UOB PRIVATE BANK | 90 Years and Beyond

2Q 2025 Investment Outlook

Steering through the swells

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CIO Thoughts

CIO Thoughts

When giants stumble, pick them up

The US market is turning out to have a bad performance with the S&P 500 hitting a 17% correction as at the time of writing (7 April). Looking under the hood, there is more than meets the eye.

Defensive sectors like healthcare and consumer staples performed relatively well amid volatility. Magnificent 7 (Mag7) companies which we said were "great but expensive" in our 1Q 2025 outlook have ended the first quarter of 2025 on a deeply negative note. Yet, following the latest correction, we are approaching a level where long-term risk-tolerant investors could explore accumulating large-cap tech if they were absent from the portfolios.

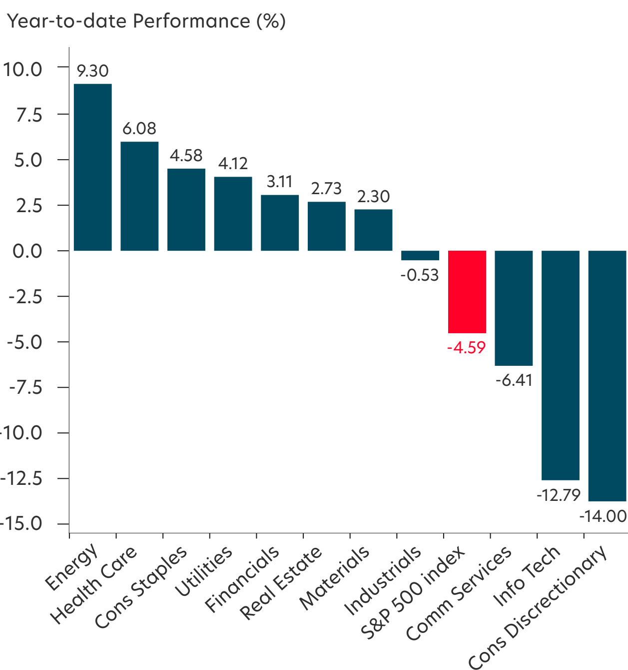
These companies remain multi-billion free cash flow generators. All that cash will allow them to invest liberally into innovation that will aid in sustaining their long-term growth and competitive edge.

Meanwhile, our call for healthcare has proven spot-on. At the same time, the other 493 (O493) stocks in the S&P 500 should remain a fixture in portfolios for 2Q 2025.

The anticipated market volatility has been unleashed in the wake of the US "Liberation Day" on 2 April. Sizeable US reciprocal tariffs were imposed on several countries with massive trade surpluses against the US. Regions including China and the European Union are set to hit back with retaliatory measures. It appears that the new US administration is willing to take near-term pain for long-term outcomes far more than we expected.

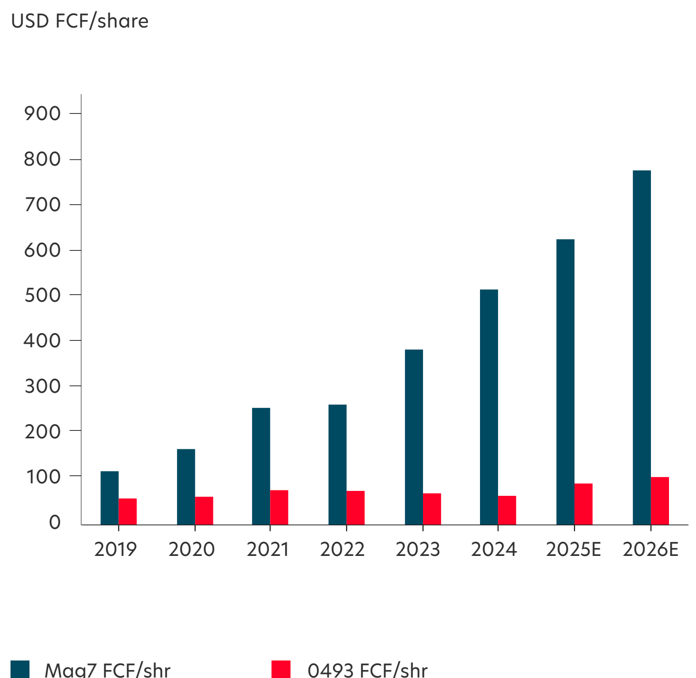
With the emotional and hard sell-off, we think most of the drawdown is behind us though volatility will remain high. Cash should be gradually deployed to build positions in quality names.

US S&P 500 sector performances since start of 2025



Source: Bloomberg, UOB Private Bank, S&P Global. Data is as of 31 March 2025.

Accumulate Mag7 on dips with their strong free cashflows



Source: Bloomberg, UOB Private Bank, S&P Global. Data is as of 31 March 2025.

CIO Thoughts

Tariffs: Means to an end or the end in itself?

In a recent Bloomberg survey of 505 participants, 81% polled that tariffs will have a bigger impact on stock markets than the Fed's policy (19%). We think that markets could stop panicking when central banks start panicking (with more interest rate cuts).

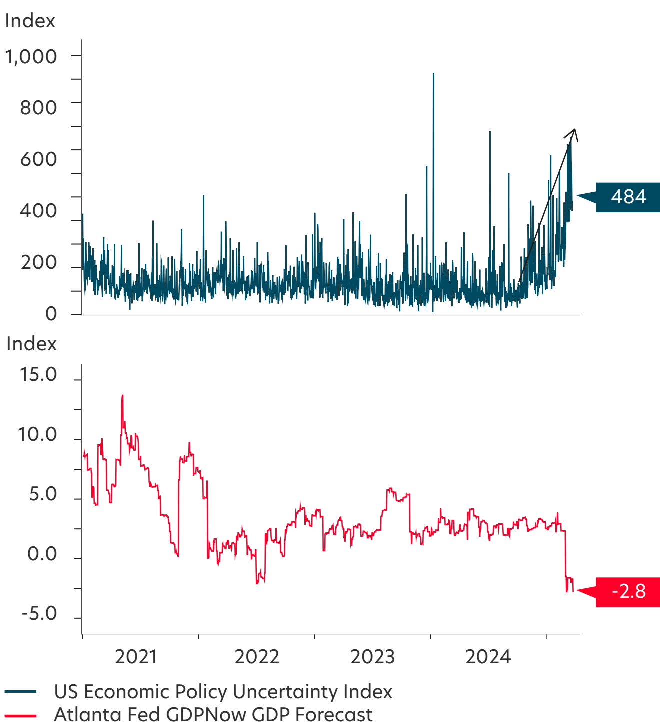
Importantly, on the impact of tariffs, policy uncertainty has risen substantially and has precipitated a sharp decline in 1Q 2025 US GDP forecast by the Atlanta Fed. As it stands, US imports have surged as companies stockpile prior to tariff rates rising. While the economic indicators do not yet signal a recession, they show that potentially higher costs from tariffs can hit business intentions, reduce global income, and dampen consumer spending.

The "Fair and Reciprocal Plan" released on 2 April is an initiative by the Trump administration to impose reciprocal tariffs on nations with unfair trade practices, aiming to reduce the US trade deficit and bolster American workers.

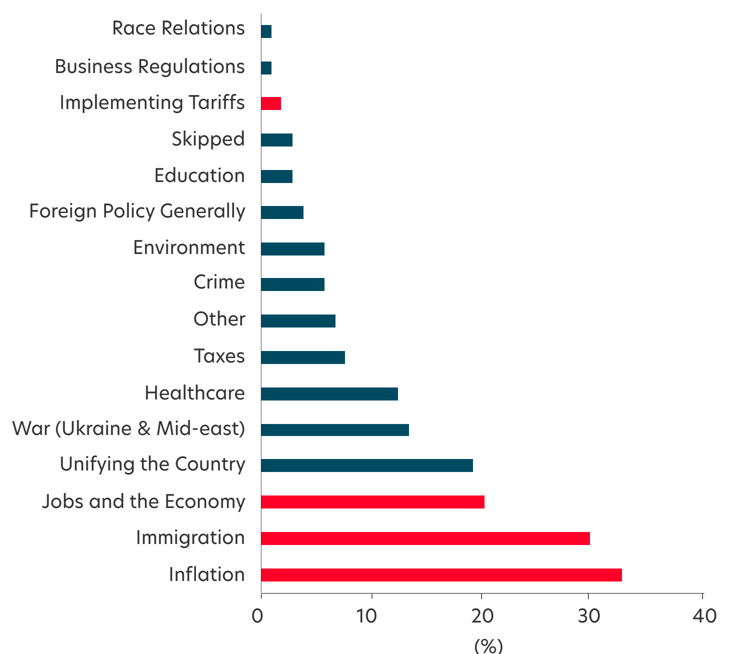
It targets countries with high tariffs, non-tariff barriers, and policies like value-added taxes that disadvantage US exports. With the mercurial style of policy implementation, we think that the weeks after could be highly volatile for markets. We are watching for inflationary pressures, with household costs possibly rising over USD 1,200 annually per household if combined with existing tariffs. Implications for investors are multifaceted and multi-sectoral with manufacturing, agriculture, technology, and consumer goods in focus.

The opinion is fragmented on whether tariffs for President Trump is a "means to an end" (to cut deals) or "an end in itself" (inflationary and negative to growth). We still take the stance that it is the former though it now appears that the US administration is willing to endure near-term pain for a longer-term gain. A recent Ipsos survey showed that the participants cared more about domestic matters like inflation, immigration, and job security significantly more than tariff implementation.

Rising US economic uncertainty coming alongside the negative US GDP forecast



Ipsos survey shows concerns were more domestically-oriented (e.g., inflation and jobs)



Source: Bloomberg, UOB Private Bank, S&P Global. Data is as of 31 March 2025.

CIO Thoughts

China: Shifting mindsets

Outside of the latest tariff-induced correction, a recent surge in Chinese equities since January 2025 has been primarily driven by the artificial intelligence (AI) advancements. Unsurprisingly, the key catalyst was the release of DeepSeek-R1, a large language model (LLM) that competes with US models but at a fraction of their costs. It is noteworthy that prominent technology entrepreneurs including Alibaba Group co-founder Jack Ma and DeepSeek's founder Liang Wenfeng have met with the nation's top leaders. This symposium on 17 February 2025 involving President Xi and Jack Ma could send a strong signal that China's Communist Party is more supportive toward private-sector companies.

The policy easing could help combat a slowing economy and act as a buffer against a protracted trade war 2.0. Against a backdrop of heightened geopolitical tensions and retaliatory tariffs, the pressure valve appears to be released. China's National People's Congress has shown that it is willing to use stimulus to boost the economy and counter tariffs. There could be more stimulus through the year to hit the 5% GDP growth target, although the Chinese government is still unlikely to over-deliver.

Chinese government officials and entrepreneurs attending the 17 February symposium (incomplete, based on available video footage)

Mu Hong	He Lifeng	Shi Taifeng	Wang Huning	Xi Jinping	Li Qiang	Ding Xuexiang	Li Shulei	Wu Zhenglong
CPPCC vice chair CCDRC office executive deputy head	PB member Vice premier	PB member United front work chief	PBSC member CPPCC chair	President General secretary	PBSC member Premier	PBSC member 1st-rank vice premier	PB member Propaganda chief	State councilor State Council secretary-general

Liang Wenfeng	Pony Ma	Liu Qingfeng	Qi Xiangdong	Lei Jun	Yu Renrong	Wang Chuanfu	Ren Zhengfei	Liu Yonghao	Wang Xingxing	Nan Cunhui	Leng Youbin	Jack Ma	Zeng Yuqun
Deepseek	Tencent	iflytek	Qihoo	Xiaomi	Will Semi	BYD	Huawei	New Hope	Unitree	CHNT	Feihe	Alibaba	CATL
AI	SNS, gaming	IT, voice recognition	IT security	Consumer electronics	Auto CIS chip	NEV	5G telecom, consumer electronics	Agriculture, biotech, food	Humanoid robot	Solar, smart electrics	Dairy	Digital economy	Battery

Xu Guanju	Peng Fan	Wang Xing	Jiang Bin
Transfar	KOCEL	Meituan	Goertek
Chemical	Machinery manufacture	E-commerce, local service	Acoustic component

Source: CCTV, Hutong Research.

CIO Thoughts

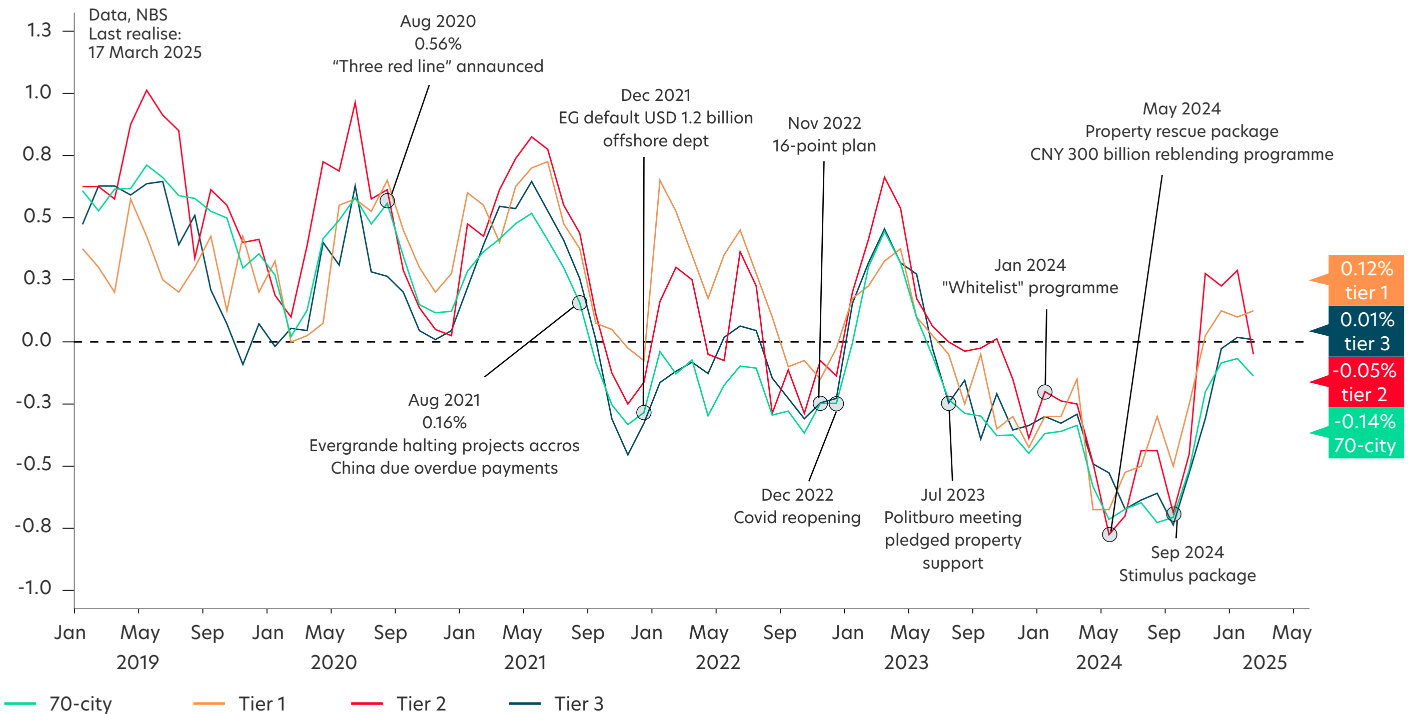
Focus on China's consumption theme amid policy inflection

Investors would do well to pay attention to the consumption theme. Hot off the press from the State Council, China will have a special action plan to boost consumption. Other than releasing private enterprises to bolster the economy, the country's leadership made boosting consumption a top priority. This includes wage growth, stabilising the stock and real estate markets. In particular, we are looking for green shoots in the property market as it could create the wealth effect that it once did.

There are several signs suggesting an inflection point. First, inventory for tier-1 cities like Shanghai are down back to 14 months (15-year average). Shenzhen inventory is at its lowest since 2010 at 5 months. Second, land acquisition in tier-1 and tier-2 cities are now at premiums of 14% above base price. These are levels that are now similar to those seen in 2020-2021. Finally, the secondary market is coming alive again with daily sales volume up 25% YoY after the Lunar New Year break. We doubt there will be animal spirits in the property market again, but this is a promising development that will boost consumer sentiments.

China's commercialised residential building prices have emerged from the doldrums

Average price % change (Month-on-Month)



Source: Bloomberg, UOB Private Bank, Chinese National Bureau of Statistic (NBS). Data as of February 2025. Updated as of 31 March 2025.

CIO Thoughts

How do we build defensive portfolios?

We believe that implementing some hedges is important amid tariff uncertainty, AI disruption, and macro volatility. They protect against downside risks while preserving upside potential. Gold continues to stand out as a haven, countering inflation and currency swings from trade wars.

We see gold as an "out-of-system" asset with lower chances of being frozen. This plays to the tune where gold investors, especially governments worldwide, are looking to the yellow metal for a "return of capital" rather than a "return on capital". US Treasuries also offer a buffer if growth falters although yields may rise with higher fiscal risk premium.

