CIO OFFICE | MARKET OUTLOOK 2Q25

Trump 2.0 –

Beyond The Noise

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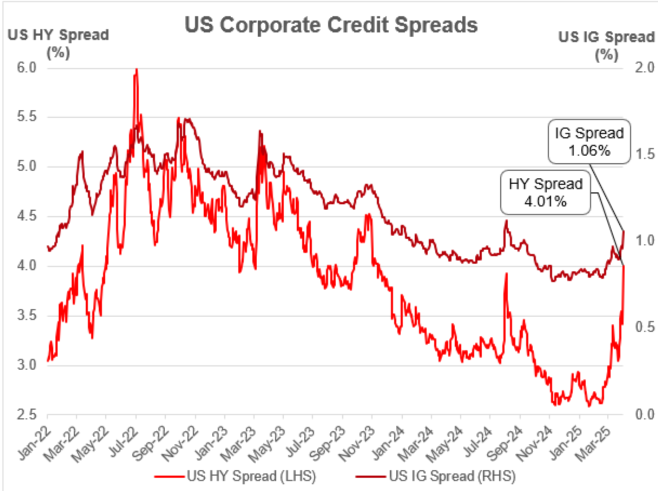
Tariffs. Tariffs. Tariffs.

Over the past weeks, the T word has dominated news headlines. As tit-for-tat measures create uncertainty in policy this has led to heightened volatility in both the equity and fixed income markets. Perhaps more importantly investors are trying to assess the impact markets try to balance expectations of slower growth, and higher inflation.

All this has led us to wonder if we have seen the end of US exceptionalism is. While this remains to be seen, what is clear is that US supremacy is being challenged. Investors have cast their votes with lower corporate earnings expectations, and the US markets have corrected accordingly.

Asia has not been spared in the spat and our expectations are for Asia to be negatively impacted by the tariff news given its dependence on exports as a major part of the economies.



Source: Ice Data Indices, LLC via FRED®, CIMB Chief Investment Office

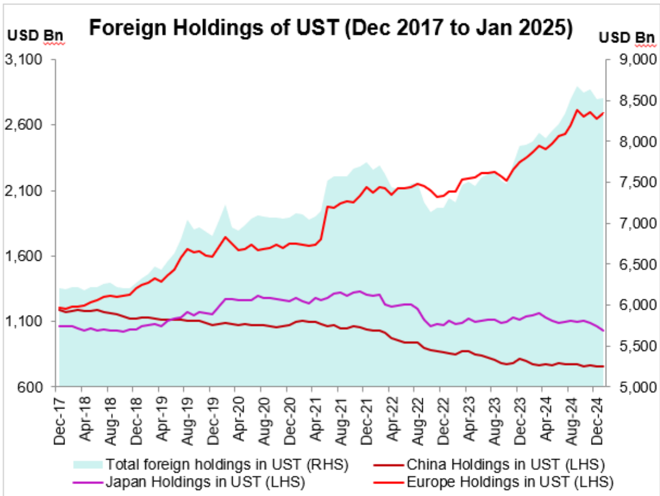
Fixed Income – Bullish for now but watch for inflation

US Treasuries have been better supported throughout the recent developments as markets factor in rising recession risks, as well as the possibility of Fed rate cuts. However, as inflation fears grow, yields may get higher, and we expect bond yields to remain volatile through 2025 amidst these changing expectations.

Corporate credit spreads have widened but are still below their long-term average. Remain alert as this could quickly accelerate if there is a loss of confidence by investors.

For bond bulls, economic worries, the Trump administration wanting lower yields, and the rising expectation that the Federal Reserve may intervene should the current rout go too far provides an argument for the asset class.

On the flip side, as uncertainties over trade policies remain unresolved, foreign holders of US debt may move flows abroad leading to a decline in prices. In addition, trade disruption and concerns over the US fiscal balance may cause investors to consider alternatives.



Source: US Department of the Treasury, CIMB Chief Investment Office

China – Navigating the Great Wall of Tariffs

The Chinese government stands ready to provide support and stimulus measures. Even before the latest round of tariff announcements, they had already announced a series of measures to achieve their growth target for the year.

With the announcement of DeepSeek AI, Chinese companies are also establishing their position as a key challenger within the AI space. Chinese tech companies are trading at discounts with the HSTECH trading at 14x forward PE and HSI at 8.7x. Both are below their mean valuations, reflecting the uncertainties of the current trade policies.

We expect further correction in both Indices given an escalating trade war. Nonetheless this also presents opportunities to take positions in quality stocks as prices dip. Investors can also balance this with dividend paying securities to ride out the volatility.

At this juncture though, consider avoiding companies that have significant sales exposure to the US.

