, PMI came in at 50.7 marking the 18 consecutive months which has softened compared to January figures which saw PMI at 50.9. This potentially indicates the softening of global demand and indicator of strain induced by tariffs imposed by Trump's administration on Singapore's externally orientated economy.

- As part of proposed SGX reforms package, market participants welcomed the lower IPO costs, improved valuations via $5b market development program. New family office applicants under the Global Investor Programme will also be required to have $50m invested in Singapore Equities, boosting liquidity and valuations for Singapore Equities. SGX will also adopt a more "pro-enterprise regulatory approach" that will help to lower regulatory burdens for firms looking to list on SGX with further details to be unveiled in mid-2025. This has been similarly echoed by DPM and Minister for Trade and Industry Gan Kim Yong who released 3 statements of commitment to reduce regulatory burden and foster a pro-enterprise environment, highlighting the government's determination and whole of government effort to support corporates. **We expect the positive momentum to pick up in 2H of 2025 with supportive policies aimed to increase liquidity, valuations and fund flows which will be attractive for investors.**

- **As part of Budget 2025, PM Wong announced several measures that saw a large amount of resources being poured into technology & innovation alongside infrastructure (energy & transportation).** The policies are introduced with the aim of lowering costs for businesses and enhancing Singapore's long-term growth prospects.

- **We remain slightly positive about Singapore's outlook, but downside risks are looming on the horizon because of Trump's tariffs targeting a large number of countries which may dampen global trade demand and flows. Furthermore, the uncertainty element in elections adds on to the list of concerns for investors.**

**Singapore Core Inflation Falls to Lowest Since June 2021 (Chart A)**




Source: Bloomberg, MAS, Ministry of Trade and Industry, Singstat, March 2025

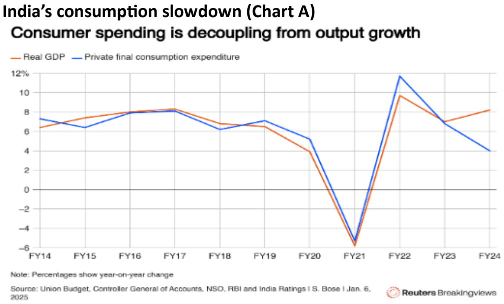
## Emerging Market

### Neutral

- The BSE Sensex trajected downwards in early Q1 before recovering as foreign inflows scoops up cheaper stocks on comfortable valuations within the financial sector. The initial slump was triggered by a sharp slowdown in profit growth from India's top companies, with weaker manufacturing and reduced corporate investments weighing heavily on growth. India's annual real GDP growth forecast for 2024/25 was 6.5%, a significant slowdown compared to 8.2% in 2023/24 and is the slowest growth rate in four years. **The sluggish performance is largely attributed to weak urban demand, subdued private investment, and persistent high food inflation that has hurt disposable incomes**. Weakened consumption (Chart A) may persist due to a combination of insufficient job opportunities and stagnant wage growth, which raises concerns over a shrinking middle class and its impact on discretionary spending. The IT sector has reduced hiring due to automation and fewer job vacancies, while agricultural workers, which make up 46% of India's workforce, did not earn enough to offset years of stagnant income in the sector. Furthermore, the large increase in workforce comes from agriculture and self-employment, which includes own-account work and unpaid family work that does not equate to the creation of formal jobs with regular wages. Efforts by Modi's administration to promote manufacturing investment have also been hindered by declining foreign direct investments. **On a positive note, rural consumption, which accounts for about one-third of domestic consumption, has benefitted from income support schemes and has outpaced urban consumption in recent quarters**. It is expected to remain resilient, while urban consumption shows a gradual recovery. In response to the slowing economy, the Reserve Bank of India (RBI) has shifted its focus from controlling inflation to supporting growth, reducing interest rates for the first time in nearly five years to 6.25%. Personal income tax cuts were also introduced in February's budget, which will leave more money in the hands of middle-class consumers. Inflation dropped to 3.62% in February 2025, significantly below market expectations of 4%, and supporting the case for further interest rate cuts. **We believe that monetary policy may have a limited effect on India's economy. Instead, upskilling the labour force is essential to address the mismatch between talent and business requirements**. While this is a longer-term goal, we acknowledge that the Indian government has plans to nurture talent and build capacity. However, **given the recent slowdown in growth and India's lofty valuation, we maintain a neutral outlook on the country**.

