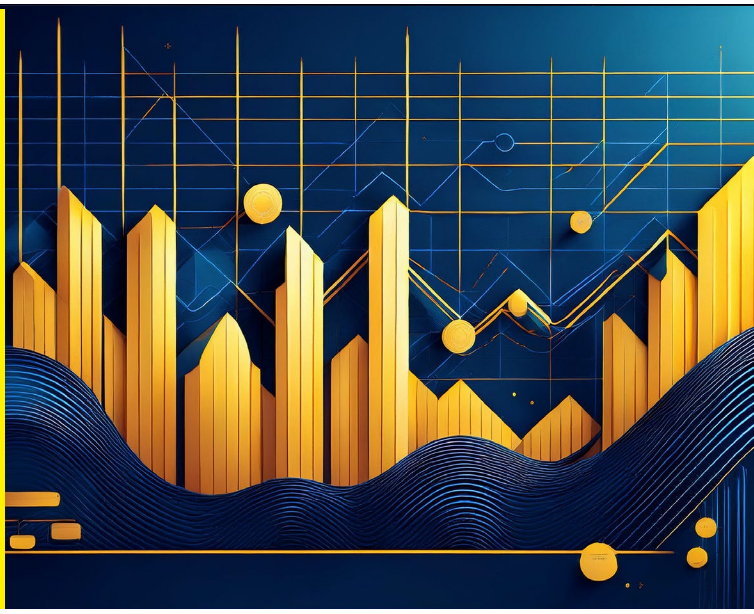
January, 2025

MARKET OUTLOOK

2025 Q1



EXECUTIVE SUMMARY

Key points:

- **Projected Global GDP Growth:** Global GDP growth is steady at 3.2% for 2024 and 2025, with emerging markets expected to outpace developed economies due to structural and demographic strengths.
- **Inflation Trends:** Inflation rates are anticipated to decrease from 5.5% in 2024 to around 4.4% in 2025, allowing central banks to maintain accommodative policies amidst ongoing concerns.
- **Impact of the New Trump Administration:** The new Trump administration is expected to introduce significant uncertainty regarding fiscal and trade policies, which will be a focal point for investors in 2025.
- **Rising Asset Class Disparities:** Increasing uncertainty from divergent economic growth paths, geopolitical tensions, and fiscal challenges is deepening performance disparities between asset classes and regions.
- **Emerging Markets and Selectivity:** Emerging markets are experiencing a valuation re-rating across various asset classes, but selectivity remains crucial due to significant differences across regions and sectors.
- **Sector Growth in Technology:** The technology sector is poised for significant growth, driven by advancements in AI and cloud computing, while US equities continue to lead despite historically high valuations.

Investment Highlights / Focus:

Tactical (6-12 months) horizons	**Investment Opportunities**
United States Equities	Corporate tax rate reductions, favorable deregulation policies provide positive support to **technology**, earnings growth among **small and mid-cap stocks**.
Japanese Equities	Wage increases and rising overseas tourism are boosting corporate earnings in the **consumer discretionary sector**, while continuous global demand for **Technology** and an aging population are driving growth in **Healthcare**.
High Yield bonds	Positive market sentiment and stable corporate fundamentals, including low default rates.
Investment grade bonds	- Investment grade bonds may offer more attractive risk-adjusted returns as volatility in the stock market increases, appealing to sectors such as **utilities and consumer staples.** - There are **better value opportunities in European IG credit** compared to U.S. credit, especially given the valuations are lower in Europe.

Strategic Long-term horizons	**Investment Opportunities**
United States Equities	The **healthcare and energy sectors** present significant opportunities for growth. With the Trump administration's continued emphasis on deregulation and investment, these industries are well-positioned for long-term advancement.
Emerging Asia (ex-Japan)	**Long-term overweight** on **India and Indonesia** due to sustain economic growth and technology expansion.
Investment grade bonds	**Short- and medium-duration investment-grade** bonds offer similar yields with lower interest rate risk compared to long-duration bonds. They can also perform well in a stable economic environment, showing low volatility and generating higher returns than government bonds.

ECONOMIC OVERVIEW

Economic Growth and Inflation

The global economy is expected to stabilize in 2025, while disinflation may continue, inflation risks could prompt the Federal Reserve to adjust its policy. Global GDP growth is forecasted to maintain at 3.2% in 2024 and 2025, while inflation is expected to decrease from 5.5% to 4.4%.

