CIO Insights 1Q25

Game Changers.

Pro-Risk with Resilience

Despite the game-changing world of geopolitical tensions and Trump's tariffs, stay invested as the Fed leans on lowering rates in a soft landing economy. Employ our barbell strategy to ensure portfolio resilience.

Selective on Equity Themes

On the growth end of our barbell strategy, sports franchises present a compelling theme, alongside our continued conviction call for US tech stocks as AI adoption grows.

Rate-Cut Tailwind for Bonds

Slower growth from an escalating trade war will lead to lower central bank rates, enhancing total returns on bonds. Position in A/BBB credit with duration centred on the 2-3Y and 7-10Y segments.

Stay Robust with Private Assets

Private assets with their low correlation to bonds and equities provide diversification, especially in uncertain times. Recent downward adjustments in private equity valuation present attractive entry points.

Source: Unsplash

Contents

Foreword

Shee Tse Koon

Group Head, Consumer Banking
& Wealth Management

Dear valued clients,

As the adage goes: with a new year comes new beginnings.

2025 really feels like the start of a new chapter. This is a feeling compounded by a profuse number of factors, some simmering and some threatening to boil over. Just to name a few – we're witnessing a second Trump presidency, two ongoing large-profile wars, and a potential reversal of China's economic challenges.

None of these are isolated issues. The interplay of these elements births an endless permutation of possibilities. A single pebble, thrown into a pond, breaks the surface with a series of ripples. Throwing a handful of them? Chaos. Or at least it would look so to the untrained eye. A physicist could make sense of these ripples in the pond – in very much the same way we look at ongoing world events and provide a steer for your banking needs.

To that end, we've embraced the cutting edge. As an early banking adopter of digital technologies such as GenAI, we now have close to a thousand AI models deployed mindfully across the bank, assisting not just our technologists, but bankers as well. In 2024, we clinched our third consecutive win of Best Internal Use of Technology by a Private Bank awarded by Global Finance World.

On the investment front, you've trusted us to guide your portfolios through turbulence markets – but we have also been in the business of navigating complexity for a while now. Our 1Q25 CIO Insights publication, titled "Game Changers", highlights where one can play offence and defence in an investment portfolio.

Thank you for your continued faith in our ability to provide clarity. I wish you a bountiful new year ahead.

Executive Summary

Dear valued clients

Over the past year, we have been advocating for portfolios to be fully invested, with our quarterly Insights publication having the three consecutive headlines of “A Broadening Rally”, “Risk Assets in Play”, and “In a Sweet Spot”.

Indeed, these calls have panned out as risk assets of credit, equities, gold, and private assets rallied. Consequently, our flagship barbell strategy returned 15.6% (as of 4 Dec 2024) for the year.

Going into 2025, would this same pro-risk narrative remain?

For sure, navigating the world around game-changers like geopolitical tensions and Trump’s potential tariff policies will pose challenges. When constructing a portfolio, we must consider the worst-case scenarios. While we stay broadly positive of risk assets, our strategy of holding investment-grade credit as income generators, secular growth equities as return enhancers, and alternatives like gold and hedge funds as diversifiers should help weather periods of heightened volatility.

Our overweight stance on US technology equities continues to be our highest conviction call for growth, catalysed by the growing adoption of AI. Investment-grade credit is our anchor for income generation, especially in a US soft landing scenario that would lead to a trajectory of lower rates.

In the event of an escalating trade war that will certainly accelerate a global slowdown, we expect a lifeline to come from boosted returns in investment-grade bonds as the Fed will most likely respond with accelerated easing. This scenario is not dissimilar to 2018-2019 when President Trump imposed tariffs and other trade barriers on China. Meanwhile, holding some uncorrelated assets like gold and hedge funds will add overall resilience to the portfolio.

In this publication, we highlight the exciting investment potential in sports, given the growing appeal for live sports compounded with the scarcity of sought-after franchises.

Do enjoy the read, and I wish you a profitable year of investing!

Hou Wey Fook, CFA

Chief Investment Officer

A New World Order

Asset
Allocation
1Q25

The red trifecta on Capitol Hill will have enduring implications for macro policies in the years to come. Navigating the cross currents of expansionary fiscal policies and heightened geopolitical tension warrants a “barbell” approach in our asset allocation by taking the extremes in terms of portfolio positioning.

Investment Summary 1Q25

Macro Policy

Further cuts forthcoming from the Fed and ECB, while the BOJ's gradual rate hiking should continue despite potential delays from political changes. We see room for further PBOC cuts.

Economic Outlook

The US economy continues to demonstrate resilience, while weak growth persists in Europe as key exports face sluggish demand. China likely to push for further stimulus to bolster domestic consumption.

Equities

Maintain preference for US equities, underpinned by elevated corporate margins, resilient domestic consumption, and strong AI-related capex. ASEAN to continue benefitting from rate cuts and China+1.

Credit

A gradual easing trajectory is expected on economic strength. Prioritise A/BBB buckets for best risk-reward in a tighter spread environment. Overweight 2-3Y and 7-10Y segments to manage reinvestment risk and capitalise on curve rolldown respectively.

Rates

Expect lower rates from the Fed but the trajectory is likely to be bumpy as market participants navigate Trump 2.0 which includes large tax cuts, tariffs, and fiscal deficits.

Currencies

The USD to remain on the front foot as the Fed tapers its dovish trajectory and Trump 2.0 starts to deliver on its policy platform. EUR and RMB most vulnerable to tariff threats.

Alternatives

Remain structurally bullish on gold despite recent consolidation; lean into a portfolio approach involving both private and public assets. Consider semi-liquid vehicles for liquidity management.

Commodities

Expect volatility to persist in the short term; tariff hikes pose broad demand risk while energy security focus skews oil production growth to the upside. China demand remains a wild card on the macro front.

Thematics

The rise of the sports economy is driven by the rapid growth of live sports streaming, increasing enthusiasm for women's and youth sports, and the meteoric rise in the popularity of esports competitions.

Theme: Sports Investments – A Winning Playbook

Beyond their prestige as trophy assets, sports franchises offer solid investment value through rising valuations and low market correlation, making them a strategic addition to portfolios.

Growing global interest in sports franchises creates a ripple effect, benefitting the broader ecosystem of sports. Key beneficiaries include: (i) sports analytics, (ii) streaming, (iii) ticketing, and (iv) sports video gaming.

01.
Asset Allocation.

Hou Wey Fook, CFA
Chief Investment Officer

Dylan Cheang
Strategist

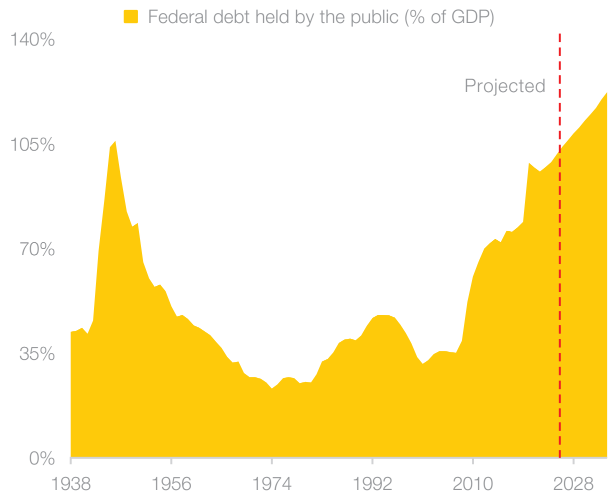
The American people have spoken. With the Republicans capturing both the Senate and House of Representatives, it is now a red trifecta on Capitol Hill, where the party has full control of the executive branch and both chambers of the legislature. Such a clear mandate will mean that President-elect Trump possesses enormous power, ensuring his ability to push through any policy agenda, be it tax cuts, climate change, or border security. This is a watershed moment for the Democrats, as the party faces a looming existential crisis with no clear leadership within its ranks. Once a staunch defender of the working-class coalition, the Democratic Party is being increasingly perceived as a party for the "liberal elites" with an overemphasis on progressive ideology rather than bread-and-butter issues.

For financial markets, Trump's election will have enduring implications for macro policies in the years to come. If election rhetoric indeed translates to reality, gone are the prevailing market assumptions of imminent recession and acute cuts in Fed policy rates. Trump's key policy agenda of tax cuts for US companies and extension of the Tax Cuts and Jobs Act (TCJA) for all income levels will see swift implementation from Day 1. These cuts not only boost corporate profitability, they will also free up more money for US consumers to spend and drive up domestic consumption. Expect US macro momentum to shift to a higher gear if the Republican agenda is implemented in full.

Meanwhile, let's not forget that the purported tariff hikes and cost savings from implementing cuts in social programmes are insufficient to cover the loss in tax revenue. Inevitably, this will only lead to further deterioration of US's fiscal position which the country can ill afford. According to the Congressional Budget Office (CBO), US federal debt held by public is poised to exceed 122% of GDP by 2034 – a level which is markedly higher than the peak of 106% seen after the Second World War. The ongoing largesse is unsustainable. But the notion of fiscal responsibility has also clearly been put to the back burner as Trump seeks to fulfil his campaign promises.

This concoction of renewed inflationary pressures and an unsustainable US fiscal path will mean higher bond yields and dollar strength during the early days of Trump's presidency.

Unsustainable largesse



Source: Congressional Budget Office, DBS

Trade War: Take Trump literally, and seriously? On the campaign trail, Trump advocated tariffs of 60% on goods from China and 10-20% on goods from elsewhere. While Trump's campaign rhetoric builds in the assumption that tariffs would be paid for by the foreign trade partners, the reality is often the opposite. The burden of tariffs will either be absorbed by US importers (leading to lower corporate profitability) or passed on to US consumers (leading to either lower consumption or lower savings). Things look dicey either way. To make matters worse, tariffs tend to lead to higher prices for US-made goods as domestic producers experience stronger demand from consumers switching to cheaper alternatives, as shown by research from the Paterson Institute for International Economics. Based on IMF's forecast, a revival of the US trade war will reduce global GDP by 0.8% in 2025 and 1.3% in 2026.

Why did risk assets surge in the wake of a Republican sweep when the risk of a global trade war looms? There are three potential explanations. One, investors do not believe in the extent of harm that tariffs conceivably will have on the global economy. Two, investors believe that Trump, given his perceived "transactional" style of policy making, will eventually strike favourable deals with major trading partners and avert a trade war. Three, investors are putting the prospects of a trade war on the backburner and are choosing instead to focus on the upside of Trump's expansionary polices.

These are still early days and events could swing either way, though Trump's recent appointment of Senator Marco Rubio as secretary of state and Mike Waltz as national security adviser – both known China hawks – suggests that the path forward is fluid. When it comes to portfolio construction under this scenario, caution is paramount.

Navigating Trump 2.0

Upgrading equities to neutral; positive view on US offset by weakness in Europe. We have previously downgraded equities to an underweight as bonds encapsulate more favourable risk-reward, in particularly from a yield gap perspective. The arrival of Trump 2.0 will be a game changer as the new administration unleashes expansionary policies that will propel US equities higher next year. While the effectiveness of tariff hikes (leading to a revival in US domestic manufacturing) remains to be seen, Trump's plan on tax cuts will, without a doubt, propel domestic consumption higher and lend substantial boost to corporate earnings.

To ride the new US policy regime, we are upgrading equities from an underweight to neutral. Our decision to avoid going outright overweight on equities stems from two angles: (1) The outlook for Europe equities remains a significant drag as the region faces a double whammy of rising recession risks and geopolitical headwinds, (2) The likelihood of a "constrained" or "unconstrained" Trump 2.0 remains uncertain and a cautious approach is warranted.

Adopting a "barbell" portfolio approach for uncertain times. Navigating the cross currents of expansionary fiscal policies and heightened geopolitical tension warrants a "barbell" approach in our asset allocation. This is achieved by taking the extremes in terms of positioning: (a) Seek exposure to the highest beta sectors and ride the upside of Trump's expansionary policies and (b) seek exposure to the most defensive asset classes and shield portfolio performance from the downside of Trump's policies.

- Navigating expansionary Trump policies:

1. Overweight US equities: As mentioned, our neutral positioning on equities as an asset class is due to our cautious stance on Europe. But to ride the wave of expansionary Trump policies, we stay Overweight on US equities as impending taxation cuts will lend significant boost to corporate earnings.

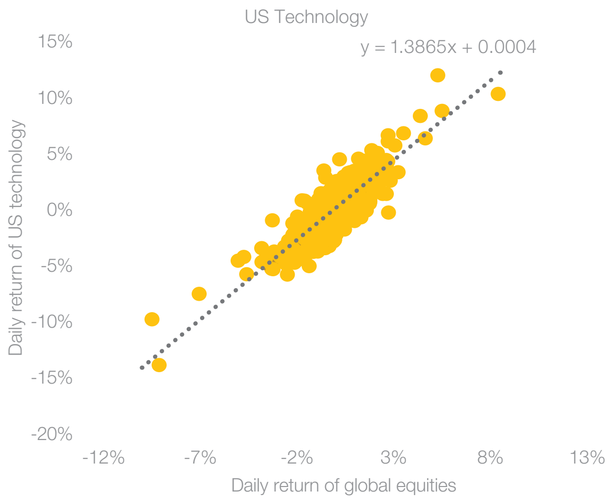
2. Overweight US tech: Within the US market, we favour tech for two reasons: (1) Our analysis of the previous two presidential cycles (under Trump and Biden) shows no clear trends in the performance of US sectors. What is consistent though, is the outperformance of technology stocks under both presidencies. This underlines the secular growth potential of the sector. US tech possesses a high beta of 1.4 times global equities over a 10-year period (vs 0.8 times for Europe). This allows investors to reap significant upside as the new administration rolls out tax cuts and deregulation policies.

- Navigating trade war risks:

1. Overweight fixed income: With bond yields back to 4.4%, we see attractive risk-reward in staying overweight on fixed income as it provides downside protection should trade tension escalate in a more severe fashion than anticipated.

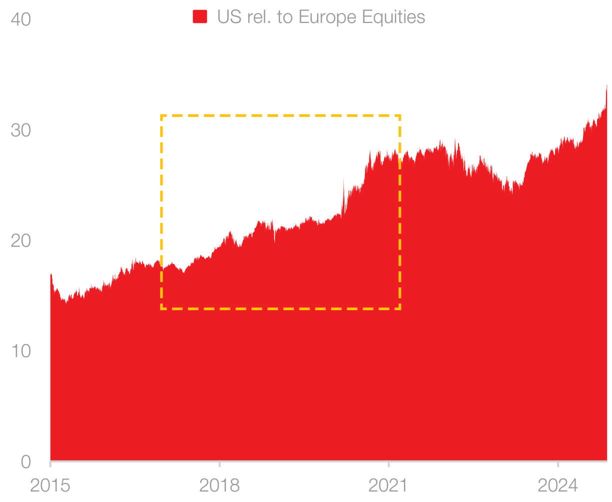
2. Underweight Europe equities: Europe equities is poised to underperform, given that US tariff hikes will compel Chinese exporters to redirect their goods to the market, heightening competition

US tech – A high beta play on US expansionary policies



Source: Bloomberg, DBS

US outperformed Europe during the first Trump presidency



Source: Bloomberg, DBS

along the way and adding margin pressure to domestic companies. At the same time, the ongoing Russia-Ukraine conflict and Trump's critical stance on NATO will also heighten the risk premium for the region.

3. Overweight gold: While the resurgence of expansionary fiscal policy and higher bond yields weigh on the near-term outlook for gold, this will be offset by rising demand for safe haven assets as investors position for renewed trade tensions. Moreover, de-dollarisation risks remain an ongoing concern as US fiscal condition continues to deteriorate.

Beyond the Noise

While it makes sense to navigate the ebbs and flows of policy winds at Capitol Hill, one should also not neglect the longer-term macro drivers that will determine the trajectory of markets beyond the near-term noise surrounding Trump's presidency. We believe that risk assets will remain well-supported by the following factors in 2025:

- The case of elevated corporate margins
- Rising household wealth and domestic consumption resilience
- AI-related corporate capex

The case for elevated corporate margins. Our base-case assumption for the US economy is a "soft landing", and this sanguine outlook should not come as a surprise. After all, domestic consumption has remained healthy given the robust jobs market. Meanwhile, US economic surprises, after hitting a trough in July, has also experienced an acute turnaround with upside-surprising macro data. Rising expectations of fiscal easing by the Trump administration lent further support to this view.

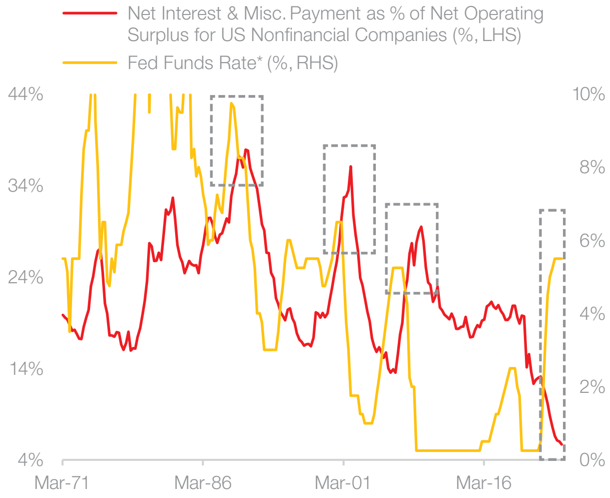
Without a doubt, an all-out global trade war would inflict significant damage to the global economy. Based on consensus forecasts, the Street is still expecting US earnings to grow 13% in 2025. What is causing the disconnect? The relative optimism could be a function of two factors: (1) Forecasters have yet to pencil in the impact of a trade war on corporate earnings given the lack of visibility or (2) the prevalence of elevated corporate margins – a point which we have previously highlighted in 4Q23 and is currently still in play.

To recap, the interest expense ratio for a company tends to increase when policy rate rises. During the previous rate hiking cycles in 1988-89 and 1999-2000, interest expense ratios hit a peak six quarters after the peaking of Fed policy rates. Subsequently in the 2004-06 policy rate hiking cycle, interest expense ratios plateaued 12 quarters after policy rate peaked.

This relationship no longer holds post-2008 subprime mortgage crisis. During the era of zero interest rate policy (ZIRP), US companies capitalised on a low bond yields environment to refinance their long-term liabilities at low interest rates. This translated to sharp declines in the interest expense ratio, which hit a new low of 5.7% in Jun 2024 (vs long-term average of 22.1% since Mar 1971) despite elevated Fed Funds rates.

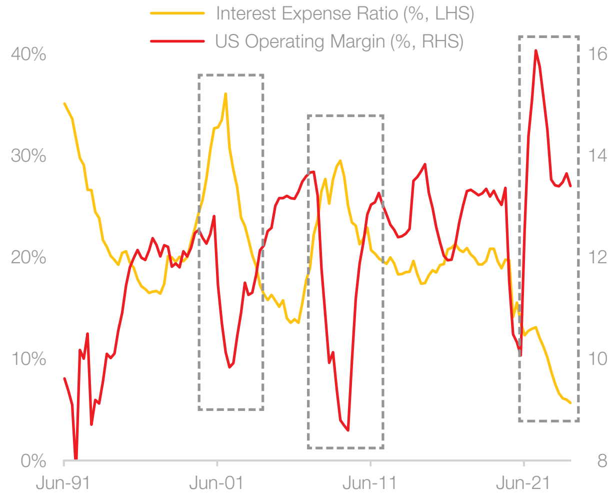
Low interest expenses mean higher profitability for US corporates. This will cushion companies from trade tension and underpin the resilience of corporate earnings.

Interest expense ratio fell despite elevated bond yields



Source: Bloomberg, DBS

Inverse relationship between operating margin and interest expense



Source: Bloomberg, DBS

Rising household wealth leading to consumption resilience. Americans are getting richer. The years of gains for the S&P 500 and real estate have translated to rising household wealth and improving financial security for American households. In absolute terms, data from the Federal Reserve Bank of St. Louis show that US households' net wealth has increased from USD104tn in Jan 2000 to USD154tn in Apr 2024 (a CAGR of 5.2%). Net wealth, as a percentage of disposable personal income and barometer of household financial health, has also surged to 785%—its highest in two years.

While Americans are getting richer, they are also borrowing less. Household debt as a percentage of GDP has declined to 71%—the lowest in 23 years—

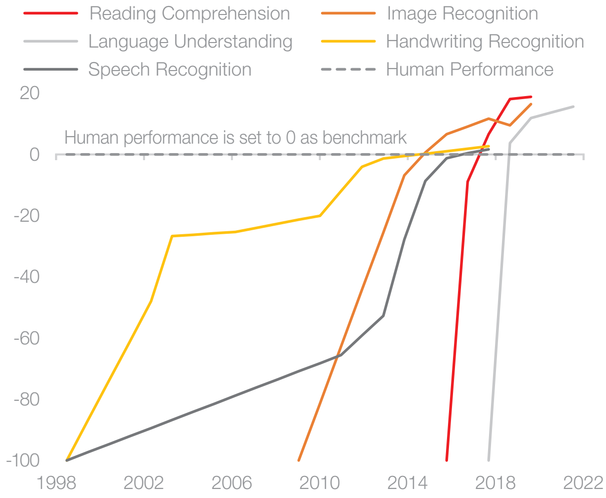
American household deleveraging

Source: Federal Reserve Bank of St. Louis, DBS

Household financial health on the rebound

Source: Federal Reserve Bank of St. Louis, DBS

AI capabilities exceed human performance



Source: Ourworldindata,Kiela et al, DBS

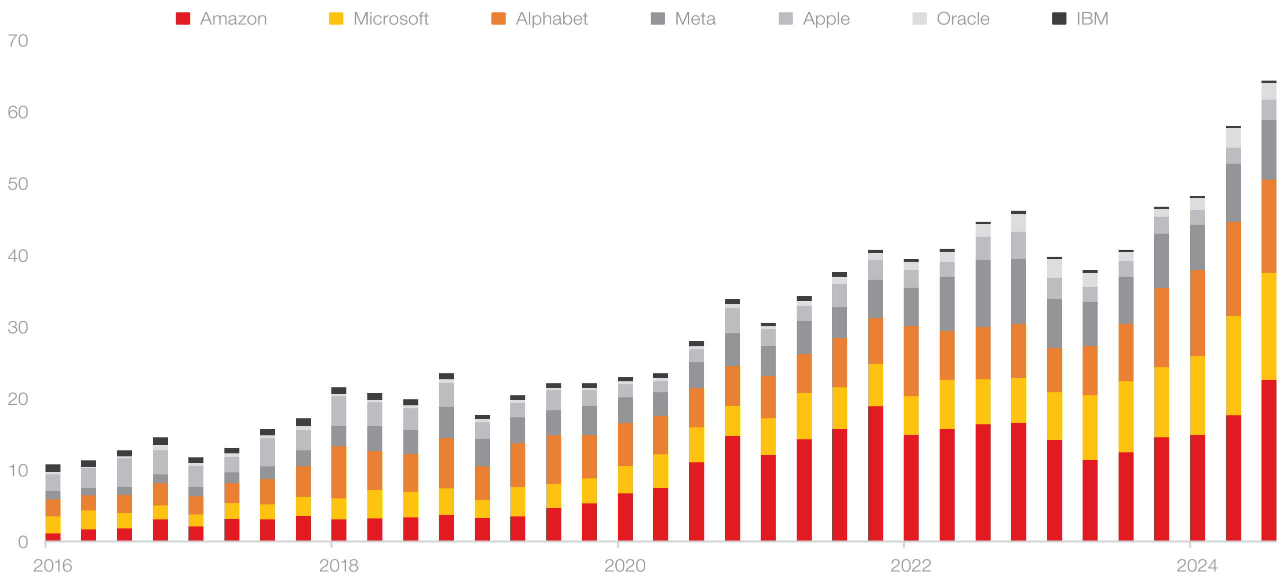
as families embarked on massive deleveraging after the Global Financial Crisis of 2008. The positive combination of rising net wealth and record low debt levels augur well for the outlook of domestic consumption which forms the cornerstone of the US economy (accounting for c.70% of GDP).

AI – the catalyst igniting economic growth. The rapid advancement of artificial intelligence (AI) has propelled the technology beyond human ability in various tasks, including reading and comprehension. By enabling companies to automate repetitive work, AI opens new avenues to efficiency in industries ranging from manufacturing to entertainment.

Undoubtedly, the advancement of AI lends a significant boost to the economy by driving growth via productivity gains and corporate capex:

- Productivity Gains: AI's impact is transformative as it allows businesses to operate more efficiently and increase productivity gains. According to PWC's estimates, AI can increase global GDP by 14% in 2030 and contribute an additional USD15.7tn. Projections by Statista are equally upbeat on expectations of AI adding 30% to GVA (Gross Value Added) by 2035. These estimates underscore the importance of AI as a major driver of economic growth in the coming years.

Hyperscalers capex (USDbn)



Source: Bloomberg, DBS

- Corporate Capex: Rising AI-related capex by hyperscalers like Amazon, Google, Microsoft, and Meta are significant catalysts for economic growth. These investments have grown from USD49bn in 2016 to USD165bn (a CAGR of 16.4%). According to Bloomberg Intelligence, the combined AI capex of hyperscalers is expected to reach USD200bn in 2025 as generative AI demand spurs capital outlays on infrastructure (such as data centres and supercomputers). Additionally, AI-related capex also results in multiplier effects on other parts of the economy from semiconductors to real estate and energy.

1Q25 Asset Allocation – Upgrading equities to neutral while maintaining bonds at overweight

Categories	Indicators	Score Range	Equities				Bonds		
			US	Europe	Japan	AxJ	DM Govt	DM Corp	EM Bonds
Fundamentals	PMI	-1 to +1	0	0	0	0	0	0	0
	Economic surprise	-1 to +1	0	0	0	1	0	0	0
	Inflation	-1 to +1	0	0	0	0	0	0	0
	Monetary policies	-1 to +1	1	1	0	1	0	0	0
	Forecasted EPS growth	-2 to +2	1	-1	0	0	-	1	0
	Earnings surprise	-2 to +2	1	-1	1	0	-	0	0
Valuation	Forward P/E	-2 to +2	0	0	0	1	-	-	-
	P/B vs ROE	-2 to +2	0	-1	-1	0	-	-	-
	Earnings yield - 10Y yield	-2 to +2	-1	0	0	0	1	1	0
	Free Cashflow yield	-2 to +2	-1	0	1	0	-	-	-
	Credit spread	-2 to +2	-	-	-	-	-	0	-1
Momentum	Fund flows	-2 to +2	2	-1	-1	-1	1	2	0
	Volatility	-1 to +1	0	0	-1	-1	0	-	-
	Catalysts	-2 to +2	0	0	0	0	0	0	0
Raw Score			3	-3	-1	1	2	4	-1
Adjusted Score*			**0.14**	**-0.14**	**-0.05**	**0.05**	**0.18**	**0.25**	**-0.06**

*Note: The "Adjusted Score" is calculated using the "Raw Score" divided by the maximum attainable score for each category.