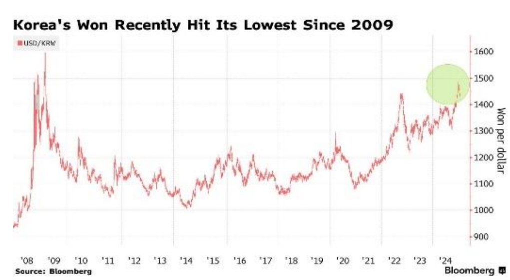
- The KOSPI index is up around 9% YTD after a horrific 2024, driven by attractive valuations from leaders such as Samsung Electronics Co. and SK Hynix Inc., despite fears of a potential tariff war. South Korean Won reached a historical low since 2009 in Q1 (**Chart B**), prompting Bank of Korea (BOK) to issue an initial 800-billion-won tranche of one-year securities and extending a swap deal with South Korea's National Pension Service to replenish the country's FX stabilization fund. South Korea's export sector saw a moderate 1% YoY increase in February 2025, which was below initial forecasts of 3.8% but had recovered from the sharp decline of 10.2% the previous month. Semiconductor exports, fell by 3% due to falling memory chip prices, reflecting volatility in tech markets. South Korea's manufacturing production dropped to -4.2% YoY in January and its manufacturing PMI also dropped to 49.9 in February, highlighting some weaknesses in industrial production. BOK has revised its 2025 growth forecast downward to 1.5%, down from 1.9% previously, based on external factors such as the impact of U.S. tariff policies, political uncertainty, and domestic challenges. South Korea's inflation rate slightly eased to 2% in February 2025, and BOK has cut its interest rate by 25 basis points to 2.75%, the third reduction in four months. **We think that South Korea's economic challenges remain complex, though we see government and BOK implementing supportive measures, persistent headwinds remain, such as weak domestic consumption, high household debt, political instability, and external pressures, leading to a neutral economic outlook for the country**.

**India's consumption slowdown (Chart A)**




Source: Reuters, January 2025

**South Korean Won reaches a historical low since 2009 (Chart B)**




Source: Bloomberg, January 2025

- Taiwan's Stock Market Index faced a downturn in Q1 2025, largely driven by concerns over the semiconductor industry and its global supply chain, with TSMC at the forefront of this decline. Trump's emphasis on reducing the U.S. trade deficit and advancing domestic reindustrialization has raised fears that Taiwan could be subjected to further trade restrictions. Due to this, Taiwan's export surged by a staggering 31.5% YoY in February, far exceeding expectations of 17%, driven by strong demand for AI-related technologies as companies sought to stockpile components in anticipation of tariff uncertainty. Taiwan's trade ministry expects strong export gains to persist throughout Q2 due to accelerating applications for AI which supports export momentum. Meanwhile, Taiwan's inflation rate eased in February 2025 to 1.58%, down from 2.66% in January, signalling some relief for the economy. Taiwan's Central Bank kept interest rates unchanged at 2% in March, in line with market expectations. Despite these positive signs, Taiwan's growth forecast for 2025 has been revised downwards due to potential disruptions from trade policies and budget cuts imposed by the opposition-controlled parliament. **We believe that Taiwan economy could be supported by its export**

**figures in Q2 without much penalization from U.S. due to its heavy reliance on Taiwan manufactured chips, however, we remain neutral on the country due to rising uncertainty in trade policies**.

