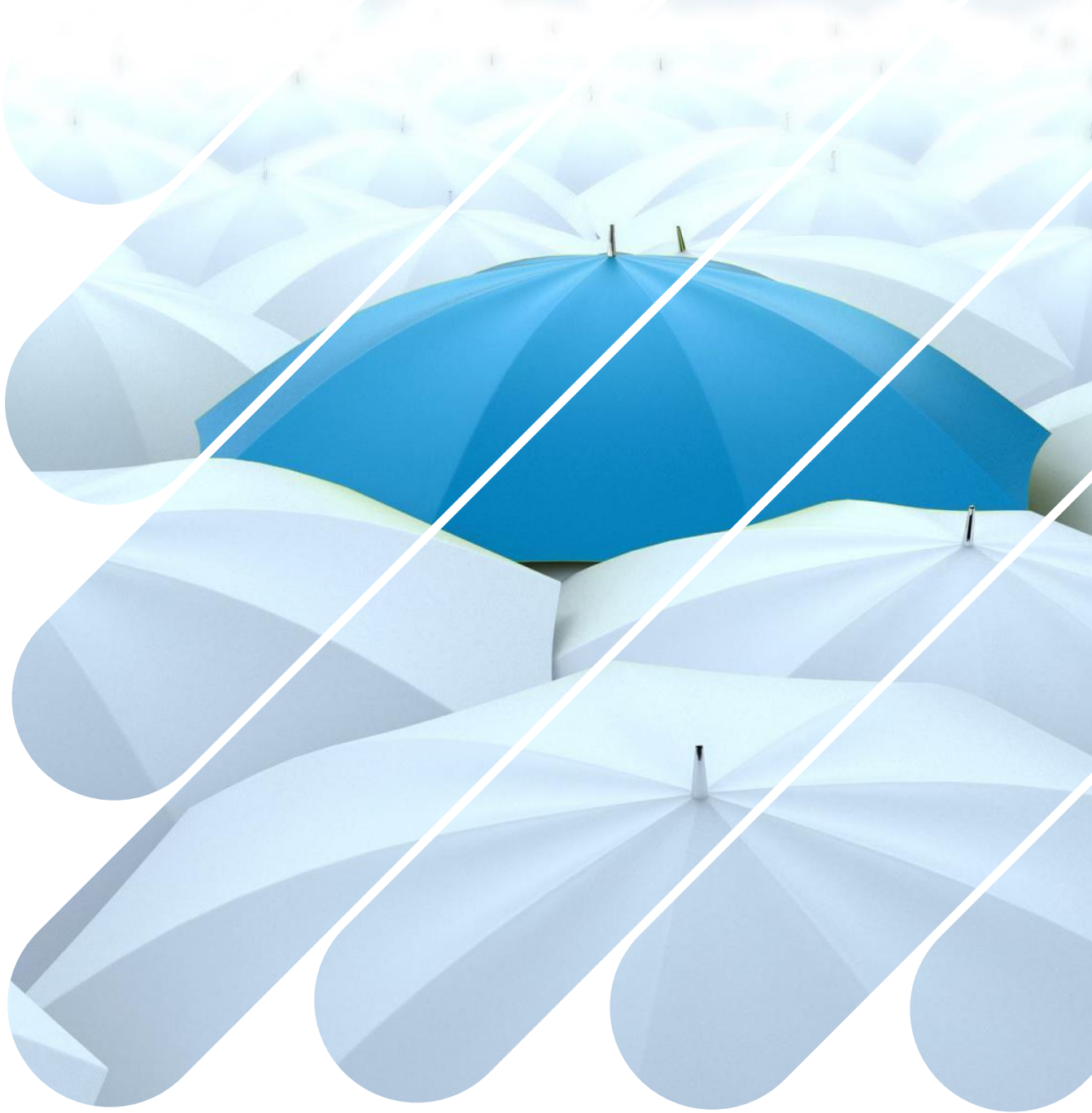
Quarterly Investment Strategy
Second Quarter 2025

The expansion continues amid increased risks

Investment Outlook Summary



Macro-outlook

	Glass half-full	*Glass half-empty*
Global Economic Growth	• US consumer resilience • China stability measures • Global Inflation controlled	• Global manufacturing PMIs are too weak • Global housing needs to stabilize • Mixed US employment signals
Trump Policies	• Tax cuts and deregulation can support growth • Potential rebound in “animal spirits” as conservatives feel better about the economy	• Most of his policies are inflationary • A trade war would be bad for growth
Global Equities	• Strong global corporate earnings growth • Potential US tax cuts to further improve earnings • Extended economic cycle with stimulus implies an extended equity cycle	• Valuations are approaching 2000 levels • Market breadth has been too narrow
Global Fixed Income	• Inflation and rate hikes have peaked • Bond yields higher than more attractive than the past decade	• Interest rate cuts may disappoint the market • Inflation may stop improving
Global Geopolitics	• Markets hopeful Trump will solve everything • Oil prices are low • China reforms have made it more stable	• Shaky politics in Germany • Shaky politics in Japan • Middle East and Ukrainee remain key risks

Key views for 2Q 2025

Our base case outlook

is for a continued expansion at a more moderate pace over the coming year with inflation remaining contained

Global Equities

A continued expansion and continued earnings growth would be supportive of equities, but we are neutral due to uncertainty

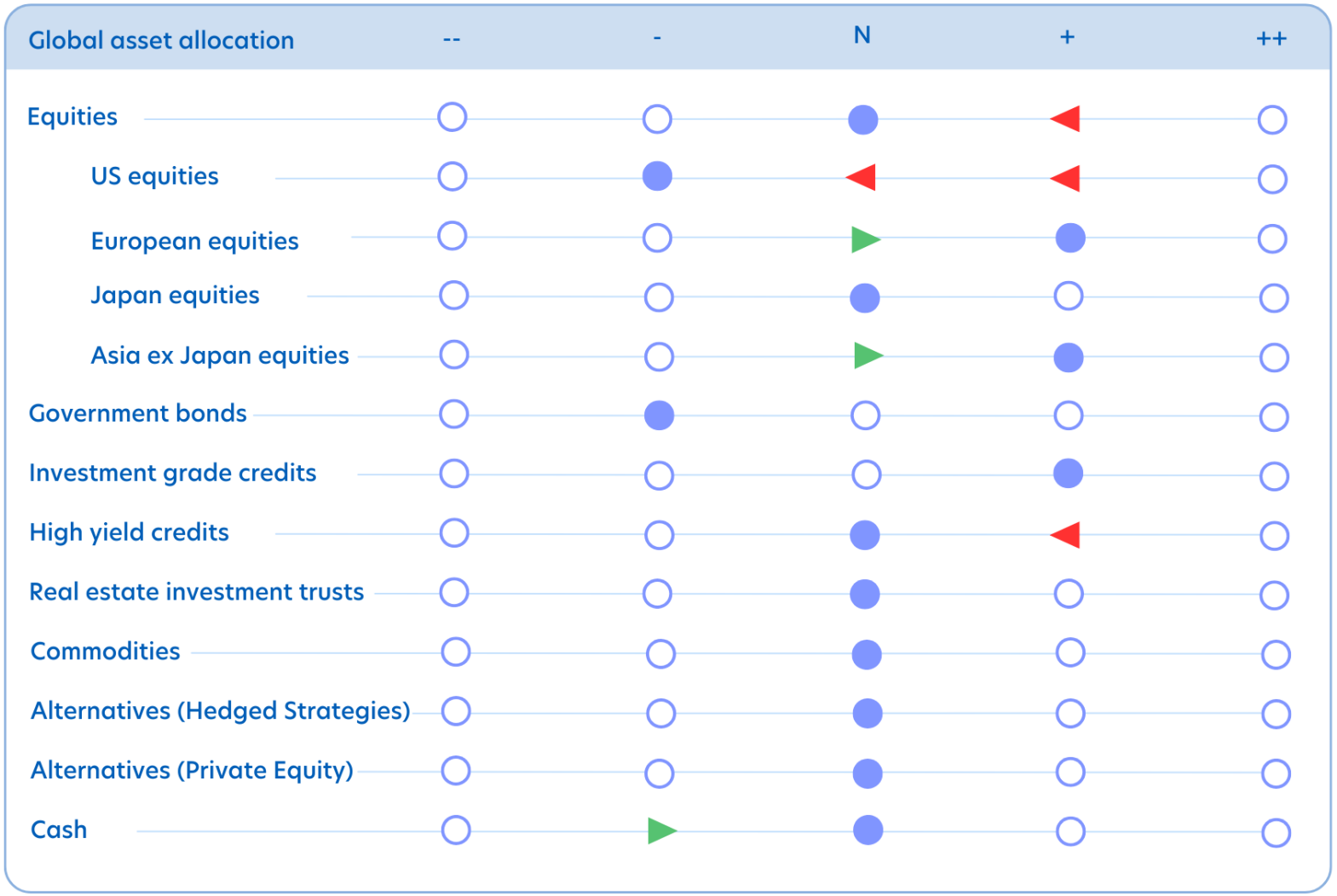
Fixed Income

should provide solid returns driven by good yields and interest rate cuts, albeit with some yield volatility

Conclusion

- We expect 1 to 2 more Fed rate cuts in 2025
- We expect UST bond yields to range between 4.25% and 4.75%
- We expect the USD to be well supported at the top of its current range
- We think Asian equities will outperform in 2025

Asset Allocation Strategy: Neutral equities for 2Q25

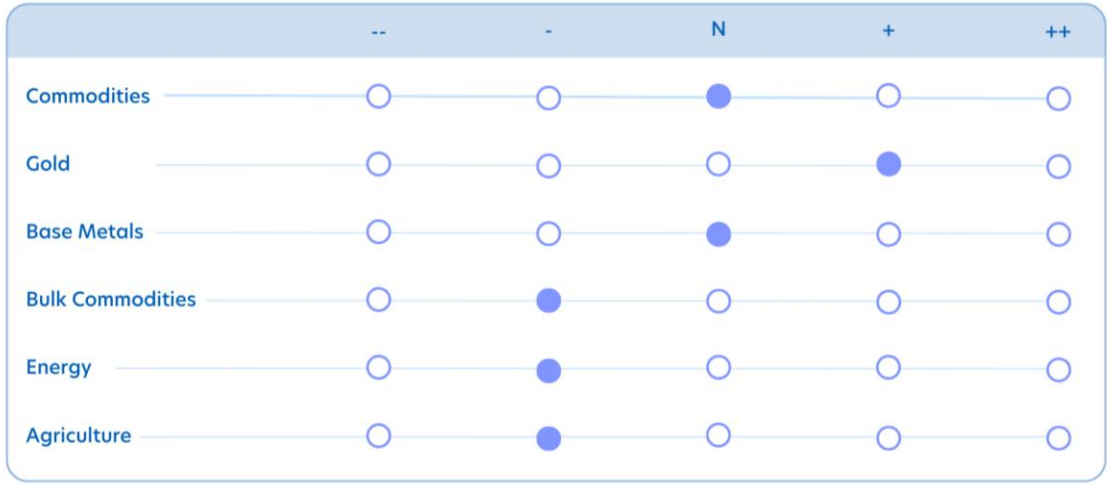


++ Strong overweight + Overweight N Neutral - Underweight -- Strong underweight

Source: UOBAM, 10 March 2025. Note: *3-6 months horizon. The weights are relative to the appropriate benchmark(s), arrows show change from last quarter