Source: Bloomberg, CIMB Chief Investment Office

Valuations as of 7 April 2025

We still like Malaysia

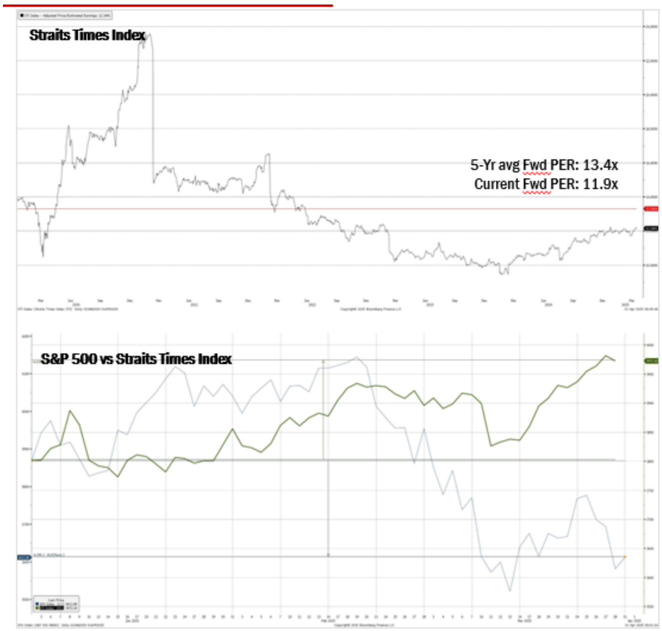
Malaysian equities have not been spared in the current uncertainties in trade policies and have experienced outflows for this reason as well as on risk aversion. Nonetheless there are fundamental reasons that support the Kuala Lumpur Composite Index (KLCI). In addition to a resilient banking sector, projects such as JSSEZ[1], NETR[2], NSS[3] and domestic support from Government-Linked companies provide a favourable mid to long-term outlook for Malaysia.

Value has emerged for the KLCI at 12.7x PER

Source: Bloomberg
Valuations as of 7 April 2025

Singapore – A Harbour in Choppy Waters

Singapore's market while not immune to external forces has demonstrated resilience in current market conditions. The Straits Times Index (STI) is currently attractive with valuations below its long-term average and its status as safe haven has also seen the index outperform the S&P500 year-to-date. Dividend yields remain attractive at approximately 5%. In anticipating an environment where increased volatility can be expected, this gives rise to opportunities to build a position.



Source: Bloomberg, MAS, SGX

[1] Johor-Singapore Special Economic Zone
[2] National Energy Transition Roadmap
[3] National Semiconductor Strategy

Key Message for 2Q25

1. Volatility is expected to continue as uncertainty remains on tariff announcements.
2. While navigating the market choppiness, income-based strategies can help to provide some support for portfolios.
3. Stay invested and gradually add to position on dips as value can be found after the recent sell-offs.

Building a Globally Resilient Portfolio

Our views are reflected in our Asset Allocation, and we believe that the recent drawdowns have been reactive to the negative news. Given the ongoing uncertainty expected and consequently more volatile markets, we have reduced our overweight position in US equities and remain neutral overall for equities.

Within fixed income, we advocate staying away from ultra-long dated bonds and instead focus efforts on shorter duration credits. Remain cautious on high-yield bonds as credit spreads have widened may continue to do so if credit conditions worsen.

Gold continues its reach new highs and an allocation to Gold would provide a hedge amidst all the uncertainty. At this point however, the run up seems to have been overbought, and we are shifting to an underweight position for gold. We have increased our cash allocation in anticipation of buying opportunities.

While a globally diversified portfolio is something we have always emphasized on, times like these accentuate the importance of such an investment approach.

Our Asset Allocation at a Glance

	UnderWt		Neutral	OverWt	
EQUITIES (45%)	○	○	■	○	○
U.S.	○	○	■	○	○
Asia Ex-Japan	○	○	■	○	○
Hong Kong/China	○	○	■	○	○
ASEAN	○	○	■	○	○
FIXED INCOME (47.5%)	○	○	□	●	○
Sovereigns	○	○	■	○	○
Corporate Inv. Grade	○	○	□	●	○
Corporate High Yield	○	○	■	○	○
ALTERNATIVES (5%)	○	●	□	○	○
Gold	○	●	□	○	○
CASH (2.5%)					

Trade Ideas

Structured Notes

China Stimulus and Consumption Plays (Growth & Yielders)	Partial Hedging Instruments for Risk Assets
Autocallable Equity Linked Note • Tencent (700 HK) • Meituan (3690 HK) • Haidilao (6862 HK) **Sharkfin Structured Note (moderately bullish)** • Ping An Insurance (2318 HK)	**Sharkfin Structured Note (moderately bullish)** • iShares Silver Trust (moderately bullish) • Hang Seng China Enterprises ETF (moderately bearish)
Selective Value and Growth Stocks (Malaysia & Singapore)	
Autocallable Equity Linked Note • Capitaland Investment • SP Setia **Sharkfin Structured Note (moderately bullish)** • RHB Bank • OCBC	

Unit Trust Funds

Theme	Fund Name	Currency	YTD[4] returns %
US Supremacy Challenged	United Global Durable Equities Acc SGD	SGD	-3.70%
	JP Morgan Global Select Equity A (Acc) SGD	SGD	-12.67%
US Rates to Stay Volatile as Narrative Shifts	Allianz Income and Growth Cl AM DIS H2-SGD	SGD	-5.96%
	PIMCO Income Fund Cl E Inc SGD-H	SGD	1.19%
	Capital Group MSI (LUX) Bfdmh-SGD	SGD	-1.06%
China – Navigating the great wall of tariffs	JP Morgan China A-Share Opportunities A (Acc) SGD	SGD	-2.10%
ASEAN – Emerging Value	JP Morgan ASEAN Equity A (Acc) SGD	SGD	-7.62%
Building a Globally Resilient Portfolio	Manulife Global Multi-Asset Dvrs Inc AA SGD H Inc	SGD	-4.61%
	Nikko AM Japan Dividend Equity SGD Hdg	SGD	-5.97%

Source: CIMB CIO Office, Bloomberg

[4] Returns expressed in SGD. Data as at 23 Apr 2025 unless otherwise stated

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