- Indonesia's JCI dropped to 6,077 in mid-March, touching its lowest level since August 2021 and causing intraday trading to halt amid widening budget deficit and rumours regarding the resignation of Finance Minister Sri Mulyani. The retreat is associated to unwinding of positions and forced liquidations by margin traders paired with weak sentiments and lack of fund inflows to support the market. Indonesia's trade surplus in February exceeded expectations, driven by a surge in palm oil exports, which boosted overall exports by 14.05%. However, this strong performance may not fully offset concerns about the impact of U.S. trade policies, which have made investors more risk averse. **Bank Indonesia (BI) has acknowledged the need for measures to stimulate the economy, especially as the weakening rupiah poses risks to economic stability. IDR/USD depreciated to 16,642 in late March, its weakest since June 1998, making it less favourable for BI to further cut rates this time**. BI has kept interest rates at 5.75% during its meeting in March, but we believe it may start cutting rates in Q2 2025 given a shocking deflationary figure in February. In addition, Indonesia also faces fiscal challenges, with the government maintaining a target budget deficit of 2.53% of GDP despite a significant decline in tax revenues in early 2025. The government has introduced measures such as electricity tariff discounts and a free school meals program to stimulate domestic consumption. We believe that, due to these programs, consumer confidence remains high and domestic spending continues to be robust. However, because **the government is likely to prioritize social policies over capital expenditures, we think this could affect economic growth in the short and medium term. We're slight negative on Indonesia due to the near-term uncertainty surrounding its economy**.

- Brazil's Ibovespa experienced a notable recovery in Q1 2025, regaining ground after a gradual sell-off in Q4 2024 due to growing concerns over the government's ability to meet its budget deficit targets. However, **optimism returned in early 2025, bolstered by stronger-than-expected domestic economic data and global factors that supported investor sentiment. Banking stocks gained traction as investors anticipate stable interest rates, external factors such as China's continued stimulus policies also made positive impact on global demand for commodities**. The Brazilian real also appreciated against USD as interest rate discrepancies widen, with the real dropping below 5.7 per USD in March. Despite these positive developments, inflation remains a concern, with February's inflation rate surging to 5.06%, well above the target of 3%. **The Central Bank of Brazil increased the Selic rate by 200 basis points to 14.25% throughout Q1 2025, reaffirming its earlier indication of additional tightening if inflation risks continue**. Domestically, Brazil's manufacturing and services sectors showed strong growth. **The S&P Global Brazil Manufacturing PMI rose to 53 in February 2025, signalling the strongest improvement in the country's factory sector since September 2024. Similarly, the Services PMI rose to 50.6, reflecting a recovery in services after a brief contraction in January**. On the fiscal side, a long-promised tax exemption plan for lower income individuals was unveiled in March to boost disposable income for Brazil's middle class, with the revenue gaps to be covered by new levies on high income individuals and profits and dividends sent abroad, however, these measures must be approved by congress this year to take effect in 2026. The Lula administration has stated that this move is fiscally neutral, and seeks to promote tax justice and income distribution, it's also stated that this can boost growth potential without inflationary pressures. Looking ahead, we believe Brazil's interest rates and China's stimulus will play a pivotal role in the next quarter. **We believe that although a hawkish central bank could dampen growth, we're slight positive on Brazil given a resurgence of domestic business confidence as well as external factors that could tip the favour towards growth.**

- Mexico's IPC Composite Stock Market gained in Q1 2025 despite heightened concerns over the 25% tariff on auto products. Mexico's economy grew by just 0.5% YoY in Q4 2024, a downward revision from the initial 0.6%, marking a sharp decline from the previous quarter's 1.7% growth. Furthermore, Mexico's industrial output fell by 2.9% in January 2025, far worse than the expected 1.8% drop, signalling deeper economic struggles. The Mexican peso has remained resilient, largely driven by the country's high interest rates and expectations of a softer U.S. rate. Mexico's trade surplus in January 2025 increased to $2.7 billion, partly due to a 15.2% YoY rise in automotive exports, mostly attributed to stockpiling ahead of potential tariff hikes. Inflation in Mexico rose to 3.77% in February 2025, a slight increase from January's 3.59% but remains well within Banxico's target range of 2% to 4%. Despite this, Banxico's lowered its benchmark interest rate by 50 basis points to 9.50% in February which reflects a dovish stance in response to slower economic growth. We believe that further rate cuts should come in Q2 to counter tariff threats from the U.S.. The OECD has warned that tariffs could push Mexico into recession, projecting a 1.3% contraction in 2025. On the fiscal side, we believe President Sheinbaum's government would consider increasing public spending to counter a potential recession, however, that would likely increase fiscal deficit, which she aims to reduce. **We remain a neutral outlook on Mexico as potential recession looms amid trade tensions with the U.S., weak industrial performance, and domestic challenges. However, we think that with inflation stabilizing and a sturdy peso could provide some support to offset the broader risks facing the economy.**