Fixed income and commodities strategy maintained neutral

++ Strong overweight + Overweight N Neutral - Underweight -- Strong underweight



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Source: UOBAM, 10 March 2025. Note: *3-6 months horizon. The weights are relative to the appropriate benchmark(s), arrows show change from last quarter

Global Macro-economic Trends

GDP Growth

Global economists are no longer worried about a recession

Real GDP Growth Consensus Estimates (%)

	2021	2022	2023	2024F	2025F	2026F
Global	6.6	3.6	3.3	3.2	3.0	3.0
United States	6.1	2.5	2.9	2.8	2.2	2.0
Eurozone	6.3	3.5	0.4	0.7	1.0	1.2
Japan	2.7	0.9	1.5	-0.2	1.2	0.9
Asia ex Japan	5.9	4.1	5.0	5.2	4.5	4.4
China	8.4	3.1	5.4	5.0	4.5	4.2

Source: Bloomberg, UOBAM, 16 Feb 2025

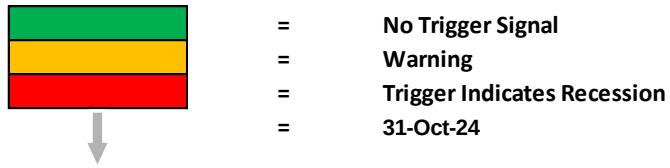
Earnings growth expectations remain strong for 2025/26

Regions	EPS Growth (YoY%)		PER		Dividend Yield	PBR		ROE	
	2025E	2026E	2025E	2026E	2025E	2025E	2026E	2025E	2026E
US	12.9	13.8	22.5	19.7	1,3	4.7	4.2	20.8	21.2
Europe	7.1	10.8	14.2	12.8	3.3	2.0	1.8	14.0	14.4
Japan	9.8	8.6	14.2	13.1	2.5	1.4	1.3	9.7	9.9
Asia ex Japan	12.0	13.5	13.2	11.7	2.6	1.6	1.5	12.1	12.5
China	8.7	11.8	10.7	9.5	2.5	1.3	1.2	12.1	12.3

Source: Factset UOBAM, 16 Feb 2025. Based on Calendar Year.

UOBAM's recession checklist still looks safe

	Recession Indicators	Warning Signal
1	Yield Curve Inversion	
2	Leading Indicators	
3	Leverage concerns	
4	Economics Probability	
5	Financial Stress (OIS Spreads)	
6	High Yield vs IG spreads	
7	Market correlation spikes	

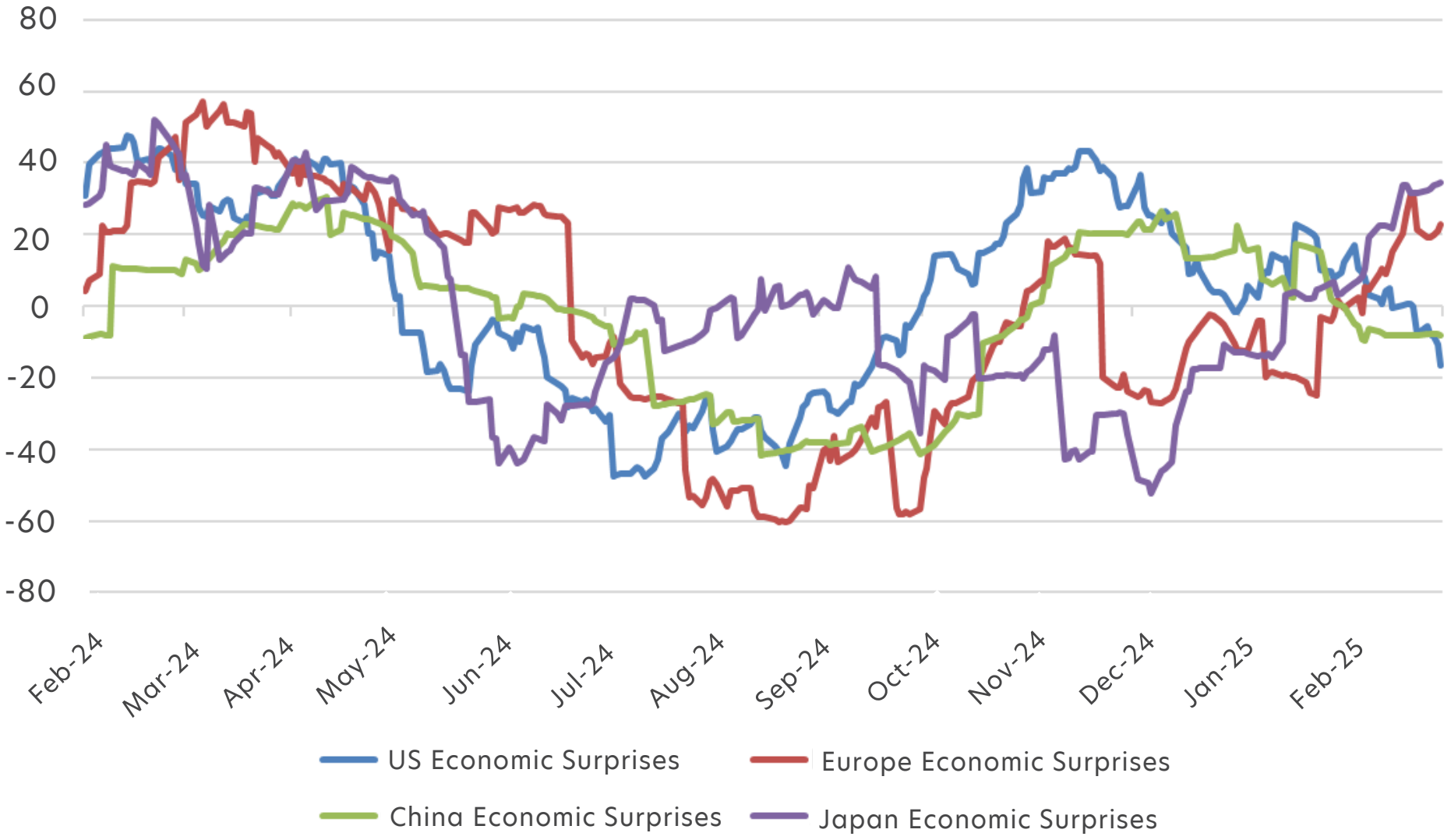


= No Trigger Signal
= Warning
= Trigger Indicates Recession
= 31-Oct-24

Source: UOBAM, Feb 2025

The Recession indicator checklist sets out UOBAM house views on the respective recession indicators. They are based upon certain assumptions, management forecasts and analysis of information available and reflects prevailing conditions and our views as of the date of this publication

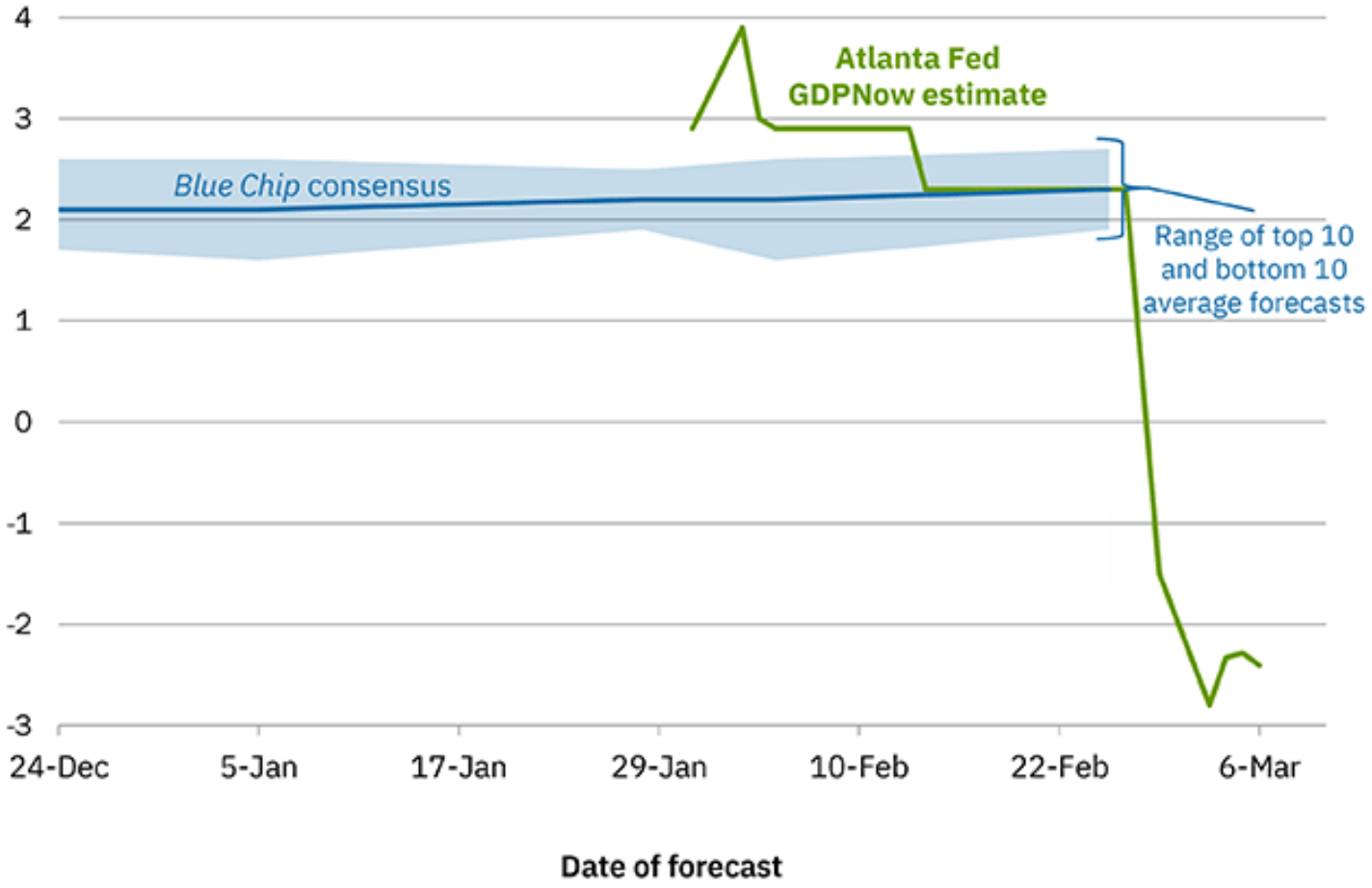
While other regions are picking up, US economic data has started to surprise negatively



