Maybank Asset Management

FY2025 OUTLOOK AND STRATEGY

One Step at a Time: Navigating Opportunities

MAYBANK ASSET MANAGEMENT

Content List

2024 Review

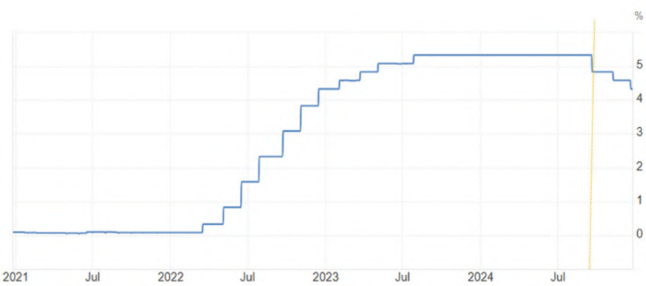
Overall, 2024 was a positive year for financial markets, with most equity and bond markets posting gains. We had anticipated a U.S. soft landing, and that is exactly what transpired. Inflation eased, while U.S. economic growth remained resilient in the 2–3% range. The Federal Reserve ("Fed") began cutting rates in September 2024, lowering short-term rates following a period of rate hikes as inflationary pressures subsided (see Figure 1).

This soft landing created a favorable environment for equities, with U.S. stock markets leading the way, gaining over 20% for the year. Asian stock markets achieved double-digit growth, while the Malaysian stock market emerged from its prolonged slump, rising approximately 10% for the year. Our investment team in Malaysia demonstrated remarkable foresight in predicting this recovery after several years of declining markets.

Finally, bonds, both USD-denominated and local, delivered returns of 4–5%, driven by carry and some tightening of spreads.

AI continued to be the driver of growth with more companies investing in chips and servers that would power AI. The AI ecosystem has been the main beneficiary of the boom in AI with huge demand for chips designed by NVIDIA and fabricated by TSMC. We have also seen AI give a boost to the data centre business. To power AI, data centres need to integrate chips, servers and power usage in one facility. We have seen increasing investment in data centres around the world. Malaysia has been one of the big beneficiaries of the boom in data centres with ample reserves of electricity and water.

Figure 1: Federal Reserve Rates



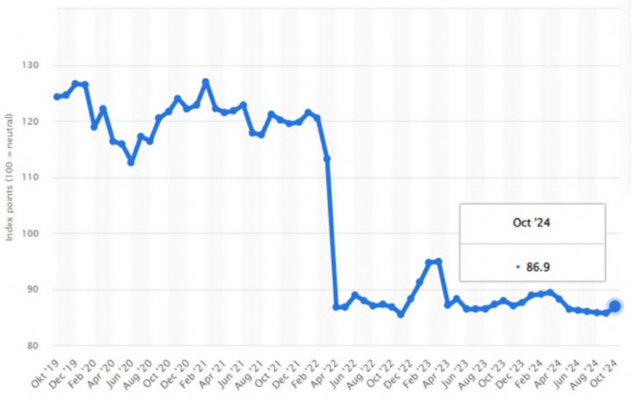
Source: Maybank Asset Management, Trading Economics | Period 2021 – Nov 2024

In summary, it was a very eventful year with many unexpected events, but the US soft-landing ultimately led to a strong year for financial markets.

2024 was also a year of elections with Taiwan, Indonesia, India, the UK and of course the US having Presidential elections. The biggest election of the year was won once again by Donald Trump with an overwhelming majority. Trump obtained 312 electoral votes winning every swing state. Our team overall expected a Trump victory but we definitely did not expect such a strong swing to the Republicans. The Republicans now also have control of the House and the Senate.

Trump's win triggered sharp investment inflows into the US equity markets. In the election campaign, Trump promised to cut corporate taxes and hike import tariffs. This were expected to increase the profits of domestic companies. US equities spiked up by 5-6% in November with the S&P500 crossing the 6000 mark as investors were optimistic that US corporate earnings will be boosted by Trump's policies. On the flip side, Emerging market equities saw outflows with bonds suffering to a lesser extent. Asian equity markets were negatively affected especially the ASEAN countries of Indonesia and Philippines. At one stage Asian equities were up as much as 20% but corrected 10% towards the end of the year.

Figure 2: Consumer Confidence China



Source: Trading economics

The other significant event of the year was the Chinese stimulus plans that were announced towards the end of September. The Chinese economy has been soft ever since the Government decided to pop the property bubble at the start of 2021. This has affected consumer sentiment (Figure 2), putting the economy at risk of a vicious cycle: poor sentiment leads to weak consumption, which further dampens sentiment, causing the cycle to spiral downward.

With macro data weak and property falling between 15-30% from the top, the Government believes that the correction is sufficient and now is the time stabilise the economy and break the downward spiral. So they announced a raft of measures targeting the property sector and consumption. The Chinese government cut interest rates and loosened restrictions on property including cutting deposits requirements. In addition, debts at the provinces were swapped with central government debt. The heavily indebted provinces were facing liquidity issues and the swap arrangements lowered interest payments easing the liquidity crunch. These heavily indebted provinces may have taken on too much debt during the good times and may have been too reliant on property land sales for revenue. Finally, the government also boosted fiscal stimulus increasing subsidies to certain segements including autos and consumer goods with the promise of more fiscal policy in 2025. Chinese stocks surged initially up 20% to 30% in just a week but then corrected as investors were initially disappointed by the scale of fiscal policy and preferred to wait for concrete signs of a recovery.

Outside of markets, there was a lot of political upheaval especially in the middle east with increased conflicts in Gaza and Lebanon. Towards the end of the year, the Syrian government also fell as the incumbent Assad appeared to have lost support of the army. We also saw political instability in South Korea with the President Yoon trying but failing to impose martial law in a dramatic evening in December. He is now facing impeachment. In summary, it was a very eventful year with many unexpected events, but the US soft-landing ultimately led to a strong year for financial markets.

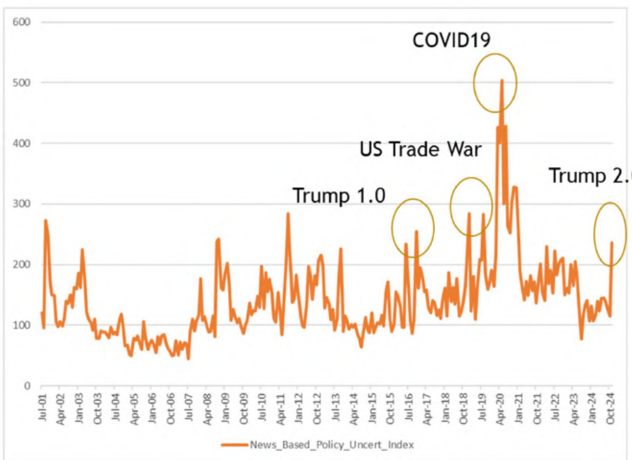
Outlook in 2025

What do we foresee in 2025? In our view, there is more uncertainty heading into 2025 compared to 2024 where most of us predicted a soft-landing. Our investment team had more differing views for 2025 given the unpredictability of Trump. Some members of our team believe that Trump uses extreme statements as a bargaining tool while others believe that Trump will follow through on some of the more unorthodox policy promises. During his 1st term as US President, Trump made some promises that were not implemented including building a wall in the south that Mexico would pay for to keep out illegal immigrants.

US academics have created an index that measures the policy uncertainty by counting the occurrences of economic data with the word uncertainly in major US newspapers. A higher number means that there is higher uncertainty in economic policy.

This index (Figure 3) saw an uptick when Trump was first elected in 2016. Then it hit record highs during COVID19 as there were a lot of uncertainty with policy during the pandemic years. Governments tried to come out with various policies to help support the economy and these policies kept changing as the conditions changed.

Figure 3: Economic Policy Uncertainty



Source: Economic Policy Institute | Period: July 2001 – Nov 2024

The index declined to more normalised levels from 2021 till 2024 as the pandemic subsided and Biden policies provided greater predictability. However, the economic policy uncertainty has spiked once again with the Trump win. This reflects the uncertainty of policy under Trump. He has made various promises such as imposing import tariffs up to 60% and we are unsure if he is serious in adopting these policies. Predicting the markets is already difficult, the unpredictability of Trump makes anticipating the markets even more difficult.

That's why our theme for 2025 is "One Step at a Time: Navigating Opportunities". We believe that with the uncertainty and unpredictability of Trump, we take it one step at a time and make judgements on a quarterly basis. For the moment, for 1H2025 we believe that US exceptionalism will persist. US stock markets have outperformed over the past decade on the back of the tech and we believe there is sufficient momentum for continued performance. We will adjust our views as each quarter goes by. We do not have the conviction like in 2024 where we had the soft-landing consensus for the whole year.

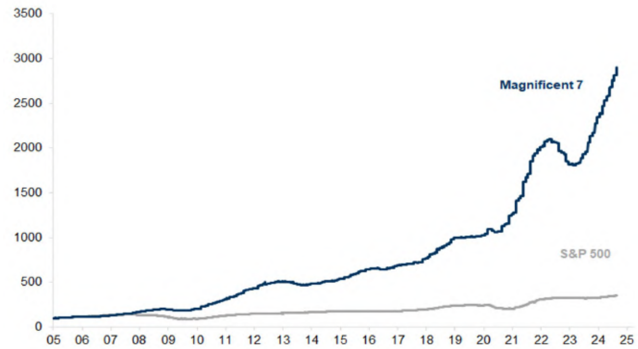
One Step at a Time: Navigating Opportunities

The growth driver will continue to be AI. However, the transition is from investing for AI to the adoption of AI. In the 1st phase, companies were investing and buying chips in order to develop the Large Language Models and to run AI models. In the 2nd phase, it will be the adoption and implementation of AI in the workplace and in the home.

Hardware investment will grow but at a slower pace as companies have already invested lots in chips and servers. Companies that already have a software base will benefit from this phase as they monetise AI and use AI to improve productivity. Therefore, for 2025, it may be a case of transition from hardware companies to software stocks.

