UOB

2025 Market Outlook

Navigate market currents in dynamic conditions

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Personal Financial Services

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Personal Financial Services

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Deposits and Wealth Management,
Personal Financial Services

Low Xian Li
Wealth Management Advisory,
Deposits and Wealth Management,
Personal Financial Services

Zack Tang
Wealth Management Advisory,
Deposits and Wealth Management,
Personal Financial Services

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Foreword

Jacquelyn Tan

Managing Director
Head, Group Personal Financial Services

As we enter 2025, we expect significant changes in global dynamics, especially with the return of United States (US) President-elect Donald Trump to the White House.

This transition in leadership is expected to result in shifts to both domestic and foreign policies. The administration's decisions and policy implementations will undoubtedly influence the economic and financial outlook.

This offers both opportunities and challenges.

An economic growth divergence may emerge this year. While policies that support growth are likely to benefit the US economy, potential trade disputes could be a challenge for countries dependent on exports.

Inflation has also continued to slow down over the past year, lowering costs for businesses and easing living expenses for households. Although we expect this trend to continue, we will need to consider the potential inflationary effects of certain Trump policies. Global central banks will need to monitor inflation closely, and any interest rate cuts may be cautious.

Considering these unpredictable policy shifts, it is essential to build a strong and diversified investment portfolio. As different opportunities and challenges arise, it is important to stay nimble and proactively manage your portfolios while enhancing investment income. More importantly, prioritise your risk tolerance over potential returns.

Our market insights and strategies are designed to help you navigate the changing economic currents so you can stay on track towards your financial objectives. We look forward to working together to help you build a resilient portfolio and achieve your financial goals.

Key Considerations and Strategy

Navigating President-elect Trump's potential policies

TRUMP'S PROPOSED POLICIES	POTENTIAL IMPACT
Tax Cuts and Deregulation Policies • Lower corporate taxes • Extend individual tax cuts • Deregulation of certain industries	• Benefits US economy • Boosts US stock markets • Potentially higher US fiscal deficit
Tariff Policy on Imports • Potential tariffs on imports into the US • Major targets will be countries with high trade surplus against the US	• Heightened trade tensions if other countries retaliate • Higher inflation caused by higher import prices may affect the US Federal Reserve's (Fed) interest rate path
Immigration Policy • Tighter immigration controls	• Tightens the US labour market, leading to higher wage growth • Inflation may rise and corporate profit margins may be affected

INVESTMENT STRATEGY

Build a resilient portfolio with Core investments which are less reliant on market cycles before considering Tactical investments which offer potentially higher returns over the short and medium term but can also represent greater risk.

Build an income portfolio through investment grade bonds and quality dividend stocks.

Stay agile and proactive to take advantage of tactical investment opportunities.

Source: UOB PFS Wealth Management Advisory

2025 Outlook

2025 Outlook
Economic Outlook

Economy

Over the past year, the global economy has been gradually slowing, yet remains resilient because of a robust labour market. This trend of gradually slowing global growth is likely to continue although the downside risk will increase if global trade tensions escalate significantly. Heading into 2025, there has been a divergence within developed market economies where the manufacturing sector has been sluggish but overall growth has been supported by strong services activity.

The global economic outlook for 2025 is heavily dependent on the policies implemented by United States (US) President-elect Donald Trump. With the Republican party securing a clean sweep of control of the US Senate and House of Representatives, President-elect Trump may be emboldened in pushing through his policy priorities. Nonetheless, it is important to understand that President-elect Trump's implemented policies may differ from his campaign policy pledges.

Based on what we currently know about Trump's policy priorities, an economic growth divergence may emerge this year where the US economy outperforms global peers over the coming quarters (Figure 1). The laggards will be countries most affected by trade tariffs.

Pro-growth policies like tax cuts and deregulation are expected to further support the US economy which has been underpinned by resilient consumer spending. That said, consumption may slow slightly over the coming year.

In the near-term, global exports will likely be supported as companies rush to front-load shipments ahead of potentially new trade tariffs imposed by the US. As the year progresses, the trade outlook will become less certain, and tariffs may end up casting headwinds for export-reliant economies.

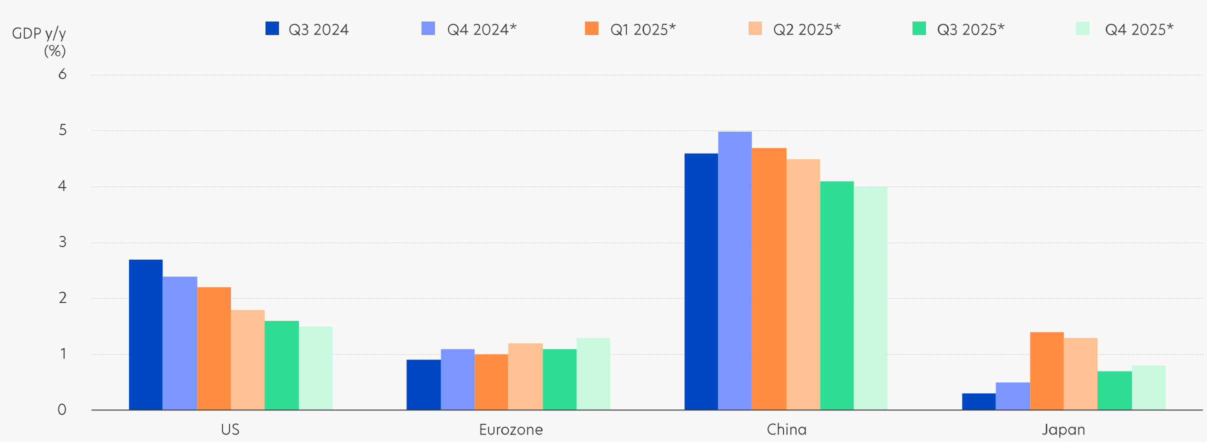
The biggest risk for the global economy is tit-for-tat trade restrictions. While we believe President-elect Trump will use the tariff threat as an opening negotiation ploy to yield concessions from trade partners, his first term highlights that investors should be mindful of a deterioration in global trade relations. Other risks to consider are ongoing geopolitical conflicts, political gridlock in some countries, China's growth slowdown, and extreme weather patterns.

Inflationary pressures have eased over the past two and a half years, reducing input costs for businesses and easing the cost-of-living squeeze on households. This has allowed many global central banks to turn their focus towards economic growth risks by cutting interest rates. Looking ahead, the risk is that tariffs imposed by the US may cause inflation to re-accelerate, so rate cuts may be cautious and more gradual over this year.

The Chinese economy will continue to face challenges ahead. Over the past year, it has been propped up by export demand stoking a manufacturing recovery, offsetting headwinds caused by a weak property market and sluggish domestic consumption. As trade tensions with the US looks likely to increase in the coming year, it is increasingly important that domestic consumption stabilises and supports economic growth. This will require significant fiscal and monetary stimulus from the government.

The outlook for other Asian economies will depend on China's growth path and the scale of US tariffs. ASEAN economies may see heightened scrutiny due to its rising trade surplus with the US, but a continued increase in foreign capital investments, a large and young population base, and stable political environment are positive factors.

Figure 1: Global growth to slow slightly but still in expansion



* Data is forecasted by UOB.
Source: UOB Global Economics & Market Research, Bloomberg (30 November 2024)

2025 Outlook
Economic Outlook

Inflation

Since the middle of 2022, inflation has been slowing, and in most countries, it has converged towards the 2% level targeted by most central banks.

While this was expected to continue for the coming year, the inflation slowdown may falter if services prices stay elevated. Unusual weather patterns also have a negative impact on global agricultural commodity supply, potentially leading to higher prices.