Source: Bloomberg, UOBAM, as of 3 March 2025

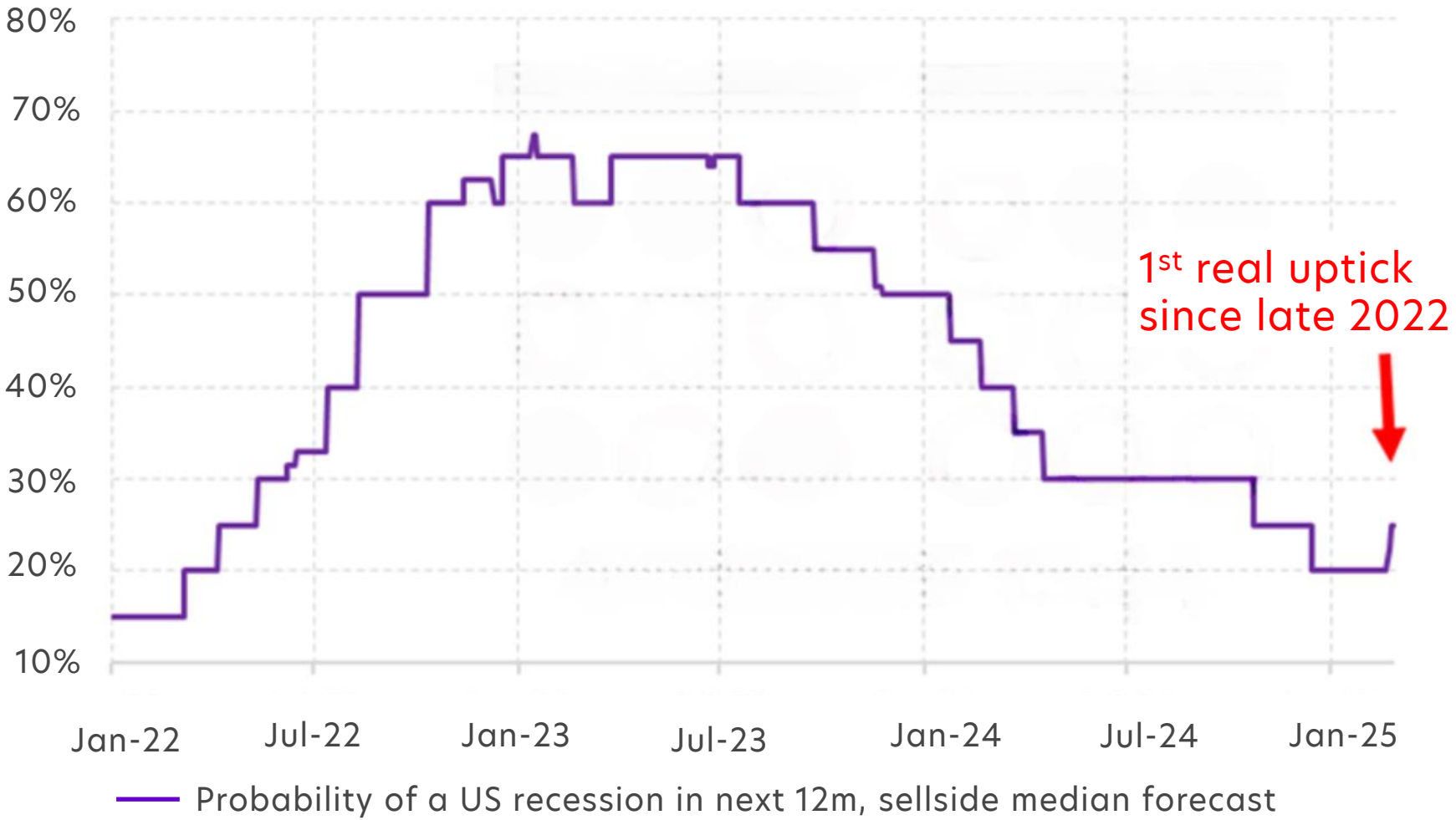
US GDPNow forecasts have turned negative

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025:Q1 Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey

US recession risks remain low but economists are starting to reconsider their recession risk probabilities