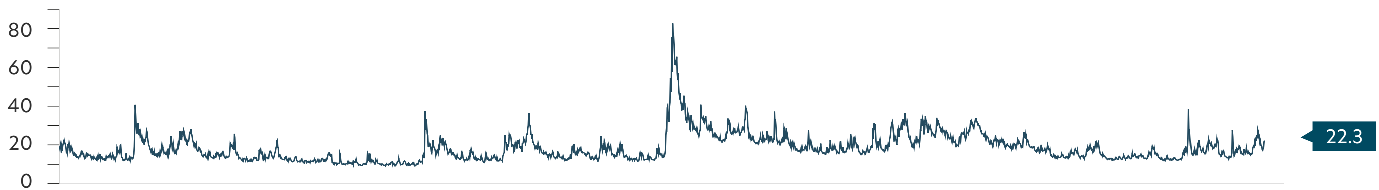
In the equity space, option strategies, like puts on overvalued tech, guard against AI-driven sell-offs. Dividend-yielding stocks provide defensive equity plays, hedging inflation surprises with stable cash flows.

Specifically, international stocks that pay good dividends will likely show a relative outperformance against their US peers that will be subject to volatility. Domestically oriented markets like India that have sold off significantly from its peak and is consolidating at a strong support level today may hold up better than most of the other Asian peers.

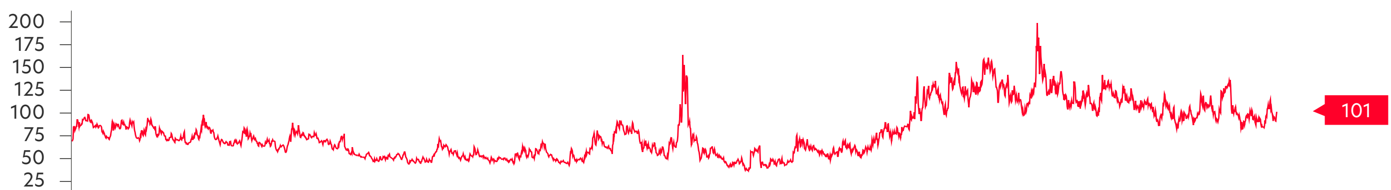
Finally, the healthcare sector remains a safe harbour in stormy times as it has shown to weather and beat the S&P 500 in turbulent times.

Volatility indices across the various asset classes (Higher = More volatile)

Stock Volatility Index



Bond Volatility Index



Currency Volatility Index

Stock (VIX) — Fixed income (MOVE) — Currency (CVIX)

Source: Bloomberg, UOB Private Bank. Data is as of 31 March 2025.

Portfolio Strategy

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Asset Class Summary 2Q 2025

The asset class summary below is based on a "Balanced" risk profile. Please refer to the next page for details.

Asset Classes	U/W	N	O/W	Comments
Equities		●	○	**Turn Neutral given Trump 2.0 policy uncertainties around trade tariffs and fiscal tightening.**
United States		●		Remain Neutral. US administration shifting to endure short-term pain for longer-term outcomes; uncertainty inhibits near-term growth.
Europe		●		Remain Neutral with an eye for selected thematic stocks. Europe and Germany's unprecedented fiscal policy presents upside risks.
Japan			●	Remain Overweight. Medium-term story, underpinned by corporate reforms, remains compelling despite yen volatility.
EM Asia*		○	●	Upgrade to Overweight from Neutral. Turned constructive on China driven by policy stimulus, AI developments and refocus on consumer*.
Fixed Income		●		**Remain Neutral with an eye for buy-on-dip opportunities. Recommend an average duration of 3-5 years.**
DM IG			●	Remain Overweight. Quality premia remains a key focus.
DM HY	●			Remain Underweight. Risk-reward is asymmetric; credit spread widening is a key risk to watch out for.
EM IG			●	Remain Overweight. Stay defensive.
EM HY		●		Remain Neutral. Selectivity is key in avoiding credit pitfalls.
Alternatives			●	**Remain Overweight as less correlated alternatives offer diversification benefits.**
Hedge Funds			●	Remain Overweight. Selected hedge funds can outperform the public markets.
Private Markets		●		Remain Neutral. Selected private-market funds have well-established track records.
Crude Oil		●		Remain Neutral. Crude oil prices could settle in a near-term range between USD 65-75 per barrel.
Base Metals	●			Remain Underweight. China's property turnaround and fiscal stimulus will be key to monitor.
Precious Metals			●	Remain Overweight. Gold is likely to stay well-supported on haven demand, central bank purchases, and falling real yields
Money Market	○	●		**Upgrade to Neutral from Underweight. Near-term market volatility can be expected.**

Underweight | Neutral | Overweight | ● Current quarter's position | ○ Previous quarter's position

Notes:
The asset class summary above is based on a "Balanced" risk profile (See next page).
In the headers, "U/W" represents "Underweight", "N" represents "Neutral", and "O/W" represents "Overweight".
Each black dot indicates current quarter's position. If any, each empty dot indicates previous quarter's position.

*Upgraded EM Asia and China equities to Overweight on 6 March 2025.

Asset Allocation 2Q 2025

Asset Classes	Very Conservative			Conservative			Balanced			Growth			Aggressive			Comments
	Now	VS	Chg.	Now	VS	Chg.	Now	VS	Chg.	Now	VS	Chg.	Now	VS	Chg.	
Equities				**25.0%**	**-5.0%**		**45.0%**	**-5.0%**		**60.0%**	**-10.0%**		**70.0%**	**-10.0%**		
United States				15.0%	-3.6%		27.0%	-4.0%		36.0%	-7.4%		42.0%	-7.6%		
Europe				3.8%	-0.8%		6.8%	-0.8%		9.0%	-1.5%		10.5%	-1.5%		
Japan				2.5%	-0.5%		4.5%	-0.5%		6.0%	-1.0%		7.0%	-1.0%		
EM (Asia)				3.8%	-0.2%		6.8%	0.3%		9.0%	-0.1%		10.5%	0.1%		
Fixed Income	**90.0%**			**60.0%**			**35.0%**			**10.0%**						**Avg. duration:** 4 to 5 years
DM IG	45.0%			25.5%			14.9%			4.3%						
DM HY				4.5%			2.6%			0.8%						
EM IG	45.0%			24.0%			14.0%			4.0%						
EM HY				6.0%			3.5%			1.0%						
Alternatives				**10.0%**			**15.0%**			**20.0%**			**20.0%**			
Money Market	**10.0%**			**5.0%**	**5.0%**		**5.0%**	**5.0%**		**10.0%**	**10.0%**		**10.0%**	**10.0%**		

Notes:

- "Chg." means changes in asset allocation relative to last quarter. If any, these changes will be reflected accordingly (plus weighting in green, minus weighting in red).
- Figures might not add up due to rounding off to 1 decimal place.

View of the World

Economy

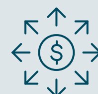
- Post Liberation Day, we revised down our US GDP growth forecast to 1% for 2025 (from previous forecast of 1.8%). The probability of a recession in the US is now raised to 40%, from 20% to 25%.
- As for Asia that has been the hardest hit by the announced tariffs, the potential for growth downgrade will likely range between -0.4 and -1.0 ppts if there is no improvement in the tariff situation.

Prices

- For US, we now expect headline CPI inflation to spike higher to 4% (from previous forecast of 2.5%), before coming off sometime next year.
- Elsewhere, impact on prices is less straightforward, and will depend, to a certain extent, on the balance between retaliatory measures against weaker growth. For Asia, the imposition of US tariffs may slightly worsen deflationary pressures in some parts of the region.

Monetary Policies

- With the announced tariffs increasing odds of a potential US recession, markets are now pricing in a deeper and quicker rate cut cycle for the Fed.
- In Europe, if the tariffs are sustained, it will pose further downside risks to growth, increasing the likelihood of further easing by ECB.
- In Japan, a more aggressive tariff policy has now complicated the picture, as BoJ may delay rate hikes should global growth slowdown adversely affect Japan's domestic demand and break the virtuous cycle mechanism.



Asset Allocation

- Turn Neutral on Equities on the back of trade tariffs and fiscal tightening. Maintain Neutral on Europe, though German fiscal stimulus presents upside risks. Turned constructive on China within Emerging Asia.
- Fixed Income, specifically investment-grade credits, continue to act as effective portfolio stabilisers.
- Stay Overweight on the less correlated alternative assets given their respectable risk-reward as well as diversification benefits. Continue to advocate an allocation to Gold as a hedge.

Macro Trends

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Global Economy

Downshift in global growth

2 April "Liberation Day" tariff announcement by US President Trump was more significant and broad-based than projected, bringing the US effective tariff rates to above 20%, something not seen since 1900s. While there remains rooms for negotiation, the door is also left open for retaliation.

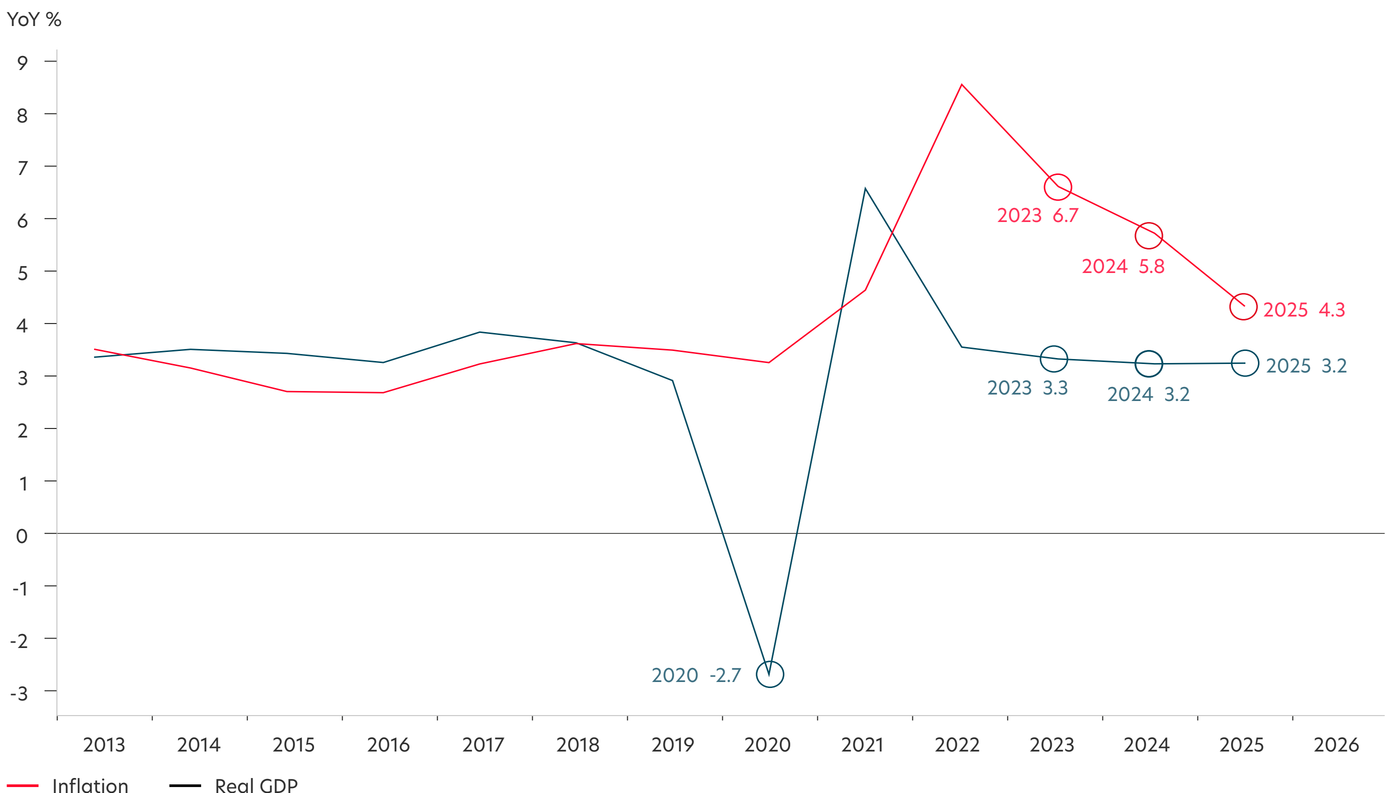
With a new trade order being set in motion, global growth expectations have deteriorated, driven by a weaker US. UOB has revised down our US GDP growth forecast to 1% for 2025 (from previous forecast of 1.8%). The probability of a recession in the US is now raised to 40%, from 20% to 25% previously.

As for Asia, there will definitely be negative implications for growth in 2025 and beyond given the high tariff rates and the export orientation of these economies. The potential for growth downgrade will likely range between -0.4 and -1.0 ppts if no further improvements in the tariff situation. We will finalise our growth forecasts as and when 1Q GDP data become available.

As for inflation, while only a quarter of US imports are consumer goods, the broad-based and significant nature of Trump's latest tariffs, will also affect intermediate goods which will eventually push up US CPI inflation further in the near term, as a one-time price spike. We now expect headline CPI inflation to spike higher to 4% (from previous forecast of 2.5%), before coming off sometime next year.

Elsewhere, impact on prices is less straightforward, and will depend, to a certain extent, on the balance between retaliatory measures against weaker growth. For Asia, the imposition of US tariffs may slightly worsen deflationary pressures in some parts of the region.

IMF GDP growth and inflation forecasts



Source: Macrobond, UOB Private Bank, International Monetary Fund (IMF). Data is as of 31 March 2025.

Global Monetary Policy

More easing outside of the Fed

Majority of global central banks have embarked on their rate cutting cycle, as inflation has fallen materially from its highs in 2023. That said, victory can yet be declared given renewed risks of inflation as tariffs come into force. With a changing trade order now set in motion, most major central banks may accelerate their monetary policy easing cycles to cushion any growth slowdown.

With the announced tariffs increasing odds of a potential US recession, markets are now pricing in a deeper and quicker rate cut cycle. That said, Fed Chair Jerome Powell continues to maintain his cautious approach towards interest rates cut. He opined that it is "not clear at this time what the appropriate path for monetary policy will be" and that the FOMC "does not need to be in a hurry" to adjust policy.

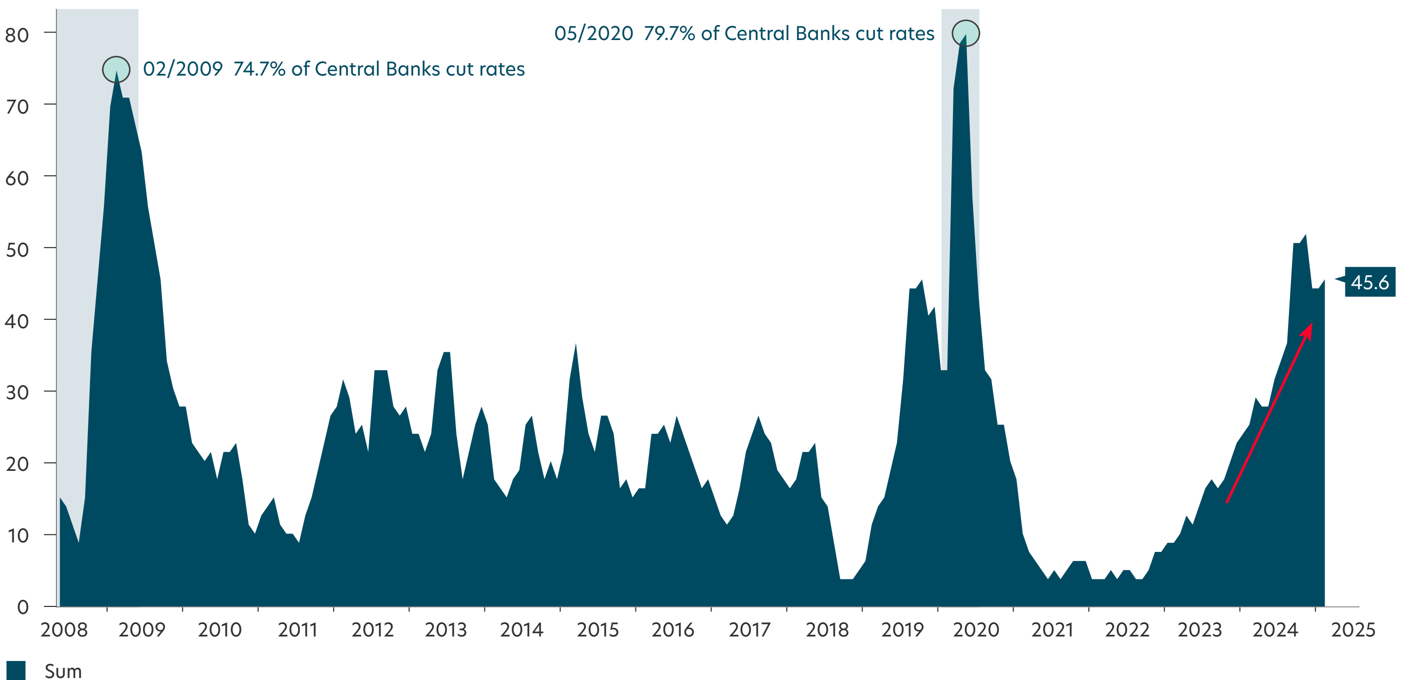
In Europe, given elevated inflation and soft growth, the case for ECB to cut remains strong. If the tariffs are sustained, it will pose further downside risks to growth, increasing the likelihood of further easing by ECB.

