Chief Investment Office

Special Edition

2025 Outlook

Trump 2.0 – Recalibrate with Agility

Foreword

As I reflect on 2024, the first thing that came to mind was – there was never a dull moment this year! 2024 was a year where risk assets like equities trumped fixed income for the second year in a row despite inflation slowing down. Gold emerged as a key surprise in the alternative space, benefitting from central bank purchases and investors hedging against rising geopolitical risks in the Middle East and Ukraine. The intersection of politics with markets has never been more pronounced, especially after the recent US elections. Some call it the “Trump trade”. We prefer to call it Trump 2.0.

So what’s next for 2025?

At the CIO office, our 2025 outlook labelled **Trump 2.0 – Recalibrate with Agility**, explores five key themes to help investors navigate a year where we foresee volatility and more uncertainties being the new normal. We believe it is crucial to maintain a globally diversified and resilient portfolio with a focus on income, diversified growth and alternatives to anchor clients’ portfolio returns.

No matter what the markets have in store for us in 2025, we remain steadfast in being disciplined and agile in partnering with you to uncover opportunities amidst evolving political and economic landscapes. **We hope you have benefited financially from our recommendations in 2024 and we sincerely want to thank you for your business and trust in us at CIMB!**

Wishing you a joyous New Year with good health and abundant prosperity as we navigate 2025 together.

Sincerely,

Patrick Chang
Chief Investment Officer
Affluent Product and Proposition
CIMB Bank Berhad

Our convictions

US Supremacy to Reign

We believe US exceptionalism will continue despite higher valuations – do expect speed bumps on policy challenges.

US Supremacy to Reign

US exceptionalism will continue despite high equity valuations – expect speed bumps on policy challenges.

As Trump's 'America First' or isolationist doctrine prioritises the American people over non-Americans in policy making, existing political or economic relationships will be antagonised, dislodged or shaken up. The Republican sweep and a supportive Supreme Court (i.e. lack of check-and-balance), gives Trump more leverage to push forward radical policies to put 'America First', via negotiation or unilateral action.

These policies aim to create an environment for corporate America to operate, invest, and thrive, and thus boost American investments and incomes. Should these multi-pronged policies attain their goals, corporate America and portfolio investors may perceive 'there is no alternative' (TINA) but to invest in the US. Will we get there?

Markets are focused on campaign promises in areas of:

i. **Higher tariffs**: To cut imports, protect US businesses from foreign competition and protect jobs;
ii. **Lower regulatory hurdles**: Less regulation reduces compliance, regulatory costs and reporting;
iii. **Keep taxes low**: Lower taxes improve profitability, raise consumer demand (pro-growth) and reduce the hurdle rate for investing in new projects (pro-growth);
iv. **Less immigration**: Fewer illegal immigrants improve the social environment (debatable).

Trump 1.0

The empirical evidence on the effectiveness of 2018-19 tariffs is mixed: Tariffs were raised in 4 steps from Jan 2018 to Sep 2019, with rising tariff rates and on different imported goods, but the effects were not always anticipated:

i. the US trade deficit with China fell but its trade deficit with its next 4 largest trading partners (Mexico, Canada, Japan, the EU) continued to rise.
ii. Inflation remained subdued, starting at 2.1% YoY, in stayed a range of 1.5%-2.9% YoY throughout the period.
iii. S&P500 corporate operating margins dipped only marginally, starting in 2Q 2019, 4-5 quarters after the onset of the tariffs.

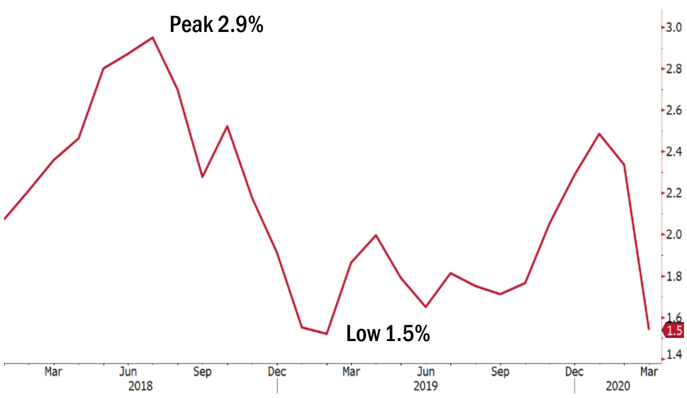
Source: Bloomberg, CIMB Chief Investment Office

The Good

Inflation remained subdued as many items in the CPI basket are not affected by tariffs, especially services and shelter/rental costs. However, the retaliation that met every hike in the rate or new round of tariff impacted specific US industries (e.g. farm produce) and incomes of these communities were hit; lower incomes curtailed overall inflationary pressure. Not only was inflation muted, but the decline in US Treasury yields throughout 2019 suggest markets were pricing in lower growth prospects for the US economy, as US export markets began to shrink. **With tariffs under Trump 2.0, we expect retaliation to be swift once tariffs are implemented (because all parties are prepared); this includes retaliation against US companies, especially those operating in China.**

As with 2018 tariffs, the inflationary impact under Trump 2.0 will also be partially masked by a strong USD. In 2018, the Dollar index (DXY) began at 91, and rose through most of the next 2 years. Today, it is conceivable that DXY will continue to rise from the 107 level as it reached 114 in late 2022. (Our base case is 107.8 for 2025).

US inflation in 2018-20 remained below 3%



Source: Dec 2024, Bloomberg, CIMB Chief Investment Office

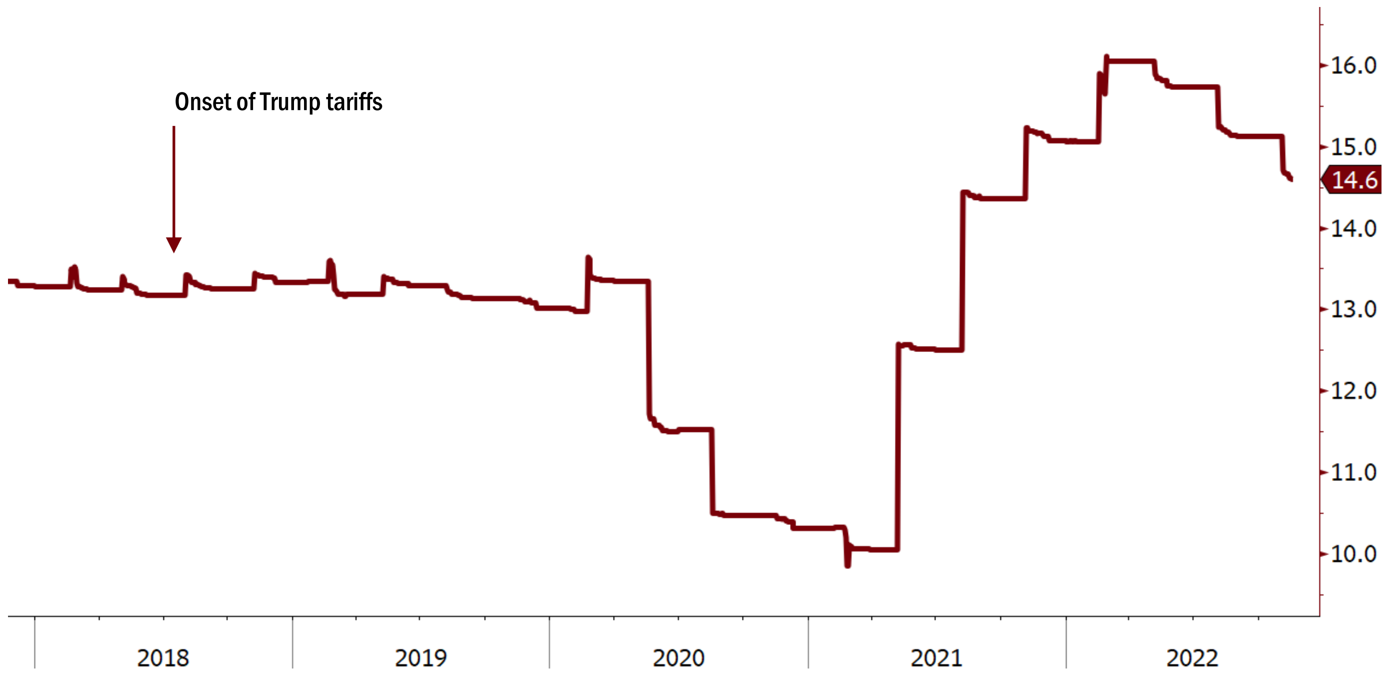
The Bad

US importers found alternative non-Chinese suppliers, with corporates pursuing a China+1 policy, so the trade deficit with China fell but overall deficit did not. Many US corporations remain in China but added incremental capacity in other countries. Most of ASEAN, Mexico and more recently India have benefited as US and other manufacturers based in China added capacity elsewhere, namely ASEAN, Mexico and India. **The notion that globalisation is dead is an exaggeration; more accurately, global supply chains have shifted to minimize risks from geo-political rivalry and fracture. The fact that the overall trade deficit did not fall also means that US corporations did not invest to produce locally; import substitution was not achieved, the source of imports merely shifted.**

The Ugly

US operating margins impacted, with lags. As a multi-country supply chain faces tariffs, each participant (from factory/manufacturer, shipper to distributor and retailer), faces a choice of absorbing some of the tariff OR maintaining his profitability and passing it on. In the 2018-2019 period, S&P operating margins were impacted only after a lengthy 5-quarter lag because at low tariff levels (10%), one or more (Chinese or other non-S&P constituent) participants may have absorbed some of the tax, for a while, but as the rates became prohibitive, it was fully passed on. In Trump 2.0, all participants are well-prepared for the eventuality, and reactions are more likely to reach the final positions in fewer steps. Furthermore, if tariffs begin at a high rate, supply chains will have no choice but to pass it on immediately.

