UOB House View 2Q 2025

Friday, 11 April 2025

The Team
Global Economics & Markets Research
Private Bank

Global Macro

As a result of the punitive reciprocal tariffs announced on "Liberation Day', we have downgraded US GDP growth forecast this year from 1.8% to 1.0%. The probability of a recession in the US is now raised to 40%, from 20 to 25% previously. Consequently, we now see the Fed making 3 x 25 bps cuts this year (from 1 x 25 bps cut previously), dropping the Fed Funds Rate to 3.75% (upper) by the end of the year. Uncertainty surrounding US trade and other policies remain exceptionally high.

Asset Allocation

We downgrade Equities to Neutral given Trump 2.0 policy uncertainties around trade tariffs and fiscal tightening. We remain Neutral on Fixed Income with an eye for buy-on-dip opportunities and recommend an average duration of 3-5 years. We remain Overweight on Alternatives as less correlated assets offer diversification benefits. We upgrade Money Market to Neutral due to near-term volatility.

Equities

We remain Neutral on US as its administration is shifting to ensure short-term pain for longer-time outcomes. We remain Neutral on Europe with an eye for selected thematic stocks; Germany's unprecedented fiscal policy presents upside risks. We remain Overweight on Japan as its medium-term story, underpinned by corporate reforms, remains compelling despite yen volatility. We had upgraded EM Asia to Overweight on 6 March as we turned constructive on China, driven by policy stimulus, AI developments and refocus on consumer.

Fixed Income

For Developed Markets (DM), we stay overweight on DM IG as quality premia remains a key focus. We stay underweight on DM USD HY as credit spread widening is a key risk to watch out for. We stay overweight Emerging Markets (EM) IG as we view it as a relative safe-haven. We remain Neutral on EM HY as selectivity is key in avoiding credit pitfalls.

Commodities

Existing key positive drivers for gold remain intact, including strong safe haven demand, strong central bank buying, and increasing worries of a growth slowdown. We forecast gold price to reach USD 3,100 / oz by 4Q25. In comparison, the risks of global growth slowdown and a higher than unexpected return of OPEC+ production weigh on Brent crude, and we adopt a negative outlook for Brent crude oil forecasting USD 65 / bbl for 2Q25, 3Q25 and USD 60 / bbl for 4Q25, 1Q26.

FX & Interest Rates

The USD outlook in the G-10 FX space is largely driven by rate differentials rather than US trade policy. As a result of our updated view of 3 x 25 bps Fed rate cuts, we now expect a lower US Dollar Index (DXY) trajectory compared to our Mar review. In terms of front-end rates, we forecast the 3M compounded in arrears Sofr and Sora lower to 3.77% and 2.17% by 4Q25 respectively. In the back end, we now see 10Y UST yield ending 2025 at 3.90% (from 4.30% previously) while 10Y SGS yield will ease further to 2.50% by end 2025 (from 2.90% previously)

Right By You

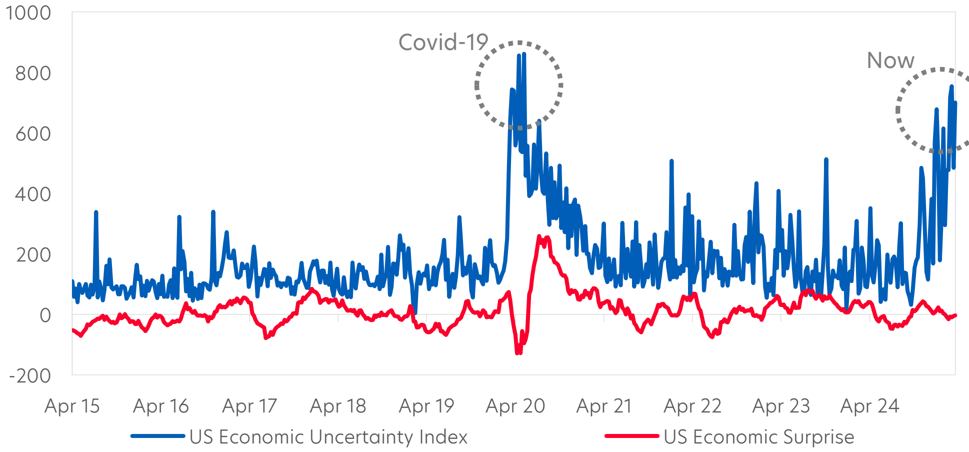
Global Macro & Markets Strategy
Tariff-mania!

On Liberation Day, President Trump made good his campaign promise and announced a wide-ranging set of punitive reciprocal tariffs against key trading partners to the US. Economies like Singapore who have enduring trade deficits or run the least trade surplus with the US were not spared either and had 10% of baseline tariffs imposed.

Countries with much larger trade surpluses with the US received punitive "Discounted Reciprocal Tariffs" which is simply the trade balance between both countries divided by import volume and "discounted" by half. As such, China received an additional 34% reciprocal tariff on top of the existing 20%. The European Union received a 20% reciprocal tariff. And various Asian and ASEAN economies who are key exporters to the US received outsized reciprocal tariffs as well, e.g. 46% for Vietnam, 36% for Thailand, 32% each for Indonesia and Taiwan etc. For more details, kindly refer to Macro Note: "US: "Liberation Day" tariffs very broad-based & material" dated 03 Apr 25.