Bank of Japan (BoJ) stands out from the pack as the only central bank in the tightening mode as the country finally exits decades of deflation. That said, a more aggressive tariff policy has now complicated the picture, as BoJ may delay rate hikes should global growth slowdown adversely affect Japan's domestic demand and break the virtuous cycle mechanism.

Meanwhile, according to analysts' estimates, Asia faces the biggest growth hit from higher tariffs, with many in the region heavily exporting to the US. Coupled with more Fed cuts on the table, the probability of policy easing by Asian central banks has increased considerably.

More central banks are expected to cut rates

% share of cental banks cutting rates (3-month sum)



Source: Macrobond, UOB Private Bank. Data is as of 31 March 2025.
Note: Based on 79 central banks

Geopolitics

2 April "Liberation Day" tariffs more significant than projected

On 2 April, US President Trump introduced a broader and higher set of tariffs than markets had expected, bringing the US effective tariff rates to above 20%, something not seen since 1900. He introduced a 10% baseline tariff on all US imports, with higher reciprocal tariffs (up to 54% on China, 24% on Japan, 20% on the EU and others) on several countries with large trade imbalances, escalating global market tensions. Australia, the UK, and Singapore face the lowest rates of 10%, with broad exemptions for pharmaceuticals, steel/aluminium, semiconductors, and copper. No additional tariffs are imposed on Canada and Mexico.

The 25% tariff on autos imports will also come into effect, while China's deminimis loophole is closed, subjecting exemption goods to a 30% duty rate or US$25 per item (US$50 per item after 1 June 2025), impacting global e-commerce companies like Alibaba, PDD, and Shein.

The big question now is how US' trading partners will respond, as well as how long these tariffs are going to be in place. As some countries are already lining up retaliatory responses, the tariff rates imposed by the US may escalate higher. Indeed, tit-for-tat measures from major trading partners will contribute to higher volatility and dampen growth. Notably, China has already announced countermeasures in response, including 34% tariffs on all US imports. Conversely, some countries are expected to proactively engage US to negotiate for lower or removal of reciprocal tariffs, so there is possibility of changes to the tariffs, but it is unlikely to be zero tariffs. At the time of writing, the situation remains fluid with investors keenly watching any key developments hitting the wires.

Tariff rate imposed on US products imported by selected trading partner versus US' reciprocal tariff rates on these trading partners

Tariff rate % (average for all products) imposed on US Products imported			US' bilateral trade gap	Exports to US	US trade deficit/ exports to US	Reciprocal tariff to be imposed by US
Partners	**2017**	**2022**	**(USD bn)**	**(2024, USD bn)**	**(%)**	**wef 9 April 2025**
China	10.73	7.11	-295.40	438.95	67.30	34.00
Cambodia^	13.45	12.90	-12.34	12.66	97.46	49.00
France**	5.04	4.79	-235.57	605.76	38.89	20.00
Germany**	5.23	5.01	-235.57	605.76	38.89	20.00
India	11.13	12.63	-45.66	87.42	52.24	26.00
Indonesia	8.41	8.56	-17.88	28.08	63.67	32.00
Ireland**	4.77	4.80	-235.57	605.76	38.89	20.00
Japan	4.63	3.63	-68.47	148.21	46.20	24.00
Malaysia^	5.90	5.47	-24.83	52.53	47.26	24.00
Philippines	6.14	6.13	-4.88	14.18	34.42	17.00
South Korea	3.56	2.66	-66.01	131.55	50.18	25.00
Thailand*	11.52	9.82	-45.41	63.33	72.02	36.00
Vietnam	9.17	9.13	-123.46	136.56	90.41	46.00
United States (averages tariff on all imports)	3.36	2.77	-	-	-	likely above 20%
Total table average (excl. US)	7.67	7.13				
Total ASEAN5 average (excl. Cambodia)	7.07	6.55				

^ 2016; no data 2017-2019 * 2021; no dataa 2016-2020 **US Reciprocal tariff calculated using aggregated EU data
Source: World Integrated Trade Solutions (WITS), USTR. Data is as of 31 March 2025.

US Economy

Tariff-inflicted economic shock

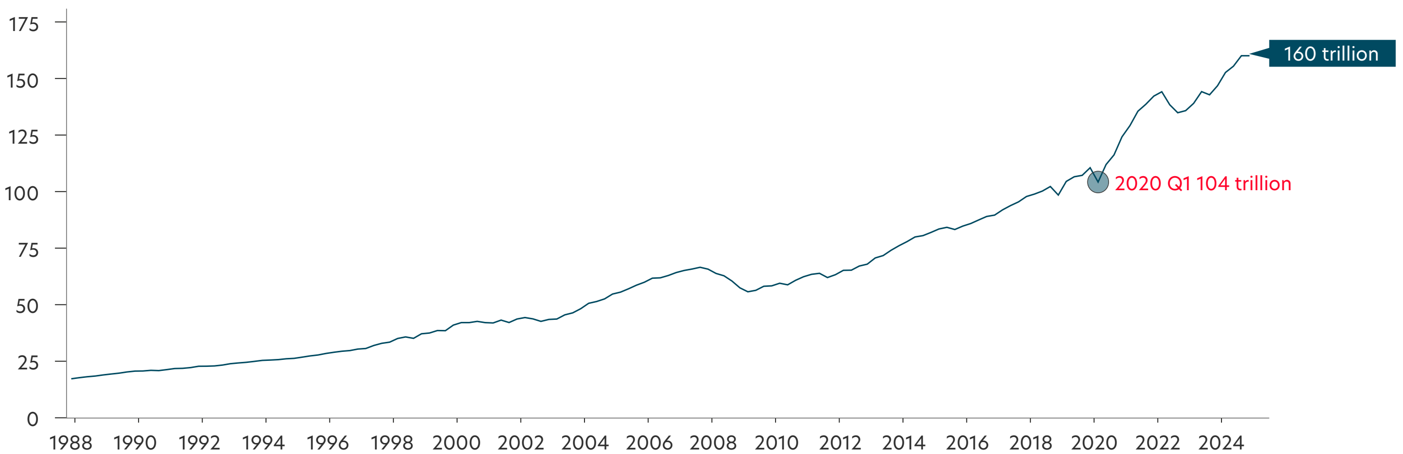
Given the significance of the tariff announcement, it has realised our pessimistic case of trade scenarios and materially impacted our growth and inflation outlook for the US. We now expect the US GDP growth to slow to 1% for 2025 (from previous forecast of 1.8%), while headline CPI inflation may spike higher to 4% (from previous forecast of 2.5%).

Prior to the announcement on Liberation Day, there has been a reversal of US exceptionalism narrative of late, driven by escalating growth and inflationary concerns. House white officials have indicated higher willingness to tolerate near-term economic pain in pursuit of their trade policies.

Recent soft data has been rolling over, with consumer confidence having declined in both University of Michigan and Conference Board survey, weighed down by an uncertain US policy environment. Business confidence has similarly deteriorated. Indeed, the surveys have shown that inflationary expectations have surged in the face of ongoing tariff concerns.

Activities in 1Q are tracking meaningfully lower from last year with Atlanta Fed's GDPNow projecting 1Q GDP to plunge 2.8% QoQ SAAR (as of 31 March), though this is primarily due to a trade swing as US consumers and businesses had likely front-loaded imports ahead of tariffs. Good news is that the rest of the hard data is not weakening much as of yet. Consumers remain resilient; while spending has ticked down, it is coming off its highs post-covid. Upcoming data reads will be critical to monitor.

Household wealth and savings are in a very good shape



Source: Macrobond, UOB Private Bank, Federal Reserve. Data is as of 31 March 2025.

US Monetary Policy

More scope to cut interest rates

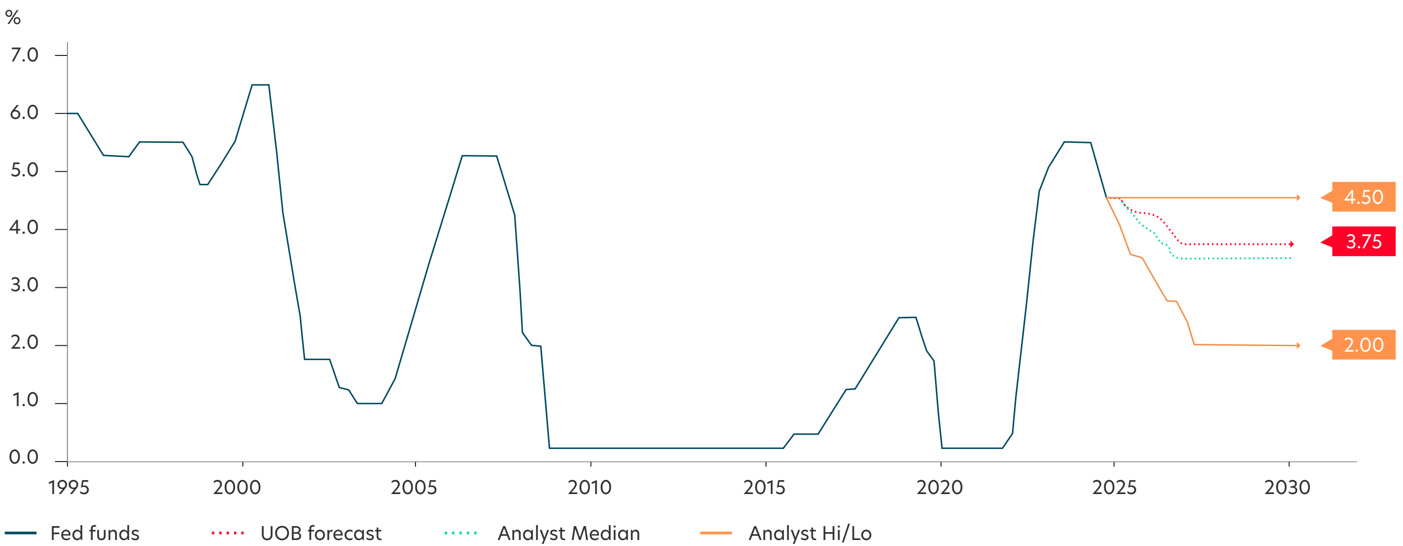
The Fed in its 18/19 March 2025 Federal Open Market Committee (FOMC) meeting, unanimously decided to maintain the Fed Funds Target Rate (FFTR) at a range of 4.25%-4.50%, for the second straight meeting and in line with market and our expectations.

With that said, to reflect more aggressive tariffs than expected, we raised our Fed rate cut expectations to three 25 bp cuts by end-2025 (from previous 1 cut in 2025), as we downgraded our US GDP growth forecast to 1% for 2025 (from previous forecast of 1.8%). We keep the two cuts for 2026, implying a lower terminal rate of 3.25% in 2026 (previous forecast was 3.75%). In this case, despite the inflation spike, the Fed could justify the rate cuts by pointing to the fact that inflation was induced by supply side shocks rather than demand-driven price increases.

At the time of writing, Fed fund futures are pointing to three fed cuts for 2025. Post Liberation Day, Fed Chair Powell reiterates that rates are "well-positioned" for further turbulence, and that "it is too soon to say what will be the appropriate path for monetary policy".

It is noteworthy to highlight that prior to the tariff-inflicted growth shock, most of underlying US economic trends are still resilient. March jobs report came in strong than expected and showed an increase of 228k in nonfarm payrolls, with an ever so slight tick up in unemployment rate to 4.15% (from 4.14%). In all, the report assuaged concerns over any significant labour market weakness amid current trade developments.

US rate outlook



Source: Bloomberg, UOB Global Economics & Markets Research. Data is as of 31 March 2025.

Eurozone

Growth is stagnant, but is this now a watershed moment?

The Eurozone economy grew faster than expected in 4Q 2024, though employment barely grew. GDP was up 0.1% QoQ, unchanged from a revised reading in 3Q 2024. Among the big four Eurozone economies, Germany remains the weakest link on the back of its structural and cyclical challenges. We have lowered our 2025 growth forecast to 0.9% (from 1.2%), as US tariffs on European goods are likely to pose a downside risk to activity in the coming quarters.

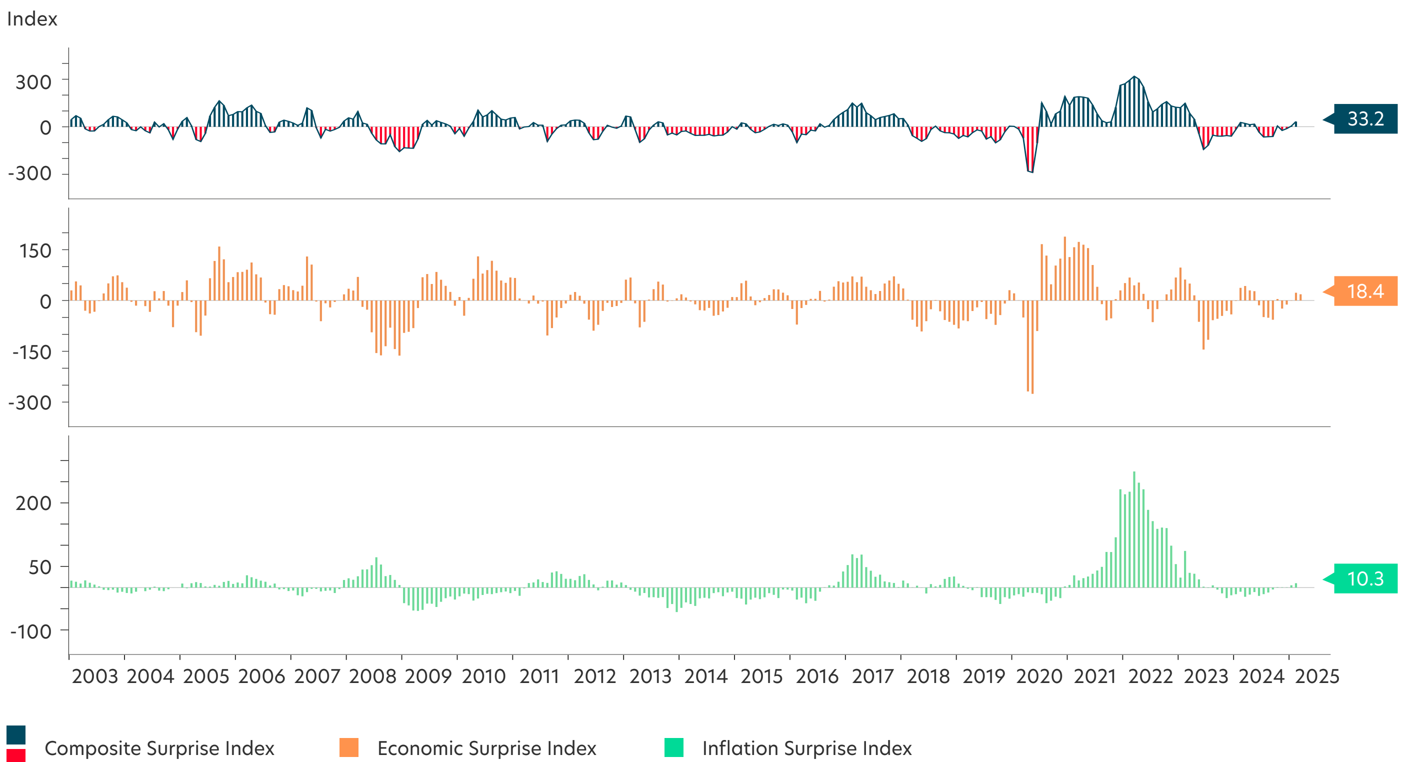
However, a game-changing moment may be upon us. On 4 March, likely-to-be chancellor Friedrich Merz and other political leaders announced plans to reform the long-standing fiscal pillar known as Germany's debt brake, specifically to allow for higher defense spending. They also revealed a new EUR 500 billion special fund for infrastructure.

While there has been past chatter of fiscal changes, the magnitude of the package has materially surprised markets on the upside. It is also highly symbolic that the CDU leader Friedrich Merz stated that he will do "whatever it takes" to defend the country. The parties are looking to pass these measures in the 20th Bundestag parliament. Should these measures come to pass, it will reshape the fiscal backdrop meaningfully and lift the Germany economy out of its current slump.

Separately, the EU Commission has unveiled a EUR 800 billion plan to "rearm Europe". Looking ahead, it is expected that defence will be top of mind of EU policy agenda headed into the rest of the year.

Euro area, surveys and leading indicators - Citi's surprise index

Composite: 33.2, Economic surprise: 18.4 and Inflation surprise: 10.3



Source: Macrobond, UOB Private Bank, Citi. Data is as of 31 March 2025.

