UOB PRIVATE BANK

A New Paradigm

1Q 2025 Investment Outlook Report

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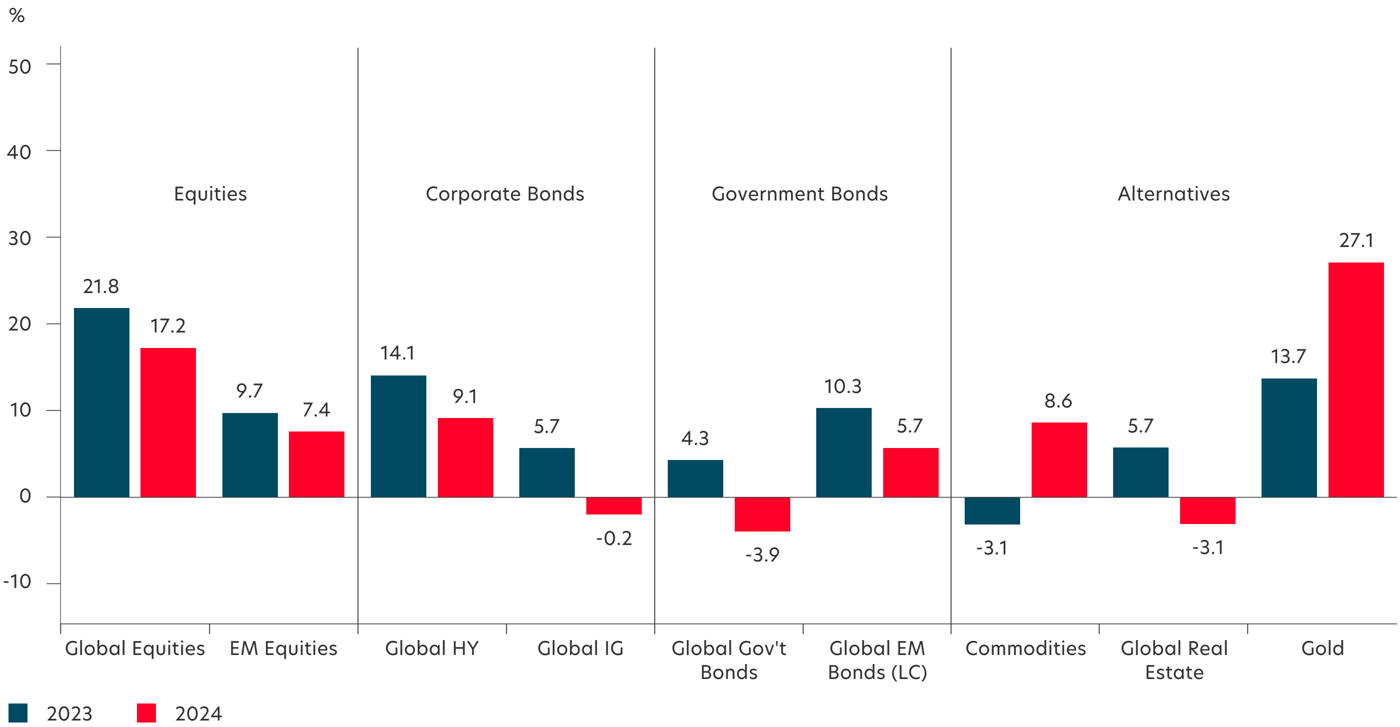
Strong fundamental support

2024 is a year proven to be exceptional for risk assets. Despite geopolitical conflicts and a busy election calendar globally, the Morgan Stanley Capital International World (MSCI) Index rose by an impressive 24%. Even as China continues to face intensifying trade tensions with the United States (US), Chinese stocks reversed the previous year's losses to clock in a 20% gain.

Despite a 62% gain in the Standard and Poor's (S&P) 500 since early 2023, the outlook for equities remains positive as we head into 2025 and would justify an overweight in a mixed asset portfolio. The economy has shown surprising resilience despite tight monetary policy. The Federal Reserve is projected to implement two to three more rate cuts this year. It is important to note that these cuts are not recessionary but rather a fine-tuning of policy to reflect the current inflation and growth outlook. The growth and inflation outlook remains uncertain depending on the policies pursued by the new US administration.

Risk assets shine in 2024



Source: Macrobond, UOB Private Bank (Data as of 31 December 2024)

Note: Global Equities: MSCI ACWI Net Total Return USD Index; Global EM Equities: MSCI Emerging Markets Net Total Return USD Index; Corporate Bonds: Bloomberg Global High Yield Total Return Index Value Unhedged & Bloomberg Global-Aggregate Total Return Index Value Unhedged USD; Government Bonds: Bloomberg Global Agg Treasuries Total Return Index Value Unhedged USD & J.P. Morgan EMBI Global Total Return Index Commodities: S&P GSCI Total Return CME: Real Estate: FTSE Custom EPRA/NAREIT Global Index Values USD Index; GOLD: XAUUSD

CIO Thoughts

Trump 2.0: Opportunities and risks

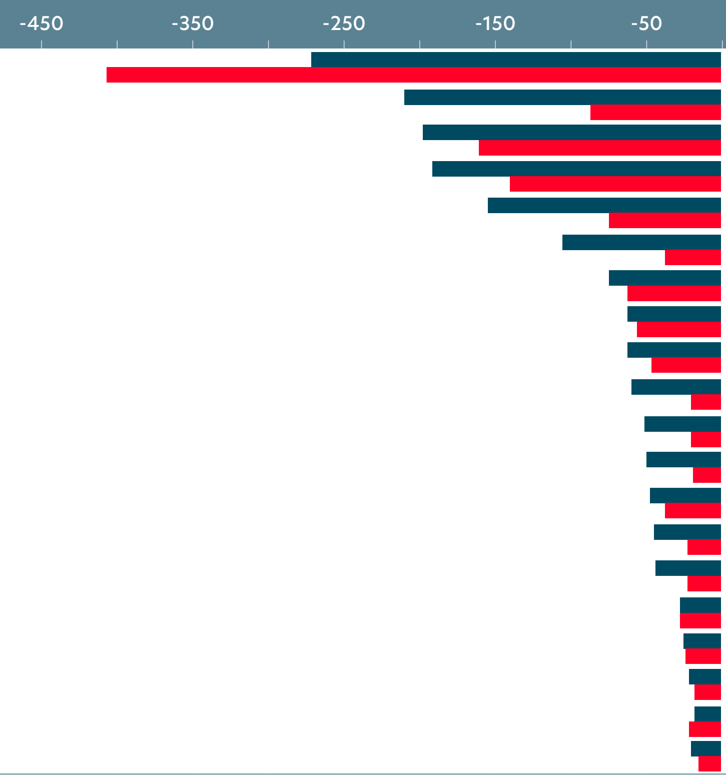
The re-election of President Trump, supported by a Republican majority in both the House and Senate, is expected to provide further incremental support to the economy. Key policy priorities include tax cuts, deregulation, tariffs and immigration reform. The Tax Cuts and Jobs Act, commonly known as the Trump tax cuts, is likely to be extended in late 2025, which will accelerate corporate earnings and investments in the US. Deregulation will also spur activities in sectors such as energy and financials. However, aspects of the Inflation Reduction Act which subsidises renewable energy may be repealed.

The use of trade tariffs, which is a hallmark of the first Trump administration, will be expanded. The President-elect has announced tariffs of 25% for Mexico and Canada, and an additional 10% on China. During his presidential campaign, a tariff rate of 60% on China and 10% on all other imports were proposed.

A universal imposition of tariffs will have negative repercussions for the US economy, as it is unrealistic for the country to substitute all imports within a short period. This will lead to a rise in consumer goods prices, which is politically costly. Hence, the final implementation will likely be more nuanced and phased out.

Given the broad consensus on China's threat, tariffs on Chinese imports will inevitably rise. China has about USD 300 billion of trade surplus with the US, and the first round of tariffs implemented in 2018 has not narrowed the bilateral trade deficit. This is partly due to the strong US demand and numerous exemptions put in place. It could be argued that the true bilateral deficit may even have widened if trade diversion by Chinese companies through another country such as Mexico and Vietnam is taken into consideration.

United States, Foreign Trade, Good Trade Balance, USD bn



	2023	2018
China	-279.1	-418.2
North America	-216.7	-96.6
European Union (EU)	-208.7	-168.4
ASEAN	-203.1	-99.6
Mexico	-152.5	-77.7
Vietnam	-104.6	-39.5
Germany	-82.6	-68.0
Japan	-71.6	-67.1
Ireland	-65.6	-46.7
Canada	-64.3	-18.8
South Korea	-15.1	-17.9
Taiwan	-47.8	-15.2
Italy	-44.1	-31.8
India	-43.3	-21.1
Thailand	-40.7	-19.3
Malaysia	-26.8	-26.4
Switzerland	-24.5	-18.9
Indonesia	-17.0	-12.7
France	-13.7	-15.9
Austria	-13.6	-10.0

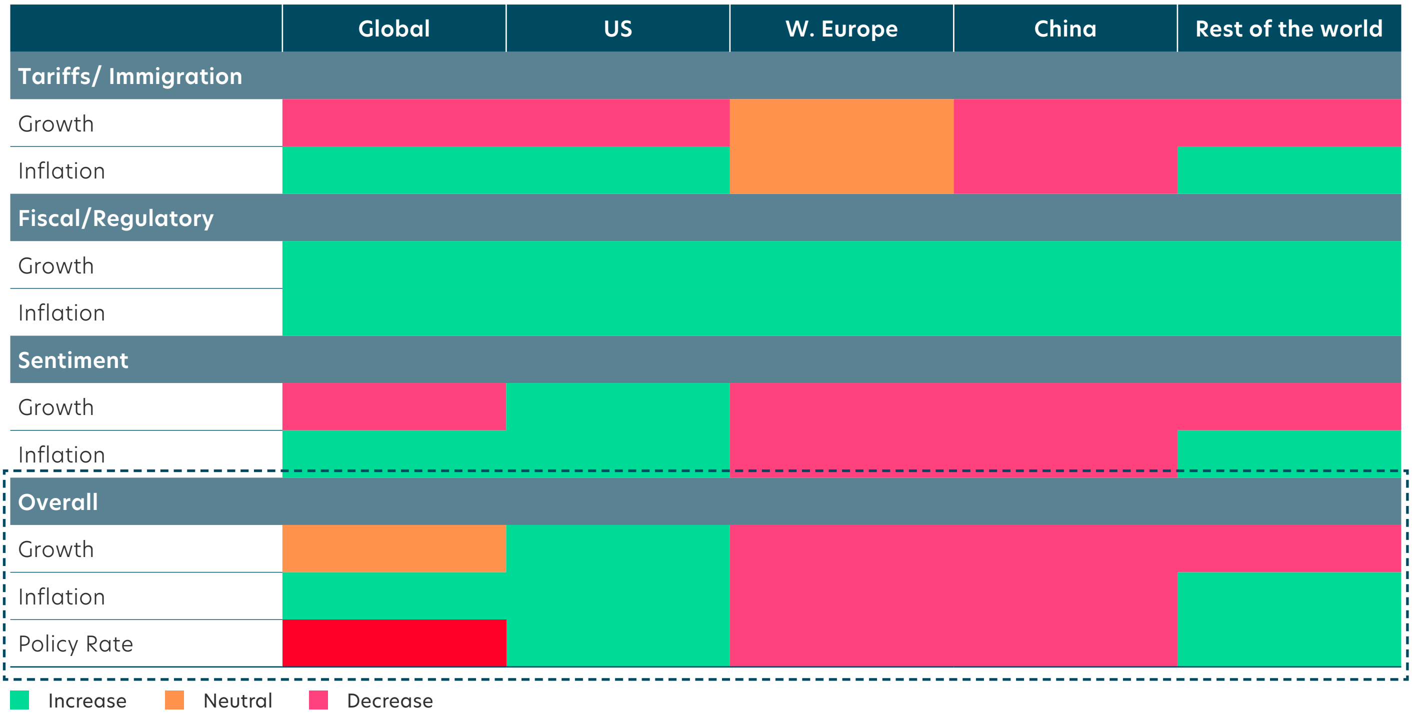
■ 2023 ■ 2018

CIO Thoughts

US strength: Less trickle-down effect

Historically, periods of strong growth in the US have benefitted the rest of the world, particularly manufacturing-oriented Asia. But this is likely to change. The America-first policy under President Trump will mean higher tariffs, driving more manufacturing activities onshore. Countries that rely on goods exports with large trade surpluses with the US, including China, Germany, Vietnam and Mexico, will be more vulnerable.

Impact of Trump's "America-First" Policy



CIO Thoughts

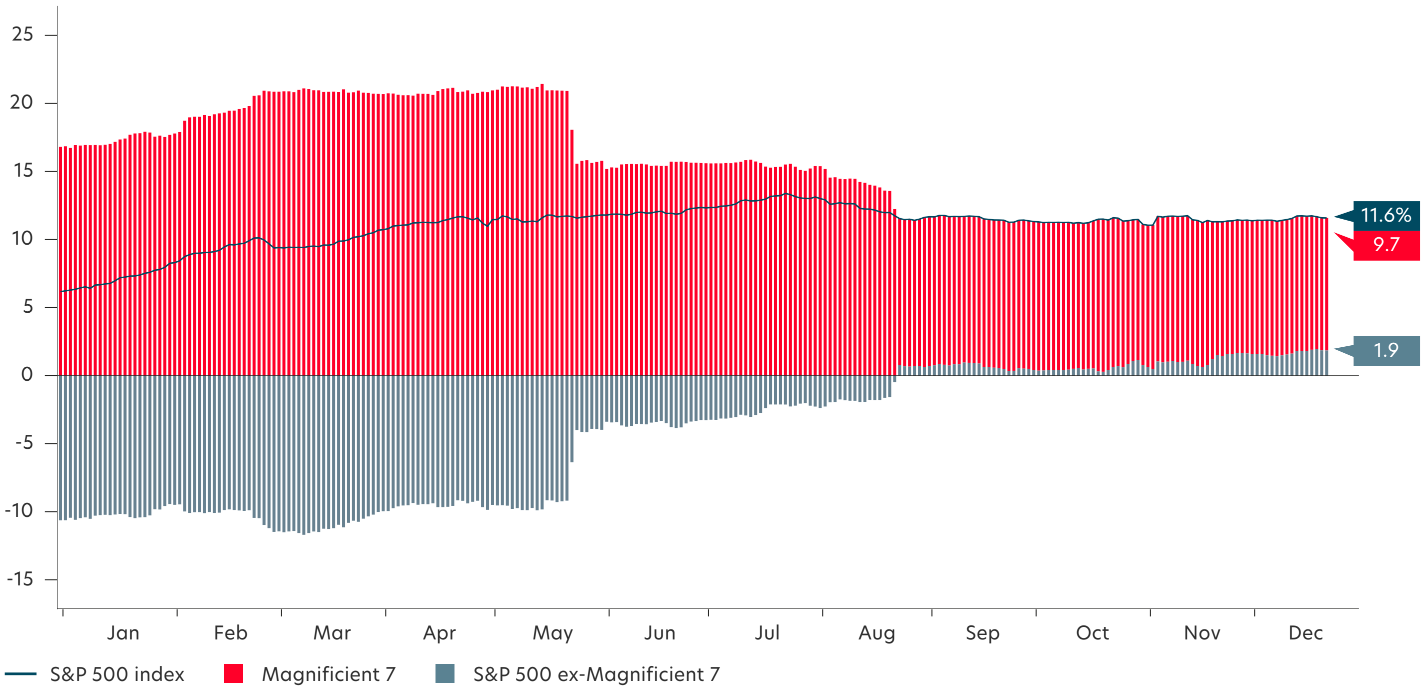
Key investment themes: Deregulation and broadening performance

Trump 2.0 and a Republican sweep will result in continued US outperformance and uncertainties for the rest of the world. In recent years, mega-cap stocks in the US have contributed disproportionately to broad index returns. In 2025, investors could consider opportunities outside the mega-caps for better returns, as valuations are less expensive and have more domestic exposures. Recent earnings revisions outside of the Magnificent 7 stocks are being revised higher. With broader market breadth expected, the S&P 500 equal-weighted index or the Russell 2000 index are potential options. Sectors that will benefit from deregulations include financials and energy.

For economies outside the US, the focus should be on those with lesser export exposure to the US. In Europe, the defence sector is likely to benefit from pressures by the Trump administration to increase defence spending. While China continues to face deflationary pressures and tariff risks, much of these developments are priced in to some degree. The Chinese government has sufficient fiscal room to ease and pivot the economy towards more domestic demand, but so far, incremental demand support has been conservative. Investments in China should focus on sectors deemed strategic by the government, less cyclical, and supported by high dividend payouts.

Earnings progressively revised up in stocks outside of the Magnificent 7

12-Month Forward - YoY Earnings Growth Contribution (%)



Source: Bloomberg, UOB Private Bank
Note: Market cap weightage used in data analysis is as at 1 January 2024.
Magnificent 7 stocks: NVIDIA Corp, Apple Inc, Microsoft Corp, Amazon.com Inc, Meta Platforms Inc Class A, Tesla, Alphabet Inc Class A, Alphabet Inc Class C.

CIO Thoughts

Key investment themes: AI remains a core theme but returns will also broaden out

The Artificial Intelligence innovation has powered the technology sector, adding over USD 5 trillion in market value to the top five companies. Initial beneficiaries such as NVIDIA enjoyed an immediate earnings boost from the race to train models which require massive computational power.

However, history has shown that leadership will eventually broaden to companies that could extract value through applications such as software companies. Sectors that are key to the multi-year built-up in physical infrastructure build such as industrials and utilities will enjoy strong sales.

Returns in the AI theme heavily concentrated in semiconductors

Returns (Rebased, Nov 2022 = 100)

Source: Bloomberg, UOB Private Bank

CIO Thoughts

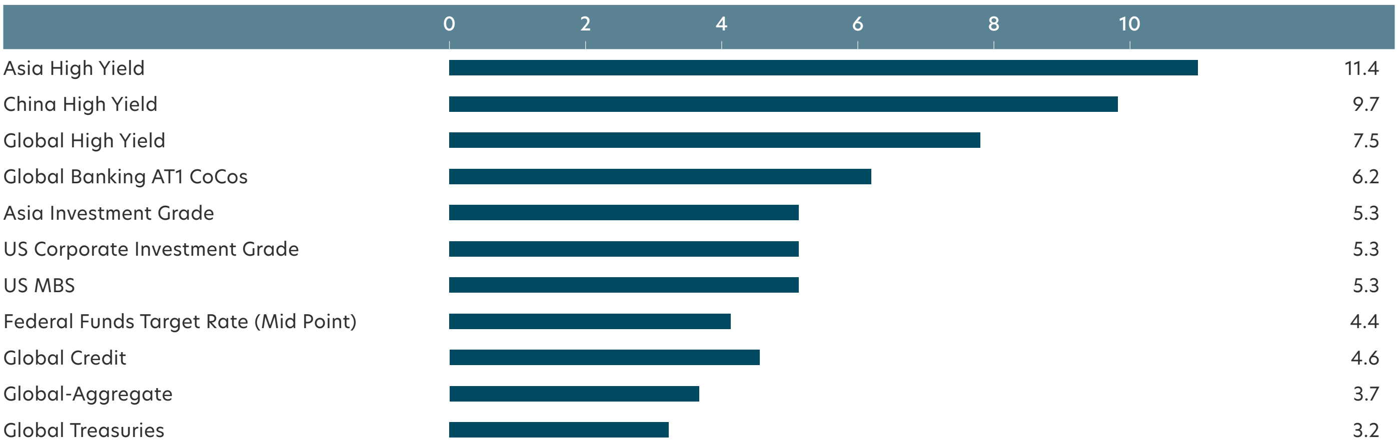
Key investment themes: Buy Credit for carry rather than capital appreciation

Despite a healthy growth outlook that will limit the scope of interest rate declines, fixed income will continue to play an important role in an investor's portfolio. While many policy proposals are clearly growth-positive, some, such as the mass deportation of undocumented workers will reduce the potential growth in the US and exacerbate services inflation.

As with any structural shift in policies, volatility is to be expected. The US 10-year Treasury yield at 4.6% is at long-run average levels and will offer diversification to equities while earning a reasonable carry. Suitable investors could also consider bank capital, high yield, and private credit as part of a diversified fixed income portfolio. We continue to advocate an allocation to gold as a hedge. Gold has performed well in 2024 given declining rates, and central banks' buying will continue to be a support.

Opportunities for carry remain in credit

Current Yield (%)



Source: Bloomberg, UOB Private Bank

CIO Thoughts

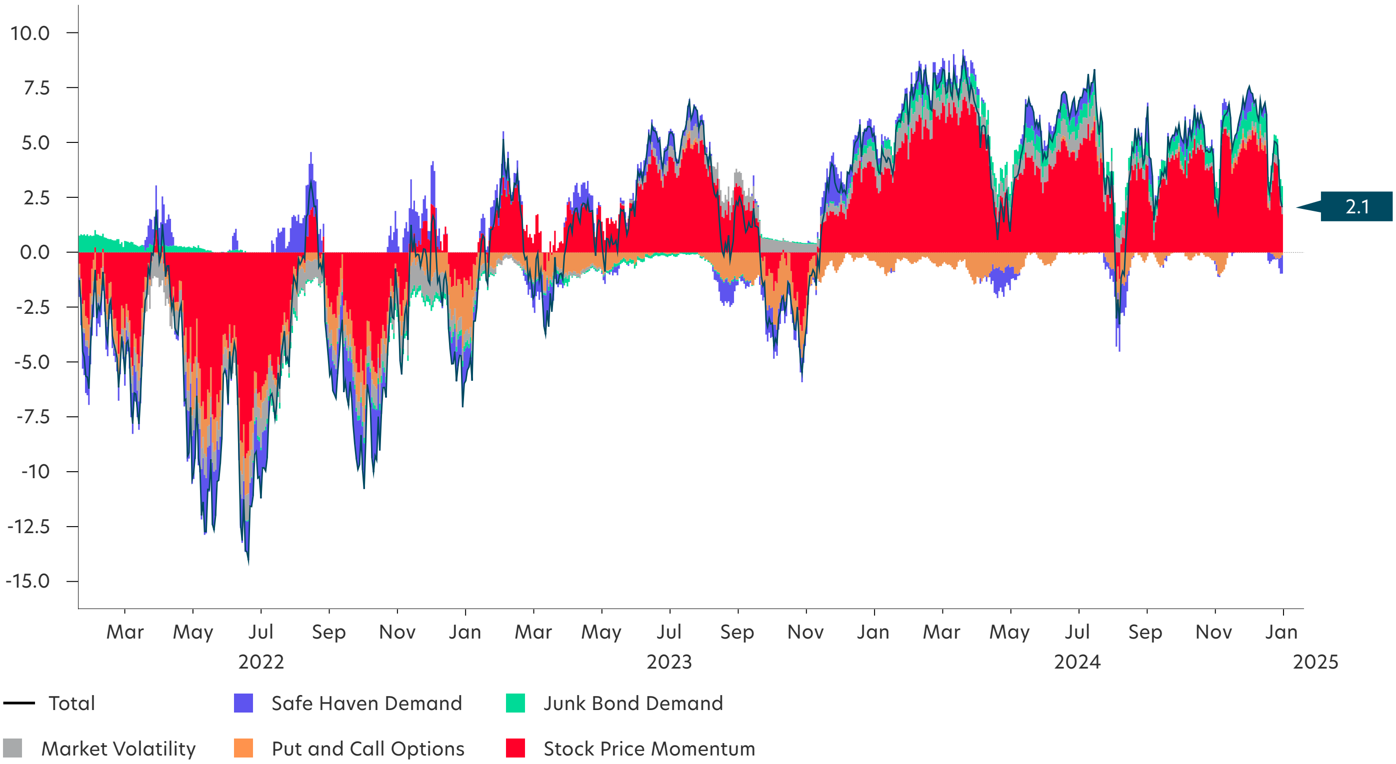
Key investment themes: Use volatility to your advantage

Overall, we expect that markets would likely stay supported in 2025. However, investors should be prepared for periods of volatility given policy uncertainties against the backdrop of relatively expensive valuations and stretched investor positioning. While returns for broad market indices should rise, the returns potential is unlikely to repeat at the same strong levels that were experienced in the past two years. Moreover, we expect more dispersion in stock returns, but this may also mean opportunities for superior returns for investors. While the risk of a short-term correction is rising, the market remains one that investors should be buying into weakness.

Market is short-term overbought

Fear and greed: Z-score model

Based on Z-scores for each component, individual components summarised to the total



Source: Macrobond, UOB Private Bank, S&P Global, Chicago Board Options Exchange (CBOE), Federal Reserve

Portfolio Strategy

Asset Class Summary 1Q 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			▲ ●	**Remain Overweight on supportive earnings against a backdrop of falling interest rates.**
United States	▼ ○	■ ●		Upgrade to Neutral from Underweight. Growth is supported by strong fundamentals, cyclical tailwinds and policy shifts.
Europe		■ ●		Remain Neutral. Region is faced with slowing growth and geopolitical uncertainties.
Japan			▲ ●	Remain Overweight. Medium-term story underpinned by corporate reforms remains compelling despite Yen headwinds.
EM Asia		■ ●	▲ ○	Downgrade to Neutral from Overweight. Incremental demand support from the Chinese government has been conservative.
Fixed Income		■ ●		**Remain Neutral with an eye for buy-on-dip opportunities.**
DM IG			▲ ●	Remain Overweight. Quality premia remains a key focus.
DM HY	▼ ●			Remain Underweight. Risk-reward is asymmetric. Credit spread widening to be main risk.
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 trade in a range in the near term.
Base Metals	▼ ●			Remain Underweight. Unfavorable demand supply dynamics and potential global trade contraction could weigh on prices.
Precious Metals			▲ ●	Remain Overweight. Gold has performed well with declining rates, and central banks' buying will continue to be a support.
Money Market	▼ ●			**Remain Underweight as a benign macro backdrop is supportive of risk assets.**

▼ 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.

Asset Class Summary 1Q 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				**30.0%**			**50.0%**			**70.0%**			**80.0%**			
United States				18.6%	3.6%		31.0%	6.0%		43.4%	8.4%		49.6%	9.6%		
Europe				4.5%			7.5%			10.5%			12.0%			
Japan				3.0%			5.0%			7.0%			8.0%			
EM (Asia)				3.9%	-3.6%		6.5%	-6.0%		9.1%	-8.4%		10.4%	-9.6%		
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%**			**0.0%**			**0.0%**			**0.0%**			**0.0%**			

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

- In October 2024, the IMF projected a steady global GDP growth of 3.2% in 2025, after a hard-won battle with inflation. That said, there remain downside risks on the back of growing trade tensions, escalating geopolitical conflicts as well as changing of political leadership in major economies.
- In 2025, the IMF projects US growth to slow to 2.2% as lagged effects of monetary policy come through and fiscal impulse fades. Euro area is expected to expand to 1.2%, supported by stronger domestic demand. Emerging Asia's robust growth is expected to downshift to 5.0% as both India and China slows.

Prices

- In most economies, headline inflation has receded from its peak during 3Q 2022, and now stabilising around central banks' targets. According to the IMF, global headline inflation is expected to decline to 4.3% in 2025, with developed economies achieving their inflation targets faster than their developing economies counterparts.
- In the US, disinflationary process is on track, though risks are tilted to the upside on the back of imposition of tariffs and more restrictive immigration policies. While services prices remain sticky, they are likely to soften going forward amid a cooling labour market.

Monetary Policies

- While most global central banks are still expected to stay the course and continue easing, the pace and magnitude may diverge.
- The Fed has kicked off its easing cycle in September with an outsized 50 bp rate cut, followed by a 25 bp cut in November and December respectively. Compared to the start of 2024, markets are expecting a more gradual and shallower rate cutting trajectory.
- As Fed cuts get underway, it will open the door for rate cuts across Asia. Bank of Japan stands out from the pack and stays on its rate hiking path.

Asset Allocation

- Remain Overweight on Equities on a healthy growth outlook. Trump 2.0 and a Republican sweep will result in continued US outperformance and uncertainties for the rest of the world.
- Fixed Income, specifically investment-grade credits, continue to act as effective portfolio stabilisers. Suitable investors could also consider bank capital, high yield, and private credit for diversification.
- 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

Global Economy

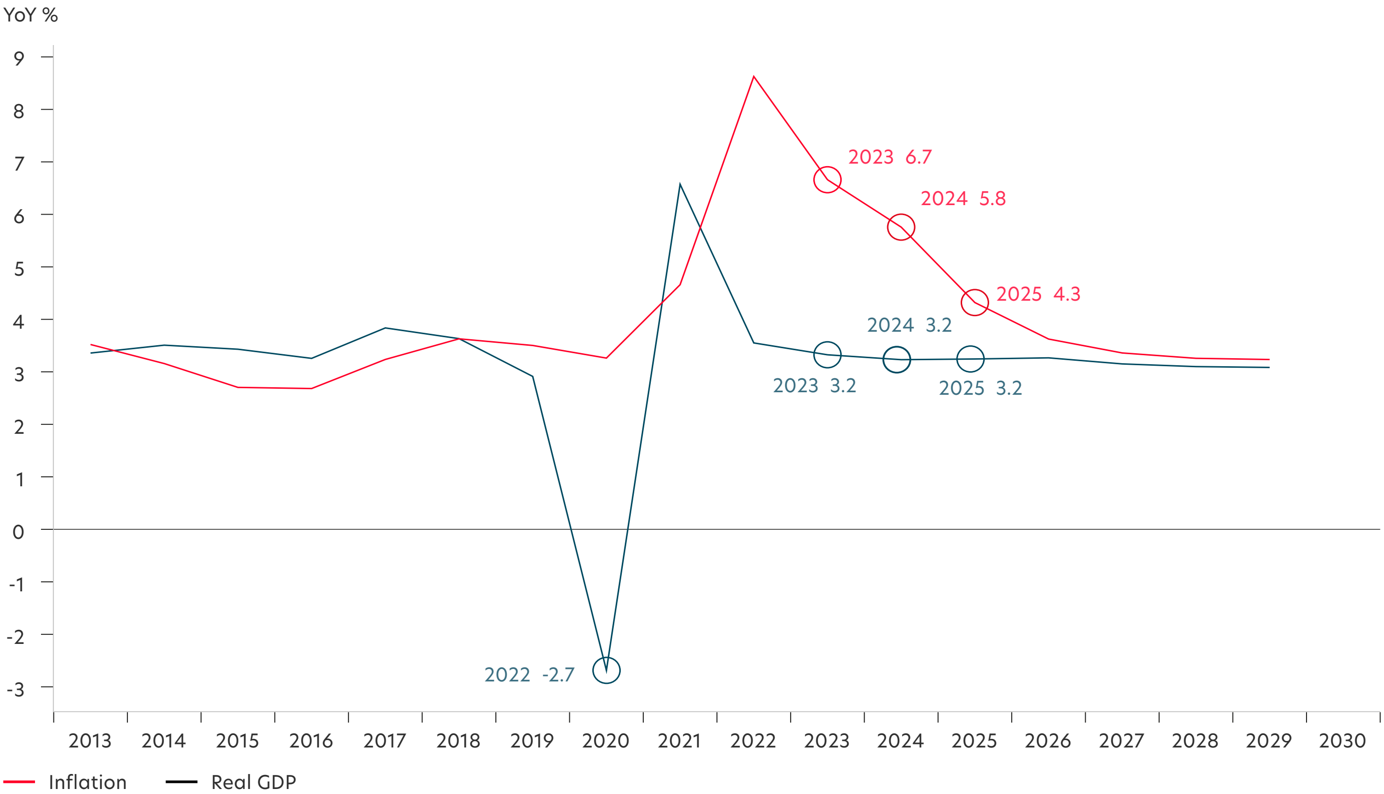
Stabilising global growth

In October 2024, the IMF projected global growth to hold steady at 3.2% in 2025. However, under the hood, there have been significant revisions made as divergence grows. US growth remains resilient, cushioning the downshifts in other developed economies, particularly in Europe that continues to experience uneven growth dynamics. Similarly, upgrades in emerging Asia, boosted by growing demand for semiconductors and AI-related products, have counterbalanced the softening growth in the broader emerging and developing market region. That said, within emerging Asia, China's growth is expected to underperform, weighed down by tariffs hit to exports and weak domestic demand.