GDP		
Country/Region	**2024 Est.**	**2025 Est.**
Global	3.2	3.2
US	2.7	1.9
EUROPE	0.7	1.0
UK	0.9	1.7
Japan	0.1	1.3
China	4.9	4.5
Hong Kong	2.4	2.5
India	7.0	6.6

Figure 1. Real GDP Growth Inflation rate (% change YOY) (Source: IMF, Statista)

Inflation		
Country/Region	**2024 Est.**	**2025 Est.**
Global	5.5	4.4
US	2.9	2.7
EUROPE	2.3	1.8
UK	2.5	2.3
Japan	2.5	2.2
China	0.5	1.1
Hong Kong	1.75	2.25
India	4.5	4.3

Figure 2. Inflation rate (% change YOY) (Source: IMF, Statista)

Interest Rates (US, Developed Market and Emerging Market)

The U.S. economy is expected to maintain a soft landing into 2025, supported by recent rate cuts and a resilient outlook, while developed markets adopt accommodative monetary policies with the ECB and Bank of England lowering rates amid declining inflation; meanwhile, emerging markets are easing further due to a dovish Fed, although challenges like currency stability and fiscal issues remain, compounded by risks from a potential second Trump presidency and global trade disruptions.

Geopolitics is increasingly shaping the economic backdrop

Growing geopolitical tensions, heightened economic frictions, and persistent conflicts will compel companies to relocate their operations to manage risks effectively. This will bolster traditional safe havens like gold.

Geopolitical event	Most relevant for markets in 2025
US-China trade war	36%
Ukraine-Russia	26%
US transition of power	20%
Middle East escalation	18%

Figure 3. Geopolitical event relevancy for investment market in 2025 (Source: Amundi)

ASSET CLASS ANALYSIS

EQUITIES

United States

In 2024 U.S. equity investors celebrate a remarkable year of over 20% gains for the S&P 500 for the second consecutive time, driven largely by the Magnificent Seven in the first half, followed by improved sector balance and emerging investment opportunities in the latter half.

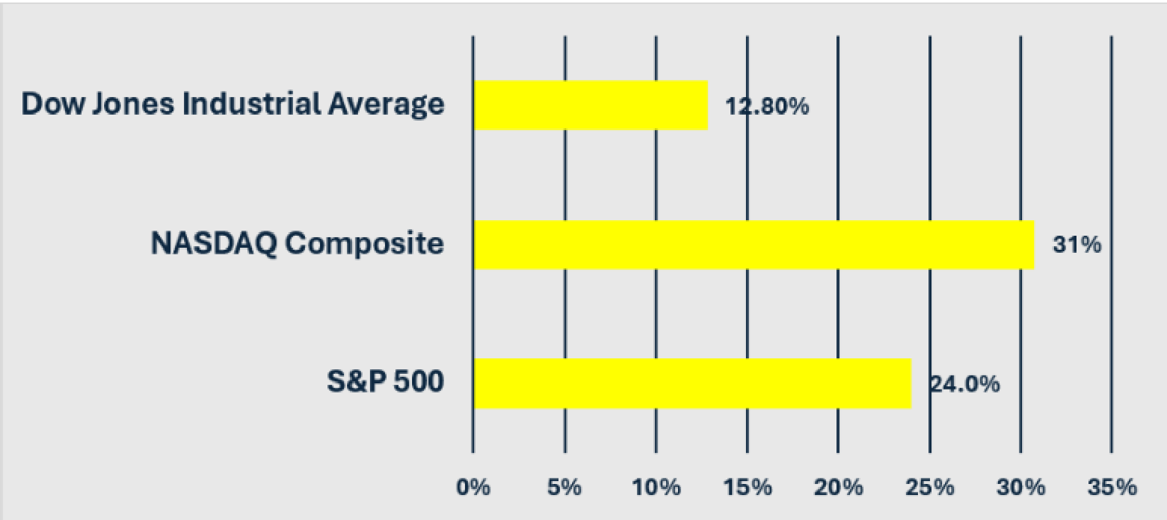


Fig 4. US Equity performance of 2024
Source: Bloomberg (data as of 31st December,2024)

Key Drivers

Earnings Growth and Market Breadth: Continued positive earnings growth, particularly beyond mega-cap stocks, will be crucial. A broadening market performance, with increasing strength in small and mid-cap equities, can contribute to overall market resilience.

Falling Interest Rates and Economic Policy: Benign economic growth supported by falling interest rates, along with a pro-growth agenda focusing on corporate tax cuts and deregulation, is expected to bolster firm performance and investor confidence.

Political Environment: Deregulation, infrastructure development, and energy independence under the Trump administration led to significant shifts in U.S. energy production and investment strategies.