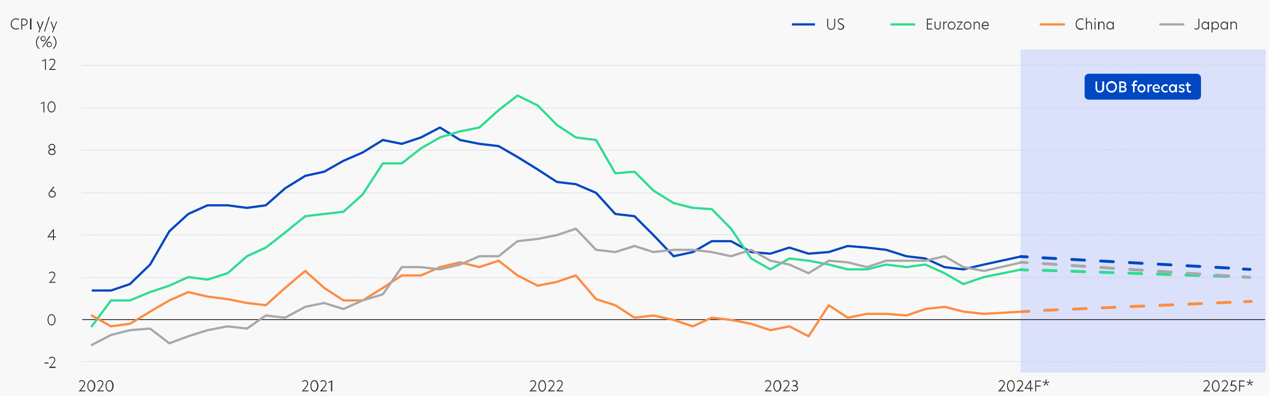
We now also need to factor in the inflationary impact of certain policy priorities of US President-elect Trump.

For the US, an extension of individual tax cuts will support consumption demand, preventing a drastic slowdown in inflation. New import tariffs imposed by the Trump administration will potentially mean higher end-prices paid by American consumers, causing inflation to re-accelerate in the US. Trump's immigration policy proposal of large-scale deportation could lower the workforce number, leading to higher wages, and consequently higher inflation.

As for the rest of the world, an escalation of trade tensions will affect global supply chains, potentially resulting in higher prices.

While we await President-elect Trump's policy implementation, the outlook calls for stable inflation (Figure 2), but we acknowledge there are greater upside risks for inflation in the year ahead.

Figure 2: Outlook of stable inflation complicated by potential tariffs



* F and dotted lines represent yearly average consumer price index (CPI) forecasted by UOB.
Source: Bloomberg (30 November 2024)

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Central Bank Policies

Over the past year, the slowdown in inflation has allowed many central banks to shift their focus towards supporting economic growth. This is evident in the increasing number of central banks that have cut interest rates recently.

Encouragingly, these rate cuts are not because of recession concerns but represent a fine-tuning of monetary policy to reflect the current inflation and growth outlook.

For 2025, the path of global monetary policy will be heavily dictated by both the economic and inflationary impact of US President-elect Trump's policies.

The outlook is for cautious rate cuts ahead, and the magnitude and pace of rate cuts will vary across global central banks because different economies will be affected differently by US policies (Figure 3).

We expect the US Federal Reserve (Fed) to deliver only one 25 basis points (bps) rate cut in the second quarter of this year because the US labour market has proven to be more resilient than expected while US President-elect Trump's tariff policy could cause inflation to re-accelerate. Thereafter, we expect the Fed to keep interest rates on hold for the rest of 2025.

Given economic weakness and a quicker slowdown in inflation, we expect the European Central Bank (ECB) to bring forward 100 bps of rate cuts to the first half of this year, via 25 bps reductions in January, March, April and June. This will lower the deposit rate to a neutral level of 2% by the end of the second quarter of 2025. If rising trade tensions dampen Eurozone exports and economic growth by more than currently expected, the ECB may have to react with even more rate cuts.

China has announced it intends to pursue a "moderately loose" monetary policy strategy to support an economy facing both domestic and foreign headwinds, suggesting more rate cuts ahead. That said, China faces limits on how much it can cut interest rates as potential capital outflows could drive depreciation pressure on the Chinese Yuan (CNY). Instead of aggressive rate cuts, we think China's central bank (PBoC) will focus on reducing banks' reserve requirement ratio[1] (RRR) by another 50-100 bps this year. We also expect a 30 bps cut in total to the benchmark 7-day reverse repo rate[2] and also the 1-year and 5-year loan prime rates[3] (LPR).

Despite muted inflation across the region, other Asian central banks are likely to stay cautious. While potential growth headwinds caused by US tariffs may warrant rate cuts, Asian central banks could refrain from aggressive moves given concerns over currency weakness and capital outflows.

Japan is likely to remain the outlier as the only major central bank raising interest rates, although we expect only one more rate hike early this year before interest rates are held steady.

We acknowledge risks to our interest rate outlook. If trade tensions result in tit-for-tat retaliatory tariffs and countries prioritise a policy of onshoring supply chains, a re-acceleration of inflation in some countries and weaker economic growth in other countries could result in a desynchronised path for global interest rates.

Figure 3: Cautious rate cuts expected ahead

	End-2024	1Q 2025*	2Q 2025*	3Q 2025*	4Q 2025*
Fed	4.50	— 4.50	▼ 4.25	— 4.25	— 4.25
ECB	3.15	▼ 2.65	▼ 2.15	— 2.15	— 2.15
PBoC	3.10	▼ 2.90	▼ 2.80	— 2.80	— 2.80
BOJ	0.25	▲ 0.50	— 0.50	— 0.50	— 0.50
BNM	3.00	— 3.00	— 3.00	— 3.00	— 3.00
BI	6.00	— 6.00	— 6.00	▼ 5.75	▼ 5.50
BOT	2.25	▼ 2.00	— 2.00	— 2.00	— 2.00

* Data is forecasted by UOB.
Fed rate refers to Federal Funds Target Rate – upper bound in the United States (US). ECB rate refers to main refinancing rate in the Eurozone. PBoC rate refers to 1-year loan prime rate in China. BOJ rate refers to short-term policy rate in Japan. BNM rate refers to Overnight Policy Rate in Malaysia. BI rate refers to 7-day Reverse Repo Rate in Indonesia. BOT rate refers to 1-day bond repurchase rate in Thailand. ▼ indicates interest rate is lower than previous quarter. — indicates interest rate remains the same as previous quarter. ▲ indicates interest rate is higher than previous quarter.
Source: Bloomberg, UOB Global Economics & Market Research (13 January 2025)

1 The reserve requirement ratio (RRR) is the percentage of deposits that financial institutions are required to hold as reserves at the central bank.
2 The 7-day reverse repo is a type of short-term loan the central bank uses to control financial system liquidity and influence other rates in the banking system.
3 The loan prime rate (LPR) is a benchmark for lending rates and serve as a reference for banks in setting loan interest rates, influencing borrowing costs for businesses and consumers.

2025 Outlook

Country Focus

United States

The United States (US) economy has proven resilient over the past year, underpinned by a robust labour market and strong domestic consumption. In comparison to its developed market peers, the US economy outperformed in 2024.

For 2025, we expect US economic outperformance to continue because of President-elect Trump's pro-growth policies like tax cuts and deregulation. Such policies are expected to boost business confidence, corporate expansion plans, consumer spending and investment sentiment.

That said, there will be a lag to the fiscal boost as implementation of fiscal policy may only happen in the second half of the year. In addition, tougher immigration policies may also affect labour supply, business plans, and overall economic activity. Heightened trade tensions may also affect global supply chains and negatively affect economic productivity.

While US domestic consumption remains strong, consumers in the lower-middle income brackets are starting to be more price conscious in their purchases. This will be even more apparent if tariffs are raised ahead. We also expect the US unemployment rate to edge up further to 4.5% by the end of this year.

Considering all the above factors, we expect 2025 US gross domestic product (GDP) to slow to 1.8%, though still resilient. This is however dependent on the scale and timing of President-elect Trump's policies.

While we expect headline inflation to slow to an average of 2.4%, we acknowledge upside inflationary risks posed by Trump's policies.

We expect the US Federal Reserve (Fed) to only deliver one 25 basis points (bps) rate cut in the second quarter of this year. Thereafter, we expect the Fed to keep interest rates unchanged for the rest of the year, leaving the upper bound of Federal Funds Target Rate (FFTR) at 4.25%.

Eurozone

The Eurozone economy faces downside risks in the year ahead. This is due to the simultaneous growth slowdown and political uncertainty in Germany and France. This means the two biggest European economies may not be able to support regional growth. Beyond this, a potential escalation in trade tensions with the US also complicates the Eurozone economic outlook, particularly for exporters. US President-elect Trump has already threatened the European Union with tariffs if its member countries do not buy more American oil and gas to lower their trade deficit with the US.

For now, European labour markets remain strong with the Eurozone unemployment rate at a record low of 6.3%. While wage growth has been elevated, we expect this to ease over the coming year in response to a weaker economy. Given weakening growth prospects and with inflation set to slow further, we expect the European Central Bank (ECB) to bring forward pre-emptive interest rate cuts into the first half of the year. We expect 25 bps rate cuts at each of the next four policy meetings, January, March, April and June, to bring the deposit rate down to a neutral level of 2% by the end of the second quarter of 2025. The ECB will likely keep monetary policy unchanged for the second half of the year.