S&P500 Operating Margins dropped 30bps, 5 quarters after onset of tariffs



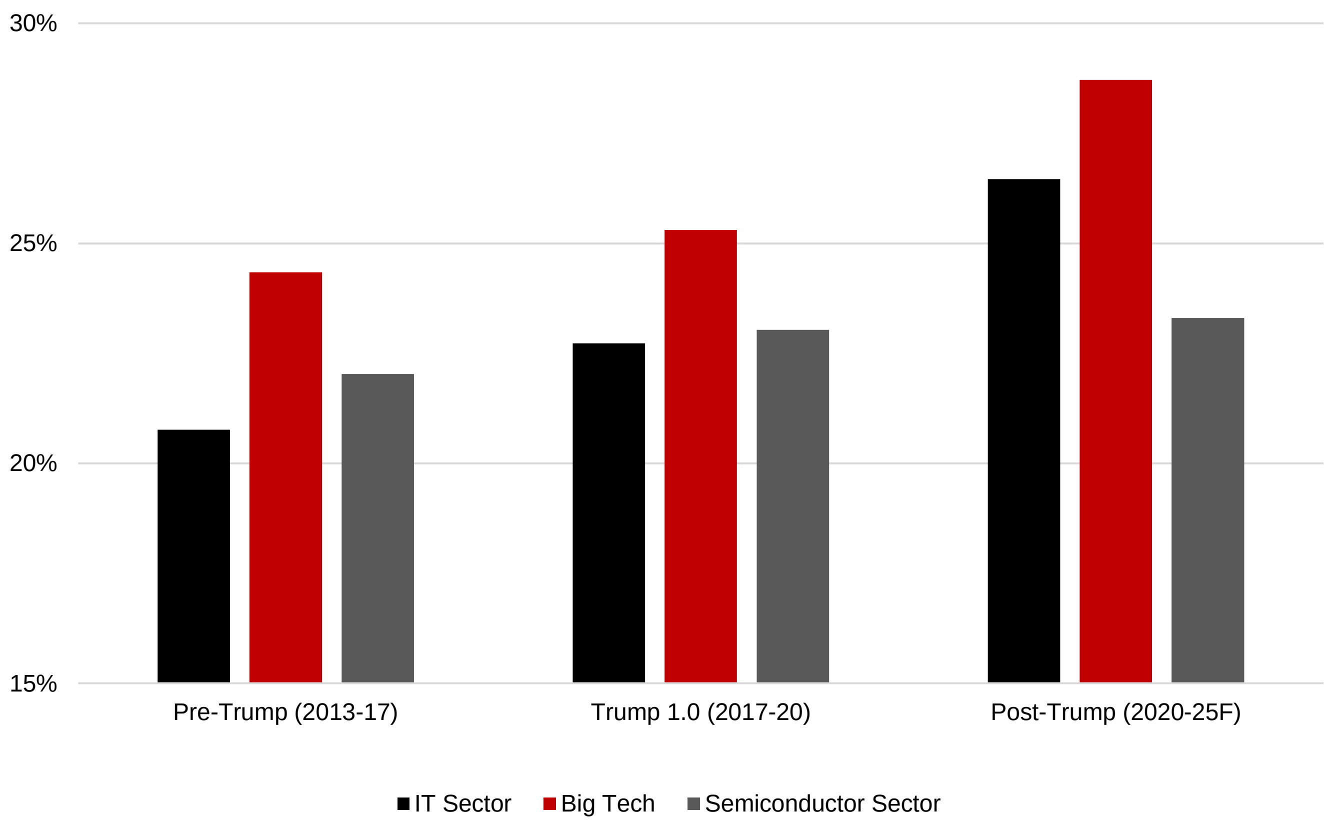
Source: Dec 2024, Bloomberg, CIMB Chief Investment Office

Will US tech sovereignty remain?

Technological dominance by the US is the result of long-term investments in R&D and infrastructure, favourable policies, coupled with innovation and advancements. However, in the past decade China has evolved from being at the bottom of US companies' technology supply chain to being the world's second largest technology player. The US views China as a threat to global tech leadership and economic security. The stakes are high as the leader in emerging technologies like AI, semiconductors and quantum computing is likely to shape the future of tech. To address this challenge and threat, both Trump 1.0 and Biden's administration provided funding for domestic R&D and reshoring, enacted tariffs and export controls to limit transfer of advanced and critical technologies. However, through these we have seen shifts in global supply chains, from China, to countries like India, Japan, ASEAN and South Korea.

We believe Trump 2.0 will see an expansion from Biden's policies on tariffs and the CHIPs and Science act. However, most US semiconductor firms are/in the midst of preparing with their globally diversified supply chains whilst also being innovative in designing chips with allowable limits to be exported. As for the big tech companies (software and service providers), we believe they will maintain leadership positions as they remain far more innovative than their peers given their sticky business models. By monetizing the push in AI, revenues and operating margins of the mega cap tech companies today exceed that in 2017 despite challenges. **For 2025, consensus expectations of big tech companies remain robust with revenue and earnings growth expectations of 13% and 17% yoy respectively which will continue to be driven by higher AI capex spending and continued demand growth of global digitalisation.**

Operating Profit Margins for the US Tech sector remained resilient during Trump 1.0



Source: Dec 2024, Bloomberg, CIMB Chief Investment Office

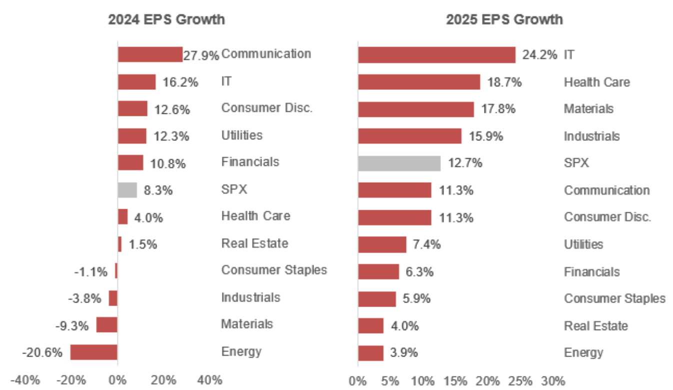
US equities to reprice; heightened volatility expected

The US equity market has demonstrated remarkable resilience despite macroeconomic and global conflict. The S&P 500 returned 27% YTD in 2024 – outperforming global markets. In 1H2025, US equities could move higher given resilient economic growth, broadening of AI capital spending, earnings boost from tax cuts, and deregulation across industries.

Our base case based on a 24x PER, a fair value of 6500. However, the path to higher ground could come with heightened volatility on the back of policy changes in Trump 2.0.

EPS growth justifies valuation; but with risks

The S&P 500 trades at 22.8x 2025F PER, ahead of its 10-year mean of 20x. The robust US corporate earnings growth (2024: 8.3%; 2025: 12.7%) has been a key supporting driver for investor confidence despite extended valuations. The small-to-mid caps could find a bottom in earnings and improve once Trump implements his policies. **Markets could ignore extended valuations given robust earnings growth, but we are cognizant of the downside in earnings risks from 1) imposition of more tariffs, and 2) inverse relationship between USD strength and earnings growth.**



Source: Dec 2024, Bloomberg, CIMB Chief Investment Office

Bottom up ideas

i. **Quality large cap software stocks within big tech** (service providers) which will see a more significant contribution from AI monetization in the medium to long-term. Most have recurring income coupled with growing profitability and healthy free cash flows.

ii. **Large cap value stocks, particularly within the consumer discretionary sector**, should re-rate on higher consumer spending supported by resilient wage growth, labour market and Trump's pro-growth policies. Consumer stocks are also a good hedge amid market volatility.

iii. **Financials, particularly banks**, are beneficiaries of Trump's pro-growth stance and an increased appetite for capital markets activity that would support deal pipelines and trading activities in exchanges and investment banks.

Bottom-line:

We advocate a buy on US equities on pullbacks given its good run in 2024. We remain positive from a longer term perspective given our view that US exceptionalism will prevail (until proven otherwise) , given robust earnings growth, resilient economy and a potential boost from pro-growth policies. **One caveat** - if 10-year US bond yields soar to 5%, equity markets could be risk-off and thus see downside. The outsized gains of 2024 is difficult to repeat, but **we expect US equities to end moderately higher in 2025.**

S&P500 Index vs US Treasury 10Y yield

Source: Dec 2024, Bloomberg, CIMB Chief Investment Office

US Rates May Stay Higher For Longer

We believe the risk of higher inflation cannot be ignored. Huge opportunities for income investors.

Fixed Income Outlook

US Rates May Stay Higher For Longer

Policy Uncertainty Will Set the Tone in 1H2025

As we enter the new year, policy uncertainties are poised to shape fixed income markets, particularly in the first half of 2025. While our base case assumes significant tax and tariff measures proposed during the Trump campaign will not be fully implemented, the absence of policy clarity could sustain elevated volatility.

In tandem, the Federal Reserve's (Fed) measured approach to policy normalisation, amid uncertainties about inflationary impacts and sustained economic resilience, may result in US Treasury yields remaining higher for longer. **Our forecast projects the 10-year US Treasury yield could temporarily overshoot to nearly 5% in the first half of 2025 before retracing to around 4.15% by year-end.**

Globally, central banks are expected to maintain a gradual easing bias, underpinned by moderating inflation and improving labour markets. Notably, the Fed is expected to uphold its independence, adhering to a data-driven approach to monetary policy decisions.

The Impact of a Red Sweep

The Republican-controlled Congress introduces new challenges for fixed-income investors. Expectations of robust US economic performance, fueled by pro-growth policies, have already driven bond yields higher. However, risks such as inflationary pressures and renewed scrutiny from bond vigilantes loom large.

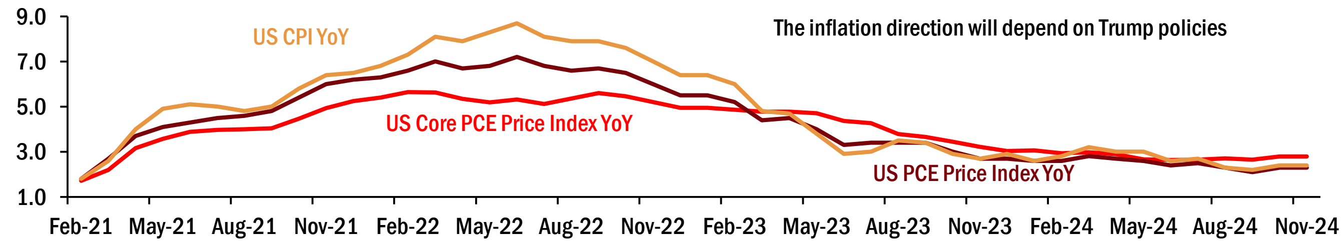
While we do not foresee immediate repercussions for the US sovereign credit rating, fiscal pressures could emerge as a concern beyond 2025. Investors should monitor potential shifts in market sentiment stemming from the evolving fiscal landscape.

