LION GLOBAL INVESTORS

2025 Market Outlook

Lim Yuin
Chief Investment Strategist

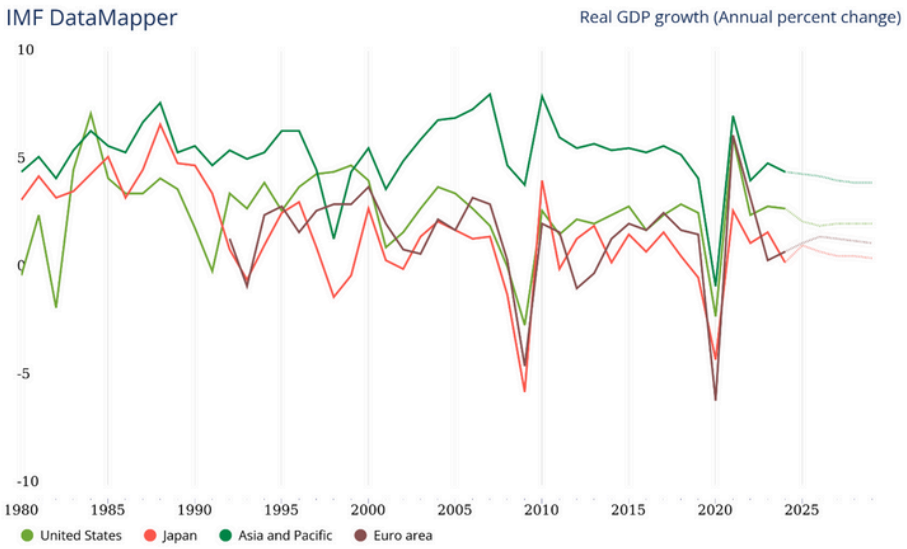


Global equities performed well this year with risk assets supported by healthy economic growth, decent earnings and a strong rally in the technology sector driven by the Artificial Intelligence trend. We see these positive conditions continuing into the new year and be supportive for risk assets. Some investors may see the potential policies by the new Trump administration as positive only for US equities, but we see investment opportunities for Asia equities too. Innovations driven the Artificial Intelligence would continue to create new investment opportunities in the new year. We are positive on Taiwan, Korea, India and Japan equities. Though credit spreads are tight on historical levels, the macro environment is positive for Asian credit bonds.

MACRO OUTLOOK

1. Market participants view a unified US government after a Trump victory in the US Presidential election as being positive for the US economy. The key policy proposals include potential reduction in corporate tax rate, easing in regulations across various industries, and industrial policies to promote onshoring which could lead to increasing capital expenditures and economic growth in the US economy. However, there are also risks with the threat of more tariffs and deportation plans which could lead to higher inflation and a drag on future growth.

Figure 1: Interest rate cuts across major economies to boost weak real GDP growth



Source: International Monetary Fund dated December 2024

2. It is consensus view that the US economy continues to grow at a healthy pace in 2025 despite signs of weaknesses in the US labour market and muted manufacturing activities. The US Federal Reserve Chairman cited a stronger than expected economy in recent months as reason to consider a slower pace of interest-rate cuts ahead. That said, the continuing strength of the US economy would likely depend on the details and policies passed by the new US administration.

3. The Eurozone economy is in a difficult situation with weak economic growth when the two largest economies, Germany and France, are struggling with political gridlocks. And things could become more challenging with potential tariff threats from the US. That said, the new Trump administration could facilitate a potential end to the Ukraine and Russia conflict, which would lift economic activities across Europe. The European Central Bank (ECB) is on an easing cycle, having cut deposit rate again in October, and projected to continue cutting rates over the next few meetings on concerns of slowing economic growth and deflationary fears.

4. The Bank of Japan kept its policy settings unchanged in September instead of continuing on its interest rate hiking cycle. Wages are set to increase in the new year as the unions are looking to negotiate for another year of decent hike during the Shunto negotiations. All signs suggest that Japan has exited deflation, and that Japan is likely to meet its inflation target. Future interest rate hikes by the Bank of Japan would likely depend on the path of the Japanese Yen.

5. Economic growth is improving in China with stabilizing property sales, stronger consumption lifted by the consumer goods trade-in policy, and stronger exports potentially from front-loaded demand ahead of potential tariffs by the Trump administration. China could also announce stronger policy measures to shore up its economy and boost confidence to mitigate the threat of tariffs from the new Trump administration. Policymakers in China have raised expectations with comments that they would adopt a "moderately loose" monetary stance and more "proactive" fiscal policies in the new year. All eyes are now on the details of new policies that would be announced by various government agencies.