The Magnificent 7 ("MAG 7") (Apple, Microsoft, Amazon, Alphabet (Google), Tesla, Meta (Facebook) and Nvidia) will continue to be key in 2025. These stocks have been the foundation of the outperformance in US stocks supported by superior earnings growth (Figure 4). Earnings growth of the MAG7 has outpaced the S&P500 by a huge margin. It is crucial that these stocks continue to deliver earnings growth for the rally in US stocks to continue. So far, with a few exceptions they have delivered but there was a period in 2022 where there was a correction when earnings hit a soft patch.

Figure 4: Magnificent 7 earnings



Source: Goldman Sachs | Period 2004 -2024

We will see headwinds for bonds and emerging markets in 1Q2025. Trump's election promises to cut taxes and raise import tariffs are inflationary in the short term. Cutting tax rates will increase the already high budget deficits. The US is running deficits of more than 6% and outside of wars and pandemics this is the largest ever budget deficit. The US will have to issue more debt to facilitate government spending and this could mean that interest rates stay high. If he follows his pre-election promises and increases tariffs on all imports, then prices of products will go up and inflation will again stay high. This is another reason for continued high interest rates. Investors expect the Fed to cut rates but that only influences the short-term rates and if inflation stays high, long term rates would still remain at 4.5-5%. Higher rates are not good for bonds and emerging market equities.

We believe that 2H2025, we could see a shift favouring bonds and emerging market equities. Persistent high US rates are likely to be a drag on the economy. High prices from tariffs could also dampen the consumer and we could see the US economy slow from its current pace of 3%. With the weaker economy, interest rates will moderate and this will be better for bonds and emerging market stocks.

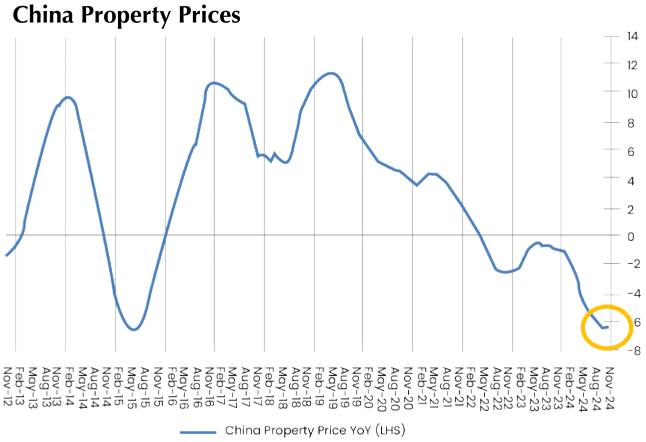
One last thing we would like to point out is that there have been some greenshoots in China following the stimulus measures. Admittedly, China stocks have been a difficult place to be with many false starts. However, we are seeing more concrete signs of a recovery. Firstly, property prices appears to have bottomed (Figure 5, LHS). The stimulus measures of cutting rates and loosening property restrictions are working. Secondly, consumption has also been picking up with auto sales hitting an all-time monthly high in November (Figure 5, RHS). November sales hit 3.3m units, up 12% YoY. It is true that the sales may have been artificially boosted by subsidies to promote consumption but sales hitting all-time highs is a sign that perhaps consumer confidence is returning. Cars are big-ticket items and consumers only buy such items if there is some degree of confidence in the future.

2024 has been decent for China stocks up more than 10% although underperforming the US. This is much better than 2023 when stocks dropped by more than 10%. In terms of timing, 2H could be when China stocks start outperforming. The US economy will slow from 2H due to a combination of high rates and tariffs and the attention could shift to Asia and China. In Perhaps 2025 can be the year when China equities really shines with valuations low reflecting the low expectations.

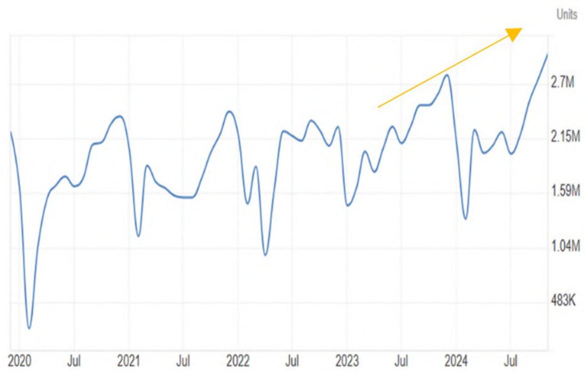
Figure 5: Greenshoots in the China

(Property Stabilising, Auto sales new monthly record)

China Property Prices



China Auto Sales



Source: Maybank Asset Management, Bloomberg (LHS), Trading Economics (RHS) | Period: 2012 – Nov 2024 (LHS), 2020-Nov 2024 (RHS)

2025 Key Investment Themes and Risks

We have already elaborated on the AI theme shift from hardware to software and the China recovery theme. We will instead touch on deglobalisation. We have seen deglobalisation in terms of trade, with US and EU putting up import tariffs. This is of course a U-turn from the past 30 years where globalisation reigned. Globalisation saw a division of labour where lower-end manufacturing was offshored from higher costs countries resulting in lower costs of goods ultimately lowering inflation for decades.

However, with the offshoring it also meant that unskilled people in developed countries saw wages that were flat for decades and that has caused resentment. This has seen the rise of right wing politics in the West and the rise of Trump. With globalisation coming to an end, we are going to see higher inflation as onshoring will increase costs. With globalisation, the business and stock market cycle were also synchronized. We believe with decoupling; each country will move at a different cycle and stock markets will be less correlated.

Sustainability will continue to be the theme even if Trump is stopping the green policy in the US. China and the global south will continue to increase penetration of EVs and Green industries as these countries face a deficit of fossil fuel resources. India has huge potential in the shift to green. At the moment, it is reliant on coal and imports oil resulting in high energy prices. High energy prices are one of the reasons why India has not been able to build a manufacturing and industrial base. The move to green will help lower energy prices in the country and may help the country be more competitive in the manufacturing sector.

There are 2 main risks that we will focus on. Firstly, valuations in the US are stretched (Figure 6). US equities valuations are close to the levels end 2021 and the tech bubble 1.0. These were occasions when the S&P500 peaked. Markets can stay expensive, valuations are not a timing tool and we still need a trigger for a correction. However, with expectations high there are risks that the correction if it happens it will be significant.

Figure 6: US valuations Cyclically Adjusted Price Earnings Ratio

Source: Maybank Asset Management Singapore, Barclays | Period: 1985 – Oct 2024

The 2nd risk is the re-emergence of high inflation. If Trump actually imposes tariffs of 60% and increases the budget deficits. That could set off a new round of inflation negatively impacting both equities and bonds.

Themes	Implications / Strategy
AI phase 2	*Move from investment to adoption. Hardware to software.*
China Recovery	*China recovery is uneven but stay positive on valuations with expectations really low. Greenshoots are emerging.*
Sustainability	*Cost of using renewables (Solar, Batteries) are now competitive with traditional power sources. Look to users these products rather than the producers.*
De-globalistation/ Decoupling	*Supply chains set up to "derisk" from a single supply chain. China +1 EMS companies with exposure in India, Malasysia and Thailand. Higher inflation longer term. Less correlation for the global stock markets.*
Volatile Markets	*More tactical trading given volatile markets.*

Risk Factors	Implications
US valuations	*US valuations are stretched. Expectations are high and weaker earnings could trigger significant correction.*
Resurgence of inflation	*Trump's policies are inflationary. Too extreme policies could see a 2nd wave of inflation.*
China Stagnation/ Japanification	*China hits middle income trap and growth stagnates. China Equity market continues to underperform even though valuations are cheap.*
US commercial property	*Slow moving crisis in US commercial property. Could trigger defaults and bad loans drag down the financial system. Smaller US regional banks are more at risk.*
US Recession	*US business cycle is now it is 17 year without a recession (excluding COVID).*

Global Equity Outlook & Strategy

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US Equity Outlook 2025

As we enter 2025, we remain cautiously optimistic on US equities, favouring US over Eurozone markets. The US economy is benefiting from business cycle expansion, a stable labour market, AI-driven capital investment and the potential for further growth under new leadership. The Federal Reserve's rate cuts, initiated since September 2024, are expected to continue spurring economic activity through increased business spending, a recovery in the housing sector, improved consumer sentiment and broader business growth. Moreover, the all-time high in the US stock market has bolstered consumer confidence through the wealth effect, with US households enjoying record levels of net worth since the COVID-19 pandemic.

While leadership changes in the US may introduce market volatility and policy uncertainty, the broader narrative of "US exceptionalism" is designed to prioritize domestic growth through pro-growth policies and protectionist measures, such as tariffs. These strategies are likely to support US equity markets. Additionally, the proposed creation of the Department of Government Efficiency ("DOGE"), aimed at streamlining federal operations, reducing bureaucracy, cutting excessive regulations, and addressing wasteful spending, could further address fiscal concerns, especially with the debt-to-GDP ratio exceeding 120%.