Chart 1: Increasing uncertainty in US Economic Outlook

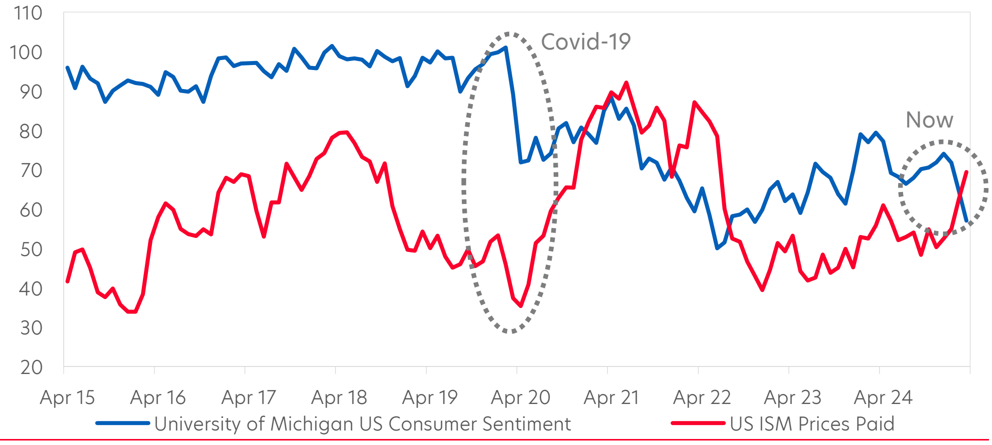
Source: Bloomberg, UOB Global Economics & Markets Research



Economic Uncertainty for the US is exceptionally high and various indices of Economic Uncertainty have spiked to previous highs last seen during the onset of Covid-19. Opinion is now divided as to what will the precise impact be on the US economy. Will the US economy slip into a recession because of the jump in cost of goods across the board? Or will the US economy slump into a stagflation cycle because of the concurrent rise in prices? How would the US Federal Reserve (Fed) respond? In fact, prior to Liberation Day, we have started to witness the deterioration of some US macro indicators. E.g. Consumer Sentiment has dropped while Prices Paid sub-index within the ISM manufacturing survey for Mar have increased to its highest since Jun 2022.

Chart 2: US consumer sentiment weakens as prices paid rise

Source: Bloomberg, UOB Global Economics & Markets Research



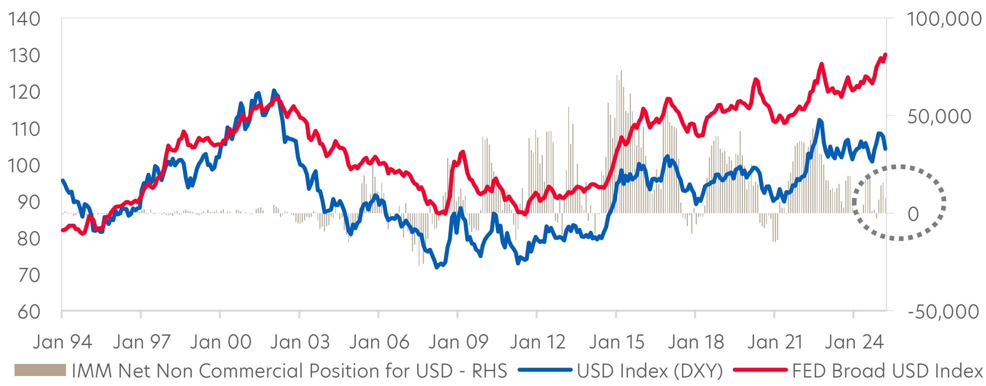
Our macroeconomic team's post "Liberation Day" assessment now warns that US GDP economic growth for this year will slump to just 1.0% (from the previous forecast of 1.8%) and with headline inflation potentially spiking to 4.0% (from the previous forecast of 2.5%). The team has also raised the probability of recession in the US to 40% (from 20 to 25% previously) with increasing risk of a technical recession (i.e. back-to-back sequential quarterly contractions).

In this case, despite the inflation spike, the Fed could justify the rate cuts by pointing to the fact that inflation was induced by supply side shocks rather than demand-driven price increases. In Fed Chair Jerome Powell's lingo, this means that the Fed may well look past the inflation spike and deem it transitory and focus on the hit and slowdown in growth. As a result, the team now expects a more intense 3 x 25 bps rate cuts across 2025, dropping the Fed Funds Rate to 3.75% (upper) by end 2025 (from previous forecast of only 1 x 25 bps cut in 2025).

As for Asia, there will definitely be negative implications for growth in 2025 and beyond given the high tariff rates and especially on export-oriented economies. The potential for growth downgrade will likely range between -0.4 and -1.0 ppts if no further improvements in the tariff situation. Macroeconomics team will finalize our growth forecasts as and when 1Q GDP data become available, starting with VN (6 Apr), SG (14 Apr), CN (16 Apr), , MY (18 Apr), SK (24 Apr), TW (30 Apr), ID (5 May), PH (8 May), TH (19 May).

Chart 3: USD positioning remains relatively benign near neutral

Source: Bloomberg, UOB Global Economics & Markets Research



Market reaction was decidedly volatile following the reciprocal tariffs announcement by President Trump at the White House's Rose Garden. Treasuries and gold rallied hard on safe haven inflows. The USD started to show divergence by weakening against the Majors, while strengthening further against the CNY and other Asian FX. In particular, USD/CNY jumped from pre-announcement level of 7.27 to above 7.30 before settling down near 7.28. Similarly, USD/SGD spiked to 1.35 before pulling back to 1.3350. The volatility will likely be an enduring feature given that we can expect intense negotiations by various countries with the US to reduce the reciprocal tariffs. Will the tariffs be negative or positive for the USD? Will 10Y UST yield now drop below 4% as market start to price in renewed rate cuts from the Fed?

FX Strategy: Is Liberation Day a game-changer for USD?

The USD outlook in the G-10 FX space is largely driven by rate differentials rather than US trade policy. As a result of our updated view of 3 x 25 bps cuts from the Fed, the USD's rate advantage relative to its Major FX peers will narrow considerably as Fed rate expectations converge towards that of its peers.