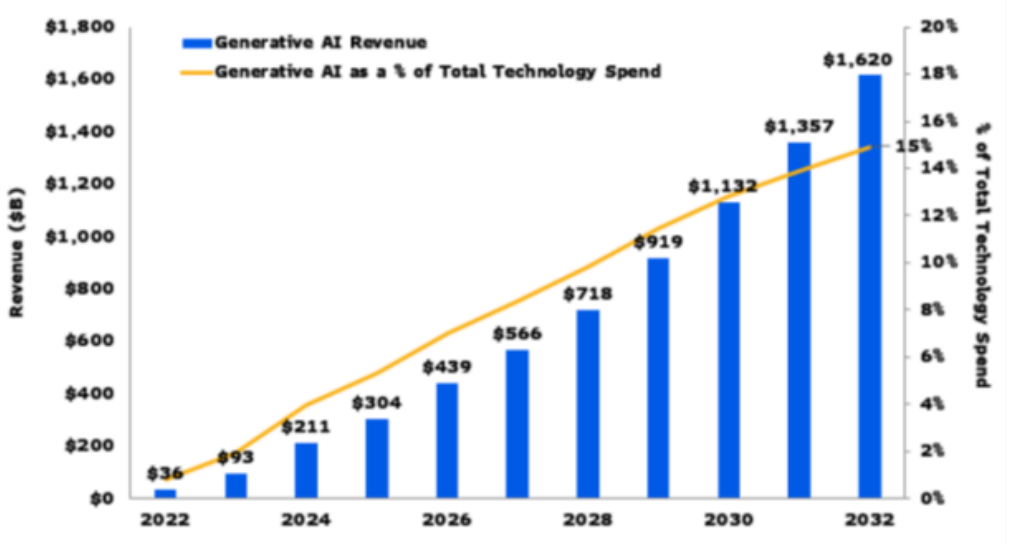
EQUITY

6. We see healthy economic growth supported by conducive monetary policies as positive for risk assets in 2025 though policy uncertainties from the incoming Trump administration remains. We continue to view the Artificial Intelligence trend as positive for markets exposed to the technology sector.

7. We are positive on US equities despite high valuations. Earnings growth expectations for US equities could see upward revisions from further deregulation and lower taxes next year. We are more sanguine on European equities. A lack of effective political leadership in Germany and France in the face of potential tariffs from the US means European equities could be value traps despite attractive valuations.

8. We see pockets of opportunities for Asia equities.
We are positive on Taiwan equities, though we could see heightened volatility as Taiwan is caught in the crosshair of the US and China rivalry. Artificial Intelligence (AI) is a long-term positive investment theme for Taiwan equities and the AI-related supply chain in Taiwan would likely be relatively unimpacted, while consumer electronics are more vulnerable. It is unclear if the Taiwan notebook and Apple related supply chains would be exempted from tariffs. Temporary periods of heightened political risks could lead to an increase in equity risk premium and temporary weakness in share prices.

Figure 2: Multi-year growth in Generative Artificial Intelligence spending is a tailwind to technology heavy markets



Source: Bloomberg Intelligence's forecast based on data from IDC, eMarketer, Statista, dated November 2024

9. We see Korea equities as oversold due to weak sentiments from the unfolding Korean political unrest on top of a tariff scare. Past impeachment cases in 2004 and 2017 suggest that the current political turmoil could present an attractive investment opportunity as the deep discounts in Korean equities would reverse when political stability returns. The performance of Korea equities market has historically been driven by external market factors and less so from domestic factors.

10. We have turned more positive on India equities after healthy corrections in recent months. Sentiments are not too optimistic, and Initial Public Offerings are no longer viewed as sure-win bets. The India stock market has become more sensitive to valuations, which is healthy. India remains a well-understood positive structural story that justifies a premium to valuations. Temporary factors such as heatwaves, election delays, a lack of government spending, and more structural factors such as increasing competition could create opportunities for stock-picking in the India equities market.

11. The Japan equities market is subjected to the same policy risks from the incoming US administration, and it remains to be seen if the current political leaders could strike a similar rapport with the incoming Trump administration. However, Japan equities would still be supported by structural growth themes such as factory automation, digitalization and the continuing inbound consumption trend. Corporate restructuring driving better shareholders' returns is also a positive domestic catalyst for the Japan equities market.

12. We see greater volatility for ASEAN equities which may be affected by potential tariffs on trade and a stronger US dollars resulting in currency outflow from the region. The Singapore equities market is trading at a discount to its long-term historical average and its dividend yield is attractive compared to other developed markets. Other ASEAN markets could also benefit from trade diversions and capital flows, given ASEAN's neutral stance to the US and China rivalry. In addition, ASEAN's growth is largely driven by domestic consumption, investments and government spending, which we expect would continue over the next few years. We are positive on companies that are beneficiaries of domestic growth driven by fiscal spending, consumption and Foreign Direct Investments.

FIXED INCOME

13. A moderate macro environment which is constructive for risk assets is also positive for Asian credit bonds. Asian credit bonds are leveraged to potential bond price rallies if US interest rates move lower. As highlighted earlier, recent US economic data could mean continuing interest rate cuts in the US, albeit potentially at a slower pace. And the trend is also for major central banks to cut rates which would be supportive for Asian credit bond prices. The risk for longer dated bonds would be the unlikely event of a significant resurgence in inflationary pressure causing the Fed to pause or to hike rates again.

