Deal or no deal

Investing in Asia Pacific - May edition

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Deal or no deal

Following weeks of extraordinary policy uncertainty and market volatility, President Donald Trump's decision to pause "reciprocal" tariffs has opened a window for trade negotiations. Over the next 75 days, more than 75 countries (according to the White House) will seek to broker bilateral deals before the 9 July deadline.

At the very front of the queue are major Asian economies like Japan, South Korea, and India. The stakes are high for these first movers—whether a deal is cut or not, the initial outcomes will likely set the tone for subsequent negotiations, the trajectory of effective tariff rates, and market sentiment.

Previous US trade deals have taken 18 months on average to sign and 45 months to implement, but we expect quicker interim agreements to be reached with allies who can afford to deliver spending and defense "wins" to the US and are not viewed as transshipment "bad actors." Vietnam, Thailand, and Malaysia will have to work harder to satisfy US demands as they become clearer. These could include cuts to trade barriers, more investment in the US, purchases of US goods, and/or measures to curb transshipment trade with China. Our channel checks and analysis show that most, but not all, regional economies have the capacity to meet such demands.

With trade talks underway, we believe tariff uncertainty should gradually reduce over the next few months. We also expect the Federal Reserve to cut rates by 75-100bps this year—which could help partially offset US economic and corporate earnings weakness and limit the regional export impact to a single-digit percentage (ex-China).

Of course, what would have the largest impact is a deal with China. In an upside case, where a quick agreement reduces tariffs from prohibitive levels within the next few weeks (as suggested by President Trump), regional growth expectations and markets would get an immediate boost. On the flip side, further escalation into areas such as ADR delistings, additional tech restrictions, secondary tariffs in US trade deals, and/or stronger rare earth controls represent downside risks. Our base case falls in between the two: Given the already prohibitive tariffs in place, there is little to gain from further escalation. But we expect that trade talks will only begin once the US agrees to roll back its tariffs to manageable levels and result in only minor concessions.

As trade deals are signed, the dollar could stage a short-term rebound against Asian currencies. But with the US economy still set to slow sharply, the Fed likely to resume rate cuts, and ongoing concerns over US policy unpredictability, we see the dollar resuming its downtrend over the longer term against G10 peers (see our global Monthly letter "*Managing exceptionalism*").

In the remainder of this letter, we analyze the potential regional trade deals that could emerge in the weeks ahead, what's next in the US-China standoff, and what the end of US economic exceptionalism means for regional currencies. We also update our positioning in light of these developments.

In short, we think agreements that lead to less damaging tariffs will support a tactical rebound for US equities and oversold Asian markets like Taiwan. We also remain constructive on resilient markets like India, where we expect an early trade deal and earnings growth to improve on an uncharacteristically low base beginning this quarter.

But with volatility likely to remain high and valuations capped until trade deals are signed, we remain Neutral on the broader Asia ex-Japan market. We also stay defensively positioned in China, where the dramatic tariff escalation has further reduced our growth and fair value expectations. Nonetheless we see bottom-up opportunities that should benefit from China's "self-help" strategy.

Finally, we aim to use any near-term US dollar strength to diversify into regional currencies such as the AUD (below 0.62) and JPY (above 146) and see less need to hedge CNY exposure. Instead, gold should continue to be the standout portfolio hedge—we raised our year-end target to USD 3,500/oz and think under-allocated investors should use dips to raise their exposure to around 5% of a balanced portfolio.

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First in, first out

Key Asian economies are among the first to begin trade talks with the US.

After reaching max tariff fear on "Liberation Day," President Trump's subsequent 90-day pause has shifted the market's attention from further tariff escalation to deal-making. Key Asian economies including Japan, South Korea, and India are among the first to begin talks with the US, with the rest of the world watching to see whether deals can be struck to lower or rescind reciprocal tariffs and what those deals look like.

What could be in a deal?

Based on repeated comments from President Trump and his officials over recent months, what the US wants can be summarized into four main categories: 1) a significant cut in tariffs and non-tariff barriers on US products; 2) a commitment to invest in the US; 3) a commitment to buy more US products, starting with aircraft, energy, and agricultural products; and 4) an end to transshipments.

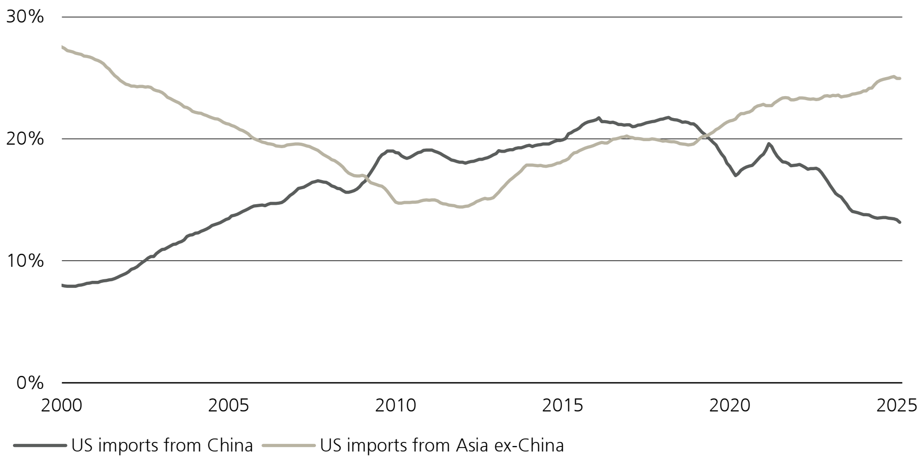
Asian allies could achieve quicker bilateral trade deals with the US, while others face a higher bar.