That said, we acknowledge that if rising trade tensions dampen Eurozone exports and economic growth by more than currently expected, the ECB may have to react with even more policy easing.

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Country Focus

China

China's economy will likely face significant challenges this year due to property market weakness, sluggish domestic consumption and potential trade tensions with the US. Provincial government finances remain stretched while long-term relocation of supply chains caused by US trade policy may also undermine China's domestic manufacturing activity.

The key uncertainties lie in the timing and scale of US tariffs, and the magnitude and effectiveness of China's stimulus measures.

On its part, the Chinese government has signalled a greater urgency to support the domestic economy in 2025. The first steps came via a series of stimulus announcements at the end of September 2024. This was followed by the unprecedented strong signal of substantial monetary and fiscal stimulus issued at the 9 December 2024 Politburo meeting.

Notably, China's Politburo announced it will pursue a "moderately loose" monetary policy strategy for the first time since the Global Financial Crisis, as compared to the "prudent" policy strategy that has been in place since 2011. China's top leaders also signalled that fiscal policy will be "more proactive", a hint that fiscal spending will increase in 2025. In addition, Beijing pledged to stabilise the property and stock markets and use more policy tools to boost the economy.

This hints at further rate cuts, a higher budget deficit target closer to 4% of GDP than the implicit ceiling of 3% that will enable greater fiscal spending and asset purchases next year.

In the near-term, China's export volumes should remain buoyant, but the outlook is less clear as the year progresses if US tariffs are imposed.

China's strong signal of substantial monetary and fiscal stimulus is unprecedented, but stimulus pledges will need to be followed up with concrete measures. It remains to be seen if actual stimulus measures will be significant enough to generate a sustained recovery in domestic consumption which appears to be a key priority for China in 2025.

A focus on expanding domestic demand and consumption, and ending deflation will be increasingly important if trade tensions with the US rises.

We expect China's 2025 economic growth to slow slightly to 4.3%, although more punitive US tariffs will pose downside risks to this projection.

Investors have ramped up expectations of additional monetary easing by China's central bank (PBoC) to support the economy against increasing headwinds. However, potential capital outflows driving depreciation pressure on the Chinese Yuan (CNY) means there are limits to how much China can cut interest rates. We think the PBoC will focus on reducing banks' reserve requirement ratio (RRR) to release long-term liquidity into the financial system and expect another 50 to 100 bps of RRR cuts this year. We also expect a 30 bps cut in total to the benchmark 7-day reverse repo rate and also the 1-year and 5-year loan prime rates (LPR).

Japan

Japan's economy is likely to be supported by an expected consumption recovery driven by higher wage growth. This will be aided by continued tourist arrivals driving tourism revenue, and accelerated capital investments into semiconductor technology.

The recently approved JPY 21.9 trillion stimulus package will also support wage growth and help households cope with higher prices.

Nonetheless, there are external risks posed by potential trade tensions and China's growth slowdown, while domestic risks stem from a continuation of weak domestic consumption.

While we expect Japan's economy to grow 1.0% this year, this has been revised lower from the previous projection of 1.7%.

Japan's inflation has held above 2% since April 2022, but we expect both headline and core inflation to ease down to 2% this year.

Japan has been the outlier where their 2024 policy tightening focus was in response to above-target inflation and higher wage growth. We expect Japan's central bank (BOJ) to raise interest rates by 25 bps to 0.50% in March before keeping rates unchanged for the rest of the year due to external headwinds and domestic political uncertainty. However, there is a possibility the rate hike may be delayed until April or even later as the BOJ may want to gain clarity of US policies and Japan's wage growth trend.

2025 Outlook

Country Focus

Figure 4: Economic snapshots of major and selected regional countries

United States

2025

GDP Forecast **1.8%**

CPI Forecast **2.4%**

- President-elect Trump's pro-growth policies will likely result in the US economy outperforming most global peers.
- Outlook of slowing inflation may be challenged by potential trade tariffs that are inflationary by nature.
- The US Federal Reserve (Fed) is expected to deliver only one 25 bps rate cut in the second quarter of 2025.

Eurozone

2025

GDP Forecast **1.2%**

CPI Forecast **2.0%**

- Economic growth will face downside risks due to political uncertainty in France and Germany, and potential trade tensions with the US.
- Headline inflation is expected to slow, although a slight uptick is likely in the early 2025.
- A total of 100 bps in interest rate cuts is expected in 2025, delivered through 25 bps reductions each meeting in the first half of 2025.

China

2025

GDP Forecast **4.3%**

CPI Forecast **0.9%**

- Economic outlook hinges on significant Chinese stimulus offsetting trade tensions with the US.
- Inflationary pressures remain muted amid weak domestic demand and ongoing trade tensions.
- China's central bank (PBoC) is expected to lower key interest rates by 30 bps and banks' reserve requirement ratio* (RRR) by 50-100 bps in 2025.

Japan

2025

GDP Forecast **1.0%**

CPI Forecast **2.0%**

- Japan's JPY 21.9 trillion stimulus package and continued tourist arrivals are expected to support the domestic growth outlook.
- Wage growth may pose an upside risk to price pressures.
- The Bank of Japan (BOJ) is expected to raise interest rates by 25 bps to 0.50% in March 2025.

Indonesia

2025

GDP Forecast **5.3%**

CPI Forecast **2.8%**

- Economic growth is expected to quicken slightly, driven by higher fiscal spending and stimulus, higher foreign direct investments and consumption.
- Inflation will likely accelerate to 2.8% y/y but remain well within the central bank's target range of 1.5% - 3.5%.
- Bank Indonesia (BI) is expected to cut interest rates by 50 bps to 5.50% in the second half of 2025.

Malaysia

2025

GDP Forecast **4.7%**

CPI Forecast **2.3%**

- Malaysia's economy will likely expand at a slower pace as uncertainty on US trade policies and tariffs offset strong domestic fundamentals.
- Inflation is expected to quicken due to the government's plan to reduce fuel subsidies, raise minimum wages, and broaden sales and service tax.
- The Overnight Policy Rates (OPR) is expected to remain unchanged at 3.00% for the whole of 2025.

Singapore

2025

GDP Forecast **2.5%**

CPI Forecast **1.7%**

- Economy will likely slow, uncertainties over trade tariffs, geopolitical tensions and possible peak in electronics cycle will counter rate cuts.
- Headline and core Inflation are expected to fall to an average of 1.7% in 2025 due to easing import price pressures and services prices.
- The Monetary Authority of Singapore (MAS) is expected to reduce the slope of the Singapore Dollar Nominal Effective Exchange Rate^ (S$NEER) policy band by 50 bps in January 2025.

Thailand

2025

GDP Forecast **2.9%**

CPI Forecast **1.2%**

- Economic growth is expected to improve due to higher government spending, stimulus measures like cash handouts and a tourism recovery.
- Inflation outlook remains subdued due to weak private consumption, but fiscal stimulus and rising commodity prices could pose upside risks.
- The Bank of Thailand (BOT) is expected to lower interest rates by 25 bps to 2.00% in the first quarter of 2025 before staying on hold for the rest of the year.

GDP is gross domestic product. CPI is consumer price index.
* The Reserve Requirement Ratio is a monetary policy tool used by the PBoC to regulate the amount of commercial banks must hold in reserve.
^ Singapore Dollar Nominal Effective Exchange Rate (S$NEER) is a policy tool used by the MAS to manage the exchange rate of the Singapore Dollar.
Source: UOB Global Economics & Market Research (13 January 2025)

2025 Outlook
Asset Class Views

Stocks

The outlook for global stocks remains positive as the global economy continues to expand while corporate earnings remain resilient.

Nonetheless, periods of market volatility may be seen owing to uncertainties over United States (US) policies and the interest rate outlook. Stock market returns may vary for different countries, which will offer different opportunities for investors. The focus should be on economies and sectors with less export dependence on the US.

Looking broadly at global stocks, we favour investments in quality dividend stocks as dividend payouts will remain attractive due to strong balance sheets and cash flows. We also have a positive outlook for developed market financials and the technology sector.

A discerning approach is however required as certain markets and sectors will be impacted differently depending on the scale of policies implemented by US President-elect Trump. Drawing reference from Trump's first term between 2017-2020, the expectation of tax cuts triggered a sharp rally in US stocks across 2017 while the imposition of trade tariffs saw Chinese stocks underperform during 2018 (Figure 5).