Bull Market Stands: Most firms predict the S&P 500 to rise between 6,400 and 6,600, indicating a general optimism for 2025.

Firm	Predicted Index	Predicted vs Current	Comments
Morgan Stanley	6,500	+11%	Importance of market leadership changes; wider bull vs. bear-case skew: bull case 7,400; bear case 4,600.
Goldman Sachs	6,500	+11%	Net margins expected to expand due to policy impacts; offsetting effects on EPS forecasts.
JPMorgan	6,500	+11%	Supported by an expanding business cycle and easing global central banks, opportunities are likely to outweigh risks despite geopolitical uncertainties.
UBS	6,400	+9%	Mild downside expected in H1 2025; improved outlook in H2 2025 after earnings estimates adjust.
Barclays	6,600	+12%	Macro positives outweigh negatives; sector impacts from disinflation and slowing ex-US growth expected.

Fig 5. 2025 S&P 500 Forecasts & Insights from Leading Global Banks

Asia

In 2024, Asia equity market with mixed performance, India and Japan are experiencing strong growth, supported by domestic reforms and increasing corporate buybacks; while China and Hong Kong witnessed improvements in their equity markets due to recent policy changes aimed at stimulating economic activity, which have contributed to a more positive outlook despite ongoing challenges related to economic adjustments.

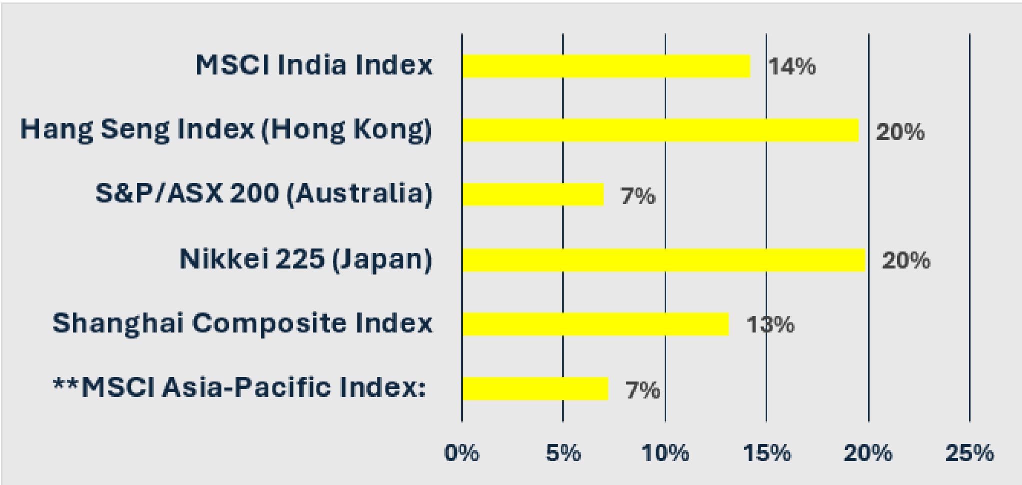


Fig 6. MSCI Asia-Pacific Index includes Australia, Hong Kong, Japan, New Zealand, Singapore, China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan and Thailand.
Source: Bloomberg (data as of 31st December,2024)

Key Drivers

India's growth journey, fostering development while maintaining financial balance:

The Indian equity market, while facing a natural slowdown in economic momentum, remains a bright spot with projected GDP growth between 6% and 7% in 2025, supported by robust corporate earnings, a diverse corporate landscape, and ongoing megatrends such as digitalization and a growing middle class, positioning it favorably for long-term investment despite elevated valuations.

Navigating Volatility in the Japanese Equity Market for 2025:

The Japanese equity market is currently characterized by robust earnings and below-average valuations, despite facing volatility from yen fluctuations and political changes; ongoing wage growth and accelerating corporate governance reforms provide a constructive outlook, suggesting favorable conditions for investment in quality companies amidst an inflationary environment.

The Chinese Equity Market's Resilient Yet Cautious Path in 2025:

In 2025, while the Chinese equity market faces challenges from weak domestic consumption and property sector troubles, it shows potential for growth driven by technological advancements and supportive government policies, though investors must remain cautious of geopolitical risks and market sentiment, emphasizing diversification and alignment with national priorities.

Hong Kong's equity market is poised for a promising rebound in 2025 amidst challenges:

In 2025, the Hong Kong equity market is anticipated to experience a rebound, potentially appreciating by around 24% to approximately 24,000 points, driven by favorable market conditions and a recovering economy. The easing of interest rates is expected to enhance investor sentiment, encouraging renewed interest in equities as capital flows back from time deposits and other safer investments. Additionally, a recovering stock market may attract net capital inflows, reversing significant private outflows seen in recent years. As external demand strengthens, particularly for technology and electronics sectors, companies in these industries are likely to benefit, further boosting market performance.