Eurozone

ECB cuts rates as expected, but easing with caution

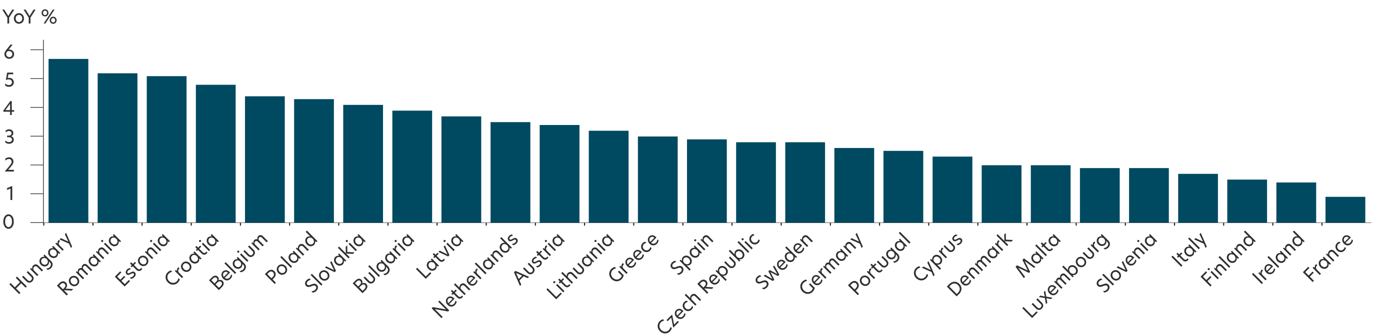
The ECB lowered interest rates for the sixth time since June 2024 at its March meeting. At 25 bp lower, the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will be at 2.50%, 2.65% and 2.90% respectively. Of significance was a rephrase of a key sentence in the accompanying press release. The ECB said that "monetary policy is becoming meaningfully less restrictive", as compared to "monetary policy remains restrictive" back in January's press release.

The ECB will likely aim to reach a broadly neutral stance this year and 2.00% seems like a reasonable bet for the terminal rate. Prior to Liberation Day, our view remains for the deposit rate to be cut by an additional 50 bp this year to 2.00%. One could argue that the Eurozone economy is in poor shape, and with inflation looking well-controlled, putting aside energy price volatility and tariff risks, there is clearly sufficient room for additional easing. However, a shift in Germany's fiscal policy has compounded uncertainty.

Things are looking even more complicated after the announced US tariffs, as market participants have quickly repriced in a faster easing cycle. Indeed, a key swing factor now lies in how Europe will respond to US tariffs announced.

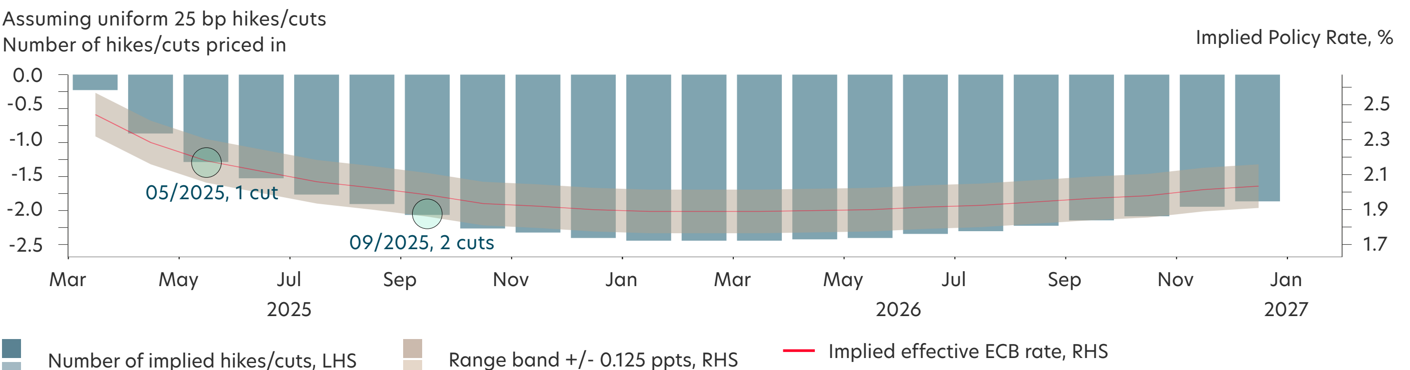
We hold the view that moves in Jun and Sep will be more likely as the ECB navigates trade uncertainty stemming from the trade war with the US as well as major changes to German and European Commission fiscal rules. We will update accordingly as we stick to a data-dependent and meeting-by-meeting approach.

Inflation across Eurozone economies



Source: Macrobond, UOB Private Bank, Eurostat. As of 31 March 2025

Implied number of hikes/cuts from the ECB



Source: Macrobond, UOB Private Bank, Intercontinental Exchange (ICE), European Central Bank (ECB). Data is as of 31 March 2025.

Japan

Economic growth is reinvigorated but Trump poses uncertainties

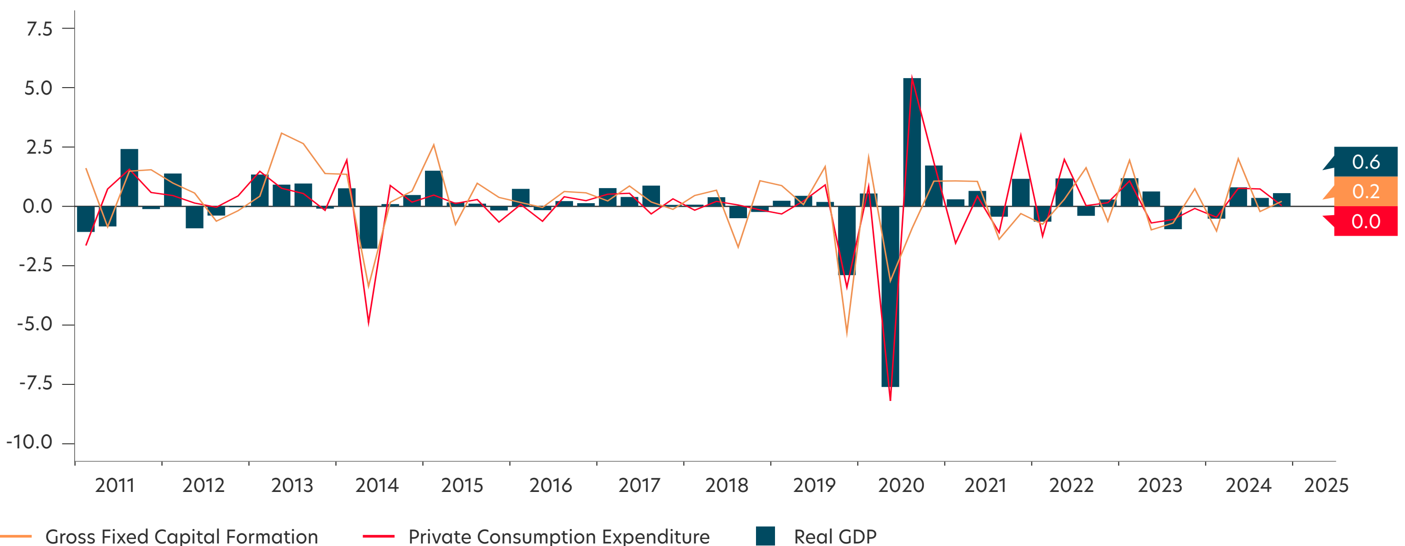
Japan's 4Q 2024 GDP surprised to the upside, with the economy expanding more than expected at 2.2%, thanks to the jump in net exports, as well as government consumption. We expect the economy to extend the growth trajectory into 2025, supported by the wage-induced consumption recovery. Continued tourist arrivals and the positive impact on the tourism-related in-person services will also anchor the domestic growth outlook together, with the loosening of monetary conditions in the international markets.

Japan's real wage growth is picking up, potentially exceeding 3% annually, fostering a wage-price cycle. Concurrently, consumer confidence has remained firm following a steady improvement since the start of 2023. Overall, a reflationary environment bodes well for higher domestic capex, fostering a positive feedback loop of domestic production and spending which supports the country's GDP growth.

That said, the downside factors loom large, and the main risk is that regarding trade and growth. Japan has been hit by surprising higher tariff rate than expected of 24% including the auto tariff that had gone into effect, given its perceived "ally" status. US makes up 20% of Japan's total exports. A related risk includes retaliatory tariffs enacted by other economies, creating a negative shock to the global trade environment and potential supply chain disruptions.

Other downside risks include the resumption of weak domestic demand if wage growth stalls in 2025, China's sluggish recovery (made worse by the Trump 2.0 trade war), and the tighter monetary stance from Bank of Japan (BoJ). With Trump's policy uncertainties and its negative impact on China and Asia potentially offsetting positive wage developments, we keep our 2025 growth forecast of +1.0% (from +0.1% in 2024) and risk is likely to be biased towards the downside.

Growth rebound supported by wage-induced consumption recovery



Source: Macrobond, UOB Private Bank, Japanese Cabinet Office (CAO). Data is as of 31 March 2025.

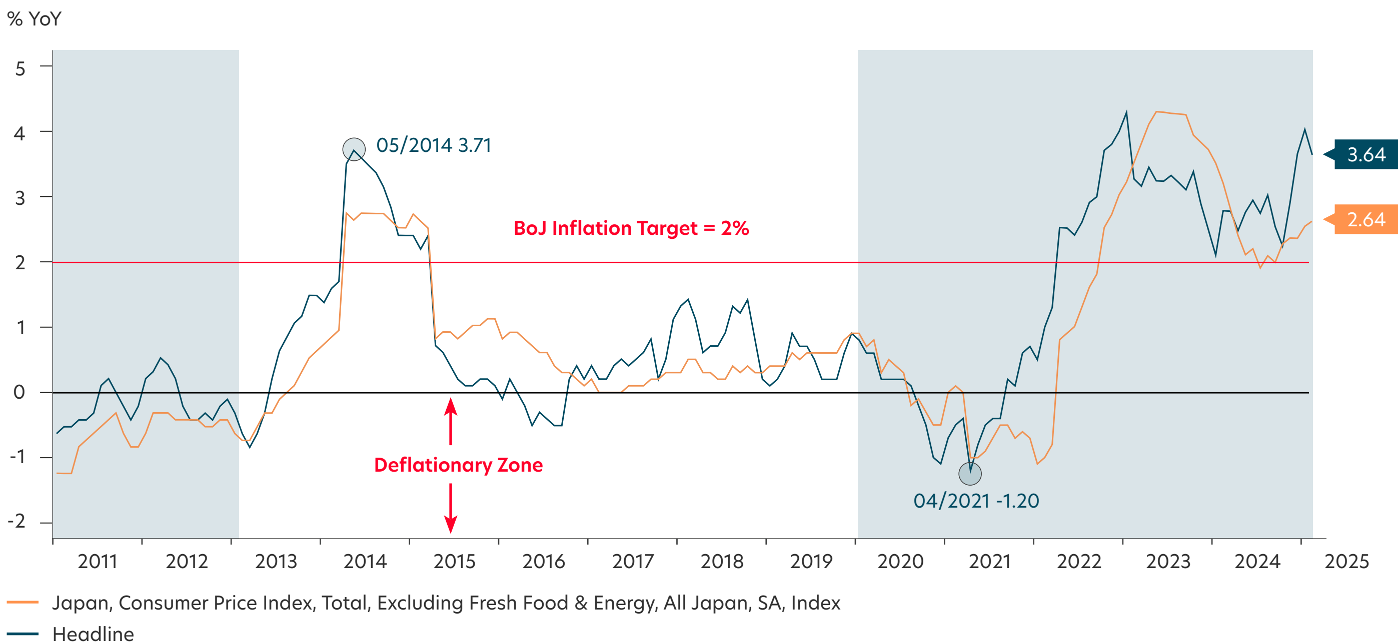
Japan

A virtuous cycle of income and spending is underway

Inflation started the year on a high, with overall CPI inflation accelerating to 4.0% YoY in January (from 3.6% in December), the highest since January 2023 (4.3% YoY, partly driven by higher fresh food prices. Excluding fresh food, CPI rose by 3.2% YoY, up from 3.0% in December, highest since June 2023 (3.3% YoY) due to the uplift from higher processed food prices. Core inflation (which excludes fresh food and energy) also edged higher to 2.5% YoY from 2.4% in December. After a recent peak of 3.2% YoY, services producer prices continued to rise at a pace well above 2% (September: 2.6%, August: 2.8%). The Bank of Japan (BoJ) projected that risks to prices are skewed to the upside for fiscal 2024 and 2025 with the added hawkishness reflected by FY2025 CPI revised markedly higher to 2.4% (from 1.9% previously). We lifted our headline and core CPI to average 2.5% for 2025 (from 2.0% previously) before easing to 1.8% in 2026.

Based on the BoJ's January MPM forward guidance and upward CPI forecast revisions coupled with Governor Ueda's and his deputies' comments, we believe that the BoJ is not done with tightening, but the timing could be influenced by external developments, especially Trump's trade policies. Ueda unequivocally voiced his optimism for the upcoming wage negotiation, but he did caution about the uncertainties over Trump's policies. Most importantly, Ueda said the neutral range is broad but confirmed that the current rate is still far from neutral. That is to say that there is room for rates to go higher. We still expect the BoJ to hike its policy rate another two times, by 25 bp to 0.75% in the 30 April/1 May MPM, and another hike in 29/30 October MPM to 1.00% which we believe will be the terminal rate. That said, there is a growing possibility that the BoJ could delay the rate hike, if global growth slowdown adversely affects Japan's domestic demand and breaks the virtuous cycle mechanism.

Japan's headline and core inflation



Source: Macrobond, UOB Private Bank, Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, Macrobond Financial AB. Data is as of 31 March 2025.

China

More stimulus could be on the way

China's 4Q 2024 GDP growth accelerated to 5.4% YoY, driven by the industrial sector while the property market continued to stabilise on the back of government's stimulus measures and easing purchase restrictions. The FY growth target of 5.0% was in line with the official target. That said, the weaker economic prospects domestically continue to weigh on employment outlook as well as consumer sentiment, despite the barrage of stimulus measures introduced in September last year.

The recently concluded National People's Congress has shown that China is willing to use stimulus to boost the economy and counter tariffs. With tit-for-tat tariffs now in place, we believe there will be even more stimulus through the year to hit the 5% GDP growth target.

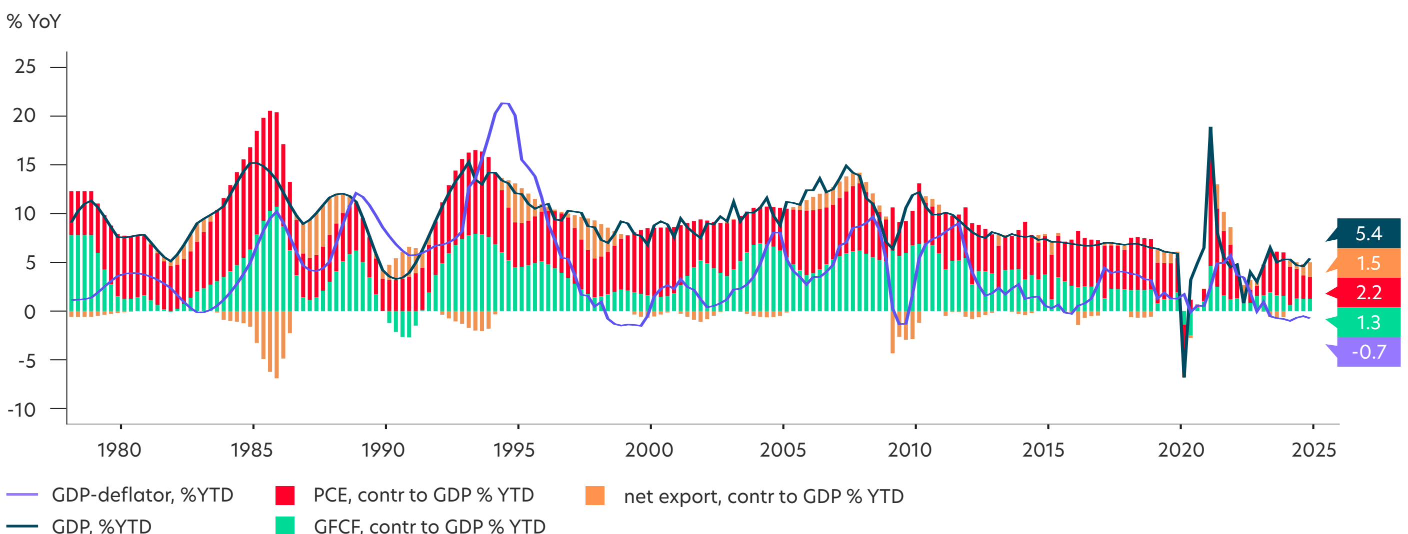
Key takeaways:

- GDP growth target: "Around 5%" (2024: around 5%)
- CPI inflation target: 2% (2024: 3%)
- Budget deficit: 4.0% of GDP or RMB 5.7 trillion (2024: 3.0% of GDP or RMB 4.1 trillion)
- Special bond quota: RMB 6.2 trillion (local/central: 4.4 trillion/1.8 trillion) (2024: RMB 4.9 trillion, local/central: 3.9 trillion/1.0 trillion)
- RMB 300 billion for consumer subsidies (2024: RMB 150 billion) and RMB 500 billion for bank capital injection

Aside from the pro-growth policy bias, we believe that a significant turning point has been marked when prominent technology entrepreneurs including Alibaba Group co-founder Jack Ma met with the nation's top leaders. This is a strong signal that China's Communist Party is more supportive toward private-sector companies. We see this as a way to combat the slowing economy and a buffer against a potential second trade war. While it is unlikely for China to do an immediate 180 reversal from its over regulation, the pressure valve appears to be released. Investors will now be looking keenly for firm policy follow through.