14. The credit spread component of credit bonds are trading near historical tight levels and considered in unattractive zone. A decompression of credit spreads in reaction to a fall in interest rates is probable.Nonetheless, bond markets are currently driven more by the focus on all-in bond yield which is considered attractive by historical standards. In the expected soft-landing scenarios, we expect company fundamentals and credit trends to remain supported. Near term, credit spreads are expected to move sideways to modestly wider, within a small range on support from supply technicals. Low new bond issuances in Asia to replace bond maturities should be technically supportive for tight credit spreads.Issuance by China issuers, which used to account for two-thirds of annual gross supply, has dropped significantly given cheaper onshore funding. The direct impact on China credit bonds from any potential trade tariff hikes is likely to be limited.

*All data are sourced from Lion Global Investors and Bloomberg as at 17 December 2024 unless otherwise stated.

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2025 Fixed Income Market Outlook

THE FED, TRUMP AND MAS ON SINGAPORE INTEREST RATES

Chu Toh Chieh
Head, Fixed Income & Multi-Asset Solutions

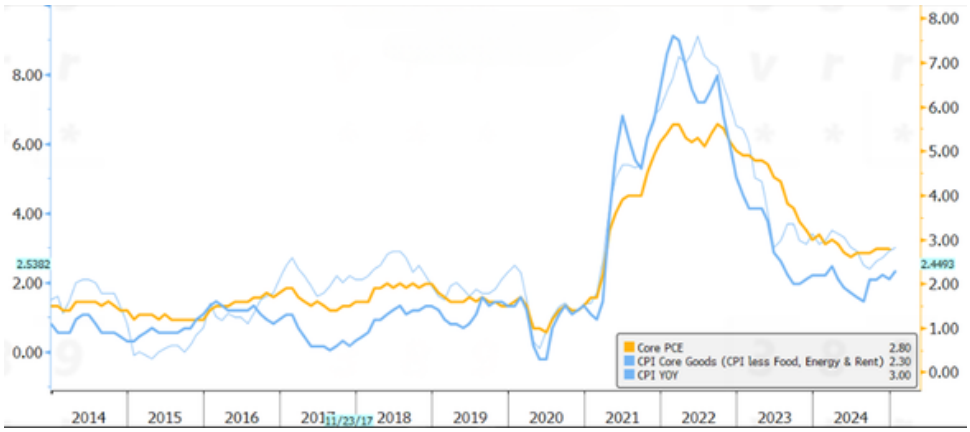


We examine the recent central bank policies and the impact of Donald Trump's policies from the SGD-based investors' perspective.

THE FED

The recent strength in the US economy has given the Fed reasons to be on pause, with the FOMC (Federal Open Market Committee) not in a hurry to continue their rate cut cycle which started in September 2024. After a rate cut of 100 basis points, the Fed now prefers to choose a wait-and-see approach to observe further progress on inflation. Fed's preferred measure of inflation, Core PCE (Personal Consumption Expenditures) was 2.8% in December 2024. While this seems to be almost at the Fed's 2% target, the last 80 basis points of improvement has been challenging with Core PCE hovering at these levels for the last 9 months (Figure 1). The recent strength in the US labour market provides further evidence that the current level of interest rates is no longer restraining the economy as much as they had been a year ago. The pause also gives time for the Fed to evaluate President Trump's policies on immigration, tariffs, taxes and deregulation and how they may impact the economy.

Figure 1: Fed's Core Inflation Indicators - US inflation data still elevated but on track to the Fed's 2% target

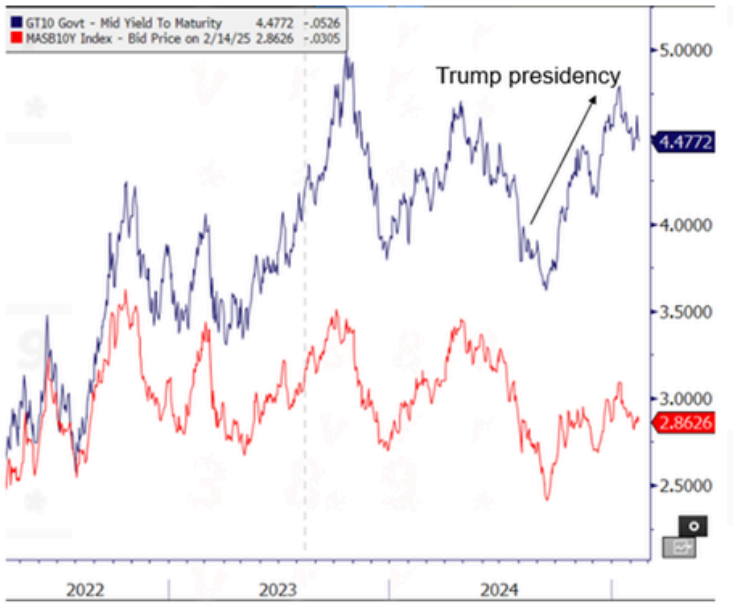


Source: Bloomberg, February 2025

IMPACT OF TRUMP'S POLICIES ON INTEREST RATES

Before the election, bond markets were already concerned about Trump's potential victory.The US 10-year yield started rising in September 2024 as the chances of Trump becoming US President started to increase (Figure 2). Singapore interest rates followed in tandem, albeit on a smaller magnitude. Markets were concerned about his pro-business and inflationary policies with regards to immigration, taxes, tariffs and deregulation.