Source: DBS

Cross Assets – Bonds remain in play. The latest scoring on our CAA framework suggests a preference for bonds over equities.

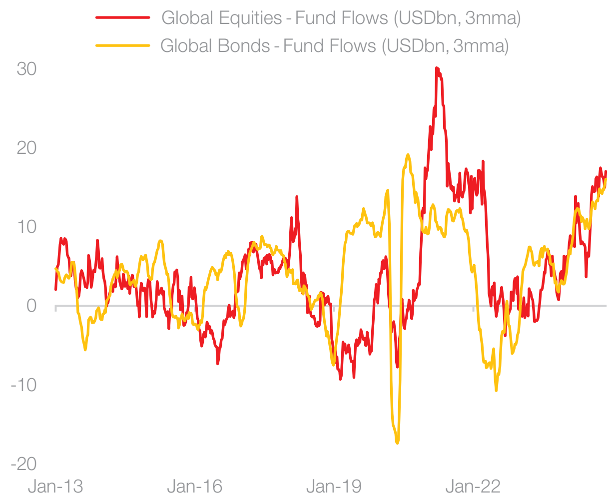
Fundamentals: Prevailing macro indicators continue to paint a picture of resilience for the US economy. Despite elevated policy rates, US economic surprises have turned the corner during the second half of the year while ISM Services surged to 56.0 since hitting a trough in June. Clearly, the high interest rate environment has failed to dampen macro momentum in a substantial way. However, the sanguine outlook could be disrupted if the incoming Trump administration undertakes swift implementation of tariff hikes as promised on his campaign trail.

In terms of corporate earnings, the potential impact of Trump's policies has yet been fully reflected in analyst forecasts, given the lack of clarity. At this juncture, the street is expecting 10% earnings growth for developed markets equities in 2025, buoyed by a 1.5 %pts increase in EBIT margin. Outlook for emerging markets is slightly brighter with earnings growth expected at 14%.

Valuation: The gap between US earnings yield and UST 10-year yield has deteriorated to -0.74% (as of 18 Nov). This reinforces our underweight stance on equities relative to bonds.

Momentum: Fund flows data from EPFR Global suggests that investors are largely indifferent in their asset allocation as USD105bn and USD102bn flowed to equities and bonds respectively QTD (as of 6 Nov). On a YTD basis, the inflows for both asset classes were also largely similar at USD556bn (for equities) and USD581bn (for bonds).

Equity and bond flows rising in tandem



Source: EPFR Global, DBS

Equities: Continuation of US exceptionalism; relative outperformance of US over Europe equities. The return of Trump to the White House brings promises of more expansionary US policies ahead, including taxation cuts for corporates and households and further deregulation. The anticipation of expansionary fiscal policies drove US equities 4.4% higher on a QTD basis (as of 13 Nov). However, the story is vastly different in other developed markets as Europe and Japan lost 9.0% and 5.5% respectively. The strong rally in Asia ex-Japan (AxJ), since the beginning of the year, has also seemingly hit a peak with the region down 6.6%.

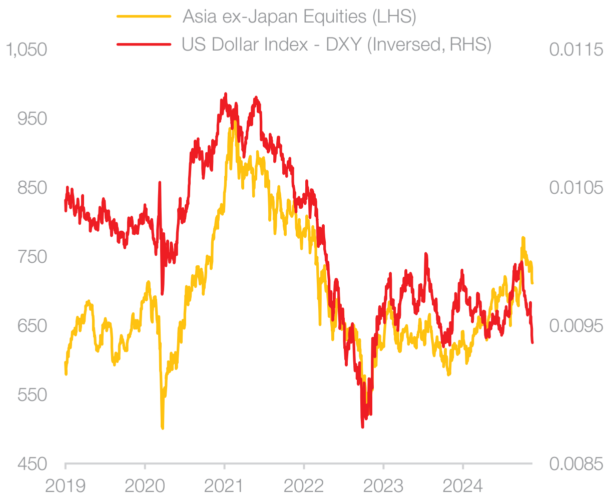
US exceptionalism (and outperformance) is expected to persist in the upcoming quarter given prevailing fiscal and monetary policy tailwinds. Apart from taxation cuts, US equities will also be well-supported by Fed monetary easing as the central bank has no plans to pause rate cuts (for now) despite the highly inflationary nature of Trump's policies. Based on data from EPFR Global, investor positionings reflect rising enthusiasm for US equities. On a QTD basis (as of 6 Nov), US registered net fund inflows of USD60bn, as compared to similar net outflows of USD2bn for Europe and Japan.

Conversely, we expect Europe and AxJ to face incremental headwinds in the new political regime, i.e. Trump 2.0:

- Challenges for Europe: Europe equities face the double whammy of US tariff hikes and a potential influx of China exports being redirected from US to the European market, both of which will worsen the competitive environment for domestic companies. Trump's isolationist stance towards NATO presents another headwind as the President-elect has previously threatened to leave the alliance should European members fail to step up their defence spending. The ongoing Russia-Ukraine conflict, coupled with fresh regional security concerns, will serve as an overhang for Europe equities.

- Challenges for Asia ex-Japan: AxJ equities face renewed headwinds in the wake of Trump's victory. Firstly, as the risk of a trade war looms, China will be among the most heavily impacted markets given the plausibility of severe trade tariffs on Chinese exports to the US. Low-end exports, EV battery, and solar panel producers from China will be vulnerable to these measures. Secondly, rebounding bond yields and the return of dollar strength has been negative for Asia equities historically. Despite the headwinds, we maintain an overweight on AxJ as the region is trading at a 34% discount relative to developed markets, suggesting that significant headwinds have been priced in.

Dollar strength negative for AxJ equities; this will be partly mitigated by the steep valuation discount



Source: Bloomberg, DBS

Bonds: Navigating the cross currents of expansionary polices and tariff threats. The conventional assumption is that bonds are expected to underperform as the new Trump administration unleashes taxation cuts and drives economic activities higher across the board. In theory, this is inflationary and should pose major risks for bonds. However, this is only one side of the story. To fund the tax cuts, Trump will need to hike tariffs. This is where the problems begin as a global trade war will be highly disruptive to economic activity, with the resultant uncertainty weighing on bond yields. We have seen this happening during the first trade war as yields started to head south by late 2018 in spite of moderating US inflation.

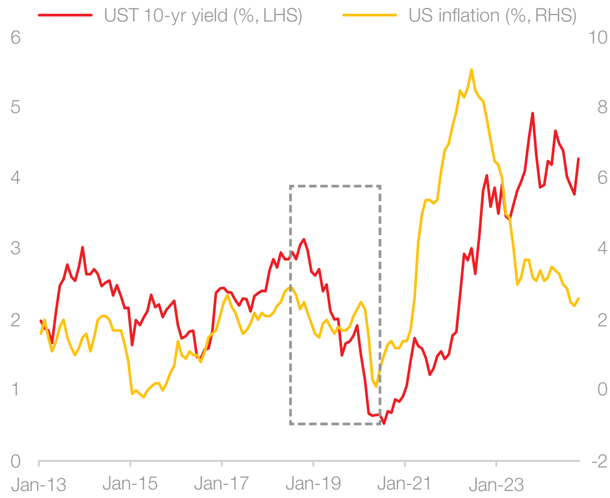
Research from our credit strategist shows that IG and HY credit spreads tend to remain flat one year after the election of a Republican president as pro-growth policies support economic activities and reduce the risk of defaults. The sharp rally in equities post-Trump's victory augurs well for the outlook of credit spreads. Strategy-wise, we continue to favour a "barbell" approach with outsized positioning in the 2-3Y and 7-10Y credit. In terms of credit rating, the A/BBB segments encapsulate the best risk-reward.

Bond flows data from EPFR Global reinforces our view. On a 9M24 basis, IG credit registered inflows of USD96bn (vs inflows of USD34bn for HY credit). In the current quarter, inflows to HY credit are largely similar with IG. This suggests improving sentiments towards the HY space as growth expectations improve.

Alternatives: Near-term headwinds for gold; fiscal headwinds to underpin long-term demand. Expectations of expansionary Trump polices have driven bond yields higher. This is a near-term headwind for gold as the latter is a non-interest bearing asset. As explained in the bonds section, we expect the unleashing of trade tensions by the new administration to weigh on bond yields as uncertainties mount. This is, in turn, positive for gold. In addition, Trump's policies are expected to add c.USD7.75tn to the national debt from 2026 to 2035. Rising doubts on the sustainability of the US fiscal path will increase the safe haven appeal of gold.

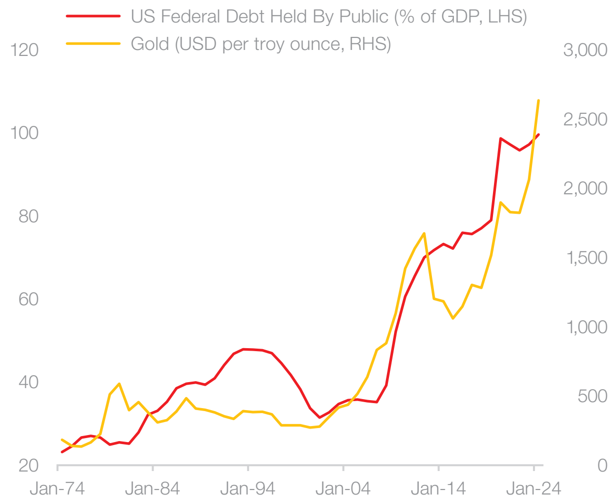
Meanwhile, the return of policy uncertainty in the coming year will increase the appeal of private assets as the latter exhibits a strong inverse correlation with equities. We believe that the portfolio approach of combining public assets with semi-liquid funds in the private assets space will allow investors to weather forthcoming macro and policy headwinds.

Bond yields fell in late 2018 despite easing inflation



Source: Bloomberg, DBS

Gold price rising in tandem with US debt



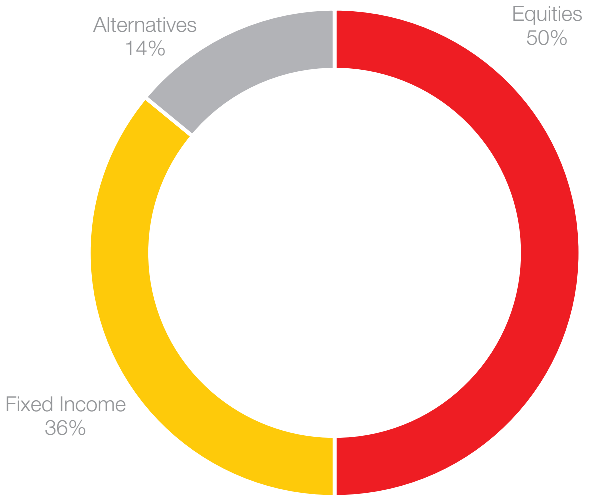
Source: Bloomberg, DBS

1Q25 Global Tactical Asset Allocation

	3-Month Basis	12-Month Basis
Equities	**Neutral**	**Neutral**
US Equities	Overweight	Overweight
Europe Equities	Underweight	Underweight
Japan Equities	Neutral	Neutral
Asia ex-Japan Equities	Overweight	Overweight
Fixed Income	**Overweight**	**Underweight**
Developed Markets (DM) Government Bonds	Overweight	Underweight
Developed Markets (DM) Corporate Bonds	Overweight	Neutral
Emerging Markets (EM) Bonds	Underweight	Neutral
Alternatives	**Overweight**	**Overweight**
Gold	Overweight	Overweight
Private Assets & Hedge Funds	Overweight	Overweight
Cash	**Underweight**	**Neutral**

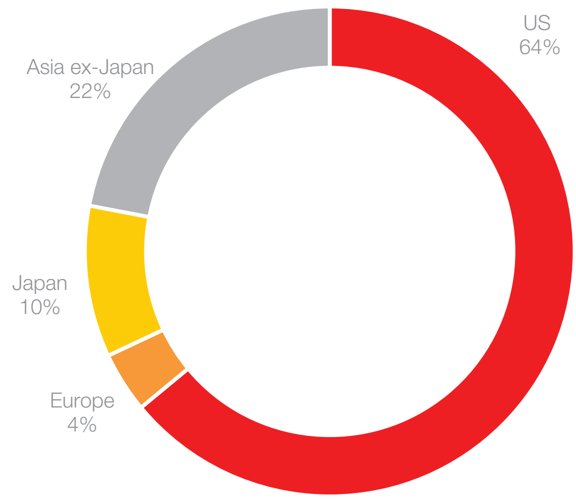
Source: DBS

TAA breakdown by asset class (Medium Risk)



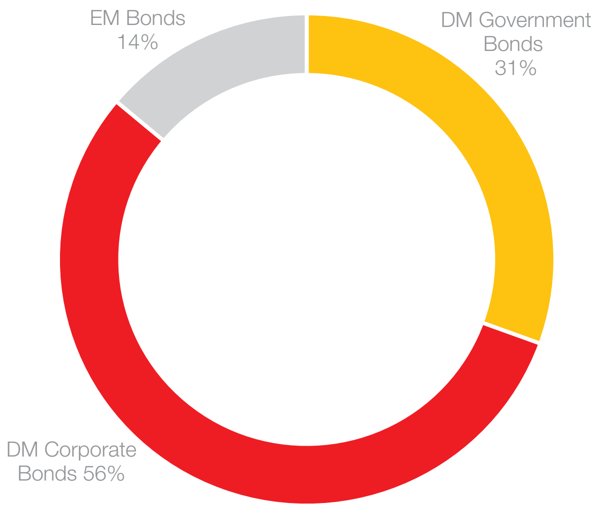
Source: DBS

TAA breakdown by geography within equities (Medium Risk)



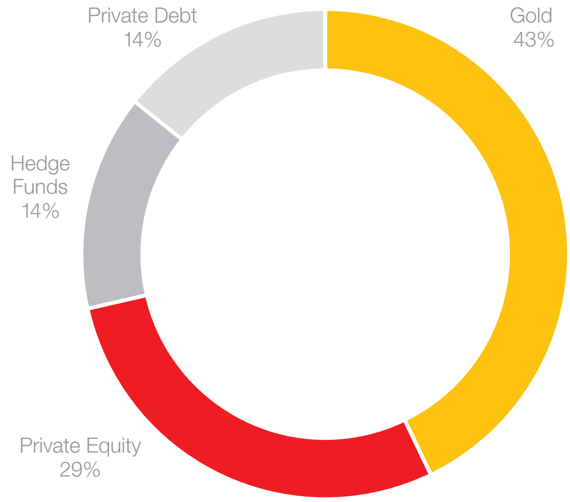
Source: DBS

TAA breakdown by bond types within fixed income (Medium Risk)

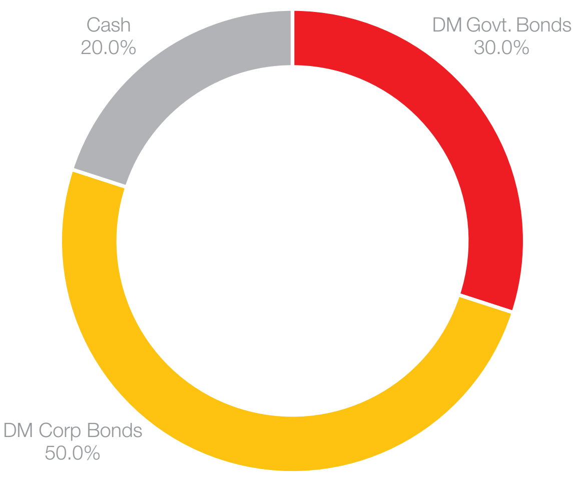


Source: DBS

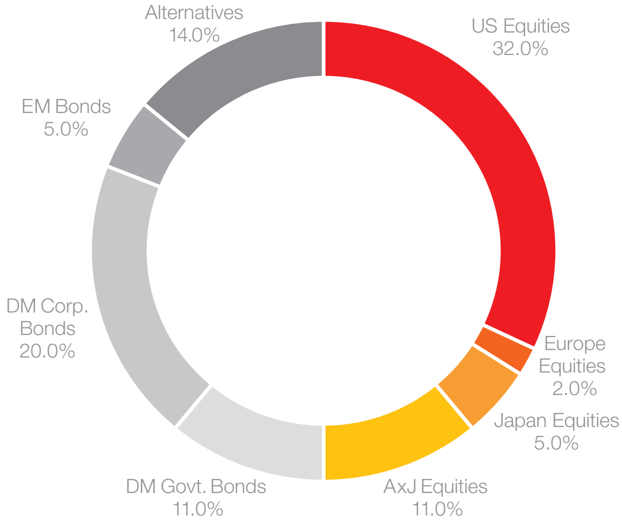
TAA breakdown by segments within alternatives (Medium Risk)



Source: DBS



Source: DBS



Source: DBS

Low Risk

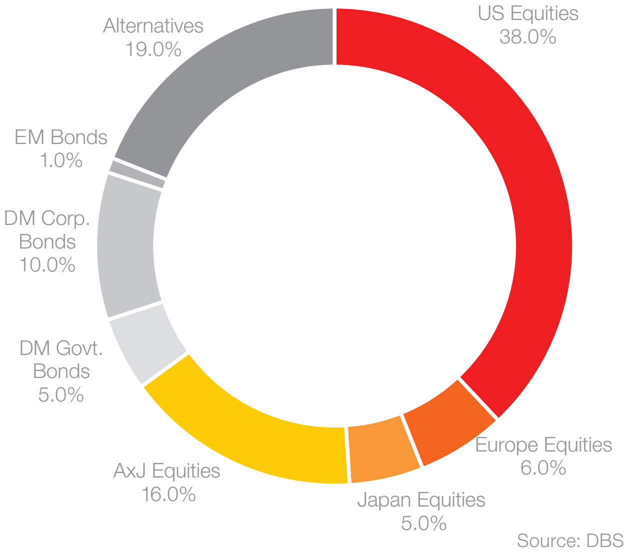
	TAA	SAA	Active
Equities	**0.0%**	**0.0%**	
US	0.0%	0.0%	
Europe	0.0%	0.0%	
Japan	0.0%	0.0%	
Asia ex-Japan	0.0%	0.0%	
Fixed Income	**80.0%**	**80.0%**	
Developed Markets - Government	30.0%	30.0%	
Developed Markets - Corporate	50.0%	50.0%	
Emerging Markets	0.0%	0.0%	
Alternatives	**0.0%**	**0.0%**	
Gold	0.0%	0.0%	
Private Assets & Hedge Funds*	0.0%	0.0%	
Private Equity	0.0%	0.0%	
Hedge Funds	0.0%	0.0%	
Private Debt	0.0%	0.0%	
Cash	**20.0%**	**20.0%**	

*Only P4 risk rated UCITs Alternatives

Medium Risk

	TAA	SAA	Active
Equities	**50.0%**	**50.0%**	
US	32.0%	25.0%	7.0%
Europe	2.0%	10.0%	-8.0%
Japan	5.0%	5.0%	
Asia ex-Japan	11.0%	10.0%	1.0%
Fixed Income	**36.0%**	**35.0%**	**1.0%**
Developed Markets - Government	11.0%	10.0%	1.0%
Developed Markets - Corporate	20.0%	15.0%	5.0%
Emerging Markets	5.0%	10.0%	-5.0%
Alternatives	**14.0%**	**10.0%**	**4.0%**
Gold	6.0%	5.0%	1.0%
Private Assets & Hedge Funds*	8.0%	5.0%	3.0%
Private Equity	4.0%	2.4%	1.6%
Hedge Funds	2.0%	2.0%	
Private Debt	2.0%	0.5%	1.5%
Cash	**0.0%**	**5.0%**	**-5.0%**

*Only P4 risk rated UCITs Alternatives



Source: DBS

High Risk

	TAA	SAA	Active
Equities	**65.0%**	**65.0%**	
US	38.0%	30.0%	8.0%
Europe	6.0%	15.0%	-9.0%
Japan	5.0%	5.0%	
Asia ex-Japan	16.0%	15.0%	1.0%
Fixed Income	**16.0%**	**15.0%**	**1.0%**
Developed Markets - Government	5.0%	4.0%	1.0%
Developed Markets - Corporate	10.0%	7.0%	3.0%
Emerging Markets	1.0%	4.0%	-3.0%
Alternatives	**19.0%**	**15.0%**	**4.0%**
Gold	6.0%	5.0%	1.0%
Private Assets & Hedge Funds*	13.0%	10.0%	3.0%
Private Equity	6.0%	4.9%	1.1%
Hedge Funds	4.0%	4.0%	
Private Debt	3.0%	1.1%	1.9%
Cash	**0.0%**	**5.0%**	**-5.0%**

*Only P4 risk rated UCITs Alternatives

Notes:
1. The above are based on three-month views.
2. Asset allocation does not ensure a profit or protect against market loss.
3. "TAA" refers to "Tactical Asset Allocation". "SAA" refers to "Strategic Asset Allocation".
4. The investor type classification for the portfolio has no direct relationship with the Financial Needs Analysis customer risk profile types and the portfolios are not assigned any product risk rating based on the bank's proprietary risk rating methodology.

Risks & Opportunities

Macroeconomics
1Q25

US will face significant challenges over fiscal and monetary policies under Trump 2.0 while the threat of higher tariffs looms large for Asia and Europe. China is likely to push for more stimulus to boost domestic demand while ECB steps up monetary policy stimulus. We expect limited downside for oil at USD70/bbl levels.

Source: Unsplash

02. Macroeconomics.

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Economist

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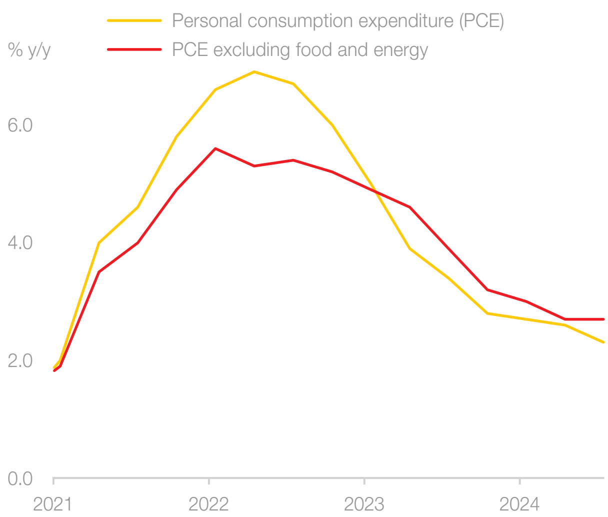
Analyst

US

After record-breaking spending and considerable drama, the US presidential elections took place on Tuesday, 5 Nov. Along with picking a President and Vice President, Americans also voted for a range of other bodies, including the US Senate, House, state governorships, and state legislatures.

This was a coin-toss election, with polls suggesting leads and lags within the margin of error. But given the vagaries of the electoral college system, the ultimate verdict ended with a considerable difference between two main candidates. As Donald Trump takes office, the US will remain deeply divided on its choice of leadership. Lack of consensus on immigration, tax policy, entitlements, public debt, education, healthcare, and foreign policy will remain a defining trait of a US under Trump.

US inflation



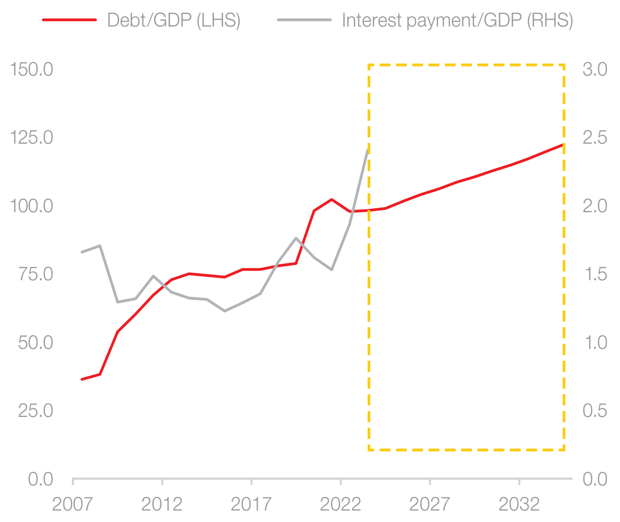
Source: US Bureau of Economic Analysis, DBS

This election took place during economic calm, unlike four years ago when pandemic-related distortion and uncertainty clouded the horizon. This time, the economy is maintaining strong growth momentum despite a multi-year monetary policy tightening cycle. High rates have not dented the asset markets, which have been buoyed by strong corporate and household balance sheets, a major investment cycle around AI, and substantial fiscal support. Goods inflation has dissipated, while numerous geopolitical risks have come and gone without hurting domestic activities or sentiment.

After President Trump takes office on 20 Jan next year, he will not be able to rest easy as major structural challenges lie behind the cyclical comfort. The fiscal situation, characterised by net public debt amounting to over 100% of the GDP and USD1tn in annual interest payments, is increasingly untenable. Foreign investors' inclination to hold US Treasury as the world's premier AAA-rated asset runs deep, but it is not unconditional. Stubborn services inflation, lack of fiscal consolidation, and the weaponisation of the USD, are all sources of rising discomfort, something that would need to be addressed sooner than later.

The US has, over the past eight years, made a decisive switch from promoting free trade to increasingly protectionist policies. Tariffs against China in particular, and the rest of the world in general, would rise under Trump 2.0 – although a reduction would not have been expected under Harris either. Restriction on China's access to advanced tech continues to be ratcheted up, with those trading with China also facing scrutiny; we expect no relentment to this dynamic in the coming years.

US fiscal situation and outlook



Source: CEIC, DBS

Note: Area within yellow box denotes projections by Congressional Budget Office.

Would the outlook for USD and rates have been different under the marginally more rules-based policies of Harris as opposed to the transactional and mercurial Trump? One can make the case that Trump's policies of tax cuts and tariffs would be more inflationary. Yet, it is also not the case that Harris had major anti-inflation plans in her arsenal. What is certain is that rates likely to be higher if fiscal issues are left unaddressed.