Key Themes for 2025

1. Monetary Policy Easing: *The Federal Reserve is expected to continue lowering interest rates, with the futures market still indicating multiple rate cuts in the coming months at point of writing. Historically, a rate cutting cycle coupled with non-recession has seen equities rise and deliver outsized returns. This remains our base case outcome, albeit one key risk to monitor will be Trump's implementation of tariffs. Headlines around tariffs may introduce some volatility to the market, but we view tariffs as likely more of a negotiating tactic/threat and the incoming President would do his best to avoid derailing the positive economic growth expected.*

2. Economic Recovery and Business Growth: *As monetary policy continues to ease, we expect to see broader-based growth across business segments, stronger corporate balance sheets, and improved consumer sentiment in US. We therefore favour sectors that are able to deliver idiosyncratic growth tying into Trump's infrastructure agenda, deregulation and on-shoring trends. This includes high-quality Industrials companies, where the recovery is evident and order backlogs are normalizing with clear visibility.*

3. Policy Changes Favoring Deregulation and Capital Markets: *The new administration's focus on deregulation, an improving mergers and acquisitions (M&A) activity backdrop, and supporting capital market growth is expected to positively impact the U.S. equities market. Additionally, a lower cost of capital will make equity deals more attractive, which could be a catalyst for sectors such as Healthcare – with Biotech M&A having languished for years. The new leadership has also made it clear that it intends to continue to foster positive innovation, which should continue to support the Technology sector overall.*

4. AI-Driven Capex Spending: *Long-term capital expenditure (capex) related to artificial intelligence (AI) is anticipated to continue to drive growth across multiple industries, not just Technology. This spending—expected to exceed $1 trillion—will encompass infrastructure, utilities, energy, data centers, hardware, software, and various business implementation segments, fuelling decades of innovation and expansion and is still likely to be a critical theme for 2025.*

5. Healthy U.S. Corporate Earnings: *U.S. corporate earnings remain strong, with S&P 500 companies forecasted to deliver approximately 12–13% year-over-year growth in 2025. Additionally, after two years of earnings decline, Russell 2000 companies are projected to achieve double-digit earnings growth, reflecting a robust recovery in smaller-cap firms.*

6. Lower Energy Prices and Inflation Control: *The Trump administration's agenda to increase U.S. oil production and implement energy sector deregulation is expected to stabilize or reduce oil prices. This could help keep inflation under control, providing a tailwind for economic growth and consumer spending.*

Sector Outlook for US Equity in 2025

We believe the market uptrend will broaden beyond the tech-focused MAG 7 which currently accounts for over 70% of earnings growth in 2024. As the economy continues to recover and business cycle indicators improve, a wider range of sectors is expected to contribute to the market's growth. However, the MAG 7 do remain core elements of the portfolio and Elon Musk's presence on the administration is likely to be supportive of the group as a whole. Furthermore, the MAG 7 are also defending their lead in the AI arms race with c $500bn dedicated spending to capex + R&D anticipated in the coming year.

Our preference also includes long positions in quality cyclicals due to factors as written above, while we are more cautious on the Consumer and Energy sectors. On the former, we are selectively on the lookout for ideas within the Consumer Discretionary space but have reduced exposure to Consumer Staples on valuation grounds. Within the Technology space, we favour the Software over Hardware subsector and are still constructive on Communication Services due to strong monetization here. Whilst we anticipate earnings growth to extend to mid- and small-cap companies, we are cognizant of the risk and rate sensitivity of these areas.

In the short term, we are aware of potential headline turbulence and volatility associated with:

- Environmental/climate beneficiaries.
- U.S. companies with significant revenue exposure to China.
- U.S. import-reliant firms, given potential tariff concerns.

We plan to mitigate portfolio exposure to these areas where possible, and revisit should the valuations be compelling. While optimistic catalysts drive our overall positive outlook for U.S. equities in 2025, we want to highlight the following potential risks:

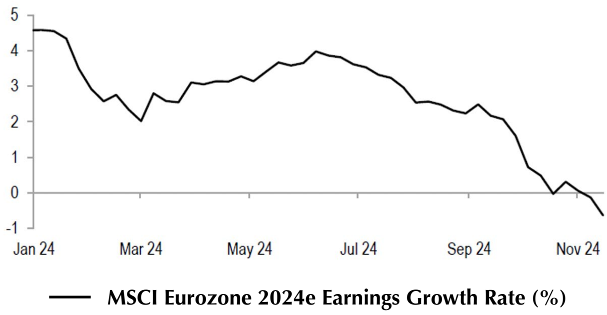
Key Risks for the U.S. Market in 2025

1. Higher-for-Longer Interest Rates	*If inflation begins to rise again—either due to the robust U.S. economic growth or higher tariffs driving up consumer prices—the Fed may abandon its easing trajectory and resume raising interest rates. This scenario could result in equity market declines and rising bond yields.*
2. Stretched Valuations	*With the S&P 500 trading at a historically high P/E multiple of 22x, the market is vulnerable to disappointments. Any negative surprises—whether related to earnings expectations (low to mid-teens growth expected for the market), interest rate trends, or policy changes—could trigger significant volatility.*
3. Unexpected Policy Changes	*Beyond expected policies on tariffs, immigration, deregulation, and taxes, any unexpected policy shifts under the new administration that the market perceives negatively could lead to a knee-jerk sell-off.*
4. Uncontrolled Deficit	*A skyrocketing federal deficit, combined with ineffective deficit-reduction initiatives (e.g., DOGE), could lead to disruptions in the fixed-income market.*
5. Geopolitical Tensions	*Escalating geopolitical tensions in the Middle East or sudden political instability in key countries could introduce significant market uncertainty.*

Europe Equity Outlook 2025

In 2025, we expect the Eurozone to continue grappling with lackluster economic growth, with GDP projected to increase by only 1.0% for the region. This sluggish growth is likely to be weighed down by Germany's underperformance, while Spain is anticipated to outperform on growth. Contributing factors to lack of appeal for investment for the region include earnings disappointments and ongoing geopolitical instability, as European politics look increasingly fractious with German elections in the coming year in addition to a lack of resolution to the Russia-Ukraine conflict.

Figure 7: MSCI Eurozone 2024e EPS Growth Rate

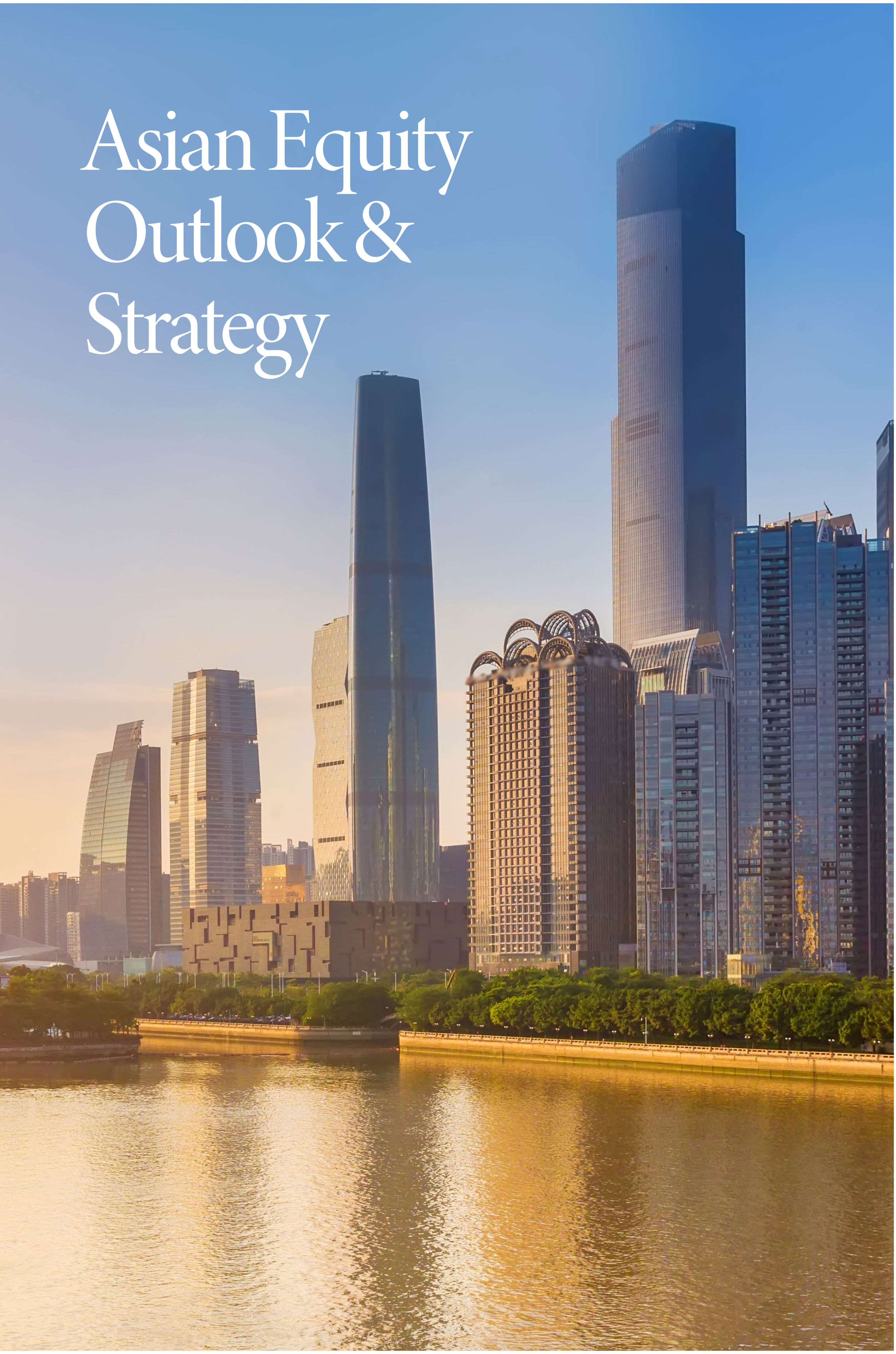


Source: IBES, JP Morgan

Further downside risks could emerge if the United States imposes new tariffs on the Eurozone, but Europe appears to be experiencing structural issues which extend to the constitutional debt brake in Germany, which is a barrier to the region being able to ramp up government spending in order to boost its growth prospects. However, there are some potential positive catalysts. Valuations remain attractive, with the Eurozone trading at 12x forward P/E. Disinflation (in particular in the UK), driven by declining energy prices, and a more aggressive pace of rate cuts by the ECB are also supportive factors. In our view, the lack of growth coupled with fiscal issues and overall less investor-friendly tax environment warrant the depressed valuation multiple.

The Eurozone could become an attractive investment opportunity again if key uncertainties are resolved, including a peace deal brokered for the war in Ukraine, clarity around U.S. tariff risks, and a recovery in manufacturing and business activity. However, due to the balance of risks here we remain cautious on the whole and prefer the US over Eurozone for developed market exposure in our portfolios.