Whether or not regional economies can fully meet these demands depends on their standing. As US security and trade priorities in the region become clearer, we see a lower bar and earlier deals for "lower-risk" markets that the US deems to be "friend-shorers," such as Japan, Korea, Taiwan, India, Indonesia, Singapore, and the Philippines. Countries at higher risk of being viewed as "transhippers," such as Vietnam, Thailand, and Malaysia, will have to prove they are neither a re-export platform for Chinese goods nor a conduit for China to bypass US tech restrictions. For products sold to US, this may entail minimum local content requirements or separation of China factory ownership. In the end, if the US-China tariffs remain unresolved, the huge tariff gap offers a big incentive for US buyers to switch source to other Asian exporters, in principle benefiting emerging Asia.

In terms of demands, our checks below show that all regional economies can buy more US goods, most can reduce trade barriers with manageable domestic disruption, and only advanced economies can invest in the US.

Wide reciprocal tariff differentials could speed up the US market share switch already in progress.

US import market share by China and non-China Asia (%, 12mma)



Source: CEIC, UBS, as of April 2025

North Asia

We think Japan will be the first to strike a deal with the US.

We think **Japan** will be the first to strike a deal with the US. The main issues on the table are autos, agricultural products, LNG, defense equipment, the defense budget, and the exchange rate. Japan can easily offer more US investments and lower non-tariff barriers on autos, invest more in Alaskan LNG projects, and commit to additional defense purchases, in our view. Agricultural products are more sensitive, but domestic rice price inflation may give the government room to expand US quotas and tariffs on US beef can be lowered. Increasing the budget for US troops in Japan may be difficult due to negative public sentiment.

The exchange rate is the stickiest issue since there are few effective tools to adjust it, the BoJ is unlikely to preemptively raise rates, and rapid yen appreciation would not be welcomed by the government considering its economic impact.

Japanese equities have rebounded in anticipation of a deal. But we think short-term upside is limited from here and stay Neutral on the market. Full-year earnings results (from late April to early May) are likely to yield highly conservative guidance, which would further cap valuations. However, so long as the US avoids a recession, the downside should be limited to the lower-bound of a 11-16x P/E range since 2010 (13.5x currently). We currently have a slight tilt towards domestic-oriented sectors such as select IT services and real estate names, with some global cyclical exposure in health care, machinery, and tech.

A bilateral deal with **South Korea** is also being prioritized and is likely to emerge relatively quickly, in our view. In terms of concessions, Korea will likely be willing to scrap its tariffs on agriculture (60%+ in 2023) and reduce its relatively high US trade surplus (USD 66bn) by importing more energy. Autos are the biggest export to the US, so more US investments from the auto sector and in Alaskan energy pipelines can be expected. Korea could also agree to more defense cost sharing and the outsourcing of US military shipbuilding. An additional sector tariff on semiconductors could hit Korean chipmakers, but carveouts for electronics should lessen the damage. We think oversold memory names trading at beaten-down valuations present opportunities as DRAM pricing improves and deals are negotiated.

We see a smoother deal-making process for Taiwan than markets are pricing in.

Taiwan is looking to lower its “reciprocal tariff” of 32% (25% when factoring in temporary semiconductor exemptions) but appears to be further down the queue. Though the economy can easily purchase more US products and has already committed more than USD 100bn of investments into the US, the main sticking point is ensuring mainland China will not bypass US restrictions to the market’s advanced chips. However, US access to Taiwan’s leading foundries is equally important, which we think will prompt a relatively smoother deal than markets are pricing in. Despite additional non-tariff restrictions on chips, TSMC also recently reiterated its guidance (AI-related revenue to double in 2025 and grow at a 45% CAGR over the next five years). With the market’s forward P/E trading near one standard deviation below the 10-year mean, we think Taiwanese equities look oversold and remain constructive on the market.

India

We think India is on track to sign a bilateral deal by year-end.

Reinforced by a recent visit from US Vice President JD Vance, we expect tariff discussions to pave the way to a bilateral trade agreement by the end of the year. India does not present a China security risk and can easily switch its purchases of Russian energy (36% of total crude imports) to American energy (5% currently) and defense equipment. For instance, a 25% switch of crude oil imports from Russia to the US would contract India’s US trade surplus by a meaningful USD 14bn. By contrast, reducing tariffs on staples like soy, cotton, and corn could be too politically difficult to stomach.