Current Market Weakness: An Opportunity

Despite critics suggesting that the Fed's neutral rate estimate could rise further under Trump's administration, we believe most structural changes in the post-pandemic US economy, particularly within the labour market, have already been factored in. With the 10-year US Treasury yield having reverted to pre-global financial crisis levels, it appears that much of this concern has already been priced in.

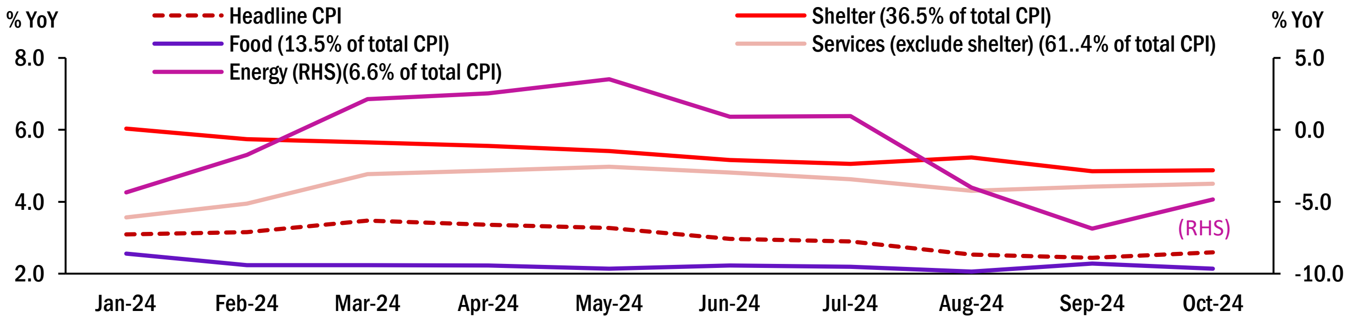
We view potential market weakness as a strategic opportunity for income-oriented investors to lock in elevated yields. As the Fed continues to lower policy rates, albeit cautiously, the fixed-income environment in the second half of 2025 is likely to improve.

Figure 1: US inflation outlook in the short term will depend of Trump policies.



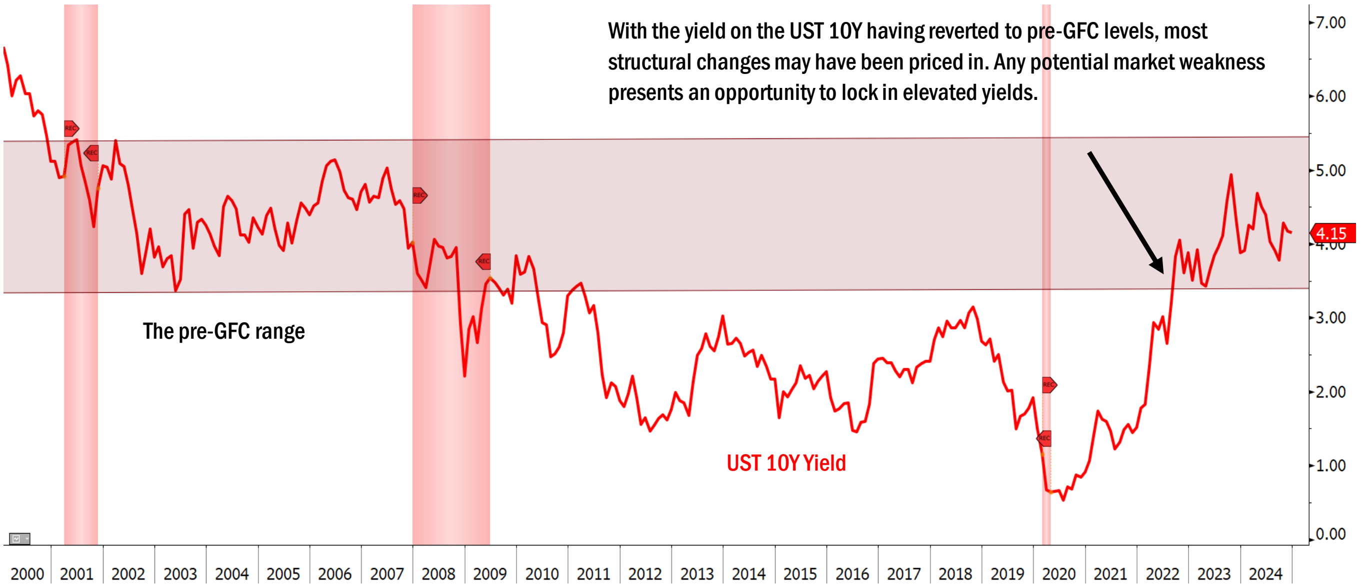
Source: Dec 2024, Bloomberg, CIMB Chief Investment Office

Figure 2: Persistent Shelter and Service inflation are the primary drivers of US CPI remaining above Fed's 2% target.



Source: Dec 2024, US Bureau of Labor Statistics, CIMB Chief Investment Office

Figure 3: Most post-pandemic structural changes in the US economy may have been priced in.



Source: Dec 2024, Bloomberg, CIMB Chief Investment Office

Focusing on Short Duration and Long-Term Income

Amid the uncertainties expected in the first half of 2025, achieving short-term capital gains may prove challenging. We recommend a shift away from barbell strategies, favoring short-duration bonds and a long-term income-oriented approach. Credit spreads are expected to remain compressed, supported by resilient economic fundamentals. Key preferences include select high-yield and investment-grade fixed-income instruments in USD, GBP, and AUD, as pro-growth policies and strong financial liquidity should help mitigate balance sheet pressures and sustain the spread compression.

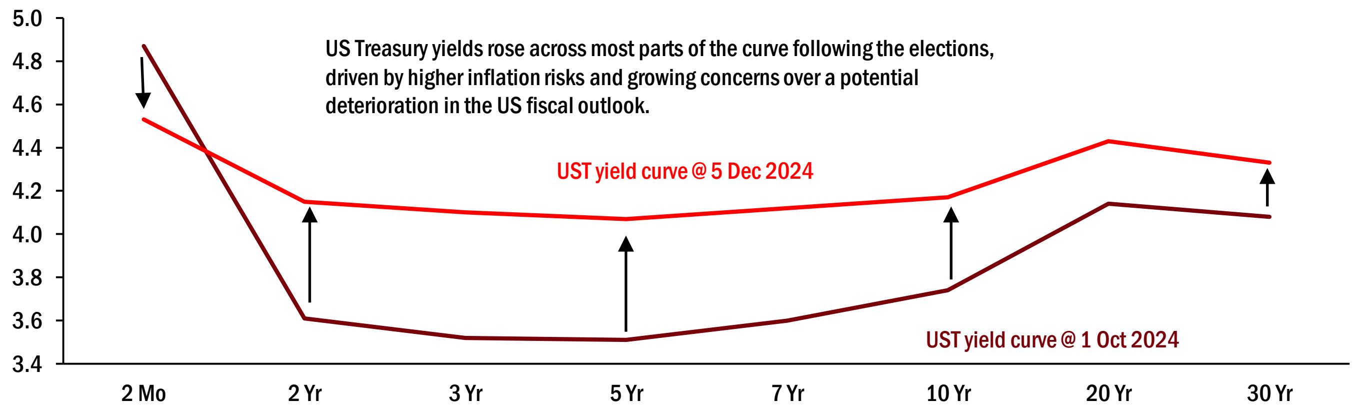
Outlook for Other Key Markets

GBP Bonds: Yields may rise alongside USD bonds, accompanied by heightened volatility. We favour corporate bonds with maturities of up to five years.

AUD Bonds: Less correlated with US Treasuries, AUD bonds are primarily driven by domestic economic factors. We recommend AUD corporate bonds with yields exceeding 5.5% and maturities up to 10 years.

Asian Credits: With a neutral outlook, Asian credits benefit from stable monetary policies but may face FX volatility risks. Aside from US policies, local factors will play a critical role in shaping the direction of Asian yields.

Figure 4: US Treasury Yield Curve



Source: Dec 2024, Bloomberg, CIMB Chief Investment Office

Key risks to our outlook include:

Fiscal Uncertainty: Deadlocks over the debt ceiling and fiscal cliffs could undermine investor confidence in US fiscal policy, triggering further selling pressure in Treasuries.

Stronger USD: A stronger dollar may curb imported inflation, increasing demand for ultra-long bonds in anticipation of accelerated Fed rate cuts.

Geopolitical Risks: Rising tensions could prompt a flight to safety, spurring bond market rallies.

Prolonged Restrictive Policy Conditions: A "higher for longer" rate environment may heighten recession fears, driving expectations for aggressive policy easing.

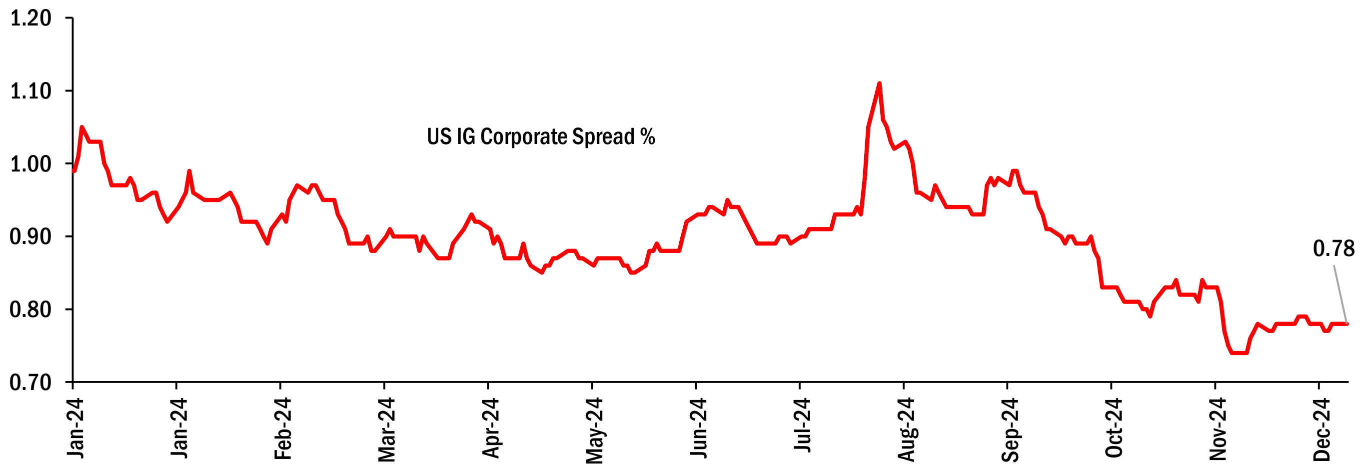
Bottom-line:

i. US rates may remain elevated in the near term, accompanied by increased volatility.

ii. The bond market may exhibit a dual trajectory: weaker in first half but stronger in second half of 2025.