Furthermore, during NPC, policymakers continue to make technological innovation a priority, while positioning for high-end manufacturing as a key growth engine. Whether the breakthroughs in China high end manufacturing can offset its structural headwinds remain top of investors' mind, they now present positive tailwinds to the country's medium-term growth outlook.

China, GDP-growth



Source: Bloomberg, UOB Private Bank, China National Bureau of Statistics (NBS). Data is as of 31 March 2025.
Note: GFCF stands for Gross Fixed Capital Formation, while PCE stands for personal consumption expenditure.

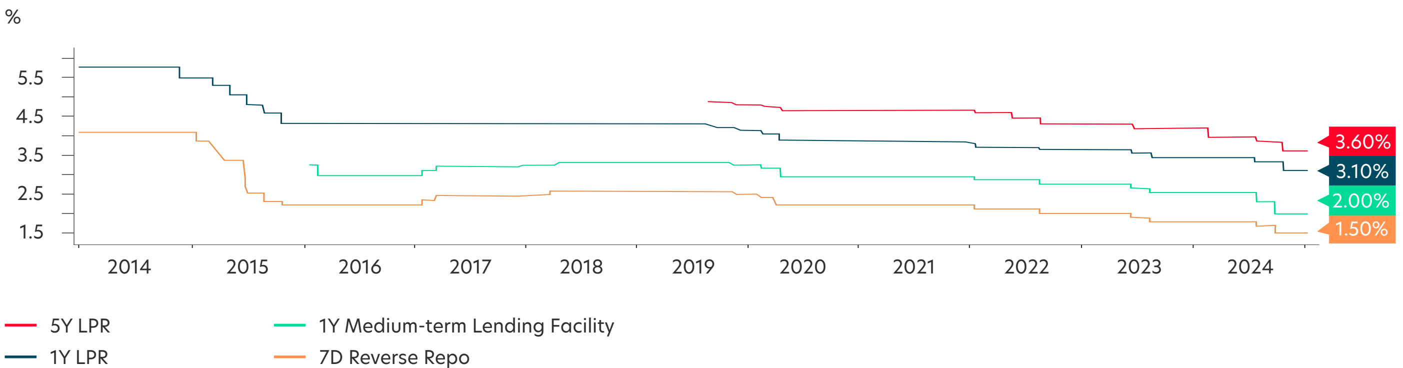
China

Keeping policy dry powder for rainy days

With US President Trump launching a hefty 54% tariff on all Chinese goods since he took office (34% reciprocal tariffs on Liberation Day, in addition to the 20% that has already been implemented), we expect the strong industrial production and exports since late-2024 to soon unravel as the earlier gains were boosted by frontloading activities. China has since retaliated with tariffs in response, announcing 34% levies on all imports from the US starting 10 April. Any further trade war escalation between the world's two largest economies will pose even further downside risks.

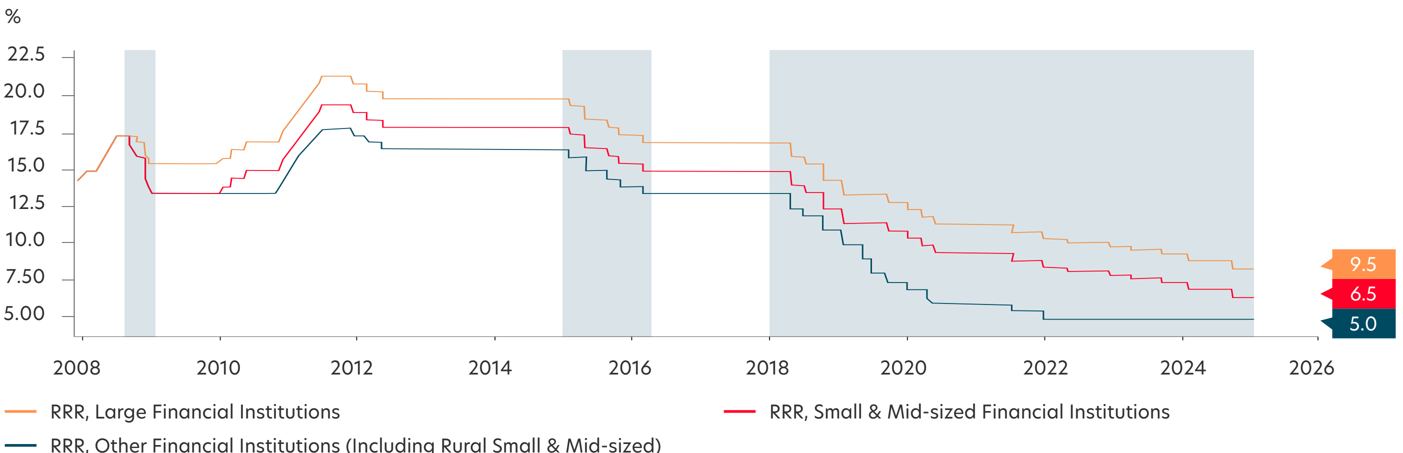
On the monetary policy front, the PBOC has adopted a "moderately loose" stance in December, a shift from "prudent" that was held since 2011. For this year, we anticipate an additional 50-100 bp reduction to banks' reserve requirement ratio (RRR) and 30 bp cut to the benchmark 7-day reverse repo rate (with loan prime rates to fall by 30 bp). These moves will bring the 7-day reverse repo rate, 1Y LPR and 5Y LPR to 1.2%, 2.8% and 3.3% by end-2025. Depreciation pressure on the CNY may affect the timing of any interest rate cuts. We now expect 20 bp rate cut in 2Q 2025 and 10 bp cut in 3Q 2025.

Monetary policy easing set to continue amid the weak growth and price backdrop



Source: Macrobond, UOB Global Economics & Markets Research. As of 31 March 2025

PBOC has room for 25-50 bp RRR cut in 1Q 2025



Source: Macrobond, UOB Global Economics & Markets Research. Data is as of 31 March 2025.

Equities

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United States

Expect stock returns dispersion; episodic volatility presents buy-on-dip opportunities

On 2 April 2025, dubbed "Liberation Day" by President Trump, he announced sweeping new tariffs during a White House Rose Garden speech. He introduced a 10% baseline tariff on all US imports, with higher reciprocal tariffs (up to 54% on China, 20% on the EU and others) on many countries with large trade imbalances, escalating global market tensions.

Investors should adopt a more defensive stance as the dust settles from this initial salvo. This includes gaining exposure to defensives including low-volatility dividend stocks to tide through the market gyrations. While Trump's tariffs could be employed as a negotiating tactic, it appears the US is willing to suffer more short-term pain than expected for more favourable trade terms.

Earnings growth: With Trump's tariffs ramping, S&P 500 earnings per share (EPS) growth could fall to mid-single digit for the full year 2025; market consensus has been revised downwards to 8.5%, driven by related cost pressures and market uncertainty.

Market rotation: Our call to rotate from the Magnificent 7 (Mag7) names into the rest of S&P 500 (O493) at the start of this year has worked out well in terms of relative performance. We expect performance dispersion across sectors or styles to persist.

Economic growth: We project the US real GDP YoY growth to come in at 1.0% for 2025, which is more conservative relative to IMF as well as most of the other major banks. With upside risks to inflation likely to dampen consumer demand and downside risks to growth from the US tariff measures, a broad-based growth slowdown is inevitable.

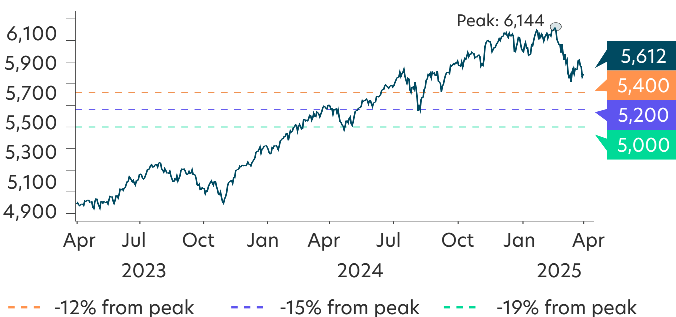
Sector highlights: We remain focused on buy-on-dip opportunities, particularly in quality large-cap names. AI productivity gains can drive earnings, while a valuation reset from previously stretched levels could provide a conducive backdrop for upside potential.

Meanwhile, semiconductor stocks are now much closer to the tail end of the cyclical downturn. Investors should favour defensives such as Health Care and low-volatility dividend stocks in the near-term; they will hold up better against the market sell-off.

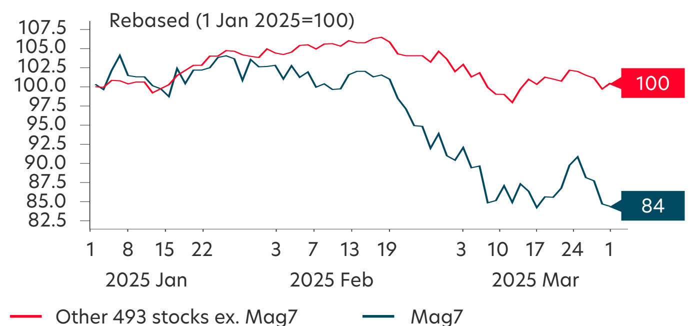
Market positioning: Overall, gaining defensive exposure via structured products with deep buffers remains appropriate. Selectivity and diversification remains key given market dispersion and heightened geopolitical tensions. Investors should be positioned in quality companies with strong balance sheets and free cash flows; these are the names that can stage a rebound when there is clarity on the tariff policies and a Fed put.

CIO's recommendation: We remain Neutral on the US equities. Selectivity is key given performance dispersion. Investors should be diversified, favouring defensives such as Health Care and low-volatility dividend stocks in the near term. Staying positioned in quality names with strong fundamentals allows for recovery.

S&P 500 technical levels to watch



Mag7 vs. O493 YTD Performance



Source: Bloomberg, UOB Private Bank. Data is as of 31 March 2025.

Europe

Follow the money: Defence spending and fiscal policy will be key themes

To the surprise of most market participants, European equities outperformed all its peers except China year-to-date. The outperformance can be primarily attributed to expectations of forthcoming fiscal policy support in the wake of America's shifting policies toward Ukraine, Russia and Europe.

Geopolitics: As anticipated, beyond the war in Ukraine, pressures by the US President Trump have led to increased European defence spending, benefitting longer-cycle European defence stocks. With Trump withdrawing the security guarantees for Ukraine, Europe is now forced to regroup, reform and rearm.

Fiscal policies: Germany's parliament has approved plans by Chancellor-in-waiting, Fredrich Merz, to loosen borrowing limits. A EUR 500 billion infrastructure fund has been established over the next decade. The fiscal package also exempts defence spending above 1% of GDP from the debt brake; this allows for a huge boost in military expenditure and expanded aid to Ukraine. In response, the German bund yield curve has steepened substantially, usually a sign of a broad-based economic recovery.

With aggressive fiscal expansion in place, we could see a meaningful boost to Germany's aggregate demand; the German economy could be lifted out of its current slump.

Monetary policies: The European Central Bank (ECB) is projected to cut interest rates from the current 2.65% to 2.15% by the end of 2025, fostering slight economic acceleration. Coupled with the impending fiscal stimulus, monetary easing will likely support growth.

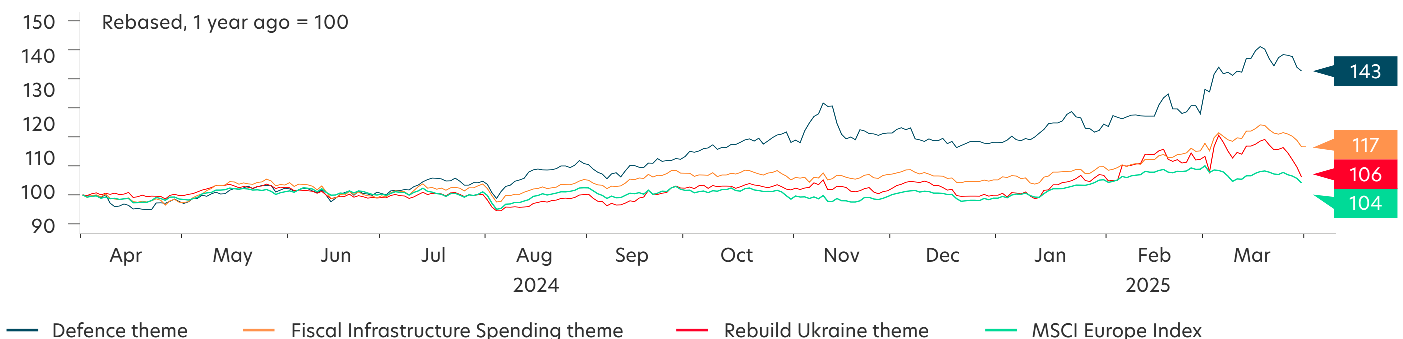
China's economic slowdown: Europe's significant trade exposure to China, particularly in sectors like luxury goods, automotive, and industrials, presents vulnerabilities. Despite an aggressive 5% GDP growth target for 2025, China's deflationary pressures persist. Lackluster Chinese domestic consumption could continue to weigh on these sectors.

Sector highlights: Defensive sectors like utilities and consumer staples are likely to outperform cyclicals such as energy and luxury goods. Selected industrials riding on the Ukraine rebuilding efforts could also perform well. European banks have pulled back amid falling long-term bond yields but should still deliver decent capital returns to shareholders for the full year 2025. Finally, stocks leveraged to structural growth trends like AI, electrification and defence can outperform in the long-term.

Overall, defensive positioning and exposure to structural growth themes would be crucial. Germany's fiscal policy is a game changer that could bode well for European equities in terms of relative regional performances.

CIO's recommendation: We keep European equities at Neutral. Investors should focus on selected industrials, banks, AI as well as defence stocks. Beyond near-term tariff-induced volatility, Germany's fiscal policy is a game changer.

Focus on "rebuild" and "fiscal" boost in Europe



Source: Bloomberg, UOB Private Bank. Data is as of 31 March 2025.

Japan

Tricky setup with stronger currency: prefer firms with domestic sales exposure and corporate reforms, banks, as well as AI-related names

The 2Q 2025 outlook for Japan's equities appears cautiously optimistic, driven by positive inflation dynamics, economic reinvigoration and corporate reforms. Against a backdrop of a relatively tight labour market, base-pay increases have been picking up, bolstering Bank of Japan's (BoJ) confidence that wage trends are in line with the 2% inflation target.

Positive feedback loop: Japan's real wage growth is picking up, potentially exceeding 3% annually, fostering a wage-price cycle. Concurrently, consumer confidence has remained firm following a steady improvement since the start of 2023. Overall, a reflationary environment bodes well for higher domestic capex, fostering a positive feedback loop of domestic production and spending which supports the country's GDP growth.

Corporate governance momentum: The Tokyo Stock Exchange's (TSE) ongoing push for improved capital efficiency, initiated in March 2023, continues to bear fruits. By 2Q 2025, over 90% of TSE Prime Market companies are expected to have fully responded to requests to focus on cost of capital and stock price performance. To this end, investor interest can be sustained, particularly in companies enhancing shareholder returns via dividends and buybacks, which have been trending higher.

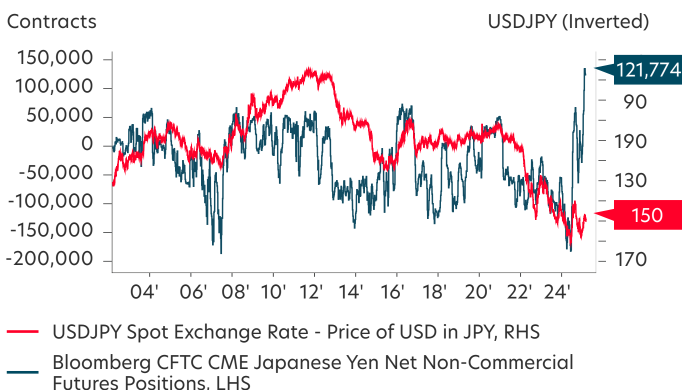
Geopolitical and FX risks: Japan faces risks from global economic uncertainties, particularly in face of potential US tariffs. In addition, the BoJ is expected to hike its policy rate two more times to 1% by 4Q 2025. Given the potential for persistent yen appreciation, Japanese stock markets could see some volatility. Having said that, the net-long yen positions are now at the highest in over two decades. Any unwinding of long-yen positions on a surprise dovish tilt in the BoJ's forward guidance could bode well for the Japanese stock markets, which tend to thrive under yen's depreciation.

Sector highlights and preferences: We reiterate preference for domestically-oriented sectors which are expected to hold up better against yen-induced headwinds. The expected wage increases are also likely to benefit consumer-related sectors such as retail and food. Domestically driven sectors like transport and IT services could perform well. While Japanese banks have fallen sharply alongside long-end bond yields, we expect them to consolidate and recover gradually from current levels. We continue to like quality companies on corporate reforms to enhance shareholder returns.