## FIXED INCOME

### Government Fixed Income

**Slight Positive**

- **The FTSE Global Government Bond Index saw slightly positive returns of +1.87% (As of 28 Feb 2025); reflecting the risk off stance adopted by market participants because of recessionary fears and weight of Trump policies.**

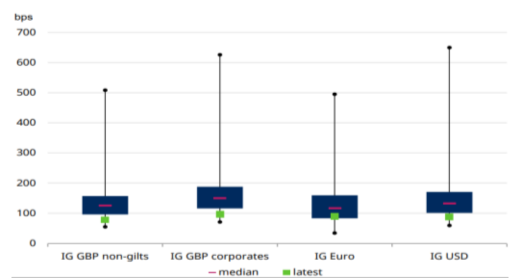
- Growth and recessionary fears due to tariffs imposed across the board by the Trump Administration pushed investors to de-risk their portfolios by going into Treasuries. **2Y and 10Y Treasury yields both dropped significantly by ~40-60bps since the start of the year highlighting the flight to safety play adopted by investors (Chart A).** The market is now pricing in 4 rate cuts by the Federal Reserve in anticipation of economic slowdown and further weakening of the labour market, as a result of the wide ranging tariffs imposed by Trump. **The ECB has cut rates in their latest March meeting by 25bps putting rates at 2.50%; they have voiced their support for a more supportive stance in the event tariffs are implemented**. That said, ECB Lagarde noted how there might be large fiscal stimulus being pushed out by various countries within the bloc which might stoke inflationary pressures. Hence, the ECB reiterated the cautious and data-dependent stance when deciding on the path of rates in an environment of heightened uncertainty.

- **We remain slightly positive for government bonds as Central Banks are increasingly pivoting their focus towards growth concerns while aware of potential inflationary pressures.**

**US10Y Treasury Yields (Chart A)**


Source: FRED, March 2025

**IG adjusted spreads vs. government bonds (Chart B)**




Source: Schroders, March 2025

### Investment Grade (IG) Fixed Income

**Slight Positive**

- **The S&P U.S. Aggregate Bond Index saw a positive start to the year despite volatility heightened in the markets, returning +2.44%. This is similar for EUR IG credits which saw positive returns of +1.10%.**

- **Credit spreads tightened slightly across both U.S. and EUR IG credits, but a similar picture to last quarter whereby EUR IG credits are relatively less compressed compared to historical levels, unlike U.S. credits (Chart B).** Across both U.S. and EUR credits, corporate fundamentals remain healthy although they are trending towards long-term averages gradually. Corporates' cash balances are strong and sufficiently assure any investors' concerns over corporates' ability to deal with the high borrowing costs (even though that has been declining) (Schroders, March 2025). There is a preference for EUR credits as they are cheaper on a relative basis to U.S. credits. That said, both offer a compelling return-to-risk ratio for investors with yields at levels that provide a cushion against any significant spread widening. This can be seen in the 4x oversubscription of new investment grade bond offerings, highlighting investors' preference for attractive yields and reduction in risk appetite for equities (Nuveen, March 2025). **While there is limited room for further significant spread compression in the absence of significant spread widening, the higher yields would provide attractive returns for investors.**

- **We remain slightly positive as we expect this trend to continue given the heightened uncertainty in terms of trade policies by the Trump administration and bearish sentiment in the equities market. Furthermore, rate cuts by Central Banks in response to slowing growth will be supportive for Investment Grade Credits.**