Consequently, we now expect a lower US Dollar Index (DXY) trajectory compared to our last review a month ago. Our updated DXY forecasts now lays out renewed weakness from 101.6 at end-2Q25 to 98.6 at end-1Q26. Overall, we see EUR/USD, GBP/USD, AUD/USD strengthening to 1.14, 1.36 and 0.65 respectively by end of the year. Similarly, USD/JPY is expected to drop to 142 by end of the year as well.

As for Asia FX, the calm that we witnessed in the opening months of the year indeed did not last. By now, there is little doubt that most Asia FX looks set to begin its next phase of weakness after the Trump administration slapped punitive tariffs on various Asian economies. The potential for growth downgrade across the region will likely range between -0.4 and -1.0 ppts if there is no further improvement in the tariff situation. Sustained portfolio outflows on increased global recession worries are likely to exacerbate the regional currencies selloff.

In all, we reiterate the view of further Asia FX weakness till 3Q25 before stabilising from 4Q25. Once again, CNY will lead the anticipated weakening of Asia FX and we forecast USD/CNY rising to 7.80 by 3Q25. Concurrently, USD/SGD, USD/MYR, USD/IDR, USD/THB and USD/VND are expected to rise to 1.39, 4.70, 17,200, 36.00 and 27,200 respectively by 3Q25.

Rates Strategy: Witnessing a new world order in global trade

Following the Liberation Day tariff announcement, the immediate reaction in the US bond market was a decline in Treasury yields, suggesting a flight to safety as investors assessed the potential economic ramifications of these tariffs. The short-term outlook for the US bond market points towards continued downward pressure on yields, driven by concerns over a slowdown in economic growth stemming from the tariffs.

Bond prices could potentially experience further gains as investors continue to seek the relative safety of government debt amidst the prevailing economic uncertainty. The bond market's initial response suggests that investors are currently more concerned about the potential negative consequences of the tariffs for economic growth than about an immediate and substantial surge in inflation. If the market anticipates a weakening economic outlook, the demand for safe-haven assets like US Treasuries will likely remain elevated, thereby keeping yields lower in the near term.

The longer-term outlook remains highly uncertain, contingent on the durability and broader impact of these tariffs on global trade, supply chains, and overall economic stability, with a notable risk of stagflationary pressures emerging. The US administration has signaled that it is open to negotiations, therefore future market states are also yet to be determined based off the subsequent horse trading that is due to occur next. Whether countries choose to go with a "tit for tat" approach which will raise the floor on prices or choose instead to go with conciliatory "less is more" stance to prevent prices from spiraling higher, remains to be seen.

Looking out further, several scenarios could unfold for bond markets. If the tariffs significantly impede economic growth over the long term, the demand for safe-haven assets like US Treasuries could remain high, potentially leading to continued low yields. Conversely, if the tariffs primarily result in sustained and dominant inflationary pressures without a corresponding hit to economic output, bond yields might rise to compensate investors for the eroding purchasing power of their fixed-income investments. The risk of stagflation presents the possibility of volatile bond market conditions, as investors grapple with the conflicting signals of weak growth and elevated inflation.

Monetary policy expectations remain the primary driver of our level forecast for money market rates and bond yields. In line with our expectations of 3 x 25 bps Fed cuts this year, we now see 3M compounded in arrears Sofr at around 3.77% by end 2025 (from 4.13% previously). For our base case, we forecast the 3M compounded in arrears Sora at 2.17% by end 2025 (from 2.61% previously). In constructing our Sora view, we have assumed ongoing uncertainty to favour domestic liquidity conditions as Singapore functions as a relative safe haven.

In the back end, we now see 10Y UST yield ending 2025 at 3.90% (from 4.30% previously). A deeper collapse in 10Y UST yield to the low 3% region cannot be ruled out should recession expectations become mainstream. Similarly, we see 10Y SGS yield easing further to 2.50% by end 2025 (from 2.90% previously).

For more details on our FX and rates view, kindly refer to : "Monthly FX & Rates Strategy: Tariff-mania" dated 04 Apr 25

Commodities Strategy: Remaining positive on gold, cautious on crude oil and copper

Gold: Since late last year, we have highlighted that the main key positive driver for gold remains that of long-term safe haven demand which is likely to stay strong. Amidst the escalating US trade policy uncertainties, this safe haven demand for gold has intensified since the start of 2025 and manifested itself in terms of the gold bullion short squeeze witnessed across the globe. Existing key positive drivers for gold remain intact, these include strong safe haven demand, strong central bank buying, on-going local currency depreciation supporting domestic retail demand and more recently, increasing worries of a growth slowdown. Overall, we we maintain our positive outlook on gold and have updated our quarterly forecasts further to USD 2,900 / oz for 2Q25, USD 3,000 / oz for 3Q25, USD 3,100 / oz for 4Q25 and USD 3,200 / oz for 1Q26.

Brent: Two key risks against Brent crude oil have deteriorated further. First is the increasing risk of further global growth slowdown due to the chaotic rollout of punitive reciprocal tariffs by the Trump Administration on Liberation Day although the precise damage to global energy demand from the unfortunate tariff escalation remains to be seen. The second risk is the larger than expected return of production volume from OPEC+. On 3 Apr, OPEC+ surprised by returning as much as 411k bpd of production cuts, effectively restoring as much as triple the amount of curtailed supply. This large amount of returning production surprised the energy market and coupled with the tariff escalation contributed to the intense sell-off in Brent crude oil below USD 70 / bbl. As such, we adopt a negative outlook for Brent crude oil forecasting USD 65 / bbl for 2Q25 & 3Q25 and USD 60 / bbl for 4Q25 & 1Q26.