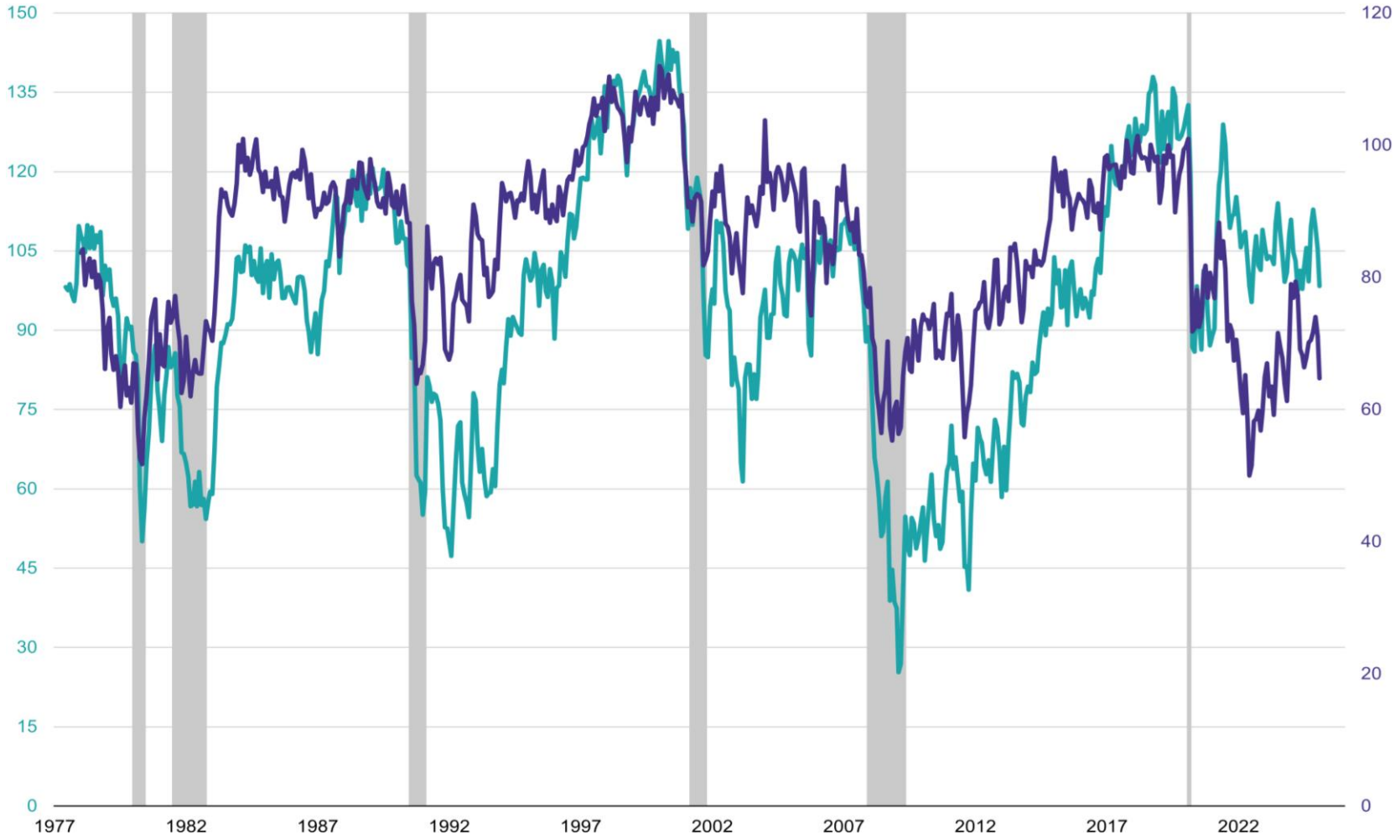


Source: Bloomberg, Vanda

Emerging signs of weakness in “soft” economic indicators

UOB Asset Management

Two measures of consumer attitudes
Consumer confidence vs consumer sentiment

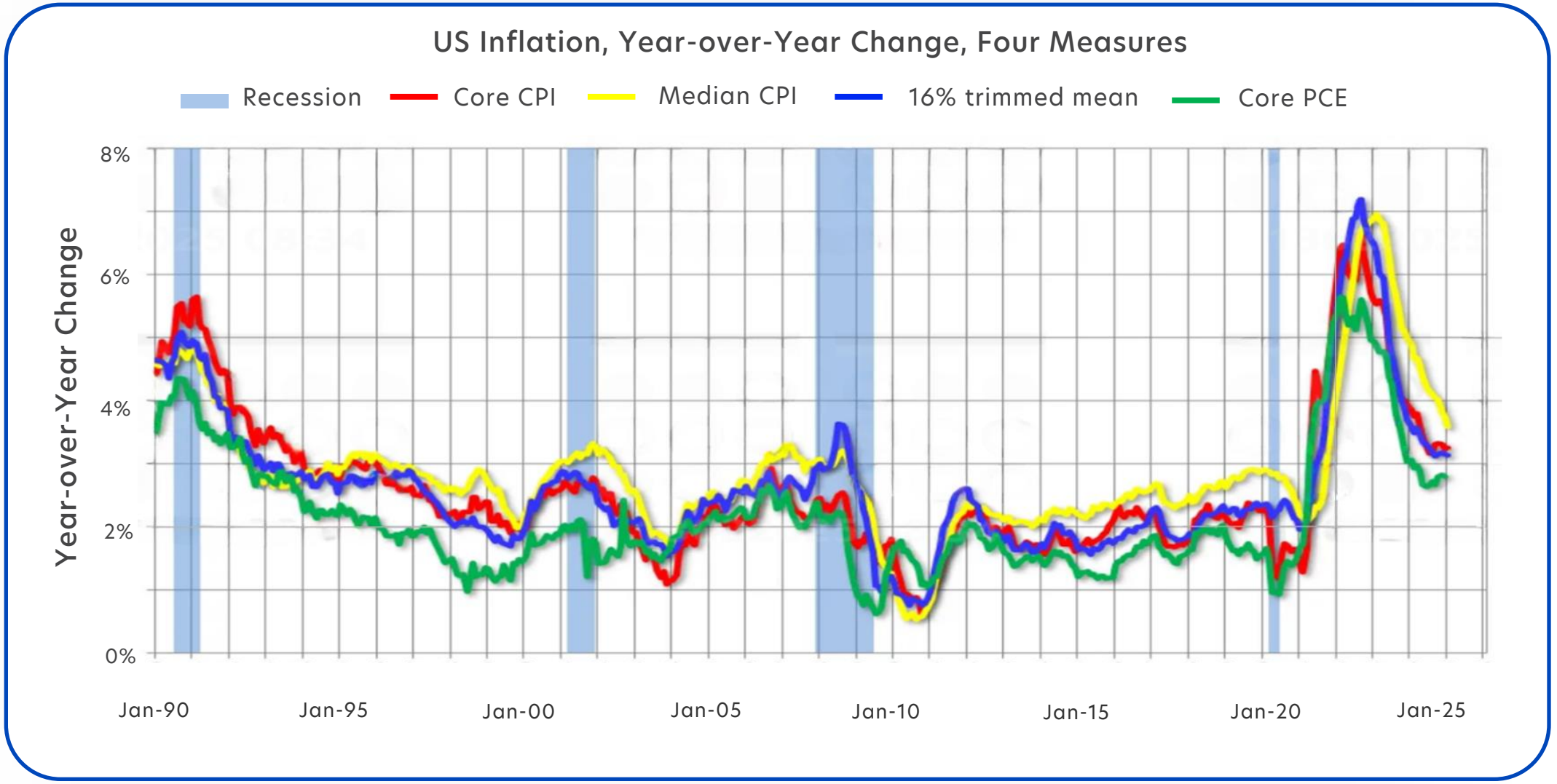


Source: Michigan of Consumer Sentiment Survey index, UOBAM. As of Feb 2025

US housing sector remains weak due to high mortgage rates

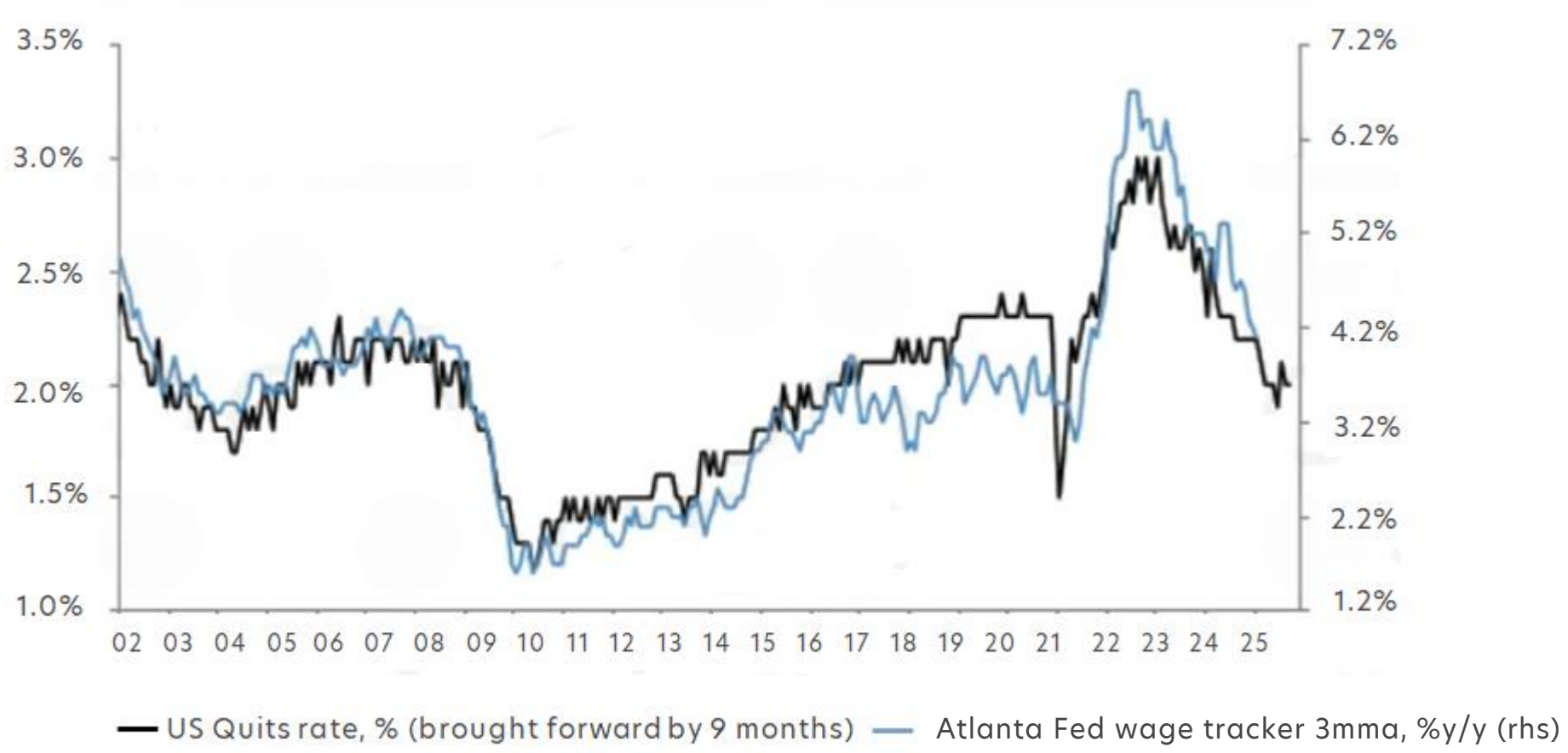
Source: Bloomberg, UOBAM. As of Feb 2025

Core inflation trends continue to moderate globally, albeit at a slower pace than in 2024



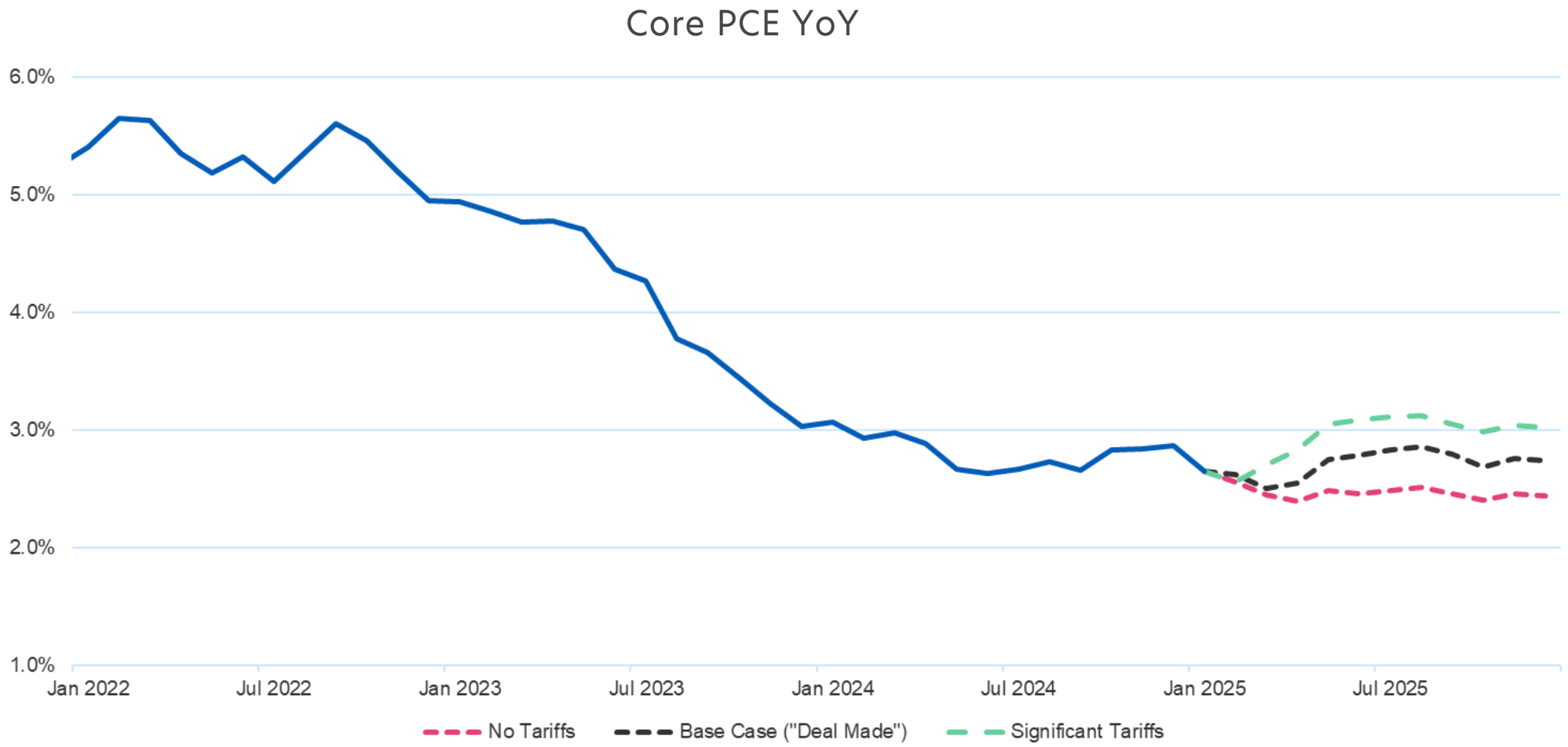
Source: Bloomberg, UOBAM. We Use Core CPI For Singapore And China, Core PCE For The US And Core HICP For Europe

Wage growth, the biggest cycle driver of inflation, remains benign so far



Source: Bloomberg Finance LLP

We expect inflation to come down in 1H25 before rising through 2H25 given impacts of tariffs and tighter labor supply