Europe

European equities are under pressure due to inflation control measures and geopolitical uncertainties. Especially the traditional sectors, like manufacturing, which have particularly suffered the most due to high energy costs and weaker export demand.

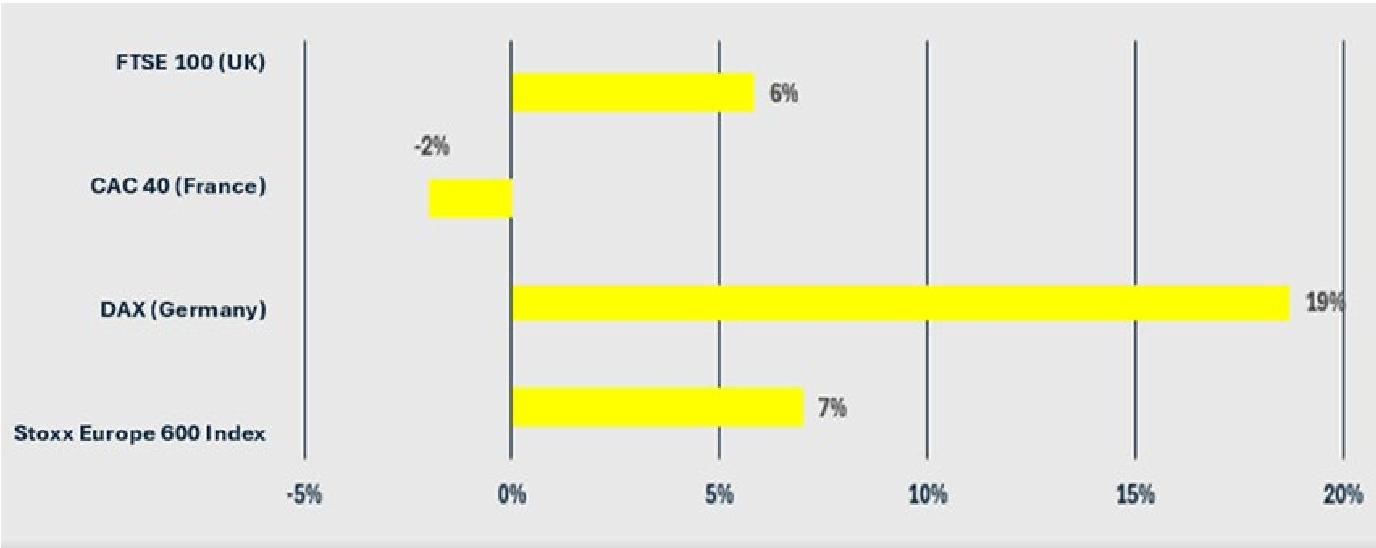


Fig 7. Europe Equity performance of 2024
Source: Bloomberg (data as of 31st December,2024)

<u>Key Driver</u>

Economic Growth and Rate Cut: Modest economic growth of approximately 1% across the Euro area and anticipated ECB rate cuts to 2% in 2025, which together foster a more favorable environment for corporate earnings and enhance equity valuations.

Strategic Industry focus in Europe: Selective industry opportunities in the Euro area include a focus on resilient defensive sectors like consumer staples and healthcare during economic uncertainty, alongside growth potential in technology and renewable energy driven by digital transformation and the EU's green agenda.

Emerging Markets (ex- Asia)

Emerging Markets (ex- Asia) are benefiting from risings commodity prices and foreign investment, but markets were cautious on interest rates and a strong U.S. dollar.