One thing to be mindful of is that US President-elect Trump may implement both tax cuts and tariff policies concurrently this time, so the stock market's trend may not be as distinct as seen in 2017-2018. Instead, concurrent policy shifts may result in phases of market volatility this year.

We hold a neutral outlook for US stocks as valuations are arguably stretched. Nonetheless, Trump's pro-growth policies like tax cuts and deregulation will support US corporate earnings, while the US economy is set to outperform global peers. That said, US stock market returns are unlikely to be as strong as that seen in 2023 and 2024. In recent years, US mega-cap technology stocks have contributed disproportionately to broad index returns. In 2025, other US stocks outside of these mega-caps will likely catch up due to less expensive valuations and more domestic exposure, offering potential for better returns.

Trump's policy priorities will likely benefit US financials and the tech sector. For the US tech sector specifically, Trump's policies could encourage fresh research and development (R&D). Artificial intelligence (AI) innovation continues to power the technology sector, but sector leadership will eventually broaden out from mega-cap companies to other software companies.

Beyond this, quality US companies in economically sensitive sectors will benefit from the US' economic resilience. US small-cap stocks will also face less headwinds due to domestic-focused businesses.

The outlook for European stock markets is uncertain despite likely rate cuts by the European Central Bank (ECB). This is due to the Eurozone's weak economic momentum while potential trade tensions with the US and China may darken the export outlook. To unlock Europe's growth potential, policy shifts or structural reforms are required but this may not be forthcoming due to political turmoil in Germany and France. As such, though European stock valuations are significantly lower than US peers, we retain a neutral outlook for European stocks given potentially weaker corporate earnings growth.

Figure 5: Stock market reaction will depend on timing and scale of policies implemented

S&P 500 index used as benchmark for US stocks. STOXX 600 index used as benchmark for European stocks. MSCI Asia ex-Japan index used as benchmark for Asia ex-Japan stocks. CSI300 index used as benchmark for China stocks.
Source: Bloomberg (30 November 2024)

2025 Outlook

Asset Class Views

The outlook for Asian stock markets is mixed. While potential trade tensions and China's uncertain economic recovery will weigh on Asian stock market sentiment, there are certain positive factors. Asia ex-Japan stock valuations remain attractive, corporate earnings will likely stay robust, while potential fiscal stimulus by China may also mitigate some downside risks. Export-reliant companies will face headwinds, while Asian companies that are less reliant on external trade and focuses more on domestic-oriented businesses may fare comparatively better across this year.

For Chinese stocks, sectors that may do comparatively better are those deemed strategic by the government, defensive stocks, domestic-oriented companies, and sectors offering high dividend payouts.

Knowing this, investors should be agile and proactive in their exposure to Asian and Chinese stocks. A market neutral strategy designed to potentially generate returns regardless of whether the market goes up or down will allow you to seize opportunities and lower portfolio volatility. Quality Asian dividend stocks also offer attractive income.

ASEAN will continue to benefit from ongoing supply-chain diversification, regional policy coordination and stable politics. For exposure to ASEAN stocks, investors should consider a diversified exposure via funds. We also like Singapore stocks, which will continue to benefit from strong performance in bank stocks and attractive dividend yields from real estate investment trusts (REITs).

Bonds

The outlook for bond markets will depend on the state of the US economy and US President-elect Trump's policies. Over 2024, the yield differential between US investment grade bonds and high-yield bonds narrowed significantly, indicating investors' willingness to allocate capital to riskier bonds as the resilient economy kept default risks low.

In the short term, global bond markets may see increased volatility and bond yields may stay elevated given the inflationary impact of potential trade tariffs.

An acceleration in US fiscal spending may worsen the country's fiscal deficit, which would entail greater bond issuance by the US Treasury Department. This outcome may be negative for US bonds.

Despite these risks, we continue to favour investment grade bonds because their attractive yields can build investment income over a long-term horizon. Investment grade bonds can also help investors guard against trade tensions and geopolitical uncertainties. As such, investment grade bonds will continue to play an important role of diversification in an investor's portfolio.

Chinese bonds have risen sharply over the past year amid heightened expectations of significant rate cuts to support the domestic economy. While this trend is likely to continue in the short term, we are mindful of the government intervening to cool the bond market rally.

Foreign Exchange and Commodities

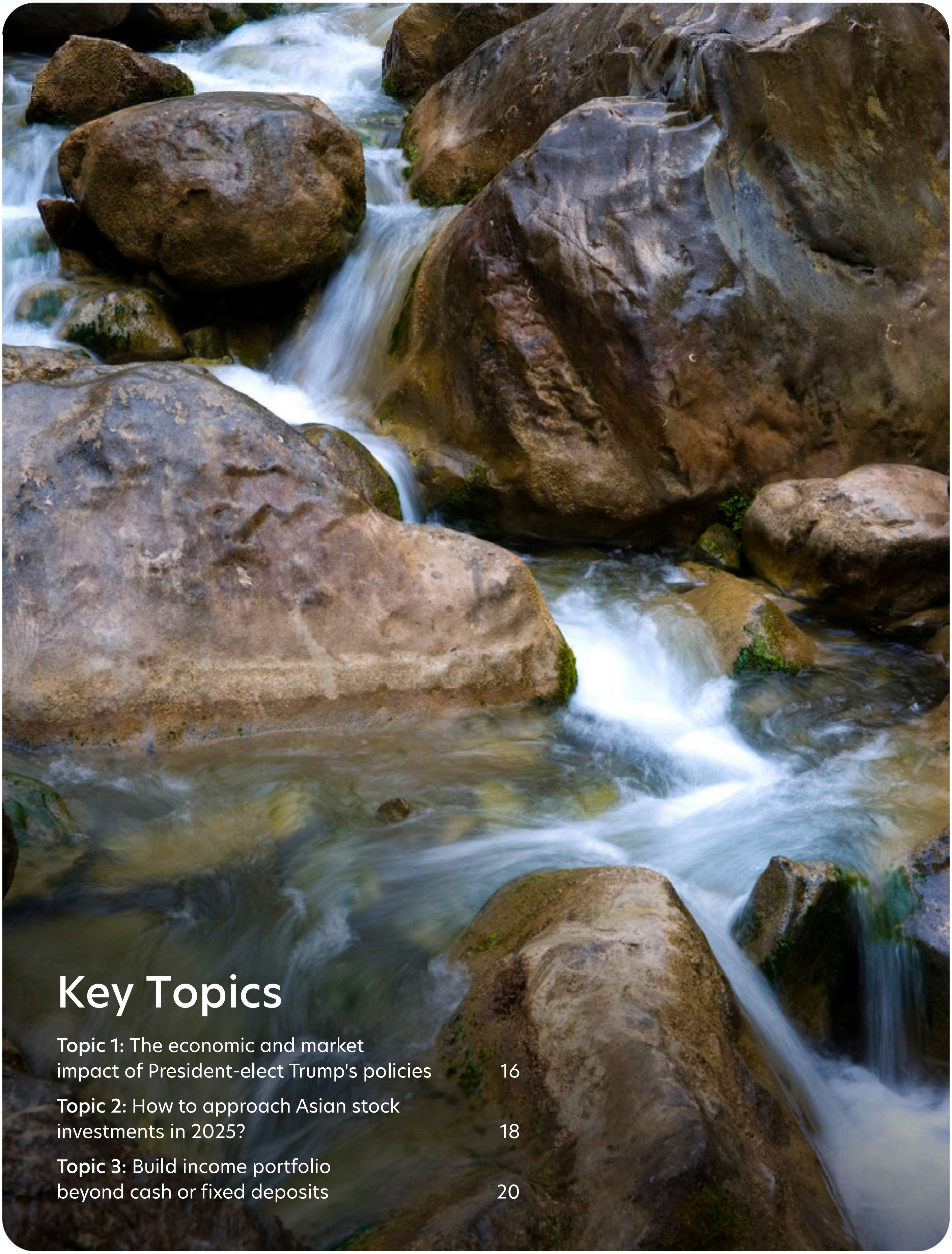
Many are wondering whether a second Trump presidency will make the US dollar (USD) great again. This is far from certain, although foreign exchange rate volatility will rise.

We expect the USD to strengthen in the first half of this year as tariff uncertainties dominate. That said, we think USD strength will moderate in the second half of 2025 as the market prices in the tariff impact.

Asian currencies will likely weaken alongside the Chinese Yuan (CNY) for this year. This is because Asian currencies are more sensitive to tariffs and elevated US interest rates and will thus face a longer period of weakness as compared to major economy currencies.