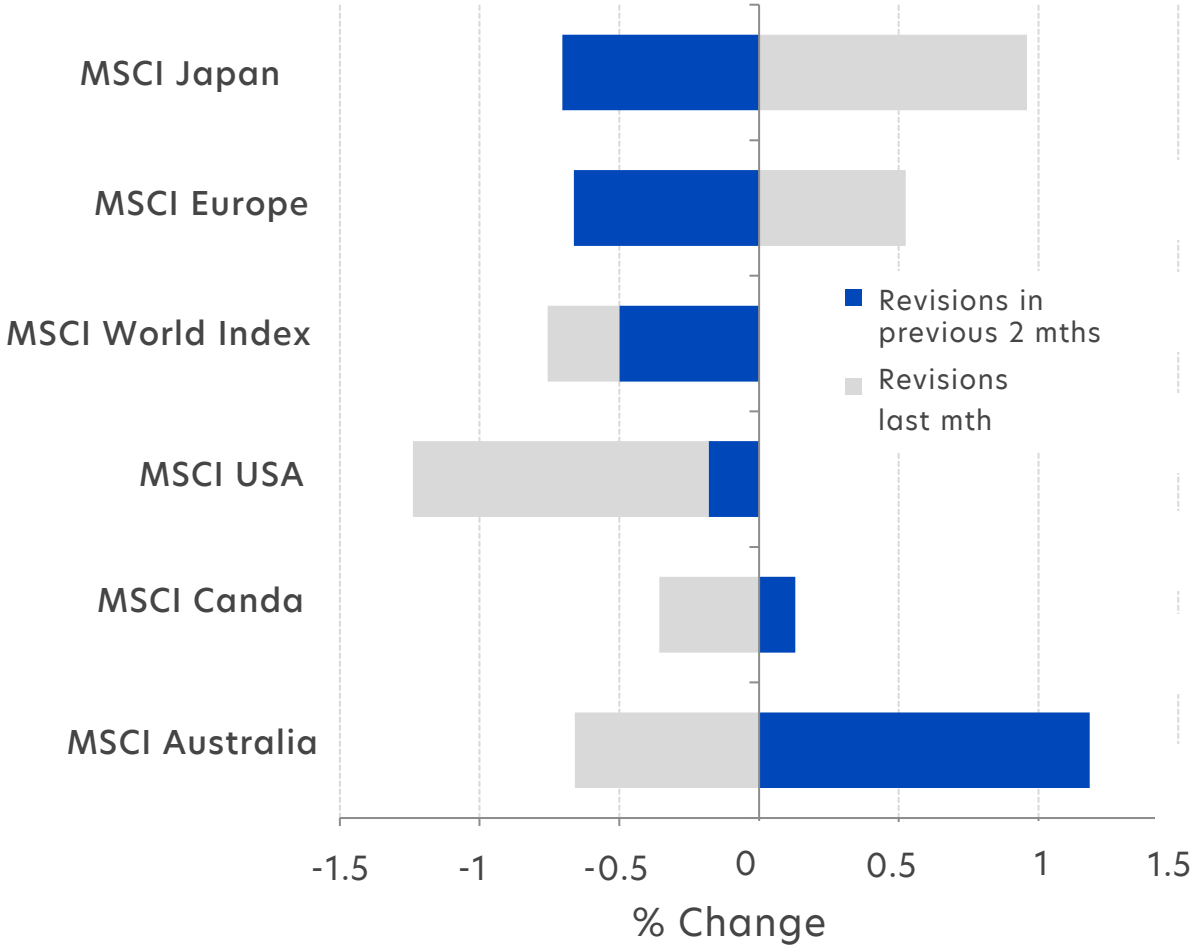
Source: Bloomberg, UOBAM, 3 March 2025

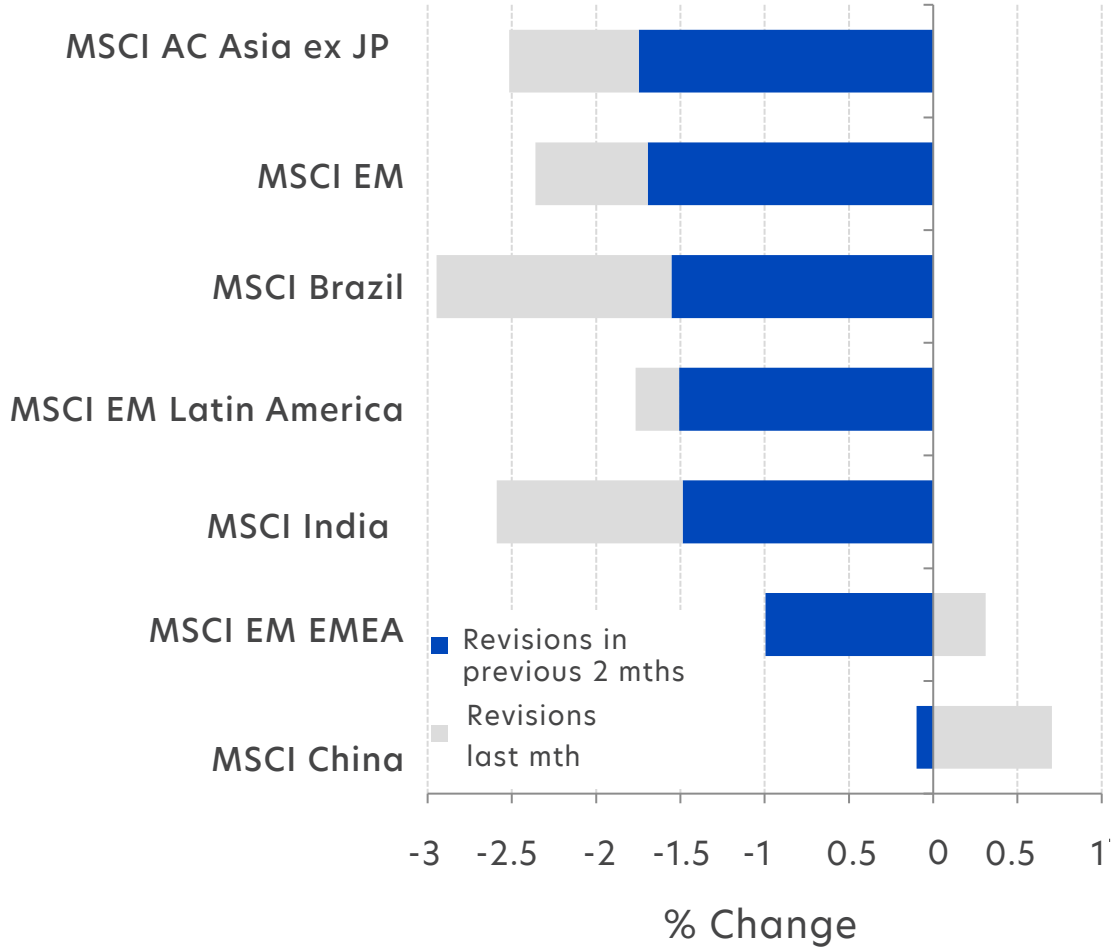
Stalling inflation but not re-acceleration; tariff risks further threaten disinflation

					End-2025 forecasts			
	Weight	Sep-24	1991-2006 avg	Overshoot/ Undershoot Contribution vs 1991-2006 avg	No Tariff	Minimal Tariffs ("deal made")	Significant Tariffs (60% China + 10% ROTW)	Drivers
Core Goods	26%	-0.4%	-0.1%	-0.1%	0.0%	1.1%	2.3%	- Auto prices to remain flat - Tariffs are hard to model and predict given political posturing. We present 3 different cases here
Rent	17%	5.1%	3.0%	0.4%	3.5%	3.5%	3.5%	- Rental CPI has caught up with alternative indices. Rental growth should come down to 3-4% annualized
Services excl. Rent	57%	3.7%	3.0%	0.4%	3.2%	3.2%	3.1%	- Wage growth to moderate slightly given still weak hiring demand, before reversing or being supported as labour supply is reduced due to anti-immigration policies - Travel-related costs to come down such as airfares (low oil prices) and auto insurance (lag effect over)
Core PCE YoY		**2.7%**	**2.1%**		**2.4%**	**2.7%**	**3.0%**	

Source: Bloomberg, UOBAM

Although earnings growth remains positive for 2025, downgrades are rising and tariffs could cut earnings growth by 5% or more

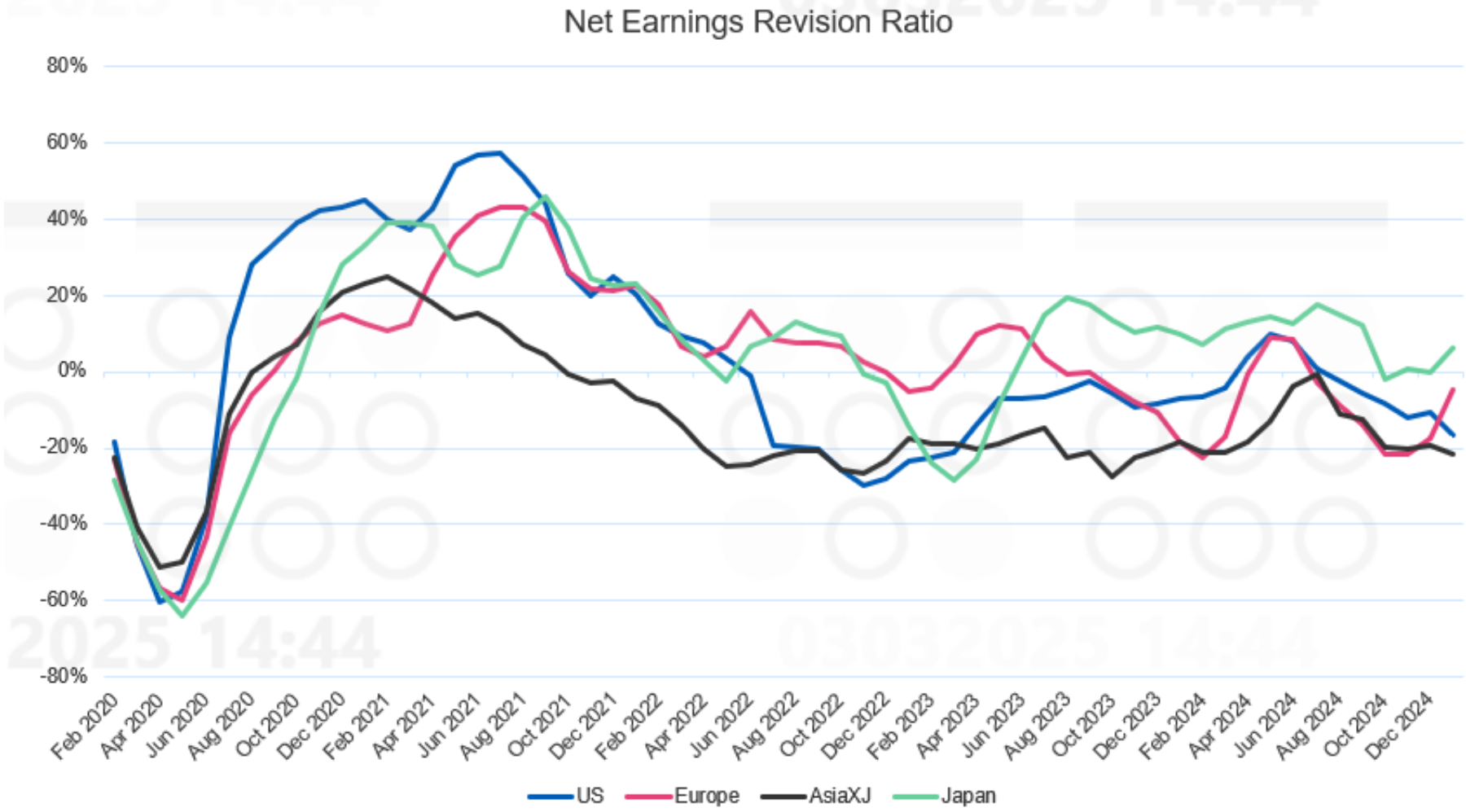




SOURCE: FACTSET, UOBAM

Earnings Revision Ratio

Europe and Asia picking up, US may be starting to weaken



Source: Factset, Bloomberg, UOBAM, 3 March 2025

Taylor rule model

This would indicate the fed funds rate should be between 3.5% to 4.5% depending on inflation and employment - with some tail risks from a trade war.