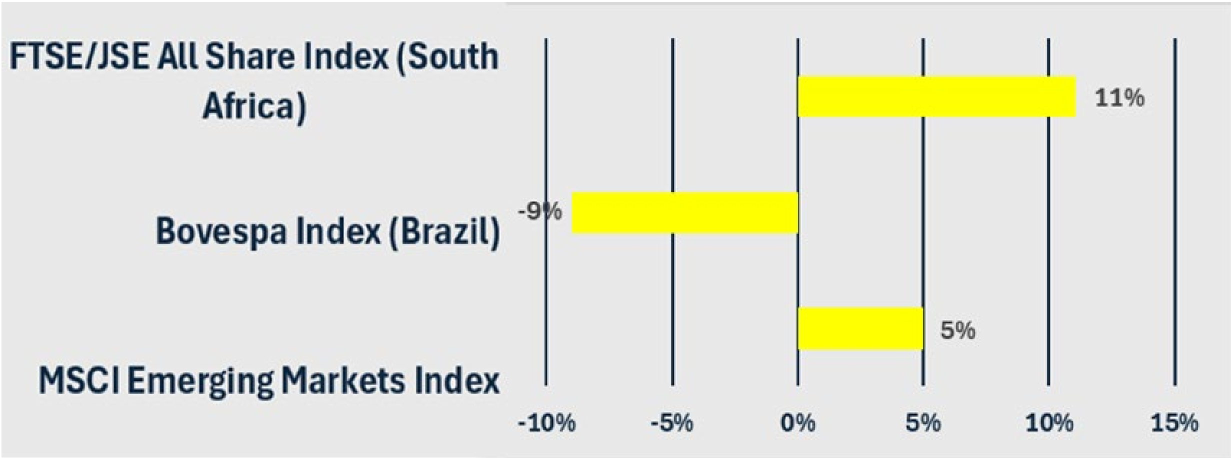


Fig 8. Emerging Market (ex- Asia) Equity performance of 2024
Source: Bloomberg (data as of 31st December,2024)

Key Driver

Global Monetary Policy Impact: As central banks in developed markets stabilize interest rates, emerging markets (ex- Asia), are likely to experience a more predictable environment for capital flows, encouraging foreign investment crucial for growth.

Sectoral Opportunities: The expanding middle class in many EMs, particularly in Southeast Asia and Latin America, will lead to increased demand for consumer goods, presenting significant growth opportunities for companies that effectively tap into this demographic shift.

Geopolitical Factors: The evolving trade dynamics, especially between major economies like the U.S. and China, can create both challenges and opportunities for emerging markets (ex- Asia), with those positioning themselves as alternative suppliers likely to benefit from shifts in global supply chains.

FIXED INCOME

Government bonds

Curve Movements: Market expects continued interest rate cuts in Europe and the U.S. to push 2-year yields lower, increasing the slope between the 2-year and the 10-year parts of the curve.

Current Yields: Current yields are attractive from a historical perspective. Volatility may persist into 2025 amid uncertainty about U.S. policy and the potential implications for inflation and the Fed.

Regional Opportunities: U.S. bonds are expected to be the best performer across major countries, with gains for Treasuries that could be the best since 2023. Europe is also expected to deliver appealing returns. However, we maintain a cautious stance on Japanese Government Bonds moving into 2025.

Investment-Grade Bonds (IG Bonds)

Performance Expectations: Income is expected to be the main driver of performance. Investment grade credit is anticipated to perform better than government bonds, with low volatility due to a negative correlation between spreads and yields.

Corporate Fundamentals: Corporate fundamentals remain solid, particularly in Europe. Rate cuts from the Fed and ECB should provide support for this segment.

Sector Opportunities: Certain sectors within the IG bond market, such as utilities and consumer staples, are viewed as more resilient and may offer better yield opportunities. While spreads are tight relative to historical averages, there may be better value opportunities in European IG credit compared to U.S. credit, especially given the lower valuations in Europe.

Market Dynamics: Investment-grade bonds could benefit from a stable economic environment, keeping volatility low and enhancing performance relative to government bonds.

Selected High Yield Bonds (HY Bonds)

Market Conditions: High-yield bonds could benefit from stronger corporate cash flow but may suffer from ongoing volatility of interest rates.

Issuer Performance: CCC issuers are weak but stabilizing. Remain selective, favoring higher- quality names in this segment.

Income Opportunities: While the high yield market presents risks, the potential for attractive yields remains, especially as rates trend lower.

COMMODITIES

Gold

Monetary Policy Easing: Continued interest rate cuts by central banks are likely to enhance gold's appeal as a non-yielding asset, driving up demand and prices.

Inflation Hedge: Gold will be viewed as a key protection against inflation and currency devaluation, attracting investors seeking stability amid economic uncertainties.

Geopolitical Uncertainties: Ongoing geopolitical tensions and market volatility will likely increase demand for gold as a safe-haven asset, supporting its price.