Global disinflation is well underway, as IMF has projected headline inflation to decline to 4.3% in 2025 (from 6.7% in 2023). Developed economies are expected to achieve their inflation targets faster than their counterparts in the developing economies. While goods prices have eased off, services prices remain sticky and elevated.

On balance, risks to global growth are tilted to the downside, as a Republican election sweep could bring about a negative supply shock through tariffs imposition and immigration restriction. Other risks include ongoing geopolitical tensions and deepening slowdown in China. While fiscal policies can be expected to soften the blow, improving debt profiles remain a critical necessity for many economies.

IMF GDP growth & inflation forecasts



Source: Macrobond, UOB Private Bank, International Monetary Fund (IMF)

Global Monetary Policy

Less synchronised central bank easing cycle

Majority of global central banks have embarked on their rate cutting cycle, as inflation has fallen materially from its highs in 2023. With policies remaining still-restrictive in many countries, central banks have room to shift to a more supportive stance. That said, while easing is still broadly anticipated, the magnitude and pace across economies may diverge.

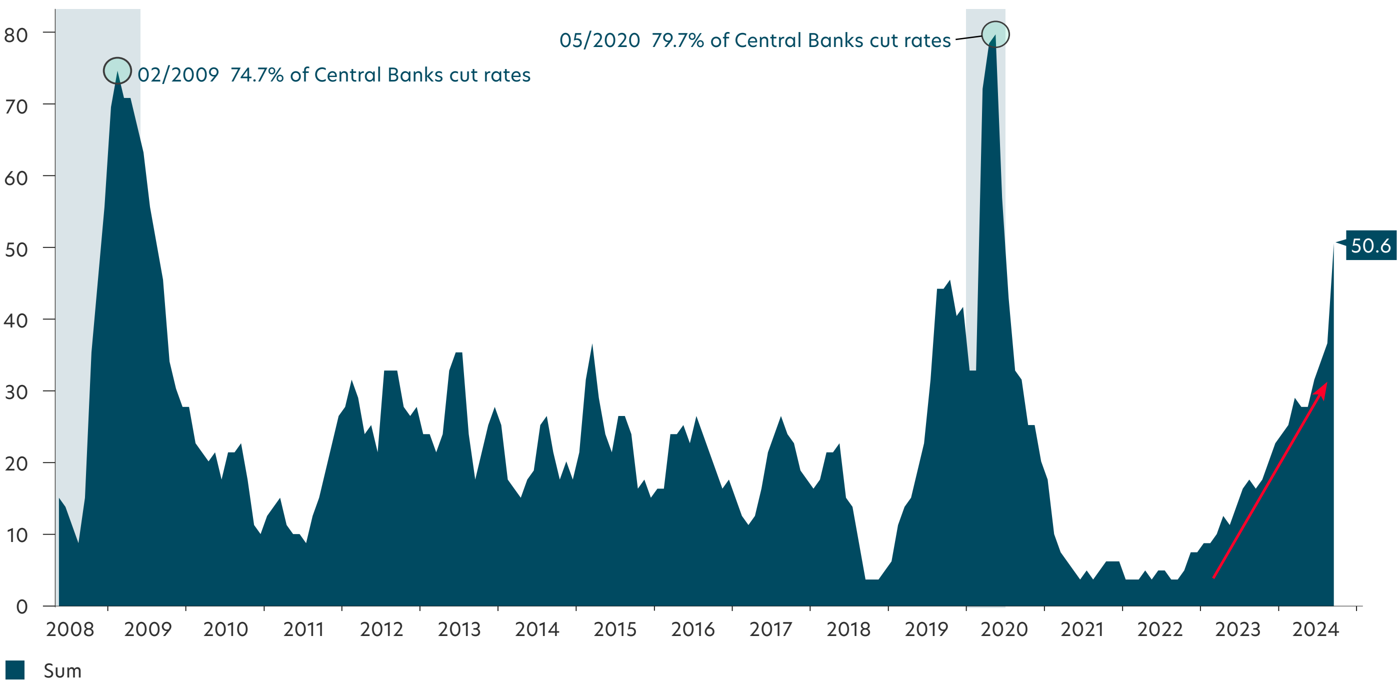
In the December FOMC meeting, the Federal Reserve (Fed) has cut another 25 bp after a 50 and 25 bp rate cut in September and November respectively. However, under a Trump 2.0 where most of his proposals have an inflationary impact, a shorter and shallower US interest rate path cut is now expected. For the European Central Bank (ECB), financial markets are looking at about a 30% chance of another rate cut in the next monetary policy meeting in January, and pricing in around a cumulative 110 bp in cuts in the next four meetings (as of 13 December 2024).

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, it may not be a continuous hike cycle and could be a limited normalisation path. Should the USDJPY continue to weaken, it could raise concerns on cost-push inflation and encourage another rate hike.

Emerging market central banks are likely to stay cautious and more data-dependent due to increasing growth pressures and currency weakness from broad tariff risks. That said, a few may decouple from the Fed and push forth more aggressive rate cuts on back of stronger domestic backdrops.

More central banks are expected to cut rates

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



Source: Macrobond, UOB Private Bank
Note: Based on 79 central banks

Global PMIs

Resilient services, subdued manufacturing

Global composite PMI rose a touch in November, edging up to 52.4 (from 52.3 in October). While there remains wide geographical and sectoral divergences beneath the surface, the latest PMI data are consistent with the healthy global growth expansion in 2024.

Geographically, emerging markets have outperformed developed markets. China has seen an ongoing rebound of late, suggesting that the latest stimulus measures are starting to feed through to better domestic demand. While US corporate outlook has improved, potentially benefitting from a post-election boost, Europe persists as a pocket of weakness.

The services sector has demonstrated better resilience than the manufacturing sector. After a concerning drop in September that fuelled worries about a loss in momentum headed in 4Q, services PMI rebounded in October and held steady in November at 53.1. While manufacturing PMI was broadly unchanged in November and came in at 50, overall conditions remain subdued. Looking ahead, there may be some frontloading of orders on the back of tariff related uncertainties, that could lead to a modest improvement in the manufacturing reading. Further stimulus measures from China could also lift domestic demand, though that remains to be seen.

Manufacturing PMIs are soft while Services remain robust

S&P Global - Purchasing Managers' Index (PMI)

	PMI Composite	PMI Manufacturing	PMI Services
India	60.7	57.4	60.8
United States	56.6	48.3	58.5
Ireland	55.2	49.9	58.3
Brazil	53.5	52.3	53.6
Spain	53.2	53.1	53.1
Emerging Markets	52.8	51.6	52.8
World	52.4	50.0	53.1
China	52.3	51.5	51.5
Developed Markets	52.2	48.4	53.3
Japan	50.8	49.5	51.4
United Kingdom	50.5	47.3	51.4
Australia	49.9	48.2	50.4
Euro Area	49.5	45.2	51.4
EU	48.3	45.5	49.5
Germany	47.8	42.5	51.0
Italy	47.7	44.5	49.2
France	46.7	41.9	48.2

Source: Macrobond, UOB Private Bank, S&P Global

US Elections

Trumponomics 2.0

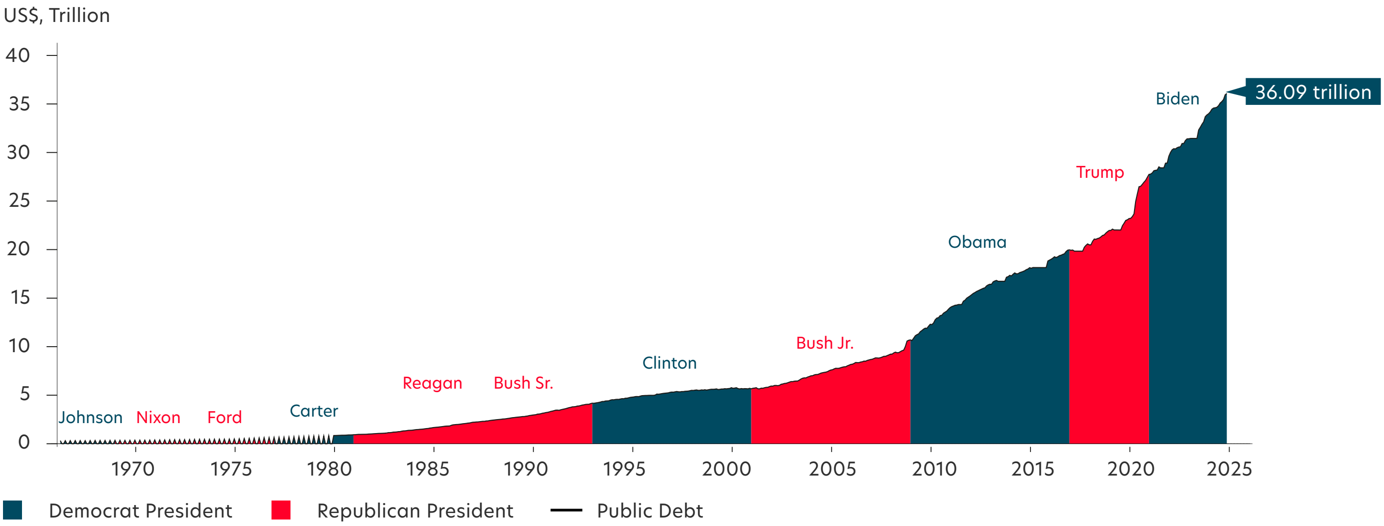
A Trump administration could have significant impact on the global economy, if his various campaign promises materialise. We see three broad macro implications from here.

First, immigration: mass deportation of undocumented migrants in the US via executive order and border sealed by completing the construction of a wall. This will tighten labour supply and have a negative drag on GDP growth.

Second, tariffs: 60% imports on China imports and baseline 20% tariffs on all imports. A potential short-term impact will be an inflation spike (one-time lift in prices similar to sales tax). Regarding a longer-term impact, while most market participants do not expect the worse-case scenario to play out, the underpricing of a notched up global trade war could pose the biggest downside risk to growth. The magnitude of the downside will depend on the extent of tariffs enacted, and whether there are retaliatory responses from other economies, especially China.

Third, fiscal expansion: Trump is a proponent of lowering corporate taxes (from 21% to 15%), extending expiring individual income tax cuts from the 2017 Tax Cuts and Jobs Acts, as well as deregulating selected sectors. This would boost corporate profits in the near term but add pressure to the already ballooning fiscal deficit. Indeed, the non-partisan Congressional Budget Office (CBO) has warned that US outstanding public debt is projected to USD 50 trillion in the coming decade (currently USD 36 trillion). Over the long-term, a worsening US fiscal profile will be negative for the USD should the investing public lose confidence in the credibility of the US Treasury. There will also be risks of longer-term debt downgrades and potential slower economic growth.

Total US public debt



Source: Macrobond, UOB Private Bank, US Department of Treasury, Macrobond Financial AB

Asia Trade

Strong Asian exports supported by semiconductor up-cycle

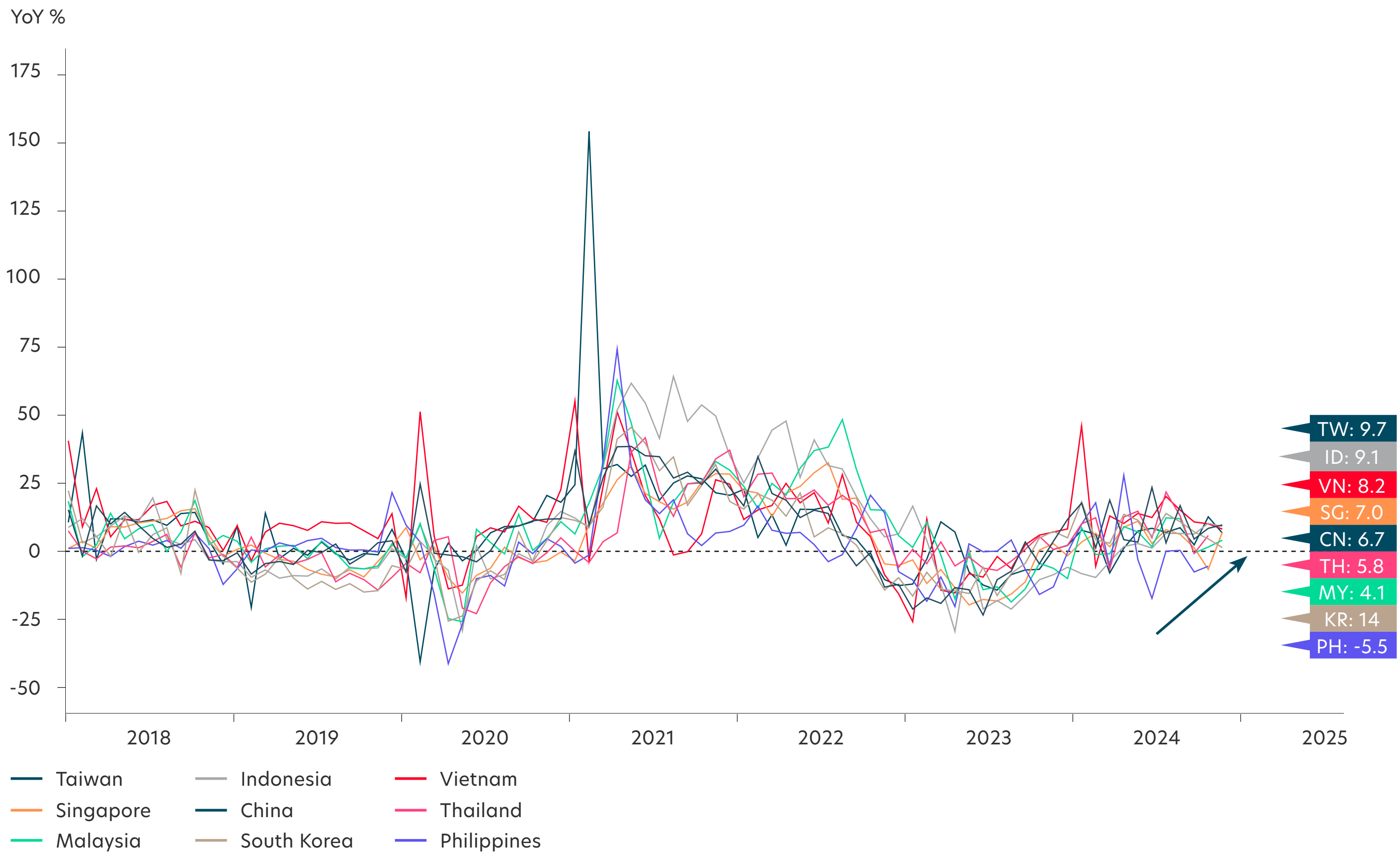
President-elect Donald Trump has threatened to impose 60% tariffs on Chinese products and universal tariffs of 10% or 20%. This poses great uncertainty about the future state of manufacturing supply chains and may weigh on investments and sentiment.

In Asia, China remains the most vulnerable to tariffs increases from the US as it still runs the largest trade surplus against the US amongst US' trading partners. Also, it continues to lead developments in critical technologies which the US wants a larger share in. While China can be expected to retaliate against any new trade policy measures, what the authorities eventually choose to do remains to be seen. Within Asia and outside of China, countries that run the largest trade surpluses with US and therefore are potentially exposed to trade dispute risks include Vietnam, Taiwan, Korea, Japan and Taiwan.

Amid potential tariff actions, most Asian economies saw an expansion of manufacturing activities in November, primarily driven by China. Domestic demand could have been boosted by the latest stimulus measures, while external demand could have been brought forward by front-loading of shipments ahead of trade uncertainty. Taiwan and Korea also saw solid export demand for tech products. This is unsurprising as they have been the primary beneficiaries of the artificial intelligence (AI) boom. This semiconductor up-cycle has also boosted export revival in ASEAN countries such as Singapore and Malaysia.

Looking ahead to the rest of 2025, we still expect end-demand for electronics to remain firm – AI-related spending remains robust, amid rising demand for AI processing power across both data centers, consumer and enterprise applications.

Exports performance in key Asian economies



Source: Macrobond, UOB Private Bank

ASEAN

At the intersection of politics and growth

Despite all the attention on China, ASEAN is also vulnerable to any potential policy actions by the US. ASEAN has seen its trade surplus with the US more than double since 2018, on the back of the supply chain shifts during Trump's first term (2016-2020). This could draw more scrutiny as Trump takes office. In this regard, Vietnam looks like a high-risk zone as it runs the largest trade surplus with the US among its Asian counterparts.

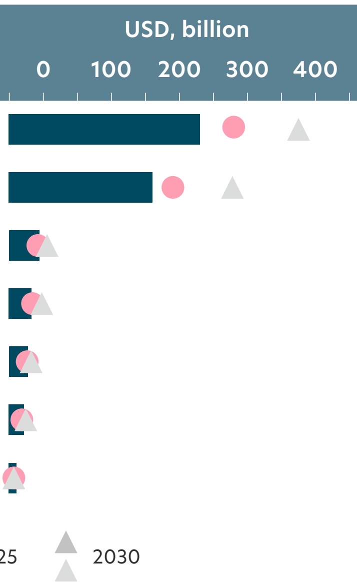
With that said, ASEAN has thus far benefitted from positive spillovers from the supply chain shift during Trump 1.0, leading with a bright trade outlook, while import demand has also strengthened across key Asian countries amid improving job market and domestic policy support.

While Foreign Direct Investments (FDI) into China have declined, there has been growing investments into Malaysia, Thailand, and the Philippines. An upturn in capital spending would bode well for medium to long-term economic growth. Putting numbers into perspective, FDI inflows into ASEAN hit USD 226 billion in 2023, and we forecast the inflows to rise by 38% to USD 312 billion by 2027 and further to USD 373 billion by 2030. Moreover, total trade flows in ASEAN are expected to accelerate, reaching USD 4.7 trillion by 2027, representing a 34% increase from USD 3.5 trillion in 2023.

Other factors contributing to a long-term favourable outlook include: 1) a large and young population base; 2) increasing cross-border policy coordination, as well as 3) stable domestic political conditions.

ASEAN: Prospects are bright for FDI inflows

ASEAN: Foreign Direct Investment Inflows, Annual



	2023 USD bn	2024F USD bn	2025F USD bn	2027F USD bn	2030F USD bn	2015 - 2023 % chg p.a.	2024 - 2030 % chg p.a.
ASEAN	226.3	251.0	277.4	312.8	373.7	**8.4**	**6.9**
Singapore	159.5	170.0	190.6	225.3	279.7	**13.1**	**8.6**
Indonesia	22.0	24.7	26.3	28.8	32.0	**3.6**	**4.4**
Vietnam	18.5	19.1	19.4	19.0	20.8	**5.8**	**1.4**
Philippines	8.9	9.5	10.5	9.5	9.5	**5.8**	**0.0**
Malaysia	8.9	10.9	11.3	12.2	13.5	**-1.6**	**3.6**
Thailand	3.0	4.7	6.0	2.8	0.2	**-12.9**	**-39.8**

Source: Macrobond, UOB Global Economics & Markets Research

US Monetary Policy

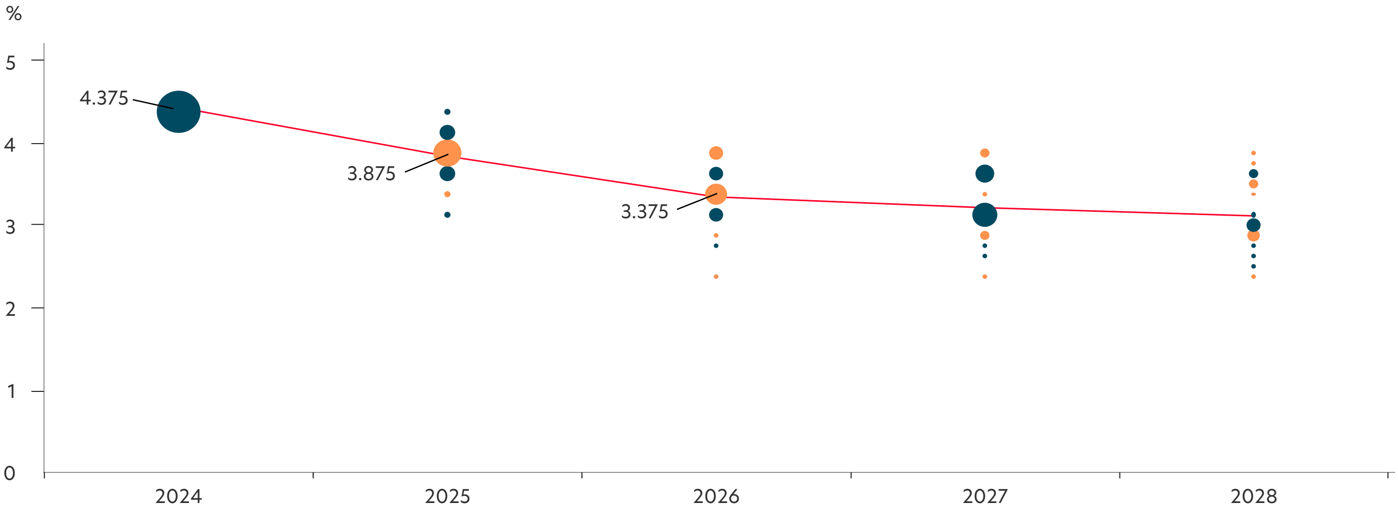
A shorter and shallower rate cutting cycle

The Fed has stayed the course and eased its policy stance for a third consecutive meeting in December, bringing the Fed Funds Target Rate (FFTR) down to 4.25% - 4.50%, in line with markets and our expectations. This came after the 50 bp cut in September and 25 bp cut in November. That said, markets were taken aback by the unexpected hawkish forward guidance. The most eagerly anticipated Dotplot showed the median view of FFTR at the end of 2025 being raised to 3.9% (from 3.4% previously in September Dotplot). This suggests that majority of Fed officials are now expecting just two 25 bp cuts next year, down from the four cuts projected in September.

We are maintaining our 2025 rate cut trajectory of a total 75 bp of cuts (i.e. three 25 bp cuts, one in each quarter of 1Q, 2Q and 3Q 2025) and end the rate cycle to bring the terminal rate to 3.75% (upper bound of FFTR). Prior to Trump's election victory, we had projected 100 bp of cuts in 2025 and one last 25 bp cut in 1Q 2026 to bring the terminal rate to 3.25%. The reduced number of cuts reflect the higher inflation pressures from the projected tariff implementation during the latter part of 2025. While the risk in 2025 is for fewer cuts due to the uncertainty of tariffs, we think it remains premature to shift our projections for now, until we get better clarity of President Trump's policies in early 2025.

FOMC Policy Dot Plot

As of December 2024
Current Policy Rate 4.38 (Mid)



Source: Macrobond, UOB Private Bank, Federal Reserve

Note: Values indicated on the chart are the dot medians by the end of each year.

US Economy

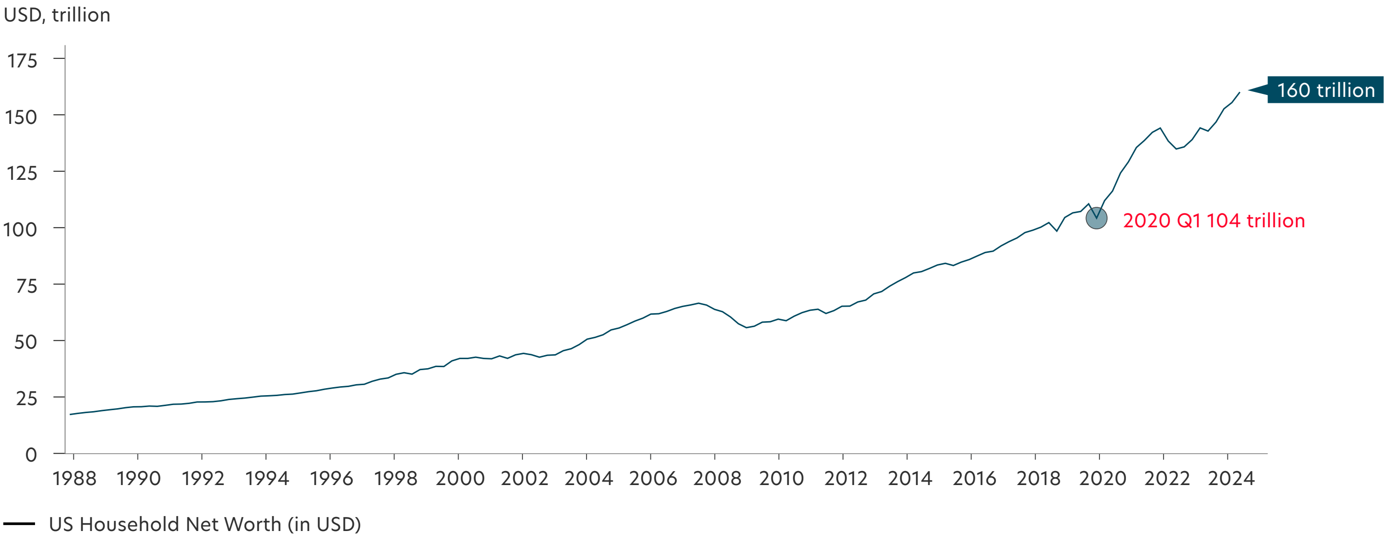
Outperformance to continue relative to rest of developed world

The US economy expanded at a robust pace of 2.8% QoQ SAAR in 3Q (from 3.0% in 2Q), driven by stronger private consumption. Business spending and government expenditure also supported growth, offsetting the 3rd straight quarterly decline in net exports of goods and services, back-to-back fall in residential investments and a small decline in private inventories.

Activities in 4Q are tracking slightly lower than 3Q, with Atlanta Fed GDPNow growth estimate for 4Q at 3.2% (as of 19 December 2024). While UOB expects a more conservative projection of 2.0% for 4Q, this still puts the US economy in an exceptional growth position versus other developed economies.

Indeed, the resilient US consumer continues to hold up the fort, with analysts estimating that the household wealth has grown by ~USD 48 trillion, from the beginning of COVID crisis to mid-2024. While stock markets have been doing well, home prices have also increased by almost 50% over a span of four years. This should provide a good buffer for consumption to continue holding up. Furthermore, US data has been surprising to the upside while the Fed has also started to ease.

Household wealth and savings are in a very good shape



Source: Macrobond, UOB Private Bank, Federal Reserve

US Economy

Outperformance to continue with Trump 2.0 policies

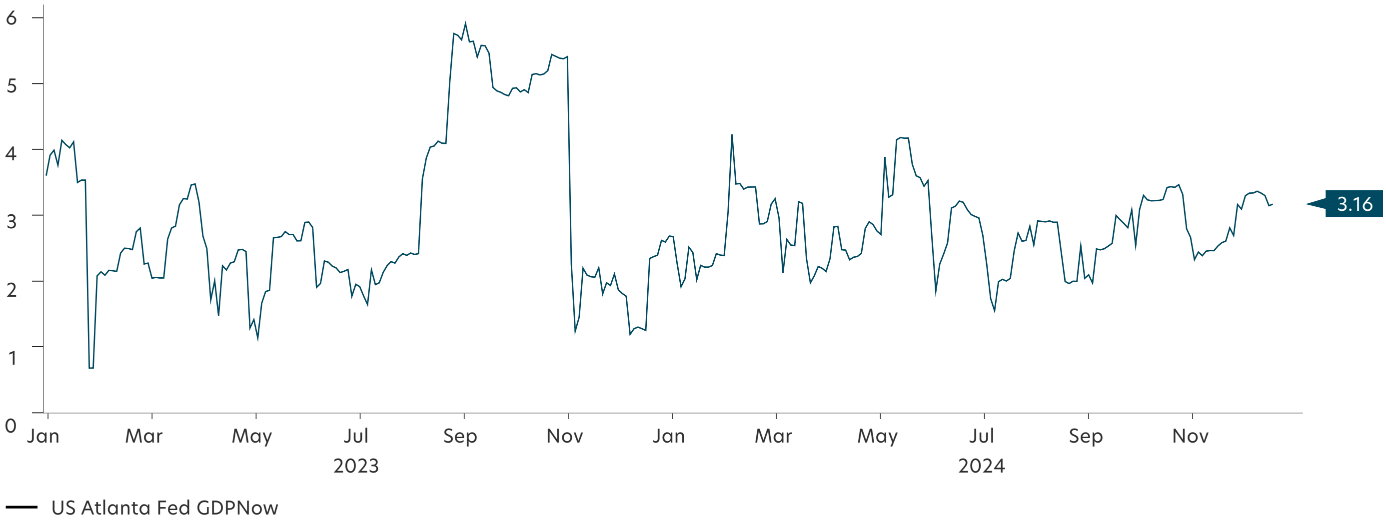
Headed into 2025, we expect US outperformance versus the rest of the world to continue. Undoubtedly, under Trump 2.0, his myriad of policies will have material macro-economic and financial market impact to the US and rest of the world. While Trump policy measures are highly speculative and unpredictable at this juncture until his inauguration on 20 January, the overall impact of Trump's various policies are likely to be inflationary with mixed effects on growth. However, our central view remains that the US will achieve a soft landing (no recession).