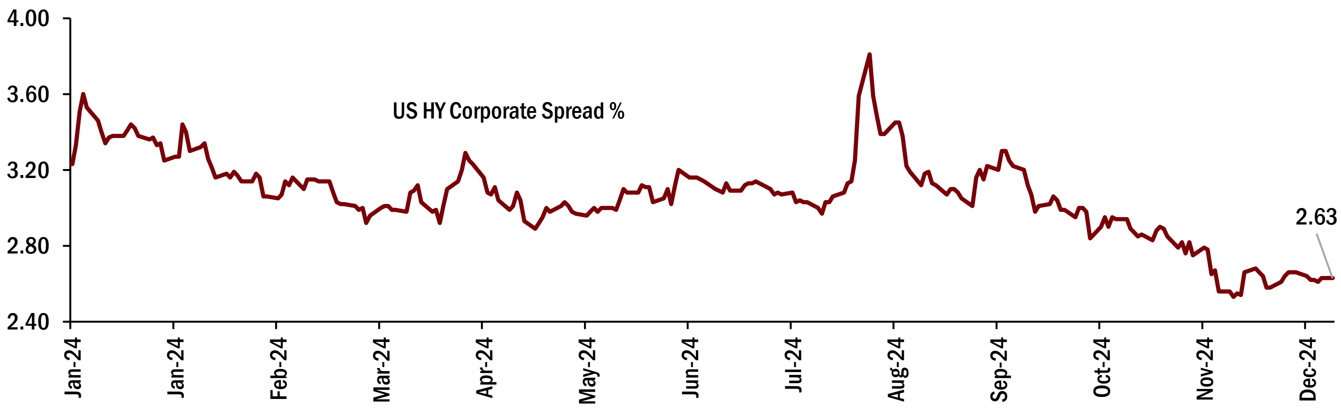
iii. Trump's aggressive tax and tariff measures, if implemented, could push bond yields significantly higher.

Figure 5: US IG Corporate spreads tighten to 78bps post US election, close to the lowest in past 26-years since 1998



Source: Dec 2024, Bloomberg, CIMB Chief Investment Office

Figure 6: US HY Corporate spreads tighten to 263bps, lowest in past 17-years since 2007



Source: Dec 2024, Bloomberg, CIMB Chief Investment Office

China's Xi's Put Option

The Defining Year

We think that the China market may have technically bottomed - sustainability is dependent on policy stimulus and execution.

China Outlook: A defining year for Xi

2025 will mark China's defining year in re-engineering its economy since the Global Financial Crisis. It remains to be seen if the slew of stimulus measures announced from end-September, which we dub as 'Xi's Miracle' will bear fruit. We believe it will be a **challenging road to long-term structural recovery** but **not one devoid of policy stimulus**, which will be at the forefront to **prevent growth from sliding below 5%.**

Tariff vs. stimulus: tit-for-tat

The advantage that President Xi has this time is his **experience in dealing with Trump during his first term.** Xi likely understands that Trump's focus on negotiating more onshoring of manufacturing, while using tariff announcements to dominate the headlines, is **part of a broader strategy.** Moreover, while exports helped offset weak domestic consumption in 2024, this support may not last into 2025. As such, we expect Xi to push for **more aggressive stimulus measures.**

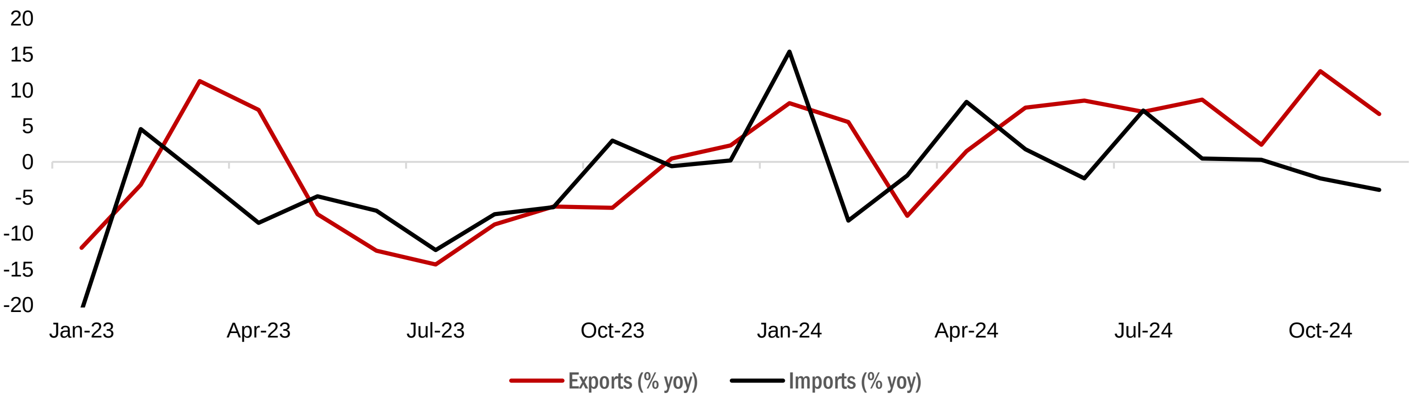
However, the **effectiveness of additional stimulus** in countering a weakening economy — characterised by rising youth unemployment, a high inventory of unsold properties, and local governments stymied by funding shortages — **remains to be seen.** For now, markets are skeptical, but we believe they **may have reached a short-term bottom.**

Can China engineer a soft landing?

Yes, we believe so. Our optimism stems from the **assumption** that the **full 60% blanket tariffs** on Chinese imports, threatened by Trump, **will not be fully implemented.** Instead, we **expect negotiations**—similar to those during Trump's first term—to help mitigate the impact. So far, Trump has threatened additional 10% tariffs on Chinese imports unless fentanyl shipments decrease, along with 100% tariffs on BRIC nations if they attempt to develop a common currency that could challenge the US dollar.

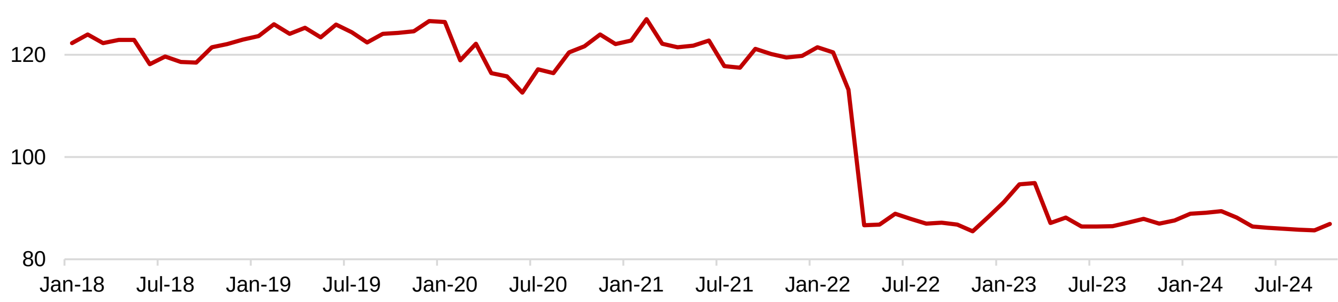
We anticipate **China will respond with retaliatory tariffs** and **more aggressive stimulus measures** to offset the effects of Trump's tariffs. We believe these actions will be **sufficient to meet China's 5% GDP target and stabilize the property market** thus engineering a '*soft landing*', although a full recovery in the property sector could take several years.

China's exports have surged in 2024 ahead of tariff threats



Source: Bloomberg, Trading Economics

China's consumer confidence remains at record lows



Source: Bloomberg, Trading Economics

What has been rolled out?

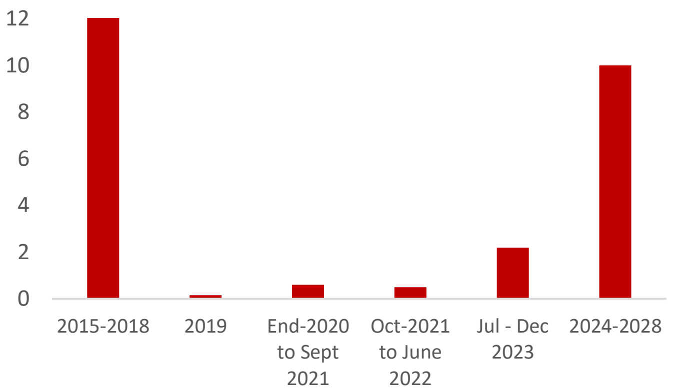
In late September, China unleashed a wave of stimulus measures which included **monetary easing, interest rate cuts on existing mortgages**, and a **reduction in the down payment for second homes from 25% to 15%.** Additionally, China introduced **RMB800bn in new funding tools to bolster the stock market.**

At the NPC Standing Committee meeting in early November, China unveiled a **RMB10trn debt swap**, basically allowing local governments to exchange their 'off-balance-sheet' debt with official bonds with longer maturities.

This move **relieves debt pressure on local governments, cuts borrowing costs** (saving an estimated RMB600bn in interest over five years), and gives them **more financial flexibility to invest in infrastructure**, education, and healthcare, boosting economic activity.

In mid-November, reductions in property deed taxes and VAT were announced to stimulate the property market.

RMB10trn debt swap is sizable vs. past programs



Source: CGS International Research

What policies do we expect in 2025?