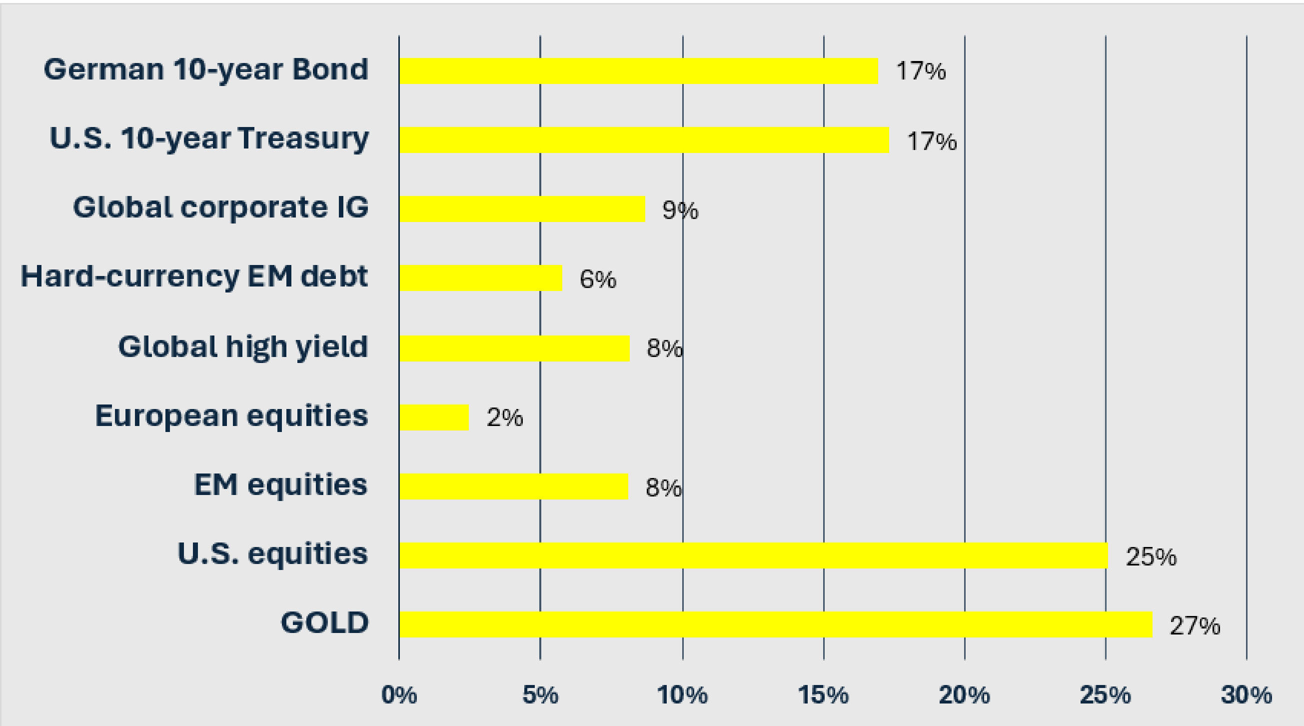


Figure 9. Assets in review
Source: MSCI, Macromicro, Bloomberg (data as of 31st December,2024)

INVESTMENT RECOMENDATIONS

Asset Class: Equities				
Region/ Categories	**2024Q4 View**	**2025Q1 View**	**Difference/ reasons for change**	**Investment Commentary**
United States	OW	OW	No Change Expecting continuous growth where market believes Trump presidency will provide a favorable business environment	- **Corporate Tax Rate Reduction:** Companies with more capital for investment in research, development, and expansion, particularly in tech and healthcare sectors. - **Technological "Barriers-Free" Advancements:** The Trump administration prioritized AI funding and deregulation to lower barriers for tech companies and encourage private sector collaboration. - **Promising Healthcare Industry:** Deloitte reports that 70% of healthcare executives expect revenue growth and improved profitability by 2025, driven by growth strategies and AI advancements in a favorable regulatory environment. - **Favorable Political Environment:** Deregulation, infrastructure development, and energy independence under the Trump administration led to significant shifts in U.S. energy production and investment strategies. - **Strategic industries: Technology, Healthcare and Energy**
Emerging Asia (ex-Japan)	OW	N	Downgrade to N Concerns over geopolitical dynamics.	- **Sustained Economic Growth & Rising Wealth**: Countries like India, Vietnam, and Indonesia are projected to continue their strong GDP growth, with India likely becoming one of the fastest-growing major economies globally. Structural reforms and increasing foreign direct investment (FDI) are key contributors. - **Technology and E-Commerce Expansion:** The region is leading in technological advancements, especially in fintech, Health-tech, and e-commerce. A young, tech-savvy population is driving digital adoption, attracting significant investments in startups and established firms. - **Rapid Growth of Renewable Energy:** Asia is leading the global transition to renewable energy, investing heavily in solar, wind, and hydropower. - **Overweight on India, Indonesia (Long-term)** - **Strategic industries: Technology, E-commerce, Consumer discretionary and Renewable Energy (Long-term)**