Despite this, India’s deal-making efforts have been among the most visible, helping the Nifty rebound by nearly 10% since its March low. Valuations have rerated back to around 19.4x but remain well below their September peak of 21x, and we continue to think earnings growth will recover back into the double digits from this quarter onwards (15.3% for FY26) after an uncharacteristically weak FY25 (largely driven by a high base effect following ~25% earnings growth in FY24). India should remain a resilient market amid tariff volatility, offering attractive low-teens upside through year-end.

ASEAN

Indonesia is also considered a low-risk country, given it has one of the lowest US market shares in the region. High-level delegations are already negotiating directly with the US government. Indonesia can import more US military equipment, energy and staples. Select trade barriers are likely to come down in EV autos, electronics, horticulture, and animal products. Additionally, the government is working on certain reforms to deregulate non-tariff barriers and import licensing. While local equity valuations are undemanding, domestic fiscal challenges limit the near-term catalysts and keep us Neutral on the market.

For **Singapore** (Neutral), the main issue is not a deal per se, but the risk of a global trade slump. With few avenues to bring the 10% baseline tariff lower, Singapore may also have to bear a very modest rise in tariffs on its semiconductor exports. We prefer to take shelter in defensive dividend yielders such as REITs and telcos, which offer dividend yields of more than 5%.

Malaysia and Thailand must address difficult sticking points.

Discussions with **Malaysia** will likely focus on national security issues (given 33% of imports are from China and its tech sector is deeply connected with the US). As seen in other trade agreements, one option is to require higher shares of local content in US-bound products. Less important concessions include importing more halal beef, relaxing certification requirements on vehicle imports, increasing capex on US imports of aircraft, reducing import taxes, and lowering alcohol taxes. In equities, we prefer to take shelter in companies with domestically driven revenues and defensive dividend yielders.

Thailand's sticking points are more difficult to overcome. Efforts to raise US agriculture purchases are unlikely to significantly close its USD 45bn trade surplus with the US. Meanwhile sectors like autos and auto parts (34% tariffs), furniture (18%), and dairy (31.5%) stand to lose if tariff protection is removed. Thailand must also deal with the China transshipment perception, given a substantial 28% of its imports are from China and its relatively high US market share. In response, Thailand has pledged to tighten inspection on products shipped to the US. But we expect a deal to be difficult with initial trade talks already facing a delay.

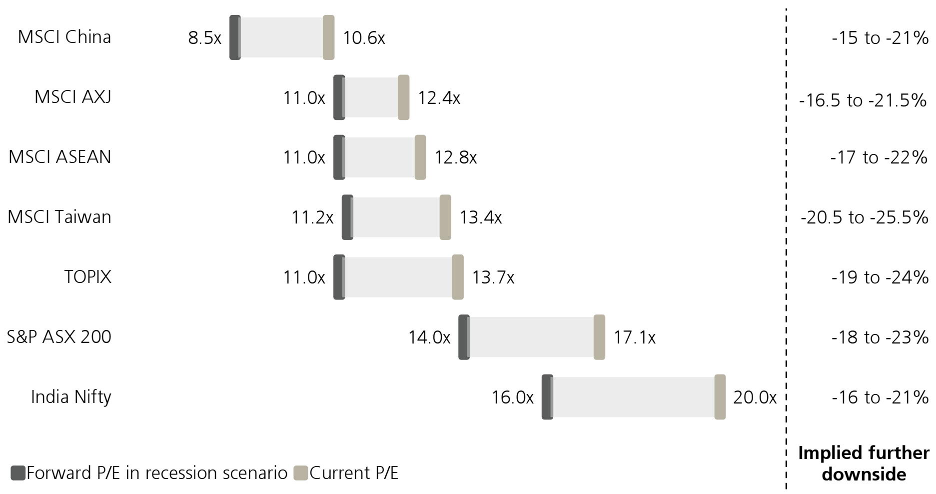
Deal and no-deal scenarios

Markets that have been most oversold on trade fears should benefit the most from trade deals.

We ultimately expect several deals to lower or rescind "reciprocal tariffs" in Asia, limiting the regional export damage (excluding China) to mid-single digit contraction. Early deals should also pave the way for successful negotiations with other countries, bringing down the effective US tariff rate by year-end and reducing tail risks of a policy-induced US recession. Markets that have been most oversold on trade fears, such as Taiwan, should benefit the most. But broadly, Asia ex-Japan still trades near historical averages and is unlikely to rerate until there is far more policy clarity. We remain Neutral on the overall market.

A no-deal scenario, where negotiations fail to lower or rescind reciprocal tariff rates, would bring us back to our pre-pause assumptions. Regional exports could contract by double-digits for trade-oriented economies, growth could take a 200bps hit, and US growth would fall close to or into a recession. Local equity markets are not pricing in such a scenario and could derate by -7.5% to -12.5% if it emerges.

Valuation estimates for select Asian equity markets in recession scenario



Source: Bloomberg, UBS estimates, as of April 2025

The Art of the Deal meets *The Art of War*

Trade talks with China are unlikely to begin until US tariffs are rolled back to pre-Liberation Day levels, in our view.