Taylor Rule, R* = 3.0

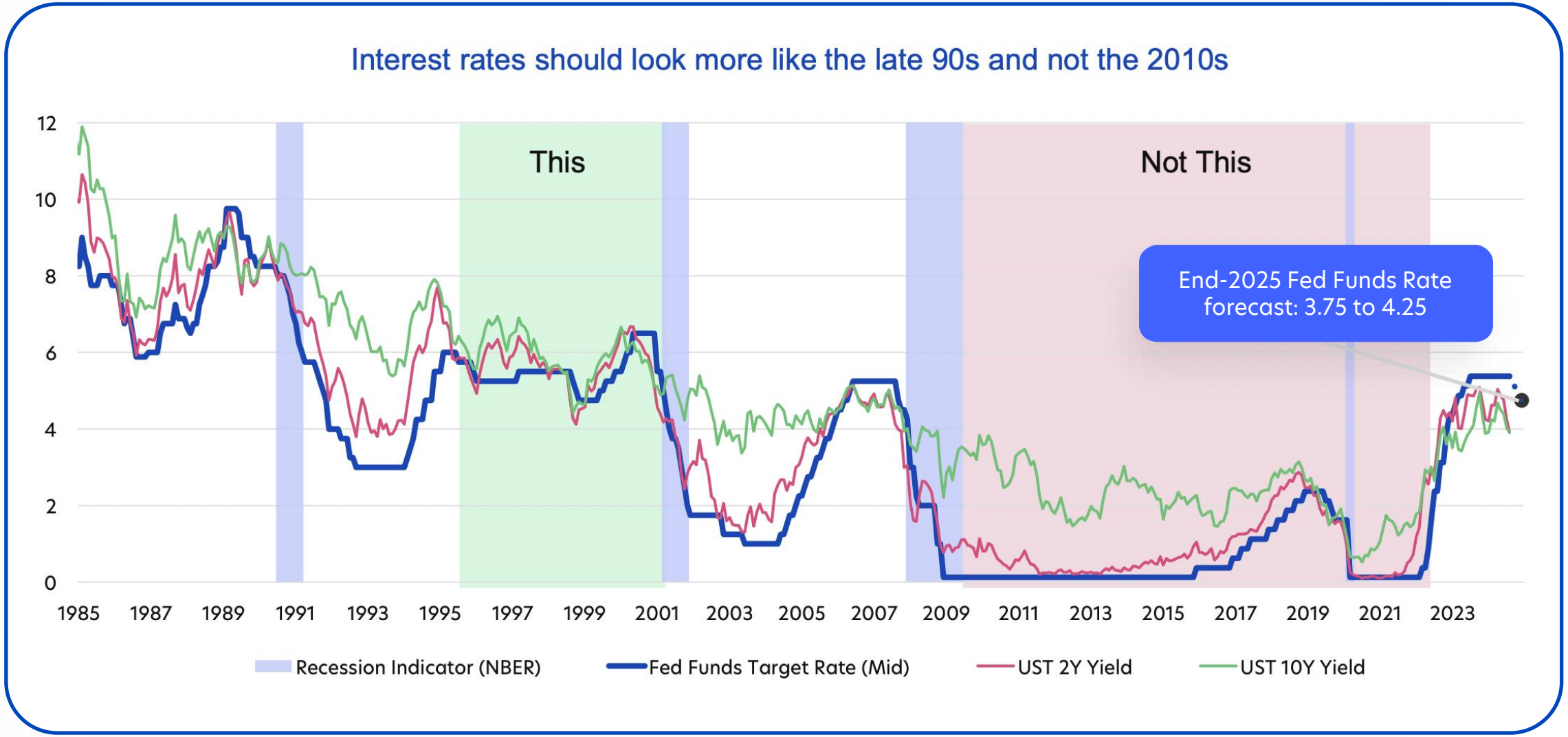
		Unemployment Rate					
		3.0%	3.5%	4.0%	4.5%	5.0%	5.5%
Core PCE	2.00%	5.1	4.4	3.6	2.9	2.1	1.4
	2.25%	5.5	4.7	4.0	3.2	2.5	1.7
	2.50%	5.9	5.1	4.4	3.6	2.9	2.1
	2.75%	6.2	5.5	4.7	4.0	3.2	2.5
	3.00%	6.6	5.9	5.1	4.4	3.6	2.9
	3.25%	7.0	6.2	5.5	4.7	4.0	3.2
	3.50%	7.4	6.6	5.9	5.1	4.4	3.6

2025 No tariff

2025 Minimal tariffs ("deal made")

2025 Significant tariffs

We expect a mid-cycle adjustment like '95, '98 or '19



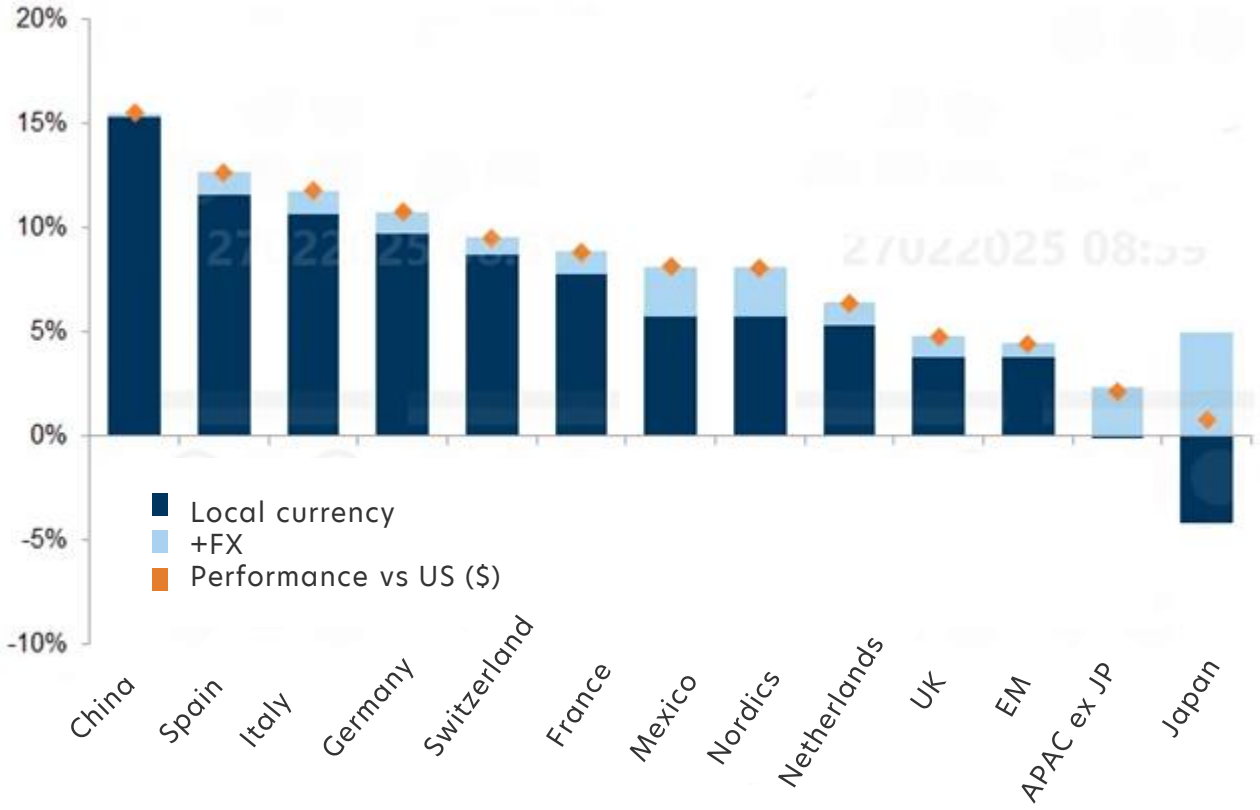
Source: Bloomberg, UOBAM. We use core CPI for Singapore and China, core PCE for the US and core HICP for Europe

Challenges to the outlook:

- Trump policies
- Valuations
- Geopolitics

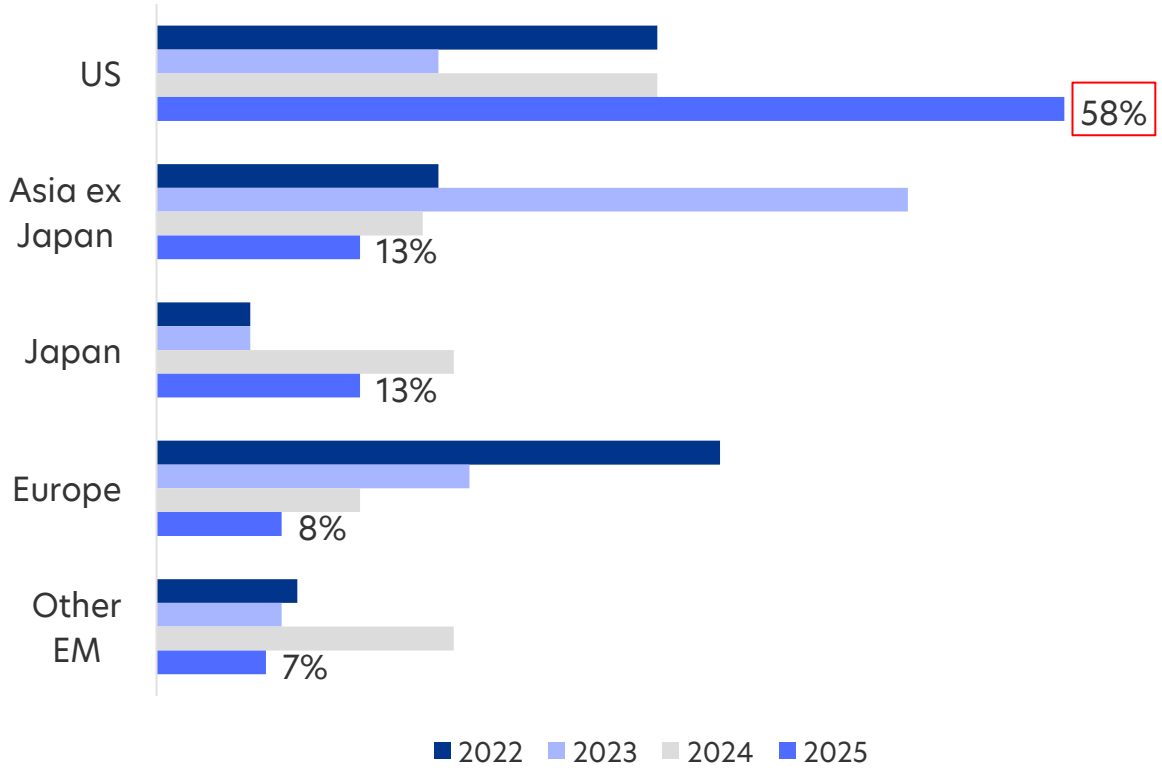
US has underperformed YTD despite investor expectations

YTD equity return vs US



Which regions will perform best in 2025 (in local currency terms)?