We anticipate **fiscal policy efforts to intensify in 2025**, with fiscal deficit ratio exceeding 3%. We expect local governments to **issue at least RMB4trn in special bonds to purchase excess housing inventory and idle land**, coupled with special sovereign bonds to recapitalize large state-owned banks.

The government has also signaled for **'moderately loose' monetary policy, a significant change from 'prudent' stance** in the past 14 years *(See table below)*.

While we **do not foresee direct consumption stimulus**, support will likely come from the extension of the home appliances trade-in program and a subsidy program for families with multiple children.

Furthermore, **continued stock market support will serve as an indirect means of wealth creation.** These measures are essential to strengthen domestic consumption, to mitigate the impact of tariffs.

China signaled 'moderately loose' monetary policy for 2025, last seen during GFC

Year	Stance	What prompted the change
2011-2024	Prudent	Rising inflation
Nov 2008 - 2010	Moderately loose	Global Financial Crisis
Jan - Nov 2008	Tight	Rising inflation
1998 - 2007	Prudent	Asia Financial Crisis
1993 - 1997	Moderately tight	Rising inflation

Source: Bloomberg, Government websites

Stimulus measures announced so far...

Category	Measures announced
Monetary policy	Reserve requirement ratio (RRR) cut by 50bps; 7-day reverse repo cut by 20bps
Property sector	Lower downpayment for second homes (cut to 15% from 25%), interest rate cuts on existing mortgages, usage of special bonds to buy unsold homes and land, increase financing for unfinished projects to RMB4trn (from RMB2.2trn) by end-2024, additional 1 mil housing units compensated in cash for urban village renovation, reduction in property deed taxes and VAT.
Stock market	RMB800bn of new funding tools to boost the stock market: RMB500bn swap facility to fund institutional buying, RMB300bn yuan re-lending facility to fund share buybacks.
Banking sector	Injection of core Tier-1 capital into large state-owned banks.
Local government debt	RMB10trn local government debt swap
Fiscal policy	RMB2.3trn from special local government bonds available for use by end-2024.

Source: Dec 2024, CIMB Chief Investment Office, various media sources

How should investors position in China?

We believe the markets may have **reached a short-term bottom**, but long-term investors will need to **assess if policies announced will lead to more meaningful structural reforms.** While uncertainties could result in a volatile market, we see **trading opportunities for the Hang Seng Index** within the 19,000 to 22,000 range (8.5x to 10x PER). **Short-term rallies** may be driven by policy announcements and trade negotiations, similar to what we saw during Trump's first term. We recommend being **selective, focusing on high-quality growth stocks on dips in preferred sectors** such as Chinese internet and domestic consumer. This should be **balanced with dividend yielders**, while **avoiding exporters** that face tariff risks.

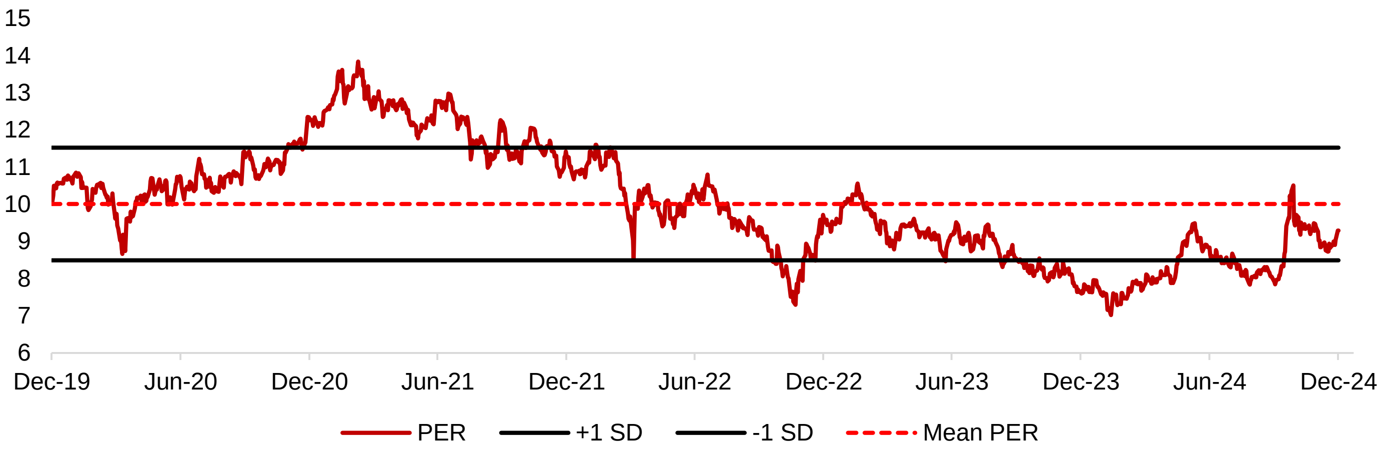
The government's **stock market support measures will benefit A-shares**, which is more supported by **domestic liquidity**, in contrast to H-shares, which is more reliant on foreign flows. Notably, total turnover for the Shanghai Composite Index remains elevated, despite tariff threats and disappointments on stimulus announcements. This suggests that **investors have not significantly sold off.** For investors with a higher risk appetite, consider **diversifying into China A-shares through ETFs or funds.**

Bottom-line:

Our base case is that the 60% blanket tariffs on China will **not be implemented in full but will be subject to negotiations.** China is prepared to counter these tariffs with **more forceful stimulus measures and will likely achieve a soft landing**, targeting 5% GDP growth in 2025. Markets may have bottomed in the short term. We see **trading opportunities in H-shares** while the **A-shares market will benefit more from domestic liquidity and government support measures.**

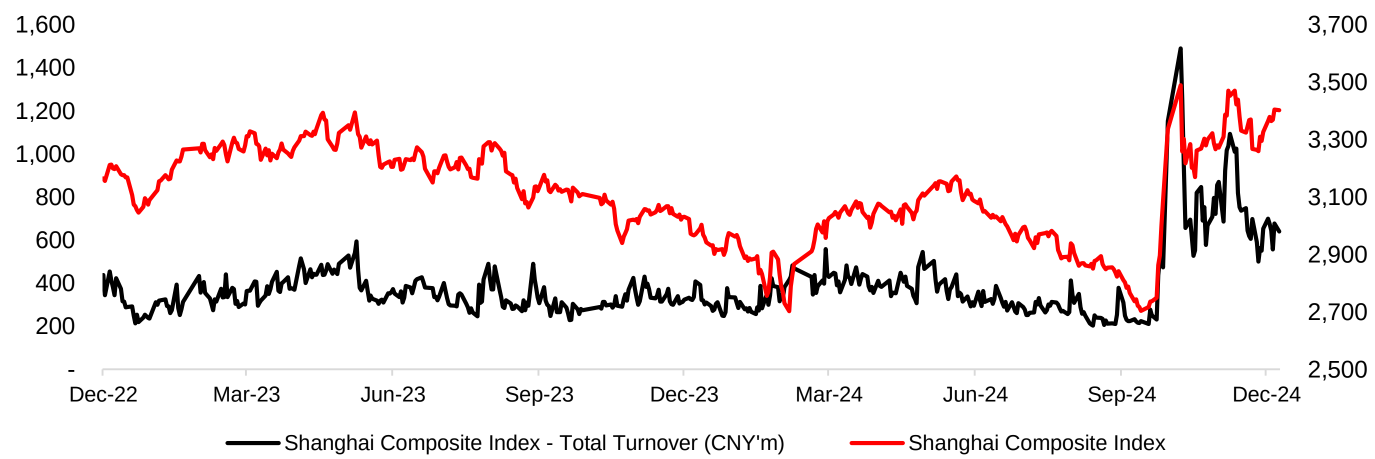
Our HSI index target level is 22,000 based on 10x PER.