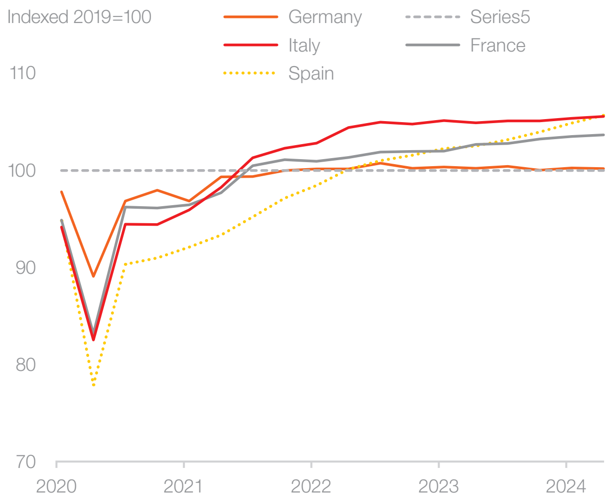
Social cleavages run deep along partisan lines in the US. However, based on our assessment of the last two electoral cycles, we suspect that the lack of clarity on economic policies is bipartisan.

Eurozone

The Eurozone economy expanded by an average of 0.7% y/y between 1Q24 to 3Q24, slightly better than 2023's 0.5%. There is considerable heterogeneity among member countries, with the region's core economies still exhibiting a lack of momentum, especially Germany and Italy.

There are both cyclical and structural developments behind this divergence. Firstly, core economies are relatively more exposed to manufacturing sector underperformance as they face headwinds by way of sluggish demand for its key exports (i.e., autos and capital goods), which resulted in lagging export recovery and subdued investment sentiment in the region. Secondly, despite the weak economic impulse, the labour market is resilient, marked by positive wage growth and a low unemployment

Heterogenity between member countries



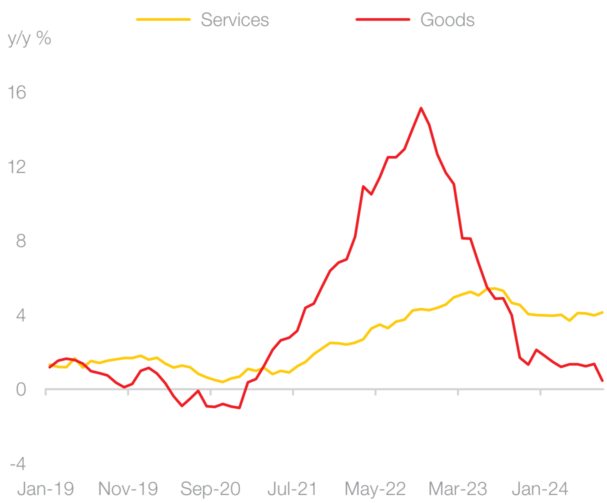
Source: CEIC, DBS

rate. Limited pass-through will run its course if the economic malaise drags on. Thirdly, softening inflation has boosted real purchasing power, but has fallen short of materially lifting consumption demand. This gap is explained by the sharp rise in savings by European households, surpassing pre-Covid levels. According to World Bank data, Europe's saving rates rose to 15.7%, above the pre-pandemic 12%, reflecting an underlying lack of confidence over forward-looking income and employment prospects.

Service sector outperformance, including the tourism sector, has helped to offset some parts of the slump as Spain benefits from this mix, but this is likely to fall short of putting the zone on a stronger growth path. To reflect these two-sided risks, we expect the bloc to grow by a modest 0.8% y/y in 2024, with an improvement to 1.0% likely in 2025 as the central bank stays on a dovish path.

The inflation environment is benign, which, together with impending risks for growth in 2025, is likely to convince the ECB to step up monetary policy stimulus. We expect the ECB to lower the deposit facility rate to 2.0% by 2025. The Eurozone also faces a political and fiscal quagmire, with a case in point being France, where the new Premier faces a challenging fiscal balance. Fitch ratings puts the sovereign on a negative outlook. Meanwhile, German Chancellor Olaf Scholz is attempting to maintain stability after the collapse of his three-party coalition. A snap election is scheduled for 23 Feb 2025 and with a non-confidence vote looming, German politics faces a bumpy ride in the year ahead. Together with inflation and growth, markets will be focused on the bloc's fiscal health as well.

Services inflation is stickier than goods



Source: CEIC, DBS

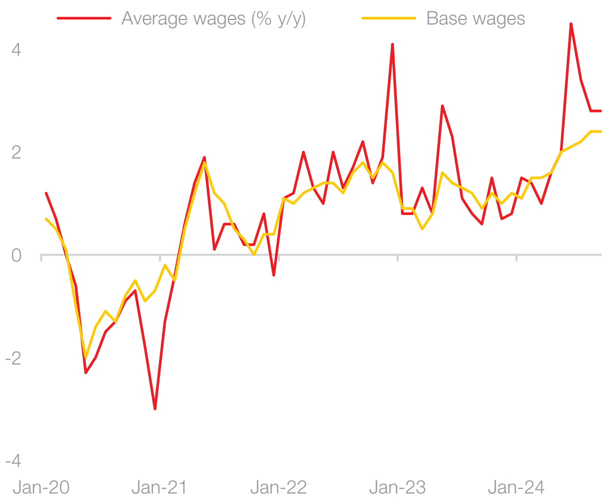
The US election result and its implications for Europe will be a key focus area in 2025. There is ample uncertainty surrounding upcoming tariffs under the Trump 2.0 presidency, the extent of US support for Ukraine in the ongoing conflict, and an anticipated bout of deregulation in the US. On the trade front, linkages run deep. A clear overhang can be found in President Trump's threat of a blanket 10% tariff, which would affect the EU since its largest export market is the US – not to mention the fact that many EU member countries are running deficits. Meanwhile, there is the second derivative impact of slower growth in China and other trading partners. Concurrently, criticism around the region's failure to meet NATO's defence spending target – set at 2% of GDP – has also come to the fore, which might require more countries to increase allocation towards this in upcoming budgets.

Japan

GDP growth in Japan is projected to rise by 0.9% in 2025. Exports are likely to face some headwinds due to tariff threats from the new US administration. Drawing from the experience during the first Trump administration, the Japanese government is expected to pursue bilateral negotiations with the US to expand imports and increase manufacturing investment in the US in an effort to avoid punitive tariffs.

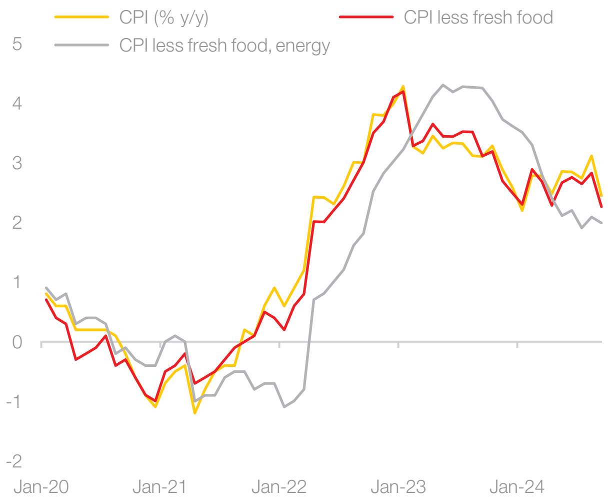
On the domestic front, private consumption is anticipated to pick up, helping to offset some of the negative impacts from slower export growth. Japan's largest labour union group, Rengo, is targeting wage hikes of at least 5% in 2025. This could translate into an average wage growth of approximately 2% next year, providing a boost to household income and supporting consumption growth.

Wage growth picking up



Source: CEIC, DBS

Inflation stabilising at 2%



Source: CEIC, DBS

CPI inflation is expected to settle just below 2% in 2025, mainly driven by stable oil and food prices as well as a stabilising yen, which will alleviate the pressure from imported inflation. On the demand side, inflation is likely to remain firm, supported by steady wage growth and a gradual recovery in private consumption.

The BOJ is expected to continue its gradual process of normalising its ultra-loose monetary policy in 2025, in line with GDP growth, wage trends, and an inflation rate close to its 2% target. We anticipate that the BOJ will raise the overnight call rate to 0.75% by the end of 2025. Additionally, we expect the BOJ to further scale back its government bond purchases during its interim assessment at the Jun 2025 monetary policy meeting.

The government is likely to face challenges and delays implementing its fiscal policy and structural reforms, with the Liberal Democratic Party (LDP) and its coalition partner Komeito having lost their majority in the October general elections. Although Prime Minister Shigeru Ishiba was re-elected, his minority government will likely struggle to advance key legislations. Ishiba and the LDP have proposed additional cash handouts and energy subsidies to support households facing inflationary pressures alongside increased public funding for Japan's semiconductor and AI sectors. On the other hand, the opposition Democratic Party for the People (DPP) has advocated for more radical fiscal stimulus measures, such as raising the tax-free income threshold and cutting the consumption tax rate. It remains to be seen whether the LDP can push through crucial legislation and to what extent it will need to make concessions in order to secure support.

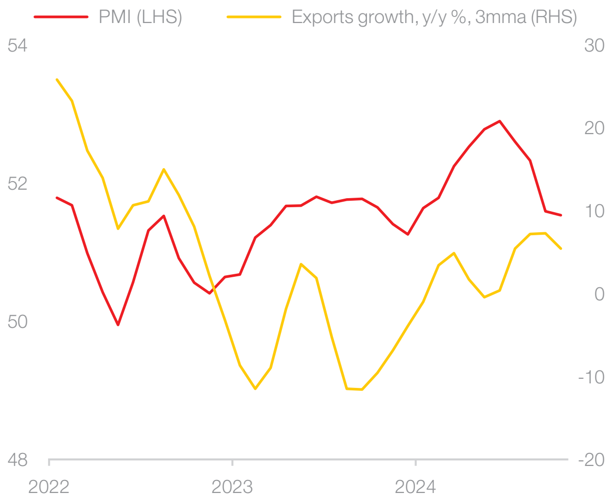
Asia

Historical trends are breaking down in a swirl of geoeconomic fragmentation, fiscal dominance, and tech disruption. Asset markets are turning volatile in this new landscape.

Market narrative has been one of softening growth, inflation, and interest rates ahead. Under this scenario, Asian currencies should be well-supported and capital inflows to the region ought to pick up.

However, the election of Donald Trump as the 47th US president poses considerable challenges to this narrative. Now, it looks as though inflation and rates may not come down as much as market pricing suggests, and there is some risk of financial instability.

Asia's trade has held, but for how long?



Source: CEIC, DBS

This would be particularly on the cards if growth and inflation prove to be higher than forecasted by Fed officials in recent months, and the central bank begins to walk back its guidance for many rate cuts next year. This would undoubtedly displease Trump, setting the grounds for a conflict between the President and the Fed, which is mandated as an independent body.

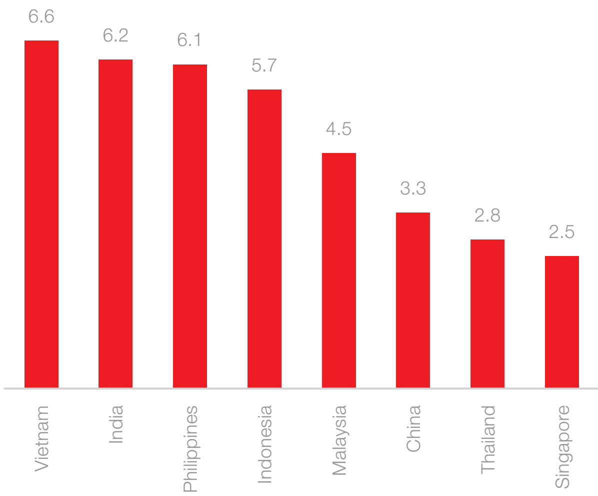
While the threat of higher tariffs looms large, trade, travel, and investments in Asia see upsides in the near and medium term. We are confident that Asia's strong ties with the US and China would survive Trump. The region's openness to trade and commerce makes it more attractive to investors, especially with the deepening contrast against an inward-looking West. Exports will face more scrutiny and there will be more regulatory headaches, but Asia's scale, excellence in manufacturing and logistics, as well as strong corporate and public sector balance sheets will hold it in good stead during Trump 2.0. China would also likely push for more stimulus to boost domestic demand. India will likely be a big beneficiary of China+1 dynamics, as will be the case for several countries in Southeast Asia. This election marks a firm rightward shift of the US, and Asia will have to learn to live with it.

On asset prices, the near-term outlook is clear. High certainty of tariffs will push up the USD, and many export-oriented economies will see their currencies come under pressure. Heightened geopolitical uncertainty is bullish for gold, and the same holds for crypto given that Trump has shown a great deal of support for Bitcoin. Energy prices, especially fossil fuel, will be dampened by Trump's intention to boost production; renewables may suffer from his neglect. Equities are likely to rally around expectations of corporate tax cuts and wide-ranging deregulation.

Next, the fixed income outlook is likely to turn cloudy. Even exorbitant tariffs will not make much of a difference to US fiscal revenues, while the various tax cuts and spending plans Trump has talked about would cause a wider budget deficit. Rising long-term interest looks likely for the US, and by extension, the rest of the world. At the short-end of the duration spectrum, some easing is on the cards in the near term, but the extent of cuts possible in 2025 is currently uncertain.

We expect Asia's trend-defying efforts to maintain open economies and good relationships with both China and the US to be the hallmark of 2025. It will not be easy, but we believe the region has the mettle to pull this off.

Asia GDP growth forecast: 2024-34



Source: CEIC, DBS

Oil prices likely to find support at current levels

Oil prices hovering close to recent lows. Brent crude oil prices have fallen more than 15% from the 2Q24 average of USD85/bbl to recent lows of around USD70/bbl in 2H24 due to increased demand side risks. Conversely, the risks of a full-blown crisis in the Middle East have been averted so far. Iran and Israel have deployed limited strike options against each other, avoiding damage to energy infrastructure. Meanwhile, negative demand trends from China, tepid demand in US and other developed economies, as well as the spectre of looming production increase from OPEC+ have all kept a lid on oil price trends. We had earlier lowered our average base-case Brent crude oil price forecast to USD77-82/bbl in 2024 and USD70-75/bbl in 2025, a decrease from prior forecasts of USD80-85/bbl and USD72-77/bbl given the prevailing demand risks. At close to USD70/bbl levels currently, we deem oil to be somewhat oversold with room to bounce back if upside risks pan out.

Brent crude oil prices hovering lower in 2H24 after a strong start to the year

Source: Bloomberg, DBS

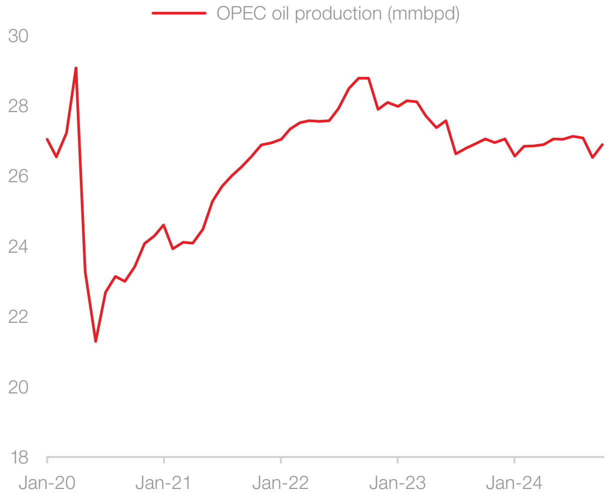
OPEC+ defers its production increase plan again. OPEC+ was earlier slated to gradually restore the voluntary cuts totalling 2.2mmbpd from Oct 2024 onwards till the end of Sep 2025. After the slide in oil prices in 2H24, OPEC+ first delayed production increases by two months to Dec 2024. Just before the US elections, OPEC+ again delayed the production increase by another month to the end of the year without further explanation. Thus, it is quite clear that the OPEC+ supply response will continue to remain flexible depending on market conditions, and a supply increase may be off the table for another few months if oil prices remain close to the USD70/bbl mark. The group, led by Saudi Arabia and Russia, would prefer to ensure market stability – higher oil prices – at the continued cost of market share. While we expect it will be difficult to implement these strategies for long given the surplus capacity building up, OPEC+ will be hoping that global demand trends pick up next year and non-OPEC supplies show signs of plateauing.

Quarterly average oil price forecast 2024/25 – DBS base case view

(USD per barrel)	1Q24A	2Q24A	3Q24A	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F
Average Brent crude oil price	82.0	85.0	78.5	74.0	74.0	71.0	75.0	76.0
Average WTI crude oil price	77.0	80.5	75.5	71.0	71.0	68.0	72.0	73.0

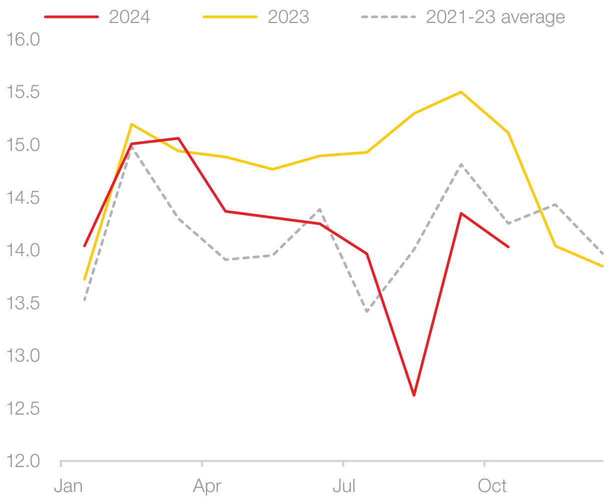
Source: DBS

OPEC supplies will not increase in 2024, further deferments likely



Source: Bloomberg, DBS

Chinese refinery runs (million barrels per day) in 2024 well below 2023 levels



Source: Bloomberg, DBS

Can China stimulus measures re-invigorate oil demand in the country? The key driver behind recent bearish sentiment for oil has been growing demand concerns, especially from China. For the first 10 months of the year, China refineries ran an average of 14.2mmbpd, compared to 2023's full-year average of 14.8mmbpd. Similarly, Chinese oil imports have also trended down this year, with YTD average oil imports totalling 11.0mmbpd, compared to 11.3mmbpd in 2023. To shore up the economy, the Chinese government has put in place strong stimulus measures since September, including rate cuts and public outlays. This will likely enable the economy to maintain a 5.0% growth in 2024 and 2025. Thus, we believe oil imports are likely to recover next year, with stimulus measures driving infrastructure investments and construction, thereby reviving commodity imports.

More upside than downside risks at current levels. For one, geopolitical risks increased following the US elections. Diplomatic efforts behind the scenes have reined in Israel's attacks on Iran and reciprocal actions, especially leading up to the US elections. With the elections over however, geopolitical risks are likely to erupt again as Israel continues to be on the offensive on multiple fronts, with no signs of a ceasefire. Meanwhile, the Ukraine-Russia conflict is also likely to intensify now that Ukraine has received the green light to use long-range missiles – supplied by Washington – to strike deeper inside Russia. Thus, we expect limited downside for oil at USD70/bbl levels, whereas upside could come from better Chinese demand numbers as well as the deferment of an OPEC+ supply increase.

GDP growth and CPI inflation forecasts

	GDP growth, % y/y						CPI inflation, % y/y, ave					
	2021	2022	2023	2024F	2025F	2026F	2021	2022	2023	2024F	2025F	2026F
China	8.1	3.0	5.2	5.0	5.0	4.5	0.9	2.2	0.2	0.6	1.0	1.5
Hong Kong SAR	6.3	-3.5	3.3	2.4	2.5	2.5	1.6	1.9	2.0	1.5	1.5	1.5
India	8.9	6.7	7.8	6.6	6.5	6.5	5.1	6.7	5.7	4.8	4.2	4.2
India (FY basis)*	9.7	7.0	8.2	6.3	6.4	6.5	5.5	6.7	5.4	4.7	4.1	4.0
Indonesia	3.7	5.3	5.1	5.0	5.1	5.0	1.6	4.2	3.7	2.3	2.2	2.0
Malaysia	3.3	8.9	3.6	5.3	4.8	4.6	2.5	3.4	2.5	1.9	2.8	2.3
Philippines	5.7	7.6	5.6	6.0	5.8	5.6	3.9	5.8	6.0	3.0	2.6	2.4
Singapore	9.7	3.8	1.1	3.8	2.8	2.5	2.3	6.1	4.8	2.4	2.0	2.0
South Korea	4.6	2.7	1.4	2.3	2.0	2.2	2.5	5.1	3.6	2.4	2.3	2.0
Taiwan	6.7	2.7	1.1	4.4	3.0	2.4	2.0	2.9	2.5	2.2	1.9	1.7
Thailand	1.6	2.5	1.9	2.8	3.0	2.8	1.2	6.1	1.2	0.5	1.5	1.8
Vietnam	2.6	8.0	5.0	6.8	6.8	6.6	1.8	3.2	3.3	3.7	3.5	3.3
Eurozone	5.3	3.5	0.5	0.8	1.0	1.2	2.6	8.4	5.5	2.3	2.2	2.0
Japan	2.7	1.2	1.7	-0.3	0.9	0.6	-0.3	2.5	3.3	2.5	1.6	1.3
United States	5.9	2.1	2.5	2.5	2.0	2.0	4.7	8.0	4.1	3.0	2.3	2.5

*2020 represents Fiscal 21; ending Mar 21

Source: CEIC, DBS

Policy interest rates forecasts, eop

	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
Mainland China*	3.00	2.75	2.50	2.50	2.50	2.25	2.25	2.25
India	6.25	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Indonesia	5.75	5.50	5.25	5.25	5.25	5.25	5.25	5.25
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Philippines	5.50	5.00	4.75	4.75	4.75	4.75	4.75	4.75
Singapore**	2.78	2.58	2.58	2.58	2.58	2.58	2.58	2.58
South Korea	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Taiwan	2.00	2.00	2.00	2.00	2.00	2.00	1.875	1.875
Thailand	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Vietnam***	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Eurozone^	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Japan	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.00
United States	4.00	3.50	3.50	3.50	3.50	3.50	3.50	3.50

*1-yr Loan Prime Rate; ** 3M SORA OIS ; *** Refinancing Rate; ^ Deposit Facility Rate

Source: CEIC, DBS

Only Game in Town

US Equities
1Q25

The shifting geopolitical landscape and changing monetary policies will trigger rotations within US portfolios. In addition to technology, Trump 2.0 will benefit US financials, energy, and consumer discretionary.

03.
US Equities.

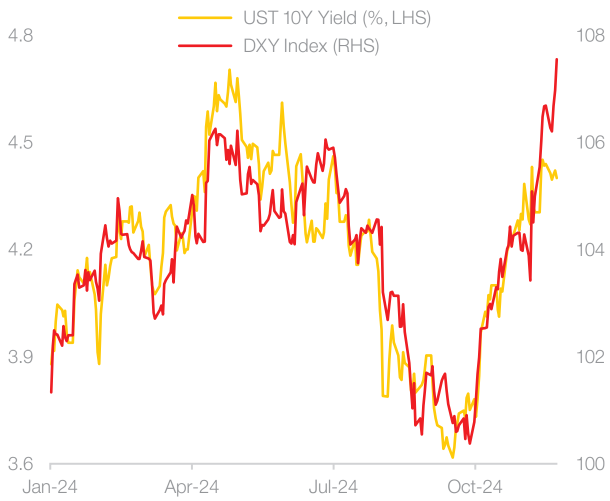
Dylan Cheang
Strategist

Winds of change. The shifting winds of geopolitics and monetary policies have triggered a drastic realignment within US portfolio positioning. With a clear, decisive victory for Trump at the presidential election and an impending red trifecta at Capitol Hill, investors wasted no time in positioning for "Trump trades" – sectors or industries that could benefit from policy change that comes with the new administration. As we have highlighted in the asset allocation chapter, our base case assumptions for US policies are:

- Phase I – Tax Cuts: As the new administration moves swiftly to fulfil its campaign promise on taxation cuts, it will result in tailwinds for domestic consumption and strong corporate profitability. The downside of such fiscal largesse, however, is the strain that will be inflicted on the US fiscal position, inevitably leading to higher bond yields and a stronger dollar.

- Phase II – Rising Trade Tensions: Trump has made tariff hikes a core feature of his campaign rhetoric; do expect this to be implemented in some shape or form as the Republicans seek new avenues to fund their taxation cuts. The appointments of China hawks (Marco Rubio and Mike Waltz) to his cabinet will ensure a rocky road of diplomacy between the US and China in the coming years. Downside pressure on bond yields is to be expected should trade tensions between the superpowers escalate significantly – just as we have seen in Trump's first presidency.

"Trump Trades" in play



Source: Bloomberg, DBS

US exceptionalism – the only game in town. US equities remain the only game in town within the developed markets space, and investors' portfolio positioning reflect that. Based on fund flow data from EPFR Global, USD6bn has entered US equity funds on a QTD basis (as of 6 Nov) as opposed to outflows for Europe and Japan. The robust flow momentum underscores investors' confidence in the US economic and earnings outlook:

- Economic Momentum: The US economy continues to power ahead, underpinned by strong momentum in AI-related capex and resilient domestic consumption. ISM Services remain expansionary at 56.0 in Oct 2024 (compared to 51.6 for Europe and 49.7 for Japan) and this momentum is expected to persist in 2025 with consensus forecast expecting real GDP growth of 1.9% for the US (vs 1.2% for both the Eurozone and Japan).

- Corporate Earnings: Based on consensus forecast, US equities is expected to register earnings growth of 12.7% in 2025, driven by strong growth momentum in technology as AI-related investments gather steam. In contrast, the earnings growth outlook for Europe and Japan are more muted at 6.4% and 0.2% respectively.

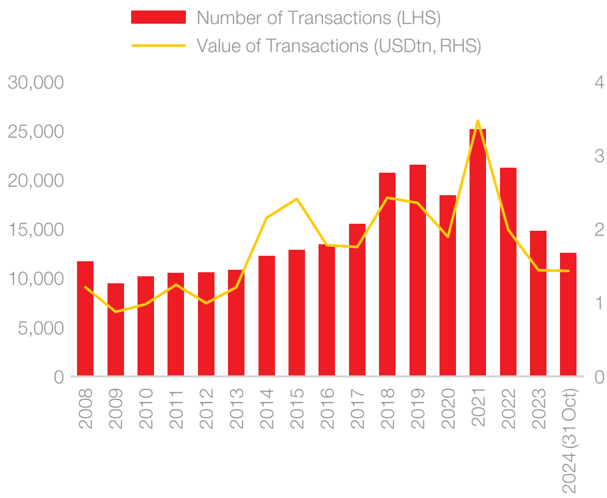
At this juncture, negative impact from a potential trade war has yet to be fully factored into analysts' forecasts given the lack of clarity. However, should Trump's tariff threats turn into reality, Europe is expected to suffer the brunt of the damage given a double whammy of tariff hikes on its US-bound exports and the influx of China goods that are being redirected from the US into the European market. Japan – an export-oriented country – will not go unscathed either with the US accounting for the lion's share of its exports at c.22%.