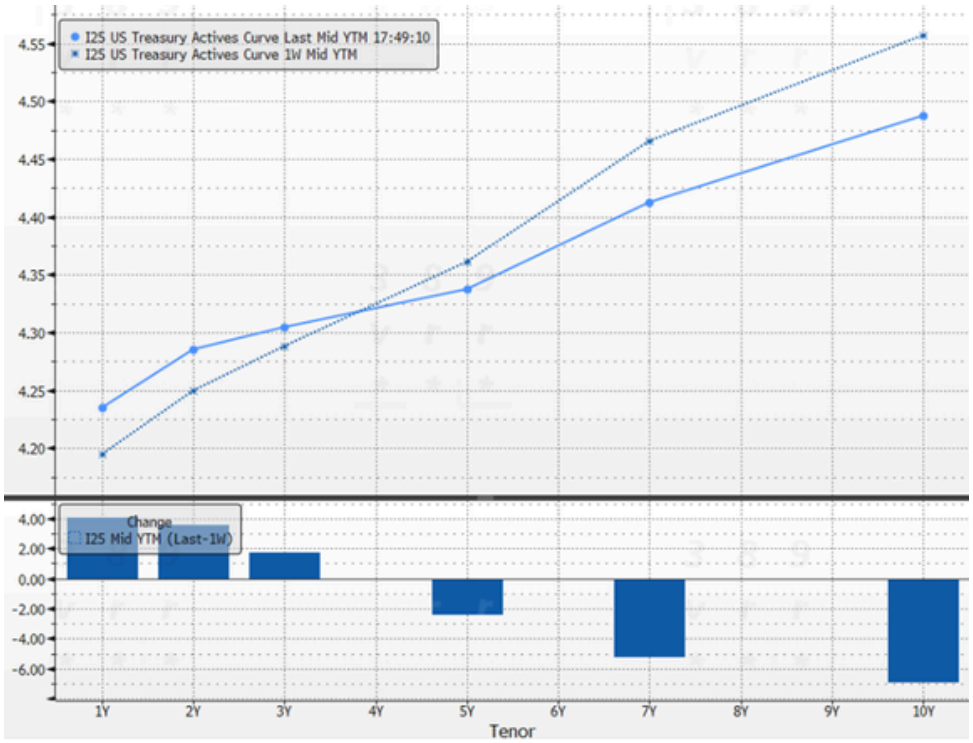
Figure 2: Impact of Trump's Tariff - Inflation vs Growth (US and SG 10-year government bond yield)



Source: Bloomberg, February 2025

Since assuming office, President Donald Trump wasted no time in following up with his election promises to put in place his policies. To date, he has threatened 25% tariffs on Mexico and Canada (delayed by a month) and a 10% tariff on China. Most recently, he pledged to impose reciprocal tariffs on US trading partners. These actions have introduced volatility in the bond market, causing short-end of the yield curve to rise due to inflation concerns, while long-end of the yield curve to drop due to growth fears.

Figure 3: Impact of Trump's Tariff - Inflation vs Growth
(comparison of US yield curve prior to Trump's announcement on tariff on Mexico and Canada and 1 week after)



Source: Bloomberg, February 2025

MARKET REACTION TO TRUMP AND THE FED

While the market is concerned about the inflationary impact of Trump's policies, it is important to note that he is aware of the negative impact of inflation on ordinary Americans. Indeed, Scott Bessent, Trump's newly appointed Treasury Secretary has made it known in several recent interviews that the Trump administration will be keen to bring down inflation. Trump's use of tariffs may also be less aggressive than feared, as it could be a negotiation tactic with trade partners.