We retain a positive view on Gold as safe haven demand will likely stay strong given geopolitical risks and potential trade tensions. In addition, consumer demand for physical gold and jewellery remains strong while emerging market central banks may continue to increase their Gold holdings. We expect Gold to rise to USD 3,000 per ounce by the fourth quarter of 2025.

The outlook for crude oil prices is negative given uncertainty over the global growth outlook and uncertainty over China's demand. The supply outlook is also unfavourable with OPEC+[4] looking to ramp up oil production from April. This continues to nullify ongoing geopolitical risks. We expect Brent crude oil prices to fall to USD 70 per barrel in the second half of the year.



Key Topics

Key Topics

Topic 1: The economic and market impact of President-elect Trump's policies

With Donald Trump starting his second term as President of the United States (US) on 20 January, his proposed policies have become the major concern for investors around the world.

President-elect Trump has outlined his top three priorities are tax cuts, deregulation and trade tariffs. Based on currently available information, the potential beneficiaries are identified below.

Individual and corporate tax cuts

One of the Trump administration's top priorities is the extension of the 2017 Tax Cuts and Jobs Act (TCJA), and to reduce the corporate tax rate from 21% to as low as 15%. These changes could support consumer spending and boost US corporate earnings, driving the stock market higher. As reference, during President-elect Trump's first term, the expectation of tax cuts drove a sharp rally in US stocks across 2017 where the S&P 500 Index gained nearly 22%[5], the NASDAQ Composite rose nearly 30%[6] while the Russell 2000 Index of small-cap stocks delivered nearly 15%[7] gains.

There are consequences, nonetheless. The Congressional Budget Office (CBO) estimates that US national debt could rise significantly over the next decade because of Trump's policies. This will place more pressure on US government bonds as investors will question the sustainability of US debt.

Deregulation

The financial sector may see looser regulatory requirements, allowing banks and other financial institutions the ability to allocate their capital efficiently via business expansion, higher dividend payouts and increased share buybacks. This will be beneficial to financial stocks. Since the election, the US financials sector has outperformed the S&P 500 by 1.63%[8].

Likewise, deregulation also allows the technology sector to boost innovation, ultimately resulting in higher corporate profits.

Trade tariffs

During his election campaign, President-elect Trump proposed a 10% universal tariff and up to 60% tariffs on Chinese goods. Post-election, Trump announced he plans to impose a 25% tariff on imports from Mexico and Canada alongside a 10% tariff on imports from China on his first day in office. Non-US markets, particularly China, have recorded losses since the US election.

Tariffs are inflationary by nature and will have a negative impact on economic growth, particularly if other countries retaliate with tit-for-tat measures. While we believe President-elect Trump's will use the tariff threat as an opening negotiation ploy to yield concessions from trade partners, his first term highlights that investors should be mindful of a deterioration in global trade relations.

The full scope of Trump's tariff agenda remains unclear for now, although we highlight the potential economic implications for three different scenarios (Figure 6). Our base-case expectation is for a measured and phased imposition of tariffs, including an additional 25% tariff on China and 10% tariffs on countries with a rising trade surplus against the US as a result of trade diversion from China.

Figure 6: Potential economic implications under different scenarios

	Optimistic	Base-case	Pessimistic
Actual tariffs implementation	• Targeted tariffs on strategic industries in China that affects a smaller share of trade	• 25% tariffs on Chinese goods • 10% tariffs on countries with significant trade surplus with the US	• 60% tariffs on Chinese goods • 10% universal tariffs
Potential implications	• Reduced trade tensions	• China retaliates with similar tariffs on US goods, but limited response from other countries	• Full-scale trade war
2025 global GDP forecast	3.5%	3.1%	2.5%
2025 US GDP forecast	2.2%	1.8%	1.3%
2025 China GDP forecast	4.6%	4.3%	3.5%
2025 US CPI forecast	2.1%	2.4%	2.6%
Implications on US interest rates	• More rate cuts than expected	• Only one 25 bps interest rate cut in the second quarter of 2025	• No rate cut or even the risk of a rate hike

Source: UOB Global Economics & Market Research (13 January 2025)

[5,6,7,8] Source: Bloomberg (30 November 2024)

Key Topics

Topic 1: The economic and market impact of President-elect Trump's policies

Greater clarity of the scale and timeline of any US tariffs, and any retaliatory measures by other countries, is required to assess the true economic impact.

The potential winners from Trump 2.0

In summary (Figure 7), corporate tax cuts will benefit US companies in general by improving corporate earnings and incentivising businesses to shift operations back to the US. With more capital in their balance sheet, companies can allocate more resources to business investments which can spur jobs creation and economic growth in the US.

The financial and technology sectors will benefit from deregulation, while domestic-focused companies may be indirect beneficiaries of higher trade tariffs. As foreign imports become more expensive, US small-cap companies will become more competitive. Defensive sectors like industrials and utilities with limited exposure to offshore production also stand to benefit.

While these stand out as potential winners, it is important to note that predicting future market performance is challenging and the outlook will only be clearer once the scale of Trump's actual policies is known. As such, investors should focus on long-term investment strategies and financial objectives.

Figure 7: Which assets may benefit from President-elect Trump's policies?

POLICY	IMPACT	BENEFICIARIES
Corporate tax cuts	• Lower taxes improves corporate earnings which benefits shareholders. • Allows companies to allocate more capital for business investment which can spur jobs creation and economic growth.	• US stocks
Deregulation	• Reduces compliance costs, enabling efficient capital allocation for share buybacks and business investments. • Looser regulation encourages innovation and competition within the tech sector.	• Financial sector • Technology sector
Trade tariffs	• Encourages domestic production by making foreign goods more expensive. • Nudges US companies to reshore business activity and reduce dependency outside of the US.	• Domestic-focused companies • Small-cap stocks • Industrials sector • Utilities sector

Source: UOB Wealth Management Advisory (30 November 2024)

Key Topics

Topic 2: How to approach Asian stock investments in 2025?

Investors should be agile and proactive in their exposure to Asian stocks. There are potential headwinds ahead that will weigh on Asian stock market sentiment. At the same time, we should not lose sight of certain positive factors. Investors should seek a strategy that can potentially offer returns regardless of whether the market goes up or down.

Asia's economic growth may briefly diverge from the United States (US)

Historically, Asia's economic growth is invariably tied to the health of the US economy. Periods of strong growth in the US typically benefits Asia.

There may be a brief divergence in 2025 due to the potential headwind of trade tensions. Looking back at 2018, the second year of President-elect Trump's first term, Asia ex-Japan's economic growth slowed despite a pick-up in the US economy due to concerns of higher tariffs (Figure 8).

Such an outcome may be repeated this year. The silver lining is that resilient US consumption demand may limit the weakness of Asian economies.

Potential US tariffs is the key risk

It is difficult to ascertain the true impact of US tariff policies, and we would caution against jumping to premature conclusions at this moment. However, it represents a key risk for Asian economies, particularly export-reliant ones.

If tariffs are raised aggressively, it will lead to higher US inflation and weaker US consumer demand and have a negative impact on global trade and Asian economic growth.

But this is far from a certain outcome. US President-elect Trump's transactional approach means his tariff proposal may well be a negotiating tactic that eventually leads to individual trade deals or economic concessions from other countries.

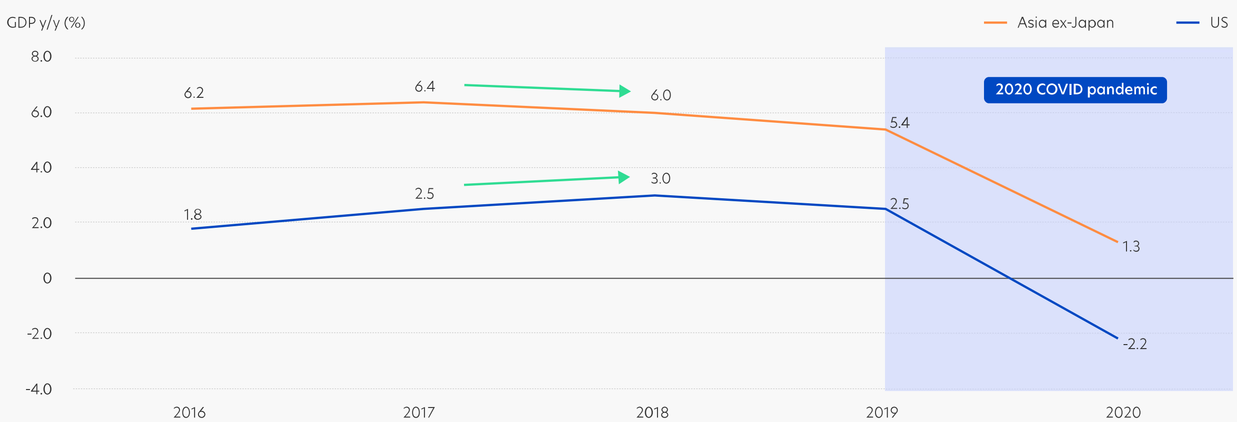
While the US is targeting a relocation of production onshore, the build-up of infrastructure within the US will take time. In the meanwhile, the lack of supply chain alternatives may dilute the scope of actual tariffs, leading to potential tariff exemptions for certain goods. If these scenarios come true, it will limit the negative impact on Asian economic growth.