Beneficiaries of Trump 2.0. To revitalise domestic manufacturing and create new job opportunities, Trump has spoken extensively on his plans for tax cuts and deregulation during the election. The geared beneficiaries of Trump's expansionary policies are:

- US Financials – Deregulation propelling growth: Trump 2.0 is expected to emphasise a pro-business agenda and significantly reshape the regulatory landscape for US financials. Potential changes in regulations include the easing of capital requirements, which will allow banks to free up more resources for increased lending, hence generating higher profitability.

Another area that may undergo deregulation is the M&A space which has been dormant of late thanks to the tight regulatory environment. M&A transactions have plunged since 2021 and this slump may reverse as the incoming Trump administration prefers a less stringent anti-trust stance and shorter approval timeframes.

Deregulation to boost M&A activities



Source: Institute for Mergers, Acquisitions & Alliances, DBS

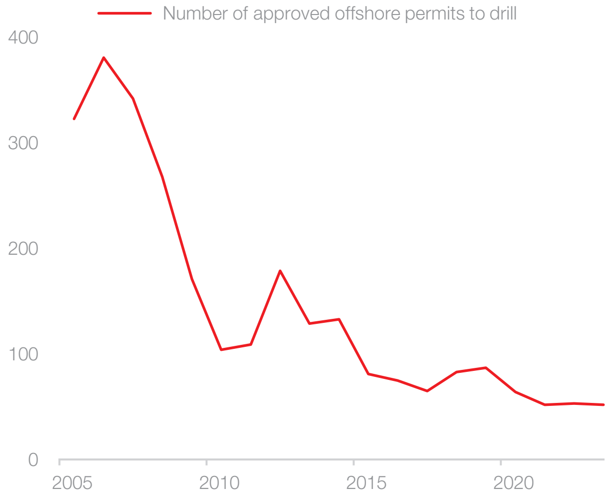
- US Energy – "Drill, baby, drill": Trump 2.0 is poised to provide significant tailwinds for the energy sector, particularly the fossil fuel companies, as driven by his pursuit of "energy dominance" for the United States. Trump's "drill, baby, drill" mantra underscores his commitment to boost domestic oil and gas production, with the implications being:

  1. A potential rescission of environmental restrictions imposed by the Biden Administration, including the resumption of liquified natural gas (LNG) export authorisations to non-free trade agreement countries.

  2. A potential expedition of approvals for federal drilling permits and leases required for the production of oil and natural gases. The implementation of these initiatives will create a favourable operating environment for energy companies.

  The recent nomination of Chris Wright, CEO of Liberty Energy (one of the largest hydraulic fracturing companies), as the new Secretary of Energy highlights Trump's commitment to enhancing fossil fuel production. This appointment will reinvigorate the fossil fuel sector given Wright's advocacy for fossil fuels.

Offshore oil and gas permits plunges to 19-year low under Biden



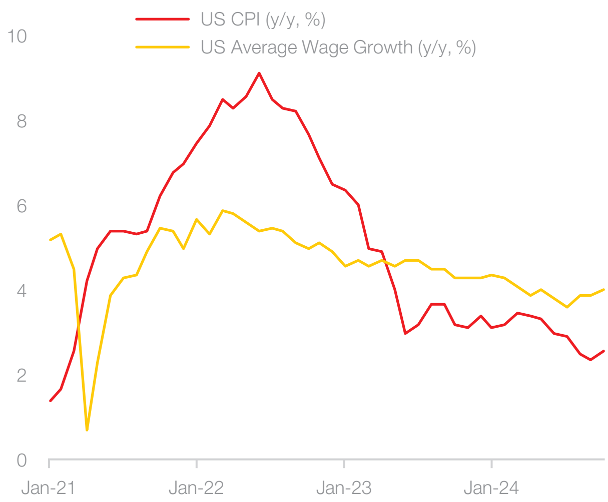
Source: E&E News, DBS

- US Consumer Discretionary – Beneficiary of tax cuts and changes to EV regulations: Consumer discretionary was one of the best performing sectors in 4Q24, underpinned by robust consumer spending and easing inflation. With rising disposable income and stronger consumer purchasing power, the demand for e-commerce, luxury goods, and autos were boosted across the board.

  Within the consumer discretionary index, Tesla has emerged as one of the biggest beneficiaries of Trump's re-election given the latter's campaign promise on eliminating EV tax credits, which currently provide up to USD 7,500 in incentives for EV buyers. This policy change could potentially reduce US EV demand by c.27% and put pressure on less profitable EV players. Tesla, being the industry leader, is poised to benefit and this will have significant impact on the consumer discretionary space given Tesla's weight within the index.

Trump's pledge to expand the Tax Cuts and Jobs Act (TCJA) across all income levels will also boost US domestic consumption and drive the consumer discretionary space.

Wage growth outpaces inflation



Source: Bloomberg, DBS

1Q25 US Sector Strategy – Positioning for Trump 2.0

Sectoral rotation to ride Trump 2.0. The incoming Trump Administration is expected to bring about deregulation and expansionary policies which translate to higher bonds yields and increased dollar strength. This warrants some tactical switches to our US sector allocation and the key changes for the quarter are:

- Upgrade financials to Overweight: Financials are poised to benefit from lower taxation and deregulation. The rebound in bond yield (as result of expansionary Trump policies) will also enhance the net interest margins for banks.

- Upgrade industrials to Neutral: Trump's policies to boost US domestic manufacturing will underpin momentum for industrials. Industries that may benefit include transportation and capital goods.

- Upgrade consumer discretionary to Neutral: Trump's tax cuts will generate wealth effects and boost consumer spending. This is positive for consumption plays in consumer discretionary.

- Downgrade real estate to Underweight: Higher bond yields are negative for real estate from a valuation and rental yield perspective. Besides, the commercial real estate space is in doldrums and will remain a lingering headwind.

- Downgrade utilities to Underweight: Utilities companies are usually positioned as a dividend play and high bond yields will diminish its attractiveness.

US Sector Allocation – 1Q25

	Overweight	Neutral	Underweight
US Sectors	Technology	Industrials	Real Estate
	Comm. Services	Con. Disc	Utilities
	Healthcare	Con. Staples	Materials
	Financials		
	Energy		

US Sector Key Financial Ratios

	Forward P/E (x)	P/Book (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	OPM (%)
S&P 500 Index	25.3	5.2	16.1	17.6	3.8	14.0
S&P 500 Financials	18.9	2.4	7.4	13.2	1.6	19.0
S&P 500 Energy	16.0	2.2	7.8	14.2	6.9	11.9
S&P 500 Technology	36.7	13.0	27.5	30.5	13.3	26.7
S&P 500 Materials	24.0	3.0	15.5	10.5	4.5	11.4
S&P 500 Industrials	27.3	6.8	17.2	23.4	6.4	12.3
S&P 500 Con. Staples	21.6	6.9	16.7	25.0	7.3	7.5
S&P 500 Con. Discretionary	28.4	9.7	16.2	31.0	7.9	11.0
S&P 500 Comm. Services	20.8	4.7	14.1	18.1	7.3	20.4
S&P 500 Utilities	20.0	2.4	13.1	10.8	2.7	20.9
S&P 500 Real Estate	41.1	3.3	21.9	7.2	3.0	23.4
S&P 500 Healthcare	20.9	5.0	20.1	13.0	4.4	6.6

Source: Bloomberg
* Data as at 22 November 2024

Slower for Longer

Europe Equities
1Q25

Uncertainties from trade tariffs and geopolitical tension will continue to weigh on the region's outlook. Stay positive on structural themes of quiet luxury, healthcare, and technology within an overall underweight exposure.

04. Europe Equities.

Joanne Goh
Strategist

Sharlene Goh
Analyst

Facing crosscurrents. The outlook for European equities remains downbeat as we head into 1Q25. Economic growth in Europe, particularly its largest economy, Germany, remains under pressure; weak private consumption and plunging activity in the construction sector is expected to send the German economy into contraction this year following a 0.3% contraction in 2023. Externally, Europe faces tepid demand from China, a vital market for European industries like luxury goods and automotive manufacturing.

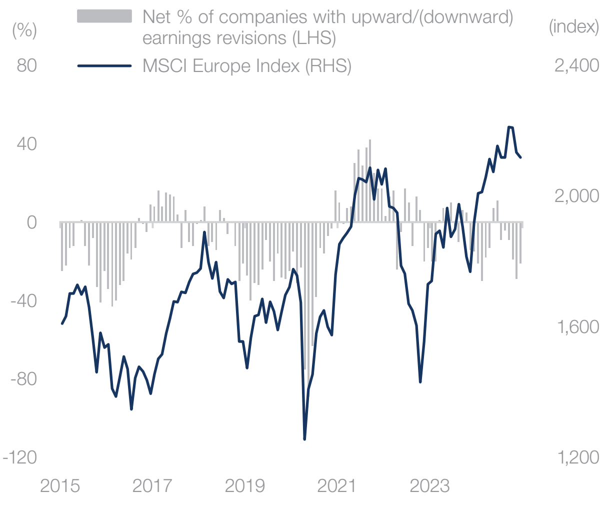
The conclusion of the US election and its implications for Europe will be a major focal point in 2025. Significant uncertainty looms over potential tariffs under a second Trump presidency, the level of US support for Ukraine in the ongoing conflict, and expected deregulation efforts in the United States.

Wider trade protectionism. Trump 2.0 comes with promises of a wider trade war, which includes installing a blanket tariff of 10% to 20% on all imports, with additional tariffs of 60% to 100% on goods imported from China. Given the EU's openness to global trade, Europe shares significant trade, services, and investment dependencies with the US and China. As the US undergoes a leadership transition, policy changes and tariff negotiations may worsen near-term trade disruptions, on top of ongoing supply chain diversification. These uncertainties will continue to suppress the earnings outlook for European companies, particularly those heavily reliant on manufacturing.

The latest corporate earnings season has been lacklustre. According to data from Bloomberg, of the 412 companies in the STOXX 600 that have reported earnings (as of 5 Dec), aggregate earnings growth for CY3Q24 was -1%, but was above expectations by a slight 2%. 40% of companies have reported positive earnings growth while 27% registered negative. Earnings-per-share growth for FY24 and FY25 is now expected to be -1% and 6% respectively, although we expect further downside risks in view of the weakening economy.

Volatile energy prices are another obstacle to growth. Severe weather conditions that quickly deplete gas reserves present a significant challenge to Europe's economy. According to data from Gas Infrastructure Europe, the continent's natural gas reserves have fallen below the five-year average for the first time since the peak of the energy crisis in 2022. This decline is especially concerning as energy inventories are critical for the winter, and supply is being rapidly drained due to reduced wind generation across Europe.

Sluggish corporate earnings prompt downgrades



Source: LSEG Datastream, DBS

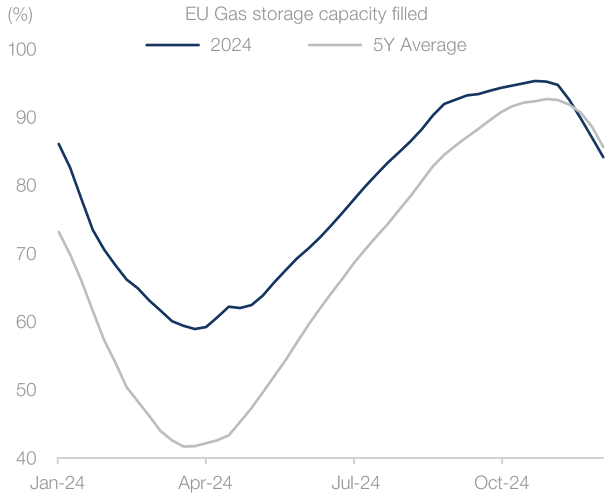
Simultaneously, geopolitical tensions in the region are exacerbating concerns over energy security. Russia has halted supplies to Austria, and Ukraine has announced it will not renew its gas transit agreement with Russia after the current five-year deal expires at the end of the year. Elevated gas prices pose a serious threat to Europe's disinflationary trend, potentially restricting the European Central Bank's capacity to enact further rate cuts – measures that are vital for supporting its slowing economy.

Nearly half of European companies identify high energy costs as a major obstacle to investment, according to the European Commission. Without significant expansion in generation and grid capacity, Europe will face limitations in enhancing manufacturing efficiency. As global competition intensifies, the region risks losing its competitive advantage.

Lack of growth drivers. The STOXX 600 Index currently trades at a forward P/E ratio of 13.3x, hovering below its 10Y average of 14.1x. Given prevailing weak macroeconomic conditions and concerns regarding the sustainability of corporate earnings, we anticipate that valuations will remain muted in the short term, with limited catalysts that could trigger a sustained upward re-rating from current levels. Sectors with relatively stronger earnings growth are utilities, healthcare, and financials. On the other hand, the pullback in spending on autos and luxury goods continue to weigh on the consumer discretionary sector.

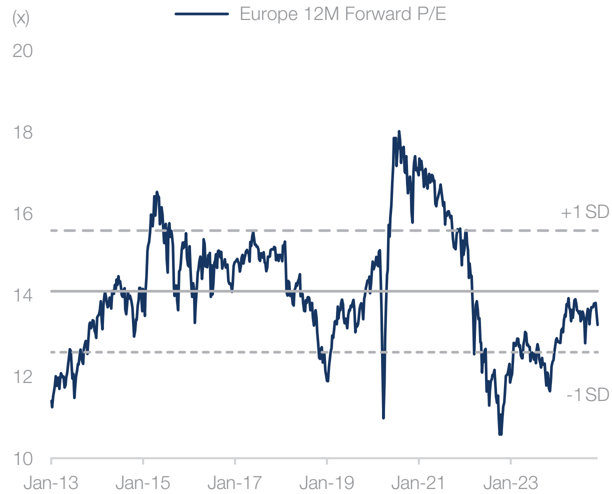
Stay with resilient sectors. Over the longer term, the backdrop of falling rates could prove to be a good base for European equity markets to build upon as equity risk premiums fall. However, the current tough macroeconomic environment continues to dampen

Winter is always a precarious season for Europe



Source: LSEG Datastream, DBS

Cheap but no rerating catalysts



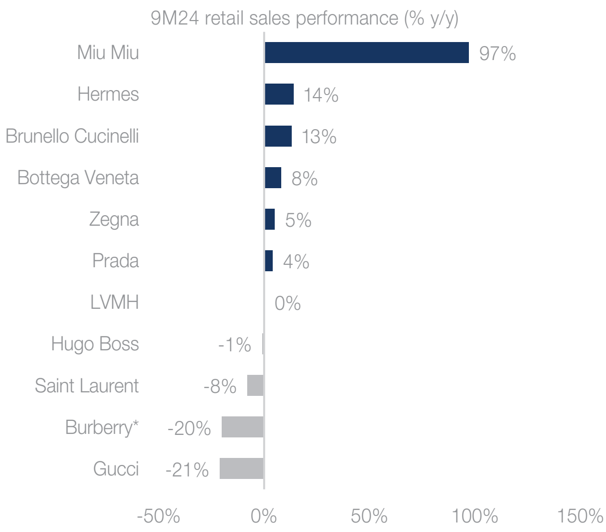
Source: LSEG Datastream, DBS

investor sentiment. Until substantial improvements in corporate earnings, we do not expect a rebound for Europe equities. While we maintain our underweight position on Europe, we remain optimistic on long-term structural themes such as quiet luxury, healthcare, technology, and healthcare.

Deepening luxury rout. Luxury brands are scrambling to recalibrate as global consumer spending continues to slow. The ongoing downturn appears particularly cyclical, with China's economy struggling to rebound amid growing slowdown concerns. Deflation of the post-pandemic spending bubble is evident in the recent earnings of luxury companies – across the board, management guidance remains muted, from issuing profit warnings to tapping on government support to weather the slowdown.

In such an environment, brands appealing to the ultra-wealthy continue to outperform, maintaining the spotlight on quiet luxury brands that share a deeper connection and stronger brand loyalty with consumers. Case in point, the rapid rise of Miu Miu has been attributed by industry experts to a successful product and styling revamp that produces "conversational" pieces that endears the brand to a broader audience. We maintain that luxury is a long-term structural growth sector; in particular, widening income gaps will surface less price-sensitive and more exclusive, experiential-driven demand. As the industry continues to be challenged in the near term, stay with quiet luxury brands for a buffer against economic slowdown.

Luxury sales continue to bifurcate



Source: Company data, DBS
* Burberry data is for Apr-Jun 2024 only

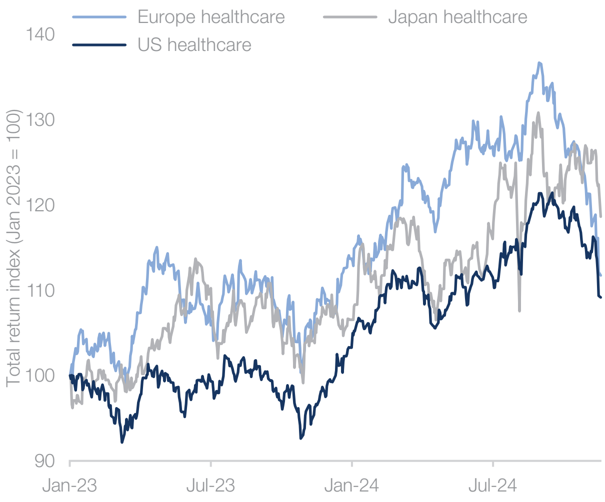
Healthcare – preference for pharmaceutical and MedTech subsectors. Tremendous progress in medical science has enhanced the quality of healthcare and disease prevention efforts, improving global life expectancy. By market capitalisation, the pharmaceuticals subsector makes up the largest proportion of the healthcare sector, with most of the world's largest companies (by revenue) concentrated in the US and Europe. Extensive research and development by Big Pharma in recent years has produced a myriad of commercial-stage drugs and a pipeline of new drug discoveries; a key source of increasing demand is from the growing prevalence of chronic lifestyle diseases such as type 2 diabetes, obesity, and heart disease.

Growth vs stability. Historically, cheaper valuations and lower regulatory risk have driven the outperformance of European healthcare players over competitors from the US. The US healthcare sector generally leads in pharmaceutical and biotech innovation, benefitting from robust R&D funding and strong patent protections, while European healthcare companies operate in markets where drug pricing is often government-controlled, possibly translating to lower profit margins but facilitating greater price stability. In times of heightened market volatility, European healthcare may provide more stability.

Cloudy outlook ahead for renewables. President Trump's stance on climate change and reduced support for renewable energy is clear. The absence of the US as a strong ally in Europe's stewardship of climate initiatives will inevitably weaken momentum for coordinated global action on carbon reduction, making it harder for European countries to meet their renewable targets. Potential tariffs and shifting trade dynamics under Trump's administration could impact the European export market for green technology, particularly in solar and wind sectors.

While a global shift to cleaner and more secure energy sources has long been anticipated to create significant investment opportunities in European renewables (such as energy generation, grid networks for distribution, energy storage solutions, and new mobility infrastructure), the leadership transition in the US will undoubtedly cast a dark cloud over Europe's renewable energy sectors.

Healthcare as a defensive play



Source: LSEG Datastream, DBS

Staying the Course

Japan Equities
1Q25

Beyond near-term uncertainties from BOJ policy and yen volatility, we focus on the long-term, irreversible drivers of Japan's ageing population and rapid digitalisation. Beneficiaries include semiconductors and IT services, automobile and auto component exporters, as well as the financials sector.

Source: Unsplash

05.
Japan Equities.

Joanne Goh
Strategist

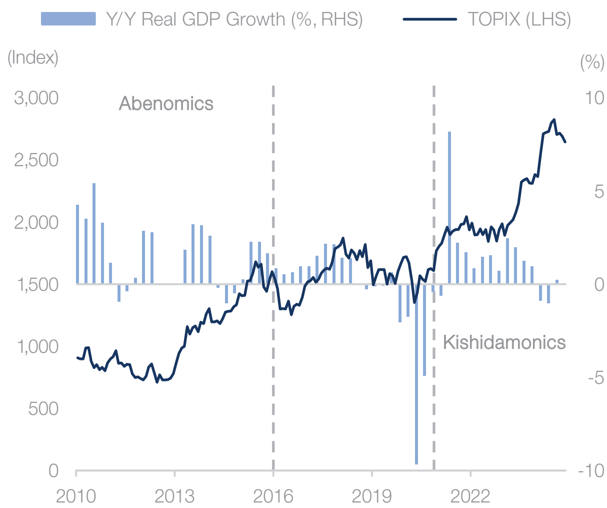
Sharlene Goh
Analyst

Elections in the rearview. Following Japan's general elections in late October, we expect the focus of Japan equities to shift from elections uncertainty to central bank policies and corporate earnings fundamentals. An expanded coalition government awaits, compelling parties to enter fragile power-sharing arrangements, potentially contributing to political instability. Despite near-term uncertainties, past trends from "Abenomics" and subsequently "Kishidanomics" imply that BOJ policies and corporate earnings, not political outcomes, are the key drivers for Japan's markets.

Expansionary policies to continue. Japan's economy has been growing at a sluggish pace, with GDP growth forecast at 0% this year. While new policies are expected to remain expansionary to bolster the economy, targeted bills such as sales tax cuts and defence spending could face significant hurdles. With inflation running high at 2.8%, Japan's largest labour union group, Rengo, has announced plans to seek wage hikes of at least 5% in 2025 (matching this year's increase), to help alleviate cost of living pressures. Such measures should support domestic consumption.

Regardless, weak economic growth has not limited the TOPIX from hitting fresh highs, with corporate earnings buoyed by a weak yen and former Prime Minister Kishida's initiatives to drive "New Capitalism".

TOPIX hit fresh highs despite sluggish economic outlook

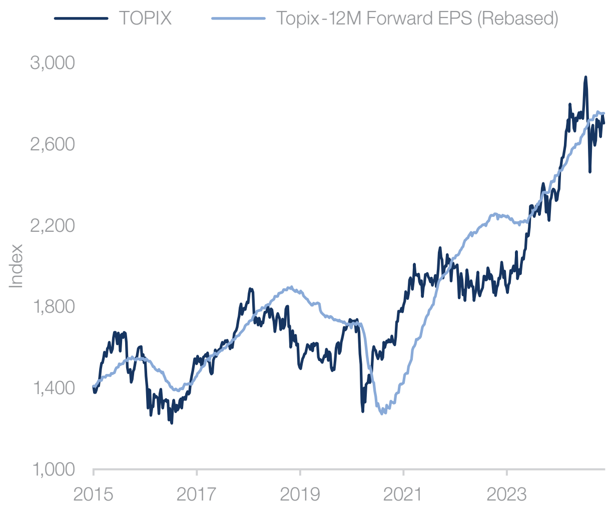


Source: LSEG Datastream, DBS

7% CAGR return of past 10 years supported by earnings. Over the past decade, the TOPIX has delivered a CAGR of 7%, driven primarily by earnings growth. While certain periods of the cycle experienced exuberance, the overall performance has closely aligned with underlying earnings trends.

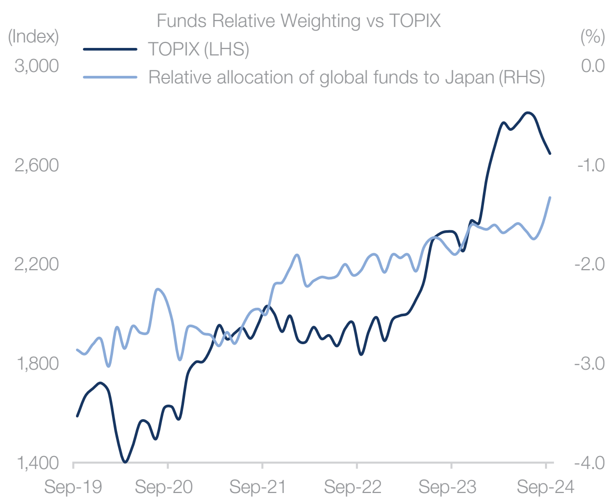
The P/E ratio has averaged around 14x in this period, peaking at 18.6x, through the Covid-19 pandemic before earnings caught up. Earlier this year, TOPIX hit a historical high with a P/E of 16x, as the yen traded above 150. Currently, the P/E ratio is back at its historical average, which is comparable to that of Asia ex-Japan markets, though it remains more attractively valued than India.

TOPIX performance commensurate with earnings growth



Source: LSEG Datastream, DBS

Most investors have underweight positions on Japan



Source: EPFR Global, DBS

Findings by EPFR and our channel checks indicate that institutional investors remain under-invested in Japan despite the market's impressive performance, albeit growing interest. Key reasons for the under-investment include concerns over corporate governance, complex ownership structures, cultural and language barriers, and perceived limited growth prospects due to structural issues such as high debt levels, economic stagnation, ultra-loose monetary policies, an aging population, and a shrinking workforce.

Over the past two years, the Kishida administration, in collaboration with the Japan Exchange Group (JPX), has actively promoted the Japanese market to attract investors and enhance corporate valuations. Initiatives include encouraging Nippon Individual Savings Account (NISA) investments, improving corporate governance, driving wage growth, normalising interest rates, and fostering digital transformation and innovation.

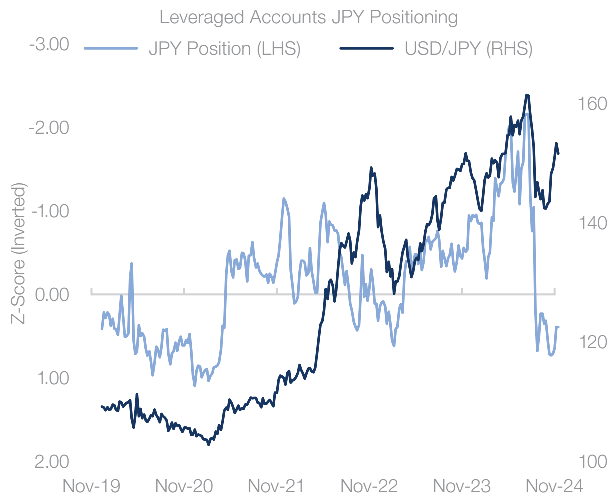
We expect these efforts to persist under the leadership of the new Prime Minister Shigeru Ishiba, further supporting investor confidence and market development.