Overall, we remain constructive on Japan's equities against a backdrop of undemanding valuations at 13.4x 12MF P/E and continued positive earnings revisions. Selectivity is key.

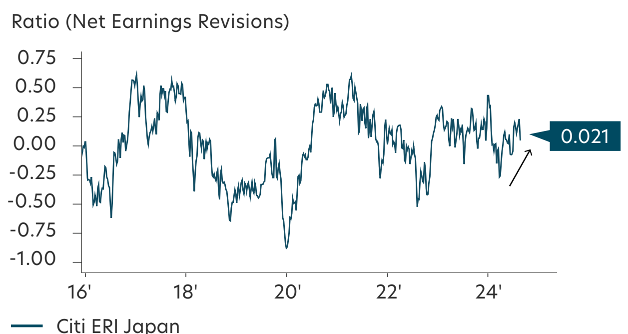
CIO's recommendation: We remain Overweight on Japan's equities. We reiterate our preference for domestically oriented sectors. Banks will likely consolidate and recover gradually from current levels. Investors should also favour beneficiaries of Japan's corporate reforms. Overall, selectivity is key.

Net-long yen positions highest in 2 decades



Source: Bloomberg, UOB Private Bank. Data is as of 28 March 2025.

Positive revisions despite yen's strength



Source: Bloomberg, UOB Private Bank. Data is as of 28 March 2025.

Emerging Asia

China's fiscal stimulus will be key to further valuation re-rating; India could be a relative haven

The emerging Asian equities have held up well year-to-date, led by China. On 6 March, we sent out a note indicating that we have upgraded Chinese equities to Overweight. By extension, given China's massive weight within the EM Asia equity basket (35.7% of equity index as of 11 March 2025), we have upgraded EM Asia equities to Overweight.

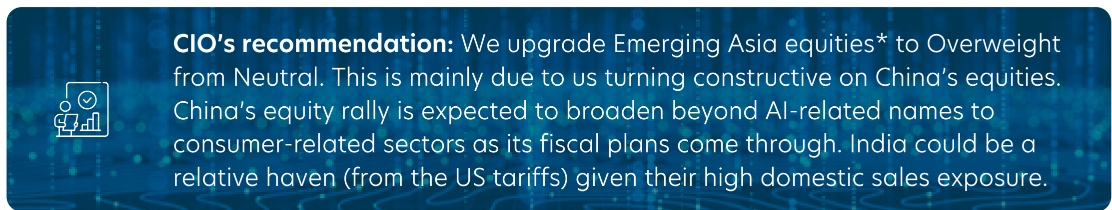
We view that the Chinese equity markets can turn from a "tactical" to "investable" one if policymakers follow through with stimulus and re-liberalisation plans. First, Chinese President Xi's meeting with the tech entrepreneurs and CEOs like Jack Ma signals a shift towards a pro-business stance. Second, China has shown a willingness to stimulate the local economy through fiscal expansion, in a bid to achieve its 5% GDP growth target this year, outlined during China's recent Two Sessions.

China's fiscal stimulus: China's government has been proactive with stimulus—think rate cuts, lower down payments for homes, and stock market support funds announced in 2024. In addition, more fiscal stimulus can be expected this year as China has raised the budget deficit to 4% of GDP for 2025, the highest level in decade. These policy efforts could start bearing fruit through the rest of 2025, lifting domestic demand and stabilising sectors like real estate.

China equity valuations, earnings and positioning: So far, China's equity surge has been led by AI-related tech stocks, rather than a broad-based rally. We expect some consolidation after the recent strong move but would be buyers on weakness. Further improvement in investor sentiment could culminate in select consumer-related sectors playing catch-up, as well as further re-rating from relatively attractive valuations of 9.8x forward P/E (referencing the HSCEI index). Another encouraging development has been the continued positive earnings revisions. Coupled with relatively light positioning from foreign long-only funds as well as institutional investors, the upside potential remains compelling for Chinese equities.

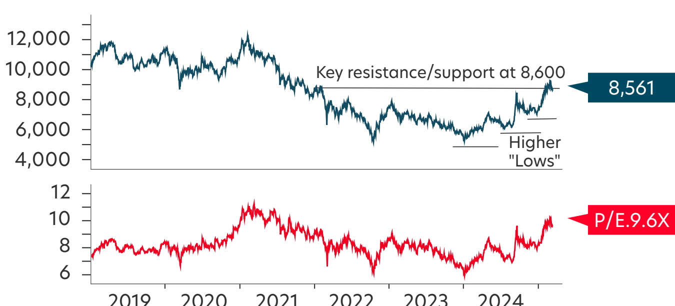
Preferred sectors and regions: Key investment themes for China include local consumption recovery, digital transformation, and fiscal policy support. Selected tech companies could also outperform on innovation-driven growth. Beyond which, we continue to prefer high-quality dividend stocks.

In terms of regions that we favour, we have turned constructive on China. Following the recent broad-based equity correction, India's equities also look interesting as they could be relative haven (from the US tariffs) given their high domestic sales exposure.



*Upgraded EM Asia and China equities to Overweight on 6 March 2025.

China HSCEI – Positive technical picture



Source: Bloomberg, UOB Private Bank. Data is as of 31 March 2025.

India Nifty 50 finds critical support

Source: Bloomberg, UOB Private Bank. Data is as of 28 March 2025.

Fixed Income

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Developed Markets High Yield 32
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Emerging Markets Asia High Yield 34

Developed Markets Investment-Grade

Building in defensive premia

DM Investment Grade (IG), proxied by the Bloomberg US Corporate Bond Index, delivered a total USD return of +1.73% year-to-date (as of 13 March 2025). The rally in rates more than overcame the slight widening in credit spreads and drove positive performance for quality bonds thus far this year.

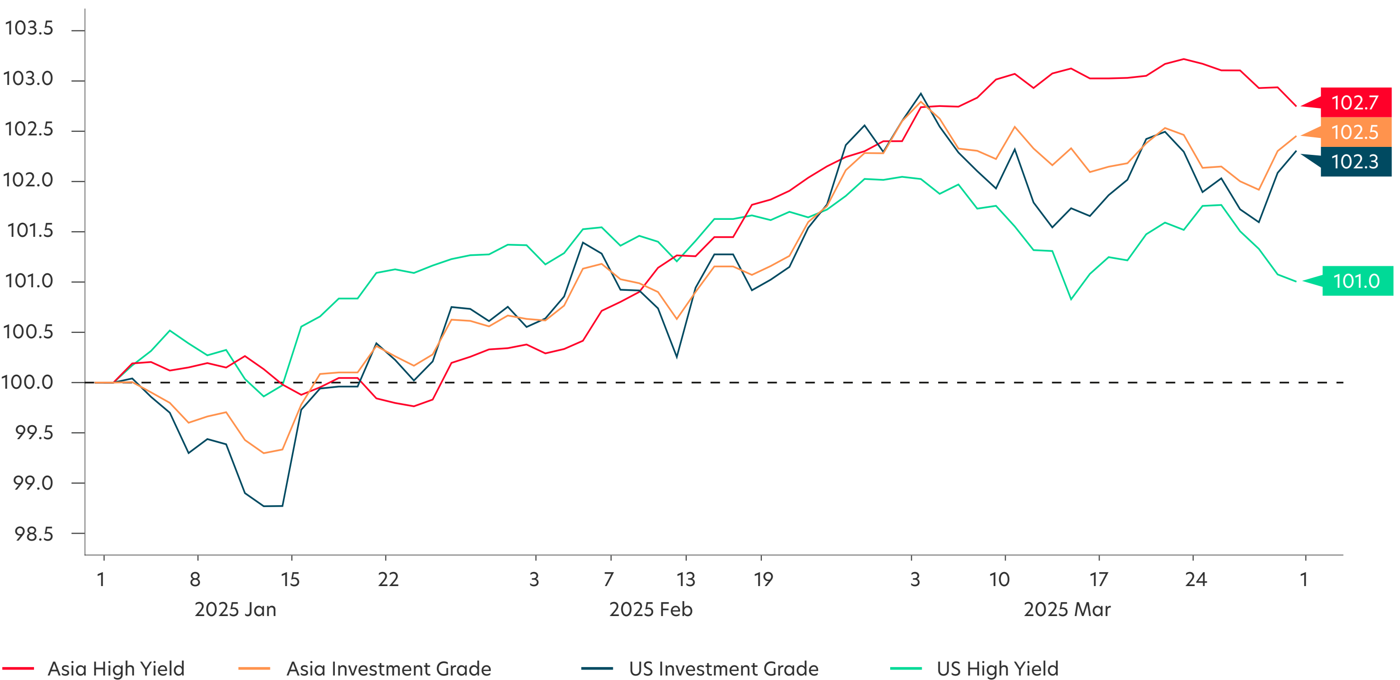
US exceptionalism has taken a pause with Trump tariffs taking center stage. With policy uncertainty remaining a certainty, concerns over trade protectionism and tariff-induced inflation were quickly overshadowed by risk aversion as traders pared back on beta positions.

Markets have repriced some bull steepening back into the treasury yield curve with 10yr-2yr differential widening to a +31.4 bp.

The UOB Global Economics & Market Research team is projecting three 25 bp cuts by end 2025. A healthy widening of credit spreads amid the rates rally have kept investment grade (IG) bond yields at compelling levels for income investors. With tariff uncertainty remaining a certainty, our preference for quality bonds from defensive sectors (i.e. consumer staples, utilities, telcos) can provide a defensive hedge with the added benefit of coupon carry.

Fixed income year-to-date performances

Total USD Return (Rebased, start of 2025 = 100)



Source: Bloomberg, UOB Private Bank. Data is as of 31 March 2025.

Developed Markets High Yield

Asymmetric risk-reward; credit spread widening to be main risk for DM HY credits in 2025

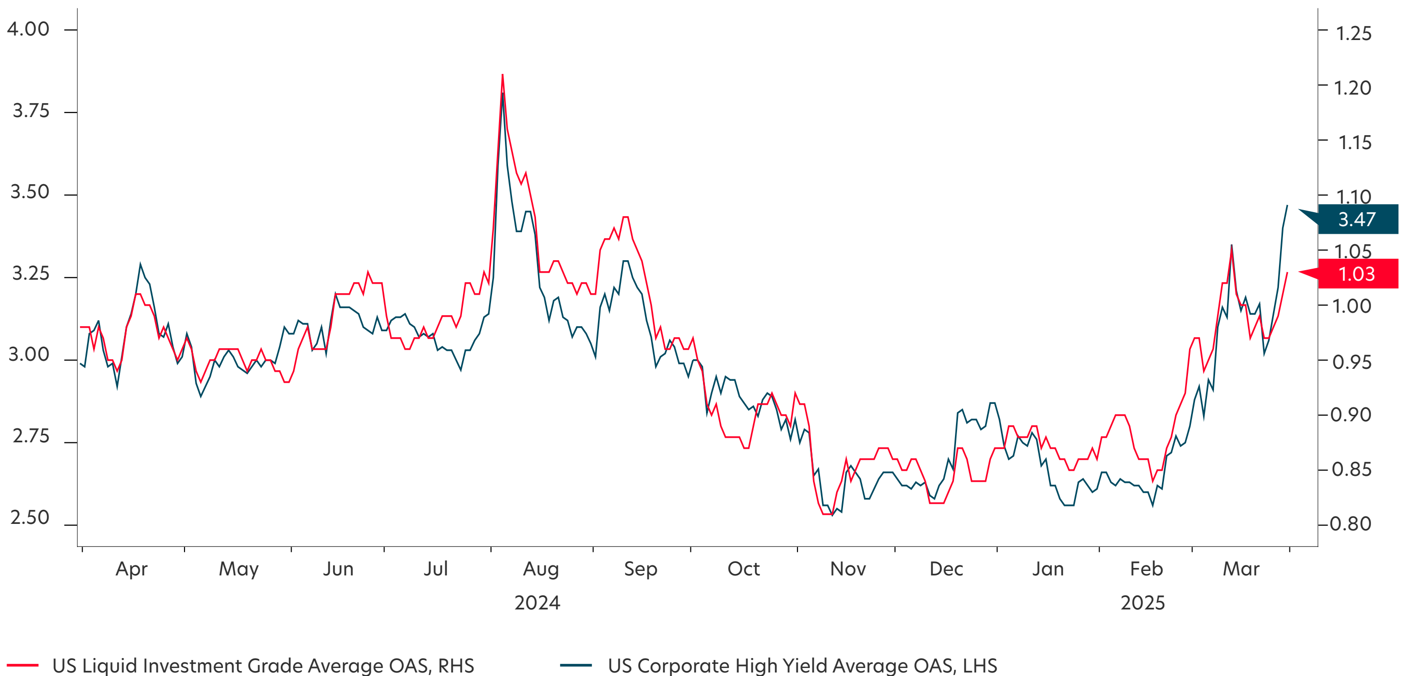
DM HY (proxied by Bloomberg US Corporate High Yield Index) took a breather following a strong start to the year as narratives around tariff tensions started to intensify over the past couple of weeks.

As of writing, DM HY returned +0.83% YTD, marking a ~90 bp underperformance relative to its DM IG counterpart. This was attributed to: (1) credit spread widening (DM HY +79 bp from the lows vs DM IG +19 bp), and (2) shorter duration nature of HY vs DM, which meant HY saw some lag in performance from the rally in UST rates. Despite the widening, HY credit spreads remain on the tighter end of the spectrum from a historical perspective.

The lagged effects of higher borrowing costs and risks of dampened access to financing channels on increasing economic uncertainty may adversely impact the financial flexibility of weaker companies while funding and liquidity conditions could also be challenged. As such, we see further widening as a notable risk for DM HY credits in 2025.

Investors should dial down on credit risk and seek shelter in higher-rated and more established 'BB' credits over lower-rated ones within the HY complex for better credit defensiveness.

Spreads have widened significantly



Source: Bloomberg, UOB Private Bank . Data is as of 31 March 2025.

Emerging Markets Asia Investment-Grade

Relative haven amidst challenging macro backdrop

Emerging Market Asia Investment Grade ("EM Asia IG") has been a relative haven amidst challenging macroeconomic narrative in 1Q 2025. Risk sentiment in EM Asia IG was resilient as credit spreading widening was relatively contained during risk-off episodes. Consequently, the Bloomberg EM Asia USD Credit High Grade Index delivered a respectable YTD total return of +2.33% (as of 13 March 2025). Index performance is attributable to a combination of a strong rally in US treasuries ("UST"), stable carry and benign credit spreads.

We continue to be constructive on EM Asia IG and think concerns over US growth and President Trump's exceptionalism policies requires time to pan out. Meanwhile, credit fundamentals of EM Asia IG issuers remain in a good place despite global macro uncertainties. We also believe any upward credit spread pressures can be cushioned by lower UST yields under such a scenario.

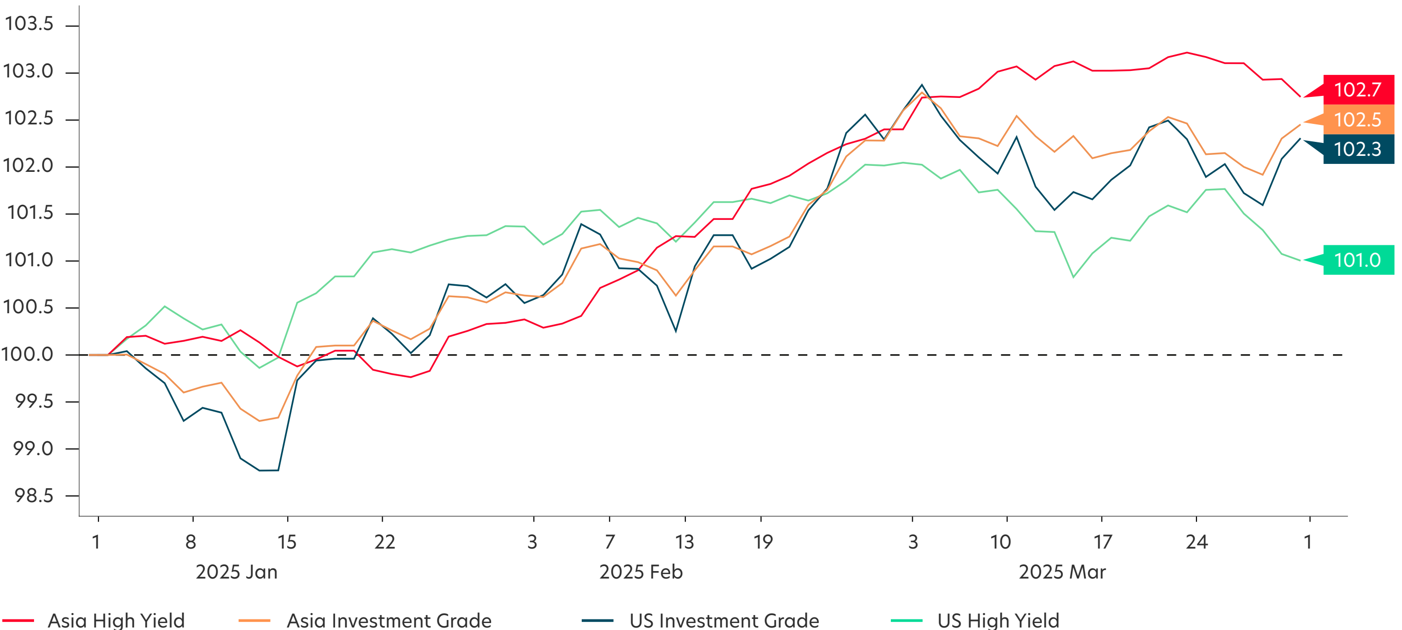
We think EM Asia IG can be a relative haven for investors who appreciate the portfolio-stabilising and diversification features bonds can offer.