China's economic policies also matter

The other thing to consider is China's economic growth in 2025. In recent months, the Chinese government has signalled increased support for the domestic economy to cope with the many headwinds. That said, the scale of government support measures is yet to be known, so it is unclear if and when a significant growth recovery will take place.

If China delivers significant fiscal and monetary stimulus that leads to a successful recovery in domestic consumption and the housing market, China's corporate earnings will improve. If this happens, it will be positive for Chinese stocks that are already underpinned by attractive valuations. It will also be positive for Asian economies and stocks.

Figure 8: Asian economic growth may briefly diverge from the US due to tariffs



Source: Bloomberg (30 November 2024)

Key Topics

Topic 2: How to approach Asian stock investments in 2025?

Asian stock valuations are attractive

When we look back at the 2018 peak in US-China trade tensions, the MSCI Asia ex-Japan Index then traded at a valuation discount of 34.5% against the MSCI World Index. Currently, even before trade tensions escalate dramatically, Asia ex-Japan stocks are trading at an even bigger valuation discount of 55.3% against global peers.

Furthermore, the corporate earnings outlook for Asia ex-Japan is projected to be robust in 2025, outpacing global peers. The combination of a significant valuation discount and stronger earnings outlook are reasons why Asian stocks may not see drastic declines even if trade tensions escalate (Figure 9).

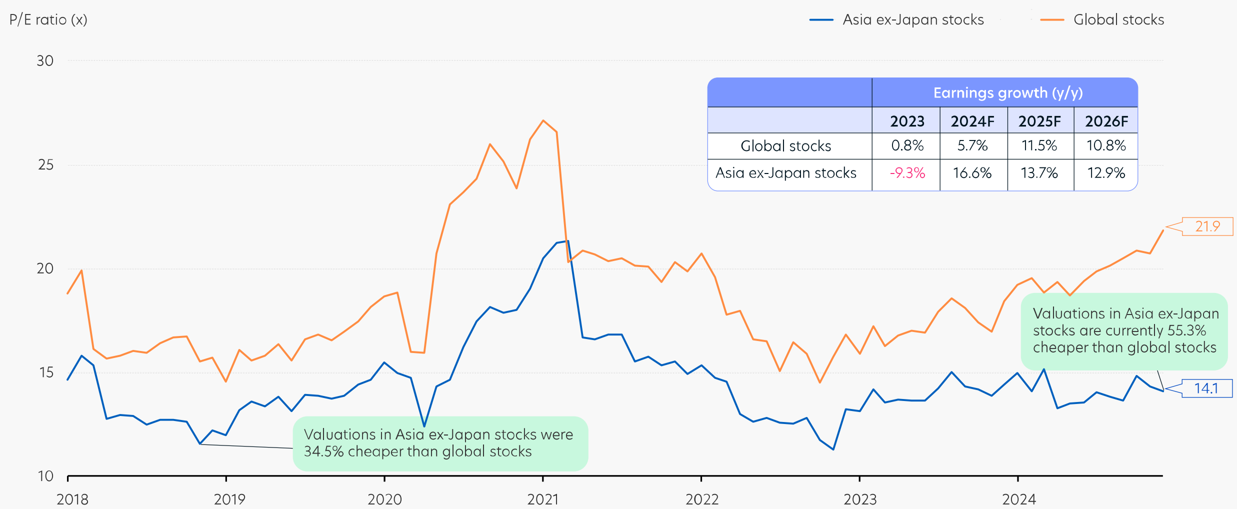
Stay agile and proactive

The Asian stock market outlook is uncertain and there will likely be short-term volatility due to US policy shifts. Asian companies that are less reliant on external trade and focuses more on domestic-oriented businesses may fare comparatively better across this year. Quality Asian dividend stocks also offer attractive investment income.

Investors should stay agile and proactive, and a market neutral strategy for Asia designed to potentially generate returns regardless of whether the market goes up or down will allow investors to seize opportunities and lower portfolio volatility.

Investors can also consider a diversified exposure to ASEAN via funds.

Figure 9: Asia ex-Japan stock valuations are cheaper than 2018 even though earnings growth remains robust



	Earnings growth (y/y)			
	2023	2024F	2025F	2026F
Global stocks	0.8%	5.7%	11.5%	10.8%
Asia ex-Japan stocks	-9.3%	16.6%	13.7%	12.9%

Global stocks refer to MSCI World Index. Asian stocks refer to MSCI Asia ex-Japan Index. P/E ratio measures a company's share price relative to its per-share earnings, a measure used to value a company stock relative to the net profit it generates. F represents forecast data by analysts.
Source: Bloomberg (30 November 2024)

Key Topics

Topic 3: Build income portfolio beyond cash or fixed deposits

Holding cash or fixed deposits is not the only way to earn income. While global economic growth is likely to slow, it is still expected to expand. In this environment, investment grade bonds and quality dividend stocks present attractive alternatives to build investors' income portfolio.

Cash or fixed deposits should only be one part of your portfolio

Since 2022, cash and fixed deposits gained popularity as global central banks raised interest rates aggressively to combat multi-decade-high inflation. Higher deposit rates offered competitive returns with minimal risk, while the outlook for stocks and bonds were complicated by higher interest rates.

Given uncertainty over the outlook for inflation and interest rates, cash and fixed deposits still represents a low-risk and liquid way to earn income. The downside is that cash and fixed deposits fail to beat inflation over the long term. This is why cash or fixed deposits should only be one part of your portfolio. Investors should instead seek opportunities to build additional income that can keep pace with inflation through investment grade bonds and quality dividend stocks.

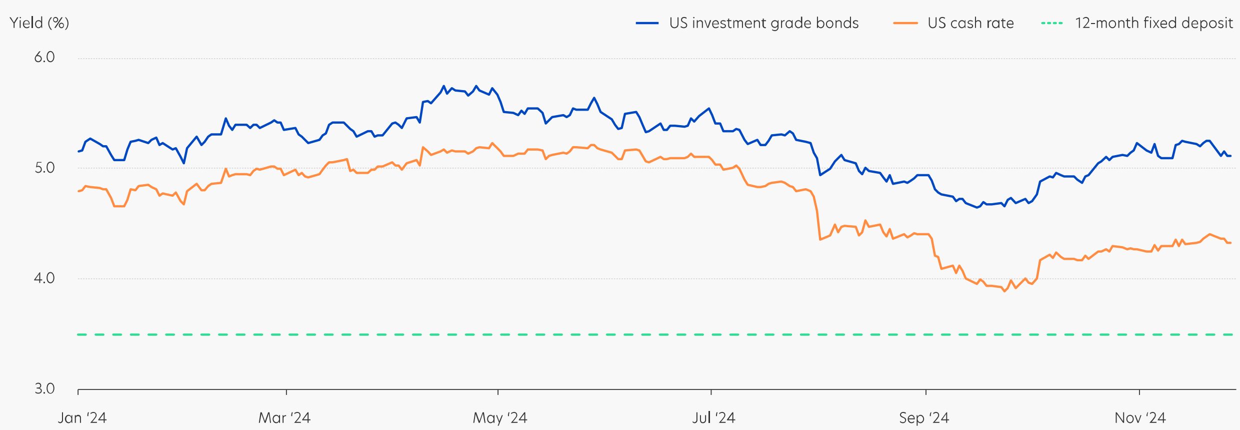
Investment grade bonds remain appealing

The difference in yield between cash and investment grade bonds has widened over the second half of 2024 (Figure 10), enhancing the appeal of investment grade bonds.