Zooming in on his trade policy, we believe that Trump will use tariff threats as a bargaining chip or negotiation ploy to eventually gain concessions from China and key trade partners, rather than being laid out as an immediate policy action. With that said, UOB's baseline scenario is for a more measured and paced imposition of tariffs (of which an additional 25% tariff on China, instead of the claimed 60%, 10% tariffs on economies that recorded increase in trade surplus with US due to trade diversion from China, and no blanket tariff on all US imports).

Overall, we expect US growth to ease to 1.8% in 2025 (from the projected 2.7% in 2024) and the risk to our forecast is dependent on extent and sequencing of the Trump policies. Unemployment rate ticked up higher to 4.2% in November (from 4.1% in October) while wage growth stayed elevated above forecast at 0.4% MoM, 4.0% YoY in November (same pace as October), indicating that wage-push inflation may still be a concern. We expect jobless rate to edge higher to 4.3% by end-2024, and further to 4.5% by end-2025.

The descent of CPI inflation will face the challenge of Trump's tariffs, which we expect could push price increases higher above the Fed's 2% target in 2025 and 2026. We expect headline CPI inflation to ease and average lower to 3.0% in 2024 (from 4.1% in 2023) but revise 2025 forecast higher by 0.3ppt to 2.4% (previous: 2.1%). While core inflation may also ease, it is now likely to average 0.4ppt higher to 2.5% in 2025 (from a projected 3.4% in 2024).

US Atlanta Fed GDPNow (%)



Source: Macrobond, UOB Private Bank, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York

Eurozone

Lacklustre growth as Germany struggles

The Eurozone economy had expanded more than expected in 3Q 2024, though dynamics were uneven. Among the big four Eurozone economies, Germany remains the weakest link on the back of its structural and cyclical challenges. Spain had outdone the rest, while Italy and France were packed in the middle.

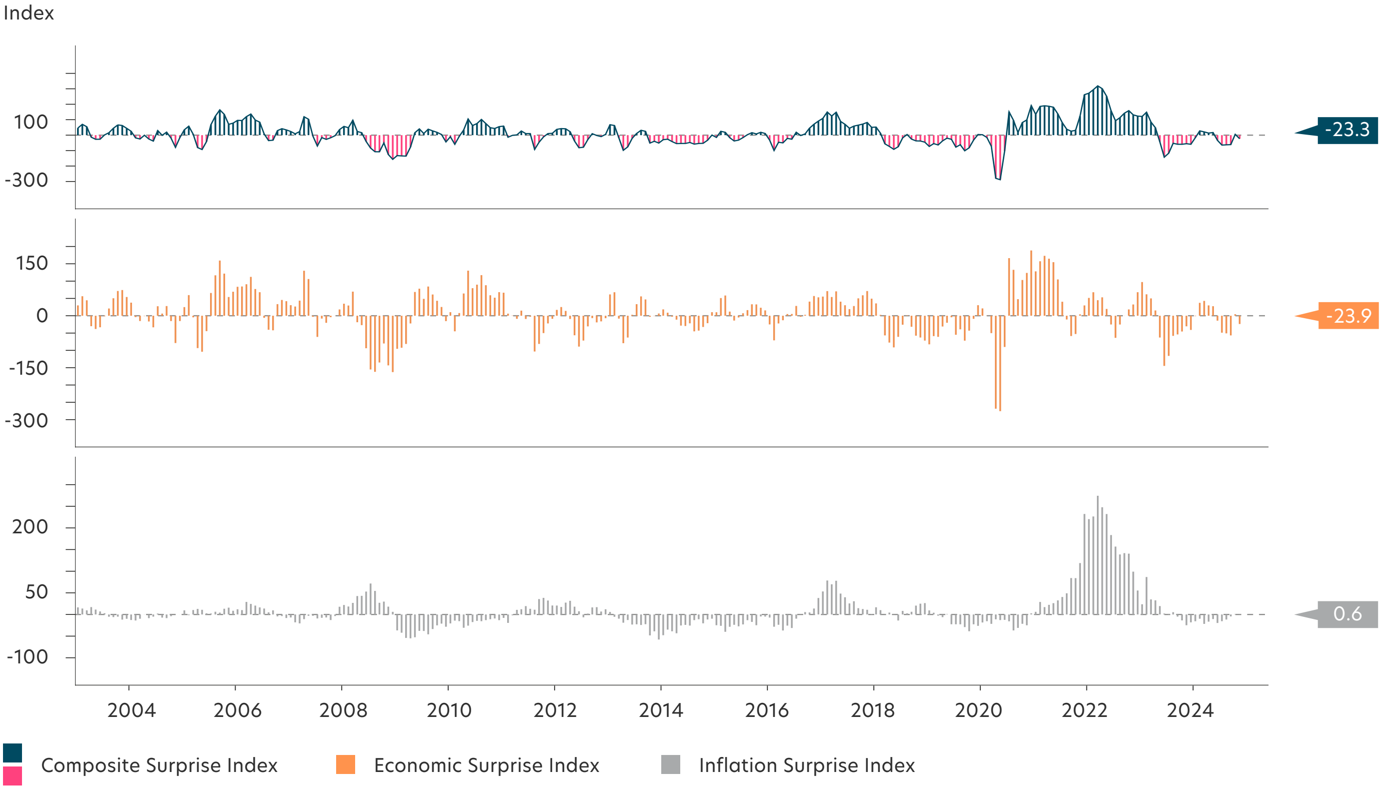
Looking forward to the year ahead, economic risks are tilted to the downside. Germany's economic contraction, France's slowdown, alongside political issues following the collapse of the governing coalition, would mean that both France and Germany may not be able to support Eurozone growth as much as they would like or need to.

On that note, a key factor to watch in 2025 will be the outcome of the German federal election (set for 23 February). Uncertainties stemming from Trump's presidency regarding upcoming tariffs, as well as the conflicts in Ukraine and the Middle East remain pressing issues that could disrupt the outlook for the bloc.

That said, labour markets remain a bright spot. Services activity have also stayed resilient, though there has been a slight loss in momentum. Upside risks include a stronger-than-expected policy support and hence growth in China, as well as faster-than-expected moderation of inflation that may allow the ECB to ease monetary policy at a faster pace.

Euro Area, Surveys & Leading Indicators - Citi's surprise index

Composite: -23.3, Economic surprise: -23.9 & Inflation surprise: 0.62



Source: Macrobond, UOB Private Bank, Citi

Eurozone

ECB cuts rates as expected, but easing with caution

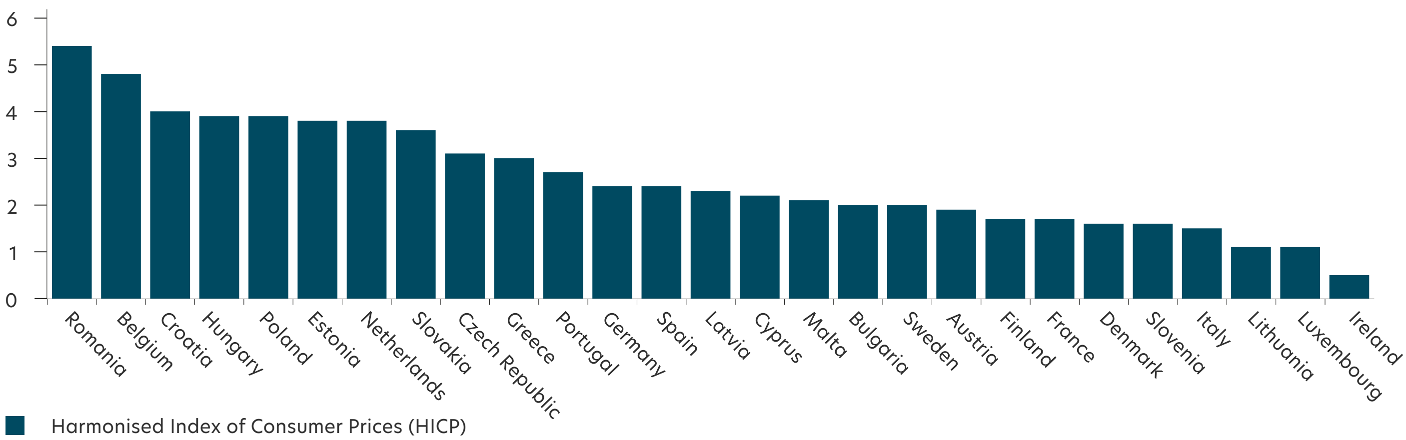
As widely telegraphed, the ECB cut its deposit rate by 25 bp to 3.00% in its December meeting, and reaffirmed market expectations of more rate cuts ahead. ECB President Christine Lagarde opined that inflation risks cut both ways and maintained a data-dependent approach, though "the direction of travel is very clear".

Alongside the rate cut decisions, new forecasts have also been released. On growth, the Governing Council is of the view that there are signs of weakening, and risks to outlook are tilted to the downside, on the back of growing trade tensions. With that, the ECB now see the economy growing by 0.7% in 2024 (from 0.8%), 1.1% in 2025 (from 1.3%), 1.4% in 2026 (from 1.5%) and 1.3% in 2027.

On inflation, risks remain two-sided, with uncertainty exacerbated by trade frictions. The ECB now sees headline inflation averaging 2.4% in 2024 (from 2.5%), 2.1% in 2025 (from 2.2%), 1.9% in 2026 (unchanged) and 2.1% in 2027. For inflation excluding energy and food, staff project an average of 2.9% in 2024, 2.3% in 2025 and 1.9% in both 2026 and 2027.

Weakening growth prospects stemming from Trump's presidency regarding upcoming tariffs, coupled with cooling inflation, it is looking likely that ECB policymakers will reach our terminal rate forecast sooner. As such, we now pencil in another 25 bp move at each of the next four ECB meetings (January, March, April, and June) for the deposit rate to reach 2.00% by end of 2Q 2025.

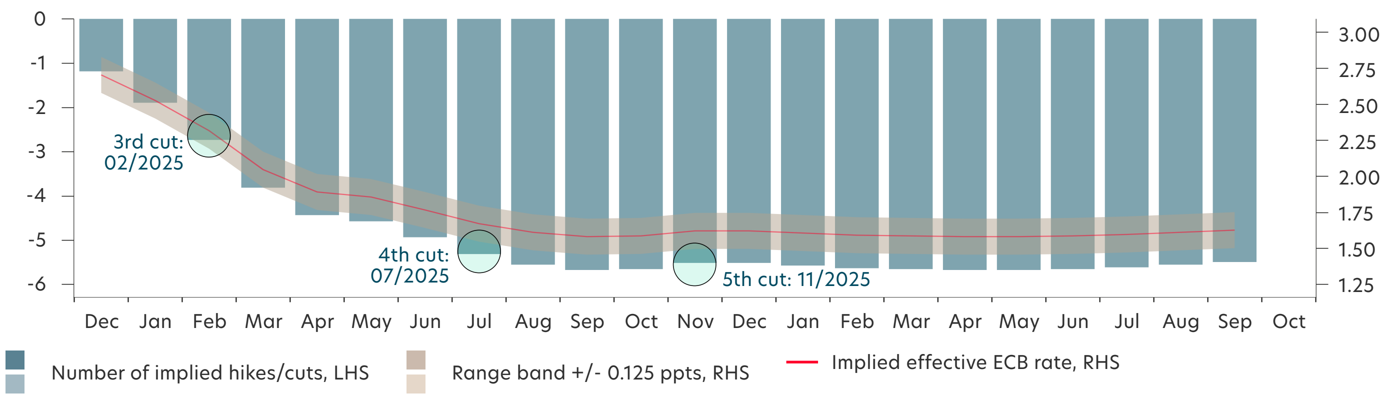
Inflation across Eurozone economies



Source: Macrobond, UOB Private Bank, Eurostat

Implied number of hikes/cuts from the ECB

Assuming uniform 25 bp hikes/cuts



Source: Macrobond, UOB Private Bank, Intercontinental Exchange (ICE), ECB (European Central Bank)

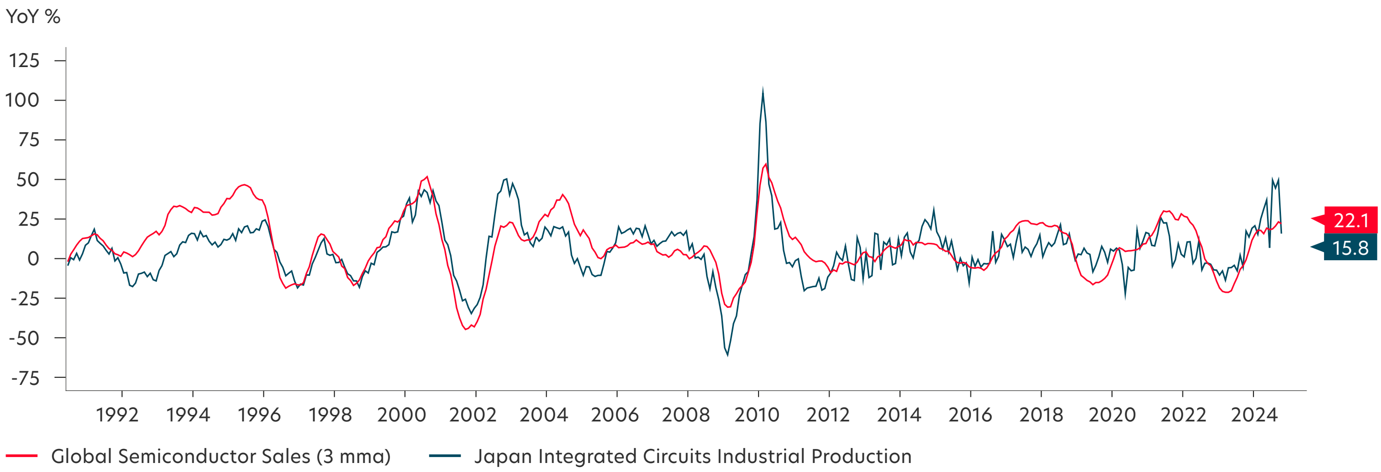
Japan

Growth supported by private consumption but Trump poses uncertainties

We expect Japan's growth trajectory to extend into 4Q, 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. Accelerated investments into semiconductor technology and production will bode well for its long-term potential and may lead to a bump up in investments spending in the upcoming quarters though not likely to add much to near-term production. The recently approved JPY 21.9 trillion stimulus package will be another positive to support wage gains and cope with higher prices for households and business (but likely at the expense of funding part of the new spending with new debt).

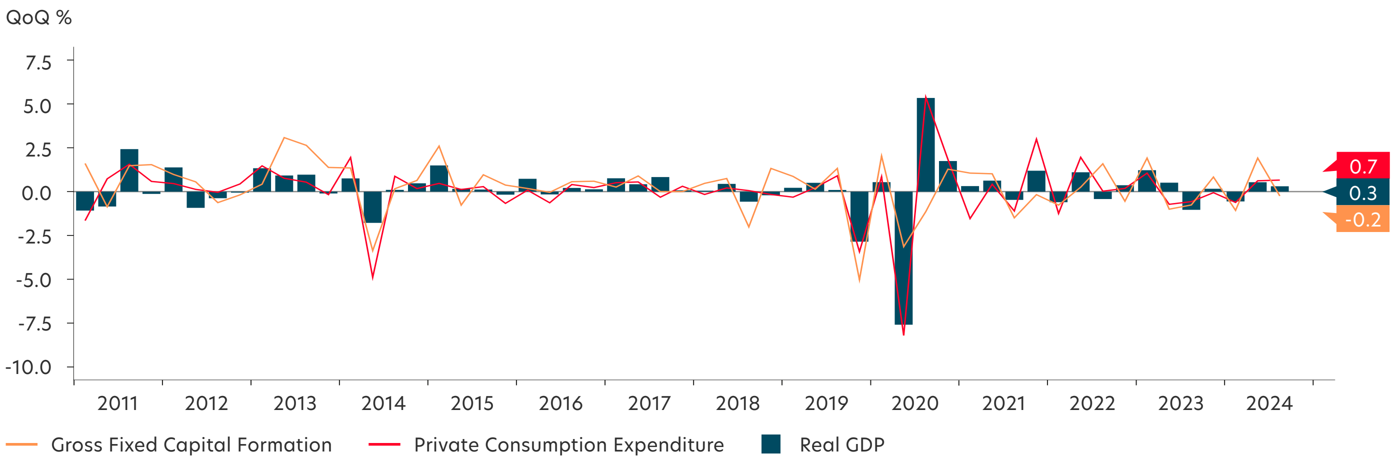
That said, the downside factors still loom large and the in-coming Trump administration will add further uncertainty to the growth outlook especially the extent of global and China growth slowdown under Trump's new set of potential tariffs. Other downside risks include the resumption of weak domestic demand if wage growth stalls in 2025, Japanese manufacturers being impacted from the potential electronics downcycle and tariffs imposition from US (due to Japan's significant trade surplus with US), and the tighter monetary stance from BoJ. Putting it all together, we have revised our 2025 growth forecast to +1.0% (previous: +1.7%), on Trump policy uncertainties and its negative impact on China and Asia.

Semiconductor upcycle bodes well for Japan's production



Source: Macrobond, UOB Private Bank, Japanese Ministry of Economy, Trade & Industry, SIA (Semiconductor Industry Association)

Growth rebound supported by wage-induced consumption recovery



Source: Macrobond, UOB Private Bank, Japanese Cabinet Office (CAO)

Japan

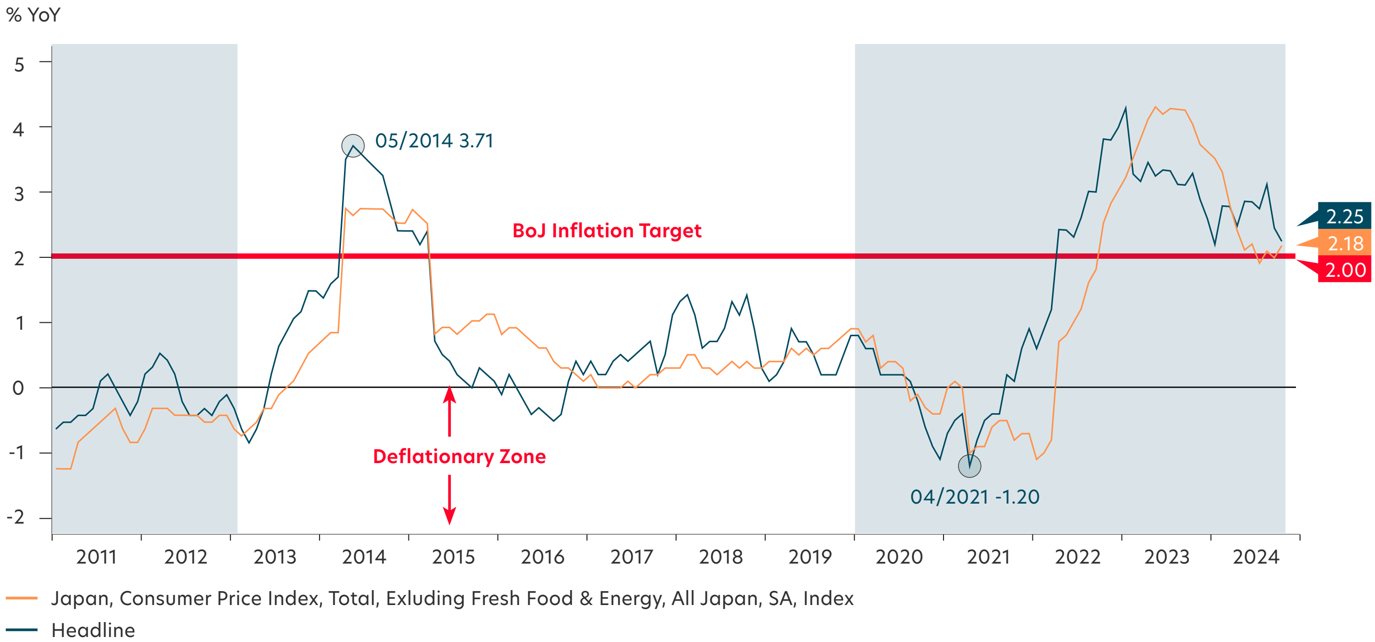
A virtuous cycle of income and spending is underway

After easing to a 9-month low of 2.3% YoY in October, headline CPI inflation moved back up to 2.9% in November, while core-core CPI (excluding fresh food, energy) hit a 7-month high of 2.4%. Private sector services prices also continued to rise at 3.1% YoY, suggesting that companies are passing on labour costs to customers at the fastest pace in nearly 3 decades. The BoJ projected that risks to prices are skewed to the upside for FY2025. We lifted our headline and core CPI to average 2.7% and 2.5% for 2024 (from 2.6% previously) and both expected to ease to 2.0% for 2025.

While we had expected a 25 bp hike by the Bank of Japan (BoJ) at the December Monetary Policy Meeting (MPM) on the back of inflationary pressures, the BoJ adopted a cautious stance and left its policy rate unchanged at 0.25%. While the MPM statement or BoJ Governor Ueda's press conference did not provide any forward guidance for the next rate hike, Ueda explicitly highlighted 2025 wage hike (Shunto in March) and Trump policies considerations are key to the next policy decision.

We now expect the BoJ to hike its policy rate by 25 bp to 0.5% in the March 2025 MPM, which we believe will be the terminal rate. However, there is a sizeable risk that the hike could be delayed till April or even later. We see a January BoJ rate hike (while not entirely ruled out) as a low probability event now.

Japan's Headline & Core Inflation



Source: Macrobond, UOB Private Bank, Japanese Statistic Bereau, Ministry of Internail Affairs & Communication, Macrobond Financil AB

Equities

United States

Optimistic outlook: Expect stock returns dispersion and episodic volatility

The US equity outlook for 2025 remains reasonably optimistic, with growth driven by strong fundamentals, cyclical tailwinds, and policy shifts. The consensus projection is for the S&P 500 to edge towards 6,500 to 7,000 levels, buoyed by resilient earnings growth, margin expansion, and monetary easing.

While markets are likely to supported in 2025, investors should brace for periods of volatility given policy uncertainties against a backdrop of relatively demanding valuations. Returns potential is unlikely to repeat at the strong levels seen in 2023 and 2024. The key drivers for the US equity outlook include:

Earnings Growth: Consensus expects S&P 500 earnings to grow ~10-12% in 2025, supported by an expanding US business cycle, AI-driven capital expenditures, and easing inflation. Looking ahead, Trump 2.0 and a Republican sweep could culminate in continued US outperformance against the rest of the world. Investors could consider opportunities outside of the mega-cap tech names for better returns; their valuations are less demanding, and they are more sensitive to cyclical improvements. Recent earnings revisions outside of the Magnificent Seven (Mag-7) stocks are also being revised higher.

Policy Dynamics: The potential for renewed tax cuts, deregulation, and tariffs under Trump 2.0 is a double-edged sword. Deregulation and a lower corporate tax rate could accelerate domestic growth, particularly for US manufacturers and industrials, while broader trade tariffs pose risks to inflation and global trade.

AI and Productivity: The AI boom is a central theme, driving massive investments across data centers, semiconductors, and energy infrastructure. Looking ahead, the focus will likely shift towards monetisation and application-layer opportunities. Sectors which are key to the multi-year built-up in physical infrastructure build such as industrials and utilities will enjoy also strong sales.

Monetary Easing: Based on current Fed Funds pricing (as of 20 December 2024), the Fed is expected to cut rates by 25-50 bp to 4.00% by end-2025, fostering a favourable liquidity backdrop. While lower rates will spur capital markets activity, slower or fewer Fed rate cuts could bring about episodic market volatility.

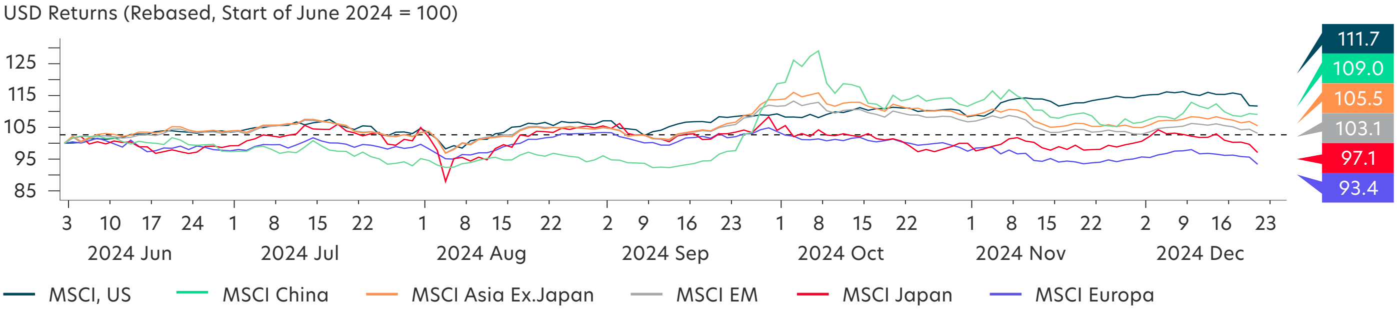
Risks: Geopolitical tensions, trade conflicts, and policy uncertainties are set to introduce bouts of market volatility. Having said that, the US is likely to remain the global equity leader given its standout economic strength and limited substitutes.

Overall, investors should consider positioning for broadening market breadth, in particular opportunities outside of the Magnificient 7 names.

CIO's recommendation: We upgrade the US equities to Neutral from Underweight. Investors already with exposure to megacap stocks could consider the S&P 500 equal-weighted index which has higher domestic exposures, as well as sectors like industrials, utilities and financials.

Equity Performance

USD Returns (Rebased, Start of June 2024 = 100)



Source: Macrobond, UOB Private Bank

Europe

Challenging outlook: Stay defensive and selective amid the growth headwinds

European equities may deliver modestly negative total returns by the end of 2025. This stagnation reflects persistent domestic and external headwinds, which result in weaker earnings growth and narrowing margins. Earnings could decline by single-digits YoY, while valuations are expected to remain stable.

It is noteworthy that earnings dispersion among sectors could persist. Defensive sectors like utilities, renewables, and consumer staples are likely to outperform cyclicals such as energy and luxury goods. Meanwhile, stocks riding on structural growth trends like AI, electrification and defence may continue to outperform. The key drivers for European equity outlook include:

Geopolitics: The continuation of protectionist policies under Trump 2.0 introduces risks of increased tariffs and trade disruptions. This environment may impact European exporters and cyclicals like banks and industrials. Beyond the war in Ukraine, pressures by the "Trump 2.0" administration will likely continue to bolster defense spending, benefitting longer-cycle European defense stocks.

China's economic slowdown: Europe's significant trade exposure to China, particularly in sectors like luxury goods, automotive, and industrials, presents great vulnerabilities. Continued deceleration in China's growth and competitive pressures are expected to weigh on these sectors.

Monetary and Fiscal Policies: The European Central Bank (ECB) is projected to cut interest rates from current 3.15% to 2% by the end of 2025, fostering slight economic acceleration. However, fiscal consolidation across major economies like France and Italy could act as a drag on overall growth.

Opportunities and risks: An acceleration in structural reforms or policy shifts in Europe could unlock growth, while a rebound in consumer spending due to falling interest rates may provide tailwinds. On the flipside, prolonged geopolitical tensions, tighter fiscal policies, and weaker-than-expected global growth could exacerbate market pressures.

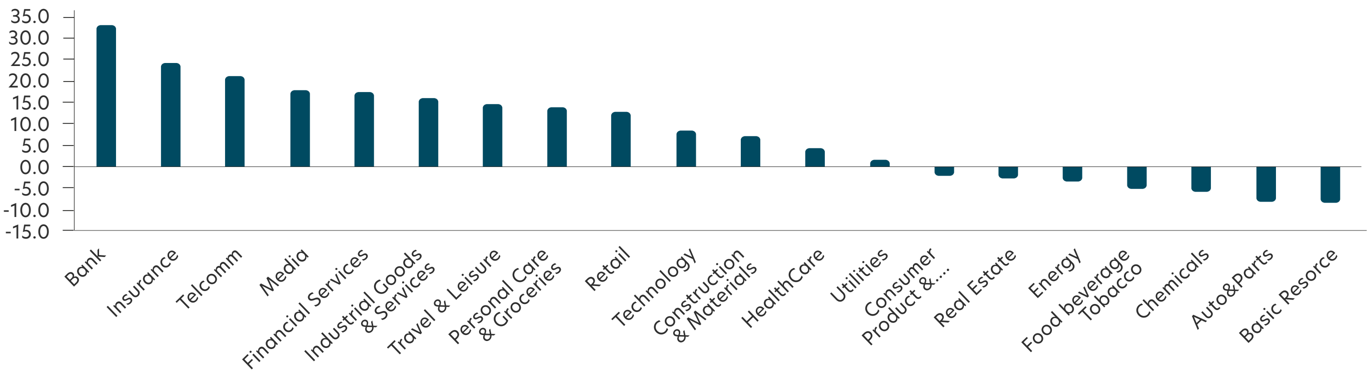
Overall, investors should stay cautious with sectors heavily dependent on China and sensitive to US policy shifts, including automotive and luxury goods. Investors should also tread carefully in advanced semiconductor exposure, given the potential for further export restrictions to China.

Looking ahead, European equities face a testing year in 2025, characterised by slowing growth, geopolitical uncertainties, and sectoral divergence. Defensive positioning and selective exposure to structural growth themes will be crucial.

CIO's recommendation: We keep European equities at Neutral. Investors should favor defensive stocks like utilities, as well as quality growth stocks in AI, renewables and defence over the cyclicals.

Equity Performance

Year-To-Date total returns (%)



Source: Macrobond, UOB Private Bank

Japan

Positive outlook: Look to beneficiaries of corporate reforms and AI-led growth

The 2025 outlook for Japan's equities is modestly positive, characterised by economic reinvigoration, structural reforms, and evolving global conditions. We can expect moderate economic growth, driven by wage increases, domestic demand, and corporate governance reforms. Sectors including industrials, technology and consumer staples are likely to benefit from these trends.

Japan's economy is emerging from decades of stagnation, with expected nominal GDP growth between 2% and 3%. Wage growth moving above 3% is a positive signal, though structural challenges such as demographic decline and high government debt remain. We forecast real GDP growth to come in at 1.0% for 2025, supported by fiscal policies and resilient domestic consumption. Key drivers for Japan's equity outlook include:

Wage hikes and inflation: Wage hikes and inflationary pressures are expected to drive consumer spending. It is worth noting that Japan's consumer confidence has steadily risen since the start of 2023. A reflationary environment also bodes well for higher domestic capex, fostering a positive feedback loop of production and spending which supports the country's GDP growth.