Asian Equity Outlook & Strategy



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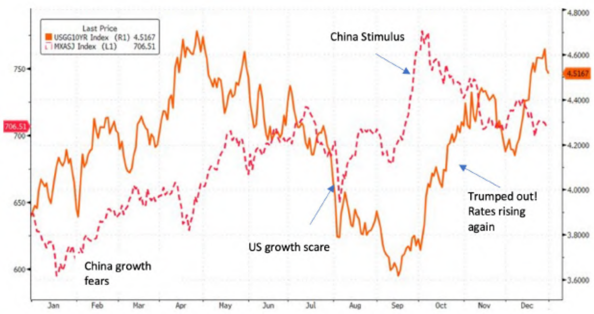
Asian Equity Outlook & Strategy

Asian equities ultimately ended with a decent double digit return for 2024. However Asian stocks have been volatile for the year, often moving negatively correlated with the US interest rate cycle in 2024 (Figure 8).

Asian equity markets started off weakly at the start of the year (Red dash line) as investors were concerned on China Growth fears. Investors were concerned that China's economy would be dragged down by the still weak property market. However, as the US soft-landing scenario played out there was a broadening of the equity rally from US stocks to Emerging market and Asian stocks.

So, from February, Asian stocks started rallying gradually till July. Corporate earnings in Asia were buoyed by the AI theme and some recovery in tech stocks boosting Taiwan stocks. Malaysia also saw a recovery in corporate earnings after a few years of weak earnings. There was a short growth scare in the US that dragged down all markets in July, but markets recovered quickly.

Figure 8: US Interest rates (Orange line, RHS axis) and MSCI Asia Ex Japan (Red dash, LHS axis)



Source: Bloomberg, Maybank Asset Management | Period Jan 2024- Dec 2024

Then towards the end of September, Asian market surge on the back of announcements by the Chinese Government to stabilise the property sector and policies boosting consumption. While Chinese economic growth of 5% has been more subdued compared to previous years when rates hit 7-10%, China has emerged as a leader of EVs and renewables with EVs now accounting for more than 50% of total car sales. This will likely be a growth driver for China but also a point of contention for the west as the products in the west may not be as competitive.

This was the peak of Asian markets for the year with Asian markets reaching a gain of 20%. Unfortunately, these gains could not be sustained. US interest rates started rising from October from 3.60% (orange line) on expectations of a Trump win in November. When the election results confirmed that Trump would be the US president once again, interest rates continued going up reaching close to the 2024 high of 4.60%. Investors expected Trump's policies to be inflationary and therefore interest rates moved up to reflect this.

In his pre-election campaign, Trump promised to cut taxes and also raise tariffs. Lower taxes would widen the budget deficit leading to higher supply of government bonds to fund the deficit and in turn leading to higher rates. Import tariffs would increase prices of leading to higher inflation. The higher interest rates and dollar strength (Figure 9) towards the end of the year dragged down equity markets in Asia, especially in Indonesia and Philippines where foreign fund flows are significant drivers of equity markets. Higher US interest rates saw fund flows from Asia towards the US resulting in a stronger dollar. Nonetheless, Asia still managed to end the year up 10%.

Figure 9: Dollar Strength

Source: Trading Economics | Period: Jan 2024- Dec 2024

There was a large range of outcomes in Asia. Korea and Thailand were one of the few countries in the red for 2024. Korean tech companies did not manage to capture opportunities from the AI boom. South Korea was also dragged down by political turmoil towards the end of the year after the President tried but failed to declare martial law. Thailand's economy was also sluggish as Chinese tourists were slow to return to Thailand with tourism affected by news of violence in the country.

We saw decent gains in Taiwan, up more than 20% with TSMC being the main beneficiary of the AI boom. TSMC is probably the only company that is able to fabricate all the advanced GPU chips that are needed in AI. Malaysia stock markets also posted gains as corporate earnings bottomed. Malaysia is a beneficiary of the diversification of supply chains away from China and the country also benefited from the data centre boom given affordable power and water resources in relation to its neighbours. Singapore started off slowly, but the higher interest rate environment was boost to the Singapore banks leading to better margins and profitability for the companies. Singapore also benefited the political instability we have seen around the world, leading to market share gains in the Global Wealth market. Singapore banks capitalised on this with strong contribution from the wealth management business. Indian stock markets also saw decent gains on the back of the secular growth story of infrastructure investment and the push for manufacturing.

Asian Equity Outlook

Once again, US interest rates will have a bearing on Asian equities. As we expect US interest rates to remain resilient, this will be a headwind to the Asian stocks at least in 1Q2025. That said, there is little downside in Asian equities as valuations are compelling outside of Taiwan and India. Smaller ASEAN markets like Indonesia and Philippines are more vulnerable to the investment flows. We believe that 2H2025, dollar strength will fade as the US economy growth slows from 3% to 2% and this will pave the way for more moderate rates.

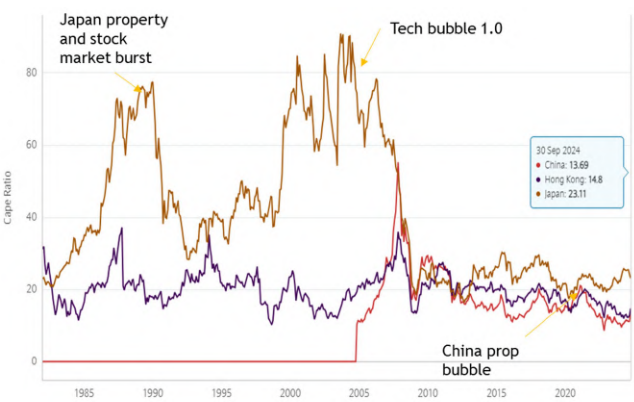
In terms of country calls, we are sticking to an overweight on China especially the H-shares, i.e. Chinese stocks listed in Hong Kong. There have been concerns that China experience a 30-year bear or stagnant cycle. There are similarities with Japan: higher debts, demographic and the bursting of the property bubble. There are also significant differences: China experienced a property bubble, whereas Japan faced both a stock and property bubble. Additionally, Japan was forced to appreciate its currency under the Plaza Accord in 1987, which exacerbated the bubble as Japanese corporations took on substantial debt.

The strong Yen reduced the stimulus impact from exports. The main reason for our positive view for China is that valuations are already at trough levels. It took 20-30 years for Japanese equities to show attractive valuations and took the Japanese authorities years to come out with shareholder friendly initiatives. It took just 3 years for Chinese stocks to reach extremely cheap valuations with PE ratios of less than 10x. The authorities in the Chinese and Hong Kong markets are already encouraging companies to implement high dividend payouts and share buybacks.

We are also overweight ASEAN with the focus on Malaysia and Singapore. Our Malaysia investment team is still positive on the Malaysian market although after decent gains in 2024, we need to be more selective. Only companies that deliver on earnings will perform unlike the broad-based rally we saw in 2024. The team are still keen on the themes relating to the Johor Singapore Special Economic Zone, data centre and supply chain (China +1) diversification plays. Even with the strong gains last year, Singapore markets are attractively valued. The banks, which are the heavyweight stocks in the index, are still not expensive offering dividend yields of more than 5%. We are underweight Korea and Thailand.

For Korea, concentration of hardware tech could see more limited growth opportunities as the trend moves towards software in 2025. Thailand tourism should recover in 2025 but Thailand's industrial base is built on the legacy Internal Combustion Engine ("ICE"). Thailand is known as the 'Detroit of the East' as Japanese companies invested in Thailand and used it as a manufacturing hub. The rapid move to Electric Vehicles ("EV") has seen a loss in market share for ICEs and affecting the entire supply chain.

Figure 10: China and Japan Cyclically Adjusted PE



Source: Maybank Asset Management, Barclays | Period: 1985 – Nov 2024


Asian Fixed
Income Outlook
& Strategy

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Asian Fixed Income Outlook & Strategy

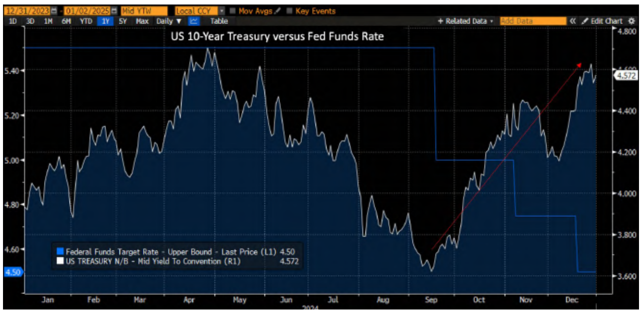
FY2024 USD Asian Credit Bonds Review – Christmas Grinch came early for Bonds

During early 2024, the overall outlook for fixed-income investments was generally optimistic. Market expectations were centered on the US central bank cutting interest rates after pausing since September 2023. US inflation had been trending downward throughout FY2023, providing a runway for the US Fed to reduce rates from an arguably restrictive level of 5.5%, compared to inflation of under 3%. Lower rates typically result in positive price appreciation for bonds. Additionally, bond yields were high, exceeding 6.3% in January 2024 for the J.P. Morgan Asia Credit Index ("JACI"). Under these circumstances, we had forecasted FY2024 returns of 6% to 8% in our outlook write-up from last year.

However, actual JACI bond returns for the year were a more subdued 5.75% compared to expectations. While inflation softened, the pace of easing slowed, and stubborn inflation persisted in areas such as housing and wages. Growth and employment remained very resilient despite high interest rates, cementing a soft landing or no landing scenario for the US in FY2024. Consequently, there was no significant pressure to begin easing. The US Fed delayed interest rate cuts until September 2024, ultimately reducing rates by a total of 100 basis points in the final three meetings of FY2024. The FOMC overnight rate currently stands at 4.5%, down from its recent peak of 5.5%

What was even more disappointing was that, right after the first interest rate cut in September, US 10-year bond yields actually rose and continued to rise over the next two cuts. Markets had shifted their focus away from interest rate cuts to the potential of a Trump presidency. Trump as president was expected to lead to higher inflation due to trade tariffs and increased Treasury issuance to fund larger budget deficits resulting from tax cuts. This suggested higher rates for the U.S. The U.S. 10-year Treasury yield rose by almost 100 bps after the first cut and closed the year at 4.6%, 70 basis points higher than at the start of the year.