## FIXED INCOME

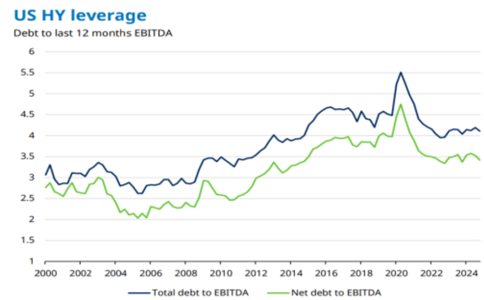
### High Yield — Neutral

- Back in 2023, when recessionary worries weighed on the High-Yield segment as developed market central US High Yield saw gains in Q1, despite spreads widening after the affirmed plans of a 25% tariff on Mexico and Canada (**Chart A**). **The credit rating migration within USD HY is mixed, with lower-rated issuers experiencing more downgrades, while higher-rated issuers (BB) saw upgrades**. Overall, corporate fundamentals in US HY remain stable, with leverage holding steady (**Chart B**) and debt growth near zero. Interest coverage ratios have also remained consistent in recent quarters.

**ICE BofA U.S. High Yield Index Option-Adjusted Spread (Chart A)**


Source: FRED Economic Data, Ice Data Indices, March 2025

**US High Yield Bond default rate (Chart B)**




Source: Schroders, March 2025

- Asian High Yield also performed well in Q1, with spreads tightening to historically low levels at the beginning of 2025 before widening in mid-February. Although fundamentals are strong, geopolitical tensions could weaken economic conditions. **We believe that the exceptional returns in 2024 were largely driven by unique events in India and China, which may not repeat this year**. Although the segment's shorter maturity profile provides some protection against interest rate fluctuations, and Asia's macro fundamentals still appear strong, offering a reasonable investment opportunity, **we've downgraded this segment to neutral for Q2 given the widening of spreads for USD HY and heightened uncertainty of the global economy.**

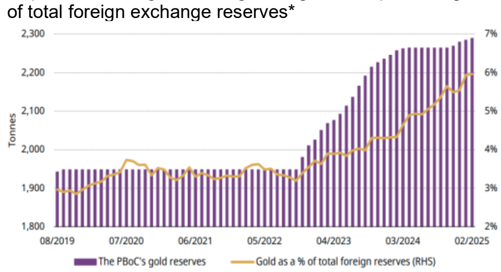
## ALTERNATIVES

### Gold — Slight Positive

- The escalation of trade wars, rising inflation and a weaker US dollar had pushed gold prices past the USD3,000/ounce mark. Safe haven buying and governments shoring up gold on their reserves are important contributors to the bullion's strength. The precious metal tends to be a good store of value due to its safe-haven status and can act as a portfolio insurance portfolio during periods of volatility. **According to the World Gold Council, central bank purchases exceeded 1,000 tonnes for the 3rd consecutive year in 2024, with the People's Bank of China particularly ramping up on purchases in the recent months** (Chart A).

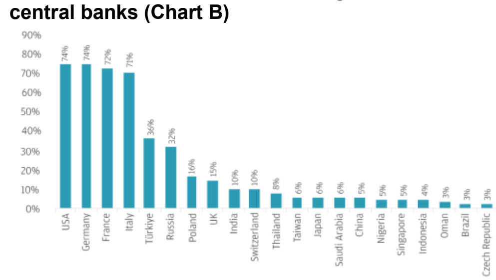
- The Federal Reserve's rate easing cycle is also anticipated to underpin the precious metal's momentum due to the traditional inverse relationship between gold and interest rates. Lower rates enhance the appeal of non-interest-bearing gold as an investment vehicle. **While gold may face some near-term consolidation due to the pace of its recent momentum, we believe that the mixture of rising uncertainties from trade tariffs, lower yields and a weaker greenback continue to provide strong tailwinds for investment demand and central bank purchases, reinforcing our Slight Positive view.**

**PBoC adds gold 4-months in a row (Chart A)**
Reported official gold holdings and gold as a percentage of total foreign exchange reserves*