LME Copper: The threat of trade tariffs turned out to be a near term positive driver for LME Copper. Similar to gold, the tariff threats resulted in increased stock piling of copper inventory on COMEX which intensified after President Trump confirmed the go ahead for 25% blanket tariffs on all aluminum and steel imports and threatened to impose tariffs on copper imports too. While the recent recovery in LME Copper price from USD 9,000 / MT in Jan to USD 9,500 / MT in Feb is encouraging, prices are particularly sensitive to renewed risk from global trade and China's growth slowdown. As such we maintain our modest negative outlook but adjust the price forecasts to USD 9,000 / MT for 2Q25 and 3Q25, thereafter USD 8,500 / MT for 4Q25 and 1Q26.

Asset Allocation

Asset Class Summary 2Q 2025

The asset class summary below is based on a "Balanced" risk profile.

Asset Class Summary 2Q 2025

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

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

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

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

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

Notes:
The asset class summary above is based on a "Balanced" risk profile.
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 Allocation 2Q 2025

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

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

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Figures might not add up due to rounding off to 1 decimal place.

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

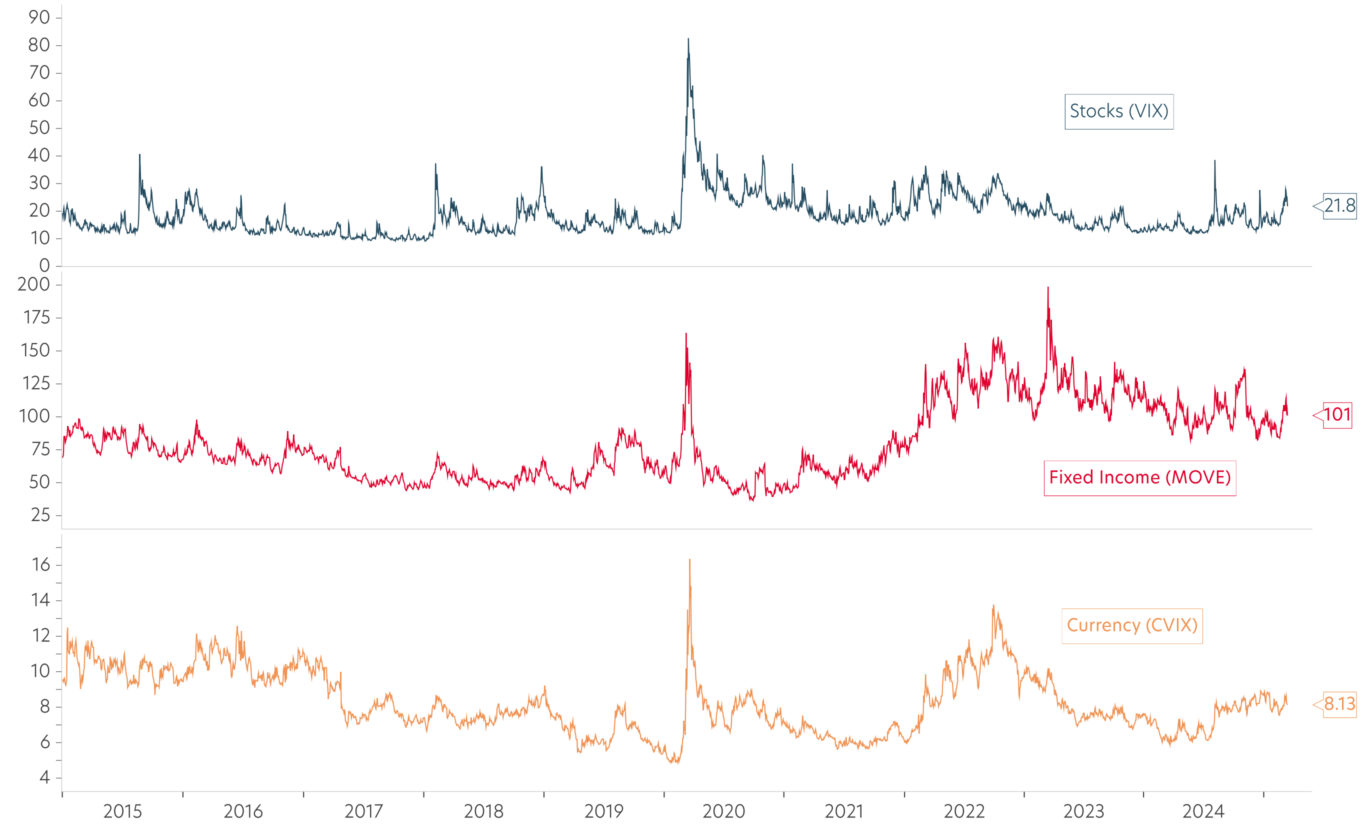
We see gold as an "out-of-system" asset with lower chances of being frozen. This plays to the tune where gold investors, especially governments worldwide, are looking to the yellow metal for a "return of capital" rather than a "return on capital". US Treasuries also offer a buffer if growth falters although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

In the equity space, option strategies, like puts on overvalued tech, guard against AI-driven sell-offs. Dividend-yielding stocks provide defensive equity plays, hedging inflation surprises with stable cash flows. Specifically, international stocks that pay good dividends will likely show a relative outperformance against their US peers that will be subject to volatility. Domestically oriented markets like India that have sold off significantly from its peak and is consolidating at a strong support level today may hold up better than most of the other Asian peers.

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

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

Source: Macrobond, Bloomberg, UOB Private Bank. As at 31 March 2025.



Equities

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

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

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

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

Market Rotation: Our call to rotate from the Magnificent 7 (Mag. 7) names into the rest of S&P 500 (Other 493 or O493) at the start of this year has worked out well in terms of relative performance. We expect performance dispersion across sectors or styles to persist.