Within the space, we maintain our preference for Asia (incl. JP) financials, select Asia-focused life insurers, quasi-sovereign/strategic state-owned enterprises, and defensive consumer names. We are also positive on select China TMT names on recent signaling of a pro-business stance on the back of China's NPC and President Xi's televised meeting with tech leaders.
This, to us, signals a pro-business stance (towards Tech in particular) as China seeks to reinvigorate domestic consumption and compete against the US amid tariff tensions.

CIO's recommendation: We view EM Asia IG as a relative haven given the portfolio-stabilising and diversification features.

Fixed income year-to-date performances

Total USD Return (Rebased, start of 2025 = 100)



Source: Bloomberg, UOB Private Bank. Data is as of 31 March 2025.

Emerging Markets Asia High Yield

Selectivity is key in avoiding pitfalls

EM Asia High Yield (HY) continued to hold up well in 2025 with the reference index (Bloomberg Asia USD High Yield Bond Index) delivering a total USD return of +3.34% year-to-date, while average credit spreads tightened -18.1 bp to ~398 bp (as of 13 March 2025). Overall index performance was lifted by market rebounds across Vedanta, Pakistan, Macau gaming and select mainland China/HK SAR developers.

At the same time, credit spreads remain tight from a historical context. Macro uncertainties would also negatively affect sentiment and credit fundamentals though we expect this to be partly offset by demand on attractive all-in yields and supportive supply technicals.

In terms of positioning, caution and high selectivity remains our modus operandi within the EM Asia HY sector. We encourage investors to apply stringent bottom-up analysis and tone down credit risk within this space. We prefer to be exposed in higher-rated and more established 'BB' credits over lower-rated ones for better credit defensiveness.

CIO's recommendation: Overall, we favour select ASEAN infrastructure, Indonesian utility and Indonesian property development credits. We remain Neutral on EM Asia HY.

Spread widening has been less extensive than DM counterparts'

Source: Bloomberg, UOB Private Bank. Data is as of 31 March 2025.

Commodities

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Crude Oil

Risks skewed to downside amid OPEC+ supply raises and weak global demand

Following a brief spike above USD 80/bbl in 1Q 2025, Brent crude fell towards the anticipated trading range of between USD 70/bbl and USD 75/bbl in late February.

A confluence of factors including US tariffs on Canadian and Mexican imports as well as OPEC+ production hike precipitated the sharp crude price declines of late.

US President Trump said on 3 March 2025 that 25% tariffs will be imposed on imports from Mexico and Canada, while Canadian energy products such as oil and electricity will be taxed at a lower rate of 10%. These measures are expected to dampen economic activity and, consequently, energy demand, adding to market jitters.

Meanwhile, in early March, OPEC+ members announced plans to raise oil output by 138,000 bbl/day starting April, marking the first production hike in 2022. This decision came after US President Trump urged the group and Saudi Arabia to lower oil prices.

The move led to concerns about potential oversupply, thus exerted downward pressure on crude prices.

Looking ahead, on the supply side, the OPEC+ output raises will continue to put downward pressures on crude prices. Non-OPEC supply, particularly from the US shale sector, should stay resilient, thus limiting the upside for crude prices. The International Energy Agency (IEA) has warned that 2025 may well see an excess supply of about 1.1 million bbl/day.

On the demand side, global economic growth is set to slow down. While China is stimulating its economy, it is still facing structural issues from property and weak consumer sentiment. Meanwhile, the outlook for Europe's energy demand is uncertain amidst the Eurozone growth slowdown. Looming trade tariffs from the US will also likely weigh on crude demand.

Overall, beyond short-term fluctuations, there is no strong catalyst for a sustained breakout.

CIO's recommendation: We remain Neutral on Brent Crude Oil. Prices could range trade, with risks skewed to the downside given the supply-demand backdrop.

Brent crude oil could continue to trade ranged, with risks skewed to the downside

Source: Macrobond, UOB Private Bank, Intercontinental Exchange (ICE). Data is as of 31 March 2025.

Base Metals

Outlook remains negative given strong deflationary pressures in China and trade headwind

In the previous quarterly report, we held on to our negative outlook on Base Metals given China's broad-based growth slowdown, as well as concerns that looming trade tariffs from the second Trump administration will weigh on global trade and manufacturing activity.

However, the threat of potential trade tariffs turned out to be a near-term positive driver for Copper. The tariff threats resulted in increased stockpiling of copper inventory on COMEX, which intensified after President Trump confirmed the go-ahead for 25% blanket tariffs on all aluminium and steel imports and threatened to impose tariffs on copper imports too. Hence, implied Copper premium on COMEX jumped in excess of Copper price on the London Metal Exchange.

Concurrently in China, the latest monthly indicators suggest that China's latest round of stimulus has managed to stabilise the domestic property sector although the debt restructuring process remains a work in progress. The monthly drop in China's residential property prices appears to have stopped and the residential property market even staged a modest recovery in monthly sales over the past 3 months. In addition, the affirmation of a meaningful GDP target (of 5%) at China's Two Sessions has aided sentiment.

Looking ahead, for both **Iron Ore** and **Copper**, the prices are particularly sensitive to renewed risks from global trade and China's growth. It is noteworthy that China makes up more than 40% of the global iron ore and copper consumption. Given China's persistent deflationary pressures, targeted (rather than broad-based) government stimulus, and ample inventories in base metals, any upside would likely be limited. Rising Copper prices are unlikely to be sustainable beyond the stockpiling boost.

CIO's recommendation: We remain Underweight on Base Metals given ongoing deflationary pressures in China and a looming global trade contraction from Trump 2.0 policies. Recent stockpiling boost in Copper may not be sustainable.

Base metal prices could remain under pressure amid sluggish Chinese demand and global trade contraction

Source: Bloomberg, UOB Private Bank. Data is as of 31 March 2025.

Precious Metals

Gold prices to rise on safe haven demand and a shortage of physical bullion

Gold remains our most constructive call within commodities, with a bullish trajectory into 2Q 2025 supported by demand from central banks as well as macroeconomic tailwinds.

It is noteworthy that Gold had shaken off the negative spillover from a stronger USD and rising US real bond yields since late 2022, in a sign of trend divergence from the usual negative correlation (i.e., the higher the USD and bond yields, the lower Gold prices).

The positive demand drivers remain intact. Global central banks have been net buyers of Gold, particularly in China, India, and the Middle East, as they seek to diversify away from the US assets and raise Gold reserves. The rising risks of US President Trump weaponising the US dollar have set off this structural trend of central bank purchases, which is expected to persist in 2Q 2025, providing a fundamental support for prices.

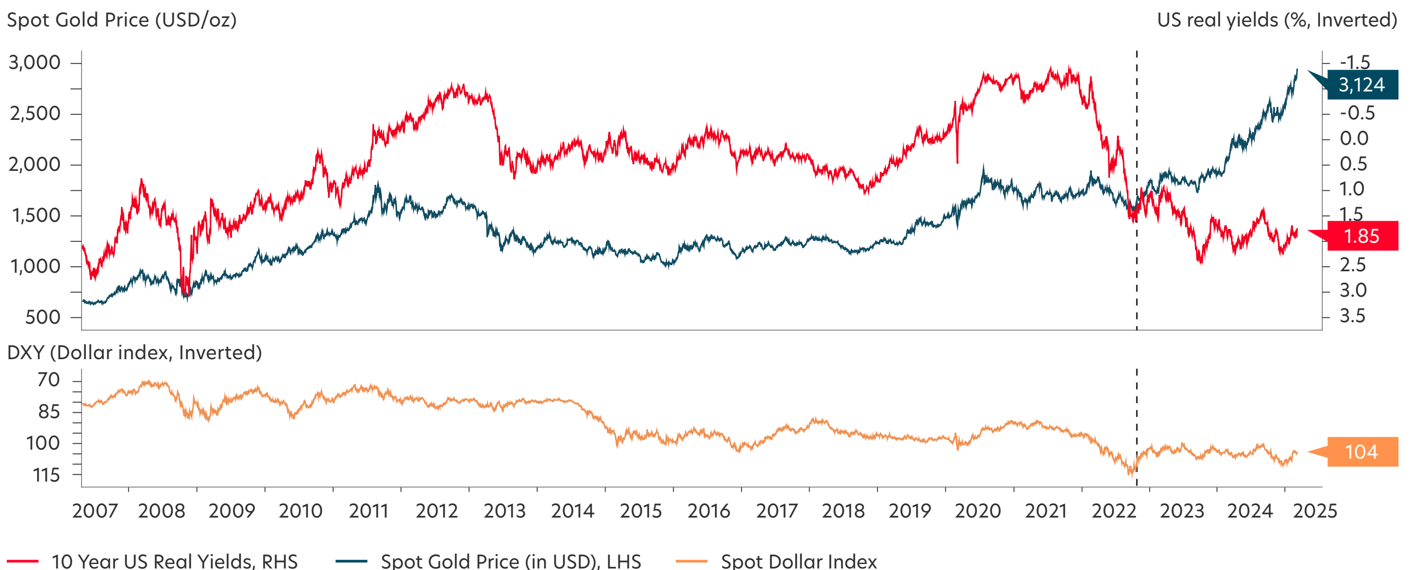
In addition, given concerns that President Trump may eventually impose blanket tariffs on exports from Europe and Asia to the US, investors have been shipping gold bullion back from various parts of Europe and Asia, with the sudden flow of gold bullion back to the US generating a short squeeze across the world. This shortage in physical gold bullion could persist in the months ahead, exerting upward pressure on Gold prices.

Gold continues to attract investors given its status as an out-of-system asset and an effective hedging tool. A pullback in investor sentiments as equity market volatility rises could also drive Gold ETF inflows, pushing prices higher.

We remain positive on Gold given the various demand drivers amid rising geopolitical uncertainties. Our forecasts are USD 3,100/oz for 4Q 2025 and USD 3,200 for 1Q 2026.

CIO's recommendation: We remain Overweight on Gold as safe haven demand will likely remain firm amid rising geopolitical risks from Trump 2.0 policies. In addition, a shortage in physical bullion could persist in the months ahead.

Gold prices have been climbing despite elevated real yields and a firm US dollar



Source: Bloomberg, UOB Private Bank. Data is as of 31 March 2025.

Currencies

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USD

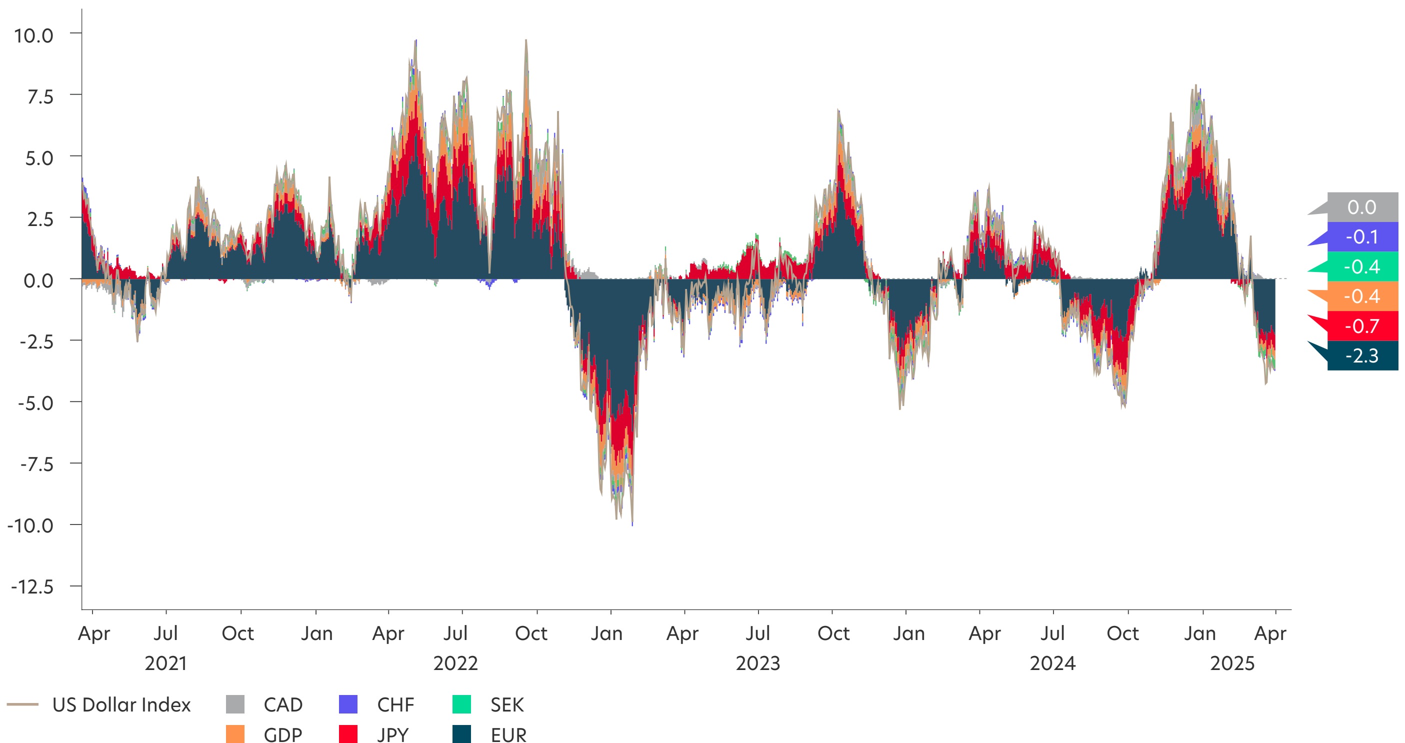
Weigh down by US growth concerns

The USD outlook in the G-10 FX space is largely driven by rate differentials rather than US trade policy alone. With a broad-based hike in tariff rate, resulting in higher US growth risks (relative to inflation), we have increased our expectations of 2025 Fed rate cuts to 75 bp from 25 bp previously. As a result, the USD's rate advantage relative to its Major FX peers has narrowed considerably as Fed rate expectations converge towards that of its peers.

Consequently, we now expect a lower US Dollar Index (DXY) trajectory compared to our previous forecasts. Our updated DXY forecasts now lay out renewed weakness from 101.6 at end-2Q 2025 to 98.6 at end-1Q 2026. That said, there is still upside risks to our USD forecasts which stem from tariff-induced inflation staying sticky which may trigger a hawkish Fed response, hence keeping USD bid. Also, volatility is likely to persist as markets digest potential tariff negotiations or retaliation which sets off contrasting reactions in the currency markets.

FX	4 Apr	2Q25F	3Q25F	4Q25F	1Q26F
DXY	101.8	101.6	100.6	99.6	98.6

Contributions to the US Dollar Index (DXY)



Source: Macrobond, UOB Private Bank, Macrobond Financial AB, Intercontinental Exchange (ICE). Data is as of 31 March 2025.

EUR

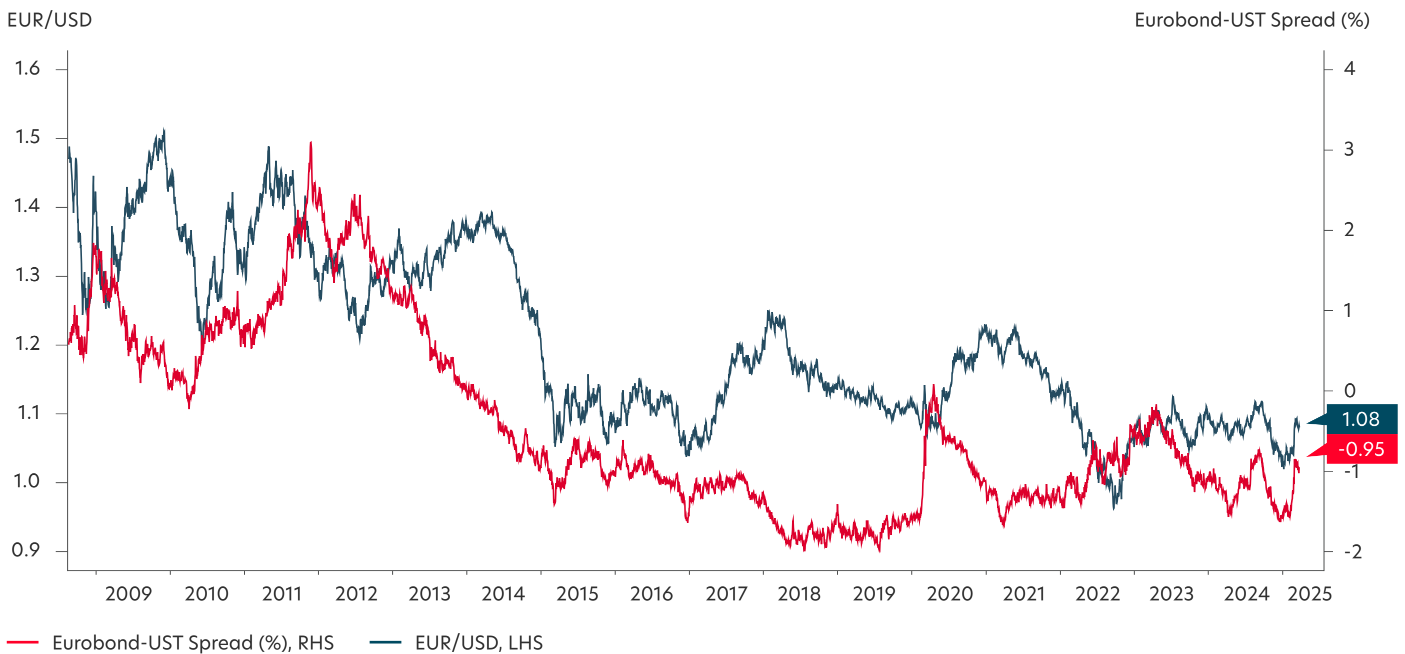
Expect to be underpinned by aggressive fiscal stimulus

EUR/USD is still strongly bid after jumping 4.3% in March, the biggest monthly gain since November 2022, to about 1.08 owing to a multitude of important factors. The passing of Germany's EUR 500 billion infrastructure fund and aggressive fiscal stimulus have boosted Germany and Eurozone's growth prospects, invoking animal spirits of investing in European assets again. Portfolio flows helped support EUR/USD as US investors poured a record USD 10.6 billion into exchange-traded funds focused on European stocks in 1Q 2025. Such trends are likely to last a while longer and are expected to underpin the EUR over the medium term.