Region/ Categories	2024Q4 View	2025Q1 View	Difference/ reasons for change	Investment Commentary
Japan	OW	OW	No Change Compared with 2024Q4, Corporate earnings in consumer discretionary are improving	- **Wage Increases and Increase number of tourists:** Corporate earnings in consumer discretionary are improving, aided by rising overseas tourism in Japan and increases in real wages. - **Continuous Global Demand For Technology:** Japan's tech sector, especially in semiconductors, is expected to thrive as global demand for advanced technology rises. Companies focusing on AI, robotics, and automation will play a crucial role in enhancing productivity and competitiveness. - **Aging Population:** The aging population will boost the healthcare sector, particularly pharmaceuticals and biotechnology, attracting investment in innovative medical technologies and drug development. - **Strategic industries: Consumer discretionary, Technology, Healthcare/ Pharmaceutical/ Biotechnology**
China	N	N	No Change Market is expecting continuous government support and stimulus but alert on “US-CHINA trade war 2.0”	- **Government policy Support:** The Chinese government ongoing investment in infrastructure projects is likely to stimulate economic activity and create job opportunities, positively impacting various sectors. - **Selected Undervalued with High growth Potential:** Online games, e-commerce logistics and video advertising have all seen a recovery. Strong profitability and cash flow will help undervalued technological companies increase share repurchases - **Strategic industries: Defensive (Construction), Technology**

Region/ Categories	2024Q4 View	2025Q1 View	Difference/reasons for change	Investment Commentary
Hong Kong	N	N	No Change	- **Improve investors sentiment:** Easing monetary conditions and measures by the Hong Kong Monetary Authority are set to reverse the loan market contraction, with bank lending expected to grow modestly in 2025. - **Tariffs and Stimulus measures:** Markets are concerned about possible new tariffs from the Trump administration on China. Although China's exports are now more focused on ASEAN countries, it is anticipated that China will respond with economic stimulus measures which will significantly impact Hong Kong stock performance. - **Strategic industries: Defensive (Public utilities, Telecommunications**
Europe	N	UW	Downgrade to UW Continuous geopolitical tensions worsen the investment environment	- **Investment Landscape in the Euro Area:** The Euro area's investment opportunities focus on resilient sectors like consumer staples and healthcare, while the strong performance of US equities may overshadow European stocks amidst ongoing geopolitical tensions and their impact on energy supply and prices. - **Strategic industries: Defensive** (consumer staples and healthcare)
Emergi ng Markets (ex- Asia)	N	N	No Change Some countries may benefits from US-China Trade war 2.0	- **Geopolitical Dynamics and Supply Chain Opportunities:** Trade tensions between China and the U.S. create opportunities for emerging markets that adapt as alternative suppliers, allowing them to benefit from shifts in global supply chains. - **Infrastructure Development and Urbanization:** Growing urban populations in emerging markets are driving demand for robust infrastructure. Governments are prioritizing infrastructure projects and offering incentives to attract private investment, fueling economic growth. - **Strategic industries: Infrastructure and Basic materials**

INVESTMENT RECOMMENDATIONS

Asset Class: Fixed Income				
Region/ Categories	**2024Q4 View**	**2025Q1 View**	**Difference/ reasons for change**	**Investment Commentary**
Government Bonds	N	N	No Change In 2025, the Government bonds still serve the function as a risk-hedging tool	- **Risk-hedging tool:** Stable government bonds (i.e. US treasuries) serve as an effective risk-hedging tool due to their stability, predictable income, inflation protection, diversification benefits, liquidity, and status as safe-haven assets amidst geopolitical uncertainties.
Investment Grade Bonds	OW	OW	No Change Continued interest due to attractive risk-adjusted returns amid volatility.	- **Comparative Yields:** Compared to equities, IG bonds may offer more attractive risk-adjusted returns as volatility in the stock market increases. This dynamic may lead investors to seek the relative safety and income potential of IG bonds. - **Sector Opportunities:** Certain sectors within the IG bond market, such as utilities and consumer staples, are viewed as more resilient and may offer better yield opportunities. While spreads are tight relative to historical averages, there may be better value opportunities in European IG credit compared to U.S. credit, especially given the lower valuations in Europe. - **Strategic industries: Consumer discretionary, Utilities, Construction, Technology, Healthcare, Telecommunications.**

Region/ Categories	2024Q4 View	2025Q1 View	Difference/ reasons for change	Investment Commentary
Selected High Yield Bonds	N	OW	**Upgrade** Potential Fed rate cuts increase attractiveness as investors seek yield	- **Interest Rate Cuts:** Potential further cuts by the Federal Reserve could steepen the yield curve, making high yield bonds more attractive as investors seek yield in a declining rate environment. - **Stable Fundamentals:** Positive market sentiment and stable corporate fundamentals, including low default rates, may drive investor interest in high yield bonds, even amid potential political volatility.

