NAVIGATING EQUITY MARKET IN AN UNCERTAIN ECONOMY

2025 Q2 EQUITY MARKET OUTLOOK

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Highlights：

- **Flip-flopping US policies dampen economic prospects; lowering US equities to slightly underweight**
- **Rising European military, infrastructure spending will buoy economy; slightly positive on European equities**
- **Adopting a neutral stance on Chinese equities due to improving economic outlook, AI prospects, and favourable policies**

Staying cautious on US equities amid uncertain economic outlook; Turning positive on Europe, and neutral on China as fundamentals improve

Since US President Donald Trump took office, investors and companies have struggled navigating the US' flip-flopping policies, which have hindered them from devising long-term strategies. Market volatility has significantly increased, as global markets are clouded by uncertainties and exacerbated by worries that the US may fall into a recession. We unfazed by the heightened volatility, and has already taken steps to reduce our equity exposure while increasing holdings in cash, awaiting opportunities to snap up quality stocks during market corrections. Despite that volatility will likely persist, so we will adopt a relatively balanced and defensive investment strategy.

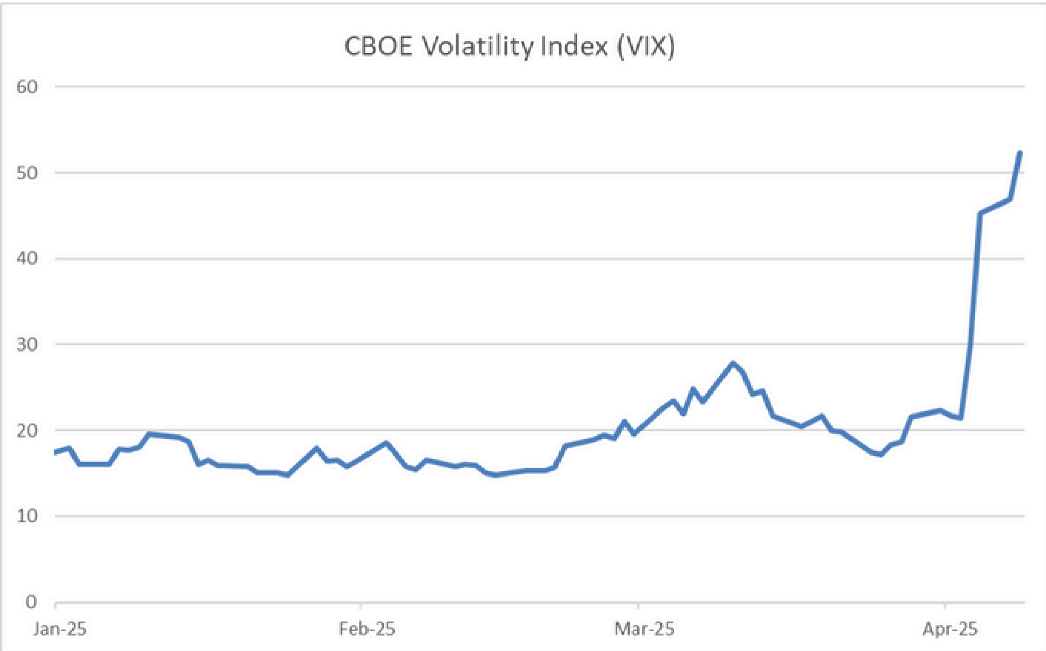
Trump's erratic policies are obscuring the US economic outlook, prompting our downgrade of US equities. In Europe, the market draws support from Germany's fiscal reform, including higher military and infrastructure investments, as well as the accommodative monetary policy from the European Central Bank (ECB). This has led us to adopt a relatively optimistic stance on European stocks. . In Asia, the team expect continued tariff tensions between the US and China, estimating that China may introduce stronger economic stimulus measures in the short term, hence our neutral stance on Chinese equities. Similarly, we maintain a neutral view on Japanese equities in the region.

Global short-term macro conditions remain challenging and unpredictable. Navigating uncharted territories, many countries are pressed to look for solutions in response to Trump's fluctuating trade policies. Geopolitical and trade tensions will lead to greater volatility. Factors including fund flows, China's stimulus measures and tariff tensions between various countries and the US will all influence market trends.