A narrowing of the EUR-USD rate differential is also a positive for EUR/USD. Despite the string of expected tailwinds for EUR/USD, volatility in the currency pair may stay elevated as the European Union vowed to respond with countermeasures to Trump's 20% tariffs if negotiations fail. Overall, our updated EUR/USD forecasts are 1.12 in 2Q 2025, 1.13 in 3Q 2025, 1.14 in 4Q 2025 and 1.15 in 1Q 2026.

FX	4 Apr	2Q25F	3Q25F	4Q25F	1Q26F
EUR/USD	1.11	1.12	1.13	1.14	1.15

A dovish ECB relative to Fed and looming tariffs for Europe could present near-term downside risks



Source: Macrobond, UOB Private Bank, Macrobond Financial AB. Data is as of 31 March 2025.

CNY

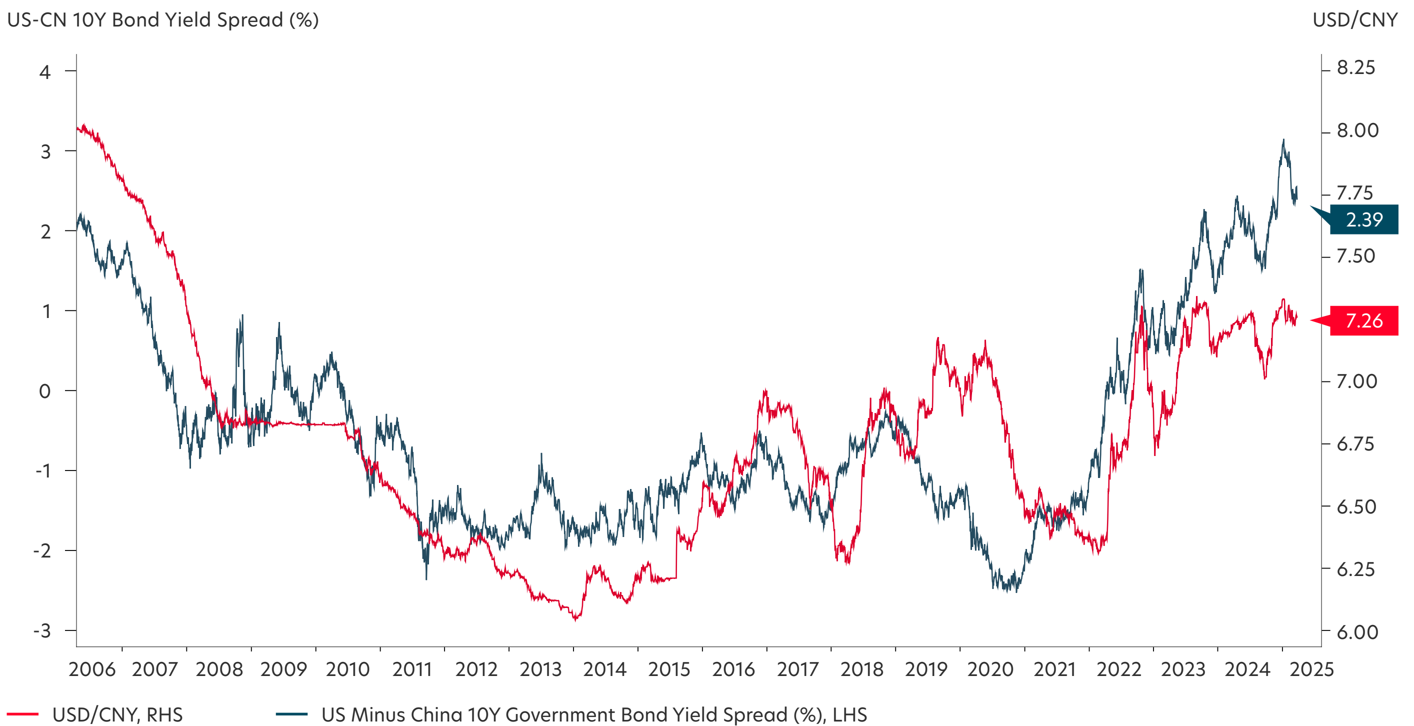
Expect depreciation pressures to build with trade war retaliation

We do not expect the year-to-date consolidation of USD/CNY between 7.25 and 7.33 to persist much longer, especially where additional tariff rate on Chinese goods into US has escalated to a punitive combined tariff rate of 54%. Right after the Liberation Day tariffs were announced on 3 April, the People's Bank of China (PBOC) fixed the CNY weaker by the biggest margin (96 pips to 7.1889) since last December. This may be a signal that authorities are allowing the CNY to do the adjustment on behalf of the economy. Borrowing a page from the last trade war, CNY depreciation pressures will start to build if China retaliates with countermeasures, intensifying the vicious cycle of tit-for-tat tariff escalation.

In addition, we expect volatility in USD/CNY to pick up further after the pair pushes above the psychological 7.35 level which had held USD gains since late 2022. To factor in the increased spillover of an outsized 54% tariff (from 20% previously), we have raised our USD/CNY forecasts, looking for a 7.80 peak in 3Q 2025 from 7.65 previously. Overall, our updated USD/CNY forecasts are 7.55 in 2Q 2025, 7.80 in 3Q 2025, 7.60 in 4Q 2025 and 7.50 in 1Q 2026.

FX	4 Apr	2Q25F	3Q25F	4Q25F	1Q26F
USD/CNY	7.28	7.55	7.80	7.60	7.50

CNY under depreciation pressures amid widening bond yield differential and tariff risks



Source: Bloomberg, UOB Private Bank. Data is as of 31 March 2025.

JPY

Seek downside protection amidst global risk aversion

Over the past month, USD/JPY traded lower to 147 from about 150, tracing a decline in the 10-yr US-Japan rate spread which has dipped to the lowest since August 2022. Ironically, the latest Liberation Day tariff (24%) against Japan is likely to be JPY-positive due to renewed safe haven demand, on top of the monetary policy divergence between Fed and Bank of Japan (BoJ) that is already underpinning the JPY. For now, we keep our Japan growth and inflation outlook unchanged.

Owing to yet another year of strong wage gains in the annual shunto wage negotiations, our BoJ rate hike expectation is kept intact at additional 50 bp for the rest of 2025, although there are risks that further uncertainty in the global trade environment may lead the BoJ to delay one of the hikes to 2026. Overall, we reiterate our view of a lower USD/JPY in the coming year with updated forecasts at 145 in 2Q 2025, 144 in 3Q 2025, 142 in 4Q 2025 and 140 in 1Q 2026.

FX	4 Apr	2Q25F	3Q25F	4Q25F	1Q26F
USD/JPY	146	145	144	142	140

Near-term USD/JPY consolidation but yen strength likely to persist in medium-term

Source: Bloomberg, UOB Private Bank. Data is as of 31 March 2025.

AUD

Proxy to CNY is a headwind as tariffs ramp up

Being a risk-sensitive currency, the AUD is weighed by increased global economic uncertainties and risk aversion. On the back of escalating US-China trade tensions, its close correlation to the weakening CNY is yet another headwind.

While further policy support to achieve the ambitious 5% 2025 GDP target set in the China's Two Sessions may offset part of the pressure, the AUD may not be able to take full advantage of the expected USD weakness against G-10 peers. Overall, our updated AUD/USD forecasts are 0.63 in 2Q 2025, 0.64 in 3Q 2025, 0.65 in 4Q 2025 and 1Q 2026.

FX	4 Apr	2Q25F	3Q25F	4Q25F	1Q26F
AUD/USD	0.63	0.63	0.64	0.65	0.65

External uncertainities likely to cap near-term upside

Source: Macrobond, UOB Private Bank, Macrobond Financial AB. Data is as of 31 March 2025.

SGD

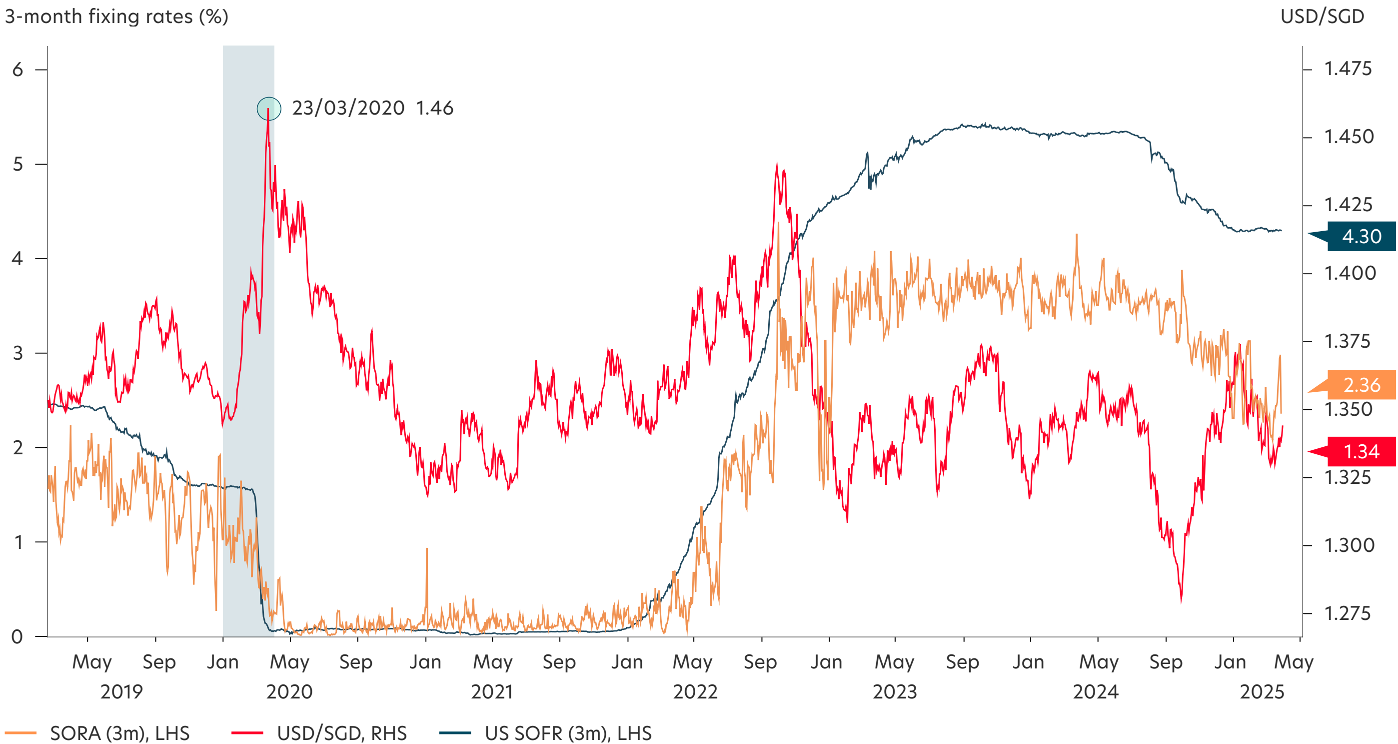
A positive sloping S$NEER and SGD reputation to buffer against uncertainties

The SGD remained one of the outperformers within the Asia FX space, rising close to 2% to 1.34 /USD since the start of the year. Anchoring the SGD's resilience is a positive-sloping S$NEER and SGD's reputation as a regional safe-haven currency. In the coming April Monetary Authority of Singapore (MAS) policy meeting, we expect a "slight" reduction of the S$NEER slope to an estimated 0.5% p.a. from 1.0% p.a. currently. Risks of a complete flattening of the S$NEER slope later this year has risen significantly.

Considering a "minimum" global tariff rate of 10% being applied on Singapore and increased external uncertainties, we mark USD/SGD modestly higher by 100 to 200 pips compared to the last review in early March. Overall, our updated USD/SGD forecasts are 1.37 in 2Q 2025, 1.39 in 3Q 2025, 1.38 in 4Q 2025 and 1.37 in 1Q 2026.

FX	4 Apr	2Q25F	3Q25F	4Q25F	1Q26F
USD/SGD	1.33	1.37	1.39	1.38	1.37

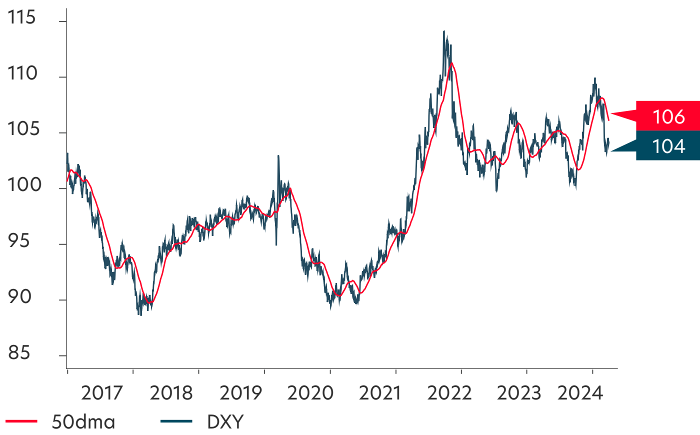
A more measured move is expected in near-term amidst trade uncertainties



Source: Macrobond, UOB Private Bank, Macrobond Financial AB, Monetary Authority of Singapore. Data is as of 31 March 2025.

FX Views – 6 Currency Price Charts

USD Index (DXY)



Source: Macrobond, UOB Private Bank. Data is as of 31 March 2025.

USD/CNY

Source: Macrobond, UOB Private Bank. Data is as of 31 March 2025.

USD/JPY

Source: Macrobond, UOB Private Bank. Data is as of 31 March 2025.

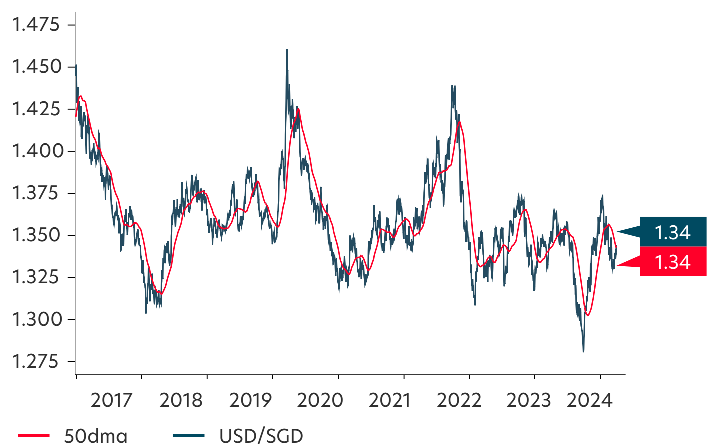
EUR/USD

Source: Macrobond, UOB Private Bank. Data is as of 31 March 2025.

AUD/USD

Source: Macrobond, UOB Private Bank. Data is as of 31 March 2025.

USD/SGD



Source: Macrobond, UOB Private Bank, Macrobond Financial AB. Data is as of 31 March 2025.

FX performances versus the USD

Performance of major currencies against USD (2025)

% YTD

Currency	JPY	EUR	GBP	CHF	PHP	SGD	MYR	THB	CNY	NZD	INR	AUD	KRW	VND	TWD	IDR
Year-to-date performance (2025)	5.0	3.8	2.9	2.1	1.6	1.1	0.7	0.6	0.5	0.5	0.4	0.2	-0.3	-0.4	-1.3	-2.6

Source: Macrobond, UOB Private Bank, Macrobond Financial AB, Intercontinental Exchange (ICE). Data is as of 31 March 2025.

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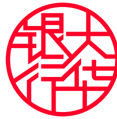

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