While the market appears poised to reach new highs on the back of strong earnings growth and fresh liquidity inflows, certain dynamics could potentially disrupt the TOPIX's alignment with fundamentals in 2025. They include:

BOJ policy and the yen in focus. Markets have been fixated on BOJ moves, given how the weak yen has been driving up the cost of living and growing public discontent. Further political uncertainty may complicate the BOJ's rate hike agenda as some parties stand firmly against rate normalisation; a coalition government may make it more challenging for the BOJ to raise interest rates or manage the yen's depreciation effectively. Post-elections, yen volatility has risen once again. We maintain the view that Japan will normalise its ultra-loose monetary policy in 2025, in line with GDP growth, wage trends, and an inflation rate which is close to its 2% target.

Still room for JPY carry trades to increase. The yen remains as an attractive funding currency because of its low interest rates. It should thus continue to exhibit the path of least resistance at higher levels – since a return to net short positions three weeks earlier, JPY short positions have continued to increase at a quicker pace. Net selling is at 35% of its peak reached in early July 2024; given the uncertain outlook from the US and Japan election results, it looks like there remains room for JPY carry trades to increase.

Yen carry trade could return



Source: Bloomberg, DBS

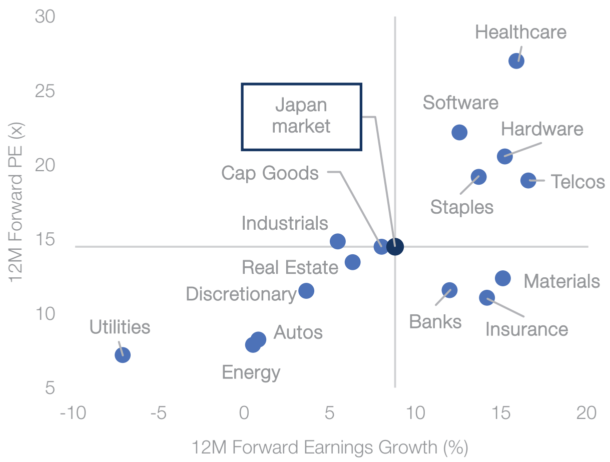
Aftermath of the US elections. Furthermore, leadership transition in the US may have large implications on Japan as it affects policies surrounding global trade, national security, currency stability, investor sentiment, and the overall economy. Trump 2.0 may create an economy supported by lower interest rates as well as more tax cuts and fiscal spending, which are more inflationary. This leaves less room for the Fed to cut rates, paving the way for a stronger dollar; further protectionist trade policies are likely to create more volatility for Japan's exports and imports.

Earnings outlook. Consensus forecasts project an aggregate earnings growth of 9% for Japanese companies this year. Sectors expected to outperform the broader market include healthcare, technology, consumer staples, materials, and financials.

Meanwhile, sectors currently trading at valuations below the market average — such as banks, insurance, materials, autos, energy, utilities, and real estate — hold potential for re-rating. This re-rating could be driven by corporate restructuring efforts in response to the Japan Exchange Group's (JPX) ongoing calls for market reforms aimed at enhancing efficiency and shareholder value.

Opportunities in the financial and materials sectors

Japan Sectors: PE vs Growth



Source: LSEG Datastream, DBS

Looking beyond short-term volatility, we focus on long-term, irreversible structural trends that will drive sustainable growth and returns. Thematic drivers include Japan's ageing population, digitalisation trends, as well as its competitive advantages in the export sector. Beneficiaries include:

i. Semiconductors and IT services: Growing AI commercialisation, digital transformation, and an ageing population will drive productivity gains, fuelling growth in semiconductors and IT service providers.

ii. Automobile and automation exporters: These export sectors will continue to enjoy competitiveness via the weak yen.

iii. Financial sector: Japanese banks are benefitting from interest rate normalisation and a recovery in corporate activity. They remain undervalued, trading at a price-to-book ratio of 0.9x, well below pre-GFC levels and global peers, making them attractive to international investors.

AI trends buoy demand for semiconductors. The global semiconductor industry has had a turbulent year, as AI demand initially lifted its prospects along with the wider chipmaking industry, but a US push to curb tech exports to China had brought near-term headwinds for semiconductor manufacturers. With significant tailwinds in play, we continue to advocate exposure to the semiconductor space, focusing on the sector leaders. The Semiconductor Equipment Association of Japan (SEAJ) is optimistic in its sales of semiconductor manufacturing equipment made in Japan, projecting a revenue increase of 15% (to JPY4.25tn) in FY24 based on an expected recovery in memory investment. Next year, the SEAJ expects a revenue increase of 10%, owing to persistent sound investment in logic/foundries and memory.

With the support of billions of dollars in government subsidies, Japan continues in its quest to revitalise its once dominant semiconductor industry. In view of ongoing trade tensions and supply chain diversification, Japan continues to reconfigure its global value chains, shifting away from reliance on China and investing heavily in domestic and Southeast Asian production. Within Japan, strong demand for semiconductors from industries such as automakers, robotics, machinery, and consumer electronics add to the resilient global demand for AI-related chips.

Position in Japanese autos amid Trump risks and trade tensions. Over the past six months, Japan's auto sector share price has corrected by >30% on the back of (i) lowered FY3/25F outlook, (ii) a challenging Asia market, (iii) quality-related scandals, and (iv) the unwinding of yen carry trades. We see value emerging within the sector, which currently trades at undemanding valuations at forward P/E of 8.2x at -1.1 SD of its historical P/E range (levels not seen since Covid-19). Going forward, normalisation in production from September 2024 onwards, as well as continued product sales ramp-up/launches can help to support a recovery in sales volume. In our view, consensus estimates earnings growth of 0.8% in the next 12 months has room for upside.

Furthermore, following the levy of further tariffs from the EU and US on Chinese EVs, the playing field could change. Stricter import controls and the removal of EVs subsidy under a second Trump term, could create opportunities for Japanese carmakers to strengthen their foothold in the hybrid segment; as it is, they lead with a combined market share of close to 50%.

Japanese autos: Value emerging

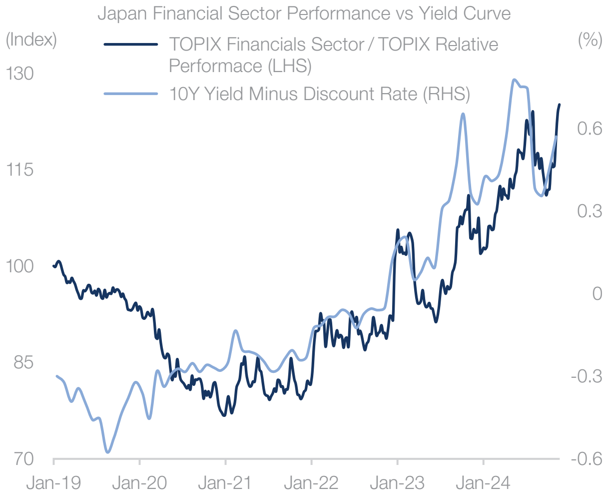
Source: LSEG Datastream, DBS

Financials benefitting from interest rate normalisation and corporate activities. Japanese banks, like their global peers, exceeded expectations in 3Q24. At a time when the Fed has begun to embark on interest rate cuts, the outperformance by Japan's banks signals an understated recovery in corporate activity. Against a backdrop of lower rates, banks are poised to benefit from rising credit demand, increased loan volumes, higher fee income, and enhanced profitability.

We maintain a bullish outlook on Japanese large banks. Despite their recent performance, Japanese banks remain undervalued, trading at a historical P/B ratio of 0.9x, compared to pre-GFC levels of 1.5x, and the average of 1.2x for global banks. Trump's election win is likely to benefit the US banking sector as his policies could foster a reflationary environment and therefore help to rerate global banks. This, coupled with rising interest rates in Japan, makes Japanese banks increasingly attractive to global investors.

Additionally, Japanese banks are heavily investing in fintech and digital banking platforms to modernise their operations and appeal to younger customers. Collaborations with technology firms and a strategic focus on cost reduction through digital transformation are poised to drive medium-term profitability. Notably, share buybacks and dividend payouts are on the rise, further enhancing shareholder value.

Japan's financials sector set to outperform



Source: LSEG Datastream, DBS

Selective Opportunities

Asia ex-Japan
Equities
1Q25

Tariff risks cast a shadow but monetary easing and fiscal stimulus by China would provide support as valuation is at a steep discount to global equities. Banks, S-REITs, technology supply chains, and tourism plays continue to be bright spots.

06. Asia ex-Japan Equities.

Yeang Cheng Ling
Chief Investment Officer, North Asia

Joanne Goh
Strategist

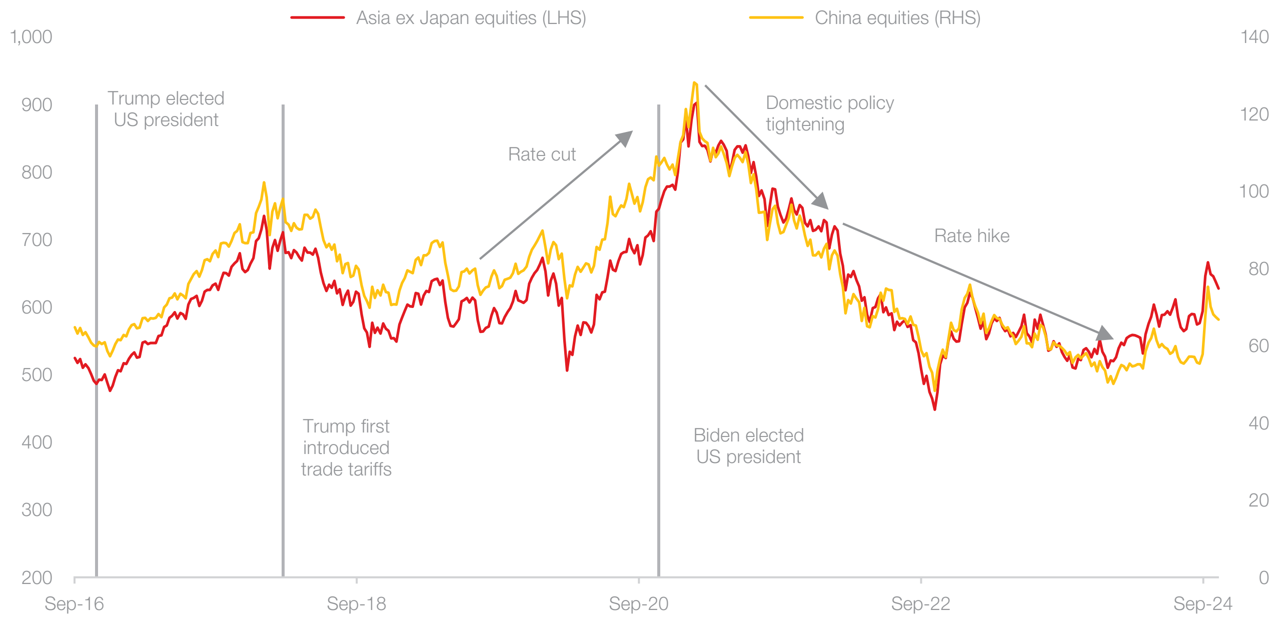
The outcome of the US presidential election has cast a shadow of uncertainty across Asia, with the Trump presidency threatening further expansion of draconian trade policies. However, trade tariffs and selective import limitations during Trump's (2017) and Biden's administrations showed no major bearing on the overall returns of China equities.

Rather, it is a combination of internal factors that have weighed more heavily on China's equity markets since 2019. These include domestic policy tightening, the real estate sector debacle, a downturn caused by Covid lockdowns, and deflationary pressures.

While the US presidential election has created volatility within regions and trade bodies, we expect long-term dynamics to normalise over time, as with previous cycles. With the dust gradually settling over time, there presents a backdrop for better policy certainties for Asia and China going forward.

So far, the markets have been largely conditioned to expect additional tariffs or controls on exports to the US. Thanks to the continued diversification of supply chains, the impact of any new tariffs on corporate confidence is likely to be less severe.

Asia and China equities during past two US presidencies



Source: Bloomberg, DBS

Asia is expected to deepen regional integration and collaboration, seeking new trade ties in Europe, the Middle East and Latin America to mitigate the effects of US-China trade tensions.

Meanwhile, ASEAN is expected to benefit from further Fed easing as companies seek to diversify their supply chains in Southeast Asia amid ongoing trade tensions. This will drive further FDI flows into the region under the China+1 strategy, with China itself among the major contributors of these inflows. At the same time, ASEAN's large domestic market is relatively more insulated from tariff risks, while lower labor costs, proximity to China, regional supply chain efficiency, and government incentives are expected to continue driving FDI into the region.

Targeted monetary easing and select fiscal support will remain major elements in supporting domestic demand and growth momentum in China. These measures are expected to uplift investor expectations. While we do not expect the region's underweight position among global funds to reverse in the near term, the narrowing of underweight positions can deliver upside from current levels.

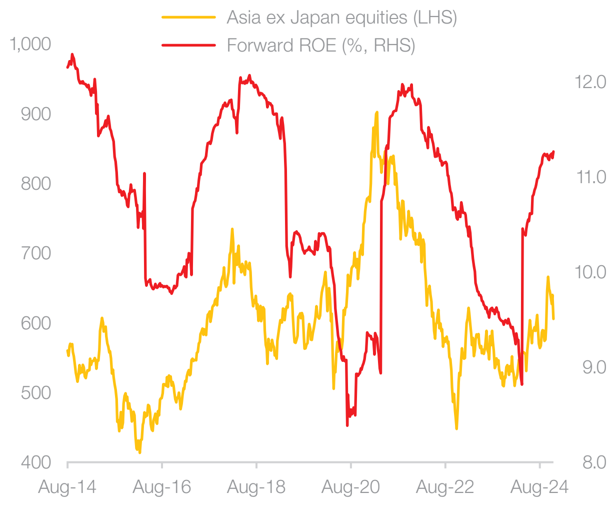
The performance of Asian assets as a whole is historically inversely correlated to global rates. With rates moving in favour of the region, there is room for the re-rating of Asian equities, which have underperformed. In particular, index heavyweights and rate-sensitive asset classes should begin outperforming.

There are three tailwinds supporting the longer-term trend in AxJ:

a. Falling global rates
b. Stabilising corporate profitability
c. Steep valuation discounts

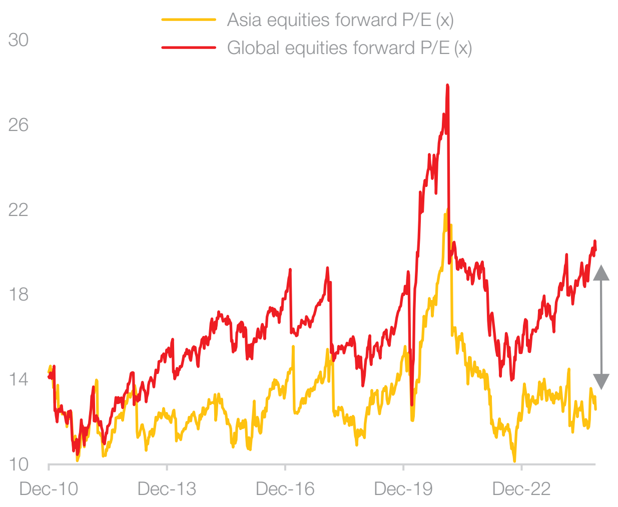
A lower interest rate environment will channel capital into high-growth markets, which positions Asia ex Japan as an attractive region for investors seeking both growth and yield. The long term narrative to stay constructive in the region remains intact.

Improving shareholder returns



Source: Bloomberg, DBS

Valuation discount to narrow



Source: Bloomberg, DBS

Taking into consideration the US presidential elections and with it the possibility of new trade policies, the start of rate cutting cycles, rising trade flows within Asia, and stimulus policy initiatives by China, we have come up with a list of prevalent themes and the corresponding outlook for each one.

Opportunities and risks

Opportunities	Stable	Headwinds
Platform & Internet Companies	Power Generations & Utilities	EV OEMs & Battery Supply Chains
Life Insurance	Telecoms	Auto Makers
Technology & Software		Solar Supply Chains
Regional Tourism		Low End Exporters
Large Banks		Building Materials
Singapore REITs		

China

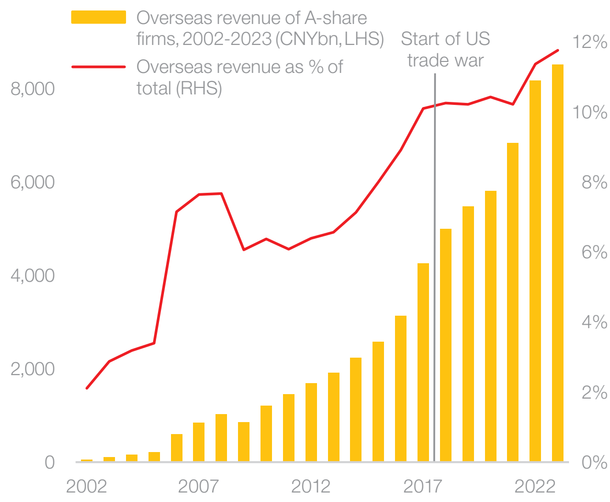
The PBOC buoyed the market in September in an unexpected move: a blitz of monetary easing measures, reductions in the reserve requirement ratio (RRR), as well as cut to policy and mortgage rates – all meant to bolster the economy and buoy a waning stock market.

Further announcements were made at the National People's Congress (NPC) to address the long standing debt burden of local government funding vehicles (LGFV). These include a program offering CNY12tn of debt swaps, special bond issuance, and guarantees.

While the market response was muted, we expect the Chinese government to add more comprehensive measures to expedite growth. These are likely to provide a floor for valuations, offering support for the China equity market.

Over time, China companies have enriched their income diversity and earnings quality. For instance, overseas income rose to 12% of total contributions to revenue in 2023, from a mere 2% at the turn of the millennium. Notably, overseas income expanded further despite the start of trade tariffs in early 2018. We expect overseas contributions to continue rising as China firms enhance revenue resilience to external risks through diversifying into outward investments, securing global supply chains, localising production, and accessing emerging markets for both production efficiency and demand.

Structural expansion of overseas income

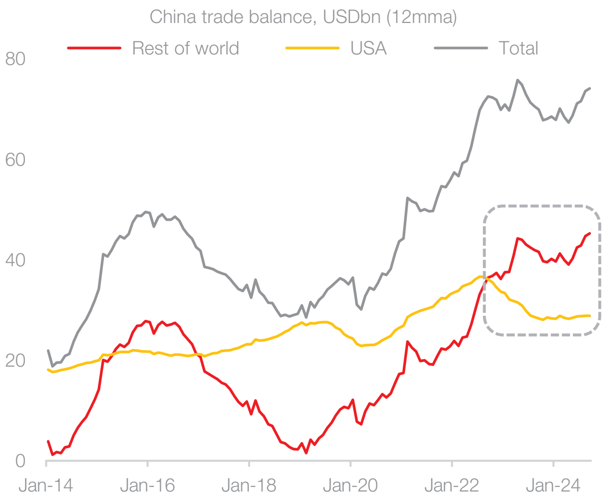


Source: WIND, DBS

Even after the US imposed trade tariffs on China's exports and restrictions what it can import, China has successfully diversified its trade, broadened its trade income, and reduced reliance on any single market. End 2022 marked the watershed moment when China's trade balance with the rest of the world surpassed what it has with the US.

We advise investors to stay engaged with the markets in Asia ex Japan and China, as the inherent fundamentals and outlook are compelling.

Diversifying trade partners



Source: WIND, DBS

With its recent guidance, the Chinese government has demonstrated commitment to address the longstanding LGFV debts. Ultimately, this will free up resources and provide wider policy options for local governments and financial institutions, enabling them to focus on growth, productive capital expenditure, repayment of commercial debts, salary disbursement, and improving financial strength. Such actions could provide a more stable and predictable regulatory environment, which is crucial for boosting investor confidence.

Capital injections and the addressing of LGFV debts are positive developments for the banking sector as they relieve uncertainty over balance sheets, freeing up resources for more productive and concrete growth areas.

Headwinds for China reversing

External Factors	Status	Impact
US trade tariffs	Ongoing, likely to escalate	Negative
US rate trajectory	Reversing	Positive
Domestic Factors	**Status**	**Impact**
Muted IPO market	Uncertain	Negative
Deflationary pressures	Ongoing	Negative
Monetary policy easing	Ongoing	Positive
Fiscal stimulus	Newly Introduced	Positive
Supportive policy on private sector	Newly Introduced	Positive
Policy against platform companies	Reversing	Positive
Policy against online gaming developers	Reversing	Positive
Policy to tighten real estate market	Reversing	Positive
Policy to tighten financial market	Reversing	Positive
Absence of policy clarity	Reversing	Positive

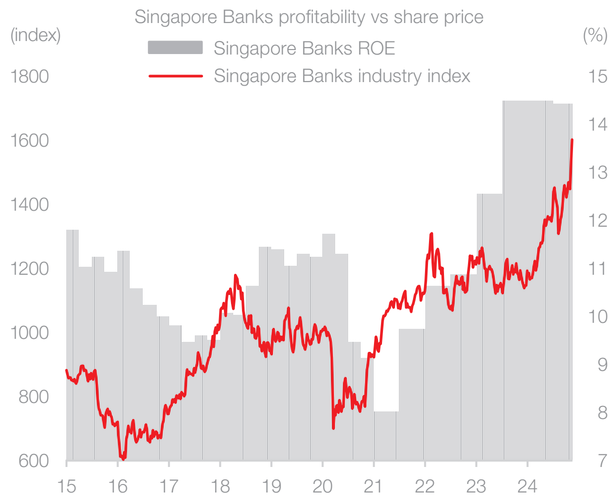
ASEAN and India overcoming US elections volatility

The ASEAN equity market is expected to adopt a cautious stance as investors await the 20 January inauguration of President Trump and any subsequent policy announcements. To provide context, while optimism surged in emerging markets, including ASEAN, following the Federal Reserve's rate cuts and China's stimulus plans, this enthusiasm waned after Trump's US presidential election victory.

Notably, ASEAN markets appear to have priced in fewer interest rate cuts, particularly in light of rising yields and a strengthening dollar. This is evidenced by a climb in 10Y yields to 4.422% and the DXY index reaching 106.1, contributing to ASEAN's underperformance relative to US markets. Despite this, ASEAN has outperformed China this year and would serve as a diversifier for exposure to the Asia market, supported by strong-performing sectors within the region. ASEAN is likely to benefit more from the China+1 strategy as supply-chain diversification becomes necessary amid increasing trade tensions. These can be played through the following key investment ideas: -

1. **Banks as beneficiaries of stable economies.** We forecast ASEAN economies to remain stable in 2025 despite cyclical headwinds. In particular, Singapore banks should stay resilient, supported by 5% dividend yields and steady earnings growth potential. NIM could surprise on the upside with fewer rate cuts expected, and deposit rates could fall faster due to ample liquidity in the system. Strong momentum in fee income will continue as wealth activities continue to proliferate alongside improved trading and investment income. Indonesia banks continue to report steady asset quality amid improving NPL, falling credit costs, and lower liquidity-at-risk (LaR) with stable loan growth.

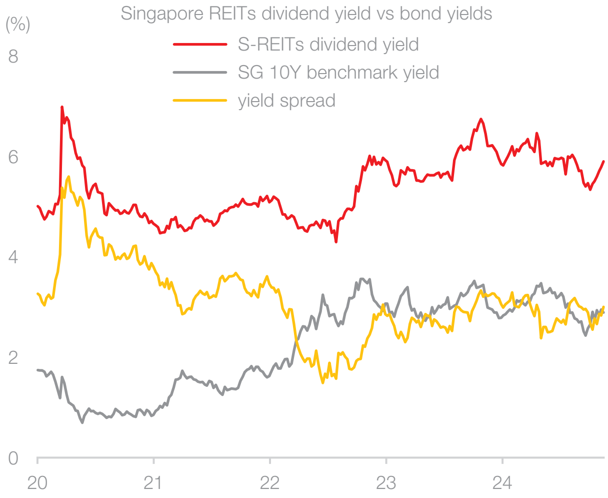
Singapore Banks ROE and share price



Source: LSEG Datastream, DBS

2. S-REITs: While S-REITs experienced losses when Trump's win drove 10Y US bond yields up to 4.4% – declining c.10% over the past month – it is worth noting that the normalisation of Fed rates remains underway. Since S-REITs typically borrow on shorter-term debt, they stand to benefit from lower interest costs, potentially supporting a gradual recovery in distribution trends. The sector is currently trading at FY25F yield in excess of 6%, preserving an attractive yield spread of around 3.5% over 10-year Singapore government bonds.

S-REITs yield spread is still attractive at 3%



Source: LSEG, DBS

3. Thailand is the only economy we forecast where growth could accelerate in 2025. Thailand's GDP growth is projected to accelerate to 3.5% in 2025, up from 2.7% this year amid more stimulus to be announced beyond the first phase of digital wallet handouts worth THB145bn. Politics, however, are likely to be a market overhang as there are ongoing investigations into the ruling party. We continue to like beneficiaries of the China+1 phenomenon, Vayupak state investment fund, stimulus measures, and potential rate cuts.

India opportunities arise with Trump 2.0

The Sensex recently fell to a five-month low, 10% below its record high on 26 Sep. This is amid tepid earnings, foreign investor outflows, and concerns over persistent inflationary pressures. The impact of Trump's election victory has disrupted the market rally with a strengthening US dollar and rising bond yields. Looking ahead, more palatable valuations, robust domestic liquidity, and the possibility of the RBI cutting rates as food-driven cyclical inflation subsides present further opportunities. As a major IT outsourcing hub, India stands to gain from another Trump presidency and sustained US economic exceptionalism. Furthermore, India's large industrial firms are likely to benefit from sustained infrastructure investments, while small- and mid-caps will benefit from digitalisation.

Navigating the Trump Landscape

Global Rates
1Q25

The trajectory of interest rates is likely to be bumpy as market participants navigate the Trump landscape, large fiscal deficits, and uncertain inflation at a time when the US economy is resilient.