Hang Seng Index offers trading opportunities

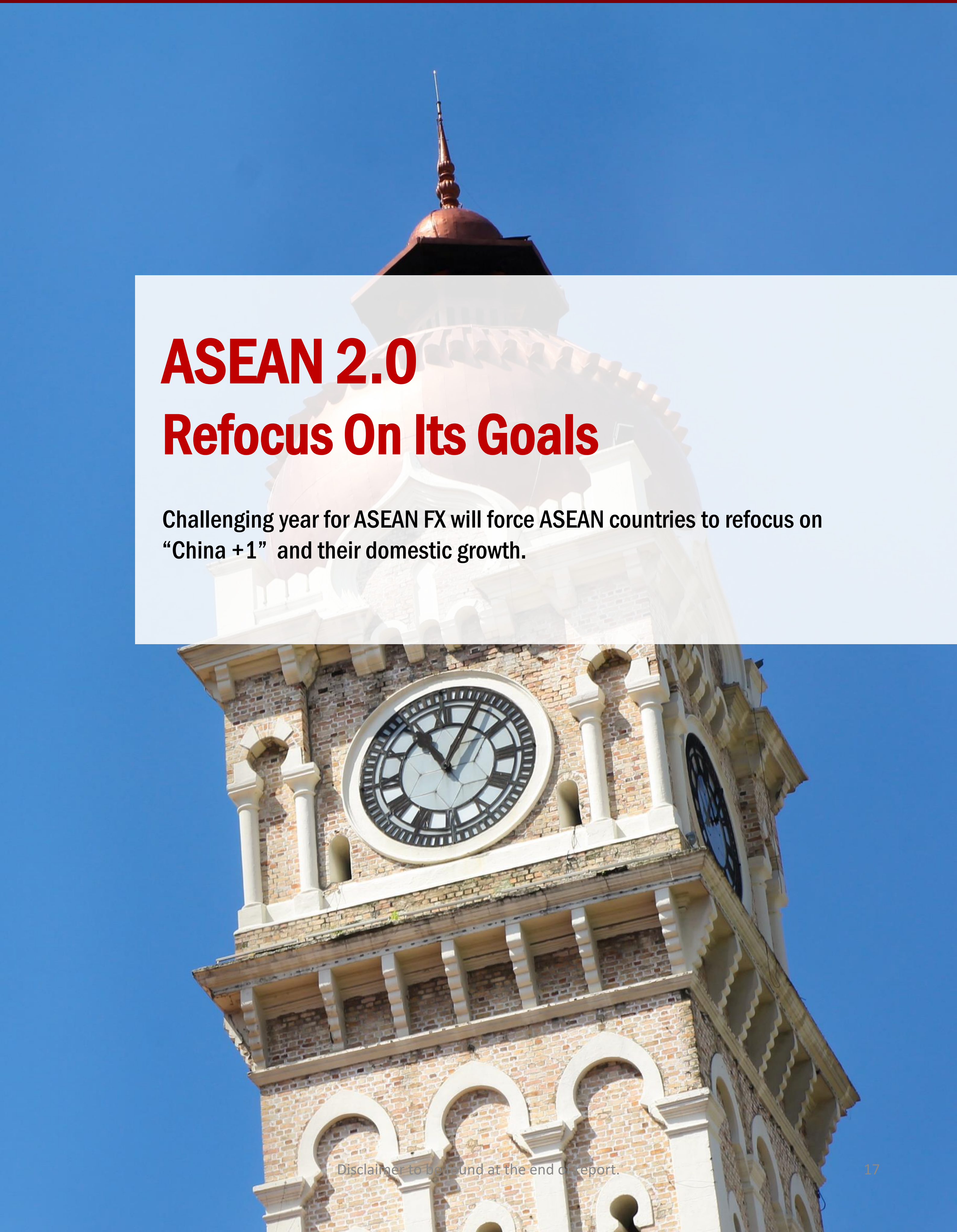


Source: Dec 2024, Bloomberg, CIMB Chief Investment Office

Shanghai Composite Index vs Total Index Turnover



Source: Dec 2024, Bloomberg, CIMB Chief Investment Office



ASEAN 2.0
Refocus On Its Goals

Challenging year for ASEAN FX will force ASEAN countries to refocus on "China +1" and their domestic growth.

The ASEAN refocus

2025 will be a year where **ASEAN has to reassert itself in terms of broadening its domestic economy whilst trying to recalibrate under the new norm of tariffs amid prolonged strength in the US economy.** With trade and investment diversion becoming a key theme, we see **selective opportunities** in ASEAN.

China+1 play to intensify while FDI grows

Most of the tariffs introduced under Trump 1.0 have been maintained or even increased by the Biden administration. Consequently, as China's share of US trade dwindled from 17.2% in 2017 to 11.8% in 2023, **ASEAN**'s share rose from 6.8% to 8.4% the same period, making it **one of the largest winners.** However, given (1) the assumption that Trump's tariff threats are just a starting point for negotiations which will lead to more diluted measures, and (2) that trade barriers against China have only escalated under Biden, it remains to be seen how much ASEAN could benefit incrementally under Trump 2.0.

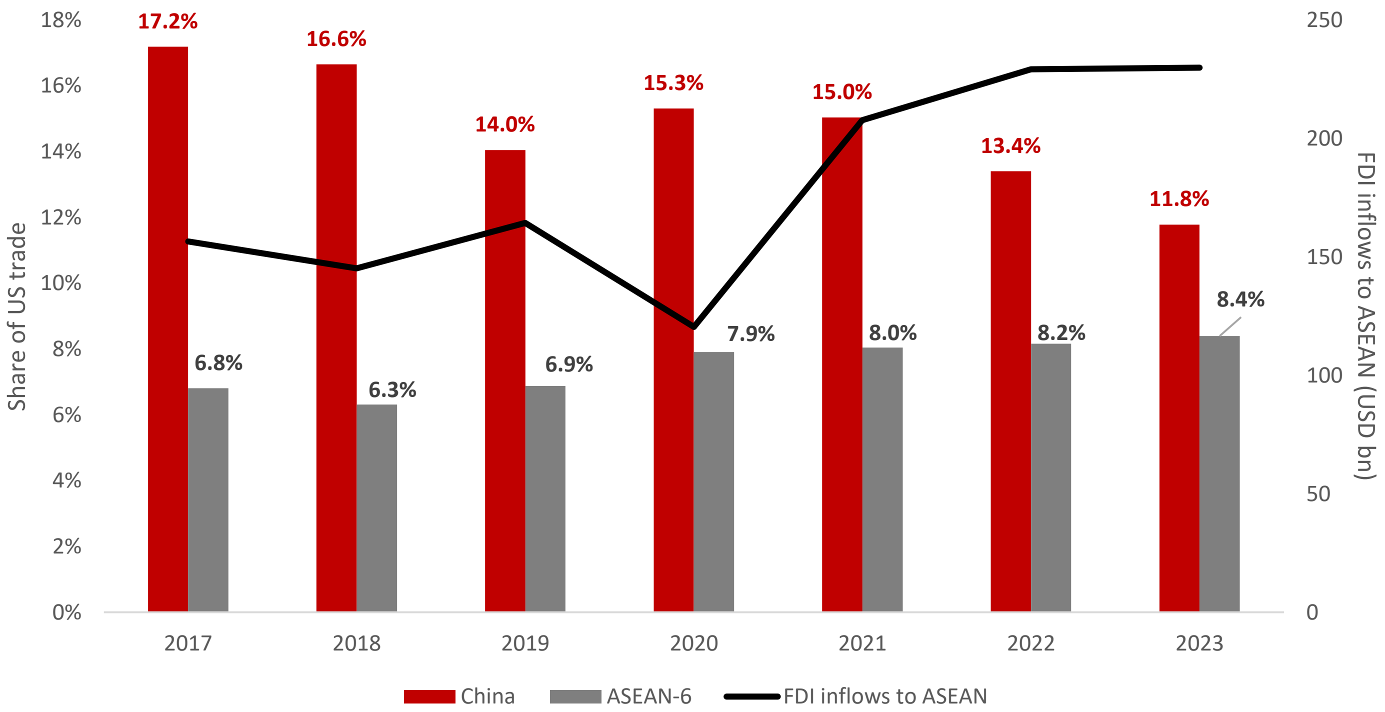
Nonetheless, **shifting supply chains** have contributed to ASEAN being the second largest source of US trade deficit, only behind China. The region is emerging as a **hub for semiconductor and tech-related investments,** with E&E now making over 50% of ASEAN's exports. Overall, FDI into ASEAN has continued to grow over 2021-2023 despite a global downtrend. The US remains the biggest source of FDI for the region, contributing to nearly a third of all flows in 2023. Looking ahead, we see supportive policies, greater regional coordination, and domestic stability as factors conducive to FDI growth.

ASEAN's **geopolitical neutrality, strategic location, and commitment to free trade** remain strong factors that bode well for its longer term outlook, having significantly contributed to its share of global exports rising over the past decade.

Trump 2.0 is not without risks

Although ASEAN is the seeming beneficiary of further tariffs on China, it can also be the subject of such measures, like the 300% tariff imposed on ASEAN solar panel exports just this year. Given the export-driven nature of many ASEAN economies, a fall in global trade would also impact it adversely, albeit not as severely.

Trump 1.0 era saw ASEAN's share of US trade rise as China's fell, while strong FDI inflows to ASEAN were recorded under the Biden administration

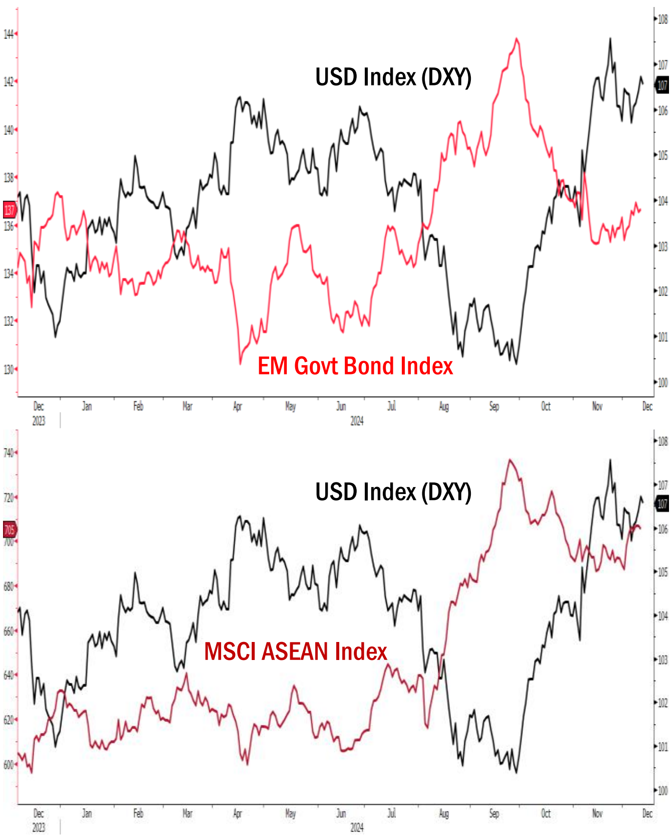


Source: Bloomberg, IMF, ASEAN Investment Report

A battle between resilient economies and weaker FX

A **stronger dollar** and **higher-for-longer rates** will be a detractor for ASEAN and other emerging markets, **slowing down portfolio inflows** as investors stay put in the US. Typically, this translates to weaker bond and equity performance for emerging markets. In this scenario, ASEAN economies need to rely on their own **domestic resilience** and macro fundamentals. Generally, the ASEAN-6 are well positioned, with manageable fiscal positions and levels of inflation. This will give policymakers more room to support domestic growth.

A strong dollar typically translates to weaker emerging markets



Source: Dec 2024, Bloomberg, CIMB Chief Investment Office

Strong domestic policy support will continue to provide a buffer

Malaysia stands out for its abundant resources, good infrastructure, absence of natural disasters, availability of land, skilled labour and cheap currency. Policy support such as tax incentives for the Johor-Singapore Special Economic Zone and the National Semiconductor Strategy will further attract FDI. ASEAN neighbours Vietnam and Indonesia are also pursuing similar strategies, while **Thailand** is set to spur its economy via direct stimulus, with THB145bn in cash already handed out to 14.5m Thais this year and another THB140bn to be disbursed by Q2 2025. **Indonesia** has prioritised currency stability, with its central bank matching its easing cycle to the Fed. Singapore, as a regional financial and trading hub, is poised to capture potential capital outflows from China.