Figure 11: US 10 Year Treasury versus Fed Funds Rate



Source: Bloomberg |Period January 2024 to January 2025

The yield curve steepened significantly, with the 2-year/10-year spread moving from a trough of negative 50 basis points at the end of June to positive 33 basis points (Figure 12). This shift reflects a normalizing yield curve driven by expectations of a robust economy under a Trump presidency and an increased term premium due to higher inflation and greater Treasury supply risk.

Figure 12: 2year vs 10year Treasury Spread (bps)

Source: Bloomberg, | Period January 2024 to January 2025

The JACI ended FY2024 with a respectable but unremarkable total return of 5.75%. As noted earlier, Treasury bond yields experienced bearish steepening, but this was offset by credit spreads that tightened significantly throughout the year. Within the JACI, Treasury bonds (+2%) and investment-grade bonds (+4.4%) underperformed, while JACI non-investment-grade high-yield bonds outperformed (+14.5%). The standout performers were the highest-risk bonds rated C, which delivered an average return of 40%. Distressed bonds, such as Sri Lanka and Pakistan sovereigns, along with defaulted Chinese developers that made some progress in restructuring, saw notable price recoveries from depressed levels. However, the outcomes for C-rated high-yield bonds can be binary, particularly in China's property sector, where default risks remain significant. We believe this risk is not worth taking for bond investors who generally seek stable returns.

Figure 13: Comparison Table of JACI Returns

Range 01/02/2024 - 12/31/2024 Period Daily No. of Period 364 Day(s) Table

	Security	Currency	Price Change	
1)	JACICOTR Index	USD	5.75%	J.P. Morgan JACI Composite Total Return
2)	JACIIGTR Index	USD	4.36%	J.P. Morgan JACI Investment GradeTotal Return
3)	JACINGTR Index	USD	14.47%	J.P. Morgan JACI Non-Investment GradeTotal Return
4)	JACICOTS Index	USD	2.14%	J.P. Morgan JACI Treasury Return
5)	JACICTR Index	USD	39.56%	J.P. Morgan JACI C Total Return

Source: Maybank Asset Management Singapore, Bloomberg, JPM, | Period: January 2025

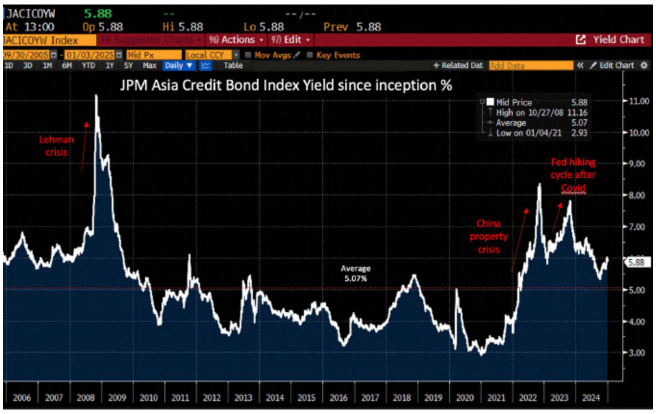
FY2025 USD Asian Fixed Income Outlook – Finding Certainty in Coupon Carry Amidst Uncertainty

Fixed income markets in 2025 will be influenced by US fiscal stimulus, trade tariffs, and persistent inflation risks. The US Fed is expected to ease rates cautiously, with the Fed Funds rate projected at 3.5%-4.0% by year-end. Long-duration bonds face supply pressures, favoring short-to-medium tenors. Credit spreads are likely to widen from historic lows, while selective opportunities remain in high-quality Asia USD high-yield bonds outside the China property sector.

The economic narrative for 2025 is heavily shaped by policy decisions under the second Trump administration. These policies are expected to include a mix of global trade tariffs, fiscal stimulus through tax cuts, regulatory easing, and immigration deportations. Key initiatives, such as 25% tariffs on Canada and Mexico, 60% tariffs on China, and 10% tariffs on the rest of the world, will undoubtedly exert inflationary pressures globally, particularly as these tariffs are expected to extend to intermediary stages within finished consumer goods. Immigration deportations are also inflationary, given the current tight labour market. Furthermore, the uncertainty surrounding upcoming trade tariffs is likely to discourage companies from expanding and investing, as many will adopt a wait-and-see approach. This hesitation will significantly inhibit risk-taking and dampen growth prospects, which could be detrimental given signs of a global economic slowdown.

The Trump administration is relying on fiscal stimulus from extended tax cuts to sustain US growth momentum. While this may provide short-term support, it could exacerbate fiscal deficits in the long run. These dynamics, coupled with geopolitical uncertainties, are weighing on investor confidence and creating a challenging environment for global markets. If US growth weakens in FY2026, it could set a favourable stage for fixed income to outperform in 2H2025, with interest rates remaining at historically high levels. The current JACI yield of 5.88% offers a reasonable income given the uncertain outlook for FY2025. We do not anticipate yields rising significantly from current levels, as past higher yields were driven by black swan events such as the Lehman crisis in 2008 and the China property crisis in 2021/2022. Additionally, the US Fed has concluded the hiking cycle that fuelled bond selloffs in 2022 and 2023.

Figure 14: JACI Credit Bond Index Yield Since Inception %



Source: Maybank Asset Management Singapore, Bloomberg, JPM, | Period: 2006 to January 2025

Nevertheless, given the increased inflationary risks from Trump policies, the US Fed is anticipated to adopt a cautious easing trajectory for FY2025. The US Fed revealed its hawkish bias in December by pencilling in only two cuts for FY2025, compared to four cuts expected in the September Dot Plot. With inflation expected to remain sticky at 3% due to structural pressures, we project the terminal Fed Funds rate to settle between 3.5%-4.0% by year-end 2025, down from 4.5% currently. Applying an expectation of a 50bps term premium for the 10-year, this would suggest the 10-year Treasury yield will settle around 4% to 4.5%. The end of Quantitative Tightening ("QT") in 1H2025 should provide some relief to the supply of secondary Treasuries.

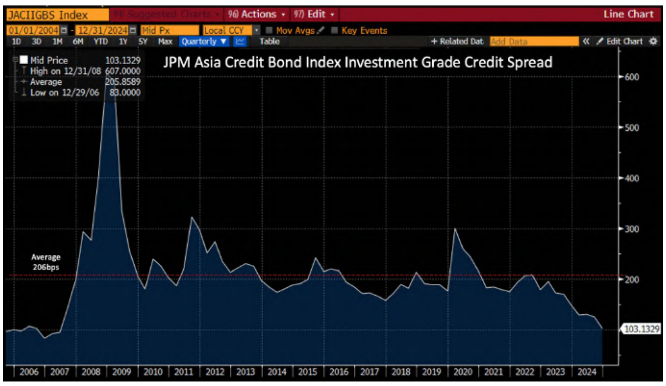
However, an expanding U.S. fiscal deficit may necessitate the increased issuance of new long-end Treasuries, pushing the 10-year UST yield closer to 5.0%. Against this backdrop, we see long-end bonds as particularly vulnerable and prefer to invest in the short to medium segments of the curve. Shorter-dated bond yields are expected to be more stable. As they move down the yield curve, these bonds are also likely to benefit from rate cuts more than longer-dated bonds.

While Treasury yields are high relative to the past five years, credit spreads are near historical tights. The JP Morgan Investment Grade ("IG") blended spread currently stands at 100bps over Treasuries, close to its tightest levels ever and is much lower compared to the average of 206bps since inception. Asia USD corporate bond issuance in FY2025 is expected to rebound modestly from 2023 and 2024 levels, led by financials and sovereigns, though it will remain below the 2021 peak due to reduced activity from Chinese issuers.

This halt in the contraction of Asia's credit bond market is likely to weaken technical support from shrinking supply. Consequently, we expect overall Asia USD corporate bond credit spreads to widen by 20-40bps in 2025, normalizing closer to historical average. In light of these dynamics, we prefer government bonds over IG credit bonds for better risk-adjusted returns in FY2025.

We prefer government bonds over IG credit bonds for better risk-adjusted returns in FY2025.

Figure 15: JACI Investment Grade Credit Spread

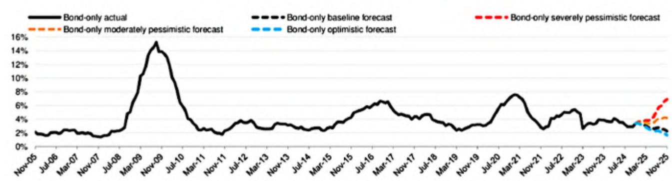


Source: JPM, Bloomberg as of January 2025 | Period 2006 to January 2025

In the high-yield ("HY") space, default rates are expected to improve in FY2025 given the economic soft landing. While the China property sector remains the weakest link, most problematic developers have exited or entered restructuring, leaving behind stronger survivors. Policy support, such as debt restructuring programs and selective stimulus measures, is expected to help to stabilize the sector.