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

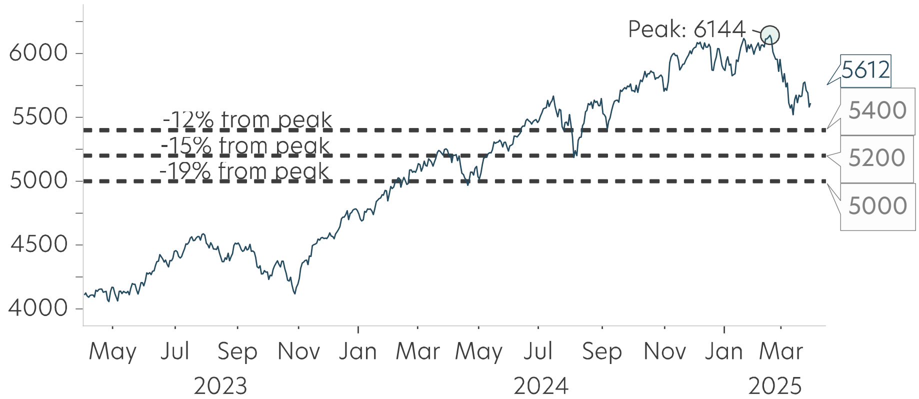
Sector Highlights: We remain focused on buy-on-dip opportunities, particularly in quality large-cap names. AI productivity gains can drive earnings, while a valuation reset from previously stretched levels could provide a conducive backdrop for upside potential. Meanwhile, semiconductor stocks are now much closer to the tail end of the cyclical downturn. Investors should favor defensives such as Health Care and low-volatility dividend stocks in the near term; they will hold up better against the market selloff.

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

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

S&P 500 technical levels to watch

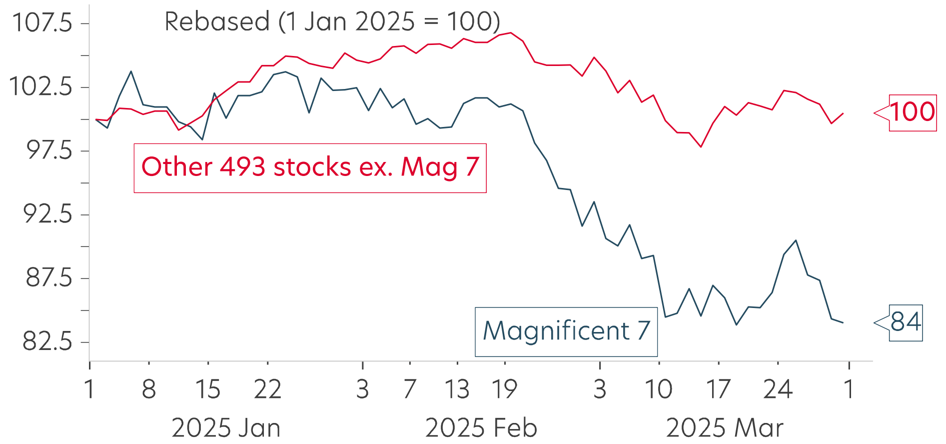
Source: Macrobond, Bloomberg, UOB Private Bank. As at 31 March 2025.



Right By You

Magnificent 7 vs Other 493 YTD Performance

Source: Macrobond, Bloomberg, UOB Private Bank. As at 31 March 2025.



Europe Equities: Follow the money; defence spending and fiscal policy will be key themes

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

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

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

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

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

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

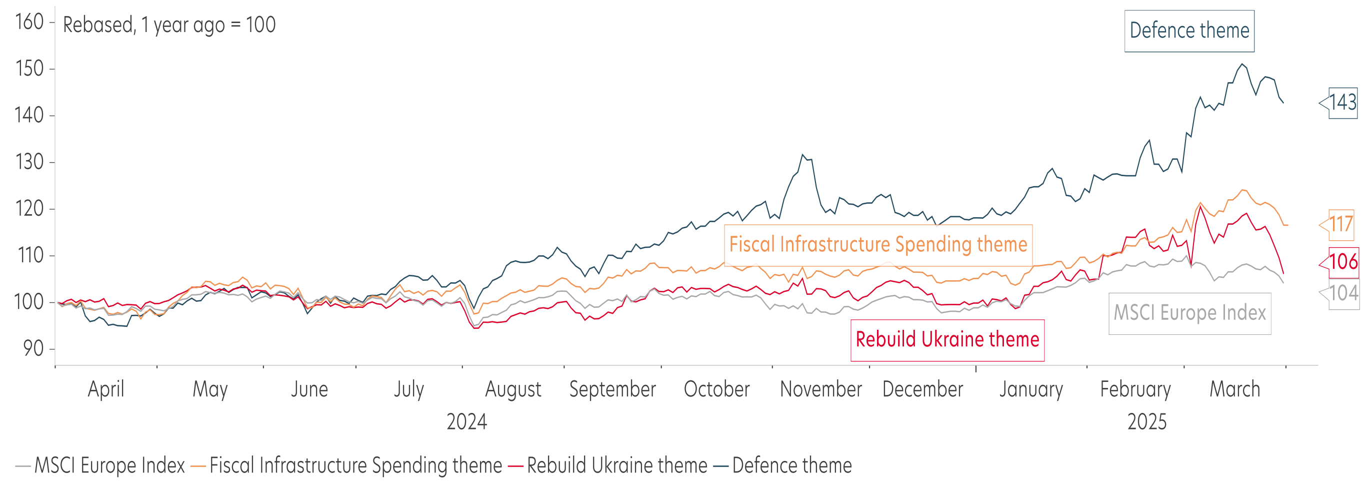
Sector highlights: Defensive sectors like utilities and consumer staples are likely to outperform cyclicals such as energy and luxury goods. Selected industrials riding on the Ukraine rebuilding efforts could also perform well. European banks have pulled back amid falling long-term bond yields but should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

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

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

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

Source: Macrobond, Bloomberg, UOB Private Bank. As at 31 March 2025.