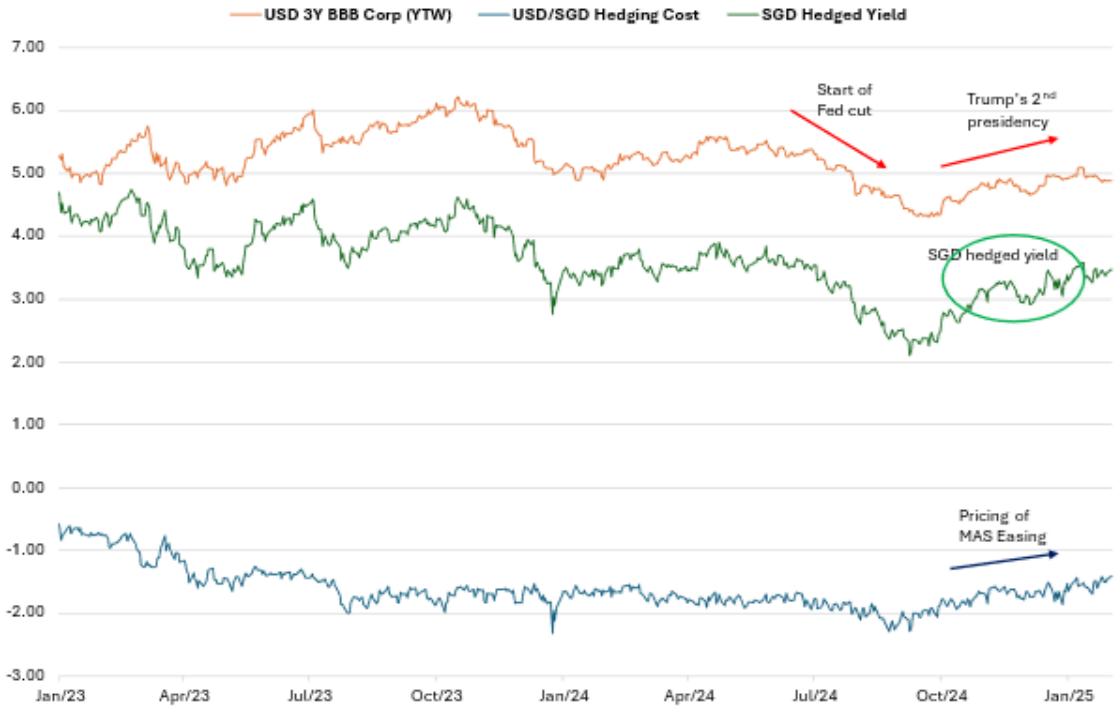
Nevertheless, the bond market has reacted to both the Fed's pause and Trump's policies, with Fed Fund Futures market pricing in slightly more than 1 cut for 2025 and another cut for 2026. This is a sharp reduction from September 2024 where market was pricing in a total of 6 cuts for 2025 and 2026. Reflecting this, the 5-year US Treasury rate has risen 90 basis points from 3.4% in September 2024 to 4.3% in February 2025.

MAS POLICY

In January 2025, the MAS eased monetary policy by slightly reducing the slope of the S$NEER policy band. The combination of moderating inflation (core inflation expected to be below 2%) and slower growth momentum enabled the central bank to pursue such a policy. The MAS is also assessing the implications of Trump's policies on Singapore's economy.

This easing in monetary policy has led to a narrowing of the interest rate differential between US dollar and Singapore dollar, reducing the cost of hedging US dollar assets to Singapore dollar. As seen from Figure 4, the cost of hedging had started to decrease in October 2024 as the market had started to anticipate such a move from the MAS. The cost of hedging has decreased from around 1.8% to as low as 1.4% in January 2025. The lower cost of hedging implies that US dollar assets hedged to Singapore dollar would look more attractive.

Figure 4: Yield of 3yr BBB Corp hedged to SGD



Source: Bloomberg, February 2025

INVESTMENT IMPLICATIONS

The Fed's wait-and-see approach on rate cuts, combined with the market's concern over Trump's inflationary polices, have led to interest rates retracing higher from about 6 months ago. We believe the shorter part of the yield curve looks attractive.

In addition, US dollar bonds hedged to Singapore dollar now looking less expensive from 6 months ago as a result of higher US rates and cheaper hedging cost.

Therefore, we believe a portfolio of Singapore dollar and US dollar investment-grade equivalent rated bonds in the 3 to 5 year duration range could potentially offer a yield of 3.7%, making it an interesting investment proposition for Singapore based investors.

All data are sourced from Lion Global Investors and Bloomberg as at 14 February 2025 unless otherwise stated.