Source: World Gold Council, PBoC March 2025

**Gold as a % total reserve holdings across select central banks (Chart B)**



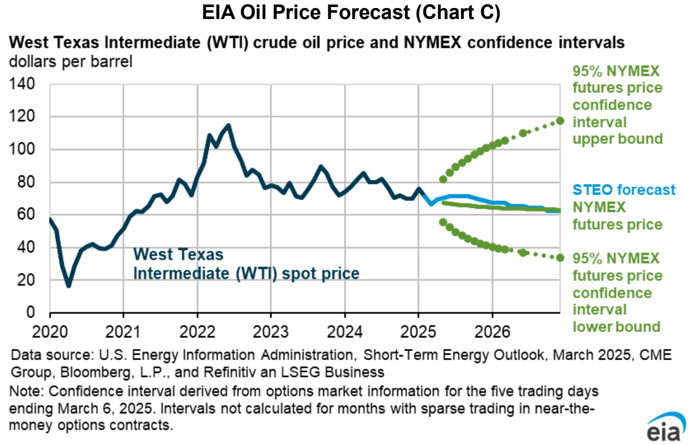

Source: J.P. Morgan, IMF, World Gold Council, February 2025

### Oil — Neutral

- Oil fell in Q1 2025, with WTI crude dropping to $66/bbl before recovering to $69, the highest level in over three weeks. Brent crude also saw a slight recovery from Q1's low of $69.30/bbl to $73 as of this writing. This price movement follows President Trump's announcement of a proposed 25% tariff on countries importing oil and gas from Venezuela, as well as further sanctions on Iran targeting their oil exports, with the intent to pressure Maduro's regime and prevent Iran from obtaining nuclear weapons and funding militant groups. We believe these actions could potentially put downward pressure on the supply chain.

- However, OPEC+ is expected to proceed with a planned second consecutive production hike in May, with intentions to increase output by 135,000 bpd. The group has been reducing output by 5.85 million bpd since 2022 but aims to gradually unwind these cuts under its current strategy. Furthermore, Russian crude oil supply could increase if the Ukraine war cease. **We believe that the supply disruptions from Venezuela and Iran could support prices in the short term, while the production hike from OPEC+ could drive prices down. Additionally, the broader impact of U.S. trade policy could also contribute to lower prices, with the potential for a global economic slowdown and reduced oil demand. We remain neutral on oil for Q2, as prices could remain relatively tight (Chart C) in the next quarter given the recent geopolitical events.**