Of course, a banner deal that averts a full-scale decoupling between the US and China would have the most meaningful impact. But though President Trump has walked back his rhetoric and says a deal could be completed within a month, there is no evidence that any constructive bilateral talks have begun. China says "all unilateral tariffs" on it must be removed for equal dialogue, suggesting Beijing will only agree to negotiations once the US pauses and rolls back its tariffs to manageable levels—perhaps to pre-Liberation Day levels of around 30% at a minimum. We expect more US rollbacks/exemptions to start in the weeks and months ahead given economic, legal, and political pressure, paving the way for both sides to talk at some point.

US pressure on other countries to curb trade with China could extend this timeline, alongside non-tariff moves like tech restrictions and threats of forced ADR delistings. China could also continue to target American firms with anti-trust probes, tighten export controls on rare earths and restrict US-bound travel. However, we think the effectiveness of further escalation is limited with tariffs already at levels that effectively block all trade between the two economies.

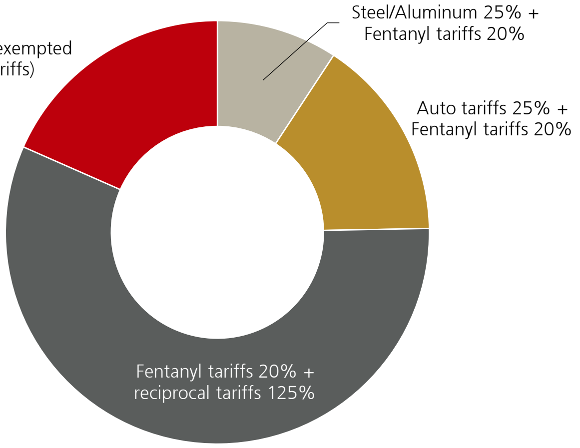
Once trade talks begin, China may be willing to buy more US energy and agricultural goods, as well as services (i.e., movies). China could also agree to address illegal immigrants and fentanyl control, revive a deal on TikTok, and cooperate on geopolitical issues.

Current tariff rates will likely push Chinese GDP growth below 4% this year.

But with the timelines for negotiations and parameters of a deal still unclear, we estimate current tariff rates could result in around 200bps growth drag on China through 2026, which could push GDP growth below 4% this year. Though 1Q GDP came in stronger than expected at 5.4% on the back of export frontloading, a policy-induced consumption recovery, and strong manufacturing capex, the number matters less than usual given the implementation of US tariffs from 2Q onwards. In the absence of near-term trade talks, we expect stronger policy support to mitigate the damage.

About 60% of US imports from China face 145% tariff hike

Additional tariff rate for US imports from China in 2025



Source: White House, USITC, US Customs & Border Protection, UBS, as of April 2025

China's self-help strategy

Just like the 2018-19 trade war jumpstarted the China+1 strategy to diversify supply chains, the current trade war has incentivized Beijing to double down on its longer-term "self-improvement" plan. The strategy aims to strengthen domestic resilience by boosting consumption and tech innovation, while leveraging its traditional manufacturing dominance to support areas like AI-related infrastructure.

The pivot makes sense in the face of huge external pressure. The domestic market should theoretically be able to partially offset any decline in exports given its vast size and household savings. However, a multi-year property downturn, labor market challenges, and underperforming markets have sapped the needed consumer confidence and appetite. If structural reforms and policy support can revive domestic spirits, we think the self-help plan can effectively boost longer-term productivity and growth.

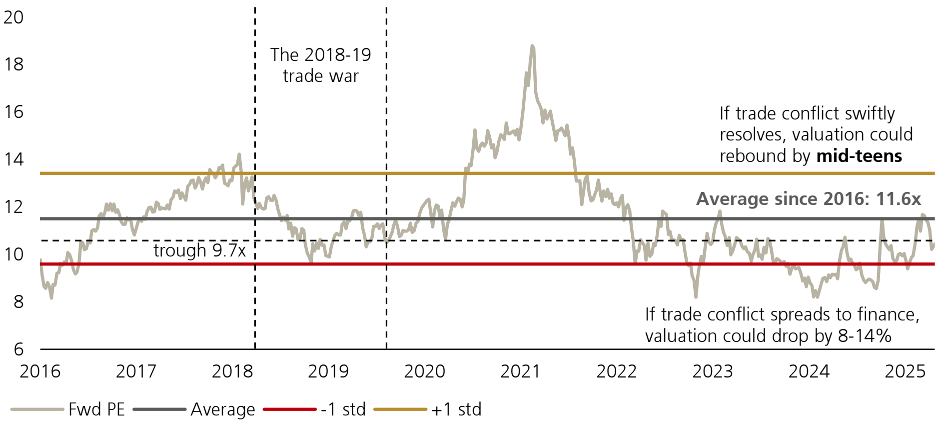
Prepare for more twists and turns
We remain Neutral on Chinese equities. With the ball in Washington’s court, we think the timeline for trade talks to begin will only become clearer once the US takes the first step to remove its post-Liberation Day tariff hikes. Negotiations could also be prolonged and difficult, with China unlikely to agree to major concessions. Still, we expect tariff rates to eventually return to manageable levels, policy support is being ramped up, and micro trends in industries like AI and EV remain compelling.