Figure 16: Global Speculative – Grade Default Rates for Bond-Only Issuers

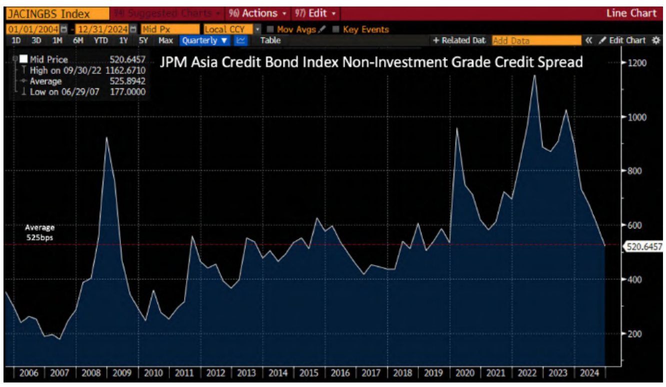
Global speculative-grade default rates for bond-only issuers (actual and forecast)



Source: Moody's as of November 2024 | Period: November 2005 to November 2024

While credit spreads for HY bonds have also compressed, they are still hovering at historic average which offers decent pick-up. Elevated Treasury yields make Asia HY bonds an attractive carry play but the ability to identify survivors is crucial. We recommend focusing on short-dated, high-quality BB-rated bonds that are outside of China property space, which offer a favourable balance of yield and risk. Caution is warranted for lower-rated names, given persistent headwinds from US trade tariffs, currency depreciation against the USD, and slower economic growth in China.

Figure 17: JACI Non -Investment Grade Credit Spread



Source: JPM, Bloomberg as of January 2025

Based on our expectations of a 20-40 bps decline in interest rates and a 20-40 bps widening in credit spreads, we project Asia USD credit bonds to deliver total returns of 5%-7% for FY2025. 1HFY2025 will have more challenges while we expect 2HFY2025 to provide better clarity and better returns. Potentially bond returns could outperform expectations if markets begin to price in more interest rate cuts in 2HFY2025 when Trump's trade tariffs start to hurt global growth.

In the high-yield ("HY") space, default rates are expected to improve in FY2025 given the economic soft landing.

Figure 18: Sensitivity Analysis for Expected Total Return for JACI FY2025

JP Morgan as of 31 Dec 2024
JACI Yield to Worst % 5.88
JACI Weighted Duration 4.47

Expected Total Return for JACI FY2025

US Treasury change	Credit spread change: -20	-10	0	10	20	30	40	50
-70	9.45	9.06	8.66	8.26	7.87	7.47	7.07	6.67
-60	9.06	8.66	8.26	7.87	7.47	7.07	6.67	6.28
-50	8.66	8.26	7.87	7.47	7.07	6.67	6.28	5.88
-40	8.26	7.87	7.47	7.07	6.67	6.28	5.88	5.48
-30	7.87	7.47	7.07	6.67	6.28	5.88	5.48	5.09
-20	7.47	7.07	6.67	6.28	5.88	5.48	5.09	4.69
-10	7.07	6.67	6.28	5.88	5.48	5.09	4.69	4.29
0	6.67	6.28	5.88	5.48	5.09	4.69	4.29	3.90
10	6.28	5.88	5.48	5.09	4.69	4.29	3.90	3.50
20	5.88	5.48	5.09	4.69	4.29	3.90	3.50	3.10
30	5.48	5.09	4.69	4.29	3.90	3.50	3.10	2.70
40	5.09	4.69	4.29	3.90	3.50	3.10	2.70	2.31
50	4.69	4.29	3.90	3.50	3.10	2.70	2.31	1.91

Source: Maybank Asset Management Singapore, JPM as of January 2025

Figure 19: Fixed Income FY2025 Outlook & Strategy Summary

FY2025 OUTLOOK & STRATEGY
Finding Certainty in Coupon Carry Amidst Uncertainty

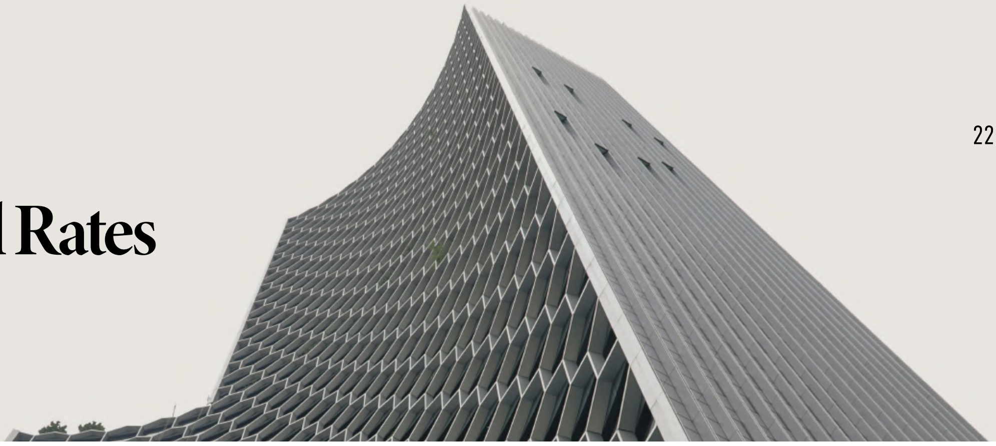
Main Views	Our Assessment	Strategy
Trump Policies causes Global Uncertainties	*Central banks globally will have diverging policies for FY2025. China will continue to cut rates while Japan will continue to raise. EU is at the brink of recession and may cut more. US is expected to cut less. Despite growth uncertainty due to tariff threats, emerging countries may be constrained from cutting to support local currencies. Overall FY2025 will be challenging for bond duration positioning.*	*Position neutral in duration while waiting for clearer indications on growth outlook under new Trump Administration. Focus on earning coupon / bond yields.*
Bond yields are at very attractive levels versus historical	*USD investment grade bonds are at 5% to 6% yields currently while BB rated non-China high yield is offering 7% to 8%. These yields are very attractive to lock in for insurance and pension funds. While money market funds still offer attractive yields of 4.5%, we think these rates will come down as US Fed continues to cut in FY2025.*	*Prefer to overweight 5 year bonds which offers decent carry. Avoid 10 year or longer bonds given increased yield curve steepening risk due to higher term premium.*
Investment grade credit spreads look expensive	*Credit spreads narrowed massively during FY2024. Investment grade credit spreads are at all time low at half the historical average and looks expensive. Non-investment grade credit spreads are hovering around historic average and look less expensive. Credit default rates are expected to trend lower given soft landing economic outlooks.*	*Prefer to buy US Treasuries versus high rated AA/A corporate bonds. Enhance portfolio yield through selected higher quality short dated non-investment grade bonds in BB/B+ ratings.*
Key Risks: Intense Trade War; Geo-political tensions; Rapid deceleration of capital investments		*Stay neutral and earn attractive bond yields while waiting for clearer indicators to position strategically.*

Source: Maybank Asset Management Singapore as of January 2025

FX & Local Rates Outlook

>>

FX & Local Rates Outlook



Twist and Turn (Strong USD and higher rates in 1st half of 2025 and possibly weaker USD and lower rates in 2nd half)

Asia FX is entering 2025 with "trials and tribulations" amidst prospects of escalating trade tensions, higher tariffs and a shallower Fed cut. Asia FX gains generated in 3Q24 reversed as market expectations changed following Trump's victory. As time of writing, the Bloomberg Asia Dollar Index in on track for a 3rd straight monthly loss (Note: Oct: -2.2%; Nov: -1.4%; Dec MTD: -0.7%) in view that Trump's high-tariff and low tax policies will reignite US inflation and consequently bolster the USD in the near term.

The prospects of tariffs, tax cuts and policy changes are widely viewed as pro-growth and will initially be inflationary, which are key support for USD strength in the short run. For these reasons, we expect USD strength to continue into 1Q25 or at least until there is more clarity from the new Trump administration on the pace and magnitude of proposed policies. Furthermore, the lack of progress on US inflation front, Fed may deliver shallower cuts and as such USD risks is likely skewed to the upside. With the above in mind, we are turning more cautious on Asia FX and bias to be long USD/Asia in 1Q25.

Post conclusion of US elections, the CNY weakened over concerns of US tariffs and bets that PBOC will ease monetary policy further to prop up the economy. That said, CNY daily fixing has been set at sub-7.20 level, we think breaching the psychological 7.20 level would be instrumental in setting the tone for other Asian FX. Other underperformers in 4Q include THB and MYR, likely due to their high beta to CNY and the drop was exuberated further by strong positioning and performance in the 3Q.

Additionally, KRW fell to the bottom of Asian currency ranking (down almost 7% in 4Q) but mainly due to idiosyncratic risk from political turmoil and some impact from tariffs. Meanwhile, INR has depreciated relatively less than Asian peers given its low beta nature and being less trade-dependent. Moving forward, we think Asian central banks, despite having the capacity to ease given normalisation of inflation, may face a difficult balancing act in the face of US policy uncertainties and spurring local growth. We think Asian central banks will defend FX up to a certain degree to counter higher import tariffs vis-à-vis risking portfolio outflows (especially lower yielding currencies) from foreign investors amidst broader USD strength.

Broadly speaking, Asian FX is expected to face challenges and risks in 1Q25. But the movement may not be uniform (on relative basis) as we expect low-yielding and export-oriented currencies such as KRW, THB, MYR, SGD and TWD to come under more pressure than higher yielding and domestic-driven currencies like INR, IDR and PHP. Notwithstanding that, we expect USD to weaken in 2H25 as Trump's tariffs and tight immigration policies may take a toll on US economy. We acknowledge that markets have already priced in sizeable USD appreciation since Oct (for context, the Bloomberg Dollar Spot Index is already up 5.40% since early Oct).

However, from a 2-year perspective, given the US Fed Trade Weighted Real Broad Dollar Index is as expensive as it was in the mid-1980s (Figure 20) suggesting USD may find it increasingly difficult to rally further. We anticipate a moderating effect from markets as countries react to more policy clarity in 2025 and markets may unwind their long USD/Asia FX position in the second half of 2025. The graph may indicate that the USD has appreciated to a level similar to the mid-1980s, suggesting that further rallies could become increasingly difficult.

Figure 20: US Fed Trade Weighted Real Broad Dollar

Source: ANZ Research

Key Trades

Currencies

- Tactical trades: Long USD VS all Asian FX vin 1Q25.
- Tactical Underweight: KRW, CNH and TWD.

Rates/Duration

- Neutral on Malaysia, Singapore and India rates.