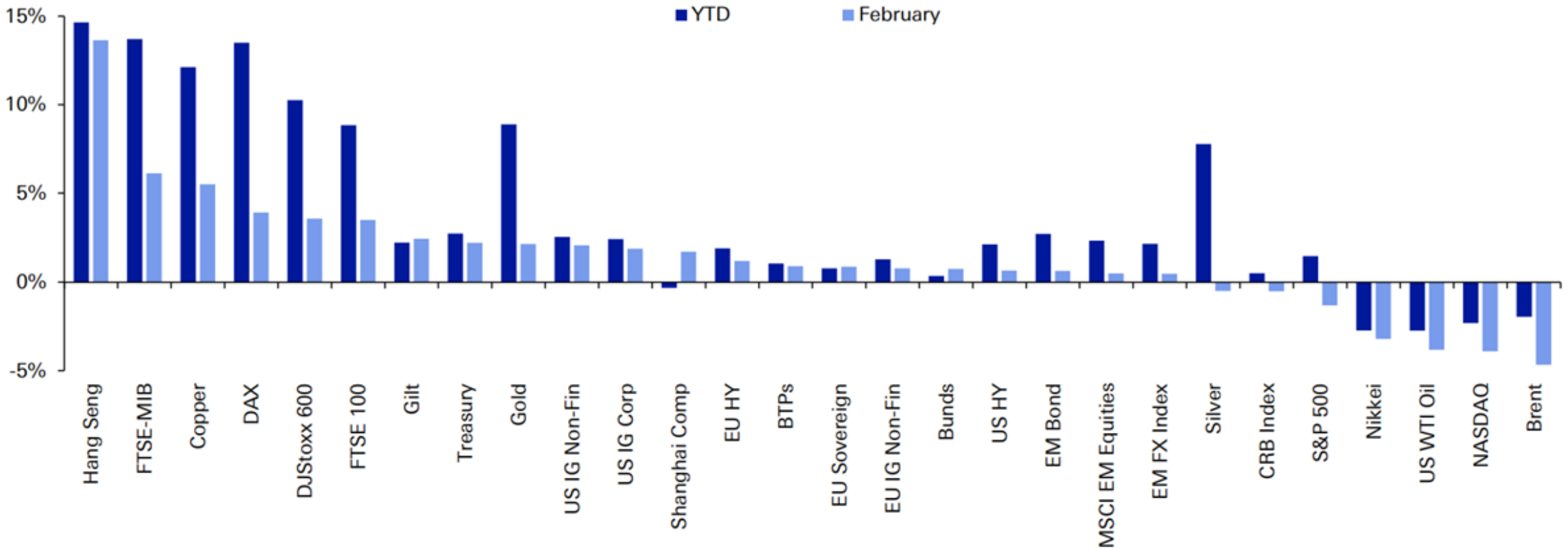
Based on respondents at GS Global Strategy conference, London, January 2022, 2023, 2024, 2025



Source: Datastream, Goldman Sachs Global Investment Research

Cross asset returns are hard to explain

Returns for major global financial assets in February (in USD)



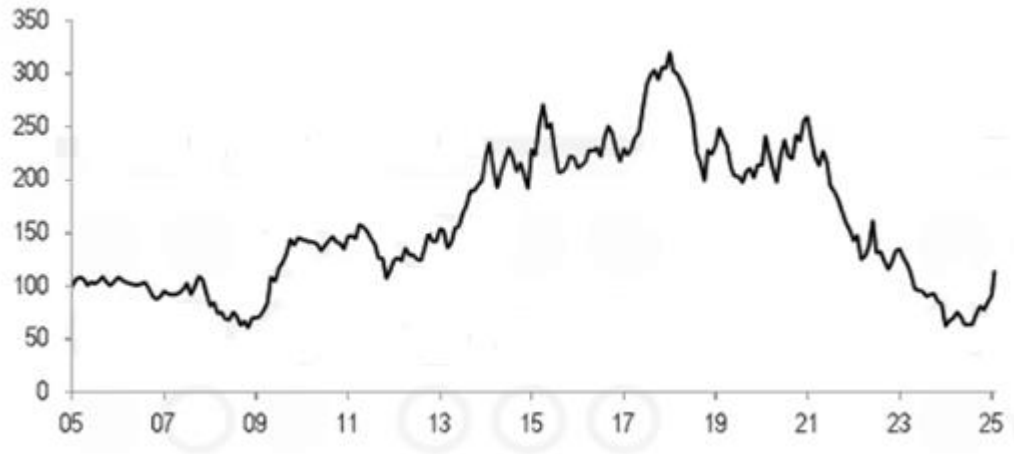
Source: Deutsche bank, Bloomberg Finance LP
Note: equities, credit and bonds shown on total return basis, FX and commodities shown on spot return basis

Sector rotations have started in 2025
Small caps, Value, Non-US, and China IT are key themes

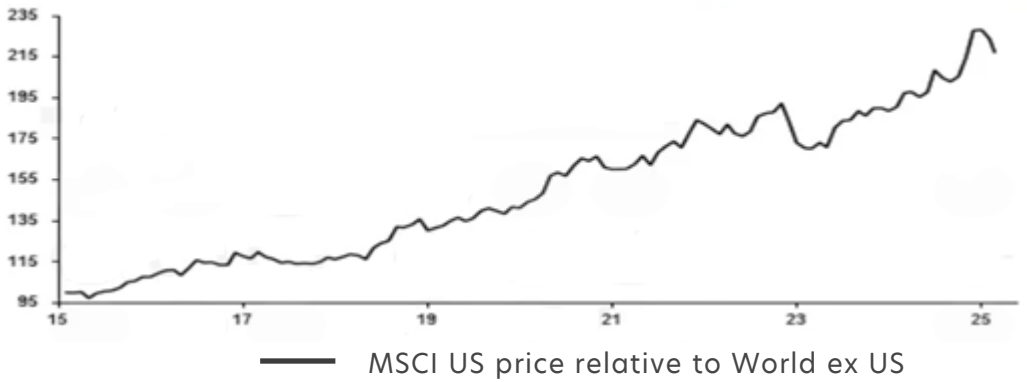
	Performance	
	2024	YTD
Eurozone vs US ($)	-18.8%	9.9%
DM World ex US vs US ($)	-12.8%	3.9%
EM vs DM ($)	-10.2%	-0.6%
Small vs Large		
• US	-10.5%	-2.8%
• UK	-1.5%	-7.5%
• Eurozone	-8.4%	-3.0%
• World	-8.2%	-3.0%
World Value vs Growth	-12.9%	6.2%
SPW vs SPX	-10.1%	1.4%

Source: Datastream, Feb 2025

MSCI China IT price relative to MSCI US IT



MSCI US price relative to World ex US



Key Trump policies

	Trade	Fiscal policy	Immigration	Industrial policy	Macro implications on		
					Growth	Inflation	Budget Deficit
Trump major policies	Favours more tariffs	Favours extending TCJA* provisions, and cutting corporate taxes further	Against - will slow down legal immigration and raise deportations	Deregulation/ Unwind clean energy policies	▲ Improved business & consumer sentiment	▲ Tariffs to raise US prices	▲ Reduced consumer tax receipts

- The problem for Trump 2 is that fiscal stimulus in this economy is inflationary
- Since the Fed is trying to moderate growth to keep inflation down, fiscal stimulus is likely to be offset with higher interest rates
- Higher deficits could lead to even higher bond yields
- Higher interest rates puts the housing sector at risk
- Tariffs could hurt both growth and inflation
- Deregulation can be positive but its unclear if it can be significant enough

Source: UOBAM, Feb 2025

Market assessment of Trump policies so far

The global economy was in good shape and our view has been that it could withstand the negative aspects of Trump policies. But we may have been underestimating how negative his policies are.

DOGE

Still has potential but increasingly seen as more political than impactful

2025 outlook for factor

Tariffs

Increasingly seen as negative by almost all. Equities and bond yields are down.

2025 outlook for factor

Anti-immigration

No big actions yet, but markets are worried that it can't take more stagflationary policies

2025 outlook for factor

Tax Cuts

Still expected - but the positive views of stimulus are partly offset but debt level concerns