We see more volatility ahead for Chinese equities, but further upside once the US and China begin to work constructively on a deal.

Though Chinese equities have pared back some of their strong 1Q gains, they remain a major outperformer year-to-date (+9%). We still see a period of elevated volatility and advise patience until it becomes clear that the US and China have begun to work constructively on a deal. But as progress is made, we think the broader China market can resume its upward trend through year-end. To position, we prefer to diversify into defensive SOE names in the financial, energy, telecom, and utilities sectors. We also like select e-commerce and consumer staples as beneficiaries of consumption stimulus. For the medium to long term, leading EV manufacturers look attractive due to their competitive cost advantages.

Chinese equity valuations hinge on tariff negotiations

Historical valuation of Chinese Equities



Source: LSEA, UBS estimates, as of April 2025

Investors must also be prepared for plenty of twists and turns. In an upside case, where President Trump quickly agrees to lower tariffs back to pre-Liberation Day levels, talks begin, and a faster-than-expected agreement is reached, we see a stronger mid-teens' rerating led by the China internet sector. However, if tensions ratchet up even further via secondary tariffs from US trade deals, new tech restrictions, and forced ADR delistings, we think Chinese equities could derate by 8-14% in a downside scenario.

We see limited fallout from potential ADR delistings and a low risk that the US will restrict American investment into Chinese companies.

While forced Chinese ADR delistings has re-emerged as a risk following recent comments from US Treasury Secretary Scott Bessent, the fallout from such a move should be relatively contained. Most Chinese companies have already shifted their listings from the US to Hong Kong, with more than 80% of Chinese ADRs in the MSCI China basket holding a dual secondary or even dual primary listings in Hong Kong. The bigger concern, in our view, is whether the US government places restrictions on US investors’ ownership (which would hurt US investors more). On the flip side, we think the risk that China weaponizes its holdings of US Treasuries and equities is also low.

What does waning US(D) exceptionalism mean for regional currencies?

An unexpected side effect of the trade war and broader US policy uncertainty has been a shift away from the US exceptionalism theme that's dominated markets for the better part of the last decade.

We expect a broad-based tariff war to have a bigger negative impact on US growth than the rest of the world.

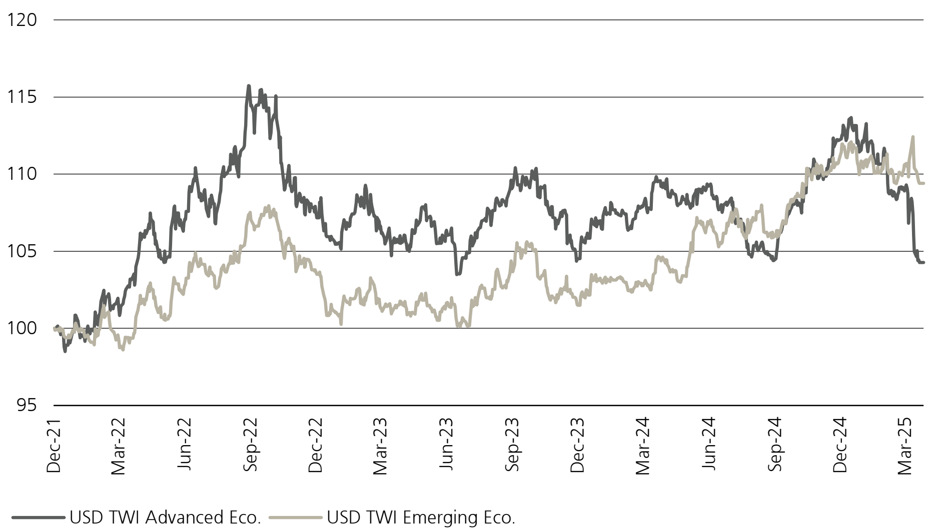
One of the biggest casualties has been the US dollar, which has bucked its role as a traditional safe haven and fallen sharply by around 9% from its January highs. The weakness reflects concerns that a broad-based tariff war (against all countries simultaneously) will exert a bigger negative impact on US growth than the rest of the world. Indeed, we have sharply downgraded US GDP growth by 50bps for 2025 (from 2% to 1.5%) and 110bps (from 1.8% to 0.7%) for 2026, even after factoring Trump's tariff pause.

The USD could rebound in the short term, but we expect it to weaken over the longer term.

How should investors think about USD from here? On a short one-month view, we think the USD has been oversold and could regain some lost ground versus Asian currencies as trade deals are inked and recession fears ebb. However, the dollar's longer-term trajectory is more important. We see USD weakness returning over the medium term, especially against G10 peers, as the US economy slows more than elsewhere, the Fed restarts its interest rate cuts, and investors are driven away by US policy unpredictability. As such, we would use short-term dollar rallies to reduce USD allocations.