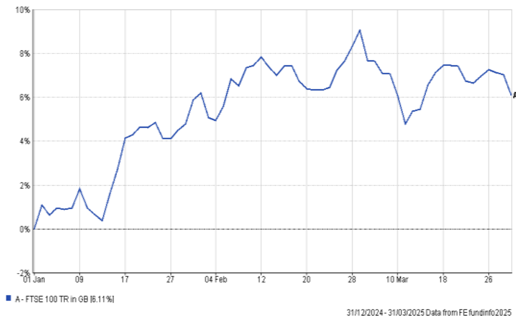
**EIA Oil Price Forecast (Chart C)**



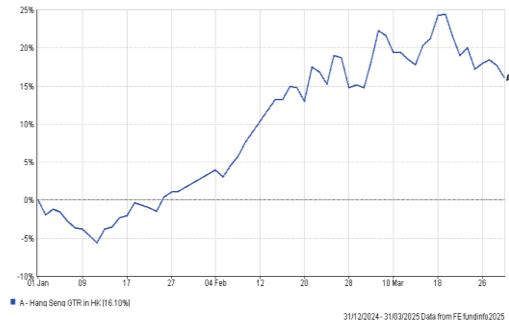

Source: U.S. Energy Information Administration (EIA), March 2025

## Indices

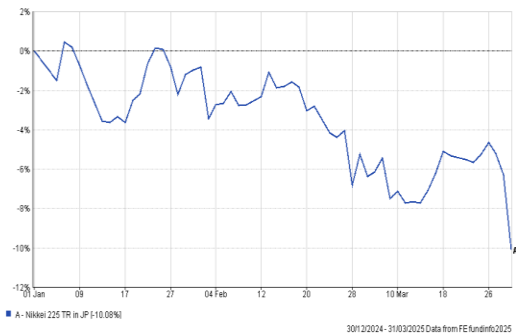
### FTSE 100



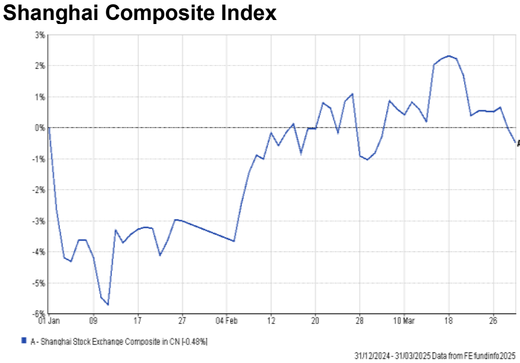

### Hang Seng Index



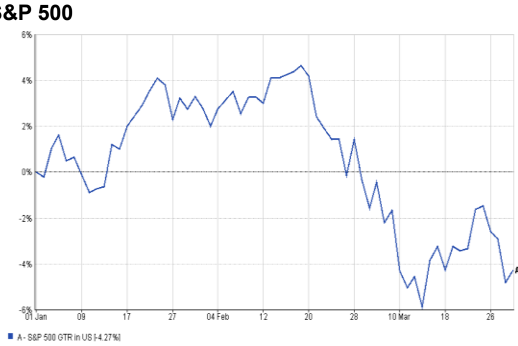

### Nikkei 225



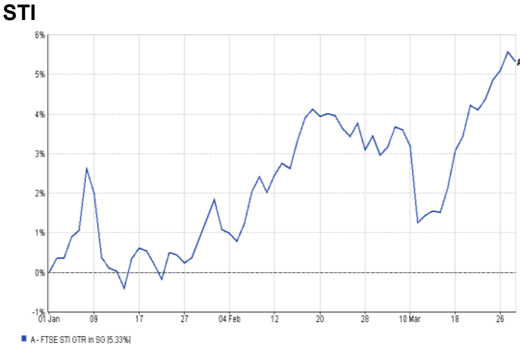

### Shanghai Composite Index




### S&P 500




### STI



# Global Market Performance

| Indices | Last | QTD Change (%) |
|---|---|---|
| **North America** | | |
| Dow Jones Industrial Average | 42,001.76 | -0.77% |
| Nasdaq Composite | 17,299.29 | -10.79% |
| S&P 500 | 5,611.85 | -4.35% |
| **Europe** | | |
| CAC 40 | 7,790.71 | 6.80% |
| DAX 30 | 22,161.72 | 10.98% |
| Euro Stoxx 50 | 5,248.39 | 7.57% |
| FTSE 100 | 8,582.81 | 5.89% |
| MSCI Europe | 2,124.96 | 5.90% |
| IBEX 35 | 13,135.40 | 13.06% |
| **Asia** | | |
| BSE SENSEX | 76,024.51 | -4.03% |
| Bursa Malaysia KLCI | 1,513.65 | -5.40% |
| Hang Seng Index | 23,119.58 | 17.05% |
| KOSPI | 2,481.12 | -0.13% |
| MSCI Indonesia | 6,007.13 | -8.56% |
| Nikkei 225 | 35,617.56 | -8.23% |
| Philippines Manila Comp | 6,180.72 | -3.36% |
| S&P/ASX 200 | 7,843.42 | -3.98% |
| Shanghai SE Composite | 3,335.75 | -1.02% |
| Straits Times Index | 3,972.43 | 5.57% |
| **Others** | | |
| MSCI AC World | 1,002.84 | -2.20% |
| MSCI AC Asia Pacific | 199.56 | -0.55% |
| MSCI Emerging Market | 69,483.69 | 1.91% |
| **Commodity** | | |
| Brent Oil | 74.77 | 3.03% |
| Gold | 3123.84 | 20.27% |
| **Bonds** | | |
| Barclays Global Aggregate | 475.65 | 1.84% |
| Barclays Global High Yield | 1,692.59 | 1.41% |
| JP Morgan EMBI Global | 376.18 | 1.47% |

Sources: FE fundinfo

Past performance is not an indication of future returns, data as at 4th April 2025

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### Important Information



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