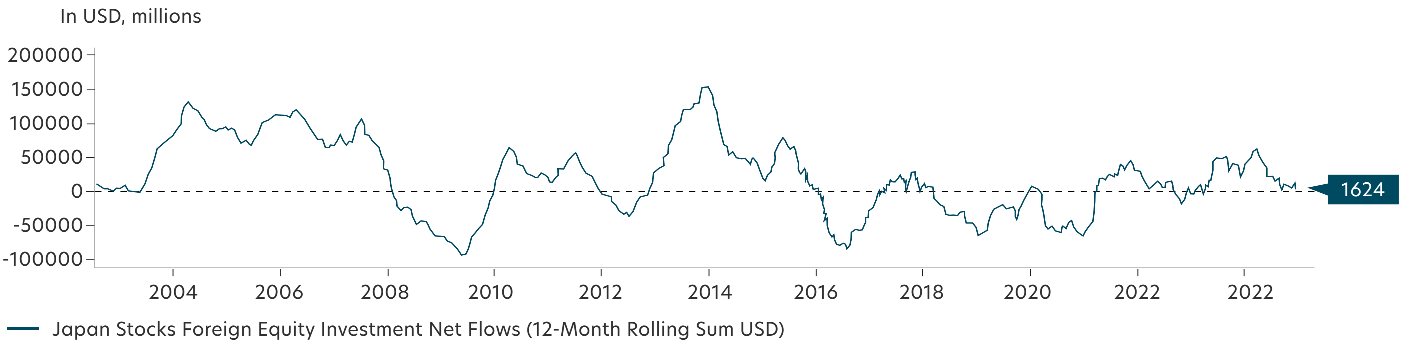
Corporate reforms: Business restructuring and capital efficiency improvements are key themes for the equity market. Improvements in corporate governance, including share buybacks and dividend increases, are set to enhance shareholder value. In this regard, opportunities can be found in companies undertaking strategic shareholding unwinds and restructuring to improve profitability. Companies aligning with ESG trends and demonstrating operational efficiency are also likely to outperform. Corporate reforms will help to narrow the performance gap between Japan's firms and the global peers.

Risk and challenges: Japan faces risks from global economic uncertainties, particularly US trade policies and potential tariffs. Geopolitical tensions and political instability within Japan could hamper reforms and economic growth. In addition, any currency pressures due to Bank of Japan's (BoJ) less-hawkish-than-expected policy stance could lead to diminished FX-adjusted returns. We expect BoJ to conduct one 25 bp rate hike to a terminal rate of 0.50% in 1Q 2025.

Overall, Japan's equity outlook is characterised by economic normalisation, wage growth, and corporate reforms. While global uncertainties pose risks, domestic demand and structural reforms provide a solid foundation for equities to do well. Investors could consider sectors benefitting from governance improvements and ESG initiatives. The tech sector, driven by AI transformation, is still a critical growth area.

CIO's recommendation: We remain Overweight on Japan's equities. Investors should favor beneficiaries of Japan's corporate reforms and the AI-driven transformation. Industrials, technology and consumer staples can perform well, along with rate sensitive sectors.

Foreign investors are not fully positioned in Japanese equities



Source: Bloomberg, UOB Private Bank

Emerging Asia

Mixed outlook: Valuations offer buffer amid near-term headwinds

Emerging Asia equity outlook presents a mixed but cautiously optimistic outlook amid structural challenges, China's forthcoming stimulus measures, and market recalibration. While Chinese share prices may continue to consolidate amid near-term headwinds, several key factors offer downside protection and potential for improvement in 2025. We continue to like India and ASEAN, which investors can consider gaining diversified exposure to via funds and/or ETFs.

Near-Term Challenges and Headwinds: China's equity market faces challenges from geopolitical uncertainties, a slowing global economy, and concerns about the property crisis. Increased US tariffs, potential political developments, and weaker external demand are key risks. In this regard, sectors heavily reliant on exports, such as machinery, tech hardware, and automotive components, are highly susceptible.

Policy and Economic Support: Despite these headwinds, the Chinese government's fiscal policies and structural reforms are expected to mitigate some risks. There are signs of stabilisation in property markets, with property price declines easing and fiscal impulses improving at the margin. Meanwhile, earnings are poised to improve from a depressed base amid capital discipline; profit margins for Chinese firms should see some uplift going forward.

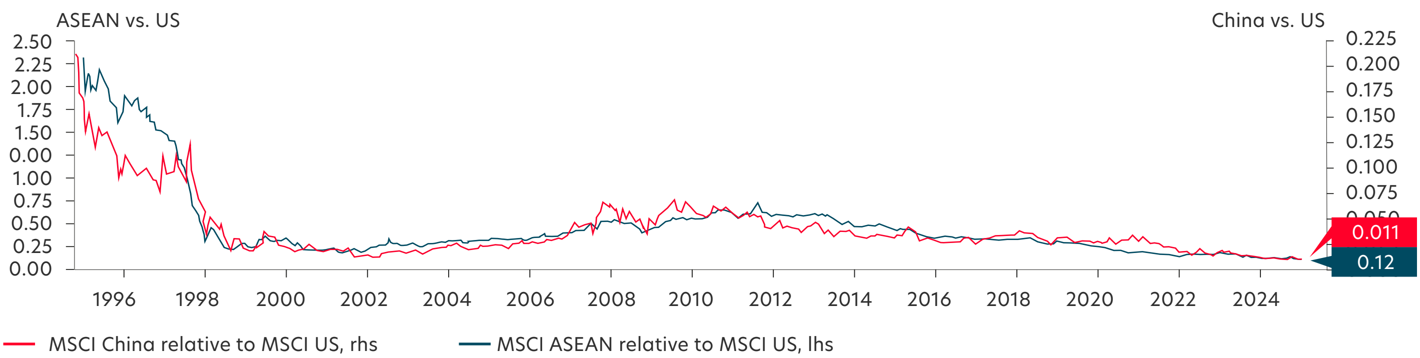
Valuation and Market Sentiment: Chinese equity valuation is relatively undemanding, reflecting depressed investor sentiments. Meanwhile, it is noteworthy that selected large-cap companies are increasing shareholder returns through buybacks and dividends. With forthcoming Chinese fiscal stimulus presenting some upside risks as well as increased market participation, selected Chinese stocks are still compelling from a risk-reward perspective.

Macro projections: For China, we project a relatively low GDP growth of 4.3% on expectations for staggered increase in additional tariffs to 25% on Chinese goods starting 2Q 2025. Geopolitical risks, including the possibility of additional tariffs from the US, remain a key uncertainty. Despite these challenges, the outlook for Chinese equities suggests a cautiously optimistic trajectory, with selective opportunities driven by policy support and sector-specific factors.

Overall, the key investment themes for China include domestic consumption recovery, digital transformation, and companies benefitting from China's fiscal stimulus. Selected tech companies could also outperform amid innovation-driven growth. Investors should focus on sectors which are strategically aligned with domestic growth and government policy support, less cyclical, and characterised by high capital returns.

CIO's recommendation: We downgrade EM Asia equities to Neutral from Overweight. To navigate geopolitical uncertainties, investors could consider sectors which are strategic to the Chinese government, less cyclical, and characterised by high dividends. Plays on ASEAN remain focused on quality banks with high yield.

Emerging Asia: To range-bound with episodes of relief rallies



Source: Bloomberg, UOB Private Bank

China

Expect further policy stimulus amid weak growth

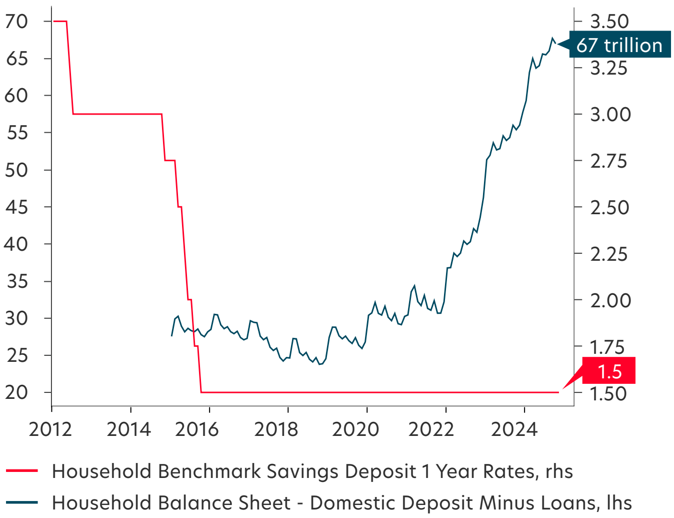
China's economy is likely to face significant challenges in 2025 and 2026 due to a protracted property crisis and imminent US tariffs. To relieve the growth pressures, the Chinese government is expected to implement further policy measures in a phased approach.

On **GDP growth**, China's real GDP growth is likely to decelerate to 4.3% in 2025 as the country grapples with the imminent US tariff hikes and chronic property sector weakness. China's exports remain the only game in town for the economy, having benefitted from the global technology upcycle. However, China's exports growth will likely be hit once the new US tariffs are put into place. Concurrently, corporate capex and household consumption are expected to slow, led by lacklustre demand and high saving rates. Real growth could slow further in 2026, even as the impact of the tariff hikes peaks and as the property market stabilises.

On **the property sector**, the housing market is likely to pose as a significant drag on growth. Despite several supportive measures such as lower mortgage rates and subsidies for destocking inventory, the sector recovery has been sluggish. High levels of unsold inventory, as well as declining prices and rents, will continue to weigh on the market. While property sales growth is likely to fall in 2025, the magnitude of such declines should be smaller compared to 2024. Property sales could stabilise by mid-2026, preceding a recovery in new housing starts led by the tier-1 cities. Even with the debt restructuring initiatives and targeted fiscal support, local government finances and household confidence is likely to remain challenged.

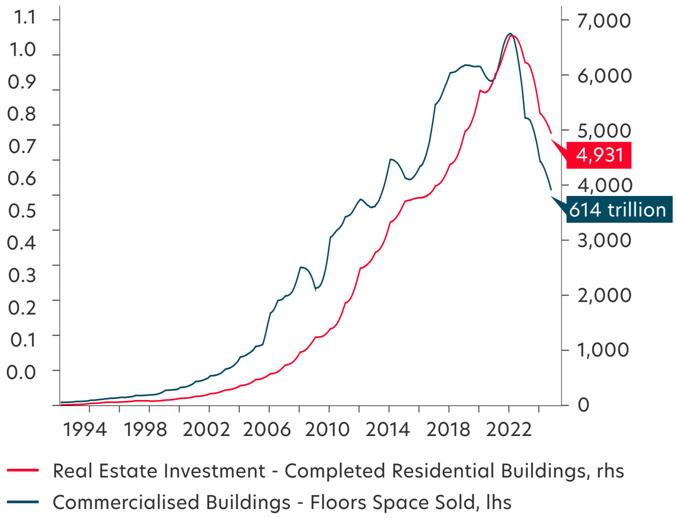
On **effects of the US tariff hikes**, tariffs on the Chinese imports could rise by 60% in stages from late-2025, impacting about 75% of American imports from China. With falling exports and weaker corporate investments, China's growth could slow by about 150 bp without any policy offsets. Beyond the front-loading of goods shipment ahead of the tariff's impact, the US tariff hikes could spur long-term adjustments such as shifting supply chains abroad, thus undermining China's domestic manufacturing as well as foreign direct investment (FDI) inflows. In response, China would likely impose limited retaliatory tariffs, focusing on boosting domestic demand and infrastructure investment to alleviate the economic pain.

Rising net deposits reflect fragile consumer sentiment



Source: Bloomberg, UOB Private Bank

Property sector is still in secular decline



Source: Bloomberg, UOB Private Bank, China National Bureau of Statistic (NBS)

China

Much more policy support needed to stem deflation

On **consumption and inflation trends**, consumer spending is set to weaken further in 2025 and 2026. Subdued income growth and elevated household saving intentions are expected to dampen household consumption. While retail sales have been propped up by targeted incentives such as the appliance trade-in programs, these measures cannot fully offset the economic headwinds. Meanwhile, deflationary pressures could be entrenched into 2026 on falling property prices and weak domestic demand. Producer price inflation is also likely to be negative through this period.

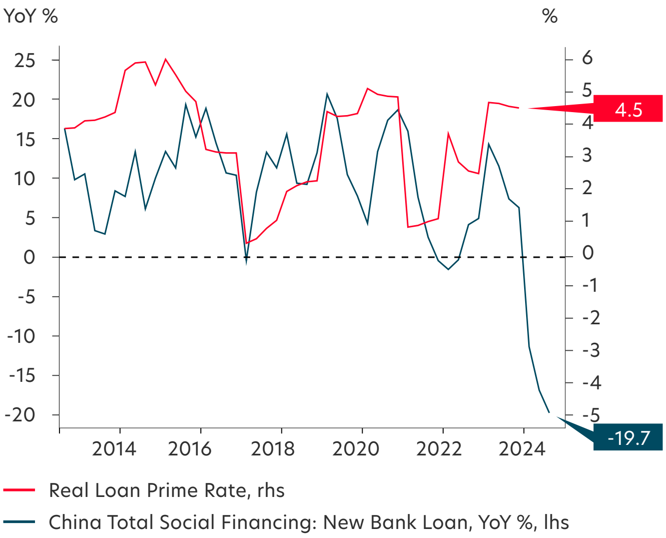
On **fixed asset investment (FAI) and infrastructure spending**, the FAI should see some modest improvement in 2025, driven by increased government spending on infrastructure, especially in areas like renewable energy, water management and urban transport networks. Manufacturing FAI growth should slow due to weaker demand and earnings, as well as the US trade policy uncertainties. Tech investments could improve in China's bid to support industrial upgrades.

On **monetary and fiscal policy support**, the government is poised to conduct additional monetary easing and fiscal stimulus to counteract the growth slowdown. Cuts in interest rates and reserve requirement ratios (RRR) can be expected in the government' bid to provide ample liquidity. Fiscal deficits will likely widen as policy stimulus expand further. During the recent Central Economic Work Conference (CEWC), China signaled more public borrowing and spending in 2025 in a shift of policy focus to consumption as looming US tariffs threaten exports. Further special bond issuances for local governments, infrastructure and households are expected.

On **a concluding note**, the key uncertainties for China's economy lie in the timing and scale of US trade policies, the magnitude and effectiveness of China's policy measures, and the trajectory of the property market. China's growth is expected to slow meaningfully in 2025 and 2026 due to external and domestic pressures. Government policy responses will play a crucial role in stemming the deflationary downward spiral and reviving sentiments.

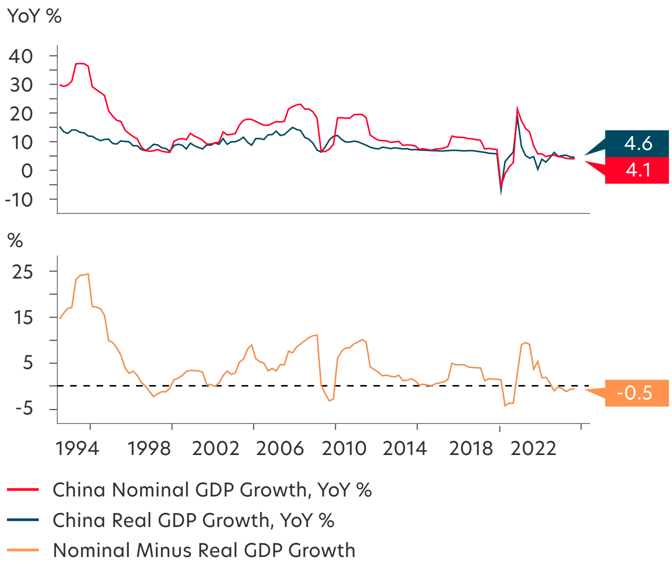
CIO's recommendation: Equity valuations are inexpensive but await a catalyst on the policy front for rerating. Investors should focus on sectors which are strategic to the government, less cyclical, and characterised by high dividend.

Real borrowing costs remain too high



Source: Macrobond, UOB Private Bank

A deflationary state amid consumer retrenchment



Source: Macrobond, UOB Private Bank

India

Slowing growth but economy is still one of the strongest

India's economic growth is projected to be robust, with real GDP growth expected to stay above 6.5% YoY for FY26 (April 2025 to March 2026). While leading indicators point to softening economic momentum, India is still one of the fastest-growing major economies globally over 2025-2026. Since FY22, the economy has been in a "goldilocks" phase, characterised by healthy growth and manageable macroeconomic stability risks.

On **GDP growth**, growth in the first half of FY25 (April 2024 to March 2025) has been sluggish due to weaker economic activity. While the festive season, a cyclical rural recovery, and potential government capex may boost economic momentum in the second half of FY25, India's growth prospects are dampened by softer domestic growth and the potential US tariff hikes.

The additional tariffs could be introduced in phases starting 2H 2025. Having said that, India's GDP growth is expected to be less impacted than other Asian economies due to India's relatively insulated trade structure. Growth prospects could brighten into FY27 and FY28, supported by the Indian government policy measures and "China+1" supply chain diversification.

On **potential growth and key drivers**, India is set to maintain potential growth of above 6.0% between FY26 and FY28. It is poised to be the world's third-largest consumer market by 2026, and the third-largest economy by 2027, behind the US and China. The key drivers of India's potential growth include a push in manufacturing and exports, increased services exports, as well as digitalisation, which is poised to improve productivity and efficiency.

However, several structural challenges remain. The government will have to provide adequate and quality jobs for the growing working-age population, navigate an increasingly hostile external environment, as well as manage the impact of automation.

On **consumption and inflation trends**, India's household consumption is set to stabilise in FY26 but could stay below trend. Demand from the premium and more affluent consumer segments is expected to peak, while rural demand normalises. Meanwhile, headline CPI inflation could still hover within the 5-6% range in the months ahead despite a slowing food inflation momentum.

Softening growth momentum, but economy is likely to remain in a "goldilocks" phase

Source: Bloomberg, HSBC, UOB Private Bank

India

Likely a major beneficiary of the supply chain shifts

On **capex investments and global trade**, public capex is likely to remain steady, in line with the central government's fiscal consolidation efforts and stretched state budgets. Meanwhile, residential property demand will continue to support growth. Private corporate capex recovery could face delays, especially given the risk of China offloading excess manufacturing capacity. Overall, capital investments growth is expected to slow. Meanwhile, net exports could remain sluggish in FY26 amid a global growth slowdown, contributing little to India's real GDP growth.

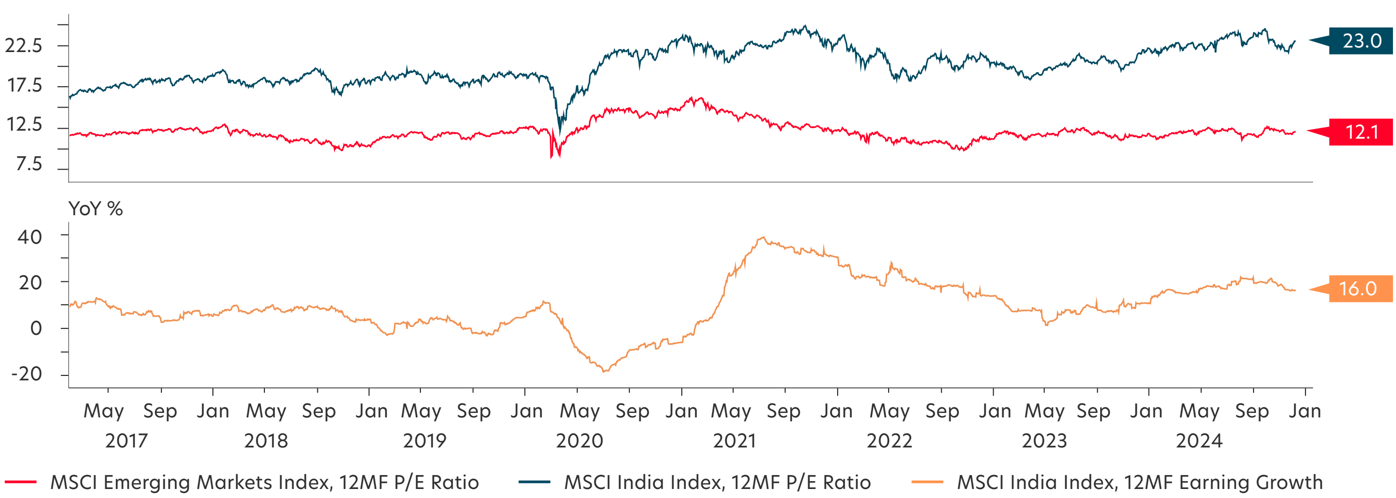
On **fiscal and current accounts**, aggregate fiscal deficit should continue to narrow to pre-pandemic levels, with current account deficit likely to be under control. Stronger trade surpluses from services exports and robust remittance inflows should buffer the impact of regional trade retrenchment. Given that food inflation remained sticky, a shallow easing cycle of 75 bp rate cuts can be expected this round, taking the terminal rate to 5.75% by 2Q 2025 (April-June quarter).

On **upside and downside risks**, India's economy could see upsides risks as policy efforts by the Modi administration to bolster manufacturing (e.g., "Make in India" initiative) could further benefit from the ongoing supply chain shifts. India's merchandise exports to the US could rise again, as they had previously done so under Trump 1.0 when tariffs escalated in 2018-2019. On the downside, if the US were to impose a 10% import tariff on the rest of the world, India could face some growth challenges, with potential negative effects extending into FY27.

On **a concluding note**, India's economic growth is likely to remain resilient although challenges including softer domestic demand, external trade risks, and geopolitical uncertainties pose as headwinds in the near term. Further outflows from the local bond and stock markets may drag the INR. Yet, India is relatively well-positioned as compared to peers given supportive policy measures, demographic dividends, and the structural shifts in global supply chains. These dynamics should set India up for sustained growth over the medium term, solidifying its role as a major economic player.

CIO's recommendation: Despite relatively demanding valuations, Indian equities are riding on a structural growth story and relative defensiveness amidst the geopolitical developments. Investors could seek diversified exposure via funds.

Valuation is structurally much more demanding vs. EM peers because India is a structural growth story



Source: Bloomberg, HSBC, UOB Private Bank

Taiwan

Moderating growth after AI wave but still resilient

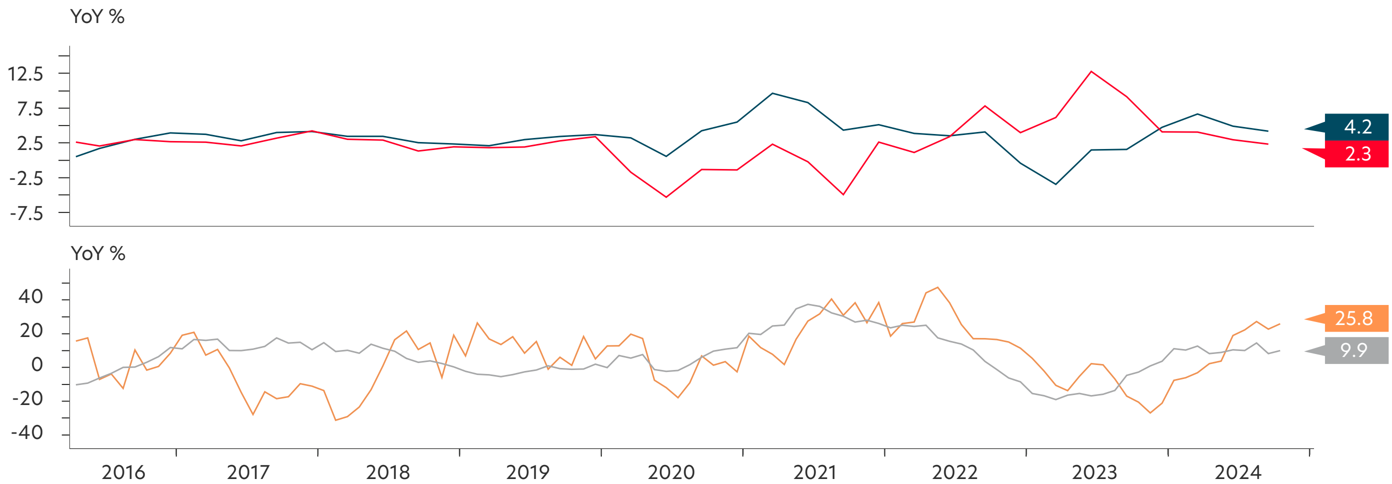
Taiwan's economy has benefitted from the current wave of artificial intelligence (AI)-driven expansion, with tech exports growth having bottomed out since 2023. Looking ahead, the pace of real GDP growth is expected to moderate. The projection for Taiwan's growth deceleration reflects the impact of global growth slowdown, an anticipated rise in geopolitical and trade tensions, and a cooling tech export cycle. Having said that, Taiwan's economy could be more resilient than regional peers, given its strong position in advanced tech sectors, such as semiconductors and AI.

On **AI- and investment-led growth momentum**, Taiwan's real GDP grew by 5.2% YoY in the first three quarters of 2024, making it one of Asia's fastest-growing economies. The surge was driven by strong export demand, particularly in AI-related technologies, which culminated in production capacity expansion and strong domestic investments. Gross capital formation grew at a double-digit pace for the second straight quarter on low-base effects and likely inventory rebuilding. Following the initial wave of AI-led export and production booms, real GDP growth is set to decelerate to 3.0% in 2025.

On **private consumption, investments and exports**, consumer spending is likely to stay strong in the near term, bolstered by rising incomes, bonus payouts tied to robust corporate performance in the broad tech sector, and wealth effects from rallies in risk assets. Meanwhile, private investments should remain steady, aided by continued demand for AI-related production capacity. Tech exports are still expected to be a key growth driver, but growth should moderate in 2025 from a high base set in 2024. Non-tech exports, which have only seen a lacklustre recovery in the recent upswing, could remain weak given the global economic headwinds.

On **slowing growth amid trade war risks**, Taiwan's growth slowdown can be expected given the negative spillovers from additional US tariffs to be imposed on China. While Taiwan's leadership in advanced semiconductor manufacturing and AI could limit its sensitivity to trade disruptions relative to other economies, its heavy reliance on China as a key market for consumer electronics and tech products exposes it to downside risks. A material regional and global growth slowdown could weaken demand for tech products such as PCs and smartphones, thus impacting Taiwan's exports performance.

GDP growth set to moderate following a surge led by strong tech exports demand



— Private Consumption Growth, YoY %
— Real GDP Growth, YoY %
— Exports Growth, YoY % (3mma)
— Trade In Advanced Technology Exports Growth, YoY % (3mma)

Source: Macrobond, UOB Private Bank

Taiwan

Taiwan is a critical node in global supply chains

On **inflation trends**, Taiwan's inflation has continued to ease with headline CPI at its lowest since March 2021. Meanwhile, the core CPI has been under 2% since April this year, suggesting that underlying price pressure has eased sustainably. We have our headline CPI forecast at 2.2% for 2024 and 1.9% for 2025, which would be the first time annual inflation falls below 2% since 2021.

On **monetary policy**, Taiwan's central bank (CBC) is expected to maintain its policy rate at the current level of 2% throughout 2025, with domestic property market rally in focus even as inflation moderates. Given a resilient domestic growth, stock market outperformance and concerns around financial stability, the CBC will find it difficult to lower interest rates in 2025, unless the global chips industry turns lower. In 2024, the CBC tightened the monetary policy by hiking interest rates, increasing the bank's reserve requirement ratio (RRR), and lowering loan-to-value (LTV) ratios for mortgages to cool accelerating credit growth and an exuberant housing market.

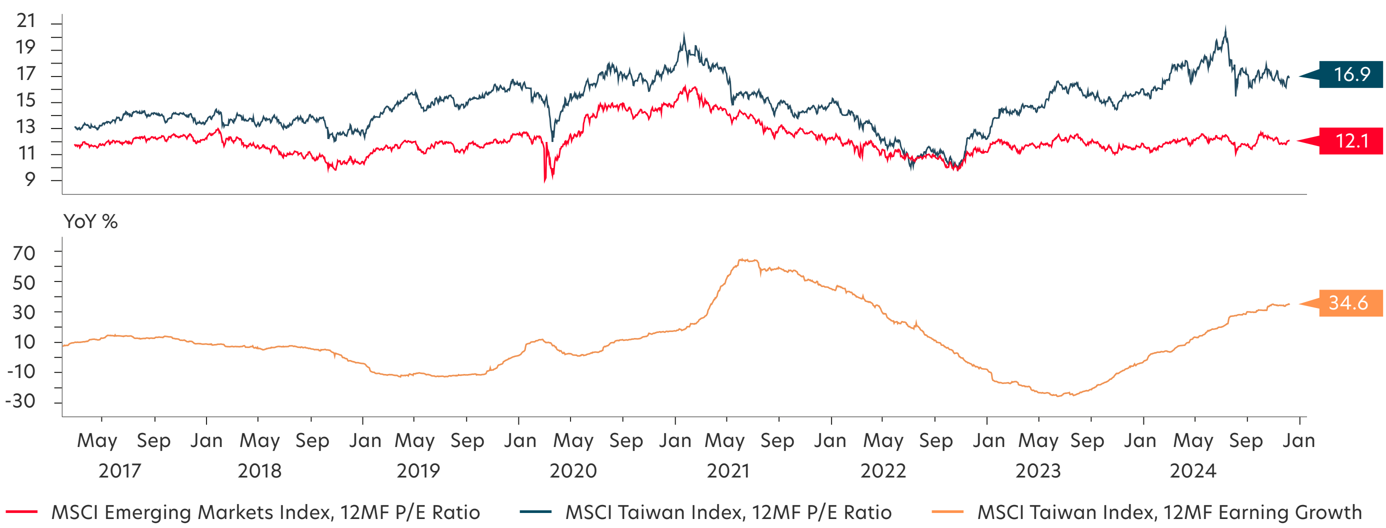
On **a concluding note**, Taiwan's economy is set to maintain resilient growth through 2025, driven by AI-related exports, domestic investment, and government support. However, growth will likely moderate in 2026 due to global economic headwinds and the potential escalation of trade tensions.

The CBC's cautious approach to monetary policy reflects a focus on financial stability amid a resilient economic environment. While no rate cuts are expected in 2025, a gradual easing cycle could begin in 2026 as growth slows further.

The downside risks include further slowdown in China's economy, a full-blown trade war and direct trade conflicts with the US, as well as an escalation in geopolitical tensions. Looking ahead, the path of least resistance is for TWD to weaken further against the USD. Despite a challenging external environment, Taiwan's position in the global semiconductor and AI supply chains provides a competitive edge. Against this backdrop, Taiwan remains a key player in the global economy.