Investors should still be mindful of volatility in 2025 as potential United States (US) policies like tariffs and lower taxes may lead to higher inflation, less rate cuts and higher bond supply by the US Treasury Department. Nonetheless, investment grade bonds are expected to deliver consistent income and offset risks in investors' portfolios during times of trade tensions and geopolitical uncertainties.

With bond yields still historically high, locking in those yields now will be a good choice for investors seeking reliable income.

Figure 10: Yield differential between cash and investment grade bonds has widened since 2024



US cash rate refers to US 1-year Treasury bill. US investment grade bonds refer to the Bloomberg US Corporate Bond Index. 12-month fixed deposit refers to UOB US dollar 12-month fixed deposit rate as at 4 December 2024.
Source: UOB Singapore (4 December 2024), Bloomberg (30 November 2024)

Key Topics

Topic 3: Build income portfolio beyond cash or fixed deposits

Quality dividend stocks provide income and capital growth potential

Dividend stocks are another compelling option for income generation within an investment portfolio. Notably, quality dividend stocks in Asia ex-Japan currently offer an attractive dividend yield of 5.1%[9], one of the highest globally.

While investor sentiment in Asia ex-Japan may be weighed down by trade tensions, there are still opportunities worth exploring. Companies with a domestic focus, such as real estate investment trusts (REITs) and utilities, are likely to be less affected by trade uncertainties as compared to those with significant exposure to foreign markets. As reference, during the 2018 US-China trade tensions, both the REITs and utilities sectors delivered positive returns of 10.5%[10] and 7.4%[11] respectively.

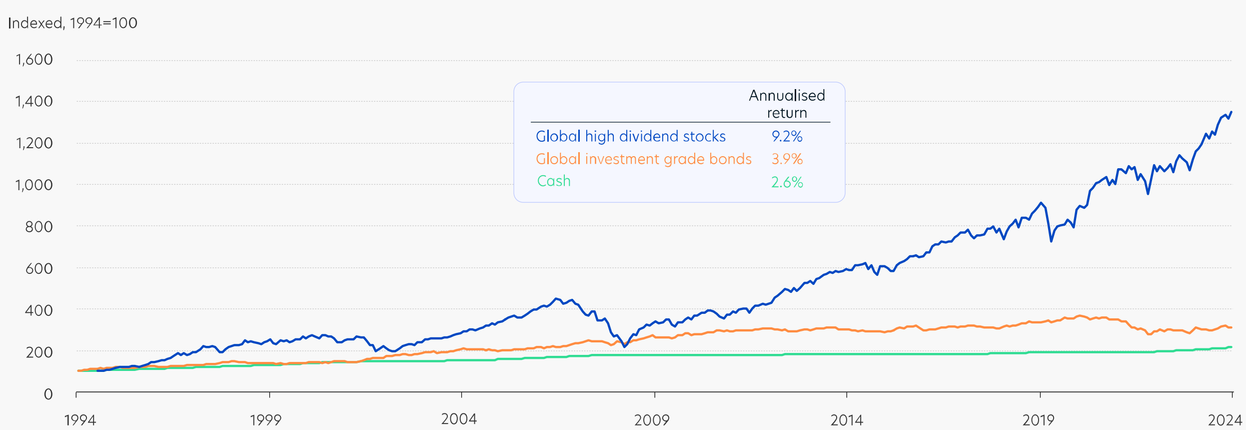
In 2025, domestic-oriented companies in Asia ex-Japan are expected to remain comparatively resilient as their profitability depends primarily on domestic demand. This will allow companies to pay consistent dividends, while offering potential capital appreciation, even in the face of external headwinds.

Build a strong income portfolio with compounding wealth effect

As discussed above, investors should build an income portfolio beyond just cash or fixed deposits. While cash and fixed deposits provide safety, their returns often fail to beat inflation, eroding purchasing power over time. In contrast, an income portfolio that consists of quality bonds and quality dividend stocks can deliver higher long-term returns, with dividend stocks providing the added benefit of compounding wealth effect when dividends are reinvested, thereby accelerating portfolio growth (Figure 11).

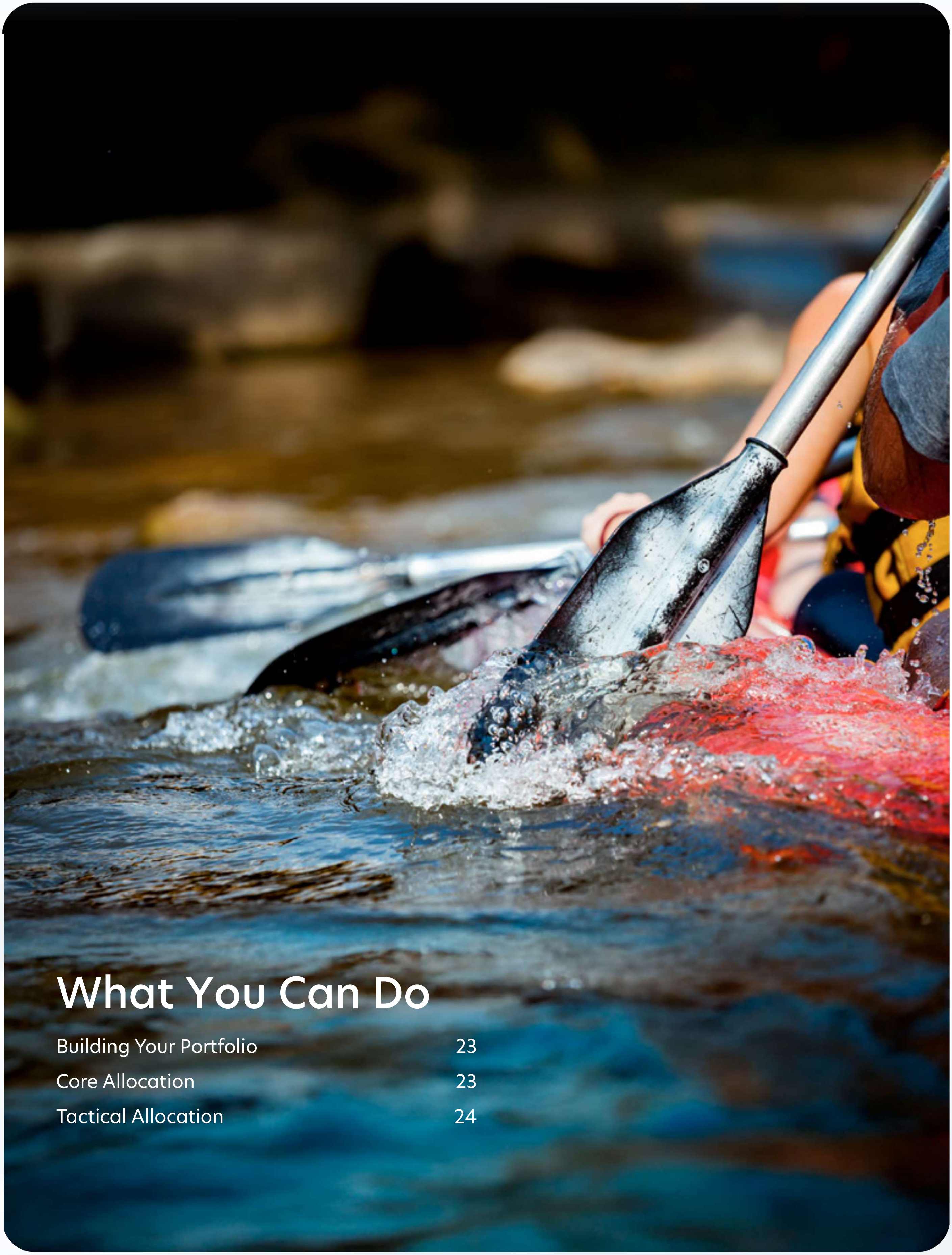
Compounding your investment income now, when yields are high for both investment grade bonds and quality dividend stocks, will provide a better starting point towards building a strong income portfolio.

Figure 11: Dividend stocks can provide compounding wealth effect into an income portfolio



Global high dividend stocks refer to MSCI World High Dividend Yield Index Total Return. Global investment grade bonds refer to the Bloomberg Global Aggregate Index Total Return. Cash refers to US Short Treasury Index Total Return.
Source: FactSet, J.P. Morgan Asset Management (30 November 2024)

[9,10,11] Source: Bloomberg (30 November 2024)



What You Can Do

What You Can Do
Building Your Portfolio

2025 looks set to offer both opportunities and challenges as United States (US) President-elect Donald Trump lays out his domestic and foreign policies.