Source: Unsplash

07. Global Rates.

Eugene Leow
Strategist

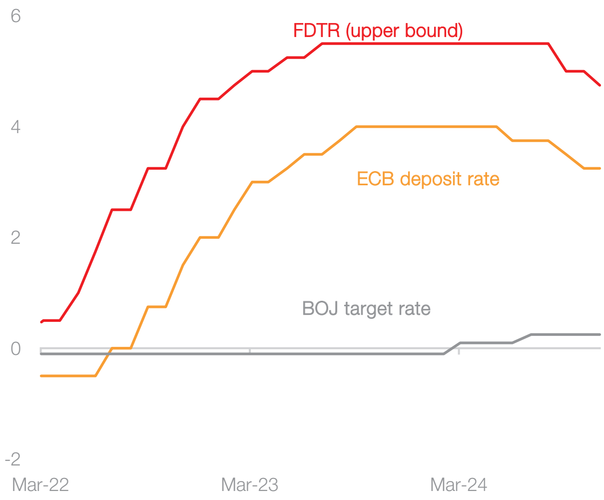
Samuel Tse
Strategist

For much of the G10, normalisation means lower policy rates. Seven out of ten have already cut rates in 2024 and further cuts are likely forthcoming, given that policy settings are still restrictive. That said, the pressure to cut differs for each central bank. Right now, the BOC, RBNZ, and ECB appear to have the most compelling cases for an extended easing cycle heading into 2025. However, that is not the case for the Fed as US data has proven to be surprisingly resilient. The risk is that the Fed would deliver a shallower cut cycle than currently anticipated. On the other end of the spectrum, normalisation means higher rates for the BOJ. Although political uncertainties (e.g. the LDP coalition losing its majority) would mean that the BOJ is skewed towards a cautious stance, we note that excessive yen weakness would still prompt the BOJ to react. BOJ rate hikes could well spill over into 2026. Accordingly, we see modest curve steepening across DM curves with the exception of Japan.

Growth is expected to be resilient while inflation faces upside risks. Market participants have wrongly bet on a global/US recession several times over the past few years. In each instance, the global economy—excluding China—has proven to be surprisingly resilient despite elevated interest rates. Moreover, there are perceived upside growth risks to the US with Trump's victory, and more corporate tax cuts may be in the offing. We also note that the Chinese economy may commence a cyclical turn in 2025 if the fiscal stimuli prove to be successful. Meanwhile, inflation has cooled off significantly across much of the DM space. This is the pretext for central banks to lower interest rates. However, we note that base effects would no longer be favourable going forward and there is sticky inflation to consider. The prospect of further tariffs and other trade frictions could well return in 2025, perhaps more so with Trump back at the helm. Breakevens and term premiums have risen significantly to reflect higher inflation and growth expectations under the incoming Trump administration.

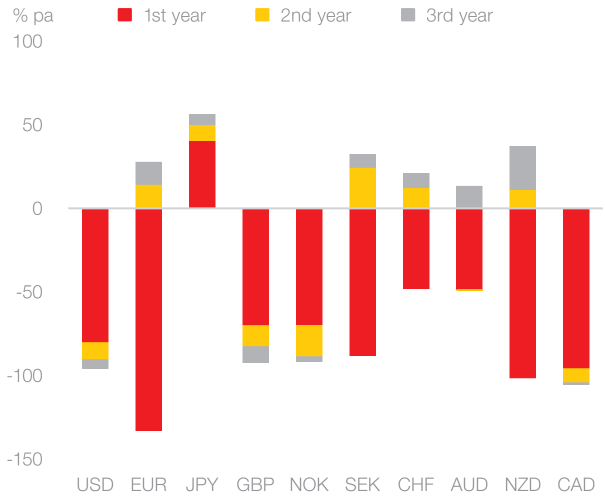
Bond vigilantes lurk. Concern on USD assets, including US Treasuries, is likely to be a recurring theme. There appears to be no political will to fix the US budget position and the fiscal deficit would likely run at 5-6% of GDP even if the economy stays strong. The bias to the deficit is tilted wider with Trump back as President. Confidence in USD assets could erode if wide fiscal deficits or threats to central bank independence appear. We also note that de-dollarisation may be a critical theme as asset managers diversify holdings to avoid getting caught in the event the USD gets weaponised. Investors may well demand a larger yield premium to hold USTs if the USD starts losing some of its allure as a store of value.

More cuts from Fed/ECB, more hikes from BOJ



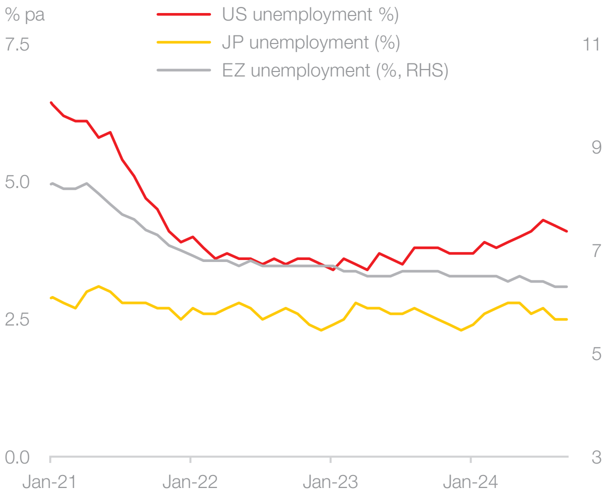
Source: Bloomberg, DBS

Neutral policy rates should largely be hit in 2025



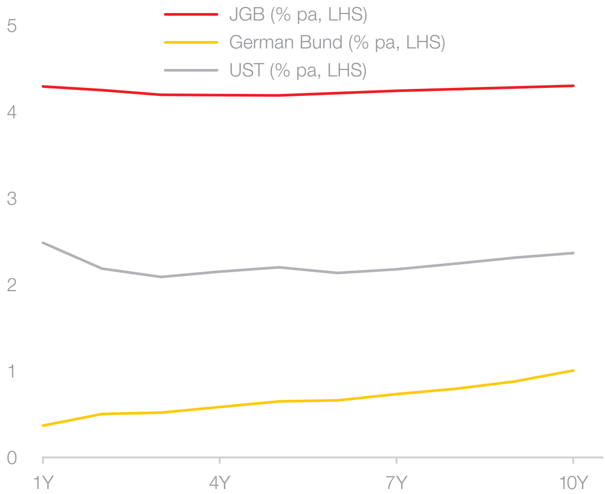
Source: Bloomberg, DBS

Resilient labour markets across the G3



Source: Bloomberg, DBS

Stable curves amid policy recalibration



Source: Bloomberg, DBS

Asia Rates

CNY rates: Steepening curve

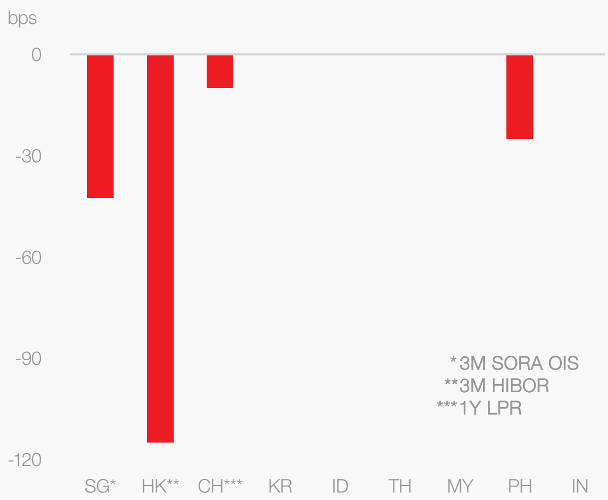
We continue to see a steepening CGB curve entering 2025. Long-end CGB yields will be well supported by increasing supply and stabilising growth momentum. Beijing will likely raise fiscal support from CNY4.07tn in 4Q24 to CNY10.5tn in 2025. Note that the central government has more room to boost growth with its debt-to-GDP ratio remaining lower than G20 levels (74%) at 24.0%. The additional stimulus will be allocated to swap local government debt, enabling local governments to absorb unsold homes and idle land for affordable housing.

Meanwhile, short-end CGB yields will remain anchored. We expect another 50 bps in 1Y LPR cuts in 2025. Despite potentially higher tariffs from the new US administration, CNY will remain steady, leaving room for further PBOC cuts. China is better positioned to withstand protectionism compared to the past. On the liquidity front, new tools like Outright Reverse Repos will likely keep short-term rates in check. Additional funding channels will ease liquidity conditions at year-end, cushioning liquidity drains from bond issuances stemming from stimulus.

IDR rates: Rate cuts and policy continuity

Rising UST yields weighed on higher-yielding assets like Indo GBs, compressing rate differentials against the UST. The currency's 3Q relief rally failed to hold in 4Q. Markets have been more cautious on BI's upcoming easing. However, we think BI will remain on track with rate cuts, thereby keeping IDR rates in check. GDP growth will accelerate to 5.2% in 2025, thanks to policy continuity on investment under the new government. Moderating inflation, resulting in high real interest rates, also leaves room for a further 75 bps cut in the 7D repo in 2025. Steepening could return if rate cuts stay on schedule. Short-end rates will remain in check as BI is injecting liquidity via OMO to offset strains. On the fiscal side, Indonesia's -2.5% of GDP deficit in 2025 could push long-end yields up as stronger investment and social welfare under the new government require a wider budget gap. Government debt is expected to grow by 19.7% in 2025 per government estimates.

Change in policy rates YTD



Source: Bloomberg, DBS

Change in 10Y government bond yields YTD

Source: Bloomberg, DBS

INR rates: Rate cuts on cyclical slowdown

India is relatively better placed among Asian peers amid the "Trump Trade". IGB yields have inched up slightly, while the INR has outperformed with mild depreciation against the USD last quarter. Improvement in external balances should keep IGB yields in check with services and high value-added goods exports remaining firm. Ongoing FDI inflows from the "China+1" strategy and portfolio inflows amid bond index inclusion are keeping overall INR rates steady. FDI jumped 41.2% y/y in 1H24. Loose liquidity condition is keeping short-end rates down with the MIBOR-Repo Rate spread falling to levels not seen since Aug 2023.

Curve-wise, we see further steepening entering 2025. Given signs of a cyclical slowdown, rate cuts will likely commence in 1Q25. GDP growth slowed from 7.8% y/y in 2Q24 to 6.7% in 3Q24. Equity markets have seen strong foreign portfolio outflows on high valuation and earnings concerns. Meanwhile, long-end bond supply will remain abundant with >75% of total borrowings in tenors over 10 years.

KRW rates: KTB yields to drift higher

KRW rates have been less affected by "Trump Trade". 10Y KTB yields fell since the US election as the BOK cut rates earlier than expected in November. Spreads against the UST counterpart compressed over 140 bps. Rapidly easing inflation, weak domestic demand, and external uncertainty stemmed from potential US tariffs also justified the cut. However, further downside of KTB yields may be limited. The BOK will likely execute just two more cuts in 2025 amid a weak won. Short-end KTB yields could see some support. Meanwhile, long-KTB yields could rise in tandem with uplifting UST yields. The higher debt-to-GDP ratio and 27% y/y increase in KTB supply per the government budget will also lift long-end yields. Overall, these dynamics point to a steady yield curve with the 3/10Y spread hovering around 10-20 bps.

MYR rates: Profit taking to ease

MGS was one of the worst performers in the last quarter. Given its outperformance in the first three quarters this year, foreign investors are taking profit and trimming their holdings amid the "Trump Trade". Domestically, the disappointment stemmed from higher inflation risk, driven by fiscal measures such as the broadening of the Sales & Service Tax and subsidy rationalisation which will commence in 2025. That said, a narrowing fiscal deficit will keep MGS yields in check. Fiscal deficit is expected to narrow further to 3.8% of GDP in 2025. Expenditure will grow at a slower pace (3.3%) compared to revenue growth (5.5%). The ongoing inflow from resilient electronics exports and BNM's extended pause will keep MYR exchange rate and MGS yields stable.

PHP rates: Govvies yield to stay range-bound

PHP rates should fall in tandem with the ongoing policy rate cuts. The BSP has been pre-emptive in loosening monetary conditions after raising rates significantly this quarter. We expect 50 bps worth of cuts in 2024, followed by another cut at 125 bps to take the benchmark rate to 4.75% by end-2025. The rising jobless rate and slower consumption growth are signs for coming rate cuts, and moderating inflation should leave room for that. Ongoing FDI inflow will help keep the PHP rates at bay. Proactive policies such as CREAT (Corporate Recovery and Tax Incentives for Enterprises) and CREAT MORE (Maximise Opportunities for Reinvigorating the Economy), as well as the “China+1” strategy, are bringing further inflows. FDI inflows have been largely steady between 2022 and 2023 with Jan-Jul 2024 flows about 7.5% higher compared to the same period last year.

SGD Rates: Outperformance extended

SGD rates’ outperformance (vs USD rates) looks likely to extend into the early part of 2025. While the US has begun easing, the market has moderated the number of rate cuts that we are likely to see in this cycle. Between data resilience in the US and upside risks to growth/inflation from the Trump administration, USD rates are likely to be buoyant. Conversely, Singapore’s core CPI appears to be sticking close to 3%, prompting the MAS to hold back on easing thus far. By keeping a strong SGDNEER bias amid flush liquidity conditions, SGD rates become more anchored. Accordingly, the spread of USD over SGD rates is hovering near its cycle wides. Narrowing would take place only when the US economy shows material signs of weakening.

THB rates: Steady THB GB yields

THB rates should remain steady on the BOT’s extended pause. GDP growth should hold at 3.0% in 2025, aided by improving tourism income and private consumption. The number of tourist arrivals has returned to 87% of 2019 levels. Meanwhile, inflation is improving on higher food and energy prices. On the fiscal front, the increase in government bond supply is easing with six-month rolling changes falling from THB400-500mn in Dec 2023 to THB173mn in Sep 2024. These will keep Thai GB yields in check.

Rates forecasts

		2025				2026			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
US	3M SOFR OIS	3.88	3.38	3.38	3.38	3.38	3.38	3.38	3.38
	2Y	3.90	3.60	3.60	3.60	3.70	3.80	3.80	3.80
	10Y	4.20	4.20	4.20	4.30	4.40	4.50	4.50	4.50
	10Y-2Y	30	60	60	70	70	70	70	70
Japan	3M TIBOR	0.65	0.65	0.90	0.90	1.00	1.15	1.15	1.15
	2Y	0.70	0.80	0.90	0.95	1.00	1.10	1.10	1.10
	10Y	1.05	1.05	1.10	1.15	1.25	1.25	1.25	1.25
	10Y-2Y	35	25	20	20	25	15	15	15
Eurozone	3M EURIBOR	2.70	2.20	2.20	2.20	2.20	2.20	2.20	2.20
	2Y	2.20	2.10	2.10	2.10	2.10	2.20	2.30	2.40
	10Y	2.35	2.30	2.25	2.25	2.30	2.40	2.50	2.50
	10Y-2Y	15	20	15	15	20	20	20	10
Indonesia	3M JIBOR	6.60	6.35	6.10	6.10	6.10	6.10	6.10	6.10
	2Y	6.40	6.10	6.10	6.20	6.25	6.30	6.30	6.30
	10Y	6.70	6.40	6.45	6.55	6.60	6.65	6.65	6.65
	10Y-2Y	30	30	35	35	35	35	35	35
Malaysia	3M KLIBOR	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
	3Y	3.45	3.40	3.40	3.40	3.45	3.45	3.45	3.45
	10Y	3.85	3.80	3.85	3.90	3.95	4.00	4.00	4.00
	10Y-3Y	40	40	45	50	50	55	55	55
Philippines	2Y	5.00	4.75	4.75	4.75	4.75	4.80	4.80	4.80
	10Y	5.50	5.30	5.35	5.40	5.45	5.50	5.50	5.50
	10Y-2Y	50	55	60	65	70	70	70	70
Singapore	3M SORA OIS	2.78	2.58	2.58	2.58	2.58	2.58	2.58	2.58
	2Y	2.75	2.55	2.55	2.55	2.60	2.70	2.70	2.70
	10Y	2.85	2.85	2.85	2.95	3.05	3.15	3.15	3.15
	10Y-2Y	10	30	30	40	45	45	45	45

%, eop, govt bond yield for 2-year and 10-year, spread bps
*swap rates

Source: CEIC, Bloomberg, DBS

		2025				2026			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Thailand	3M BIBOR	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
	2Y	2.05	2.00	2.00	2.00	2.05	2.15	2.15	2.15
	10Y	2.30	2.35	2.40	2.45	2.50	2.60	2.60	2.60
	10Y-2Y	25	35	40	45	45	45	45	45
Mainland China	1Y LPR	3.00	2.75	2.50	2.50	2.50	2.25	2.25	2.25
	2Y	1.40	1.30	1.30	1.30	1.30	1.20	1.20	1.20
	10Y	2.05	2.00	2.00	2.00	2.00	1.90	1.90	1.90
	10Y-2Y	65	70	70	70	70	70	70	70
Hong Kong, SAR	3M HIBOR	3.38	2.88	2.88	2.88	2.88	2.88	2.88	2.88
	2Y*	3.20	2.90	2.90	2.90	3.00	3.10	3.10	3.10
	10Y*	3.30	3.30	3.30	3.40	3.50	3.60	3.60	3.60
	10Y-2Y	10	40	40	50	50	50	50	50
Korea	3M CD	2.85	2.60	2.60	2.60	2.60	2.60	2.60	2.60
	3Y	2.55	2.40	2.40	2.50	2.55	2.60	2.60	2.60
	10Y	2.70	2.60	2.65	2.80	2.85	2.90	2.90	2.90
	10Y-3Y	15	20	25	30	30	30	30	30
India	3M MIBOR	7.00	6.65	6.65	6.65	6.65	6.65	6.65	6.65
	2Y	6.35	6.00	6.00	6.00	6.05	6.10	6.10	6.10
	10Y	6.55	6.45	6.50	6.55	6.60	6.65	6.65	6.65
	10Y-2Y	20	45	50	55	55	55	55	55

%, eop, govt bond yield for 2Y and 10Y, spread bps
*swap rates

Source: CEIC, Bloomberg, DBS

Making Bonds Great Again

Global Credit
1Q25

Expect a gradual easing trajectory. Prioritise A/BBB buckets for best risk-reward in a tighter spread environment. Overweight 2-3Y and 7-10Y segments to manage reinvestment risk and capitalise on wider spread curve rolldown respectively.

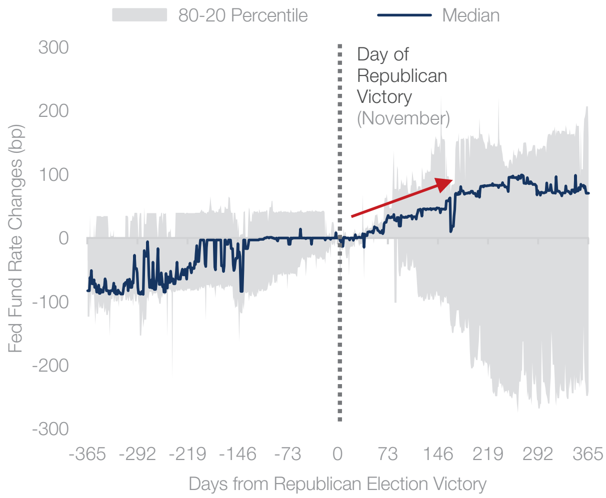
08.
Global Credit.

Daryl Ho, CFA
Strategist

Quadrennial risk done and dusted. If there was one risk event that investors had in mind for the entirety of 2024, it was the US elections – which recently concluded with an unambiguous Republican sweep of congress. It was a road not without uncertainty – spanning the abrupt replacement of the Democratic nominee Joe Biden mid-campaign, and multiple assassination attempts on the Republican candidate Donald Trump that could have altered the course of history as we know it. Yet as much as markets desire some reprieve from the US election fever, this outcome had resurfaced some repressed memories of the years following the 2016 elections, where Trump's unorthodox styles of addressing monetary and trade policies via social media amplified volatility and implied risk premiums across the entire spectrum of risk assets.

The doves had gone as soon as they arrived. In no market was the fear as pronounced as it had been with bonds over the Trump election. Firstly, the narrative on the Fed cutting cycle was thrown into disarray with expectations that Trump's priorities of tax cuts for domestic producers and reshoring of US manufacturing capacity could kickstart another leg of strong growth, inflation, and employment in the US. This could force the Fed to remain on pause for an extended period, raising the attractiveness of cash over bonds once again – a narrative all too familiar with fixed income investors who had to suffer the bond bear markets of 2021-2022. Ominously, our analysis of the last seven Republican terms dating back to the era of Ronald Reagan shows that Fed rates tend to drift higher under Republican terms due to supportive economic policies.

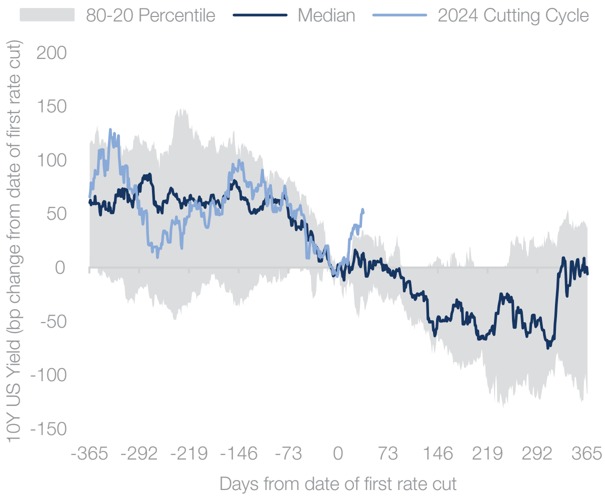
Republican presidencies precede tighter policy



Source: Bloomberg, DBS.

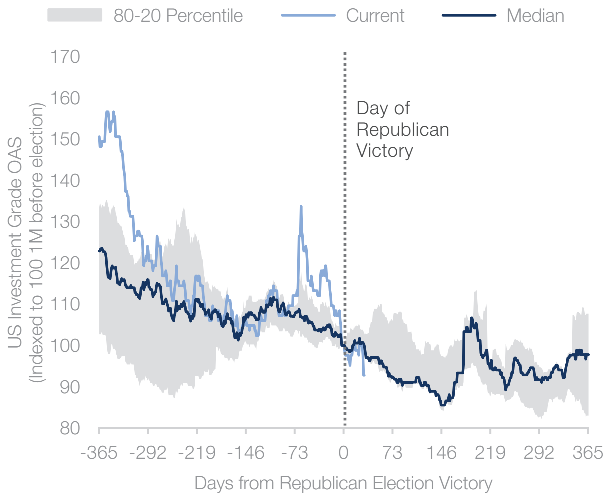
Groundhog Day for deficit fears. Secondly, with narratives that the US is already on an ever-escalating path to higher debt, Trump's proposals to not just extend the tax cuts that were initiated in his first term, but to reduce them further for domestic producers once again raises the issue of long-term debt sustainability of the US. The spike in 10Y UST yields post-elections – while appropriate under the expected impact of Trump's proposals – is a move that is out of the norm for policy cutting cycles.

10Y UST yield spike beyond the dovish policy norm



Source: Bloomberg, DBS.

Republican presidencies have been supportive of IG credit…

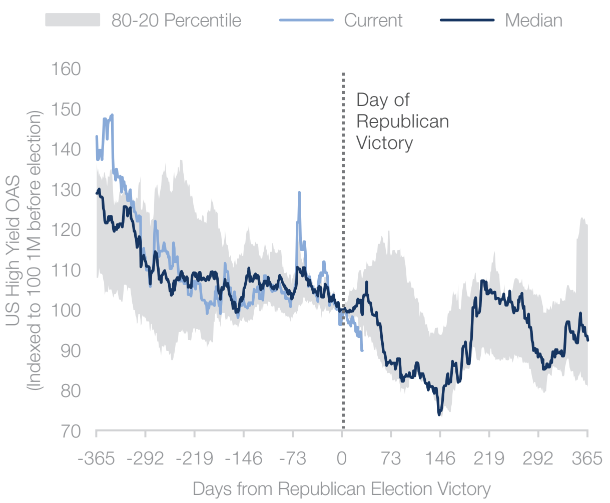


Source: Bloomberg, DBS

Swimming against the tide of consensus. While we are sympathetic to the arguments of less dovish policy and higher yields, we seek to propose why bonds remain a compelling investment for income generation in a balanced portfolio, against risks that we consider to be overblown under traditional assumptions of Trump policy. Lest we forget, Trump's first term was fraught with presidential overreach into Fed policy, defying the sanctity of central bank independence with persistent requests to lower the policy rate to support the economy. Knowing that the inflationary impulses of today are more attributable to (i) supply chain hinderances, (ii) geopolitical conflict as well as (iii) rates-insensitive borrowing and spending by governments – all of which have little to do with monetary policy – a case could be made that higher rates are much less effective to curb such forces on the supply side; one which the president-elect would have no qualms raising in his second term.

Credit spreads behave well with Republicans. Moreover, since the pro-growth tilt of Republican policies had traditionally been supportive of risk assets – credit spreads would be a clear beneficiary. Looking over the same last seven Republican terms, credit spreads for both IG and HY bonds have tended to remain sanguine in the one-year period following the election of a Republican president. For credit investors, this implies that one could harvest spread premiums for a longer term – even though spreads are tight relative to history – given that such economically supportive policies tend to diminish the risk of elevated credit events/defaults in the near term. For that reason, we remain positive even with good quality HY names, now that policy outcomes suggest that US economic strength is likely to persist in the foreseeable future.