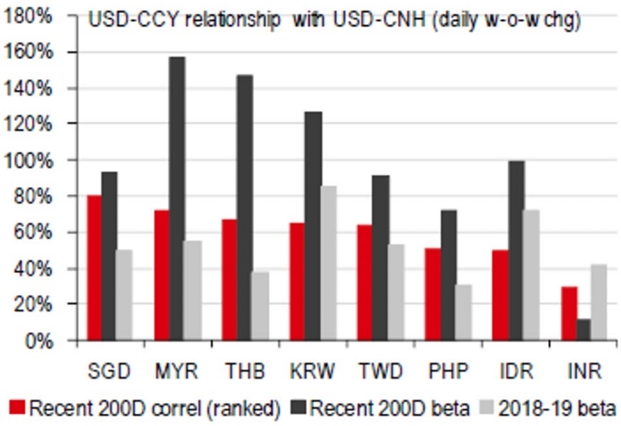
Asian FX/Rates Outlook

	Currency	Local Rates
China	**Bearish CNH short term.** Recent announcement of "Bazooka" style stimulus still hinges on implementation and delivery. But we acknowledged government's position to tolerate a higher fiscal deficit of ~4% of GDP. Expect escalation of US-China trade tensions with recent appointment of China hawks by Trump. The magnitude of Chinese authorities to CNY depreciation as a method to soften tariff impact is dependent on the level of tariff to be implemented. A blanket 65%-tariff on all Chinese imports could see CNY jump beyond 7.50 level against USD but we await more clarity from new administration. In the short term, key level to watch include CNY fixing above 7.20 level.	**Neutral on China rates.** After Nov NPC standing committee's underwhelming response (focused more on reducing debt for local government), we saw more concrete stimulus announcement in Dec 25. Bond supply is expected to increase in 2025 given the planned expansionary fiscal policy by government. Anticipate local GB yields to tread lower on the back of further monetary easing and capital rotation from equity to bonds as growth continues to be sluggish from weak domestic consumption.
India	**Neutral to negative INR in short term.** Expect RBI to deliver a shallower easing cycle of 50 bps to 75 bps in 2025 on the back of still higher food inflation and slowing growth (consensus expecting 25F GDP growth of sub-6%). INR has performed better than other regional currencies in 2024 (roughly -2.0% against USD). Expect INR to remain weak in first half of 2025 as expect central bank to slowly deprecate INR given it is expensive compared to regional currencies. Continue flows into India equity and bonds could provide stabilisation however, risk of widening twin deficits persist.	**Neutral on INR rates.** Current IGB curve appears to be relatively flat (2y10y spread: < 10 bps in end 24), which indicates little premium being priced in. Anticipate next catalyst from RBI's potential easing if domestic growth starts to moderate. Consequently, this may result in 10Y IGB to move towards 6.5% in 2H25.
Indonesia	**Neutral-to-bearish in short term.** Despite tame inflation, do not expect aggressive rate cuts by BI in 2025 as the central bank appears to prioritise IDR stability. Expect IDR to be impacted in the short run amidst stronger dollar environment as a risk asset. However, we think IDR to retrace in 2H25 as Indonesia broadly speaking, is considered a "domestic economy" and may not be severely impacted by Trump's hawkish tariff stance. Downside risks include widening of current account deficit and/or if Prabowo pursues a more aggressive spending plan (Note: Re-appointment of Sri Mulyani as finance minister seems to alleviate concerns by investors thus far).	**Constructive local rates in medium term.** Despite benign BI rate cut expectations, we remain constructive on local rates and duration as Indonesia's real yield is considered one of more attractive in ASEAN. This is on the back Indonesia's relatively stable and low inflation rate. That said, we are still cautious in short horizon even though Indonesia may not be directly exposed to trade tensions. Expectation of stronger USD and higher US rates would keep Indonesian risk assets under pressure in the short term. 10Y Indo Government bonds may scale towards low 7% in 1Q25 before trending downwards to high 6s.
Korea	**Bearish KRW short term.** KRW underperformed Asian peers (2024: almost -10%) due to its high beta nature and period of USD strength post Trump victory. Factors such as Fed's shallower easing cycle, ongoing political woes and looming US tariffs on Korean exports are likely to weigh on KRW in the short term. Furthermore, given that Korea's semiconductor is more focused towards hardware such as DRAM, exports may not be able to grow robustly compared to Taiwanese semiconductor exports (i.e. more AI-related).	**Neutral to constructive Korean rates.** BOK expected to deliver cuts as export growth grinds slower coupled with easing inflation. Demand for local sovereign bonds expected to pick up with KTB's inclusion into FTSE Russell's World Government Bond Index.
Malaysia	**Bearish in 1Q, neutral in medium term.** In view of (i) Malaysia's trade dependent nature; and (ii) MYR's high beta with CNY, MYR appears to be vulnerable. After a good run in 2024 (approx. +3.2%) due to BNM's policy support and local corporates collective USD conversion. In 2025, external risks and trade tension is likely to weigh on MYR's short run trajectory. Expect USDMYR to scale higher towards 4.55-4.6 in 1Q25, before ending at 4.20-4.40 in end 25.	**Neutral local rates.** We do not see further compression in the near term as chances of BNM executing a rate cut is low. We expect BNM to lean towards a hawkish position given strong growth outcomes/ impending FDIs and the impending petrol subsidy removal (which may add into inflationary pressure). That said, demand for longer end MGS remains strong due to domestic allocation by local pension funds/institutional players. Forecast 10Y MGS to trend around 3.80-4% in 2025.

Asian FX/Rates Outlook

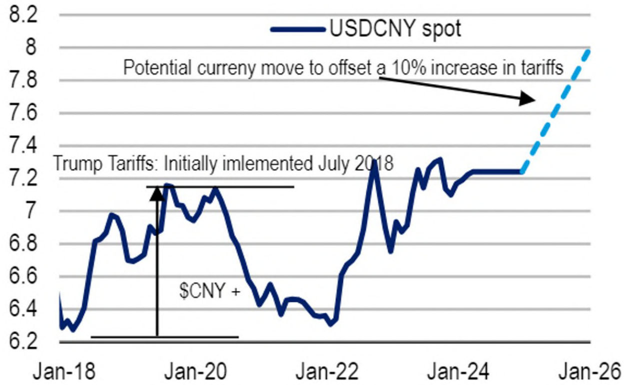
	Currency	Local Rates
Philippines	**Turn bearish in medium term.** With BSP signalling a more dovish guidance and low inflation, expect central bank to deliver 3-4x cuts in 2025 (policy rate stood at 5.75% as of end 24). Moreover, BSP's comfort of allowing PHP to weaken (taking a more market driven approach) is likely to results in PHP to weaken past 60/USD in 1H25.	**Neutral.**
Singapore	**Mildly bearish short term.** Expect economy to be vulnerable against trade protectionism given Singapore's open economy status. Progress on inflation front and easing labor market will likely lead to easing stance in Jan's MAS meeting. In view of sizeable weight of CNY in S$NEER basket and strong correlation with CNY, CNY weakness is expected to feed into relative SGD weakness. Broadly, expect SGD to weaken toward 1.37 in 1Q25, before appreciating to 1.32 by end 25. Downside risk from protracted trade conflict and hawkish tariff policies could cloud Singapore's export/import trajectory.	**OW SGD rates.** Fiscal expansion may occur in light of trade disruption and upcoming elections in 2025 but expect SGS supply for 2025 to be balanced. Issuance calendar published suggested increase in long end supply (i.e. two 10Y SGS auction and reopening of 30y and 50y green infra bonds). Despite MAS' guidance towards a slight increase in SGS supply, demand expected to be supportive in view of (i) Singapore's strong fiscal metrics; last few remaining AAA-rated sovereign; and (iii) relative value (SGS remains cheap on asset swap basis). We forecast SGS 10y yield to trend above 3% in 1H25, before reaching high 2% at end-2025.
Taiwan	**Neutral to slight negative TWD 1Q25.** With Taiwan on the forefront of AI boom (i.e. near monopoly advantage), Taiwanese exports may fare better than Korean exports (more hardware-centric). Notwithstanding that, headwinds from Trump's trade tariffs; US push for nearshoring; and US exceptionalism may impact TWD. Cross border tensions with China is also key consideration point.	**Neutral.**
Thailand	**Slight bearish in 1H25.** Domestic vulnerability (i.e. weakening growth and increasing NPL/tightening credit conditions) coupled with external risks under Trump policies do not bode well THB strength. Moreover, Thailand's high currency beta with CNY and its trade-dependent economy are headwinds to THB. We forecast THB to weaken to around 36-37 level in 2Q before pulling back to 35/USD by end 2025.	**Neutral local Thai government bonds.** Government's pro-growth stance and Thailand's low inflation will provide ammunition for the central bank to deliver another 1-2 more cuts in 2025.

Figure 21: THB, MYR, KRW appears to have high correlation with changes with CNH; whilst IDR and INR seem to be less correlated.



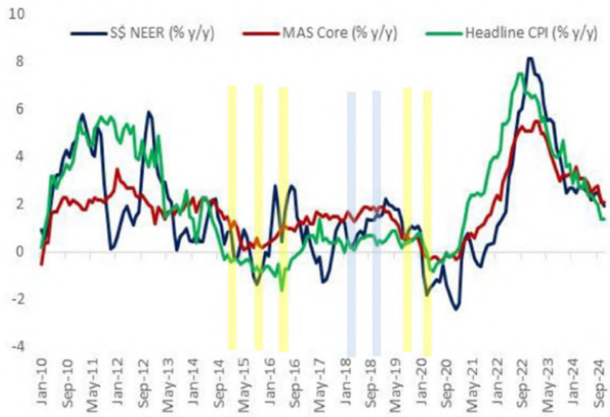
Source: HSBC Research

Figure 22: USD/CNY during the 2018-2019 first round of Trump tariffs saw significant movement; should history repeat (i.e., a 10% blanket rise), it could imply USD/CNY moving towards the 7.9-8.00 level.