Before building your portfolio, you should consider your financial goals, risk tolerance and investment time horizon. Having done so, build a diversified portfolio given the prospect of unpredictable policy shifts. Anchor your portfolio with Core investments that are less reliant on market cycles before considering Tactical investments that are of higher risk but offers potentially higher returns over the short and medium term.

There are a few things that investors will need to be mindful of in the year ahead. While the global stock market outlook remains positive, volatility may increase in the short term due to US policy uncertainties.

Build a base of quality stocks via global diversified equity funds. Stock market leadership may shift away from large-cap stocks, so a flexible market-cap approach can allow investors to slowly gain exposure to mid-cap and small-cap stocks.

Developed market financials, technology and US small-cap stocks are expected to do well in light of President-elect Trump's pro-growth policies. To enhance long-term returns that beat inflation, it will be essential to build portfolio income through quality dividend stocks, investment grade bonds, and Additional Tier 1 (AT1) bonds, Tier 2 (T2) bonds and senior Total Loss-Absorbing Capacity (TLAC) bonds[12].

It will also be important to be agile and proactive, as different Tactical investment opportunities will present itself as global policies shift. Expect more divergence in returns of different stock markets, offering potential opportunities for investors. Above and beyond all else, it is important to stay invested. History shows that staying invested for the long-term delivers better returns than trying to time the market. If investors try to time the market but miss out on just a few of the best-performing days which typically happens around the market bottom, overall portfolio returns will be significantly reduced. Being invested for the long-term also allows investors to harness the power of compounding reinvested capital gains and dividends.

Another strategy to keep in mind is dollar-cost averaging, where investing a fixed amount at regular intervals helps investors smooth out market volatility over time.

Core Allocation

Multi-asset strategies

Diversification is a fundamental strategy to guard against unexpected investment risks, achieve stable and consistent returns, and capture opportunities to meet your long-term financial goals. Core investments like multi-asset strategies will help you diversify across different asset classes, regions and sectors.

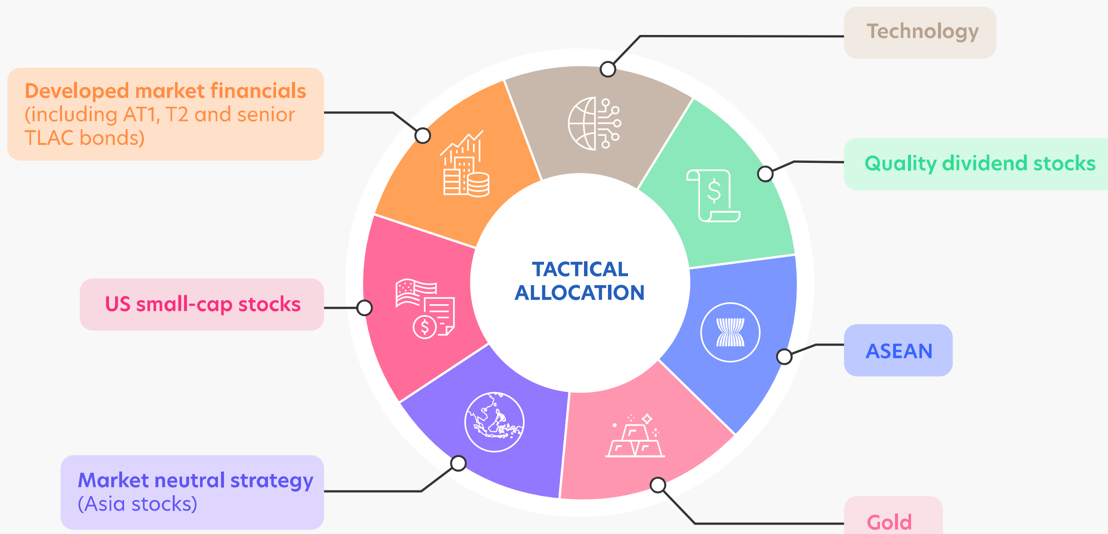
Investment grade bond funds

Investment grade bond funds allow you to diversify across different bonds and gain consistent income that is currently attractively high. In addition, investment grade bonds play an important role of diversification in an investment portfolio. They also help to offset your investment portfolio risk in the event of trade tensions and geopolitical uncertainties.

[12] Additional Tier 1 (AT1) bonds, Tier 2 (T2) bonds and senior Total Loss-Absorbing Capacity (TLAC) bonds are designed to strengthen a bank's ability to absorb losses. They are also part of the regulatory capital framework established under Basel III, aimed at ensuring banks have sufficient capital to withstand financial stress.

What You Can Do

Tactical Allocation



Market neutral strategy (Asia stocks)

The outlook for Asian stocks is uncertain given potential global trade tensions, and increased market volatility is likely in the short term. However, Asia ex-Japan stock valuations remain attractive, corporate earnings are expected to remain robust, while potential fiscal stimulus in China may mitigate some downside risks.

For investors with higher risk appetite, a market neutral strategy designed to potentially generate returns regardless of whether the market goes up or down will allow you to seize opportunities and lower portfolio volatility.

ASEAN

ASEAN will likely benefit from supply chain diversification and changes in global trade if US-China trade tensions rise. In addition, a large and young demographic, ASEAN policy coordination and stable regional politics support the medium to long-term economic outlook. For exposure to ASEAN stocks, investors should consider a diversified exposure via funds.

Singapore stocks have been upgraded as a Tactical investment due to the continued strong performance of banking stocks and attractive dividend payouts from real estate investment trusts (REITs).

Gold

Gold's safe haven demand will likely stay strong given ongoing geopolitical risks and potential trade tensions. Consumer demand for physical gold and jewellery remains strong while emerging market (EM) central banks may continue to increase their Gold holdings.

While serving a diversification purpose, investors should keep their Gold allocation to around 5-10% of their portfolio.

US small-cap stocks

Valuations are attractive, while US small-cap companies will be indirect beneficiaries of higher trade tariffs. A potential broadening of US stock market leadership beyond large-cap companies will also support small-cap stocks.

US small-cap stocks will also benefit from potential tax cuts, while a domestic focus for their businesses will mitigate the risk of global trade tensions.

Nonetheless, it is necessary to be selective as not all small-cap companies are profitable. Investors should slowly gain exposure to US small-cap stocks as part of portfolio rotation.

What You Can Do

Tactical Allocation

Developed market financials (including AT1, T2 and senior TLAC bonds)

The financial sector will likely benefit from President-elect Trump's focus on tax cuts and deregulation. This backdrop will boost bank revenues and profits.

Potentially lower United States (US) corporate taxes can lead to higher business investments domestically, boosting bank loan revenues.

In the US, potentially lighter regulations will enable banks and other financial institutions to allocate their capital more efficiently. This can be via business expansion or increased dividend payouts and/or share buybacks. An avenue of building your investment income can be found in Additional Tier 1 (AT1) bonds, also known as Contingent Convertible (CoCo) bonds, Tier 2 (T2) bonds and senior Total Loss-Absorbing Capacity (TLAC) bonds. These bonds come with higher risk, so consider your risk appetite before investing.

Bank capital securities offer attractive yields while bank fundamentals and asset quality have also improved over the past decade, which will mitigate periods of unexpected financial stress.

Technology

Technology stocks will continue to do well as digital transformation and increasing artificial intelligence (AI) demand will sustain the sector's earnings growth momentum. With AI, cloud computing, data analytics and cybersecurity driving significant innovation, the sector has long-term growth potential.

For US tech companies, they will potentially benefit from lower corporate taxes and President-elect Trump's pro-growth policies. Trump's presidency could also lessen regulatory and antitrust concerns for mega-cap tech companies.

Nonetheless, tech market leadership may broaden out beyond mega-cap companies to other companies that benefit from AI innovation.

Quality dividend stocks

Stocks of quality companies with steady cash flows and strong balance sheets that pay attractive and consistent dividends will continue to do well. As part of the strategy of building investment income, these dividend-paying stocks will allow you to enjoy income from your portfolio.

In addition, quality dividend stocks can also offer potential capital appreciation and a compounding wealth effect when capital gains and dividends are reinvested.

While there are potential trade tensions ahead, domestic focused companies in Asia ex-Japan still offers attractive and consistent dividend payouts.

In Conclusion

Build a diversified portfolio given the prospect of unpredictable US policy shifts. Anchor your portfolio with Core investments before considering Tactical investments.

To enhance long-term returns, it will be essential to build portfolio income through investment grade bonds and quality dividend stocks.

It will also be important to be agile and proactive, and regularly review your portfolio, as global policies shift.

Right By You

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