Trump policies, Fed rate trajectory to dictate US equities; European corporate profitability eyed

The Trump administration's latest imposition of reciprocal tariffs brings uncertainty to global economic growth and stock markets, prompting the team to lower their ratings on US equities to 'Slightly underweight'. Although US equity valuations have found support after previous significant corrections, the future trajectory of US stocks depends on eliminating current macroeconomic uncertainties. The team believes that the policy pivots of both Trump and Fed Chairman Powell will play a key role in alleviating market uncertainties.

The CBOE Volatility Index, a measure that gauges volatility in US markets, rose sharply to over 50% recently, indicating strong investor concerns about future market volatility. In addition, recent weak US economic data raises investor concerns about a potential US economic recession, making the Fed's direction the focus of the market again.



Source: Bloomberg, as at 10 April 2025

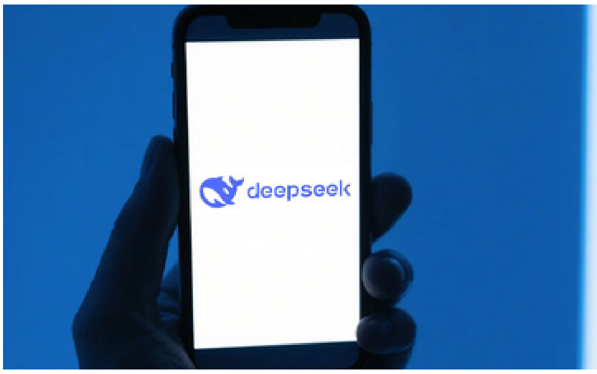
Europe, a region challenged by long-term economic struggles, may expect to show some development. ECB lowered rates again in March, and under pressure from Trump, the region plans to increase its defense spending. Germany has pledged its commitment to supporting Ukraine by vowing to amend its constitution, exempting defense spending from fiscal rules. These measures will likely bolster industrial activity domestically, subsequently fueling broader economic growth in Europe. As a result, the team has raised our views on European equities to slightly positive, particularly for cyclical stocks. However, given the region's relatively ailing economy and volatile geopolitics, and the impact of recent reciprocal tariffs, we will need to monitor Europe's corporate profitability before further revising up our rating and the subsequent developments in tariff negotiations is necessary before further upgrading European stock ratings.

Improving policy clarity benefits Chinese equities; Neutral on Japanese stocks due to yen strength

Supported by a spate of positive factors, such as stabilising macroeconomic conditions, China's rapid advancement in AI, and measures to drive consumptions, we have become slightly more positive on Chinese equities, expecting growth potential from China's economy and corporate profitability over the next 6 to 12 months. China's January-February consumption, investment and industrial growth met or exceeded market expectations, and a series of recently announced policies aimed at driving domestic demand and consumption have buoyed investor sentiment. Furthermore, Beijing's recent meeting with leading privately-owned enterprises has improved policy visibility. Following the launch of DeepSeek, a Chinese startup recently unveiled Manus, an AI agent that processes and analyses information through sensors to make decisions. Moreover, a key e-commerce player has vowed to continue its investment in AI, signalling an upward trajectory in capital expenditures on technology, which will, in turn, support economic growth. The combination of these encouraging factors has led to our rating upgrade for Chinese equities. Amid a revival of sentiment towards investing in China, the team particularly favours AI-related sectors, such as internet, communications, and consumer discretionary, due to the prospect of improving fundamentals. However, tariff issues and geopolitical tensions will continue to affect market sentiment and bring downside risks to Chinese stocks.

Source: Caixin, as at 18 March 2025

In Japan, the country's economy remains stable. The country's revised 2024 fourth-quarter GDP rose 2.2% year-on-year, an improvement from the 1.2% growth in the third-quarter. Inflation continues to rise modestly, but persistently weak domestic consumption and escalating trade conflicts will affect the Bank of Japan's monetary policies. We are upholding a 'Neutral' view on Japanese equities, due to the difficulty in assessing the potential economic impact from unclear monetary policies, exacerbated by the yen's persistent strength amid a risk-off sentiment.



Conclusion

Trump's inconsistent policies, together with uncertainties surrounding geopolitics and trade war, will likely to contribute to ongoing market volatility. The unpredictability of US policies elevates risks to the US economy, prompting our shift to slightly underweight on US equities. We have turned slightly positive on Europe and neutral stance on China, as both regions exhibit improving fundamentals, but we remain vigilant about downside risks that may arise from geopolitical tensions and tariff developments. Overall, we recommend that investors seek opportunities across global markets while adopting a balanced and defensive investment strategy to diversify risks and hedge against volatility.

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