UOB PRIVILEGE CONVERSATIONS

Navigate Market Currents in Dynamic Conditions

Key Takeaways

How has the outlook changed from Trump 1.0?

Similarities

Market has reacted to significant policy proposals

Corporate and individual tax cuts

Deregulation

Trade tariffs

Differences

In a different stage of the economic cycle

Heightened geopolitical tension with the Middle East and Russia-Ukraine conflicts

Higher US deficit than 2016

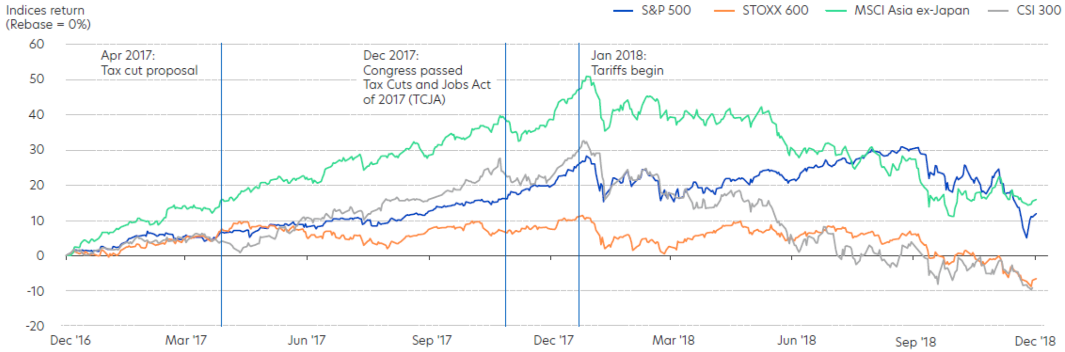
Navigating President Trump's potential policies

Policy	Impact	Beneficiaries
Corporate tax cuts	• Lower taxes improve corporate earnings which benefit shareholders. • Allows companies to allocate more capital for business investments, which can spur jobs creation and economic growth.	• US stocks
Deregulation	• Reduces compliance costs, enabling efficient capital allocation for share buybacks and business investments. • Looser regulation encourages innovation and competition within the tech sector.	• Financial sector • Technology sector
Trade tariffs	• Encourages domestic production by making foreign goods more expensive. • Nudges US companies to reshore business activities and reduce dependency outside of the US.	• Domestic-focused companies • Small-cap stocks • Industrials sector • Utilities sector

Source: UOB PFS Wealth Management Advisory

Stock market reaction will depend on the scale of policies implemented

Expectation of tax cuts triggered a sharp rally in US stocks across 2017, while the imposition of trade tariffs saw Chinese stocks underperform during 2018.



Source: Bloomberg (30 November 2024)

What is the best strategy for 2025?

Key considerations when planning your investment strategy

How should I invest in 2025?

Investment Strategy for 2025

Core

Multi-asset strategies

Investment grade bond funds

Tactical

What You Can Do

- United States (US) President Trump's pro-growth policies are expected to support US stocks. On the other hand, global markets may face headwinds from the threat of trade tariffs.
- Amid both opportunities and challenges, build a resilient and diversified portfolio while seeking income with investment grade bonds and quality dividend stocks.
- Importantly, be nimble and proactive to navigate the dynamic market conditions.

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- Interest rates may not decline too much if President Trump's policies trigger a rebound in inflation.
- The US dollar (USD) is likely to strengthen throughout most of 2025, placing pressure on the Chinese Yuan and Asian currencies.
- We maintain our strong conviction in gold, forecasting USD 3,000 per ounce by end of 2025.

- While large-cap stocks have significantly outperformed, valuations are arguably high, and earnings growth is likely to slow.
- Small- and mid-cap stocks trade at more reasonable valuations with the prospect of improving earnings growth.
- With investors heavily exposed to US large-cap stocks, there may be opportunities in other quality and reasonably priced companies not just within the US but globally.

- Systematic investing could help investors take advantage of increasing information derived from technological advancements.
- The combination of artificial intelligence and data could be a powerful tool for investors.
- By leveraging machine learning, investors may gain a data-driven edge in decision-making and create more resilient portfolios for various market conditions.

Left to right: Benny Lee, Head of Discretionary Portfolio Management, UOB Private Bank, Heng Koon How, Head of Markets Strategy, Global Economics and Market Research, UOB Group Treasury and Research, Steven Chia, Presenter, CNA, Mediacorp, Ahmed Talhaoui, Head of BlackRock Systematic Group, EMEA and APAC, BlackRock, and Naveed Rahman, Institutional Portfolio Manager, Fidelity Investments

PANEL DISCUSSION

Key Questions Raised

1. What are the pitfalls and positives to watch for in 2025?

Pitfalls:

- Inflation possibly staying elevated and above the 2% target, keeping interest rates high for longer.
- Potential policy missteps by central banks as they deal with big fiscal deficits, inflation risks and potential escalation of geopolitical tensions.

Positives:

- The global economy has been more resilient than expected and will adjust to President Trump's policies.
- The artificial intelligence (AI) impact will persist for many years, providing a boost for many companies.

2. US debt levels may rise greatly. What does that mean for bonds?

- While US interest rates are expected to bottom out at a higher level around 3%, investing in bonds with strong credit quality remains sound. This is because they pay consistent coupons, and investors get repaid the principal investment if no default happens, resulting in a stable investment.

- Rising debt levels is not only an issue for the US. Practically every other developed market country has high government debt levels as they spend more to support their economies.

- In contrast, emerging market countries have lower debt levels, presenting a potentially more attractive option for investors due to their comparatively stable financial positions.

3. What is the outlook for ASEAN economies under Trump 2.0?

- ASEAN's domestic economy remains robust, supported by a large and young demographic, resilient domestic spending and strong foreign direct investment (FDI) inflows.
- While tariffs may pressure external trade, ASEAN's intra-regional collaboration and trade are likely to grow, helping economies adapt and strengthen.
- Initiatives like the Johor-Singapore Special Economic Zone highlight the region's cooperative approach to sustaining growth amid global challenges.

4. If economic growth is expected to slow, and interest rates stay high, how does that affect smaller companies?

- This combination is typically challenging for small companies.
- Nonetheless, high-quality, reasonably priced small and mid-cap firms that consistently generate free cash flow can better navigate a high interest rate environment.
- These companies rely less on debt markets for funding. When interest rates are high, they can use their free cash flow to fund growth. When conditions are favourable, they can be opportunistic to take advantage of lower borrowing costs.
- By focusing on such resilient businesses, investors can find opportunities in smaller companies even in challenging economic conditions.

For more insights, speak to your UOB Client Advisor today.

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