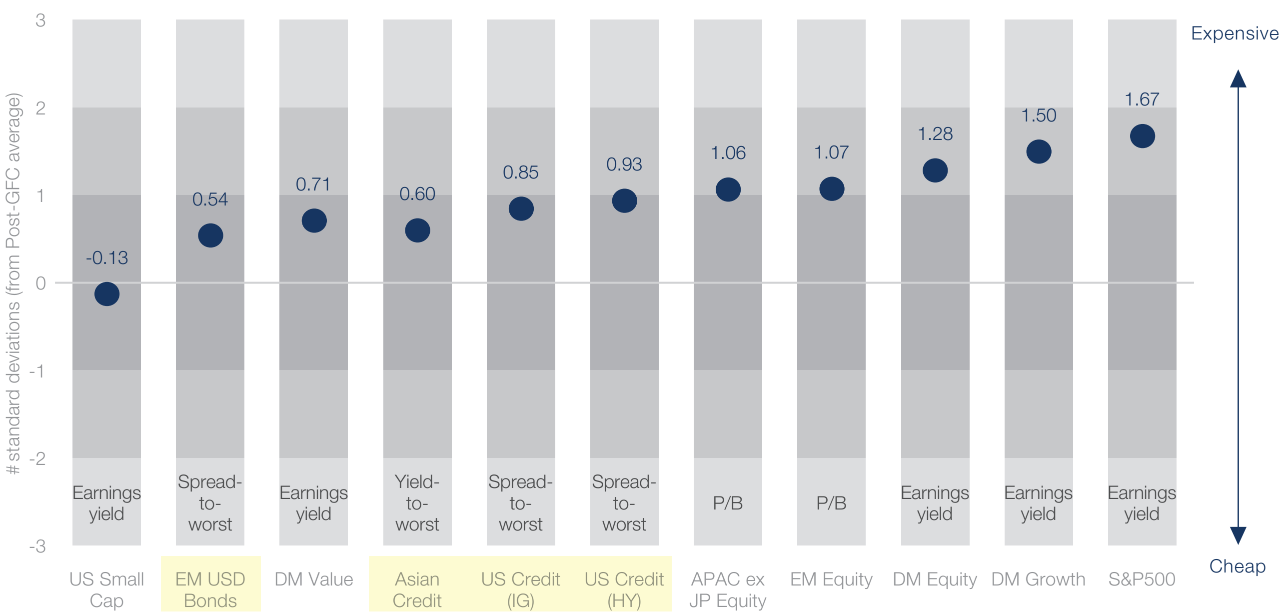
… as well as HY credit



Source: Bloomberg, DBS

Spread and yield instruments remain fairly valued. Given that bond investors are concerned about tight spreads, one must also consider the extremes of valuations relative to other asset classes to have a fairer perception of relative value. We compare a range of asset classes by their traditional valuation metrics (earnings yield or P/B for equities, spreads/yields for fixed income) versus their post-GFC averages. Apart from US treasuries, most other risk assets are deemed to be expensive on valuation terms relative to their own history, and credit valuations are in fact at more "fair" levels in the spectrum of risk assets observed. Granted, the high valuations of equity markets are justified by strong expected earnings growth rates (which are not captured in the P/E or P/B metrics); but we take comfort in the fact that investors are not paying as much of a premium for fixed income compared to other investable public alternatives today.

Fixed income markets are fair on the valuation spectrum



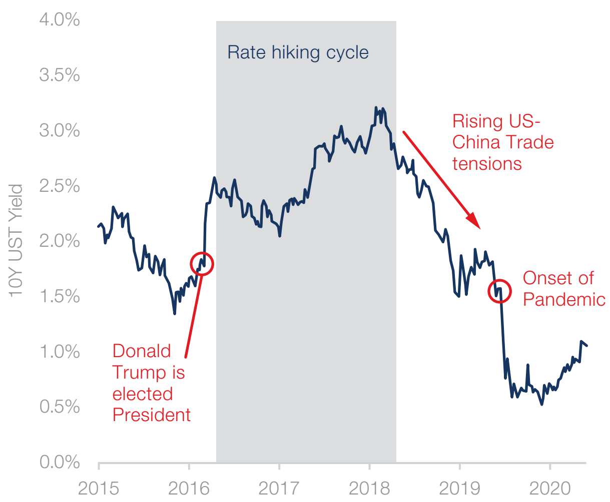
Source: Bloomberg, JP Morgan Markets DataQuery, DBS

The tariff threat looms. Most importantly, with Trump, there is always a trade concern for every tax relief. While the afore-mentioned pro-growth policies could be a headwind for bonds, there remains a feared undertaking that he had promised in his election campaign – tariffs – which is the biggest elephant in the room of economic optimism. While tariffs are inflationary and could encourage re-shoring of manufacturing activity, we note that it does still result in efficiency losses that can dampen global growth – an outcome that can, and has, ultimately lead to lower bond yields. Trump's first term is illustrative – while tax cuts did initially supercharge expectations of strong growth and provided cover for a Fed hiking cycle in 2017-2018, tariffs and trade tensions eventually dampened the global outlook, which resulted in 10Y UST yields falling all the way down to c.1.5% by the end of 2019, notably before the pandemic.

Flight to safety. The sudden policy pivot in 2019 was a significant tailwind for bonds, with credit markets across the entire quality spectrum clocking strong gains for the year; US treasuries was in fact one of the laggards in the sudden chase for yield. Moreover, as the present Trump term comes after a policy hiking cycle (unlike the 2016 term which preceded it), the danger of facing another bout of hawkish policy would be comparatively small for bond investors today.

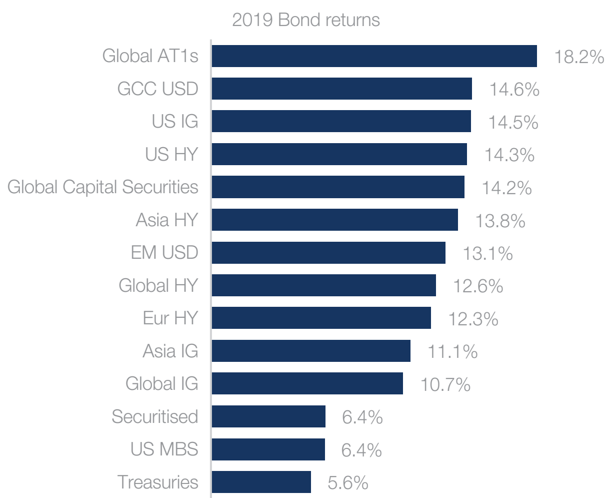
Bonds pass the sensitivity test. The presently high starting yields also give bonds a mathematical edge for projected 12-month forward returns, as coupons provide a buffer for rates volatility. We projected the total returns for various fixed income markets based on scenarios of (a) a 1% increase in rates, (b) no change in rates, and (c) a 1% decline in rates, and noted that the likelihood of positive returns remains high under various outcomes despite the uncertainty

First Trump term ended with lower yields due to tariffs



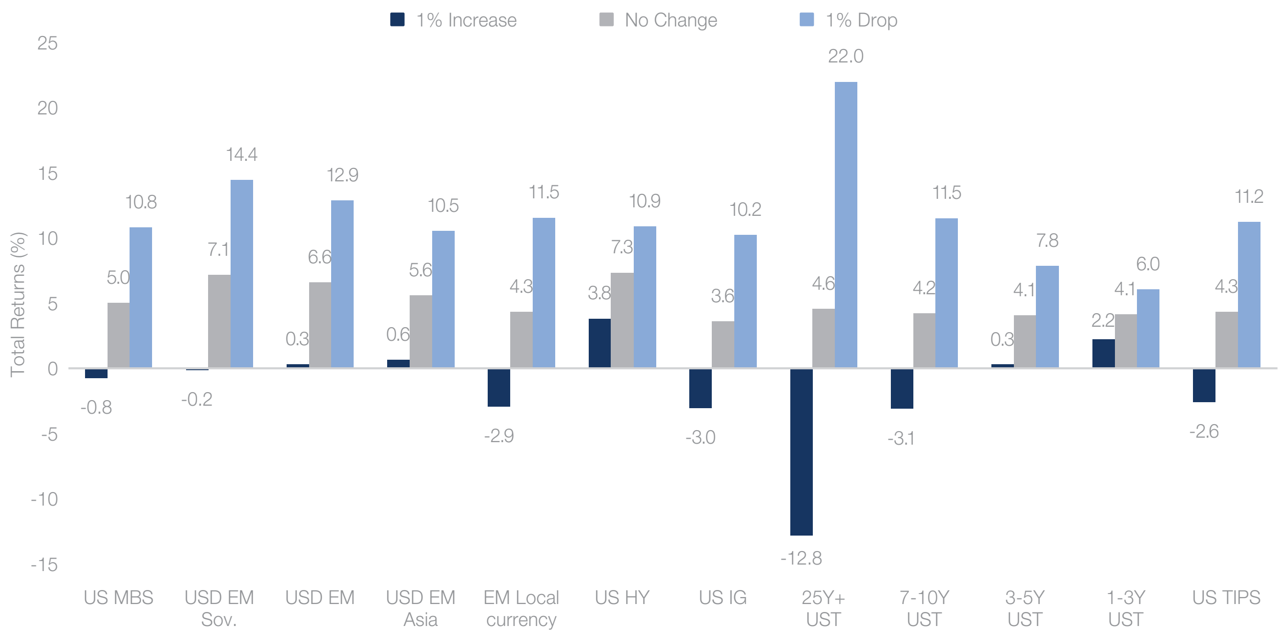
Source: Bloomberg, DBS

The trade war and policy pivot were good for bonds



Source: Bloomberg, DBS

Bond projected returns are promising despite rates volatility



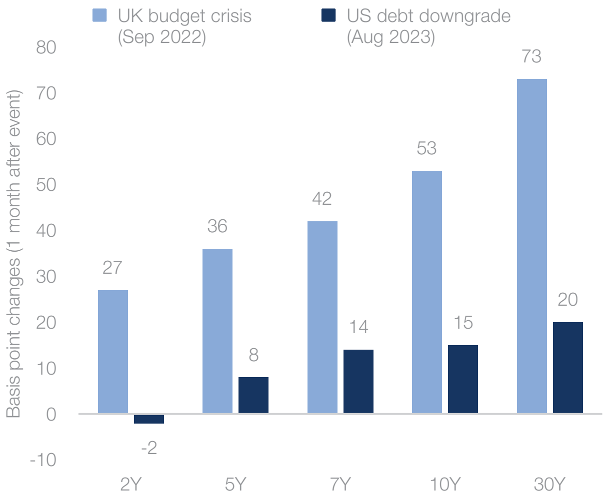
Source: Bloomberg, DBS

in the rate outlook. The one trade that looks risky however, is with ultra-long duration US treasuries (>25Y), noting that an unexpected 1% rise in rates in the long end could erode close to three years of coupon payments.

Long duration risks are asymmetric. It is quite natural for bond investors to assume that in a rate-cutting cycle, one should simply buy the longest duration bonds to benefit from a decline in the interest rate environment. There are however, two fallacious assumptions; the first being that (i) the cutting of the Fed funds rate (a short-end policy rate) would have an equivalent reduction in the 30-year rate, and the second is that (ii) the various duration segments face an equal probability of risk. The former assumption is erroneous because yield curves can steepen; even if the policy rate goes lower, the long end may not follow suit (or even go higher). The latter assumption is inaccurate because the long end faces a higher probability of risk due to fiscal sustainability concerns across many developed economies today. Notably, in both the UK budget crisis of 2022 and the US debt downgrade of 2023, the curve steepened aggressively as risks began to build in bond term premiums.

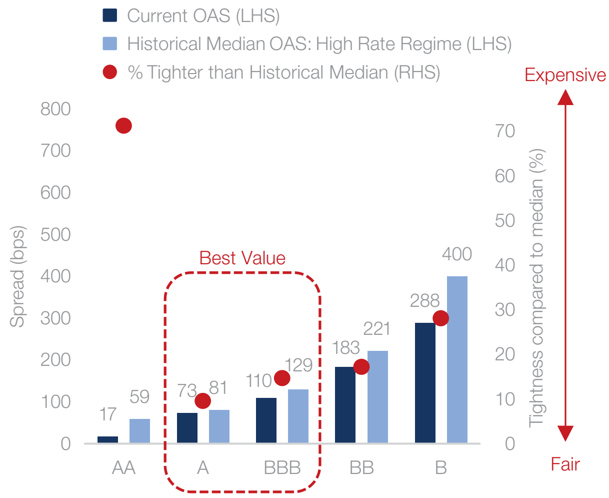
A barbell duration strategy retains the best of both worlds. For these reasons, we remain cautious with the ultra-long duration segment, and continue to recommend a duration barbell strategy, focusing on two outsized positions in a fixed income portfolio of (a) 2-3Y credit to capitalise on the turn of the rate hiking cycle to minimise cash reinvestment risk, and

Fiscal sustainability risks disproportionately impact the long end



Source: Bloomberg, DBS

A/BBB credit rating bucket remains the fairest of them all



Source: Bloomberg, DBS

(b) 7-10Y credit for wider spread premiums. With the steepening of the curve under Trump's election, we deem it an opportunity to add to duration specifically in the 7-10Y segment as (1) that is the steepest point on the credit curve, which gives rolldown benefits, and (2) the 10Y UST yield is currently close to our estimate of longer-term fair value between 4-4.5%.

A/BBB spreads are fair relative to history. In terms of credit ratings, we continue to prioritise the A/BBB segment as investors are best compensated in terms of risk-reward for potential uncertainty. We also compared the average credit spreads of the various rating buckets under high interest rate regimes (defined as the months in which the real rate is at its fourth quartile since 1980) with today's levels and noted that the A/BBB bucket remains the "cheapest" in spread terms against its history. From that standpoint, investors can take comfort in the above recommendation to extend duration with A/BBB credit, rather than the lower risk AA bucket/treasuries which provides less spread compensation for rates volatility.

In summary, investors should not fear the narratives that a Trump presidency is bad for bonds. While traditional Trump and Republican tax policies were pro-growth in nature, his penchant for tariffs provides a counteracting force that can be a drag on global optimism. Central banks around the globe remain on a policy rate-cutting cycle, although the speed of reduction remains up for debate due to still healthy economic data. Investors should stay up in quality with A/BBB credit which offers decent value, and only make selective picks in the better quality HY BB segment that could weather a potential growth slowdown. Portfolio duration should carry on with a barbell approach – overweighting (a) the 2-3Y segment to minimise cash reinvestment risk, and (b) the 7-10Y segment to capitalise on wider spreads. We view the steepening of the credit curve an opportunity specifically to focus on the 7-10Y bucket, seeing as it is the steepest point of the credit curve, while considering also that the 10Y UST yield is currently close to our estimate of longer-term fair value between 4-4.5%.

USD to Stay Supported

Global Currencies
1Q25

USD to stay supported as the Fed turns less dovish and the Trump administration delivers its policy promises. EUR and RMB are most vulnerable to tariff threats.

Source: Unsplash

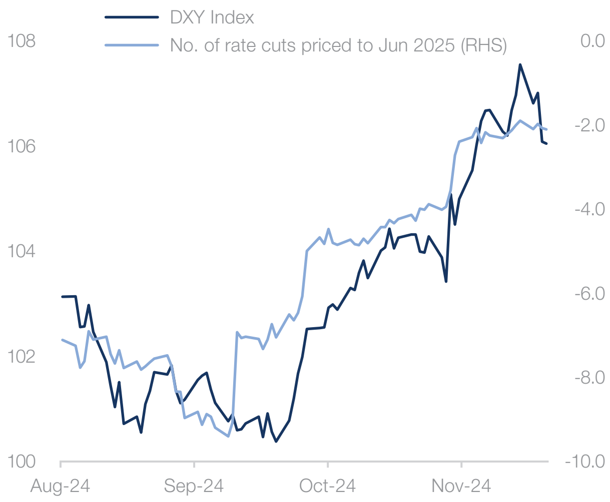
09. Global Currencies.

Terence Wu
Strategist

Carie Li
Strategist

Validating USD strength. The USD's ascent in 4Q24 has been built on expectations. Since October, the market held expectations that the Fed rate cut trajectory would be shallower than expected. Furthermore, after Trump's win, there were expectations for the impact of his policy to be strongly USD-positive. Heading into 1Q25, the USD could still find new upside traction if at least one of these expectations is validated.

USD prospects tied to changes in Fed expectations

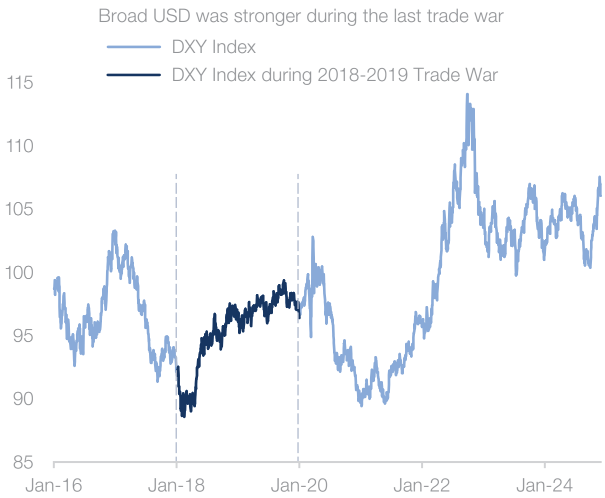


Source: Bloomberg, DBS

Fed may turn out to be a USD-positive driver. A Fed easing cycle is typically USD-negative. However, the short-term effect on the USD is more impacted by the change in rate trajectory. Better-than-expected US data-prints in 4Q24 and Trump's win have allowed the market to consider a much shallower rate cut trajectory in 1Q25 compared to 3Q24, resulting in USD upside. There is a risk that market expectations might have overshot to the hawkish side, leaving the USD vulnerable if the market is compelled to price back in more rate cuts in 1Q25. However, if the Fed validates the reduced rate cut expectations by signalling skips in the January and/or March FOMCs, expect to see an extension of USD gains.

The US election outcome feeds into the cyclically-driven USD-positive narrative. A Trump administration, coupled with a Republican-dominated Congress, will allow for a more activist approach in government policy. The extension of TCJA tax cuts should trigger a stimulatory impact, however temporary, to a still-resilient US economy. Coinciding with a Eurozone that is facing cyclical weakness, and a China that is not emerging convincingly from its domestic challenges, such stimulus will accentuate US macro exceptionalism, with a natural USD-positive flowthrough.

DXY Index stronger in 2018-2019 trade war



Source: Bloomberg, DBS

Long USD position near stretched levels

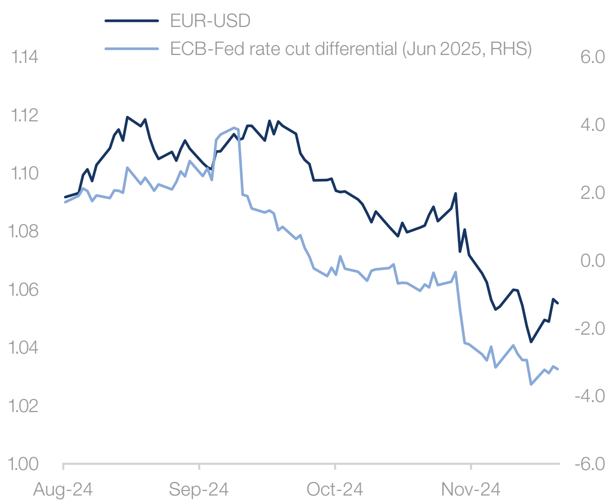
Source: Bloomberg, DBS

Threat of additional tariffs further supports the USD. Ground Zero of the negative impact from additional trade tariffs will be in China and the Eurozone, given their economies' heavy reliance on trade. To be sure, the US economy may not net benefit from more tariffs, but being less reliant on trade implies a more muted hit. The additional tariffs will be a growth drag to China, Eurozone, and the other trade partners. Any offset undertaken by these countries invariably works through a weaker local currency vs the USD.

Question of extent, timing, and substance. The fundamental underpinnings of Trump drivers as USD-positive are well established. However, there are some caveats: (1) the extent of USD gains in 4Q24 may already have reflected these policy impacts, and (2) the timing and substance of the policies may not meet the market's heightened expectations, resulting in USD disappointment. Indeed, long USD positions are now crowded, and the interest in USD calls over puts is elevated near year-highs. Nevertheless, expect Trump trades to be validated through additional trade tariffs landing as soon as Trump's first day in office. The legislative process for tax cuts will take time, but the Red Sweep outcome provides Trump's administration with the best chance to deliver them early in their term.

EUR weakness is the conviction view. Even before the US elections, the Eurozone has been facing anaemic growth through most of 2024. The prospect of additional tariffs adds another negative to the growth outlook. With the open nature of the Eurozone economy, any trade impediment will have a direct negative impact. In addition, much of the Eurozone's trade links are with China. There could be a second-round negative impact should Chinese

ECB increasingly seen as more dovish than Fed



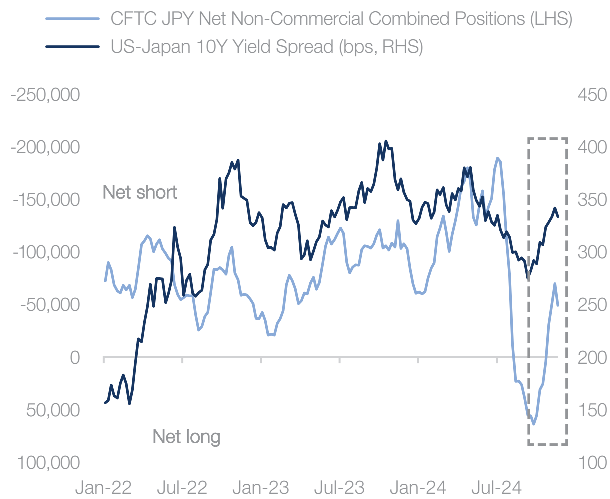
Source: Bloomberg, DBS

growth take a hit next year. This, combined with unstable domestic politics in Germany and France, and the ongoing Russia-Ukraine conflict, results in a litany of concerns for the EUR that cannot be quickly reversed. The only viable offset is through faster ECB rate cuts, which flows through to a weaker EUR. Thus, the EUR will bear the brunt of adjustment. Staying short EUR is our conviction view into 1Q25.

CHF strength to face pushback from SNB. The CHF should benefit from any rotation away from the EUR amid the Eurozone's growth and tariff concerns. As a haven currency, the CHF will also be attractive if there is a persistent intensification in the Russia-Ukraine conflict. However, these CHF-positive drivers are set against an SNB whose policy objectives are not well-served by a strengthening currency. There is now risk of Swiss inflation undershooting the SNB's target range. This would be made worse by CHF appreciation. CHF appreciation also has a growth dampening effect; thus, expect tacit pushback from the SNB against CHF strength via rate cuts and periodic intervention. Overall, expect the USD-CHF and EUR-CHF to see a slight downside drift in 1Q25.

Limited downside for JPY. JPY failed to extend the gains associated with the crowded carry unwind between Jul and Aug 2024. Short JPY positions have since been rebuilt on the renewed widening of UST-JGB yield differentials. Nevertheless, JPY weakness will draw familiar pushback from the Japanese government and the BOJ. In addition, the prospect of a BOJ rate hike cycle, however gradual, and the worsening of geopolitical risks, should attract some JPY-buying flows. Thus, unlike in previous bouts of USD strength, the JPY will not be the main underperformer this time round.

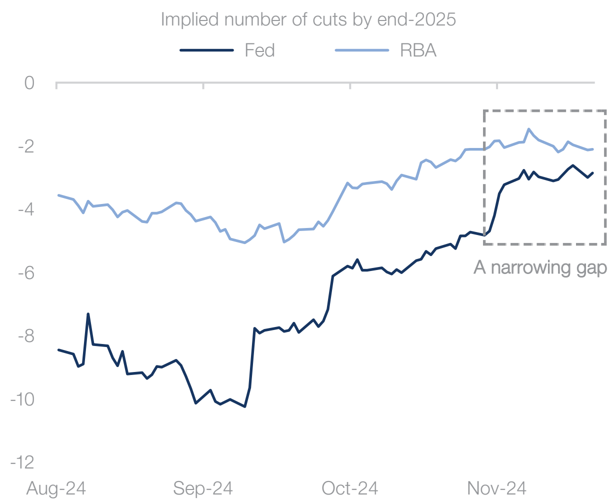
Renewed net short JPY positions amid widening US-Japan yield differential



Source: Bloomberg, DBS

AUD's prospects tied to China. In the near-term, the AUD is most closely linked to China, and the interplay between tariffs risks and hopes for Chinese fiscal stimulus. The baseline expectation remains for the tariff risks to be the dominant factor for now, with a resultant net negative impact on China. This creates a drag on the AUD. Domestic drivers lean positive for the AUD, with the RBA being one of the least dovish major central banks. However, this driver is being diluted by the increasingly shallow Fed rate cut trajectory, and may not translate to a material AUD-positive. Taken together, the AUD may have a broadly sideways trajectory against the USD.

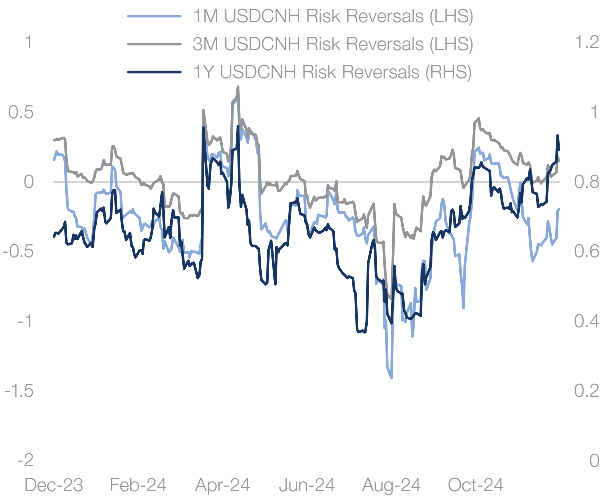
Implied interest rate change by RBA and Fed between now and end-2025



Source: Bloomberg, DBS

Tariff threat continues to weigh on RMB. As expected, the RMB took a sharp hit on Trump's victory and the Red Sweep outcome. The tariff threat still looms – additional tariffs can be implemented via executive order as soon as Trump's first day of office. This, coupled with the PBOC's easing bets, pushed USD-CNH to the 7.3000 zone. On a positive note, the PBOC has taken actions, such as setting a lower-than-expected USD-CNY daily fixing rate and tightening of offshore CNH liquidity, to stem the RMB slide. Thus, the risks of an immediate dislocation lower for the RMB is likely averted. However, the objective of these PBOC actions has never been to reverse the RMB trend. In the options space, USD-CNH risk reversals also suggest strong long USD-CNH interest, particularly at the back end. Moving ahead, even though considerable uncertainty in the timing and substance of these additional tariffs clouds the near-term USD-CNH directionality, the RMB is not out of the woods yet.

Bearish RMB bets concentrated at the back end



Source: Bloomberg, DBS

Lack of an immediate RMB-positive catalyst. Ongoing developments on the growth and monetary policy fronts will mean that US-China yield differentials will likely remain wide, and the USD-CNH buoyant. There is still a wide divergence between the still-resilient US economy and a Chinese economy that requires more stimulus to deal with persistent challenges. However, another round of stimulus blitz, if any, may only be unleashed in March 2025's National People's Congress meeting. This divergence may not close soon. In addition, the PBOC is expected to ease further, at a time when the Fed is seen to slow its rate cut path. Overall, expect the USD-CNH to hover around 7.3000 in 1Q25, with an upside bias.