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

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

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

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

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

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

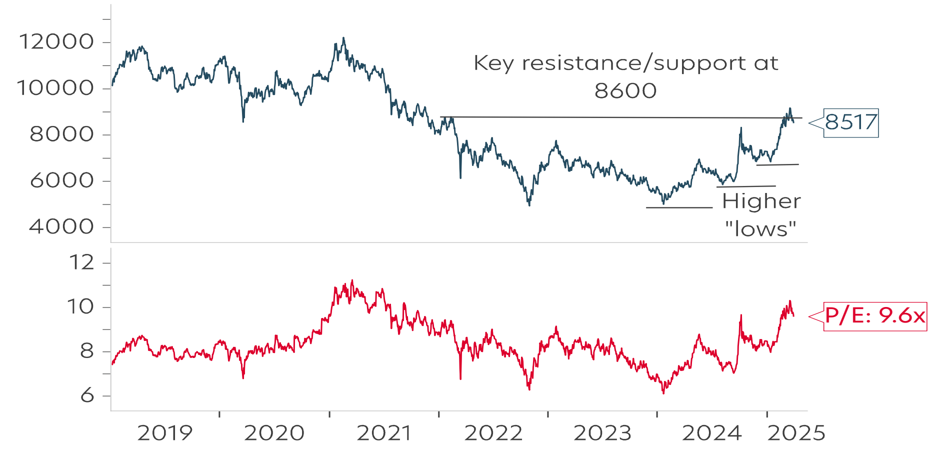
In terms of regions that we favor, we have turned constructive on China. Following the recent broad-based stock correction, India's equities also look interesting as they could be relative haven (from the US tariffs) given their high domestic sales exposure.

Right By You

CIO's recommendation: We upgrade Emerging Asia equities to Overweight from Neutral. This is mainly due to us turning constructive on China's equities. China's equity rally is expected to broaden beyond AI-related names to consumer-related sectors as the fiscal plans come through. Meanwhile, India could be a relative haven (from the US tariffs) given their high domestic sales exposure.

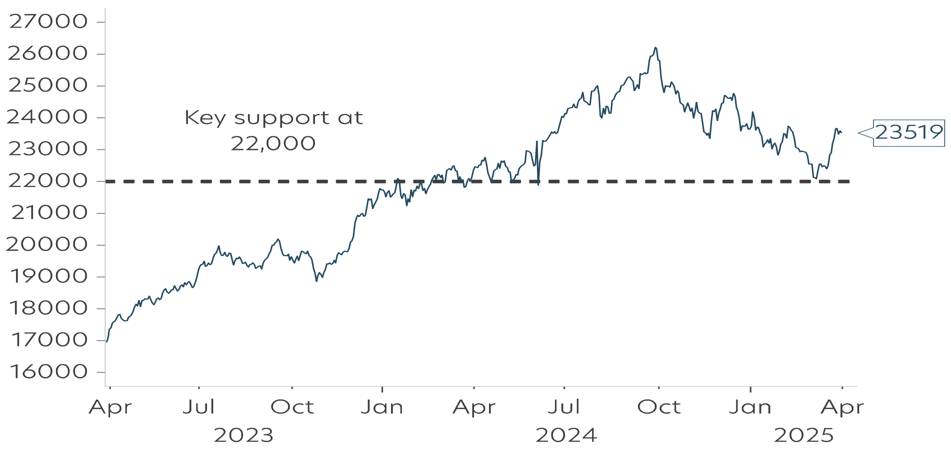
China HSCEI – Positive technical picture

Source: Macrobond, Bloomberg, UOB Private Bank. As at 31 March 2025.



India's Nifty 50 finds critical support

Source: Macrobond, Bloomberg, UOB Private Bank. As at 28 March 2025.



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

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

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

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

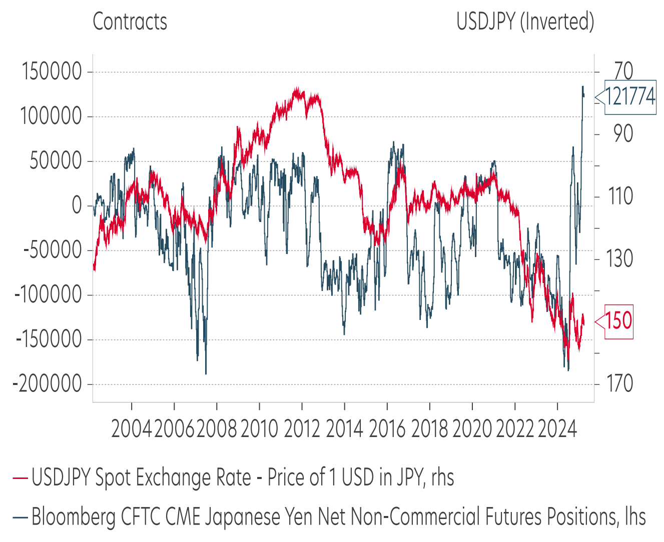
Geopolitical and FX risks: Japan faces risks from global economic uncertainties, particularly in view of US tariffs. In addition, the BOJ is expected to hike its policy rate two more times to 1% by 4Q 2025. Given the potential for persistent yen appreciation, Japanese stock markets could see some volatility.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

Sector highlights and preferences: We reiterate preference for domestically-oriented sectors which are expected to hold up better against yen-induced headwinds. The expected wage increases are also likely to benefit consumer-related sectors such as retail and food. Domestically driven sectors like transport and IT services could perform well. While Japanese banks have fallen sharply alongside long-end bond yields, we expect them to consolidate and recover gradually from current levels. We continue to like quality companies on corporate reforms to enhance shareholder returns.
Overall, we remain constructive on Japan's equities against a backdrop of undemanding valuations at 13.4x 12MF P/E and continued positive earnings revisions. Selectivity is key.