USD weakness has been uneven, mainly versus advanced economies (G10 currencies)

Daily data



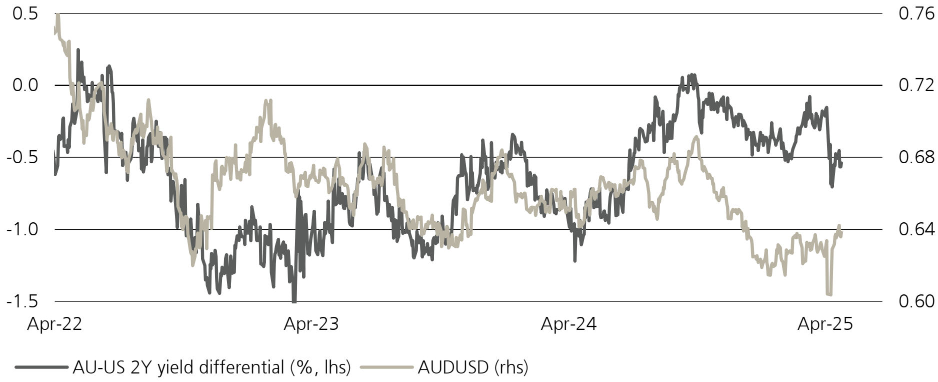
Source: Bloomberg, UBS, as of April 2025

Regionally, we think the JPY and AUD are most attractive against the USD over the medium term.

Regionally, we think the JPY and AUD are most attractive against the USD over the medium term. Though the yen has already strengthened nearly 12% against the dollar since early January (from 159 to 141) and stretched technicals could limit short-term moves, we think the currency remains a good hedge against Trump policy uncertainty and should be supported by normalizing monetary policy through 2026. It's worth noting that talk of a "Mar-a-lago Accord" to weaken the dollar against currencies like the yen has emerged, but we see this as an unlikely risk case that Japanese officials will not agree to given their experience with the Plaza Accord. Nevertheless, Japan could pledge some form of yen support in the face of US pressure.

Rate dynamics have historically been supportive

AUDUSD 2Y rate spreads vs. AUDUSD



Source: Bloomberg, UBS, as of April 2025

For the AUD, the prospect of trade deals, a narrowing yield differential with the US in 2H25, and stimulus in China support our target of year-end target of 0.66 (and 0.68 at end-March 2026). Across the rest of the G10 space, we see the EUR and GBP as most attractive. Gold has been a standout performer, and we expect it to rally further as geopolitical uncertainty, near-term inflation concerns, and strong central bank buying underpin demand.

Asset allocation

- Regional trade should fall, led by China, as US tariffs take effect in 2Q onwards and push down volumes and pricing power. Regional central banks are likely to cut 3-4 times following the Federal Reserve.
- We keep Asia ex-Japan equities as Neutral after our mid-March downgrade. We prefer to focus on select markets such as Taiwan and India.
- Asia credit remains Attractive. While spreads may be volatile in the near term, we think Asia credit's strong fundamentals and low tariff exposure make it a stable carry asset. The asset class should also benefit from Fed rate cuts and is a good portfolio diversifier for Asia equities.
- The CNY remains Unattractive. It should continue to underperform on a trade-weighted basis due to ongoing tariff stability but should be steadier vs. the USD.

Summary

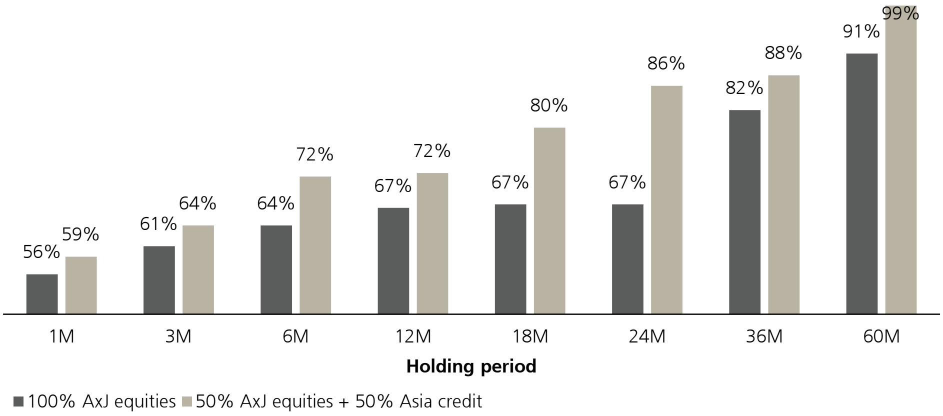
US tariffs on Asia will be the key near-term focus. In particular, we are closely monitoring the impact on Asian exports and growth and the outcome of trade negotiations. Trade-driven economies face bigger downside risks to growth. Regional central banks are likely to cut 3-4 times following the Fed, given fading USD strength and stabilizing FX reserves in many Asian markets.

Asia credit is maintained as Attractive. All-in yields are around 6.0%, providing good carry. Despite recent volatility across global equity and high yield markets, total returns for Asia credit, as measured by the JACI index, has remained positive as well at 1.2% YTD. While spreads may continue to see some widening pressure in the near term, the extent should be mild and offset by falling US Treasury yields. As a result, we think Asia credit should still be able to achieve mid- to high-single digit returns for 2025. It can also be an effective diversifier for Asian equities, helping investors navigate near-term volatility and increasing the potential for positive portfolio returns in the long run.