CIO's recommendation: Geopolitical risks are seemingly not priced in given Taiwan's relatively demanding valuations, which are grounded on AI boom. We emphasise security selection and defensive exposure by using derivatives.

Can strong AI-led earnings growth be sustained? Meanwhile valuation is relatively demanding vs. EM peers



Source: Bloomberg, HSBC, UOB Private Bank

South Korea

A lacklustre outlook as exports growth decelerates

South Korea's economy is set to slow, with GDP growth projected to decline from 2.2% in 2024 to 2.0% in 2025. While the AI-driven tech boom has bolstered semiconductor exports, its impact on the broader economy remains limited. Inflation is expected to moderate further, allowing the Bank of Korea (BoK) to extend its rate-cutting cycle through 1H 2025. Meanwhile, fiscal policy will likely emphasise sustainability over aggressive stimulus measures.

On **moderating exports-led growth**, goods exports in 3Q 2024 were weighed by a drop in shipments of motor vehicles and chemical products. Meanwhile, services exports growth also slowed after a strong recovery in more than a year. Despite a firm upswing in semiconductor exports through 2024, the broad economy saw little positive spillovers. Private consumption was rather lacklustre alongside construction investments.

On **cyclical export exposure and risks**, Korea's exports momentum is set to slow in 2025 with China's growth slowdown and Trump's trade policies. Electronics, which account for 16% of exports, could peak sometime in 2025; it is noteworthy the sector could be targeted in Trump's tariff actions. A trade war would impact South Korea's outlook.

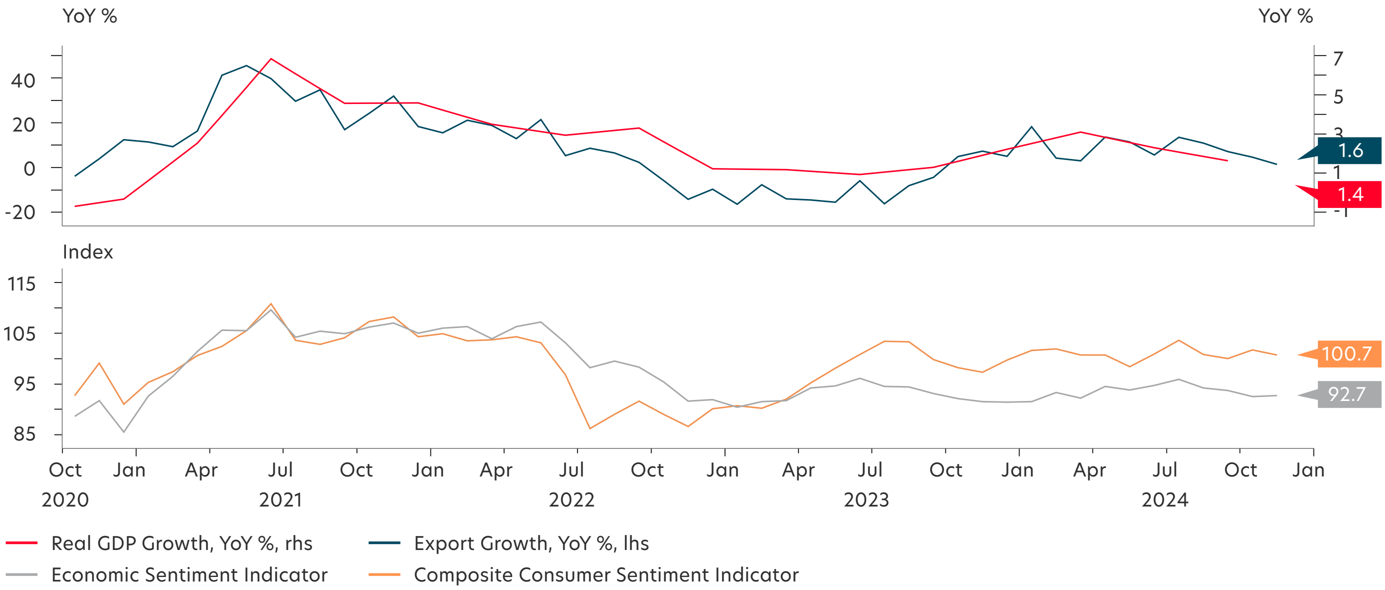
Semiconductor shipments will likely continue growing in 2025, though at a slower pace following the initial surge. Non-tech exports, which are already at historically high levels, may face downward pressure due to slowing regional and global growth.

Taken together, South Korea's reliance on global trade, coupled with a highly cyclical export structure, leaves its economy susceptible to external shocks. Korea's key export categories like automobiles and petrochemical products are more sensitive to global demand fluctuations compared to neighbouring economies like Taiwan. As such, growth deceleration in 2025 can be expected amid weakening regional and global demand.

On **inflation trends and monetary policy adjustments**, inflation in Korea has been moderating, with both headline and core consumer price index (CPI) measures remaining below 2% in recent months. This subdued inflation trend is expected to persist through 2025 and 2026.

Against this backdrop, the BoK unexpectedly lowered its benchmark 7-day repo rate for a second consecutive meeting in November to 3.0%. The surprise cut reflects rising concerns over trade and economic slowdown as Trump starts a fresh round of trade war in his second term.

GDP growth to decelerate alongside exports amid laclustre sentiments and internal political struggles



Source: Macrobond, UOB Private Bank

South Korea

Further monetary easing amid fiscal consolidation

While inflation has fallen below BoK's 2% target, there remain concerns over the high household leverage as sooner rate cuts could spur further increase in household debt, especially those related to mortgages. Household debt rose substantially by KRW 18 trillion in 3Q 2024 from previous quarter.

The BoK is expected to further moderate its restrictive monetary policy in 2025 while keeping a close eye on the impact of Trump's trade policy on the FX, monetary policy of the major central banks, the dynamics of the domestic property market, as well as the global demand outlook including the pace of slowdown in China's economy. We expect additional 25 bp rate cut per quarter in 1Q 2025 and 2Q 2025, bringing the benchmark rate to 2.5%.

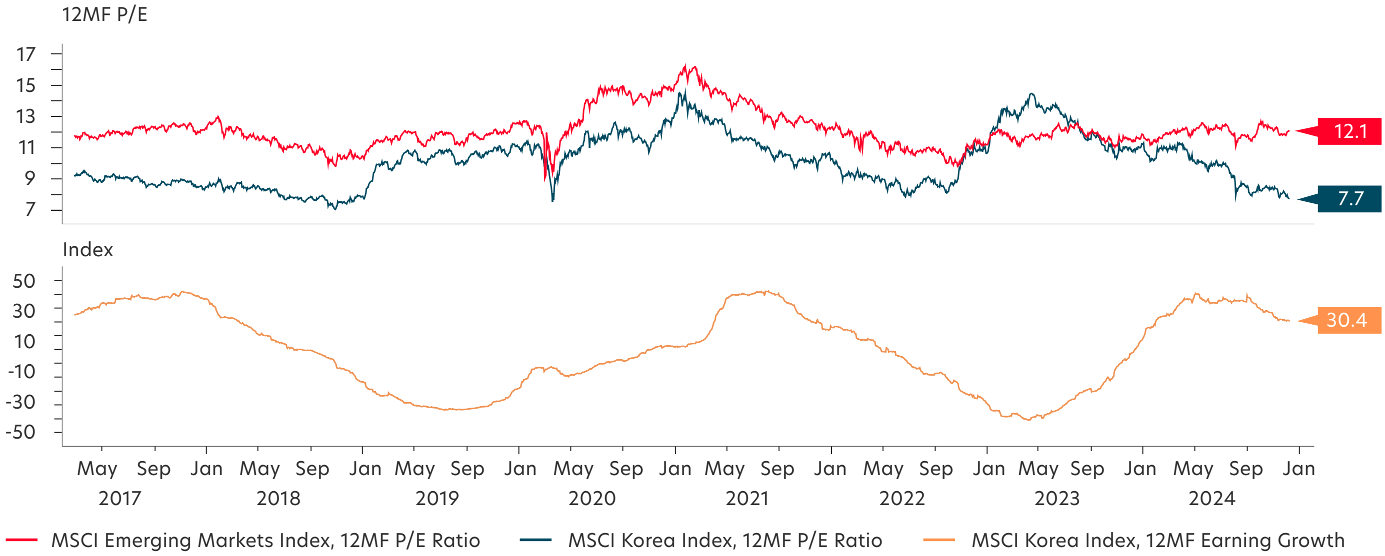
On **fiscal policy**, the government remains committed to fiscal sustainability, prioritising efficient and strategic budget management. Going into 2025, fiscal outlay could grow modestly with higher revenues.

However, the government is unlikely to pursue large-scale fiscal expansion. The current government has avoided using supplementary budgets as a counter-cyclical tool to stabilise growth. This trend is expected to continue, with limited scope for significant fiscal stimulus unless the economy faces material external shocks.

On **a concluding note**, South Korea's economic outlook is shaped by slowing growth, moderating inflation, and structural challenges in its trade and production landscape. For next year, any gains from private consumption or construction investment may not fully offset slowdown in exports and production. In response, the BoK is set to ease the monetary policy. 2025 could be a challenging year for KRW given Trump's looming trade tariffs against China and the likely negative spillovers. The region's reliance on cyclical exports also underscores the need for greater diversification to reduce vulnerability to geopolitical and global demand shifts.

CIO's recommendation: Despite relatively undemanding equity valuations, the region is highly susceptible to external shocks. Given lacklustre growth, political and local currency pressures, investors would need to tread carefully.

Persistent valuation derating compounded by geopolitical headwinds and earnings growth decline



Source: Bloomberg, HSBC, UOB Private Bank

Singapore

Downside risks to growth in 2H 2025 on looming tariffs

Singapore's economic growth is projected to slow from an above-trend 3.0% in 2024 to 2.5% in 2025. 3Q 2024 GDP growth rose significantly on the back of manufacturing and trade-related services amid the ongoing upturn in electronics and the broader goods trade cycle. The growth momentum in trade-related sectors is likely to be sustained into early 2025 with tailwinds from some front-loading of exports ahead of potential US tariffs.

On **Singapore's growth outlook**, it is noteworthy Singapore's economy is heavily reliant on global trade; it is susceptible to disruptions in external demand. Gross exports of goods and services made up 190% of GDP in 2023, highlighting its high exposure to global trends. Historically, Singapore's GDP growth has exhibited a sensitivity 2-3 times greater than the regional average to changes in growth among the G3 economies.

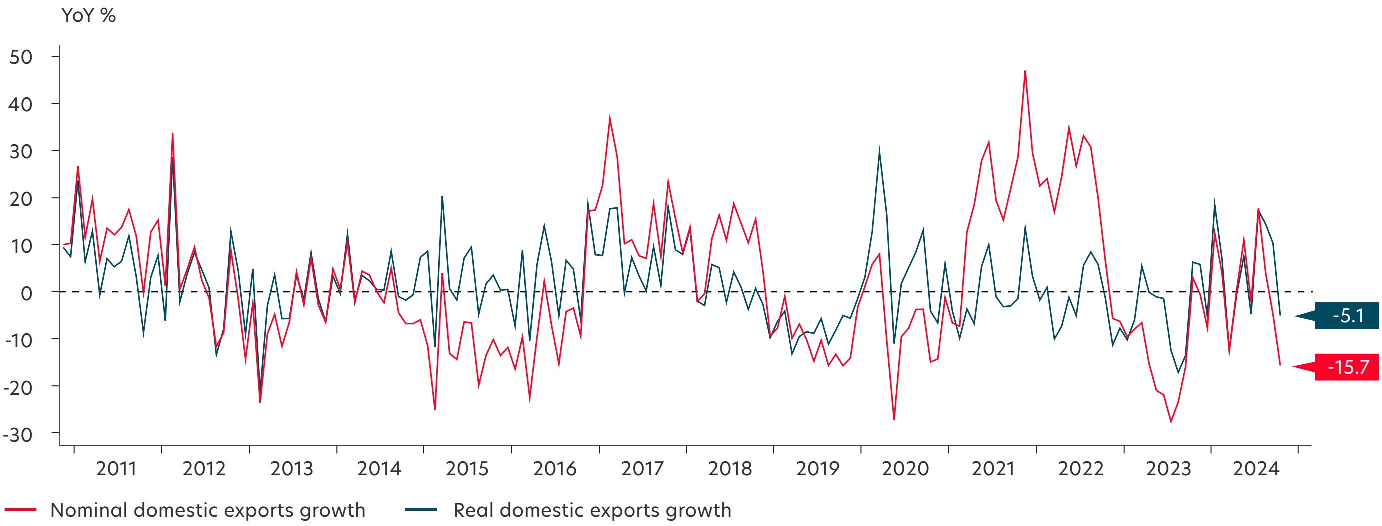
For the second half of 2025, Singapore's outlook is clouded by uncertainty around the scope, magnitude, and timing of Trump's touted tariffs, a potential peak in the electronics cycle, as well as the pace of monetary easing by major central banks.

The anticipated growth slowdown reflects weaker export performance. A potential 60% tariff on China in 2025 could severely disrupt regional trade and the technology supply chain, placing additional pressure on Singapore's economy.

If such disruptions materialise, Singapore's manufacturing sector, dominated by cyclical industries like electronics and petrochemicals, is likely to suffer. Trade volumes through Singapore's major transshipment hub could fall. This could resemble the slowdown experienced during the 2018-2019 US-China trade war.

On **the financial services sector**, with the US Federal Reserve set to lower interest rates further on a gradual basis, Singapore's domestic interest rates are likely to follow suit. This rate decline could boost loan growth and trading volumes as well as improve financial conditions, benefitting the finance and insurance sector, which accounts for 14% of Singapore's GDP.

Singapore's falling domestic exports could face further geopolitical and trade headwinds



Source: Macrobond, UOB Private Bank, Singapore Department of Statistic (SingStat)

Singapore

Policy flexibility provides buffer for downside risks

On **inflation**, Singapore is expected to see further easing in 2025, driven by falling import prices and increasing consumer resistance to price hikes. Core inflation has recently fallen below historical trends, reflecting softer healthcare inflation from public healthcare subsidies. Looking ahead, the disinflation process seems poised to persist, especially with the softening of external inflation conditions. It is noteworthy that global tariffs generally exert deflationary pressures, with the impact on global growth likely to outweigh any tariff-induced price increases.

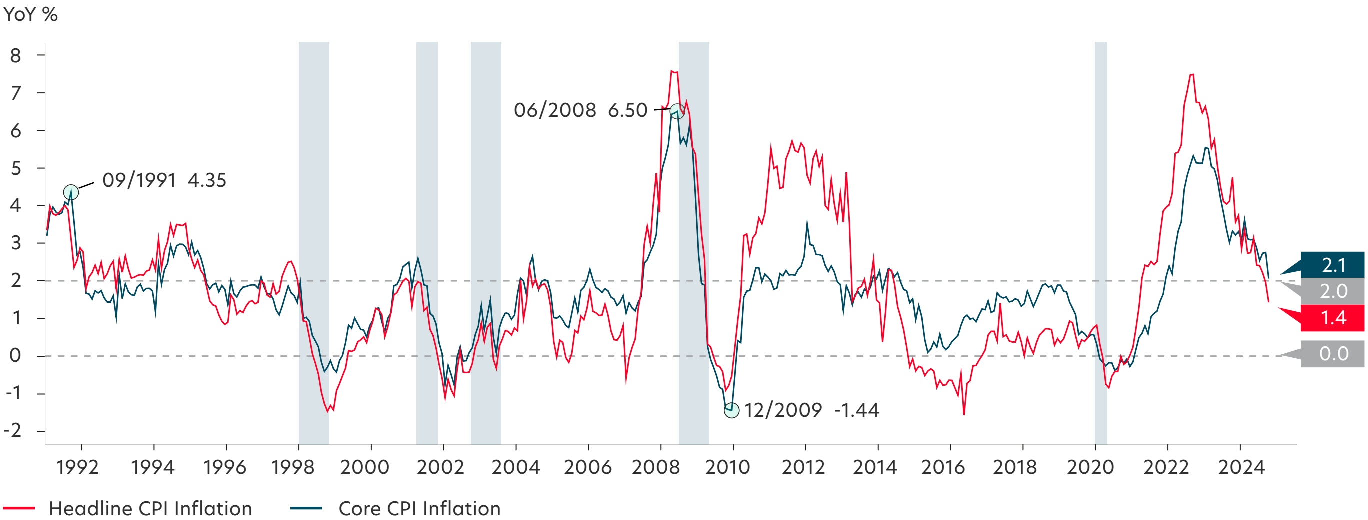
On **monetary policy**, the MAS is expected to ease monetary policy in early 2025 amid slowing growth and disinflationary pressures globally. Having said that, Singapore's output gap likely to be slightly positive in 2024 amid some demand-side inflationary risks and robust economic activity. MAS may adopt a more cautious approach and commence policy normalisation only when core inflation falls to desired levels (est. 1.8%). Our base case calls for a "slight" reduction (by 25 bp) to the S$NEER slope in the January 2025 MPS.

On **fiscal policy**, Singapore's strong fiscal position provides much room to mitigate the impact of external shocks. In 2025, fiscal policy is set to be moderately expansionary, with the upcoming Budget likely to address pertinent issues such as the costs of living and job security. Meanwhile, increased subsidies for essential services like healthcare and education could provide targeted relief without fuelling inflation. All in all, Budget 2025 is expected to support domestic demand as global growth slows.

On **a concluding note**, Singapore's economic outlook for 2025 is characterised by slower growth, heightened external risks, and modest policy adjustments. Despite the external headwinds, Singapore's fiscal and monetary flexibility provides a huge buffer. Lower interest rates are expected to benefit the finance sector, while fiscal measures will support domestic demand without adding inflationary pressures. Growth trajectory will depend heavily on external developments, particularly the durability of the tech cycle and the extent of trade disruptions.

CIO's recommendation: Singapore could benefit from capital inflows given its ample policy space, and relative haven status due to its trade deficit with the US. Amid declining rates, we prefer dividend stocks like banks, REITs and telcos.

Singapore's disinflation process set to persist



Source: Macrobond, UOB Private Bank, Singapore Department of Statistic (SingStat)

Malaysia

Strong growth momentum likely to be sustained

While Malaysia's GDP growth could slow from a projected 5.3% in 2024 to 4.7% in 2025, the strong growth momentum is likely to continue, bolstered by robust investment and private consumption. Broad-based drivers including a recovering tourism sector, supportive fiscal policies and stable interest rates should provide buffer against external headwinds due to uncertainties in the US trade policies and tariffs.

On **GDP growth and key drivers**, the projected slight growth deceleration in 2025 reflects a combination of domestic resilience and external challenges. While export growth is expected to cool, the economy has strong domestic levers supported by its stable labour market conditions, investments, and implementation of national masterplans and regional development.

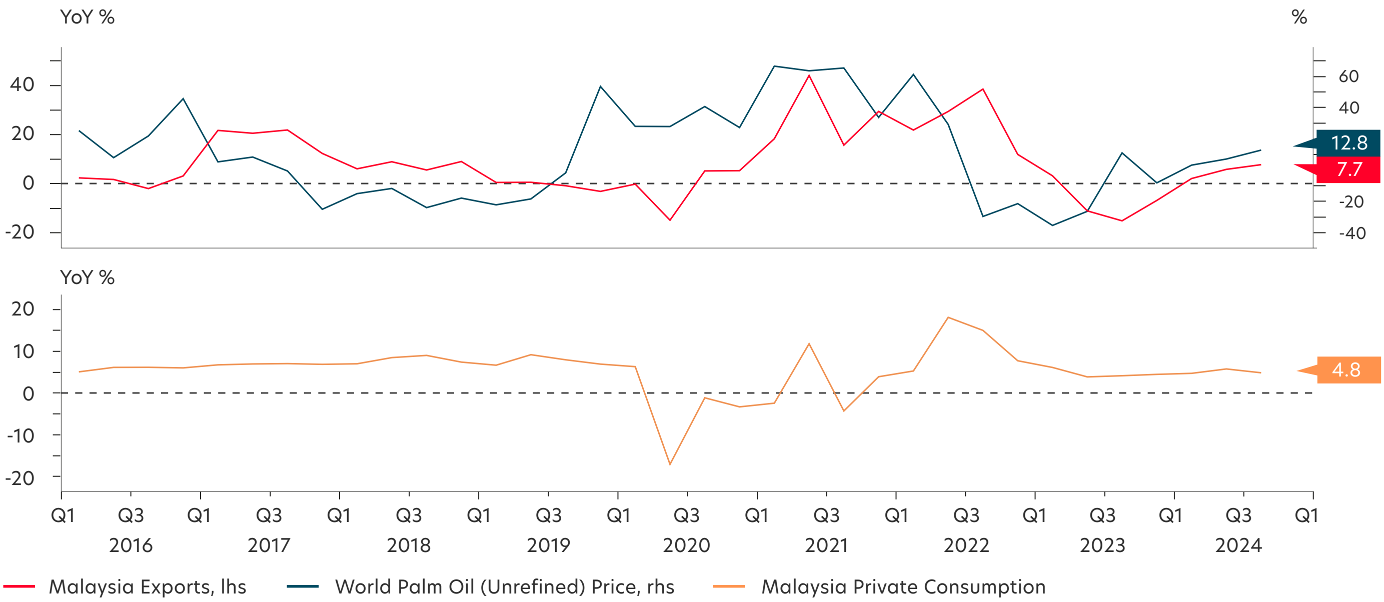
On **global trade**, Malaysia's openness to global trade renders it vulnerable to external demand fluctuations, with weaker global growth in 2025 likely weigh on the economy. However, Malaysia is positioned to benefit from global supply chain shifts. Malaysia could emerge as a preferred alternative for supply chain relocation, boosting its medium-term prospects.

Export growth is likely to stay positive in 2025, though at a slower pace compared to the high-single-digit growth in 2024. A continued recovery in the global tech cycle will support Malaysia's electronics and electrical (E&E) exports, which comprise 40% of its total goods exports. Semiconductor assembly and testing, a key component of Malaysia's tech export basket, will likely be a key beneficiary. Having said that, overall exports growth will likely remain muted compared to the post-pandemic years, amid a global growth slowdown.

On **private consumption**, it has been a key driver of Malaysia's economy, registering a strong growth at an estimated 5.5% in 2024. For 2025, private consumption is set to remain resilient, supported by real income growth and the government's gradual approach to rationalising petrol subsidies.

On **investment**, Malaysia's investment growth is expected to stay above trend in 2025, bolstered by strong foreign direct investment (FDI) inflows and development spending. Malaysia continues to attract FDI, particularly in high-growth sectors such as data centers and manufacturing, benefitting from its strategic position in regional supply chains.

Strong exports growth is coming alongside palm oil price growth, while private consumption remains resilient



Source: Macrobond, UOB Private Bank, Malaysia Palm Oil Board, Department of Malaysia Statistic (DMS)

Malaysia

A conducive policy setup amid stable inflation

On **fiscal policy**, with a total expenditure budget of MYR 421 billion or 20.2% of GDP for 2025, the fiscal engine is still expansionary despite a narrower fiscal deficit target of 3.8% of GDP in 2025 from 4.2% of GDP in 2024. This approach reflects a commitment to fiscal sustainability while maintaining support for lower-income households and key development initiatives. Meanwhile, potential investment spending in the pipeline include MYR 25 billion by government linked-investment companies (GLICs) alongside several public-private partnership projects, and more than MYR 40 billion of government construction projects to be launched in 2025.

In addition to the Forest City Special Financial Zone (SFZ) incentives for specific financial services sectors, further special incentives are expected to be announced for the Johor-Singapore Special Economic Zone (JS-SEZ) to attract quality investments in non-financial sectors. Moreover, tourism industries could also benefit as Malaysia starts to host ASEAN summits next year.

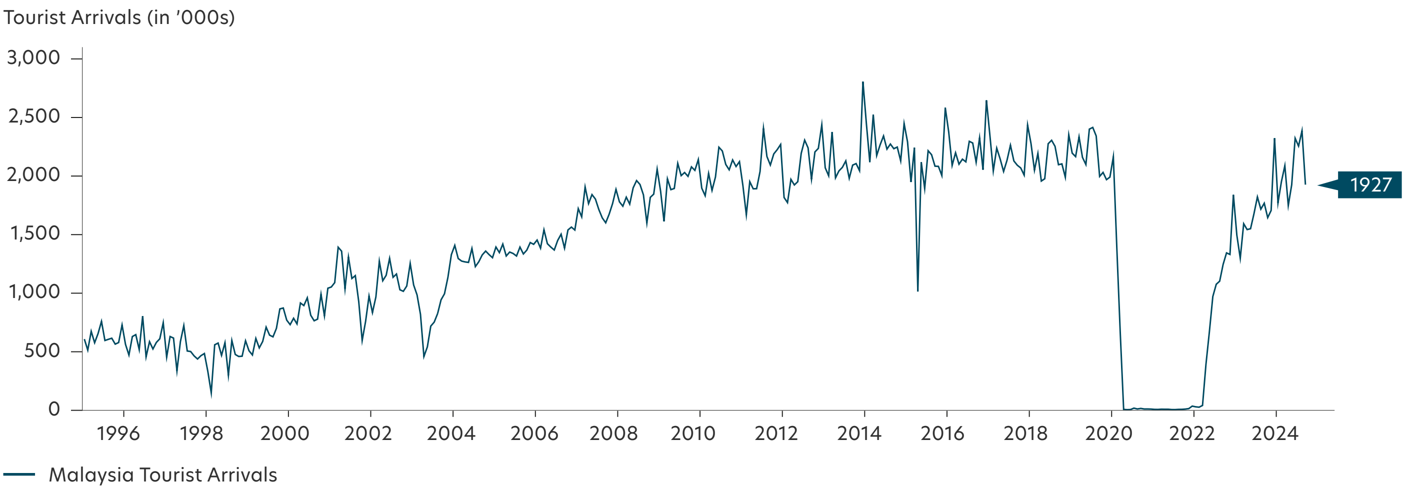
On **inflation**, it has remained within a narrow range, with headline and core inflation averaging around 2% in 2024. Inflation is likely to rise slightly to 2.3% in 2025, up from 1.9% in 2024. This projection has factored in the various permutations for fuel prices and the absence of excessive domestic demand price pressures.

On **monetary policy**, Bank Negara Malaysia (BNM) is expected to maintain the Overnight Policy Rate (OPR) at 3.0% throughout 2025. With inflation remaining stable and domestic demand healthy, there is little pressure for BNM to adjust rates. While weaker external demand could weigh on the economy, any tariff impact will likely be felt more acutely in 2026 than in 2025.

On **a concluding note**, Malaysia's economic outlook for 2025 points to slower but above-trend growth, supported by resilient private consumption and sustained investment. Despite sound fundamentals, the MYR is vulnerable to external developments, especially the potential upcoming Trump tariffs. Overall, our USD/MYR forecasts are now at 4.53 in 1Q 2025, 4.60 in 2Q 2025, 4.65 in 3Q 2025 and 4.55 in 4Q 2025.

CIO's recommendation: Following strong gains in 2024, we continue to like Malaysian equities given the resilient fundamentals and constructive policy backdrop. Investors could seek exposure via diversified vehicles like funds.

Scope for further tourism boost towards pre-pandemic peaks



Source: Bloomberg, UOB Private Bank

Indonesia

Stimulus needed to counteract slowing growth momentum

Indonesia's economic growth is projected to improve to 5.3% in 2025 from 5.2% in 2024. Despite easing household consumption and weaker commodity prices due to sluggish global demand, investment spending has held up well given strong FDI inflows, notably in the transportation and logistics sectors. Looking ahead, investment is likely to be a key growth driver, led by increased corporate lending and a capex replacement cycle. Coupled with faster and larger government spending, economic growth could be well-sustained into next year.

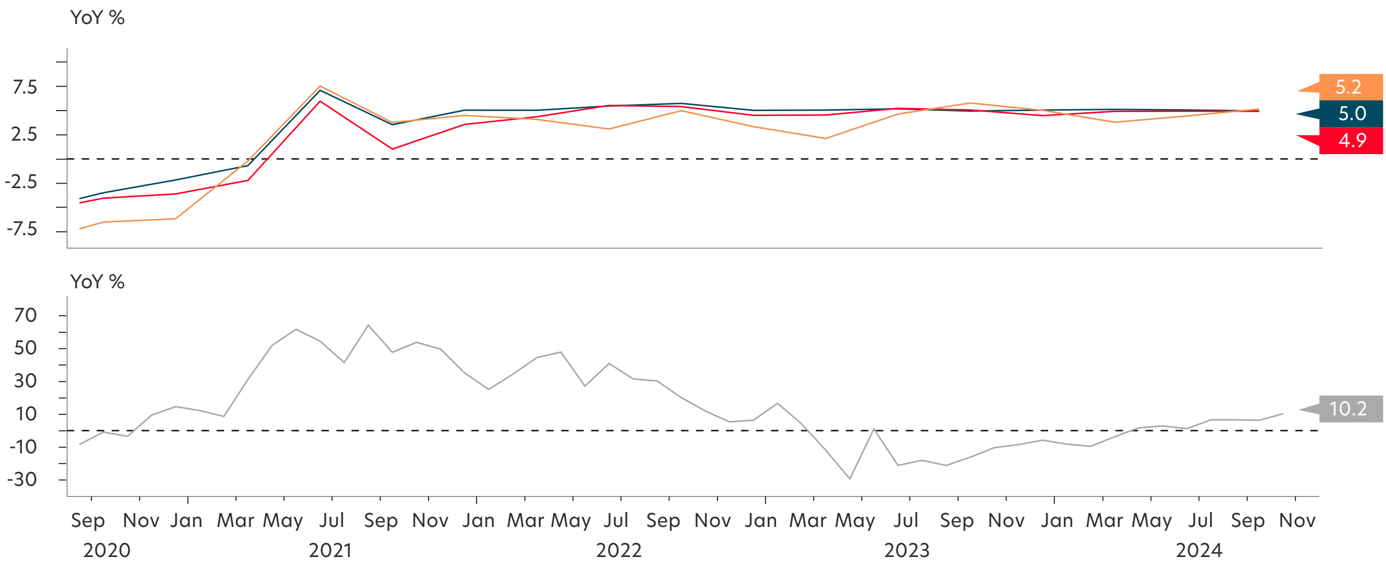
On **2025 growth challenges and downside risks**, while Indonesia's economy is less reliant on exports compared to other ASEAN nations, with goods exports accounting for just 19% of GDP in 2023, the nation is still susceptible to external shocks. Key exports like coal, palm oil, and ferroalloys collectively make up ~30% of Indonesia's export basket, with China serving as the largest export destination, accounting for over 20% of shipments. Persistent deflation and growth pressures in China would not bode well for Indonesia outlook at the margin.