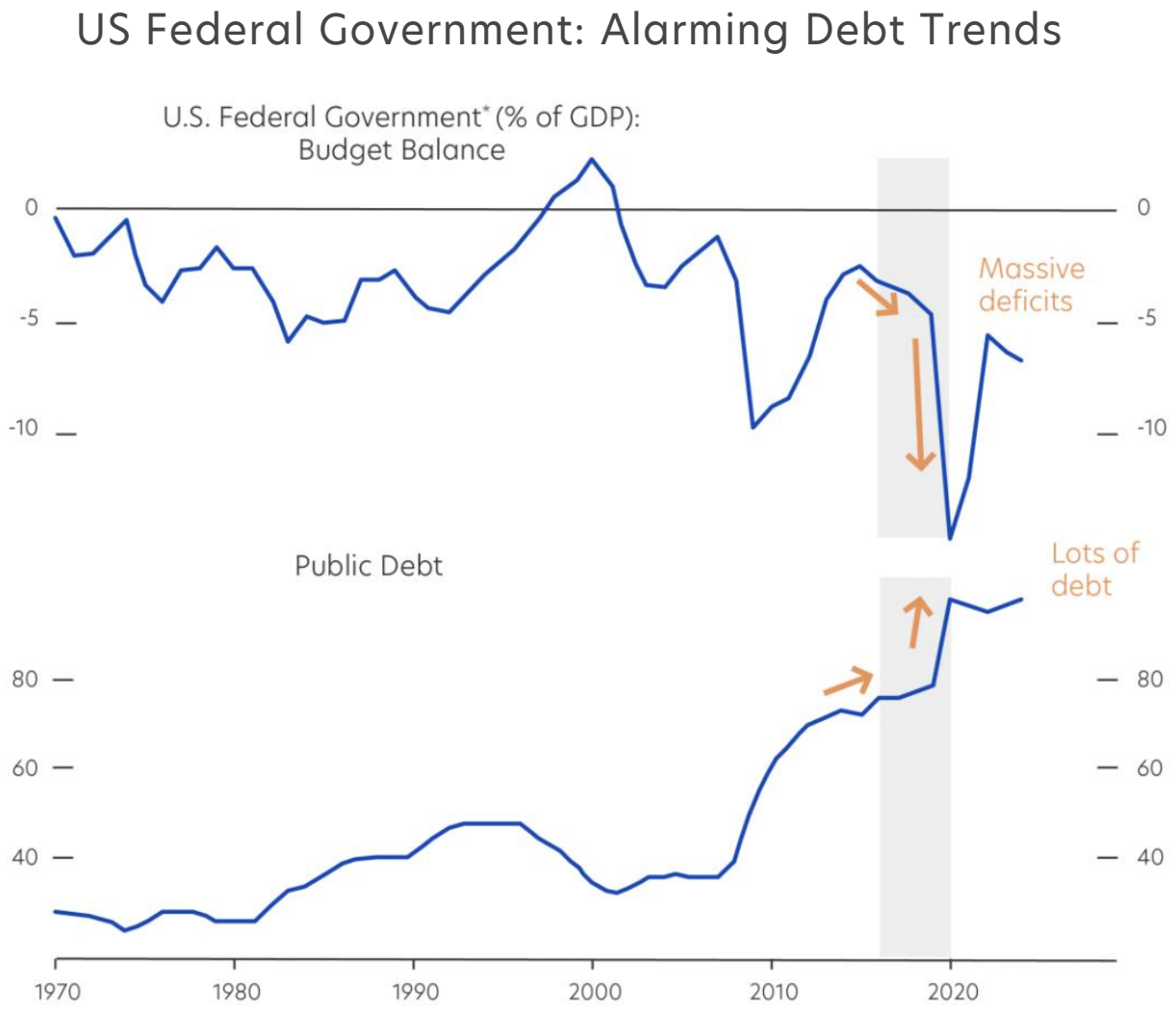
2025 outlook for factor

New Global Order

Near term, less conflict, but the long-term implications are profound

2025 outlook for factor

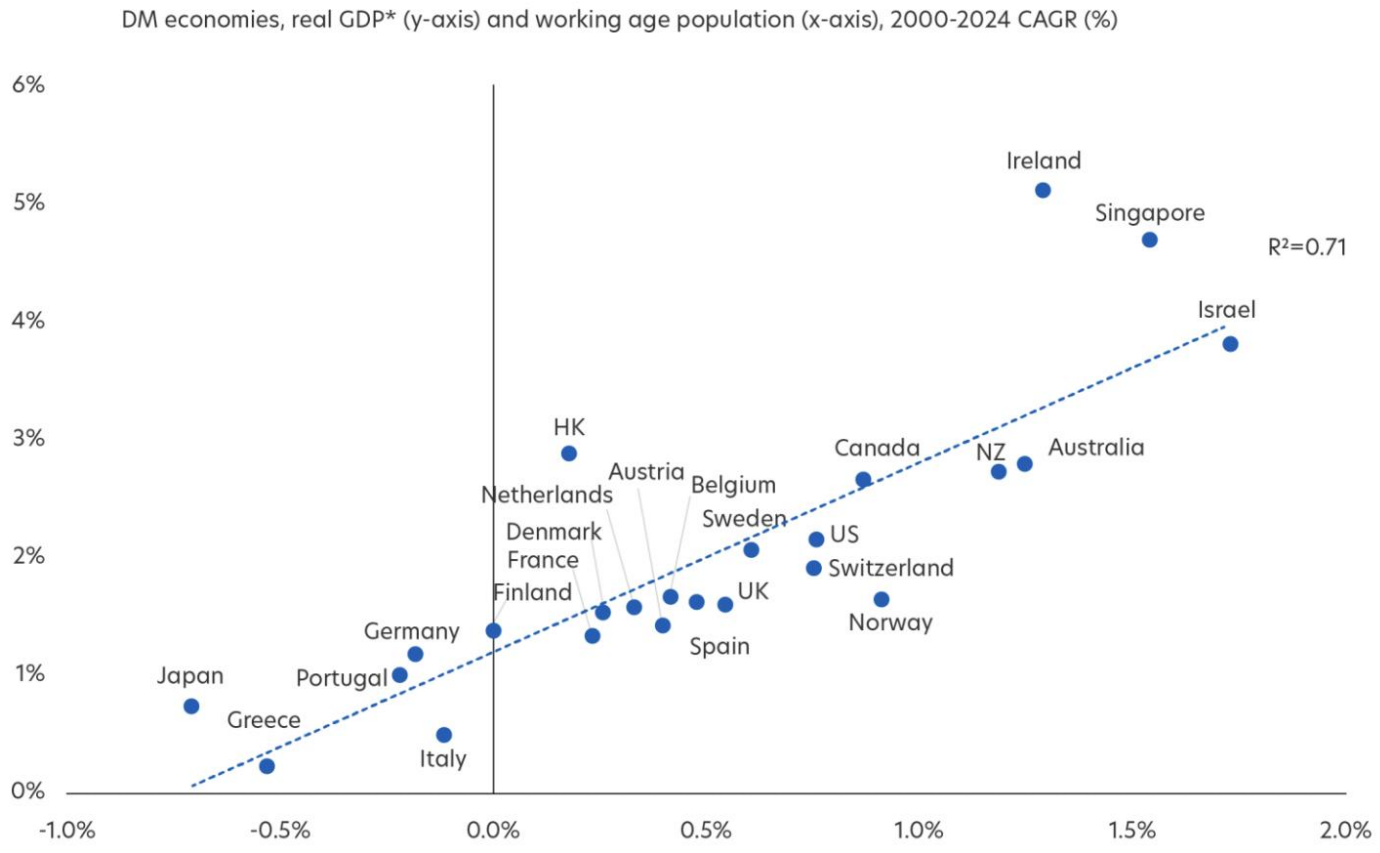
US deficits increased under Trump 1 even as the US reached full employment



*includes 2024 projection. Source: Congressional Budget Office
Note: Shaded for Trump 1.0

- Debt levels are likely to draw greater scrutiny as the economy gets greater distance from COVID and the economy is at full employment
- If the deficit is greater than 5% during a strong economy, it will balloon to 10%+ during a recession
- Bond market could start to become more sensitive to new deficit spending at this stage of the cycle

GDP growth is highly correlated with population growth

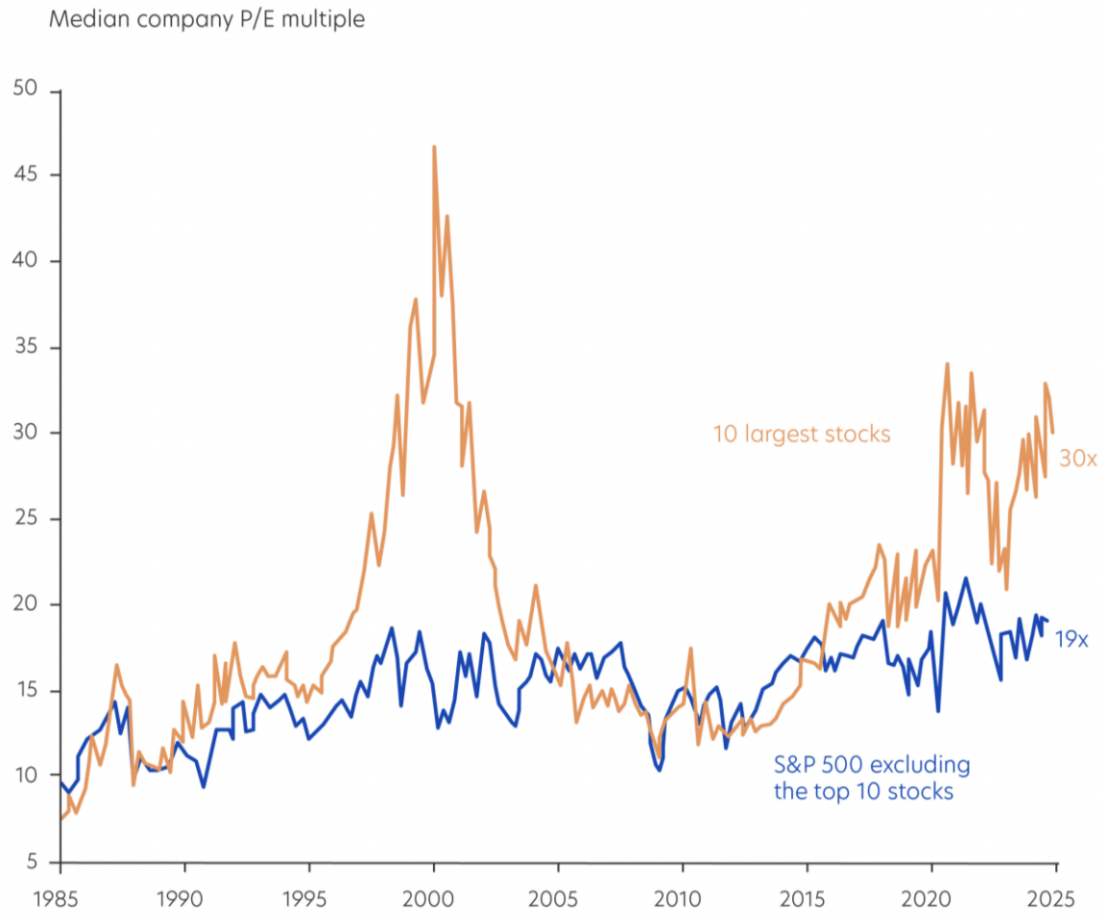


- GDP growth is highly correlated with working age population growth
- As birth rates have declined in EM, countries with higher immigration have had higher working age population growth
- In the US, the long-term average has been 1.5% immigration growth, and is likely to decline significantly
- Additionally, the US has usually been able to take top talent from overseas
- Deportations will contribute to the decline

Source: GFD, UN, Deutsche Bank. *Note: Data for GDP up t0 2023

Valuation comparisons to the dot-com bubble are likely to become more of a concern in 2025

Top stocks valuation appear justified, while rest of the market seems less alarming



Characteristics of largest stocks in 2024

Largest stocks in 2024							
		Market cap		P/E ratio		Trailing	12m profits
Company	Sector	$bn	% of S&P 500	Last 12m	Next12 m	ROE	Net margin
NVIDIA	Info Tech	$3,608	7%	56x	36x	81%	54%
Apple	Info Tech	3,474	7	36	30	163	24
Microsoft	Info Tech	3,069	6	34	30	31	36
Amazon.com	Consumer Dis	1,853	4	41	33	18	8
Alphabet	Comms Services	1,795	4	22	19	29	28
Meta Platforms	Comms Services	1,230	2	26	22	31	35
Tesla	Consumer Dis	942	2	136	105	12	8
Berkshire Hathaway	Financials	865	2	24	24	7	17
Broadcom	Info Tech	763	2	33	33	34	46
JPMorgan Chase	Financials	696	1	13	13	16	31
Total 10 total/median		$18,296	36%	33x	28x	30%	29%

Source: Compustat, Goldman Sachs GIR. The graph has been redrawn and may not perfectly replicate the original source. Minor deviations may exist.

US equities are performing in line with long term trends and valuations still seem reasonable

The graph has been redrawn and may not perfectly replicate the original source. Minor deviations may exist.C

Current percentile* of S&P 500 valuation metrics

	Aggregate	Median
Trend EPS/Price[1]	97	
LTM EPS/Price[1, 4]	95	95
NTM EPS/Price[2]	96	91
EBIT/EV[3]	98	97
EBITDA/EV[3]	99	97
OCF/EV[3,6]	100	97
Dividends to price[3]	95	76
FCF/EV[3,6]	45	42
Total payouts to price[3,5]	64	51

Higher percentile values imply higher valuations for all metrics.
[1] Since 1935; [2] Since 1988; [3] since 1966; [4] median since 1966; [5] total payouts is dividends plus net buybacks. [6] Cashflow ratios are S&P 500 ex-Financials

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