Source: BofA Research | Period: Jan 2018 – Sept 2024

Figure 23: S$ NEER largely tracks CPI moves >> SG moderating CPI could result in MAS' easing policy stance



Source: OCBC Research | Period: Jan 2010 – Sept 2024

Global Sukuk Outlook & Strategy

Go with the "carry" flow

In 2024, the Fed's surprise 3Q rate cuts eased inflation concerns, but Trump's 4Q election victory spurred higher US Treasury yields, a stronger USD, and underperformance in EM assets. Meanwhile, Gulf Cooperation Council ("GCC") GCC sukuk outperformed with a 4.31% YTD return, driven by credit spread compression. Looking ahead to 2025, market volatility is likely, driven by Trump's policy uncertainties and elevated geopolitical tensions. While US growth may slow in 2H25 due to inflation and high rates, China's stimulus measures and robust non-oil growth in the GCC are expected to bolster regional resilience.

2024 was a year of contrasting 2 halves where market's expectation of the Fed easing did come to fruition in 3Q24 after Fed delivered a surprised 50 bps cut in Sept FOMC on the back of moderating US inflation and US soft landing. However, things took a turn in 4Q24 as US election outcome (i.e. Trump victory and Republican controlling both House and Senate) led to higher US Treasury ("UST") yield, potential wider fiscal deficit, stronger USD and broad EM risk assets underperformance.

Consequently, markets reduced their expectations for the pace and magnitude of Fed rate cuts, anticipating only 2 cuts in 2025. Concerns over a wider deficit led to a steeper yield curve, with long-end UST yields climbing higher. For context, the 10-year UST yield is approaching 4.60%, after touching a YTD low of approximately 3.62% in September 2024. UST performance as an asset class has been modest, delivering a meagre 0.30% YTD (as of the time of writing). Meanwhile, EM GCC US$ global sukuk returned 4.31% YTD, primarily driven by credit spread compression from 130 bps at the start of 2024 to below 100 bps by the end of December 2024.

Consequently, markets reduced their expectations for the pace and magnitude of Fed rate cuts, anticipating only 2 cuts in 2025.

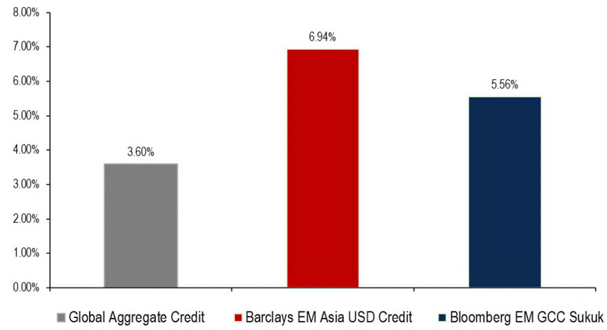
Moving ahead to 2025, overall market volatility is expected to increase broadly due to

(i) uncertainty surrounding policy implementation by the Trump administration, particularly in tariffs, immigration, and fiscal matters and
(ii) elevated geopolitical risks, including ongoing US/China tensions and the Middle East conflict. We expect US economy to chug along in 1H25 with support from looser financial conditions and expansionary fiscal policy. Trump's pro-growth and deregulation stance may be partly offset by protectionist trade policies and a shallower Fed cut (inflationary impact from tariffs).

That said, we opine that the US economy is set to moderate in 2H25 due to inflationary pressures and still-elevated interest rates, which may weigh on growth. Additionally, China is anticipated to implement fiscal and monetary easing measures to support its domestic growth, but execution will be key. Meanwhile, GCC growth should remain robust, with the region's non-oil growth expected to exceed overall global growth.

Despite these risks, the outlook for global sukuk remains constructive, particularly for investment-grade ("IG") credit, as current absolute yields of 5.10–5.30% provide carry and some degree of protection against volatility. GCC IG sovereign credits continue to exhibit stability and high credit quality as GCC economies diversify away from oil revenues. Most returns in IG are expected to come

Figure 24: Indices YTD Returns



Period: Sept 2024

from carry, as recent spread compression already reflects the favourable market backdrop. Meanwhile, high-yield ("HY") credits, particularly subordinated and perpetual instruments, offer additional alpha to portfolios. The current low default rates and conducive funding channels for sukuk issuers are expected to benefit HY issuers.

GCC economy and the oil market

In energy markets, crude oil prices hovered within a tight range of US$70–80/bbl in the final months of 2024, as market dynamics balanced heightened tensions in the Middle East against lackluster demand from China and expectations of ample supply from the US. We anticipate increased volatility in oil prices in 2025 due to geopolitical tensions, particularly in the Middle East. The new Trump administration is likely to adopt an aggressive stance on Iran, potentially driving instability.

Furthermore, the removal of Assad's regime in Syria is expected to lead to ongoing political turbulence, similar to what occurred in Iraq, Egypt, and Libya after the fall of long-standing leaders. This instability may spill over into neighbouring countries, potentially affecting regional oil supplies. However, this positive outlook could be negated by punitive trade tariffs on China. Based on these factors, we expect oil prices to fluctuate between US$60 and $75/bbl in 1H25, influenced by Middle East tensions and deregulation in the US.

With oil prices trending downward from US$90/bbl earlier in the year to the lower end of the forecast range at US$65/bbl, GCC economies may experience narrowing budget balances. However, the impact will vary among GCC members and occur at a less synchronized pace.

Kuwait and Qatar are expected to continue running current account ("CA") surpluses exceeding 20%, while Saudi Arabia's CA surplus is projected to shift into a slight deficit in 2025 (Bloomberg consensus 25F: -0.2%) as oil production declines.

We anticipate no significant increase in oil production in at least 1H25 for GCC economies, as members prioritize safeguarding oil prices. The drag on oil production growth is partially offset by non-oil growth, which continues to run at a positive pace, particularly in Saudi Arabia and the UAE as they intensify economic diversification efforts. Saudi Arabia's ongoing social infrastructure spending, anchored by its Vision 2030 initiative, is expected to drive non-oil growth at an approximate 4% pace, similar to recent years.

Saudi Arabia's debt-to-GDP ratio is expected to remain relatively high, but we foresee fiscal prudence from the government, with quasi-sovereign entities such as PIF and Aramco taking on the bulk of public spending responsibilities. Meanwhile, Bahrain remains the weakest link in the GCC region, as evidenced by its high single-digit budget deficit. Nonetheless, ongoing structural reforms, financial support from Saudi Arabia, and a healthy current account supported by aluminium exports serve as moderating factors.

Supply Outlook/Ratings updates

Issuance in the USD GCC Sukuk market was strong in 2024, exceeding US$40.1 billion as of the end of 3Q24, surpassing the full-year 2023 total issuance of US$36.4 billion. We expect this issuance momentum to continue in 2025, driven by strong activity from Saudi quasi-sovereign entities such as PIF and Saudi Aramco, which are contributing to major ongoing public spending. Additionally, we may see Oman—whose issuance has been muted recently due to continued deleveraging efforts—and Kuwait—following the recent resolution of its political impasse—returning to the Sukuk market in 2025. Demand for these credits is likely to be high, given their scarcity value and the investors' need for diversification.

GCC Credit Outlook & Positioning

Amid rising geopolitical risks, GCC sukuk credit spreads continued to narrow in 2024 (approximately -30 bps YTD to 97 bps as of the time of writing), indicating minimal to negligible risk pricing from geopolitical tensions in the region. We expect GCC credits to remain largely insulated from potential negative impacts arising from the Israel-Hamas-Hezbollah conflict, a possible escalation in US-Iran tensions, or even potential trade tensions with the

US. This resilience can be attributed to the region's strong ties with major global powers, demonstrated through initiatives like the Abrahamic Accords, Saudi Arabia's improved relations with Iran, its budding relationship with the US, trade partnerships with China, and the OPEC+ alliance with Russia.

Even in the face of geopolitical challenges, GCC countries are well-positioned to support their economies due to robust fiscal and external reserves. Additionally, an unforeseen escalation could drive oil prices higher, benefiting the region. However, the tightening of credit spreads suggests limited further upside potential, leaving IG credits, in particular, more vulnerable to higher US interest rates.

Within the GCC sukuk space, we remain constructive on selective HY credits due to their higher yields, a supportive economic environment, and multiple refinancing options available to HY issuers. The region's creditworthiness is further bolstered by the continued growth of non-oil sectors, driven by diversification efforts.

GCC governments are utilizing oil windfalls to enhance public spending and reduce reliance on oil revenues. These reforms have resulted in an increase in expatriate populations, improved consumer sentiment, higher consumer spending, and greater private investment, particularly in residential projects. Additionally, with a higher likelihood of a 'no landing' scenario (i.e., an expansionary economy characterized by persistent inflation and shallower rate cuts), we recommend a 15–25% allocation to selective HY credits, particularly those with shorter durations, to mitigate the risks associated with higher interest rates.

Among the sectors of GCC sukuk issuers, we expect financials' AT1 and T2 instruments to remain resilient in the face of rising yields and recent curve steepening. We think these instruments with call dates coming in next 2-3 years would offer some form of insulation against macro uncertainty due to hold-to-call behaviour by investors.

Additionally, given these instruments relative low duration, we think AT1 will complement IG corporates/sovereigns in balancing duration risk (from a softer Fed easing path).

In conclusion, our key trade for the near term includes:

(i) Portfolio duration remain neutral, especially for IG credits, with skew towards the short end and belly of the curve.
(ii) Hold on to stable defensive UAE IG credits in sectors such as port and government-linked real estate players.
(iii) T2 and AT1 instruments with call dates in 2-3 years' time; and selective participation of AT1s as we expect more Saudi banks to tap the capital market for capitalization purpose to fund their RWA growth.
(iv) Anticipate participation in Kuwaiti sovereign papers with hopes of Kuwait's return to the international debt market given their recent end in political turmoil and contingent on new debt law approval.
(v) Selective exposure in HY credits, in particular short duration credits that have benefitted from conducive macroeconomic cycle in UAE and continuous funding channel.