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2025 China Market Outlook

Jeannette Sim
Analyst



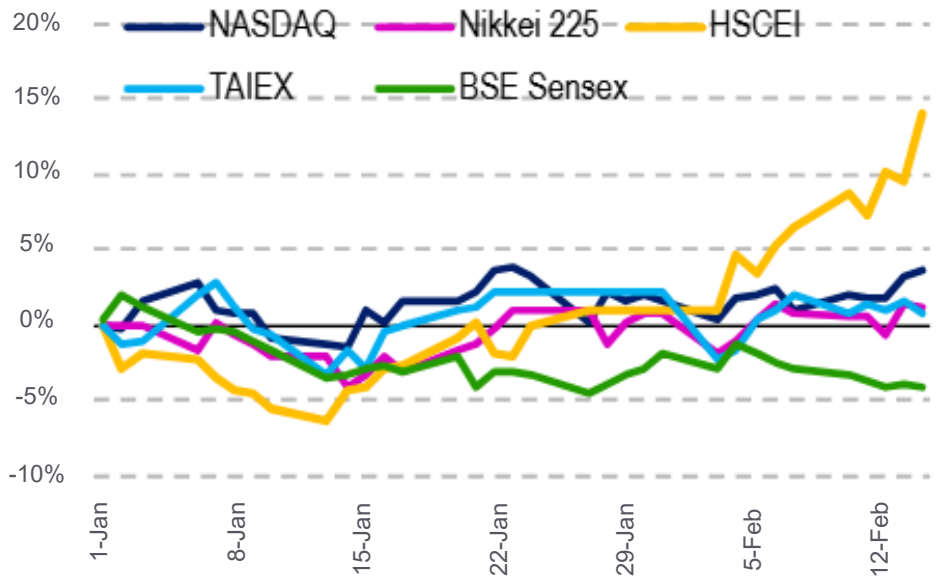
SURPRISE POLICY PIVOT BOOSTED CHINA MARKETS IN 2024

The Chinese economy has faced challenges the past few years as it emerged from Covid lockdowns, regulatory tightening and a protracted property downturn.

Yet, after three years of stock market declines that started in 2021, the markets posted a sharp rebound in 2024 with a 15% rise in the MSCI China Index. What triggered the sharp turnaround in markets was the policymakers pivoting towards a pro-growth stance at the end of September 2024. A broad range of policy directions have since been announced, including more proactive fiscal policy, further easing in monetary policy, restoring stability in the property market and boosting consumption.

As investors awaited more details of the stimulus measures, China markets have given up some of the gains. The election of Donald Trump as US President also raised concerns of increased trade actions and tariffs against China, as he had threatened during his campaign.

Figure 1: Year-To-Date Performance of Major Stock Market Indicies (USD Terms)
HSCEI rose nearly 15% YTD and outperformed global peers



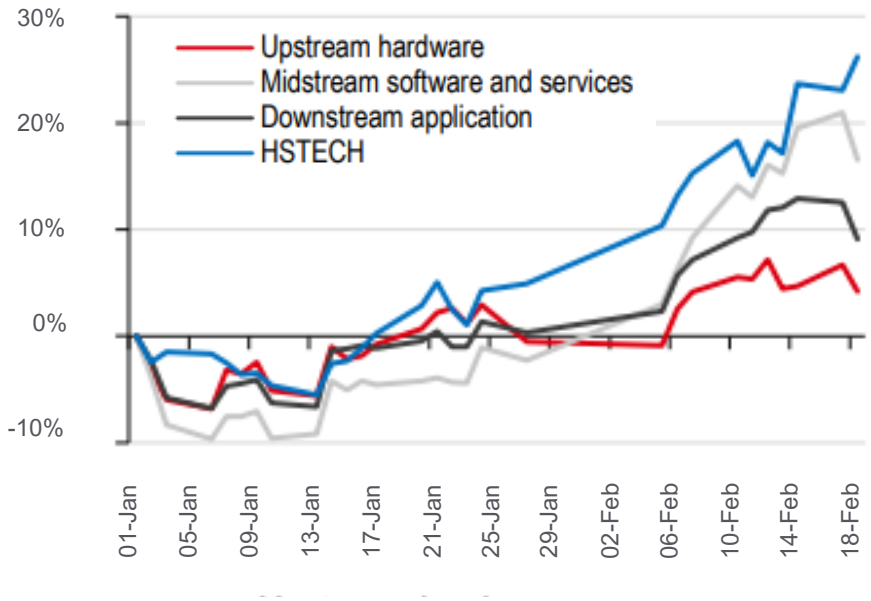
Source: Bloomberg, February 2025

REASONS FOR OPTIMISM IN 2025

We acknowledge that challenges still persist for the Chinese economy, but hold the view that there are reasons to be optimistic in 2025.

First, Chinese corporates have been moving up in technology and industrial innovation, making them a force to contend with in advanced manufacturing. From exporting lower value textile and footwear in the past, China has become the leading exporter of electric vehicles and solar panels. The recent breakthrough in artificial intelligence development with the Deepseek AI models is a reminder not to write off the resilience and drive of Chinese entrepreneurs. This has created excitement in the markets around the possibilities and benefits of increased AI use in various industries.

Figure 2: Artificial Value Chain in a A-share Market had a Slight Correction Recently, While Hang Seng Tech Remained Strong



Note: Data till 18 February 2025.
Source: Wind, HSBC Qianhai Securities.

Second, Chinese consumption patterns have changed as incomes have been hit so there has been more downtrading, but there are segments of consumption that are doing well such as concept toys and beauty products. Consumers have also responded well to subsidies to trade-in autos and home appliances, and policymakers have expanded the categories of product eligible for trade-in. We see more emphasis by policymakers to boost consumption and there could be more support to provide a social safety net. Initiatives to resolve local government debt burdens will also put local governments in a better position to roll out their own consumption support measures.

Another positive for the stock market is the increased focus on shareholder returns. State-owned enterprises have been urged to improve their market valuations by delivering better returns to shareholders through higher dividend payouts and share buybacks. As part of policy measures to support the stock market, asset managers and brokers can tap a lending facility to purchase stocks, and we expect that high-yielding stocks should benefit from such a policy.