On **current and capital accounts**, Indonesia saw a narrower current account deficit (CAD) of USD 2.2 billion (0.6% of GDP) in 3Q 2024 compared to the preceding quarter's deficit of USD 3.24 billion (0.9% of GDP), driven by the sustained trade surplus in the non-oil & gas account amid still firm commodity prices. Capital and financial account was stronger, garnering a much larger surplus of USD 6.6 billion (1.8% of GDP) in 3Q 2024 compared to USD 3 billion (0.9% of GDP) in 2Q 2024. Direct investment flow surplus widens to USD 5.2 billion from USD 2.1 billion in 2Q24 on the back of higher investment flows into manufacturing, mining & quarrying, and retail & wholesale trade sectors.

Looking ahead, we keep our CAD forecast at between -1 and -0.5% of GDP (with point forecast of -0.8%) in 2024. Higher investments in the capital-intensive sectors such as new smelters developments and further rebound in consumption will likely fuel higher imports while lower commodity prices may yield lower export proceeds. These will weigh on trade surplus going forward while deficits in the primary and services accounts could widen.

On **inflation**, it has remained subdued through 2024 and is projected to rise modestly to 2.8% in 2025. This is mainly due to the expected rise in the value-added tax (VAT) rate from 11% to 12% in January 2025. It is noteworthy that this price adjustment is likely a one-time event.

Resilient GDP growth held up by investments and household consumption, with exports contributing meaningfully



Source: Bloomberg, UOB Private Bank

Indonesia

Slight currency pressure amid monetary easing

On **monetary policy**, Bank Indonesia (BI) could adopt a more accommodative monetary policy to counteract the economic slowdown. Following a 25 bp rate cut in September 2024, BI is expected to reduce the policy rate by an additional 100 bp in 2025, bringing it to around 4.75%. This easing is broadly consistent with BI's inflation target of 1.5-3.5%, implying a long-run equilibrium rate of around 4-4.25% (50-75 bp above top-end of the inflation range). BI's decisions will remain closely tied to the stability of the Indonesian rupiah (IDR), given that the central bank prioritises currency stability alongside growth.

On **fiscal policy**, policymakers are mindful of weak consumer demand and labour market conditions. In response, the government could delay the VAT hike, approve higher minimum wages, or focus on initiatives to improve food and energy security. Moreover, improving access to affordable housing will likely be a policy priority, enhancing the overall economic resilience.

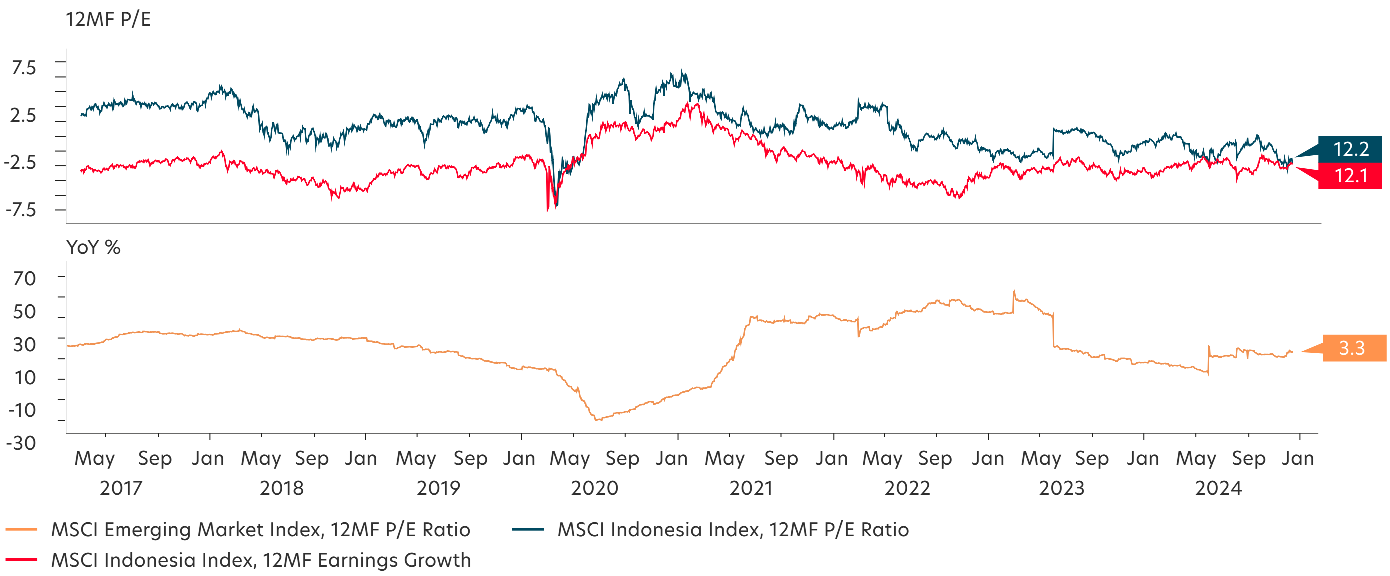
On **a concluding note**, Indonesia's economic outlook for 2025 points to above-trend growth, supported by resilient private consumption and sustained investments. While Indonesia's growth is expected to remain resilient, the economy faces some challenges in the near term. Specifically, weaker net exports from the broader slowdown in global trade become a drag on overall growth potential.

Having said that, monetary easing by BI is expected to provide some relief. The government's focus on fiscal and monetary stability reflects its cautious approach in the face of global uncertainties. Sustained efforts to address structural challenges, particularly in labour markets and economic diversification, will be essential for Indonesia to achieve long-term economic resilience and inclusive growth.

Going forward, while further USD strength is the likely path of least resistance, BI's emphasis on rupiah stability may slow USD/IDR's ascent. Overall, our updated USD/IDR forecasts are 16,000 in 1Q 2025, 16,200 in 2Q 2025, 16,400 in 3Q 2025 and 16,200 in 4Q 2025.

CIO's recommendation: Equity valuations are relatively undemanding while the earnings momentum is stabilising. Against a backdrop of fiscal and monetary stability, clients could consider exposure via diversified vehicles like funds.

Valuation is comparable to EM peers after some derating, while earnings momentum looks to stabilise



Source: Bloomberg, HSBC, UOB Private Bank

Thailand

Fiscal stimulus and FDI inflows to drive economic upturn

Thailand's economic upturn is expected to continue into 2025, driven mainly by increased government spending, external demand, and steady private consumption. Despite looming trade headwinds and cyclical challenges, real GDP is projected to grow from 2.7% in 2024 to 2.9% in 2025.

On **fiscal policy**, a sizeable spending is set to boost the economy in 2025, with FY2025 budget deficit increasing to 4.5% of GDP, up from 4.3% in FY2024. Alongside short-term measures, such as cash handout schemes, the expanded budget for public investment is set to stimulated private investments on the back of FDI inflows.

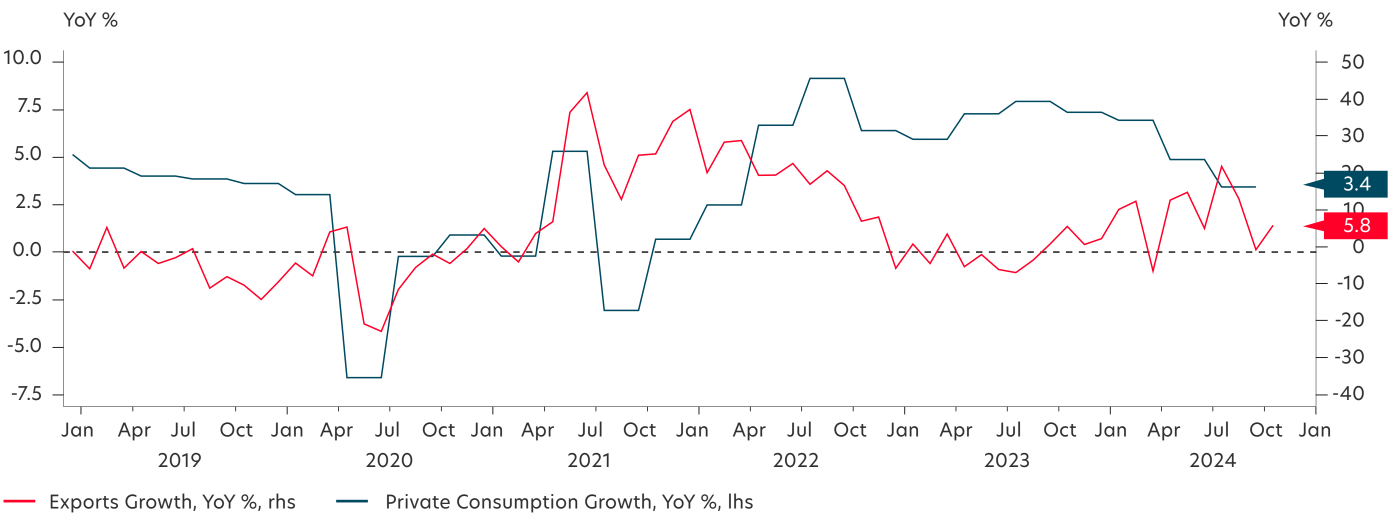
On **private consumption**, Thailand's private consumption recovery has been uneven, constrained by tight credit conditions and elevated household debt. Lower financing costs, driven by expected rate cuts, and fiscal measures, such as cash handouts, could help to alleviate financial pressures and stimulate private consumption. The economic upturn can provide a cushion to households' spending.

On t**ourism and current account**, Thailand's current account surplus is expected to rise from 2.5% of GDP in 2024 to 3.0% in 2025, driven by a continued recovery in inbound tourism. Although average tourist spending remains below pre-COVID peaks, it has stabilised and is likely to improve further in 2025. Coupled with narrowing energy-related deficits, the current account balance is likely to be well-supported.

On **global trade and Foreign Direct Investment (FDI)**, the global electronic cyclical upturn is likely to support merchandise exports. However, net exports' contribution to growth may shrink due to an acceleration in imports, particularly of capital goods and raw materials. While rising US tariffs on Chinese goods could culminate in trade diversion to Thailand, especially in electronics where it has gained a stronger foothold in the US market, such gains will unlikely offset the broader decline in global trade volumes from escalating trade tensions.

Meanwhile, FDI applications have shown significant improvement, increasing by 46% YoY in the first nine months of 2024. Key sectors driving FDI include electronics manufacturing and data center projects. These investments will likely materialise in 2025, supporting economic growth and job creation.

Resilient exports growth can partially offset slowing consumption for now... but faces looming US tariff risks



Source: Bloomberg, UOB Private Bank, Thailand Office of the National Economic & Social Development Council (NESDC), Thailand Ministry of Commerce (MOC)

Thailand

Monetary easing on standby amid external headwinds

On **inflation**, the near-term inflation outlook remains subdued, primarily reflecting softening private consumption. Overall, we maintain our inflation projections at an average of 0.4% for 2024 and 1.2% for 2025. It is noteworthy that the risks to the inflation outlook are skewed to the upside due to fiscal stimulus measures and rising global commodity prices triggered by escalating geopolitical conflicts.

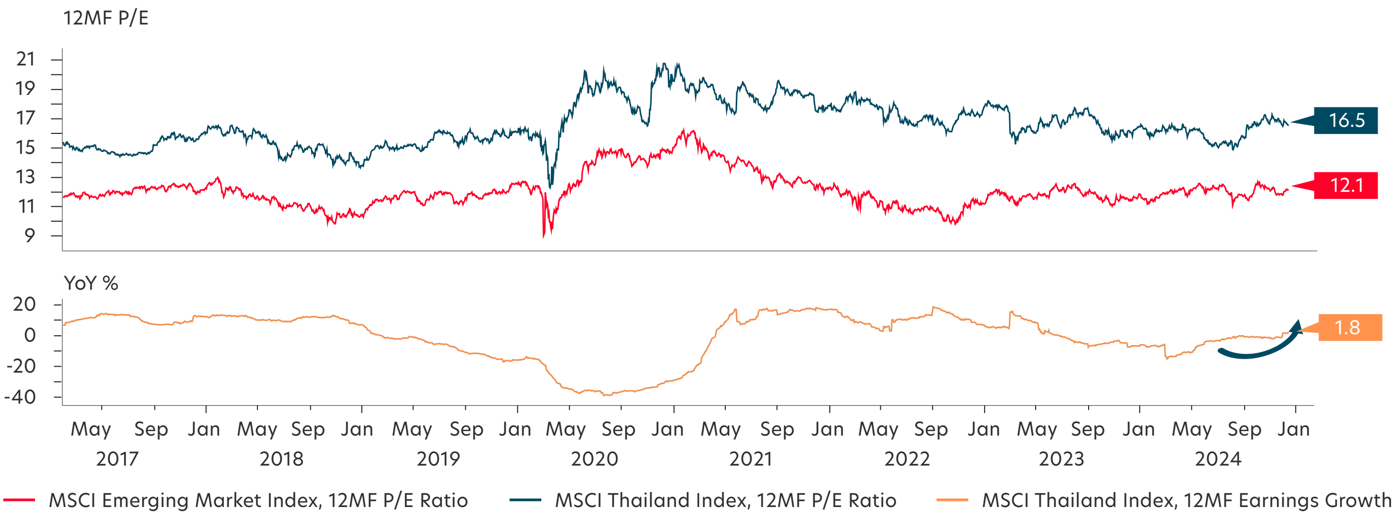
On **monetary policy**, the pressures for Bank of Thailand (BoT) to ease persist, driven by falling commercial bank lending. Further easing may be necessary given the potential for financial instability from a negative feedback loop between weak credit growth and the real economy. The central bank surprised markets with a 25 bp rate cut in October 2024, following more than a year of maintaining a policy rate of 2.5%. We expect a 25 bp rate cut in 1Q 2025 to support economy. Thereafter, the policy rate is projected to remain steady at 2.0% through 2025. Further rate cuts cannot be ruled out if external headwinds intensify.

On **local currency pressures**, the THB has given back slightly less than half of the gains across the October - November period following its 12% gains in 3Q 2024. A confluence of factors contributed to the recent slump, including a surprise 25 bp rate cut in October 2024, broad USD strength and an outsized bond outflow of USD 2 billion across the October - November period. Looking ahead, the THB is likely to weaken alongside the CNY and regional peers as Trump's tariff policy takes shape in the coming months. Our updated USD/THB forecasts are 35.2 in 1Q 2025, 35.5 in 2Q 2025, 35.7 in 3Q 2025 and 35.2 in 4Q 2025.

On **a concluding note**, Thailand's economic recovery in 2025 will be mainly driven by fiscal stimulus, easing monetary policy, and improving FDI inflows. The government's expansionary budget, combined with measures to support low-income households and boost capital spending, will underpin growth. While trade challenges and high household debt present headwinds, Thailand's diversified export base, tourism recovery, widening current account surplus and growing appeal as an FDI destination can provide economic resilience.

CIO's recommendation: Valuation is relatively demanding compared to EM peers although the earnings momentum looks to inflect. Given supportive policies but external headwinds, clients could consider diversified exposure via funds.

Valuation is relatively demanding compared to EM peers albeit earnings momentum looks to inflect



Source: Bloomberg, HSBC, UOB Private Bank

Fixed Income

Developed Markets Investment-Grade

Quality premia remains a key focus

Developed Markets Investment Grade (DM IG), proxied by the US Corporate IG Index (Bloomberg US Corporate Bond Index), delivered a total return of about +2.1% in YTD 2024 (as of 20 December 2024). 2024 is a year characterised by credit spreads reaching decade tights, but all-in-yields remains high. This is caused by elevated US treasury yields (UST) exerting pressures on bond prices.

Our UOB Global Economics & Markets Research team expects the Fed Reserve to cut rates three times in 2025 (25 bp cut each quarter); bringing the US terminal rate to 3.75%. Given the risk of a slower and shallower easing cycle by the Fed, we see potential divergence in macroeconomic paths between the US and the Rest of the World. A change in fiscal policy trajectory from the incoming Trump administration further cements our view. We see 2025 as a year where excess returns will be dictated by credit pitfall avoidance. As such, we remain focused on positioning in high quality and durable businesses to withstand economic uncertainties.

Given credit spreads are currently trading at decade tights, we do not envisage significant credit compression in 2025 as a source of returns. Correspondingly, we see carry return and demand driven flows (from investors seeking to lock-in yields over a longer horizon) as factors that will anchor the return profile for IG bonds in 2025.

In summary, we continue to find all-in-yields to be attractive. However, we stress a bottom-up approach in credit selection and duration discipline. Securing income over a longer horizon through robust credit selection will prove paramount.

Our sector preference is skew towards financials with strong fundamentals and a proven operational track record.

CIO's recommendation: We remain Overweight on DM USD IG and favour lower beta issuers with strong credit profiles.

IG Bond Yields remains relatively attractive

Source: Bloomberg, UOB Private Bank

Developed Markets High Yield

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

The consensus base case of the global macro view assumes relatively resilient growth and sticky inflation in 2025, which may lead to a shallower Fed easing cycle. Further tax cuts, combined with more deregulation drive, will likely boost business confidence and investment sentiment for the US economy, but may lead to inflationary pressure and worsen budget deficit. These will potentially limit the magnitude of policy easing and keep rates somewhat elevated, which may impact high yield (HY) credits' capital market access more so than their investment grade (IG) counterparts. This, combined with tight valuations, have led to an Underweight call on DM HY.

We also see credit spread widening to be a notable risk for HY credits in 2025, given current tight levels. The lagged effects from higher borrowing costs and dampened access to financing channels may adversely impact the financial flexibility of weaker companies, while funding conditions and liquidity positions could also be challenged. We are of the view that credit selection is paramount to avoiding major credit pitfalls within the HY space. 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.

CIO's recommendation: We are Underweight on DM USD HY and remain wary of credit pitfalls.

Spreads have tightened significantly

Source: Bloomberg, UOB Private Bank

Emerging Markets Asia Investment-Grade

Staying Defensive

Emerging Markets Asia Investment-Grade (EM Asia IG), benchmarked by the Bloomberg EM Asia USD Credit Index, delivered a respectable total return of about +5.09% in 2024 (as of 20 December 2024).

EM Asia IG credit spreads narrowed further in 2024 relative to both its own historical range and other credit markets. Similar to our DM IG views, we see diminished room for significant spread compression in 2025. Concurrently, we expect carry to be an increasing focus for income investing.

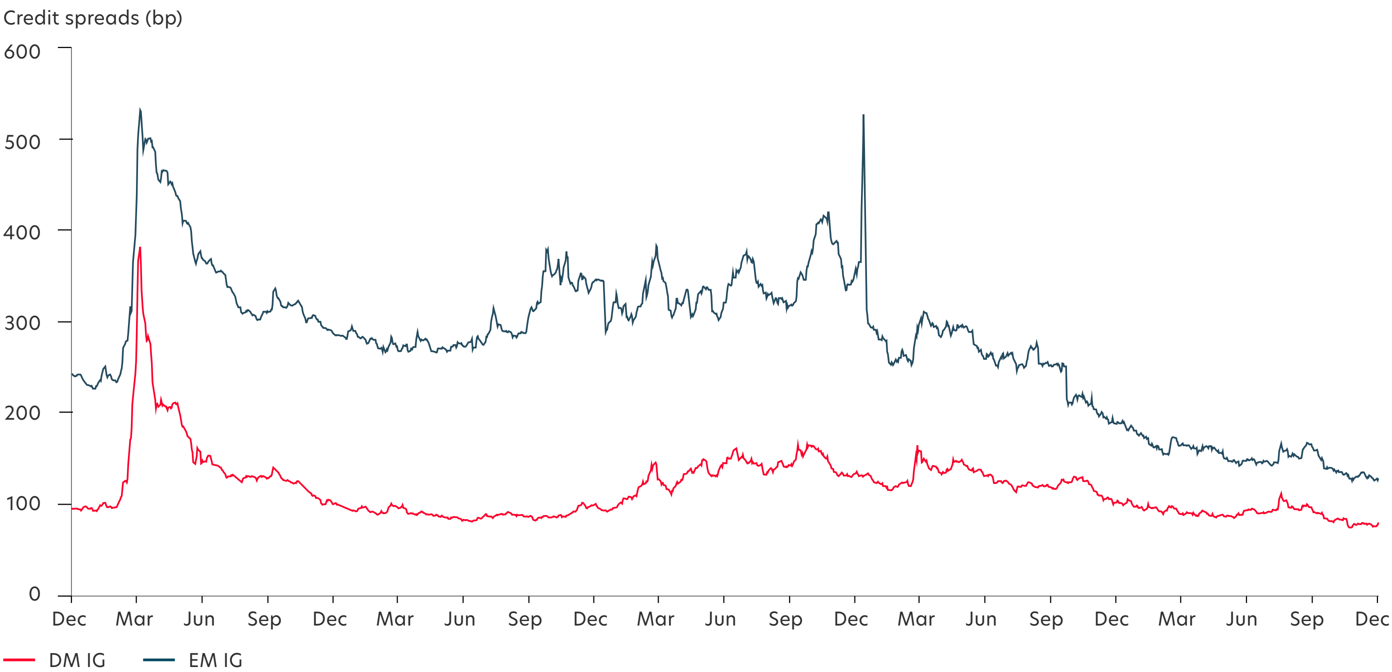
Geopolitical risks are heightened heading into 2025 with the US presidential transition posing the most obvious risk to the global economy. US exceptionalism will introduce macro risk factors, which has been largely benign in 2024, into the EM universe. The possibility of US increasing tariffs on Chinese imports looms large and could weigh on China's growth despite its ongoings stimulus. Slower growth in China will as a result affect other Asian countries due to their close economic linkages.

Hence, macroeconomic and idiosyncratic shocks could put pressure on EM Asia IG's already-tight credit spreads. Nevertheless, we expect any spread widening to be modest and manageable given EM Asia IG credits are starting from a slightly stronger fundamental position, in general. We also expect net issuance supply to remain sensitive to US interest rates and can be well-absorbed by robust demand within the region.

Within EM Asia IG, we prefer Asia financials, select Asia-focused insurers, quasi-sovereigns, strategic state-owned enterprises, and defensive consumer names. We also emphasise the importance of managing a diversified portfolio with disciplined duration management.

CIO's recommendation: We remain Overweight on EM Asia IG. Within the space, we prefer select ASEAN champions, strategic quasi-sovereigns and defensive consumer names.

Credit spreads are at historic tight levels



Source: Bloomberg, UOB Private Bank

Emerging Markets Asia High Yield

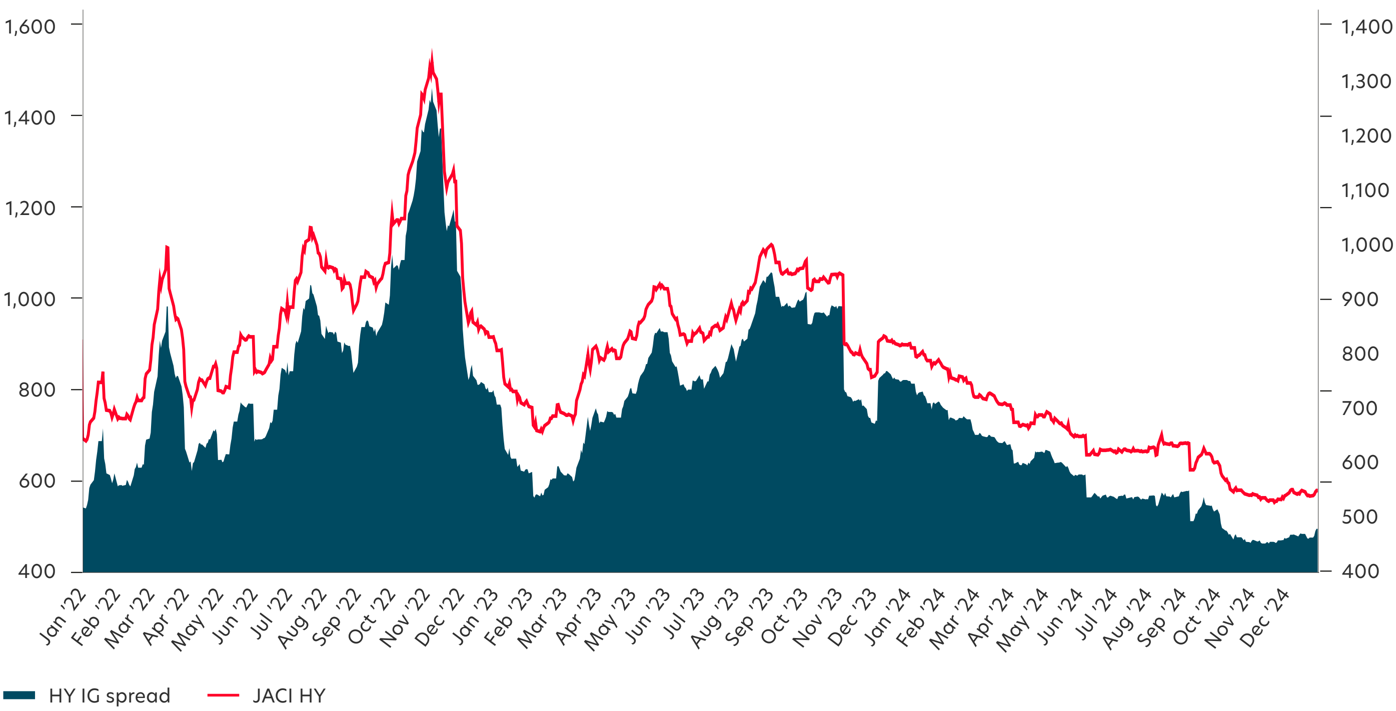
Selectivity is key in avoiding pitfalls; prefer defensive credit exposure in the face of uncertainties

We enter 2025 with a more cautious view due to the uncertain macroeconomic backdrop & unclear rate trajectory. A more challenging macro environment could pressure credit fundamentals, and even if credit ratings remain resilient, investor sentiment might still be dampened. Term premia may also rise as the Fed is inching closer to its terminal rate, although demand will remain to be supported by attractive all-in yields & supportive technicals (e.g. demand/supply dynamics). Thus, we are neutral on EM Asia HY.

We believe generating returns for EM HY will not be straightforward in 2025, as a less clear path for the global macro backdrop & tight credit spreads leave little room for error. Hence, we believe 2025 will be a year of carry. Caution & selectivity remains our modus operandi; investors are advised to apply stringent bottom-up analysis & tone down credit risk within this space. We prefer to be exposed in higher-rated & more established 'BB' credits over lower-rated ones for better credit defensiveness.

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

Emphasise selectivity amid spread tightening



Source: Bloomberg, UOB Private Bank

Global Financials

Carry is the name of the game

2024 proved to be a robust year for global financial bonds. Index total returns (USD-hedged; as of 20 December 24) were positive across the capital stack with AT1 outperforming (+12.0%) followed by T2 (+7.9%) and then seniors (+6.7%). Both spread carry and compression were return contributors. Notably, AT1 index OAS spread tightened quite materially.

Heading into 2025, US exceptionalism has reignited the possibility of a slower US interest rate descent. This could in turn spur growth moderation risks and drive fundamental divergence between regions. That said, we are constructive on US and Japan banks. This is due to positive tailwinds stemming from potential deregulation policies for the former; and structural opportunities arising from rising domestic interest rates and corporate reforms for the latter.

We remain vigilant of lingering left-tail risk (e.g., China property, CRE, geopolitics) for some affected banks. However, we are of the view that such risks has diminished given the front-loaded provisioning undertaken. Thus, fundamental downside risks are more likely to be idiosyncratic than systematic in nature.

Coming off a high fundamental watermark backdrop, we deem current credit spread valuations as fair with financial bond credit spreads hovering at decade tights. Therefore, we see limited scope for spread compression to drive excess returns in 2025. Unexciting valuations also imply little room for error in credit selection. This in turn, prompt us to prefer national champions or financials with strong and entrenched market share to mitigate idiosyncratic vulnerabilities.

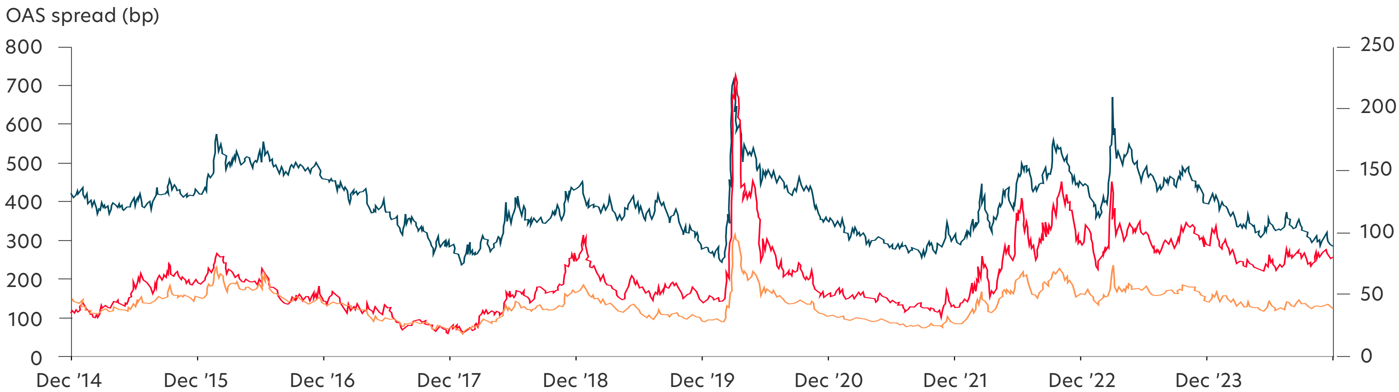
Overall, we expect carry to drive returns in 2025. Duration discipline will also help to mitigate impacts from potential resurgence in US inflation triggering a Fed policy repricing.

Within the capital stack, we have a modest preference for T2 given AT1-T2 spread multiple is at a relatively undemanding ~2.2x (20 December 24) and for it's yield pickup over seniors. We see T2 as a sweet spot between yield, subordination risks, and call extension risks vis-à-vis AT1.

Despite rich valuations in AT1 space, we expect yield-seeking motives to remain firm. We see tactical value in front-to-intermediate callable AT1s given the flatness of UST 2s10s curve and curve steepening risks.

CIO's recommendation: Within the capital stack, we have a modest preference for T2 given AT1-T2 spread multiple at an undemanding level, and for it's yield pickup over seniors.