Asset Class: Gold

Region/ Categories	2024Q4 View	2025Q1 View	Difference/ reasons for change	Investment Commentary
Global	OW	OW	No Change Continued interest rate cuts by central banks are likely to enhance gold's appeal as a non-yielding asset, driving up demand and prices.	- **Dollar Impact:** Rate cuts can weaken the domestic currency, making gold more expensive in that currency. - **Market Volatility:** Rate cuts can signal economic distress and investors flock to gold during uncertainty.

*** OW= overweight, UW= underweight, N= Neutral

RISK FACTORS AND SCENARIO ANALYSIS

1. Potential resurgence of inflation

A resurgence in the economy may arise from increased consumer demand or supply chain disruptions, but unexpected inflation can lead to higher interest rates and reduced spending, prompting central banks to tighten monetary policy and potentially slow growth.

2. Labour Market Weakness

Labour market weakness could challenge the growth outlook for developed markets, impacting overall economic stability.

3. Spillover Effects from China

There are potential spillover effects from slowing growth in China that could negatively influence the global economy.

4. Government Debt Levels

Mounting levels of government debt, particularly in the U.S., pose a longer-term risk to economic stability.

5. Geopolitical Tensions

Geopolitical tensions, particularly between the U.S. and China, along with instability in the Middle East and the Russia-Ukraine conflict, create global market uncertainty and trade disruptions. These tensions may also impact oil prices and increase military spending, diverting resources from productive activities.

6. Political Instability

Political instability can further exacerbate economic challenges, leading to uncertainty in markets and affecting international relations.

7. Tariffs and Trade Challenges

Tariffs under a Trump presidency could pose additional challenges to global growth, complicating international trade relations.

8. Cyber Threats and Technological Disruptions

As reliance on technology grows, the vulnerability to cyber threats increases. Attacks on critical infrastructure and financial institutions can cause significant financial losses and reputational damage. Furthermore, advancements in AI and automation may lead to job displacement, necessitating skill adjustments in the workforce.

9. Climate Change and Extreme Weather Events

Climate change poses long-term risks to economies and ecosystems, resulting in food and water shortages, population displacement, and increased disaster recovery costs. These impacts require governments to allocate more resources to address the challenges posed by extreme weather events.

Glossary

1. **Accommodative Policies:** Monetary policies aimed at stimulating economic growth, typically involving lower interest rates.
2. **Asset Class:** A group of securities that exhibit similar characteristics and behave similarly in the marketplace.
3. **Corporate Tax Cuts:** Reductions in the tax rate that corporations must pay on their profits, aimed at increasing investment and growth.
4. **Disinflation:** A decrease in the rate of inflation, indicating that prices are still rising but at a slower pace.
5. **Emerging Markets:** Economies that are in the process of industrialization and typically have lower income levels compared to developed nations.
6. **Equities:** Stocks or shares representing ownership in a company.
7. **Fiscal Policies:** Government policies regarding taxation and spending to influence economic conditions.
8. **Geopolitical Tensions:** Political and economic conflicts between countries that can affect global markets.
9. **High-Yield Bonds (HY Bonds):** Bonds that offer higher interest rates due to a higher risk of default compared to investment-grade bonds.
10. **Investment Grade Bonds:** Bonds with a low risk of default, rated as such by credit rating agencies.
11. **Inflation Rate:** The percentage increase in the price level of goods and services over a period of time.
12. **Interest Rates:** The cost of borrowing money, expressed as a percentage of the total loan.
13. **Monetary Policy:** Actions taken by a country's central bank to control the money supply and interest rates.
14. **Soft Landing:** A scenario where the economy slows down without entering a recession, allowing for gradual adjustment.
15. **Strategic Industries:** Key sectors that are considered vital for economic growth and stability, often prioritized for investment.
16. **Supply Chain Opportunities:** Potential benefits arising from changes in the supply chain, often influenced by geopolitical dynamics.
17. **Valuation Re-rating:** A change in the market valuation of an asset class or sector, often due to improved fundamentals or market conditions.
18. **Yield Curve:** A graph showing the relationship between interest rates and the maturity dates of debt securities.

Need more information or personalized advice?

Our professional team is here for you!

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