RISKS STILL PERSIST

The risks to China markets are probably well known. Economic growth has been slowing and it may not be easy to achieve another year of 5% growth in 2025. Policymakers have been rather measured in rolling out stimulus, which makes it difficult to have a strong pick up in growth momentum.

Geopolitical risks also loom large, with the possibility of greater trade barriers put on Chinese exports, not only by the US but also by other economies whose industries are facing greater competition from Chinese exports.

Nonetheless, we see opportunities in the Chinese markets with a range of industries and companies that can do well despite the headwinds.

All data are sourced from Lion Global Investors and Bloomberg as at 17 February 2025 unless otherwise stated.

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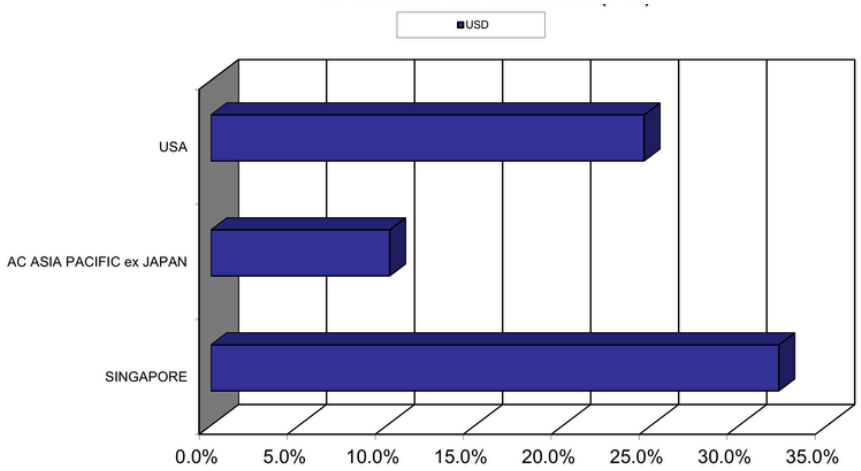
2025 Singapore Market Outlook

Kenneth Ong
Portfolio Manager



The Singapore Equity market has been a stellar performer in 2024, outperforming most markets in Asia and indeed keeping pace with the US markets. This is the first significant annual move in the Singapore market for more than 15 years, and we believe investors are positioning for further performance in the Singapore markets for the next 2-3 years.

Figure 1: MSCI Markets Net Total Return (YTD)



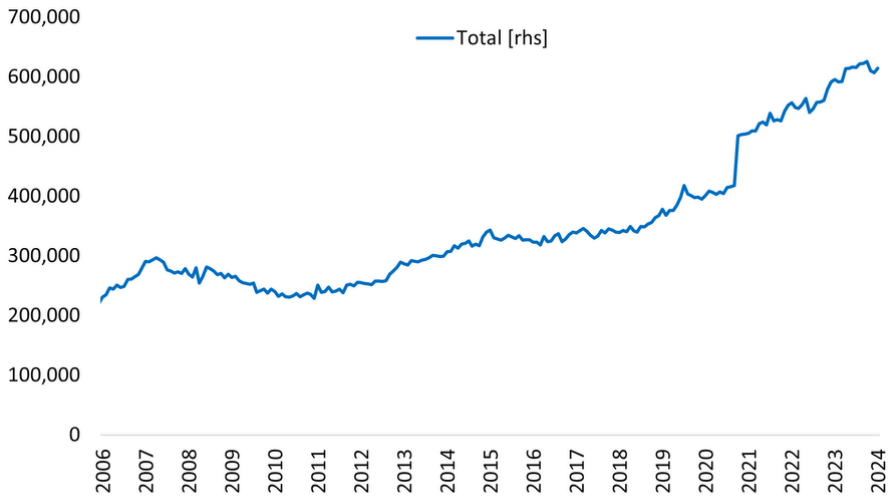
Source: Rimes, December 2024

Here are 3 megatrends that could drive the Singapore markets into global prominence over the next few years.

1. GEOPOLITICAL UNCERTAINTY

Singapore offers an oasis of safety amidst global geopolitical uncertainty. The Singapore banking system has been a major beneficiary of this global megatrend, continuing to attract foreign funds into the Singapore banking system. With uncertainty unlikely to abate under a Trump administration in America, we can expect Singapore banks to be a key beneficiary in the foreseeable future.