Financial bond credit spreads are at historically-tight levels



Bloomberg Banking Senior Index (USD-hedged), LHS
Bloomberg Banking Lower Tier 2 Index (USD-hedged), LHS
Bloomberg Global CoCo Banking Index (USD-hedged), RHS

Source: Bloomberg, UOB Private Bank

SGD Bond Market

Prepare for the new normal

To cap off a buoyant 2024, the Markit iBoxx SGD Corporates Index delivered a total return of about +6.9% (as of 20 December 2024). Yield carry was the primary driver of returns with credit spreads remaining resilient.

SGD bond issuances in 2024 reached a decade high of ~SGD 27.8 billion with financial sector issuers leading the way. Issuance volumes from bank capital summed up to ~SSGD 11.0 billion in 2024 (vs ~SGD 6.0 billion in 2023). Of which, ~SGD 4.9 billion were AT1 issuance. Such healthy volumes were reflective of robust demand for yields in SGD.

In terms of rates, Singapore government securities (SGS) yields have largely moved in tandem with USTs throughout most of 2024. Our UOB Global Economics & Markets Research team expects MAS maintain an easing bias via a slight reduction in the slope of the policy band in early 2025.

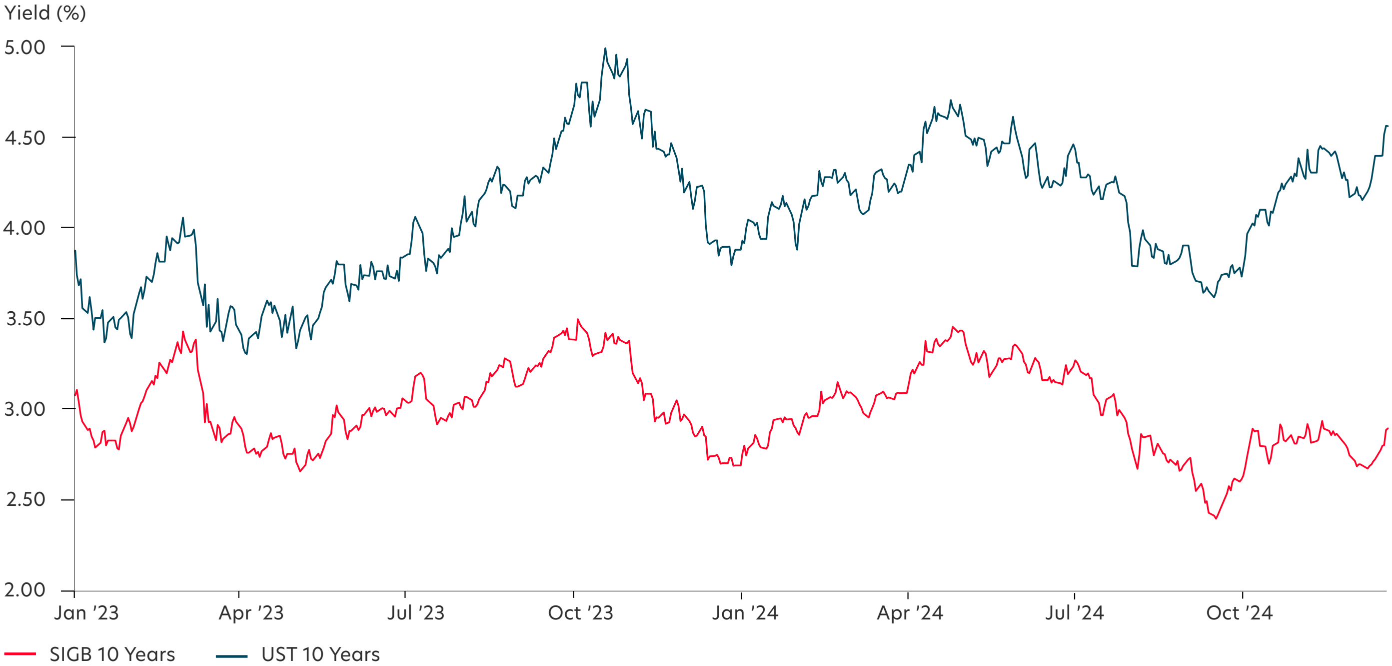
That said, SGS yields are expected to exhibit lower volatility than USTs and are forecasted to settle around ~2.70% over 2025 on healthy demand for SGS.

There were no major credit events within the SGD bond market in 2024 amidst stable economic growth in the region. The upcoming year's growth outlook is set to be cloudy and divergent given presidential transition in the US and business cycle uncertainties. Therefore, we encourage investors to position in high quality credits as well as prioritising structural strength in 2025 given credit spreads within SGD credits remain relatively-tight compared to historical levels.

Heading into 2025, we expect carry to remain an important return driver and place emphasis on issuers benefitting from sectoral tailwinds and possess balance sheet fortitude.

CIO's recommendation: Overall, we favour select Singapore real estate-related corporates, government-linked corporates, and T2s/AT1s by global financials.

The SGS has traded in tandem with USTs



Source: Bloomberg, UOB Private Bank

AUD Bond Market

Attractive for yield income

The AUD bond market continues to be a compelling destination for income-based investors with benchmark rates remaining relatively higher than it's DM peers.

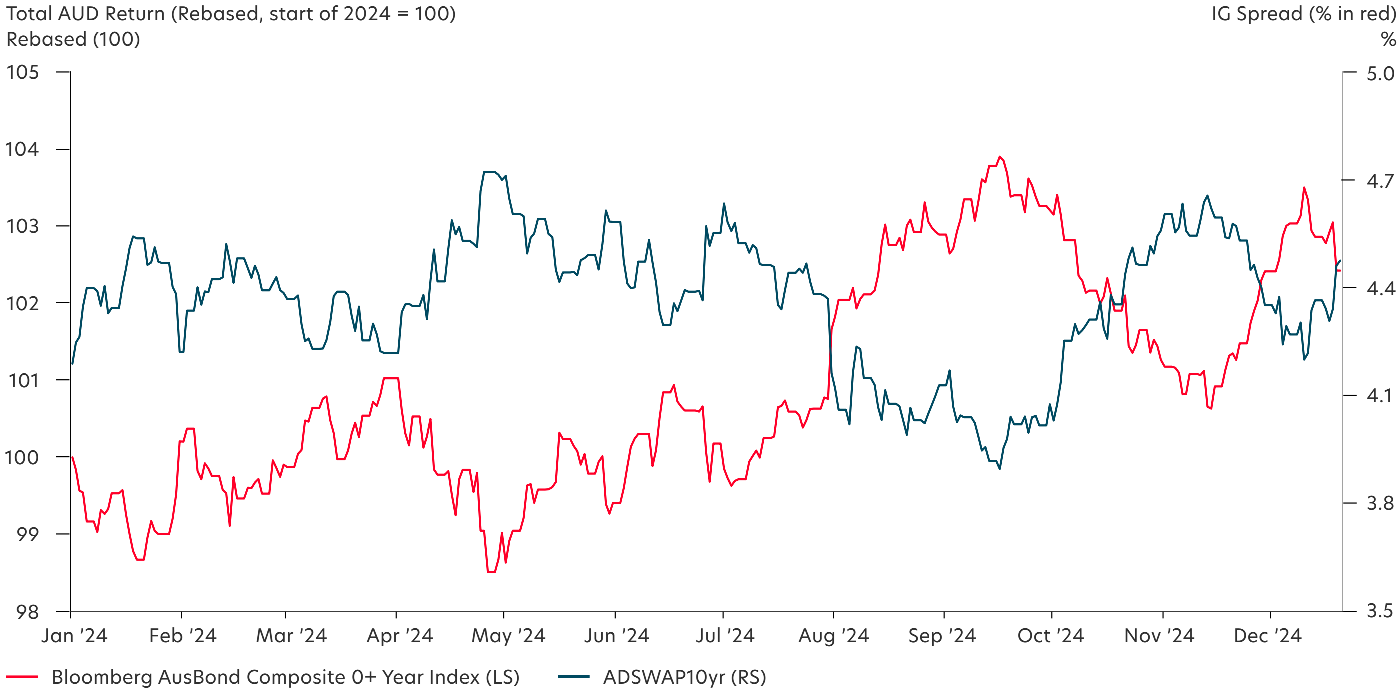
The AusBond Composite 0+ Year index delivered a total return of about +2.1% in 2024 (as of 20 December 2024). Rates placed a cap on returns but was mitigated by coupon income. We continue to see favourable return dynamics anchored by carry to last through 2025. In 2024, we saw new global corporate issuers like BP, EnBW, Iberdrola, CLP Power, Blue Owl Credit Income Corp and Nestle accessing the AUD bond market for funding.

Looking ahead, we expect the breath and scope of issuers within the AUD bond market to widen further. This would further strengthen issuance volumes and provide issuer diversity away from financials.

Within AUD bonds, we have a selective preference for value from quality corporate credits and bank seniors/T2s. With APRA phasing out AT1 structures, we remain on the hunt for compelling buy-on-dip opportunities within the T2 segment.

CIO's recommendation: Overall, we retain a bias for quality corporates and bank seniors/T2s. With APRA phasing out AT1 structures, an increasing supply outlook for Bank T2s could provide more liquid opportunities.

AUD bond market: Year-To-Date performance



Source: Bloomberg, UOB Private Bank

Commodities

Crude Oil

Oil prices to trade range-bound amid downward pressure

As anticipated, Brent crude price continued to trade within a range, hovering between USD 70/bbl and USD 75/bbl through 4Q 2024. Crude oil bulls would argue that most of the bad news against oil price have been reflected. For context, OPEC has repeatedly lowered its global oil demand outlook over the past few months. At its latest November update, OPEC has further cut its global oil demand growth outlook for 2025 to 1.54 mio bpd from 1.64 mio bpd at previous monthly estimate.

In addition, there remains skepticism as to how much further can the returning Trump administration expand on US oil production and fracking. The US has vastly expanded its oil production in the past decade; it is now the world's largest producer of crude oil, pumping about 13.5 mio bpd, almost 50% higher than the 9.0 mio bpd from Saudi Arabia. With the weak oil price, it is likely that Saudi Arabia will continue to exercise restraint and extend its production cuts deeper into early 2025.

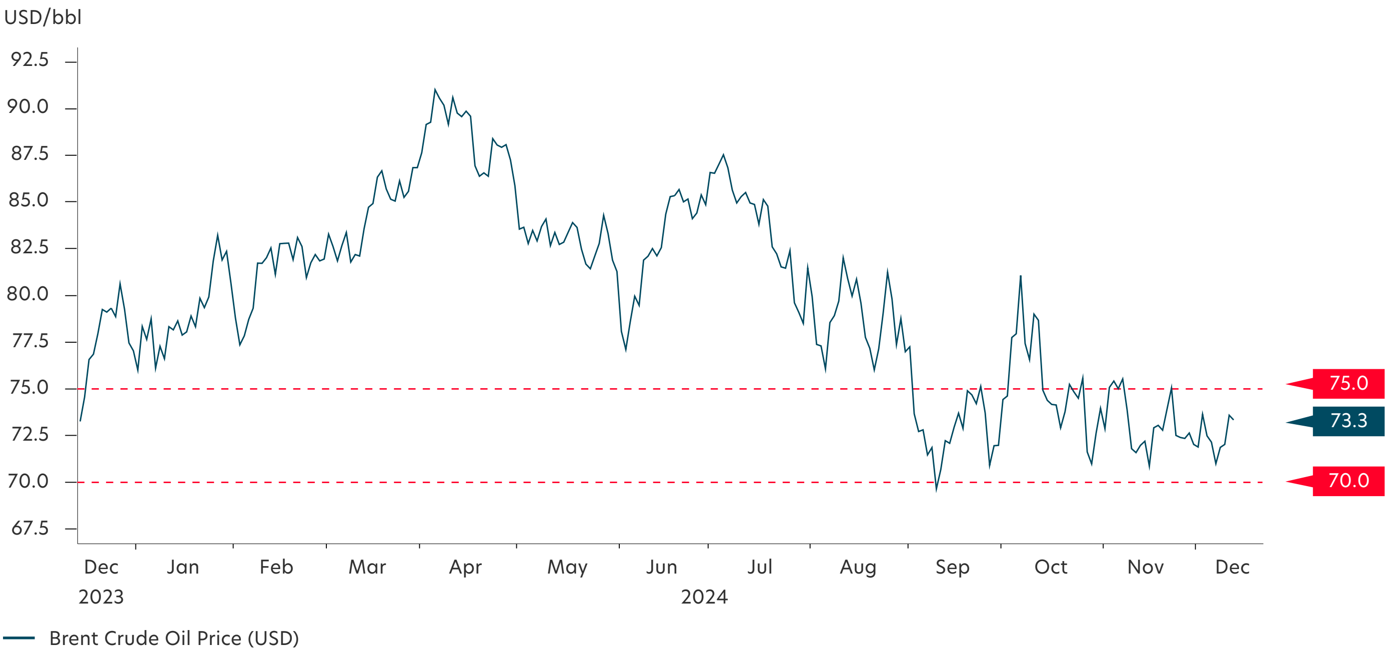
Another positive sign of note is that amidst the ongoing strength in the US economy, both US and OECD oil inventory have been drawn down further. There are also nascent signs that China's implied oil demand may be stabilising on imminent government stimulus.

Having said that, the downside risks include rising global growth outlook uncertainty as well as China's potential economic instability after looming US tariff hikes across 2025. With the risks of further growth slowdown from renewed tariffs in 2025 likely to more than offset any rise in geopolitical risk premium from the ongoing Russia-Ukraine war, oil prices could see further downward pressures.

While most of the negative factors are now apparent, we maintain neutral given the downside risks. We forecast Brent crude oil to be USD 75/bbl for 1H 2025 and USD 70/bbl for 2H 2025. Further sell-off could be on the card if the global trade conflict deteriorates.

CIO's recommendation: We remain Neutral on Brent Crude Oil. Crude oil prices are expected to trade in a range between USD 70/bbl and USD 75/bbl.

Brend crude oil could trade within a tight range, skewed to the downside



Source: Macrobond, UOB Private Bank, Intercontinental Exchange (ICE)

Base Metals

Negative outlook on poor demand-supply dynamics

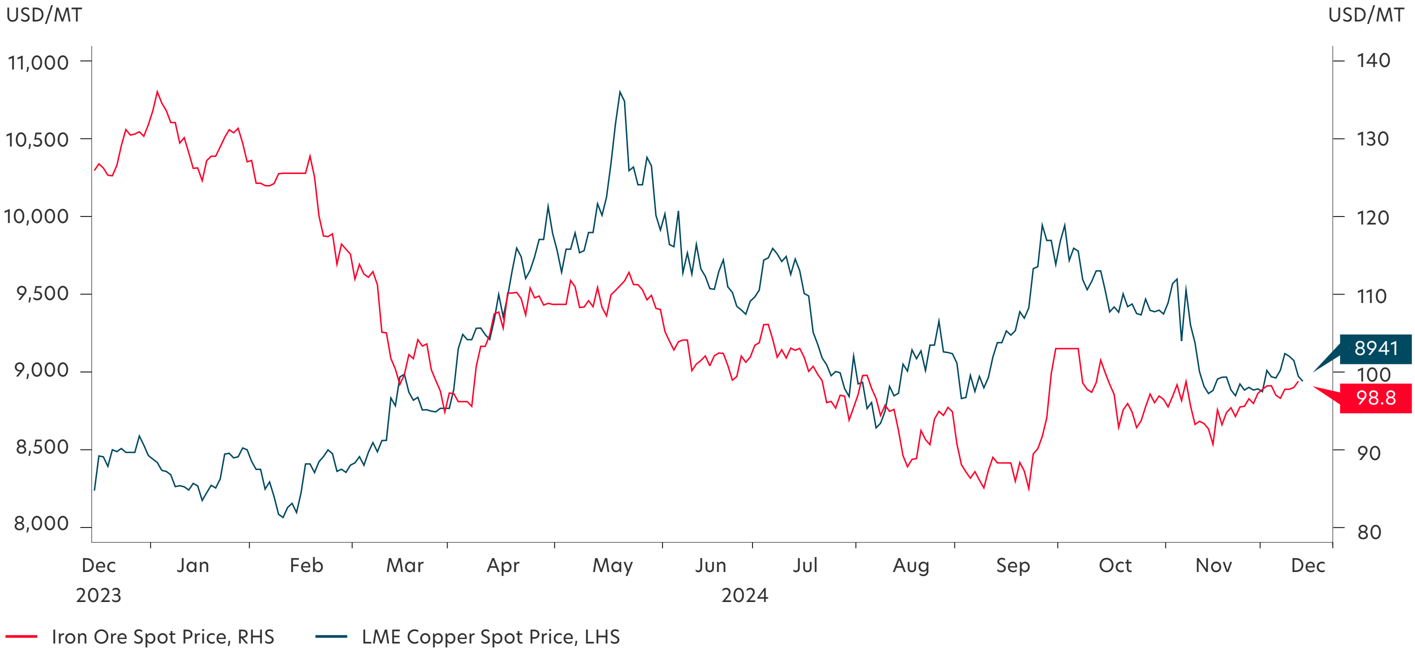
In the previous quarterly report, we downgraded our outlook on Base Metals from Neutral to Underweight amid China's broad-based growth slowdown. That turned out to be a prudent approach, given that prices of both Iron Ores and Copper weakened in the final few months of 2024. Following a brief surge inspired by China's forthcoming stimulus, prices corrected given a dearth of specific policy details.

On **Iron Ore**, we expect the downside risks to prevail in 2025 amid muted steel demand given China's protracted property woes. China's property sector accounts for ~40% of demand for Iron Ores. China's property support measures so far have focused on clearing property inventories, rather than boosting new home starts, which is the biggest steel demand driver. Meanwhile, China's steel exports are set to slow as more countries start imposing restrictions or conducting anti-dumping investigations. This should pose as a drag to Iron Ore demand. Meanwhile, supply from the major producers have risen, with China's port inventories staying elevated. Taken together, these should continue to exert downward pressure on Iron Ore prices.

On **Copper**, the LME Copper cash vs 3 month spread, a key proxy of near-term demand, has yet to recover and remains at a significant discount of USD 120 / MT. On the supply side, while supply disruption from aging copper mines remains a concern, these worries have been overshadowed by the risk of global trade contraction and manufacturing slowdown due to the incoming Trump 2.0 tariffs in 2025. Taken together, these will likely weigh on LME Copper prices. Our updated forecasts for Copper are USD 8,000 / MT for 1H 2025 and USD 7,500 / MT for 2H 2025.

CIO's recommendation: We remain Underweight on Base Metals given the unfavorable demand-supply dynamics amid China's muted demand recovery. A global trade contraction from looming US tariffs will also weigh on prices.

Outlook for base metal prices to remain locklustre amid sluggish global demand



Source: Bloomberg, UOB Private Bank

Precious Metals

Gold demand to be anchored by safe-haven needs

Despite some selling pressures following a USD surge after Trump's renewed election win, Gold rebounded swiftly to trade back around USD 2,700/oz by mid-December 2024. This rebound was remarkable given that the USD continued its strong rally with the USD Index (DXY) firming above 107.

Despite potential near-term volatility, Gold had shaken off the negative spillover from a stronger USD and rising US real bond yields, in a sign of trend divergence from the usual negative correlation (i.e., the higher the USD and bond yields, the lower Gold prices).

From a longer-term perspective, the positive demand drivers remain intact. Emerging Market (EM) and Asian central bank look set to continue allocating their reserves into Gold. Meanwhile, physical gold and jewellery demand from the retail sector is still robust.

Positive long-term demand from central banks and retail sector is well-anchored by the haven needs to diversify from rising geopolitical concerns and uncertainties around the USD ahead of potentially disruptive trade policies from Trump 2.0.

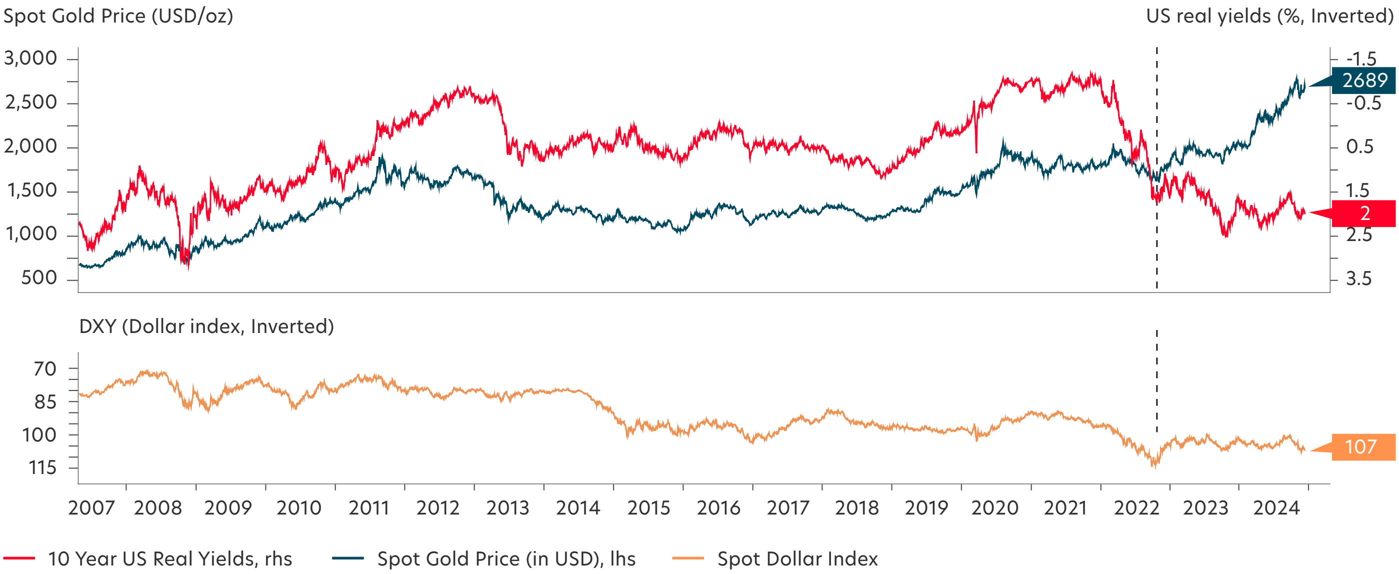
It is noteworthy that the strong retail sector demand for Gold is driven by the considerably extensive depreciation of domestic currencies like INR, CNY and VND, which amplify the gains in Gold prices in local currency terms.

Overall, we maintain our positive view for Gold as long-term haven demand needs will likely stay healthy amid rising geopolitical risks and economic risks from Trump 2.0 policies.

Our forecasts for 2025 are USD 2,700/oz for 1Q 2025, USD 2,800/oz for 2Q 2025, USD 2,900/oz for 3Q 2025 and USD 3,000/oz for 4Q 2025.

CIO's recommendation: We remain Overweight on Gold as longer-term haven demand amid rising geopolitical uncertainties is expected to support the prices.

Gold price continued to surge from 2022 despite elevated real yields and a firm US dollar



Source: Bloomberg, HSBC, UOB Private Bank

Currencies

USD

USD to strengthen in 1H 2025 before pulling back in 2H 2025

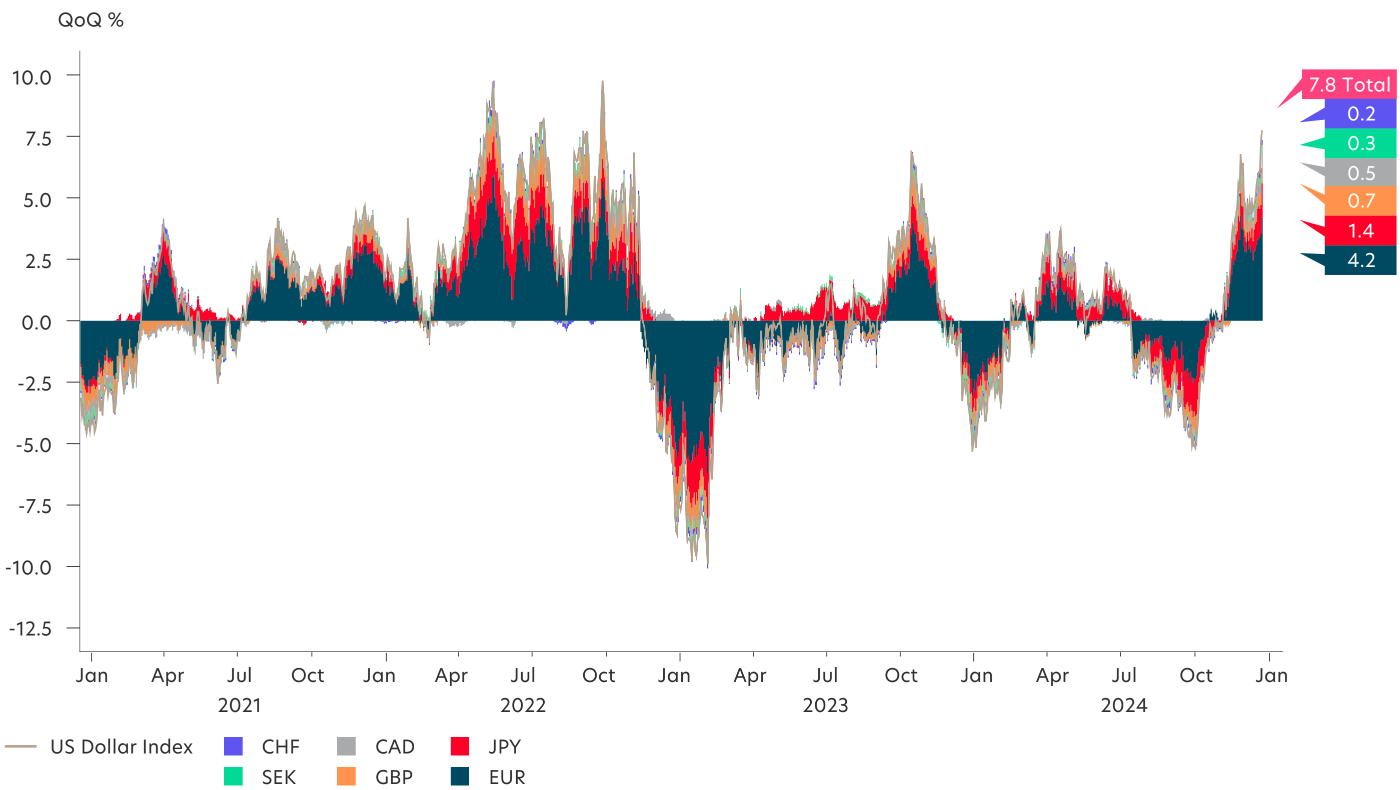
With the US Dollar Index (DXY) trading at two-year highs near 109, markets have priced in that some form of trade tariffs will be threatened or imposed on US trade partners in 2025.

With Trump's tariffs potentially spurring renewed inflation particularly in the US, the Fed has turned more cautious in considering further rate cuts in 2025. In the recently concluded Dec FOMC, some policymakers have incorporated the impact of the new administration's policies in their forecasts. The latest Fed's dot plot implied 50 bp of rate cuts in 2025, down from 100 bp in the Sep review. While we are still holding onto the view of 75 bp of Fed rate cuts in 2025, it is still less than the 100 bp each we expect from European Central Bank (ECB) and Bank of England (BOE), the 110 bp from Reserve Bank of Australia (RBA) and the 125 bp from Reserve Bank of New Zealand (RBNZ).

The widening rate differential acts in favour of the USD and is likely to anchor further USD strength in the first half of 2025. In the second half, USD strength may start to moderate as most of the repricing for Trump's tariffs (base case) may have already been done and our anticipated downward trajectory in US rates could start to exert downward pressure on the USD. Overall, we expect the DXY to rise to 111.9 by mid-2025 before easing off to 107.9 by end-2025. We also expect FX volatility to stay elevated as investors digest incoming tariff headlines and the ensuing Fed response.

CIO's recommendation: We are positive on the USD on a 3-to-6-month basis, and neutral over a 6- to 12-month horizon.

Contributions to the US Dollar Index (DXY)



Source: Macrobond, UOB Private Bank, Macrobond Financial AB, Intercontinental Exchange (ICE)

EUR

Turning cautious with multitude of headwinds in sight

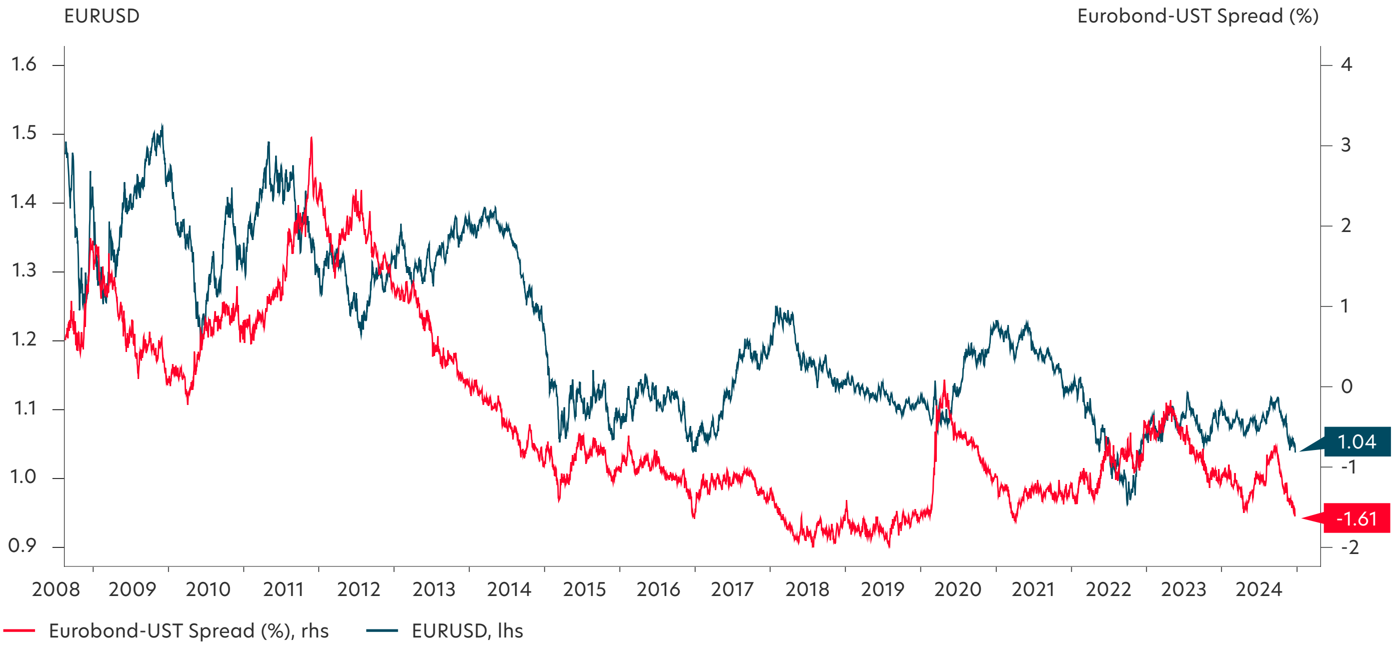
EUR/USD fell for a third straight month in Dec, by 1.5% to about 1.04, the lowest levels in two years. Underscoring the weakness was the wide monetary policy divergence between the Fed and the ECB. While markets scaled back expectations for Fed rate cuts due to the inflation spillover of Trump's tariff policy, interest rate swaps indicate more aggressive easing (120 bp of rate cuts in 2025, as of 31 December) from the ECB to bolster the region's economy.

