UOB Investment Insights

Thinking Ahead

2 May 2025

Key takeaways

- Most of the United States (US) tariff shock seems to be over, but financial markets may stay volatile until the outcome of trade negotiations is known.
- For now, prioritise multi-asset strategies, Gold, and income-generating assets.
- For investors with higher risk appetite, consider Tactical opportunities as we expect market sentiment to improve in the second half of 2025.

What have we learnt from President Trump's first 100 days in office?

In the first 100 days of US President Trump's second term, he has spooked financial markets with high and wide-ranging tariffs, a move that could potentially reverberate through the US and global economies for years to come. Subsequent backpedalling has eased some concerns momentarily, but the erratic policy shifts has generated deep uncertainty among consumers, businesses, and investors.

- **Most of the 2 April "Liberation Day" tariff shock is likely over.**
    - While the baseline 10% tariff remains in place, the Trump administration has backpedalled on other tariffs, with higher reciprocal tariffs paused for 90 days, exemptions were given for certain products, while tariffs on automobiles and auto parts were partially eased.
    - President Trump also appears to be dialling down US-China trade tensions, and it was reported the Trump administration is considering options to cut tariffs on China if a trade deal is reached.
    - These appear to have been triggered by US business leaders warning of higher prices and disrupted supply chains, and due to volatility in stock and bond markets.
    - Trade negotiations are ongoing between the US and many countries, but this process may be long-drawn and challenging since the US' demands are unclear.

- **Is this the start of the "Trump Put"?**
    - We entered 2025 expecting President Trump to drive outperformance in the US economy and US assets, but his policies have actually resulted in the opposite outcome.
    - It now appears there is a certain level of economic pain and market instability that President Trump is willing to tolerate before he relents, an outcome termed the "Trump Put".
    - Whether tariffs stay, are lowered, or revoked completely remains unclear, however uncertainty, confusion, and market volatility are likely to continue until trade negotiations conclude.
    - Trump's unpredictability means more surprises and uncertainty may be in store. As such, market sentiment may continue to swing erratically for now.

- **Our view of what lies ahead for financial markets.**
  - The worst of US trade policy uncertainty may be over, but financial markets may stay volatile until the outcome of trade negotiations is known.
  - It should be noted that the US tariff shock is man-made and can be reversed if stock markets continue to perform poorly or if the US economy weakens significantly.
  - The market environment is likely to improve in the second half of 2025 once tariff concerns peak and there is clarity on trade deals, President Trump pivots towards tax cuts and deregulation, and the Fed cuts interest rates.

Where do we see Tactical opportunities?	
Gold	• Safe haven demand and a weaker US dollar will support Gold prices. • Recommended portfolio allocation of 5-10% given it is a non-interest-bearing asset.
Quality dividend stocks	• Defensive and more resilient amid the tariff shock. • Quality companies with steady cash flows and strong balance sheets can pay attractive and consistent dividends, allowing investors to enjoy portfolio income.
Developed market financials	• Return on equity (ROE), a measure of profitability, has risen significantly since 2020. • US bank earnings have been strong so far, with revenues coming in above expectations.
China	• Potential stimulus measures, boosting domestic consumption and technological innovation, and more support for private sector companies will support the economy. • Chinese stock valuations remain attractive.
Singapore	• Pre-emptive monetary policy easing will help offset the impact of tariffs. • Singapore's stock market offers attractive dividend payouts.
Market neutral strategy (Asia stocks)	• Benefits from its flexibility in taking long/short positions in a volatile market, potentially generating returns regardless of market direction. • Only suitable for investors with higher risk appetite.
Technology	• Long-term growth story underpinned by artificial intelligence (AI). • Tech stock valuations are less expensive after the recent pullback in prices.

What you can do

- Prioritise Core investments like multi-asset strategies. This will help you avoid concentration risks and maintain a diversified portfolio across different asset classes, regions, and sectors.
- Maintain an allocation in Gold and focus on income-generating assets like investment grade bonds and quality dividend stocks.
- Retain some cash that can be deployed when financial markets stabilise and recover.
- For investors with higher risk appetite, consider Tactical investments like China, Singapore, developed market financials, technology, and a market neutral strategy for Asia.
- Speak to a UOB Advisor to find out how the latest developments may impact your portfolio.

Right By You

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