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

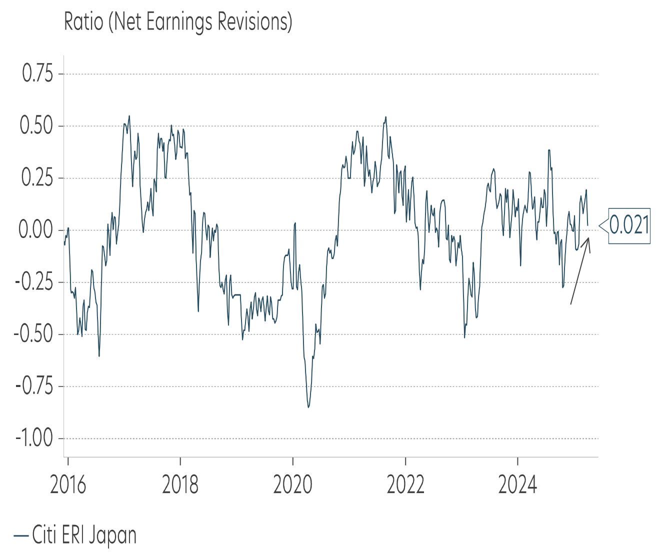
Net-long yen positions highest in 2 decades

Source: Macrobond, Bloomberg, UOB Private Bank. As at 28 March 2025.



Positive revisions despite yen's strength

Source: Macrobond, Bloomberg, UOB Private Bank. As at 28 March 2025.



Fixed Income

Developed Markets Investment Grade: Building in defensive premia

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

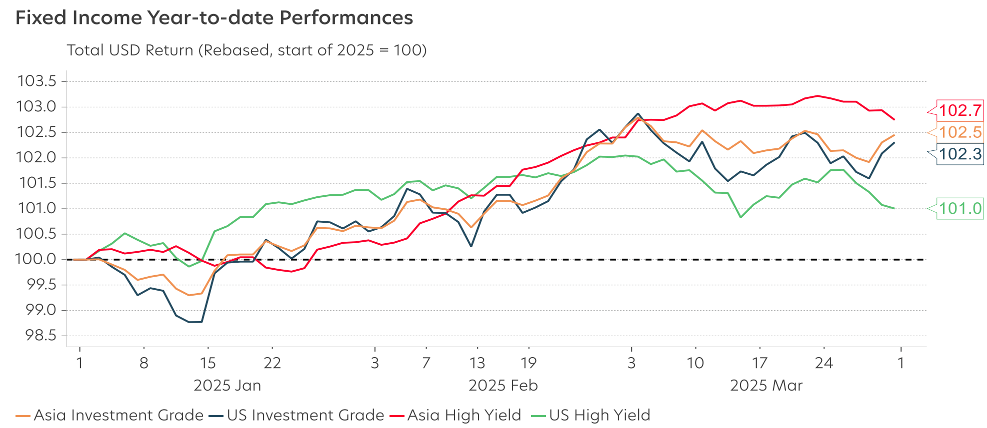
US exceptionalism has taken a pause with Trump tariffs taking center stage. With policy uncertainty remaining a certainty, concerns over trade protectionism and tariff-induced inflation were quickly overshadowed by risk aversion as traders pared back on beta positions. Markets have repriced some bull steepening back into the treasury yield curve with 10yr-2yr differential widening to a +31.4bps.

We are projecting three 25bps Fed rate cuts in 2025. A healthy widening of credit spreads amid the rates rally have kept investment grade (IG) bond yields at compelling levels for income investors. With tariff uncertainty remaining a certainty, our preference for quality bonds from defensive sectors (i.e. consumer staples, utilities, telcos) can provide a defensive hedge with the added benefit of coupon carry.

CIO's recommendation: We remain Overweight on DM USD IG. The IG credits act as effective portfolio diversifiers and come with attractive coupon carry.

Fixed Income Year-to-date Performances

Source: Macrobond, Bloomberg, UOB Private Bank. As at 31 March 2025.



Developed Markets High Yield: Asymmetric risk-reward; credit spread widening to be main risk for DM HY credits in 2025

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

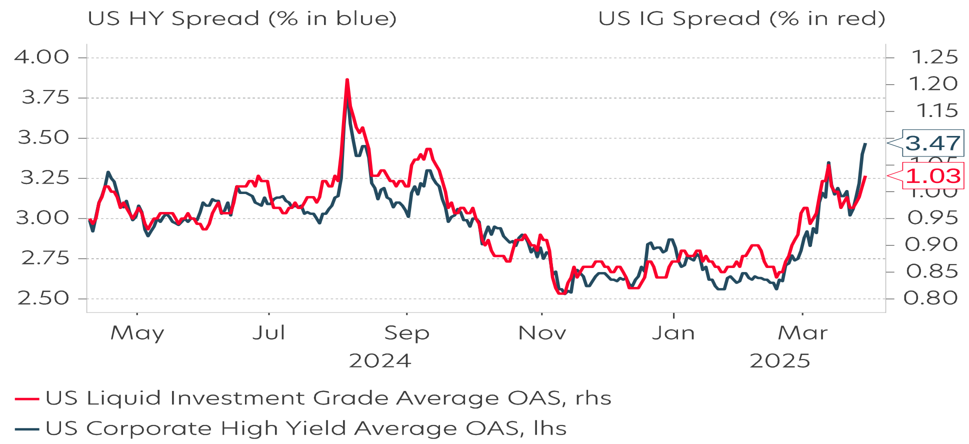
As of writing, DM HY returned +0.83% YTD, marking a ~90bps underperformance relative to its DM IG counterpart. This was attributed to: (1) credit spread widening (DM HY +79bps from the lows vs DM IG +19bps), and (2) shorter duration nature of HY vs DM, which meant HY saw some lag in performance from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

The lagged effects of higher borrowing costs and risks of dampened access to financing channels on increasing economic uncertainty may adversely impact the financial flexibility of weaker companies while funding & liquidity conditions could also be challenging. As such, we see further widening as a notable risk for DM HY credits in 2025.
Investors should dial down on credit risk and seek shelter in higher-rated & more established 'BB' credits over lower-rated ones within the HY complex for better credit defensiveness.