Asia ex-Japan equities as a whole is kept as Neutral after our mid-March downgrade. We focus on select opportunities such as Taiwan and India. The tailwind from a weakening dollar could support Asia ex Japan equities, but intensified tariff uncertainty will likely drag on exports in the future. We believe current valuations may not be fully pricing in these growth and tariff risks.

Asia credit can be an effective portfolio diversifier, smoothing volatility and increasing the likelihood of positive returns

Likelihood of positive return under various holding periods



MSCI Asia ex Japan total return gross index, JACI composite index, monthly rebalancing from January 2010 to December 2024.
Source: MSCI, JPM, UBS

Asia credit and Asia IG are Attractive. We believe the carry in Asia credit, which comprises around 85% investment grade (IG) and 15% high yield (HY) with an average yield of 6%, continues to look attractive despite the recent spread volatility. Year-to-date, Asia credit bonds have returned 1.2% (based on the JACI index) due to good carry and falling US yields. If rates continue to trend lower, then total returns could land in the mid- to high-single-digit range for the full-year 2025, with most of the contribution from rates and carry.

JACI index credit spreads have widened around 40bps YTD on the back of slowing growth and recent escalation in trade tensions, with broad-based reciprocal tariffs announced on all Asian countries. However, the selloff has been more orderly than what was observed in equities, given that positioning in Asia credit has been light and few issuers have high exposure to tariffs. We expect spreads to remain volatile in the near term due to the negative sentiment backdrop, but further widening could be viewed as an attractive opportunity to pick up quality Asia bonds. Overall fundamentals have been solid going into 2025, net supply is low, and a mild slowdown in the Asian macro environment has already been priced into spreads. While IG rating migrations have turned net negative in March, we have continued to see strong upward rating migration trends HY. Defaults are also likely to be fairly limited this year. As such, in an environment of uncertainty, we believe that Asia IG and select Asia HY in the BB rated segment can be attractive portfolio stabilizers given high all in yields. With cash yields having already declined by 100bps in 2024, and likely a further 75-100bps by end-2025, extending duration from cash into Asia credit (average duration of 4.5 years) provides an opportunity to lock in attractive yields while capturing additional carry from credit spreads.

Asia ex-Japan equities are Neutral. After a mid-March downgrade from Attractive, we remain Neutral on the Asia ex-Japan market in the near term given elevated tariff uncertainty. We prefer to stay selective in the region and focus on opportunities in Taiwan and India, which should benefit from strong AI links and resilient domestic demand.

The CNY is Unattractive. Despite a recent broad weakening of the DXY dollar index, the CNY has remained stable versus the USD. Going forward, we think the CNY should continue to underperform broadly on a trade-weighted basis but trade steadier against the USD, which we expect to remain under downward pressure over the medium term amid policy uncertainty and Fed rate cuts.

Messages in focus

Seek durable income

Despite the significant increase in downside risks to growth, bond yields have remained elevated. We believe this creates an opportunity for investors to seek durable portfolio income. High grade (including Agency MBS, municipal and sustainable bonds) and investment grade bonds offer attractive risk-reward and can help hedge against market downturns. Much wider credit spreads are improving the outlook for riskier credit; however, with economic visibility low, we prefer diversified portfolio income strategies—including senior loans, private credit, equity income, and higher quality credit.

Navigate political risks

Gold remains near record highs, reaffirming its value as a hedge amid ongoing geopolitical and political risks. With our price target raised to USD 3,500/oz through early 2026, we see gold well supported by "safe haven" demand and structural buying. We favor using dips as buying opportunities or entering defensively to protect gains. For investors seeking to preserve gains while retaining upside, capital preservation strategies can also be applied in equities. Silver, meanwhile, offers a complementary play, with investment demand expected to support prices alongside gold.

Phase into equities

While we expect near-term volatility to remain high, we anticipate equities will rise by year-end as the Trump administration strikes deals to reduce tariffs, and as rate cuts and potential fiscal support improve investor sentiment. Investors can navigate near-term volatility and position for longer-term upside by phasing into US equities or balanced portfolios, or by utilizing capital preservation strategies.

Seek sell-off opportunities

Recent volatility has created select attractive opportunities at the single stock and market level, with various companies with strong long-term prospects now trading at more attractive valuations. In the US, we have identified 20 companies across sectors that are higher quality, have solid business models, and offer good long-term value. In Europe, our "Six ways to invest in Europe" list focuses on defensive champions benefiting from market volatility, higher defense spending, and fiscal stimulus. In Asia, we favor India and Taiwan.