Not everything is rosy, Malaysia's middle-income consumers are getting squeezed out

While large-scale investments like data centres generate headlines, their limited multiplier effects and short-term job creation do not necessarily benefit the average Malaysian. Fiscal reforms like the rollback of RON95 subsidies and the broadening of the SST base will strengthen economic resilience but also raise costs for consumers, disproportionately affecting the middle-income group who receive fewer subsidies. Higher imported inflation will crimp corporate profit margins and consumer wallets.

We see selective opportunities in Malaysia

Within ASEAN, we are overweight Malaysian equities. The **FBMKLCI appears undervalued** at 13.8x 2025F PER vs its 10-year mean of 15x. **Our index target level is 1,760 based on 15x PER**. Higher foreign participation boosted the market in 2024 but with USD strength reasserting itself, Malaysia may be susceptible to some outflows. However, **strong institutional support** should buffer downside risks. The finance ministry has reassured that 80% of the Employees Provident Fund's (EPF) annual allocation will continue to be invested in domestic markets.

In this environment, we are positive on selective themes. **Malaysian banks** benefit from robust loan growth and non-interest income drivers. **Malaysian semiconductors** could move up the value chain in the escalating US-China tech war. **Construction stocks** will see order book growth from data centre buildouts without the corresponding oversupply risks.

KLCI appears undervalued compared to its 10Y mean

Source: Dec 2024, Bloomberg, CIMB Chief Investment Office

But limited catalysts for Singapore

While **Singapore financials** are a net beneficiary of elevated interest rates and wealth management growth, the banks have already priced in much of the upside from the “Trump trade”. On the flipside, Singapore is a trading nation, hence the imposition of tariffs and weaker global trade will impact exports. There are also limited near-term catalysts for the **REIT sector** as the yield compression angle gets delayed. Following 2024’s outperformance, the STI trades at 11.6x 2025F PER, close to its historical mean of 12x, prompting a more cautious stance for 2025F. This gives us an underweight view for Singapore equities.

Bottom-line:
Headwinds from USD strength will force ASEAN countries to refocus on their domestic growth drivers and China+1 strategies. Overweight Malaysia on domestic resilience; Underweight Singapore due to lack of catalysts.

Building Globally Resilient Portfolios

We anticipate volatility to rise – reiterating a preference for globally diversified portfolios to mitigate unexpected equity shocks whilst layering with high income assets.

Building Globally Resilient Portfolios

2025 promises **new policy direction and potential higher inflation** from the world's largest economy transmitting **economic and market volatility to the rest of the world**, via bond yields, US dollar and confrontational trade policy. To prepare for a future with greater risk, uncertainty and a more diverse range of outcomes, investors should diversify globally by adding **(i) income streams in portfolios**, **(ii) exposure to assets and markets with low correlation to others (iii) alternative assets – gold.**

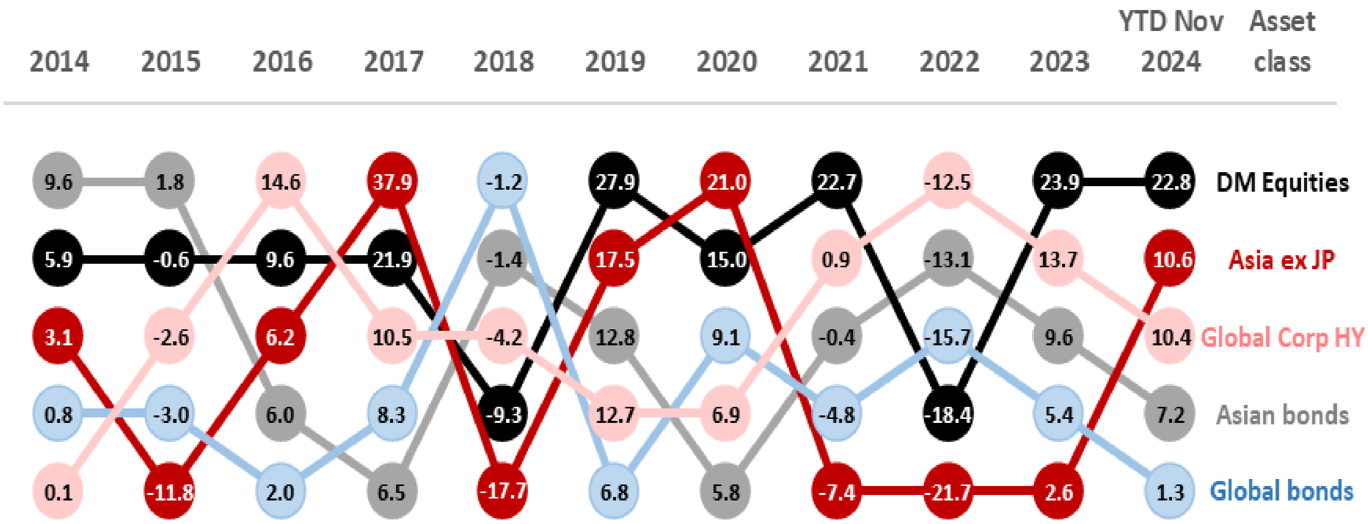
Add income. Income in a portfolio provides a baseline of secure and predicable returns. Income in a globally diversified portfolio can be derived from several sources: **1) equity dividends 2) index options call strategy** and **3) bond yields**. A combination of the above in a well crafted globally diversified portfolio will provide some buffer from higher inflation or any potential volatility from equities.

More value outside US?

Non-US equities are attractively valued: developed market equities excluding US trade at a PE of 14x while Emerging Market equities trade at 12x.

Trump trade to fade. Elevated bond yields will **eventually fade** as the Trump administration settles down to work, and prioritizes its policy roll-out. The new administration's policy proposals have inflationary consequences, and since keeping inflation low (or even reducing prices) was an election promise, policy priorities and choices will be made. By delaying pro-growth policies to curb inflationary pressure though, domestic US equities could succumb to volatility. **A resilient portfolio thus needs to look globally for diversification to other asset classes and geographies.** We have already covered China elsewhere; a case for India, Japan and gold in 2025 follows.

Best performing asset class is rarely the same for two consecutive years



Performance based on the following indices: MSCI World Net TR Index (DM Equities), MSCI Asia ex Japan Index, Bloomberg Global Aggregate TR Index, Bloomberg Global High Yield TR Index, JPMorgan Asia Credit Index Core (Asian bonds).

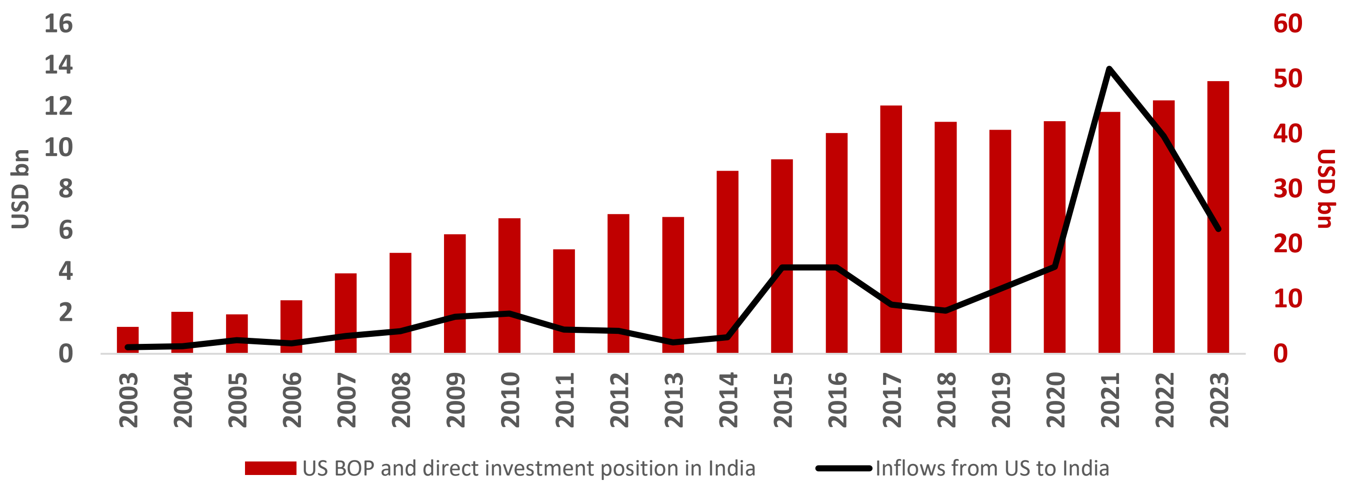
Source: Nov 2024 , Bloomberg

The case for India and Japan

India has already benefited from US corporations' China+1 policy since 2018, with well-known **US tech companies** having already set-up manufacturing and research centres there. (see table on US FDI to India). Trump's tariff offensive can only accelerate this process, as India is not a strategic rival to the US. Other advantages to Indian equities in a portfolio are: firstly, the Indian stock market has a low correlation against developed and emerging equity markets *(see table below)* making it an ideal addition to a portfolio in these uncertain times. Secondly, India's Nifty 50 index trades at a 2025 PER of 19.9x, slightly below the S&P500, for slightly faster earnings growth prospects (15% in 2025, 9% in 2026). Thirdly, India continues to spend to attract investors - in 2025-26, over USD500bn of investments in roads, railways, energy, shipping and aviation will be completed, part of a public infrastructure program to lower logistics costs/ improve productivity. Despite this massive infrastructure build out, the Indian government's fiscal deficit has declined in the past 4 years, and could fall to 4.9% by 2025.

We see three drivers supportive of **Japanese equities**. Firstly, the economy is benefitting from **domestic reflation**. Real wages are improving, driving demand-led inflation, enabling companies to raise prices and profit margins. Secondly, the Bank of Japan's gradual **policy rate normalization** will be net positive for the financial sector and households in a high-savings society. Finally, continued corporate reforms and accelerating share buybacks will drive **ROE expansion**. The TOPIX trades at undemanding valuations of 14.5x 2025F PER vs its 5Y mean of 14.9x. Dividend yield is also compelling at 2.6%, providing a positive carry vs low borrowing rates in Japan.