A 25 bp reduction is fully priced for the ECB's next meeting later in Jan while the Fed is expected to stay pat. Political crises in Germany and France exacerbate the manufacturing slowdown in both of Eurozone's largest economies and will also weigh down further on the EUR.

The multitude of headwinds acting against the EUR is likely to persist in the near term and it seems inevitable that EUR/USD would test the well-watched parity level in the coming months. Overall, we reiterate our bearish view of EUR/USD and our updated forecasts are 1.01 in 1Q 2025, 0.99 in 2Q 2025, 1.01 in 3Q 2025 and 1.03 in 4Q 2025.

CIO's recommendation: We are negative on the EUR both on a 3-to-6-month basis, and over a 6- to 12-month horizon.

Relative monetary policies between the Fed and ECB underpins our positive view



Source: Macrobond, UOB Private Bank, Macrobond Financial AB

CNY

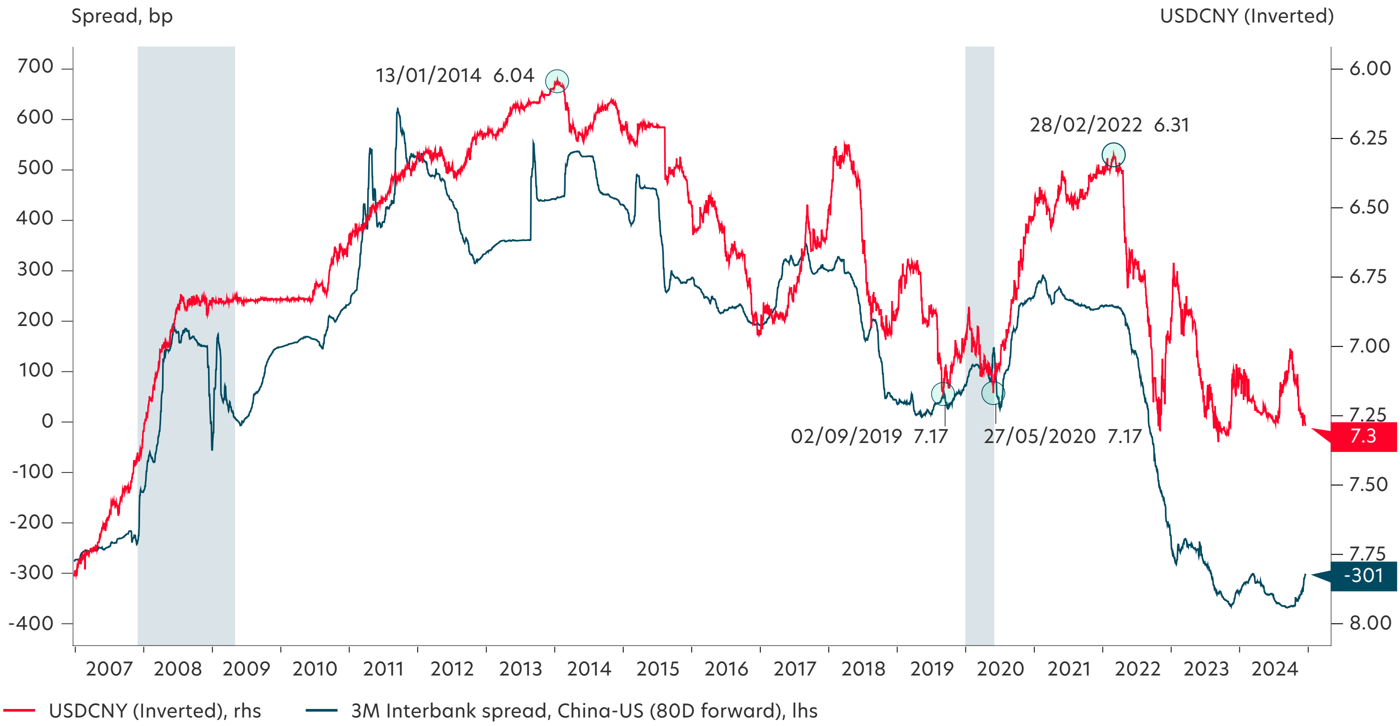
Expect the CNY to weaken as tariff plans unfold

It is likely to be yet another challenging year for the CNY in 2025. Trump's tariffs are likely to exacerbate the existing concerns about China's economic slowdown. In the 1Q 2025 quarterly report published late November, our macroeconomic team has downgraded 2025 GDP growth forecast to 4.3% from 4.6% as we factor in some tariffs on Chinese goods to become effective as early as 2Q 2025 while full implementation could take more than a year. On top of a weaker domestic growth outlook, the CNY may be dragged by a shift in monetary policy stance (announced in Dec's CEWC) to "moderately loose" from the previous "prudent" approach. Externally, the USD may also draw strength from a shorter and shallower Fed rate-cut cycle.

At the moment of writing, USD/CNY spot is already testing the 7.30 psychological headline level. We think it is inevitable that USD/CNY will test recent key highs of 7.35 in the coming months as tariffs uncertainties build. A pickup of USD hedging demand upon the breach of 7.35 may lead to USD/CNY beginning a new trading range above that level. Overall, we expect USD/CNY to trade higher in the coming few quarters and our updated USD/CNY forecasts are 7.40 in 1Q 2025, 7.55 in 2Q 2025, 7.65 in 3Q 2025 and 7.50 in 4Q 2025. The risk is skewed to further downside for CNY if larger or sooner tariffs are implemented compared to our base case.

CIO's recommendation: We are negative on the CNY both on a 3- to 6-month basis, and on a 6- to 12-month horizon.

US-CN spreads



Source: Macrobond, UOB Private Bank, Macrobond Financial AB

JPY

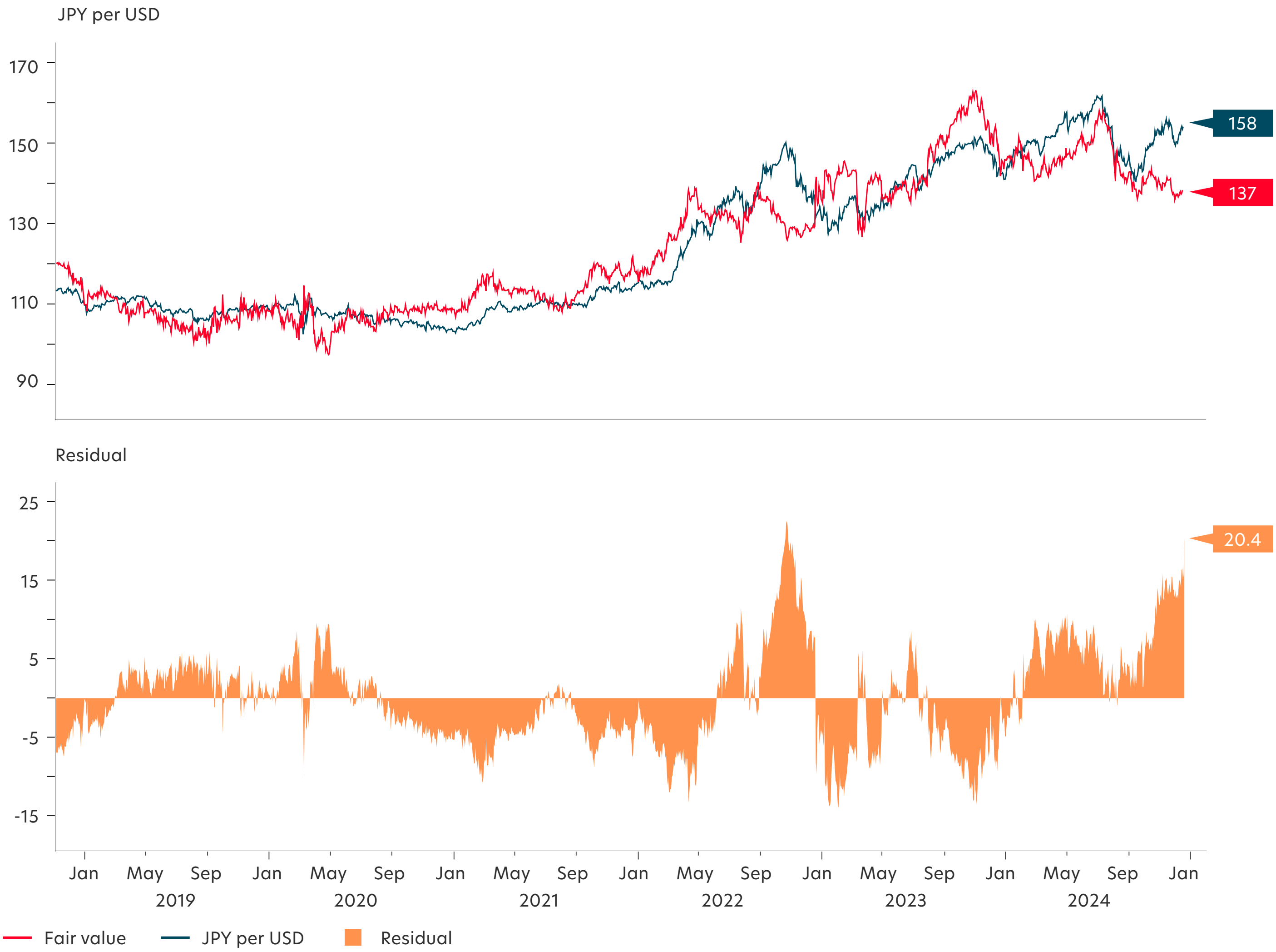
Monetary policy divergence between the Fed and BoJ anchors further JPY weakness

USD/JPY rose to a 5-month high of about 158 amidst a broad USD resurgence and recovering USD yield differential as markets slashed Fed rate-cut expectations in a Trump 2.0 scenario. While the USD may be underpinned by tariff uncertainties in the near term, further gains in USD/JPY may be held back by the persistent monetary policy divergence between the Fed (easing bias) and the Bank of Japan (BOJ) which we still forecast the next move to be a rate hike in the Mar 2025 MPM (but there is a sizeable risk that the hike could be delayed further till April or even later).

Traders may also turn cautious ahead of previous intervention levels near 161 by Japanese authorities. Overall, our updated USD/JPY forecasts are 159 in 1Q 2025, 160 in 2Q 2025, 157 in 3Q 2025 and 154 in 4Q 2025.

CIO's recommendation: We are negative on the JPY on a 3- to 6-month basis, and neutral on a 6- to 12-month horizon.

Our fair valuation model points to JPY strengthening in the longer term



Source: Macrobond, UOB Private Bank, Macrobond Financial AB

AUD

Proxy to CNY may result in underperformance

AUD was amongst the worst performing currencies amongst G-10 in 4Q 2024, falling over 10% to 0.6188, the biggest quarterly drop since 1Q 2020 when Covid-19 pandemic struck. Going forth, AUD's close correlation to the CNY meant that a potential repeat of the 2018-2020 US-China trade war may see AUD underperform within the G-10 FX space, as it did during the first year of trade war in 2018.

While the RBA has not cut rates in 2024 unlike other central banks, a subsequent catch up in 2025 (we forecast 110 bp of RBA rate cuts in 2025) may weigh further on the AUD. Unless the China's rhetoric improves, the risk is still skewed to further downside in AUD/USD. Overall, our updated AUD/USD forecasts are 0.61 in 1Q 2025, 0.59 in 2Q 2025, 0.61 in 3Q 2025 and 0.63 in 4Q 2025.

CIO's recommendation: We are negative on the AUD on a 3- to 6-month basis, and neutral over a 6- to 12-month horizon.

External uncertainities likely to cap near-term upside

Source: Macrobond, UOB Private Bank, Macrobond Financial AB

SGD

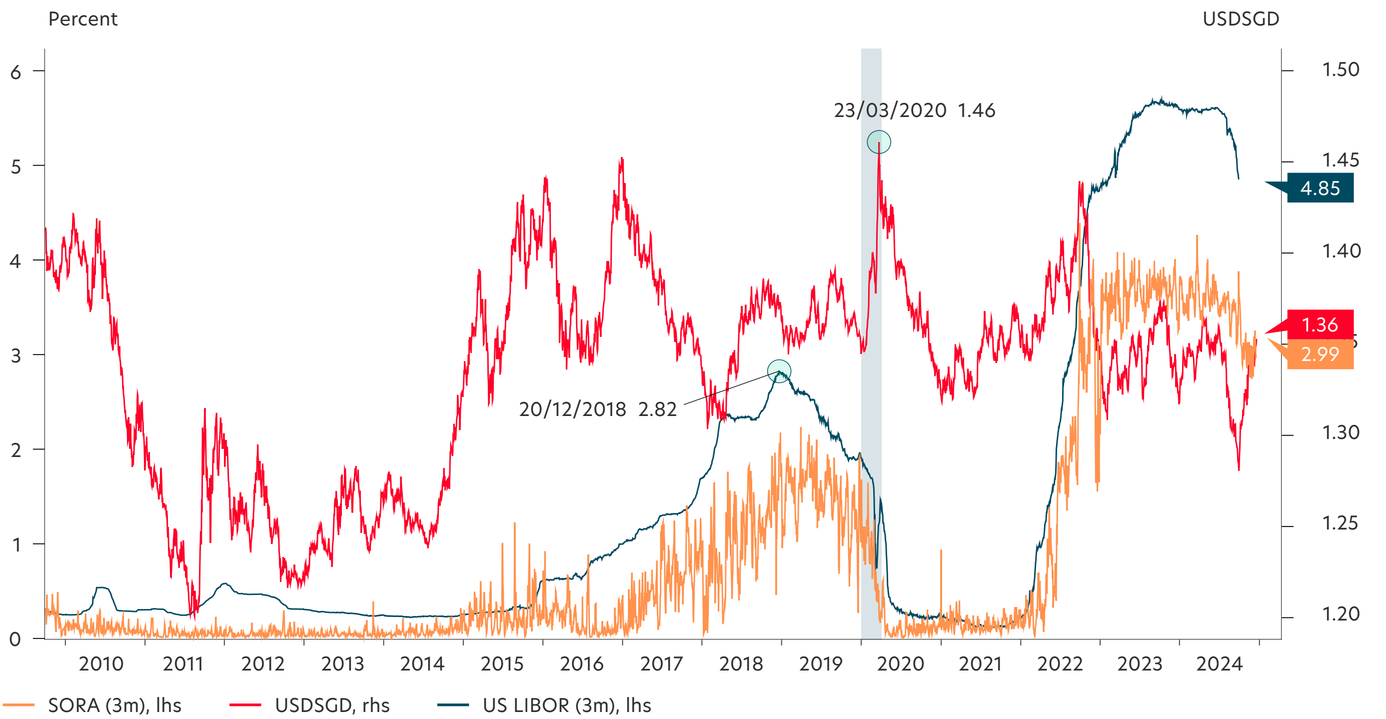
A still-positive S$NEER slope may underpin SGD-crosses

Compared to other ASEAN economies, Singapore is less susceptible to direct tariff risks as it runs a consistent trade deficit against the US and is the only economy within ASEAN-6 that has a long standing bilateral Free Trade Agreement (FTA) in force with the US, now into its 21st year. However, the Singapore economy is unlikely to be shielded from spillover effects of a negative shock to the global trade environment, given its extensive reliance on trade as a small and open economy. In addition, a positive-sloping S$NEER may help to buffer the SGD against external headwinds, as it had during the last trade war in 2018.

Notwithstanding a "slight" reduction to the slope expected in the coming Jan 2025 MPS, a still-positive S$NEER slope may underpin SGD-crosses. Also, volatility of USD/SGD is likely to be checked by the SGD's reputation as a regional safe-haven currency. Overall, our updated USD/SGD forecasts are 1.38 in 1Q 2025, 1.39 in 2Q 2025, 1.40 in 3Q 2025 and 1.38 in 4Q 2025.

CIO's recommendation: We are negative on the SGD on a 3- to 6-month basis, and neutral over a 6- to 12-month horizon.

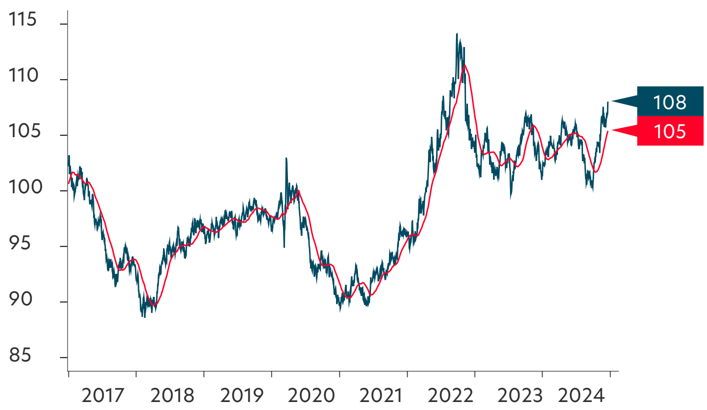
SGD likely to consolidate in the near-term



Source: Macrobond, UOB Private Bank, Intercontinental Exchange (ICE), Macrobond Financial AB, Monetary Authority of Singapore

6 Currency Price Charts

USD Index (DXY) — 3-6m ▲ 6-12m ■



— 50dma — DXY

Source: Macrobond, UOB Private Bank, Macrobond Financial AB, Intercontinental Exchange (ICE)

CNY — 3-6m ▼ 6-12m ▼

— 50dma — USDCNY

Source: Macrobond, UOB Private Bank, Macrobond Financial AB

JPY — 3-6m ▼ 6-12m ■

— 50dma — USDJPY

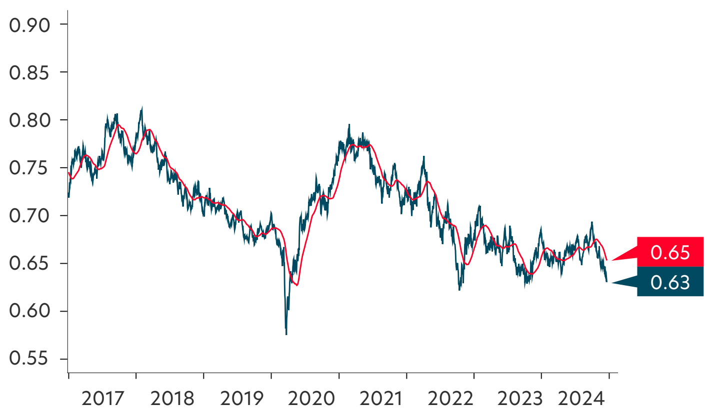
Source: Macrobond, UOB Private Bank, Macrobond Financial AB

EUR — 3-6m ▼ 6-12m ▼

— 50dma — EURUSD

Source: Macrobond, UOB Private Bank, Macrobond Financial AB, Intercontinental Exchange (ICE)

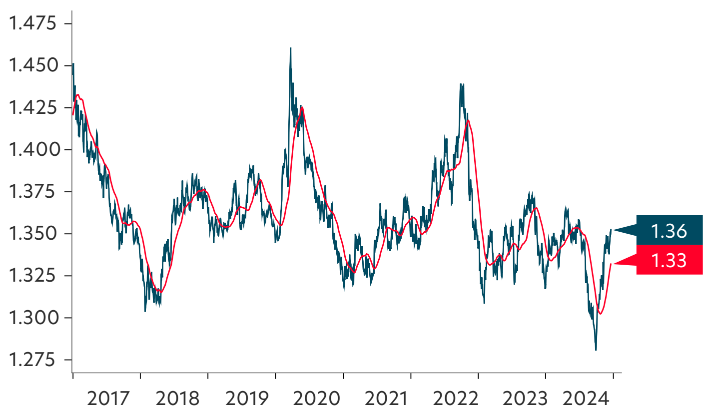
AUD — 3-6m ▼ 6-12m ■



— 50dma — AUDUSD

Source: Macrobond, UOB Private Bank, Macrobond Financial AB, Intercontinental Exchange (ICE)

SGD — 3-6m ▼ 6-12m ■



— 50dma — USDSGD

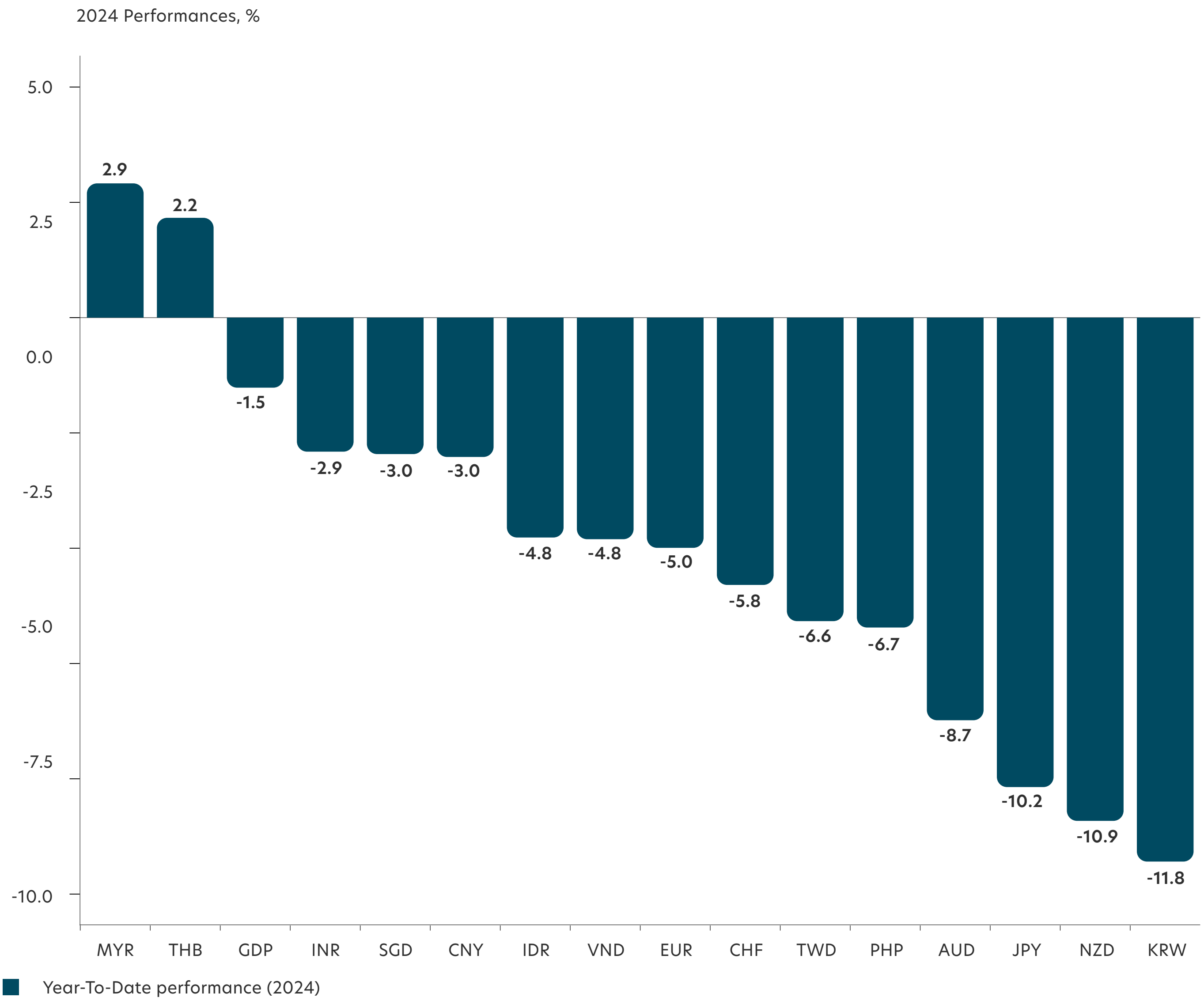
Source: Macrobond, UOB Private Bank, Macrobond Financial AB

▼ Underweight ■ Neutral ▲ Overweight

FX Performances versus the USD

(as at 31 December 2024)

Performance of selected currencies against USD (2024)



Source: Macrobond, UOB Private Bank, Macrobond Financial AB, Intercontinental Exchange (ICE)

Real GDP Growth

Real GDP Growth Trajectory

y/y% change	2023	2024F	2025F	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F
China	5.2	4.9	4.3	5.3	4.7	4.6	5.0	4.7	4.5	4.1	4.0
Hong Kong	3.3	2.5	2.0	2.8	3.2	1.8	2.0	1.0	1.3	2.8	2.8
India (Fiscal yr)	7.0	8.2	6.8	8.2	8.1	8.6	7.8	6.7	6.3	7.1	7.0
Indonesia	5.1	5.2	5.3	5.1	5.1	5.0	5.5	5.3	5.2	5.4	5.2
Japan	1.7	-0.3	1.0	-0.8	-1.1	0.2	0.5	1.4	1.3	0.7	0.8
Malaysia	3.6	5.3	4.7	4.2	5.9	5.3	5.8	4.9	4.7	4.6	4.6
Philippines	5.5	5.5	6.0	5.8	6.4	5.2	4.7	5.6	6.1	6.2	6.1
Singapore	1.1	3.5	2.5	3.0	3.0	5.4	2.7	3.5	3.7	0.6	2.2
South Korea	1.4	2.2	2.0	3.3	2.3	1.5	1.8	1.4	2.3	2.2	2.0
Taiwan	1.3	4.3	3.0	6.6	5.1	4.0	2.0	2.5	3.1	2.8	3.3
Thailand	1.9	2.7	2.9	1.6	2.2	3.0	4.1	3.4	3.3	2.6	2.4
Vietnam	5.0	6.4	6.6	5.9	7.1	7.4	5.2	6.5	6.5	6.6	6.8
Australia	2.0	1.1	2.0	1.3	1.0	1.0	1.2	1.6	2.0	2.1	2.2
Eurozone	0.4	0.8	1.2	0.5	0.6	0.9	1.1	1.0	1.2	1.1	1.3
New Zealand	0.7	0.1	1.7	0.5	-0.5	-0.1	0.2	0.6	1.5	2.2	2.5
United Kingdom	0.4	1.0	1.4	0.3	0.7	1.1	1.8	1.5	1.4	1.4	1.4
United States (q/q SAAR)	2.9	2.7	1.8	1.6	3.0	2.8	2.0	1.1	1.2	2.2	1.5

For India, full-year and quarterly growth are based on its fiscal calendar (Apr-Mar).
Source: Macrobond, UOB Global Economics & Markets Research Forecast

FX, Interest Rates & Commodities

FX	02 Jan	1Q25F	2Q25F	3Q25F	4Q25F
USD/JPY*	157	159	160	157	154
EUR/USD*	1.03	1.01	0.99	1.01	1.03
GBP/USD*	1.24	1.22	1.20	1.23	1.24
AUD/USD*	0.62	0.61	0.59	0.61	0.63
NZD/USD*	0.56	0.55	0.53	0.55	0.57
DXY*	109.17	110.3	111.9	109.9	107.9
USD/CNY*	7.30	7.40	7.55	7.65	7.50
USD/HKD	7.78	7.80	7.80	7.80	7.80
USD/TWD*	32.89	33.2	33.6	34.0	33.5
USD/KRW*	1,466	1,490	1,510	1,530	1,510
USD/PHP	58.18	59.5	60.0	60.5	60.0
USD/MYR	4.49	4.53	4.60	4.65	4.55
USD/IDR*	16,223	16,400	16,600	16,800	16,500
USD/THB*	34.43	34.8	35.2	35.4	35.0
USD/VND	25,457	25,800	26,000	26,200	26,000
USD/INR*	85.76	86.5	877.0	87.5	87.0
USD/SGD*	1.37	1.38	1.39	1.40	1.38
EUR/SGD*	1.40	1.39	1.38	1.41	1.42
GBP/SGD*	1.69	1.68	1.67	1.72	1.73
AUD/SGD*	0.85	0.84	0.82	0.85	0.87
SGD/MYR*	3.28	3.28	3.31	3.32	3.30
SGD/CNY*	5.34	5.36	5.43	5.46	5.43
JPY/SGDx100*	0.87	0.87	0.87	0.89	0.90

POLICY RATES	02 Jan	1Q25F	2Q25F	3Q25F	4Q25F
US Fed Funds Rate	4.50	4.25	4.00	3.75	3.75
JPY Policy Rate	0.25	0.50	0.50	0.50	0.50
EUR Refinancing Rate	3.15	2.65	2.15	2.15	2.15
GBP Repo Rate	4.75	4.50	4.25	4.00	3.75
AUD Official Cash Rate	4.35	4.00	3.75	3.50	3.25
NZD Official Cash Rate	4.25	4.00	3.50	3.00	3.00
CNY 1Y Loan Prime Rate	3.10	2.90	2.80	2.80	2.80
HKD Base Rate	4.75	4.50	4.25	4.00	4.00
TWD Official Discount Rate	2.00	2.00	2.00	2.00	2.00
KRW Base Rate	3.00	2.75	2.50	2.50	2.50
PHP O/N Reverse Repo	5.75	5.50	5.00	5.00	5.00
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	6.00	6.00	6.00	5.75	5.50
THB 1D Repo	2.25	2.00	2.00	2.00	2.00
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate*	6.50	6.25	5.75	5.75	5.75

INTEREST RATES	02 Jan	1Q25F	2Q25F	3Q25F	4Q25F
USD 3M SOFR (compounded)*	4.68	4.34	3.99	3.74	3.61
SGD 3M SORA (compounded)*	3.02	2.71	2.51	2.394	2.27
10Y US Treasuries Yield*	4.56	4.30	4.20	4.10	4.10
SGD 10Y SGS*	2.87	2.90	2.80	2.70	2.70

COMMODITIES	02 Jan	1Q24F	2Q25F	3Q25F	4Q25F
Gold (USD/oz)	2,659	2,700	2,800	2,900	3,000
Brent Crude Oil (USD/bbl)	76	75	75	70	70
Copper (USD/mt)	8,803	8,000	8,000	7,500	7,500

Updated on 03 January 2025
* Revised Forecast

Source: UOB Global Economics & Markets Research Estimates

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