Figure 2: Deposits Increasing Over The Years

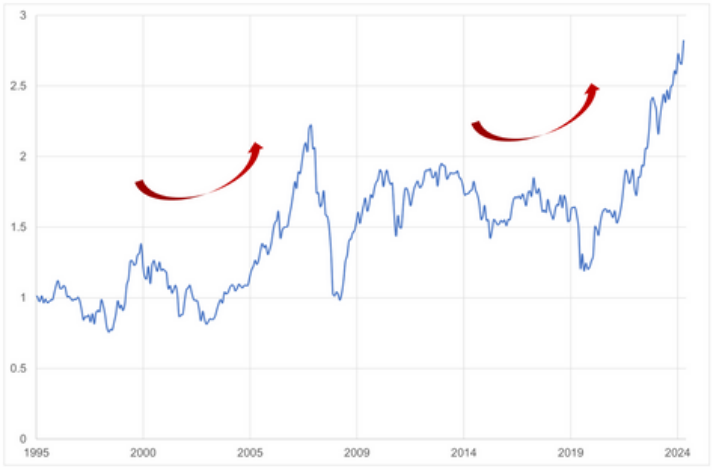


Source: Citi, December 2024

2. INDUSTRIES GAINING MARKET SHARE

After more than a decade of industry consolidation, Singapore industrial firms are poised to benefit from a global capital expenditure cycle and gains in global market share. This reflects how global capital expenditure is likely to shift away from software over the past decade into hardware in this coming decade. This chart, which goes back 30 years, illustrates how Singapore Industrial firms go through a 10–15-year cycle. This coincides with the useful age of long-term infrastructure assets such as marine vessels, aircraft and power plants that undergo a replacement cycle after approaching 15 years. Therefore, having survived a period of industry consolidation, our offshore and marine, utilities, aviation and even e-commerce companies are now in the position to reap the rewards of market share gains over the next few years.

Figure 3: Index of Major Singapore Industrials

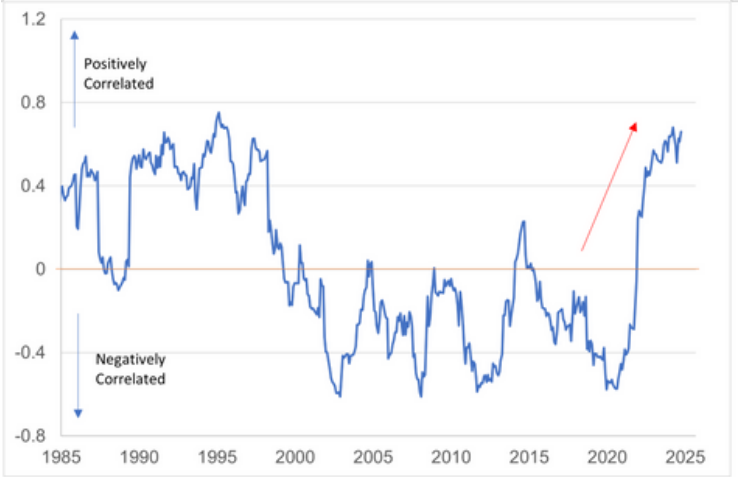


Source: Bloomberg, Lion Global Investors, December 2024

3. MACRO REALLOCATION AWAY FROM BONDS

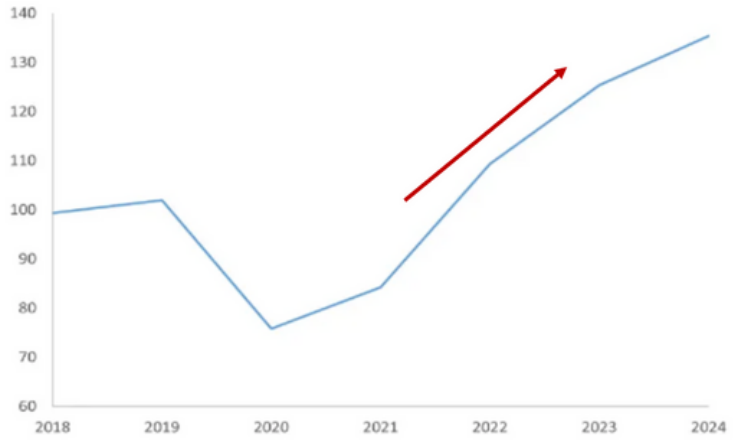
The higher for longer global inflation environment has diminished the attractiveness of bonds as a portfolio hedge against equities, as bonds have become more correlated in movements with equities. This is leading global asset managers to consider shifting allocations away from traditional bonds. Singapore equities are well positioned to attract funds seeking an inflation hedge due to its attractive and increasing dividend. Increasing dividends, not just flat dividends, are important because it offers investors the comfort that dividends can offset any further increases in inflation. Increasing dividends for Singapore Equities can be well supported by strong fundamentals in the banks and industrials sectors.

Figure 4: Correlation between US Stocks and Treasury Bonds



Source: Bloomberg, Lion Global Investors, December 2024

Figure 5: Weighted Index of Dividends Per Share of Singapore Index Constituents



Source: Bloomberg, Lion Global Investors, December 2024

THE BIG PICTURE

Singapore equities are at a once-in-a-generation turning point. Looking at the relative performance of Singapore equities against global equities, we can see that Singapore equities have bounced off a major 20 year low not seen since the Asian Financial crisis, supported by the robust fundamentals of these 3 megatrends. We expect Singapore equities to continue to attract global interest for the sustainable future.

Figure 6: MSCI Singapore Index vs. MSCI World Index



Source: Bloomberg, December 2024

All data are sourced from Lion Global Investors and Bloomberg as at 31 Dec 2024 unless otherwise stated.

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