US direct investments to India continue growing



Source: Bloomberg, US BEA

Nifty50 and TOPIX weekly correlation with other equity indices

	NIFTY 50	TOPIX	MSCI Wrld	Asia x-Jpn	NASDAQ	S&P500
NIFTY 50		0.306	0.435	0.363	0.365	0.395
Topix	0.306		0.587	0.451	0.518	0.535
MSCI World	0.435	0.587		0.736	0.892	0.974
MSCI Asia ex-Jpn	0.363	0.451	0.736		0.639	0.664
NASDAQ	0.365	0.518	0.892	0.639		0.941
S&P500	0.395	0.535	0.974	0.664	0.941	

Source: Dec 2024, Bloomberg, CIMB Chief Investment Office

Gold – All that Glitters

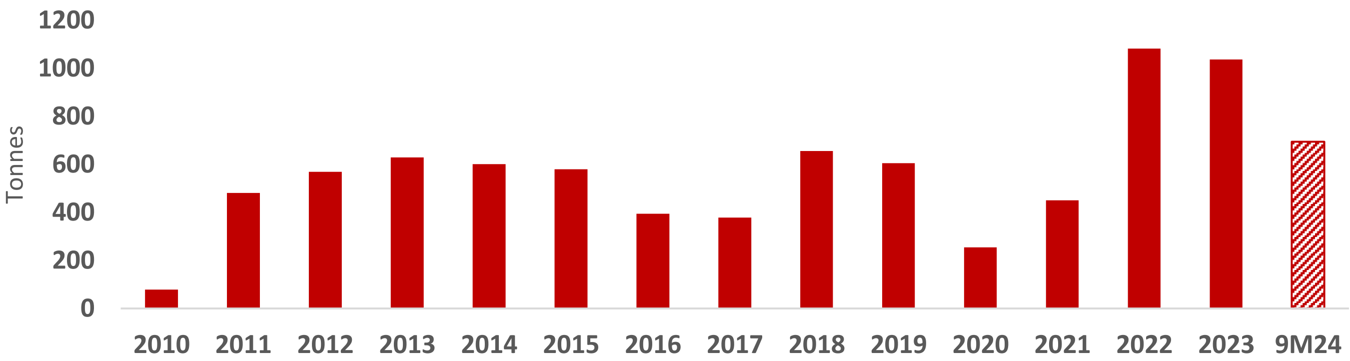
The pullback in gold's price presents an opportunity to add to gold in a portfolio now or in the next 6 months, because it has an important place as an alternative asset, inflation hedge and safe haven. The long-term attraction will endure because:-

(i) **Geo-political stress to worsen.** Helped by Mr Trump's isolationist America First policies, geo-political friction will worsen, reviving gold demand as a safe haven. Mr Trump's choices for Secretary of State, Defence Secretary, UN ambassador, Trade representative and special envoy to Middle East are, without exception, China and Iran hawks, NATO sceptics. If an America First foreign policy results in weakened military alliances or muted US involvement and response to state sponsored aggression or reduced troop deployment, challengers to US 'supremacy' (e.g. China, Russia, Iran, North Korea) will likely challenge borders or sovereignty of US allies in Asia (Taiwan, Japan, Philippines) and Europe (Georgia and other east European states).

(ii) Central banks now larger buyers. Geo-political developments appear to have a transitory effect on markets, but they are cumulative. Since Russia's invasion of Ukraine, China's central bank (PBOC) has persistently bought gold after observing Russian banks being locked out of the US banking/payments system, freezing of $300bn in sovereign Russian reserve assets and other US financial sanctions. The PBOC's diversification from US assets accelerated after the invasion - its holdings of US Treasuries fell 30% from USD1.1tr to USD775bn in 2½ years. Central banks of Poland and Turkey also raised gold purchases and holdings in the past 2 years. There is no reason to expect such accumulation to stop in the near future. This persistent buying has resulted in lowering gold's correlation to USD and bond yields, improving its role as a safe haven, alternative asset.

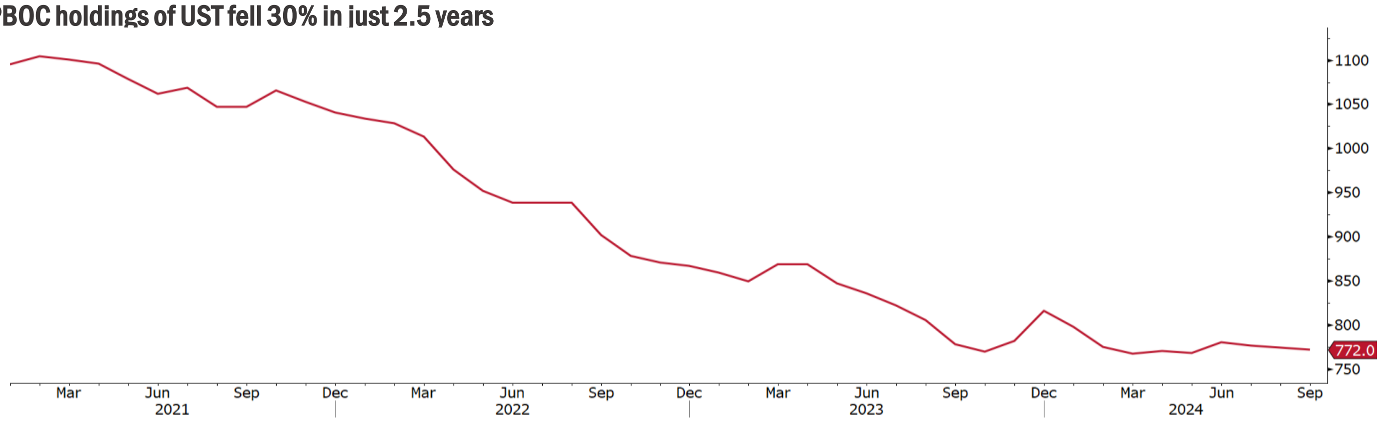
(iii) Initially, rising US Treasury yields in 1H2025 will make US Treasuries a more attractive safe haven than gold, but **sometime in 2025, markets will digest the genuine inflation risk, and bond yields will fall, making gold more attractive.** Coupled with the geo-political reasons to own gold, we believe gold has a long-term place in an uncertain 2025.

Central Bank net purchases of Gold jumped since Ukraine invasion



Source: Sept 2024, Bloomberg, CIMB Chief Investment Office

PBOC holdings of UST fell 30% in just 2.5 years



Source: Sept 2024, Bloomberg, CIMB Chief Investment Office

FX Outlook

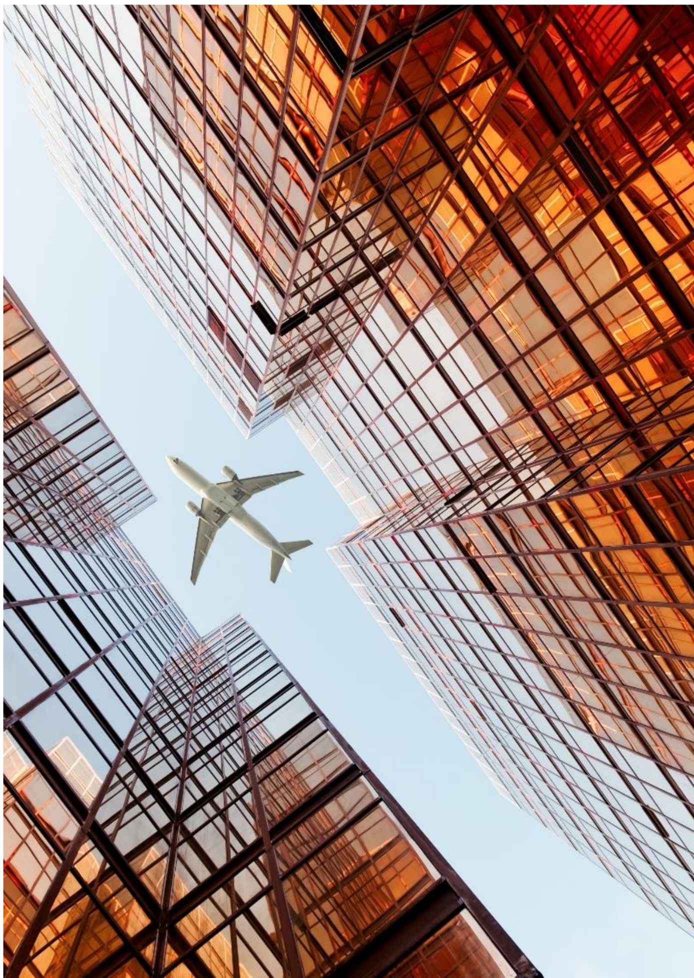
Markets	Views	Currencies	1Q25	Rest of 2025
Emerging Market	**First Quarter 2025:** • ASEAN FX under threat as CNH to weaken from US tariffs **Rest of 2025:** • MYR range-bound: Weaker from CNH decline, but rate differential with USD narrows	MYR	Sideway	Bearish
		IDR	Sideway	Sideway
		SGD	Sideway	Sideway
		THB	Sideway	Bearish
Developed Market	**First Quarter 2025:** • 3 more Fed rate cuts by June limits USD upside **Rest of 2025:** • Stronger US economy, tax cuts, to strengthen USD especially in 2H25 • ECB may cut more than Fed => Euro to drop to parity with USD	USD	Sideway	Bullish
		AUD	Sideway	Bearish
		EUR	Bearish	Bearish
		GBP	Bullish	Bullish
		JPY	Bullish	Bullish

Bullish Sideway Bearish

FX Forecast

FX Pair	1Q25	4Q25
DXY	107.2	107.8
EUR/USD	1.03	1.00
USD/JPY	150	145
GBP/USD	1.28	1.31
AUD/USD	0.67	0.64
USD/CNH	7.35	7.50
USD/CHF	0.88	0.85
USD/SGD	1.33	1.32
USD/MYR	4.40	4.40
USD/IDR	15,750	15,850
USD/THB	34.70	35.80
XAU/USD	2,675	2,750

Source: CIMB Treasury & Markets Research @ 6 December 2024



Recommended Asset Allocation

Asset Class	View
Equity (48%)	
US	
Asia Ex-Japan	
Hong Kong/China	
ASEAN	
Fixed Income (45%)	
Sovereigns	
Corporate Investment Grade	
Corporate High Yield	
Gold (5%)	
Cash (2%)	

- Overweight
- Slight Overweight
- Neutral
- Slight Underweight
- Underweight

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