CIO's recommendation: We remain Underweight on DM USD HY.

Spreads have widened significantly

Source: Macrobond, Bloomberg, UOB Private Bank. As at 31 March 2025.



Emerging Markets Investment Grade: Relative haven amidst a challenging macro backdrop

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

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

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

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

Emerging Markets Investment Grade: Selectivity is key in avoiding pitfalls
Emerging Markets Asia High Yield: Selectivity is key in avoiding pitfalls

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

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

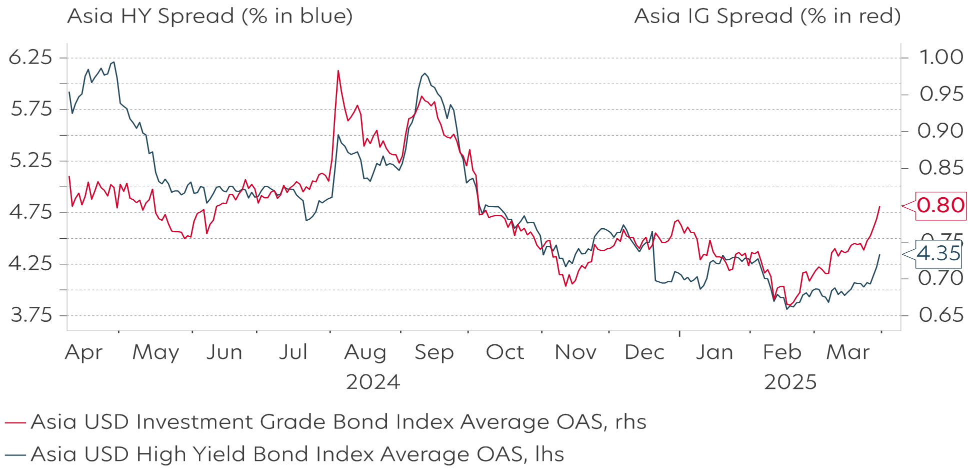
Right By You

In terms of positioning, caution and high selectivity remain our modus operandi within the EM Asia HY sector. We encourage investors 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: Overall, we favour select ASEAN infrastructure, Indonesian utility and Indonesian property development credits. We remain Neutral on EM Asia HY.

Spreads widening has been less extensive than DM counterparts

Source: Macrobond, Bloomberg, UOB Private Bank. As at 31 March 2025.



Right By You

FX, Interest Rate & Commodities Forecasts

FX	04 Apr	2Q25F	3Q25F	4Q25F	1Q26F
USD/JPY	146	145	144	142	140
EUR/USD	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.31	1.33	1.35	1.36	1.37
AUD/USD	0.63	0.63	0.64	0.65	0.65
NZD/USD	0.58	0.57	0.58	0.59	0.59
DXY	101.8	101.6	100.6	99.6	98.6
USD/CNY	7.28	7.55	7.80	7.60	7.50
USD/HKD	7.78	7.78	7.78	7.78	7.78
USD/TWD	33.10	34.0	34.8	34.4	34.0
USD/KRW	1,438	1,480	1,520	1,500	1,480
USD/PHP	56.92	58.5	59.5	59.0	58.5
USD/MYR	4.42	4.60	4.70	4.60	4.55
USD/IDR	16,560	16,900	17,200	17,000	16,800
USD/THB	34.13	35.2	36.0	35.5	35.0
USD/VND	25,803	26,500	27,200	26,800	26,500
USD/INR	85.44	87.0	88.0	87.5	87.0
USD/SGD	1.33	1.37	1.39	1.38	1.37
EUR/SGD	1.48	1.53	1.57	1.57	1.58
GBP/SGD	1.75	1.82	1.88	1.88	1.88
AUD/SGD	0.84	0.86	0.89	0.90	0.89
SGD/MYR	3.32	3.36	3.38	3.33	3.32
SGD/CNY	5.46	5.51	5.61	5.51	5.47
JPY/SGDx100	0.91	0.94	0.97	0.97	0.98

POLICY RATES	10 Apr	2Q25F	3Q25F	4Q25F	1Q26F
US Fed Funds Rate	4.50	4.25	4.00	3.75	3.75
JPY Policy Rate	0.50	0.75	0.75	1.00	1.00
EUR Refinancing Rate	2.65	2.40	2.15	2.15	2.15
GBP Repo Rate	4.50	4.25	4.00	3.75	3.50
AUD Official Cash Rate	4.10	3.85	3.60	3.35	3.35
NZD Official Cash Rate	3.50	3.25	3.00	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	2.75	2.50	2.50	2.50	2.50
PHP O/N Reverse Repo	5.50	5.25	5.00	4.75	4.75
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	5.75	5.50	5.25	5.25	5.25
THB 1D Repo	2.00	1.50	1.50	1.50	1.50
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	6.00	5.75	5.50	5.50	5.50

INTEREST RATES	04 Apr	2Q25F	3Q25F	4Q25F	1Q26F
USD 3M SOFR (compounded)	4.35	4.28	4.02	3.77	3.64
SGD 3M SORA (compounded)	2.54	2.37	2.26	2.17	2.10
10Y US Treasuries Yield	4.01	4.00	4.00	3.90	3.90
SGD 10Y SGS	2.53	2.50	2.50	2.50	2.50

COMMODITIES	07 Apr	2Q25F	3Q25F	4Q25F	1Q26F
Gold (USD/oz)	3,000	2,900	3,000	3,100	3,200
Brent Crude Oil (USD/bbl)	65	65	65	60	60
Copper (USD/mt)	8,732	9,000	9,000	8,500	8,500

Updated on 10 Apr 2025
Source: UOB Global Economics & Markets Research

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