Sell dollar rallies

Following a recent sell-off, we expect the US dollar to stabilize in the near term, as the Federal Reserve remains cautious on rate cuts while other central banks ease policy in response to weaker growth. In our view, current dollar levels are only justified if there is a significant deterioration in US economic activity or a major increase in political uncertainty. Over the medium term, we anticipate renewed dollar weakness as the US economy slows and focus shifts to the US's large deficits. We prefer using any periods of near-term dollar strength as an opportunity to reduce USD allocations in favor of currencies such as the yen, euro, pound, and Australian dollar.

Invest in transformational innovation

We maintain strong conviction in the long-term potential of our Transformational Innovation Opportunity themes, including Artificial intelligence, Power and resources, and Longevity. While recent market volatility has weighed on these sectors, we see this as an opportunity for long-term investors to build exposure to what we believe will be among the world's fastest-growing industries. Phasing into investments or using capital preservation strategies can help manage short-term risks. We also see compelling opportunities for sustainability-focused investors, particularly in energy and health care, given the ongoing global emphasis on energy security and improved health outcomes.

Diversify with alternatives

More uncertain markets make diversification even more critical—both across and within alternative assets. In hedge funds, we favor low net equity long/short, macro, and multi-strategy approaches. Within private markets, we prefer private credit, value-oriented buyouts, and secondaries, including infrastructure. Thematically, we favor software, health, and climate. We also see a bright outlook for quality assets in global residential and commercial real estate, particularly in logistics, data centers, and multifamily housing.

Strengthen your core

Periods of market volatility can quickly reveal parts of a portfolio that may not be working effectively toward long-term goals. We generally recommend that investors implement a "core" portfolio, well-diversified across asset classes, geographies, and sectors, designed to grow wealth steadily over time. This "core" can be held alongside more opportunistic "satellite" investments, allowing investors to stay on course for long-term goals even as markets and "satellite" investments become more volatile.

UBS APAC forecasts

APAC economic forecasts

% change y/y

	GDP				CPI			
	2023	2024E	2025E	2026E	2023	2024E	2025E	2026E
Australia	2.1	1.0	1.9	2.0	5.6	3.2	2.4	2.5
New Zealand	1.8	–0.5	1.0	2.3	5.7	2.9	2.3	2.2
China	5.4	5.0	3.4	3.0	0.2	0.4	–0.6	–0.5
Indonesia	5.0	5.0	4.7	4.8	3.7	2.3	1.5	2.6
Malaysia	3.6	5.1	4.0	4.3	2.5	1.8	2.1	3.1
Philippines	5.5	5.6	5.8	5.6	6.0	3.2	2.4	2.9
Thailand	2.0	2.5	1.5	1.7	1.2	0.4	0.5	1.0
South Korea	1.4	2.1	1.0	1.8	3.6	2.3	1.9	1.7
Taiwan	1.1	4.6	2.6	2.5	2.5	2.1	1.8	1.6
India	9.2	6.5	6.0	6.4	5.4	4.6	4.0	4.2
Singapore	1.8	4.4	1.2	1.9	4.8	2.4	1.0	1.8
Hong Kong	3.2	2.5	1.0	1.8	2.1	2.0	1.2	1.6
Japan	1.5	0.1	0.8	0.3	3.3	2.7	3.0	1.2
Asia ex-Japan	**5.7**	**5.1**	**3.9**	**3.9**	**2.1**	**1.8**	**1.0**	**1.2**
APAC	**5.3**	**4.6**	**3.6**	**3.6**	**2.3**	**1.9**	**1.2**	**1.2**

Source: UBS, as of 23 April 2025

APAC currencies versus the USD

We see limited upside potential for Asian currencies in 2025

	25-Apr-25	Jun-25	Sep-25	Dec-25	Mar-26
USDCNY	7.30	7.30	7.25	7.20	7.15
USDIDR	16,865	16,900	16,900	16,800	16,800
USDINR	85.4	89.0	89.0	88.5	88.0
USDKRW	1,421	1,480	1,480	1,460	1,440
USDMYR	4.39	4.50	4.50	4.45	4.40
USDPHP	56.57	59.50	59.50	59.00	59.00
USDSGD	1.31	1.35	1.34	1.33	1.33
USDTHB	33.42	35.00	34.80	34.50	34.50
USDTWD	32.49	33.20	33.00	32.50	32.50
USDJPY	143	144	142	140	138
AUDUSD	0.64	0.64	0.66	0.68	0.70
NZDUSD	0.60	0.60	0.61	0.62	0.64

Source: Bloomberg, UBS, as of 25 April 2025

Appendix

Global asset class preferences
The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid, commonly known indexes, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities.

Note: For equities, we have collapsed "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive" from the five-tier rating system that is found in the Equity Compass into 3 tiers.

Non-Traditional Assets
Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments

1. are not mutual funds and are not subject to the same regulatory requirements as mutual funds;
2. may have performance that is volatile, and investors may lose all or a substantial amount of their investment;
3. may engage in leverage and other speculative investment practices that may increase the risk of investment loss;
4. are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop;
5. interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer;
6. may not be required to provide periodic pricing or valuation information to investors;
7. generally involve complex tax strategies and there may be delays in distributing tax information to investors;
8. are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- Hedge Fund Risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- Managed Futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- Real Estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short no-tice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

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