Upside bias seen for the USD-SGD. Domestic drivers favour a stronger SGD as the MAS remains one of the less dovish central banks. However, this SGD-positive driver should fade into 2025 as the MAS inches closer to easing its policy parameters alongside other major central banks. Global cues are more likely to dominate. Asian currencies, including the SGD, have traditionally been linked to the RMB. This relationship was further tightened after the US elections, as the additional tariffs are seen as a common threat to all Asian economies, not just China. In that context, the USD-SGD may see implicit upside bias towards the 1.3600 locus if the USD-CNH makes a move higher towards 7.3000.

DBS currency forecasts

Exchange rates, eop	6 Dec	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	4Q26
China	7.2715	7.29	7.29	7.21	7.10	7.10	7.10	7.06	7.06	7.06
Hong Kong	7.7795	7.80	7.80	7.79	7.78	7.78	7.79	7.77	7.77	7.77
India	84.695	84.5	85.0	85.5	86.0	86.2	86.4	86.6	86.8	86.8
Indonesia	15,845	16,025	16,025	15,795	15,450	15,450	15,450	15,335	15,335	15,335
Malaysia	4.4195	4.56	4.56	4.46	4.30	4.30	4.30	4.24	4.24	4.24
Philippines	57.748	60.0	60.0	58.9	57.3	57.3	57.3	56.8	56.8	56.8
Singapore	1.3427	1.36	1.36	1.34	1.31	1.31	1.31	1.30	1.30	1.30
South Korea	1,423	1,420	1,420	1,390	1,350	1,350	1,350	1,335	1,335	1,335
Thailand	34.068	35.2	35.2	34.5	33.5	33.5	33.5	33.1	33.1	33.1
Vietnam	25,385	25,615	25,615	25,305	24,845	24,845	24,845	24,695	24,695	24,695
Australia	0.6391	0.64	0.64	0.66	0.68	0.68	0.68	0.68	0.68	0.68
Canada	1.4157	1.41	1.41	1.39	1.36	1.36	1.36	1.35	1.35	1.35
Eurozone	1.0568	1.03	1.03	1.05	1.09	1.09	1.09	1.10	1.10	1.10
Japan	150.00	157	157	153	147	147	147	145	145	145
New Zealand	0.5831	0.58	0.58	0.59	0.61	0.61	0.61	0.62	0.62	0.62
Switzerland	0.8788	0.90	0.90	0.89	0.86	0.86	0.86	0.86	0.86	0.86
United Kingdom	1.2744	1.24	1.24	1.26	1.30	1.30	1.30	1.31	1.31	1.31
United States	106.06	108.5	108.5	106.4	103.3	103.3	103.3	102.2	102.2	102.2

Australia, Eurozone, New Zealand, and United Kingdom are direct quotes.

Source: Unsplash

Still Waiting

Commodities
1Q25

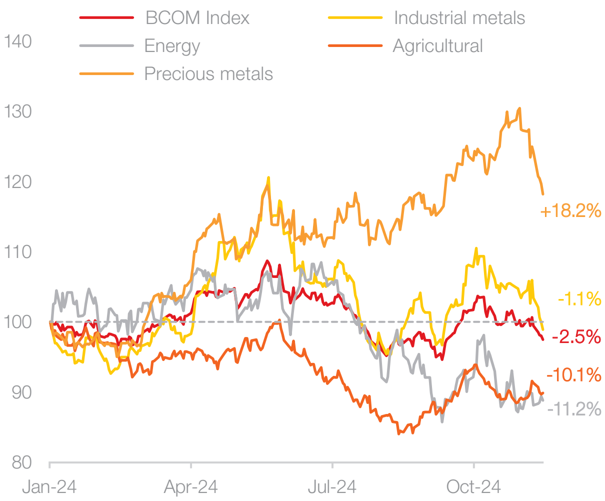
Potential tariff hikes under Trump 2.0 pose demand risk for industrial metals and agricultural commodities while US energy security agenda to cap oil prices. Coffee and cocoa continue to outperform on resilient global demand amid a challenged supply.

10. Commodities.

Goh Jun Yong
Analyst

No palpable progress. In the previous quarter, we covered how the broad commodities complex gave up the majority of its first half gains on the back of soft macro conditions and a lack of fresh policy stimulus from Beijing. Many key developments have since taken place; China announced two new rounds of major stimulus measures (monetary easing in September and fiscal stimulus in November) while the US election concluded with a convincing victory for Trump and a Republican sweep in both houses of congress. Logically, one would count on the reflationary nature of these developments to buoy commodities, at least to some extent. However, that has not been the case. Commodities continued a modest backslide in the fourth quarter of 2024, notching a YTD loss of –2.5% (as at 14 Nov), with the energy sub-complex leading the decline. Even precious metals, which was a stellar outperformer for first nine months of 2024, fell –7.2% MTD (as at 14 Nov). Why have commodities underperformed despite the presence of new catalysts?

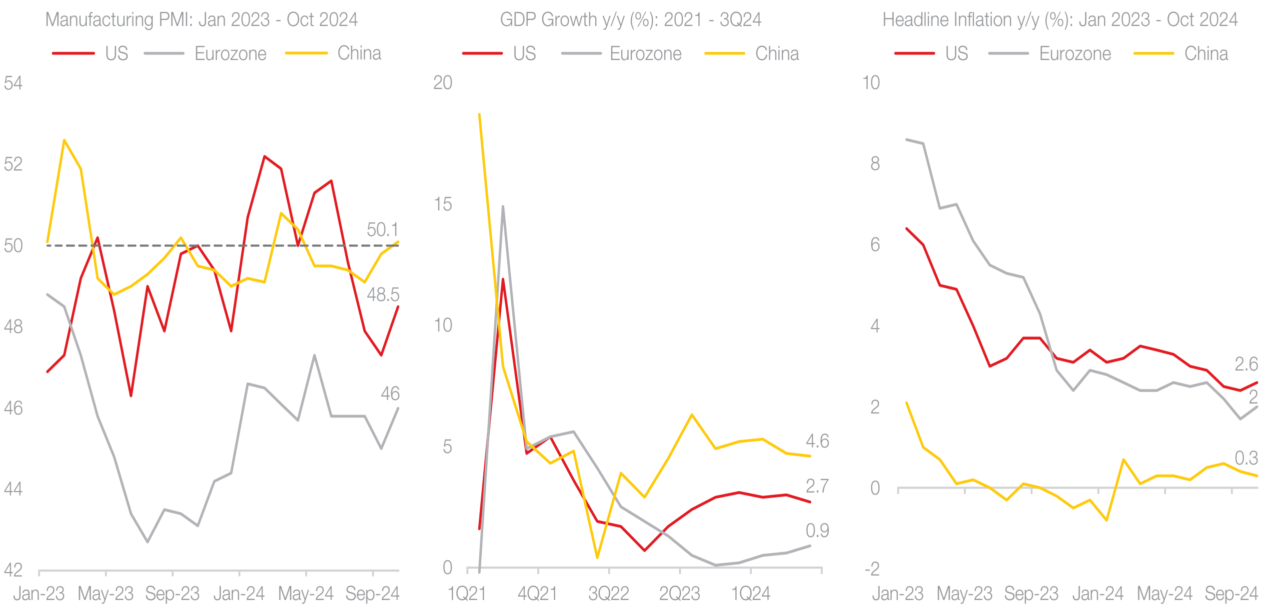
Commodities lost more ground in 4Q24 amid volatile backdrop



Source: Bloomberg, DBS

China stimulus – substantial but insufficient. The double-barrelled stimulus from Beijing was substantial – its biggest since the Covid-19 pandemic. The RMB10tn fiscal package announced on 8 Nov would be used to restructure local government debt, free up previously constrained resources, and refocus spending on "development and public welfare improvement". While commendable, the consensus is that these measures are insufficient in addressing the key issues dogging China's economy, chief among which are its housing market slump and flagging domestic consumption. The sentiment surrounding these measures is that they serve more to backstop the economy rather than to reflate it. The demand outlook for commodities has accordingly remained muted. Perhaps Beijing is shoring up dry power in preparation for Trump's impending tariffs and will announce more measures in due course. But as things currently stand, the macro situation in China remains lukewarm. Salient datapoints to call out include: i) China's 3Q24 GDP growth of 4.6% y/y, which looks set to miss their official 5% full-year target; ii) Manufacturing PMI entering expansionary territory in October, but just barely (50.1).

China GDP growth may miss 5% target

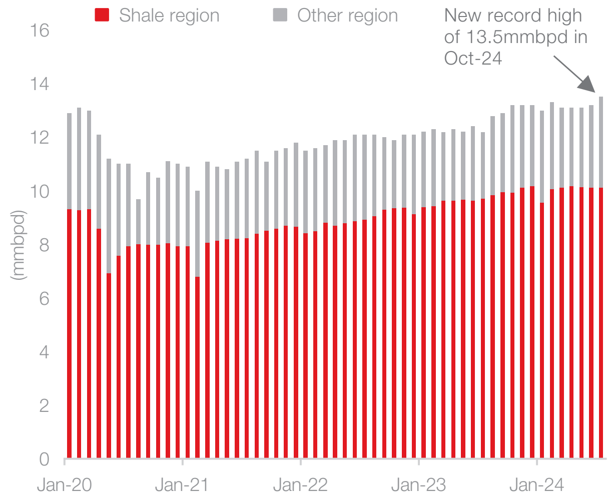


Source: Bloomberg, DBS

Trump will add complexity to commodity markets. The impact of Trump coming into office should not be underestimated as his stance on energy will impact domestic oil supply, and by extension, the global supply since US is now the world's largest oil producing nation. It will also affect metals demand through his administration's influence over de-carbonisation and industrialisation projects. Additionally, incoming tariffs will introduce a new layer of complexity as they will likely curb exports from China and Europe, and in turn reduce demand for a myriad of commodities.

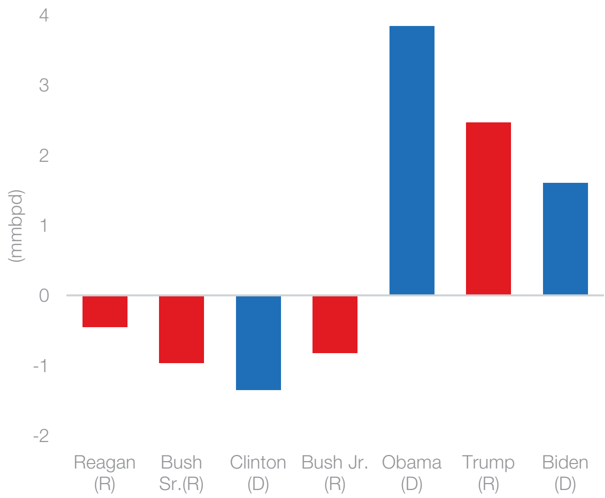
Energy security a key priority for the US. Trump has, on many occasions, declared his intention to reduce inflation by increasing domestic oil production and making energy more affordable. This intention can be best captured by the "3-3-3" policy proposed by Scott Bessent, whose name has been floated for positions like Treasury Secretary. The policy entails cutting the budget deficit to 3% of GDP by 2028, growing GDP by 3%, and increasing domestic oil and gas production by 3mn barrels per day (mmbpd). And while US production will ultimately be determined by market forces, Trump's agenda will undoubtedly skew it to the side of growth. Additionally, OPEC+ is slated to unwind 2.2mmbpd of their voluntary production cuts over the course of 2025, which will further add to the risk of supply growth. Against this backdrop, we expect oil prices to be capped in the USD70-75/bbl range. Nonetheless, we can expect integrated energy players and oilfield services companies to benefit from the overall higher oil and gas activities in the US moving forward.

US oil production continues to push higher



Source: Bloomberg, DBS

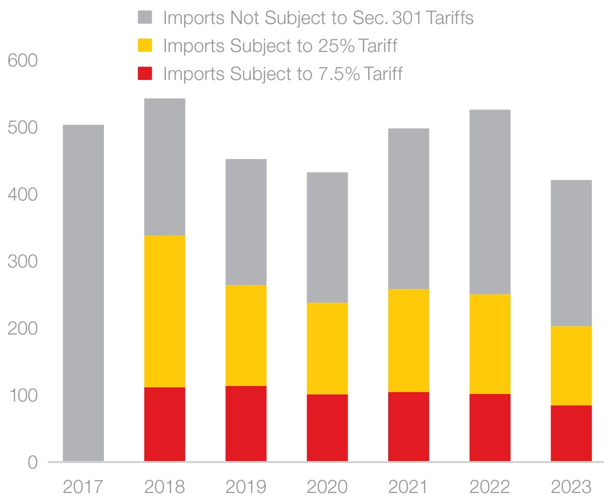
US crude oil production changes by president



Source: Bloomberg, DBS

Tariff hikes a big risk for metals. De-carbonisation continues to be a key long-term driving force for metals demand. However, there are factors that will complicate the situation in the short to medium term, chief among which are Trump's impending tariff hikes. With proposed rates of 60% or more on China, and 10-20% on the rest of the world, the possibility of a tariff war 2.0 is real. In such a scenario, US import volumes from China will likely fall (as they did between 2017 and 2023), and China's GDP growth could see a potential hit of up to -2%. Beyond China, IMF projects that a 10% increase in US tariffs in 2025 could result in a depressive impact of -0.7% on global GDP by 2026. Overall, the impact of Trump's tariffs on commodity prices will be largely negative if they do materialise, especially from a sentiment perspective in the near-term. Among commodities, metals will be disproportionately affected as many of the top categories of imported goods subjected to tariffs (e.g. electric vehicles and parts/accessories, batteries, and battery parts etc.) are drivers of metal demand.

Imports subject to tariffs remain below pre-trade war levels



Source: US International Trade Commission Dataweb, The Tax Foundation

US import categories and applicable tariffs

Import category	Current rate	New rate	Implementation year (current rate)	Implementation year (new rate)
Electric vehicles (EVs)	25%	100%	2018	2024
Semiconductors	25%	50%	2018	2025
Solar cells	25%	50%	2018	2024
Syringes and needles	0%	50%	New	2024
Some steel and aluminium products*†	7.50%	25%	2019	2024
Lithium-ion EV batteries	7.50%	25%	2019	2024
Lithium-ion non-EV batteries*	7.50%	25%	2019	2026
Battery parts*	7.50%	25%	2019	2024
Some personal protective equipment (PPE)*†	7.50%	25%	2019	2024
Rubber medical and surgical gloves*	7.50%	25%	2019	2026
Natural graphite and permanent magnets	0%	25%	New	2026
Other critical minerals	0%	25%	New	2024
Ship-to-shore cranes	0%	25%	New	2024

*Tariffs implemented in 2019 started at 15% and were reduced to 7.5% in Jan 2020
†Current rate for steel and aluminium products and personal protective equipment ranges from 0 to 7.5%

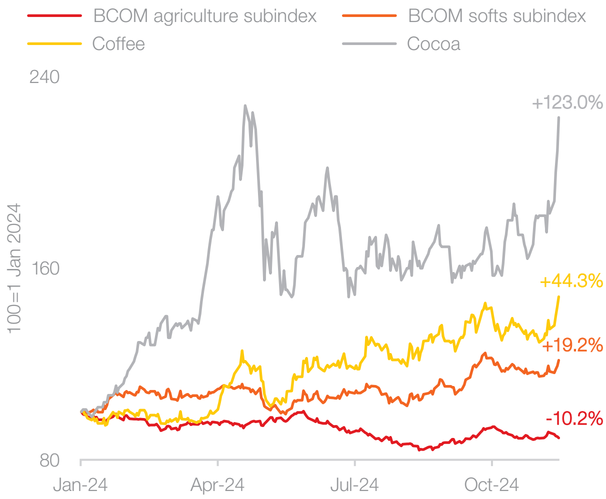
Source: Visual Capitalist

Potential sweeteners from China stimulus and US industrialisation. Factors that can potentially offset the contractionary impact of tariffs include further policy stimulus response by China. However, it is difficult to quantify the impact of such measures as details provided have been vague, and they will likely be reactive rather than proactive. Another key factor that could offer some support for metals demand in the face of tariffs is the reindustrialisation push by the US; fiscal initiatives such as tax cuts and de-regulation, coupled with the push for reshoring manufacturing activities, could boost American consumption of metals and partially offset the negative growth impact of tariffs on the rest of the world. And while Trump had previously been critical of renewables and EVs, a newer narrative is emerging around the creation of a domestic "manufacturing renaissance" focused on auto-making. The Pentagon, in its inaugural defence industrial strategy, acknowledges the need to accelerate "the development and production of emerging technologies and products, such as autonomous systems, quantum technology, artificial intelligence, and advanced materials that can serve the needs of both the military and civilian economy".

Agricultural commodities also at risk from tariff hikes. The possibility of a tariff war 2.0 will also negatively impact the agricultural commodities sub-complex; tariff hikes on EVs and batteries will likely prompt retaliatory measures from China, and the most ostensible area for countermeasures would be US exports of grain, soybean, and livestock. The silver lining is that downside risk will likely not be very significant given the low base of US-China agriculture trade, which has been declining over the past decade and below pre-US-China trade war levels. However, depending on how trade negotiations pan out, there may be upside potential from China's appeasement measures in the form of US agricultural commodity purchases.

Softs continue their outperformance. Within the agricultural commodities space, a key area to continue watching is softs, which have continued their outperformance in the fourth quarter. On a YTD basis (as at 18 Nov), softs are up 19.2%, outperforming broader agricultural commodities by 29.4%. Cocoa and coffee are up 123.0% and 44.3% respectively over the same period, buoyed by similar tailwinds of resilient, robust global demand amid a challenged supply due to secular (global warming) and idiosyncratic (poor harvests and disease outbreaks) tailwinds.

Softs have outperformed vs other agricultural commodities



Source: Bloomberg, DBS

Volatility will reign in the short-term. Amid lacklustre stimulus from China and tariff woes from Trump's re-election, the short-term outlook for commodities will likely be plagued by high levels of volatility. Any potential sweeteners from further China stimulus and pro-growth policies from Trump, if any, will take time to play out. Against this backdrop, we advocate remaining selective on the commodities complex; possible opportunities lie in the precious metals space, which continue to see a debasement angle in the medium to long term, as well as selective softs such as coffee and cocoa on the basis of favourable demand-supply dynamics. Structured products linked to individual commodities, commodity baskets, or commodity indices are a good way for clients to take a view on specific commodities and take on investments of a tactical nature while waiting for more certainty in the global macro landscape.

Resilience with Alternatives

Alternatives 1Q25:
Gold &
Private Assets

The structural case for gold remains compelling as US fiscal deficit looks set to grow under Trump. Semi-liquid vehicles have democratised access to private assets, enabling liquidity-constrained investors to create hybrid public-private portfolios.

Source: Unsplash

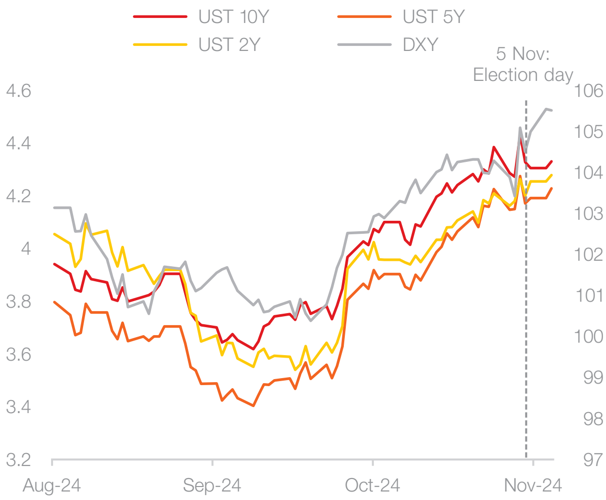
11. Alternatives: Gold.

Goh Jun Yong
Analyst

Trump 2.0: A mixed bag for gold in the short-term. We had covered extensively in the previous quarterly report about the return of the inverse gold-rate/dollar correlation since 2H24 and how that has been the main tailwind for gold in recent times. Unsurprisingly, gold has undergone a phase of consolidation with the re-election of Trump and a red sweep of both houses of congress; in the immediate aftermath of the election (6 to 11 Nov), US treasury yields moved higher across the curve (10Y: +6 bps; 5Y: +8 bps; 2Y: +10 bps) and the dollar strengthened as well (DXY: +2.0%), resulting in a -4.4% decline for gold. Trump's looser stance on fiscal matters and penchant for tariffs are fuelling investor expectations for higher inflation and thus higher rates, and in the short-term, this will likely weigh on gold prices. Expectations aside, the policy rate trajectory seems to be unaffected by Trump's victory for now. The Fed moved ahead with a quarter point rate cut a day after the election, with Fed Chairman Jerome Powell adding that "the election will have no effects" on policy rate decisions and that he is "feeling good" about the US economy, suggesting that the path of monetary easing is likely to be maintained should economic data permit.

'Higher for longer' is not a given. While fears of 'higher for longer' under President Trump is the current preoccupation of market participants, it is far from certain that such a scenario will materialise as there is often a rift between Trump's rhetoric and policy actions. Steven Mnuchin, who served as Treasury Secretary for all four years of President-elect Trump's first term, said in a media interview that Trump will be "very careful" not to reignite inflation with tariffs,

Treasury yields, dollar have risen post the US election



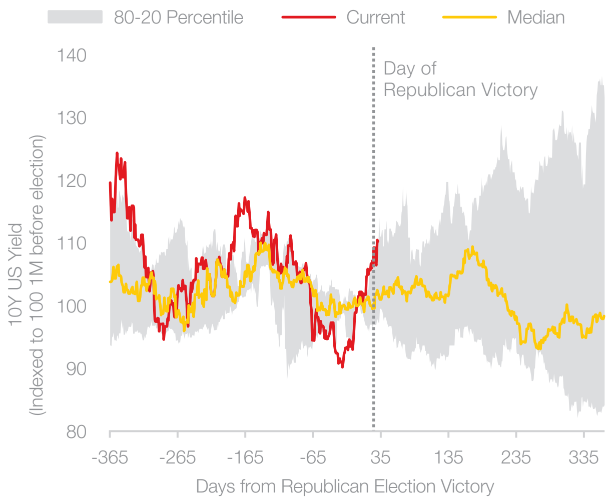
Source: Bloomberg, DBS

and that Trump's immediate focus in his second term will instead be on extending the 2017 Tax Cuts and Jobs Act. The notion that Trump's tenure will necessarily result in higher inflation and rates is also not well-supported by empirical evidence. If we look at the five-year, five-year forward inflation expectation rate (5Y5Y) over the past 10 years, which measures expected average inflation over the five-year period that begins five years from today, we see no material spike in inflation expectations post the election. Further, if we look at the median 10Y US Treasury yield over the past eight Republican presidential tenures, there is no compelling evidence to suggest that yields will increase significantly in the year following the election.

Long-term inflation expectations have remain largely stagnant post-election

Source: Federal Reserve Bank of St. Louis

History suggests no big jump in yields during Republican presidencies



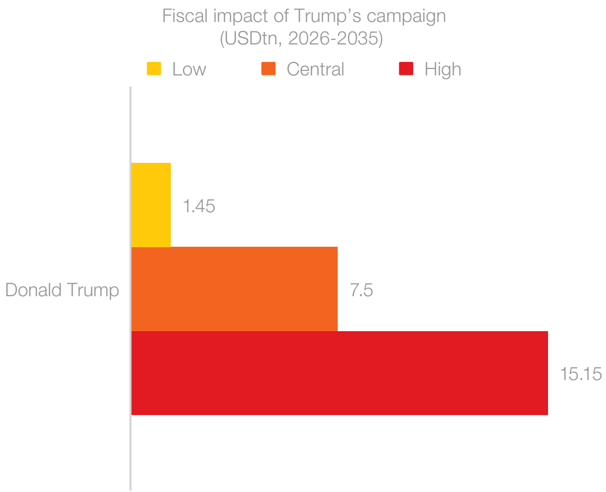
Source: Bloomberg, DBS

Rising fiscal deficits to drive long-term gold demand. Despite the ambiguity of gold's near-term outlook, the long-term investment thesis for bullion remains clear and compelling, and a large part of this stems from the high likelihood that the US fiscal deficit is expected to grow. Under Trump, the base case is for a USD7.5tn increase through 2035. Even in a low case scenario, deficits are projected to increase by a substantial USD1.45tn. This is a positive for gold as rising US indebtedness affects investor perception of risk and the dollar, which can boost bullion's appeal through the following mechanisms:

- **Safe haven demand** – Doubts over US financial health can lead to general risk-off sentiment.
- **Weaker dollar** – Waning confidence over the US economy may drive a weaker dollar; the dollar may weaken despite elevated rates if the fiscal situation is unsustainable.
- **Policy rate constraints** – Elevated debt levels limit the Fed's ability to raise rates indiscriminately; this should help to limit rate-driven downside.

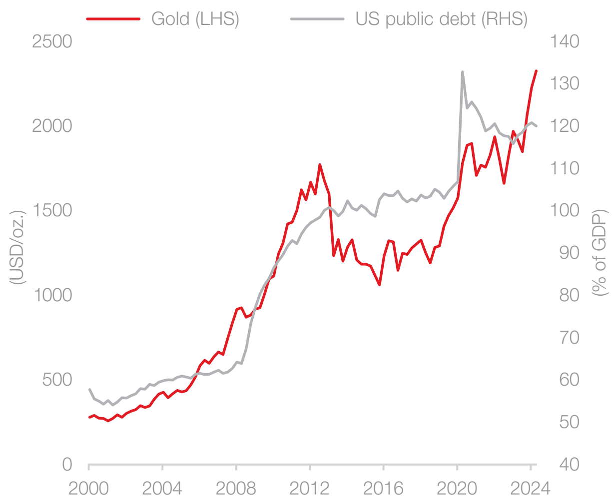
An increasingly multi-polar world. Another long-term tailwind for gold is increasing global multi-polarity. The re-election of trump is expected to exacerbate, or at the very least sustain, this trend moving forward. Trump's adversarial position on multilateralism and intergovernmental organisations, penchant for protectionist policies such as tariffs and reshoring, and his confrontational and transactional stance on foreign policy are all factors that will likely aggravate global multi-polarity. This is a positive for gold as more countries will seek to de-risk

US fiscal deficit expected to grow under Trump



Source: Committee for a Responsible Federal Budget, a nonprofit that supports lower deficits

Gold is correlated with US indebtedness, which is expected to rise

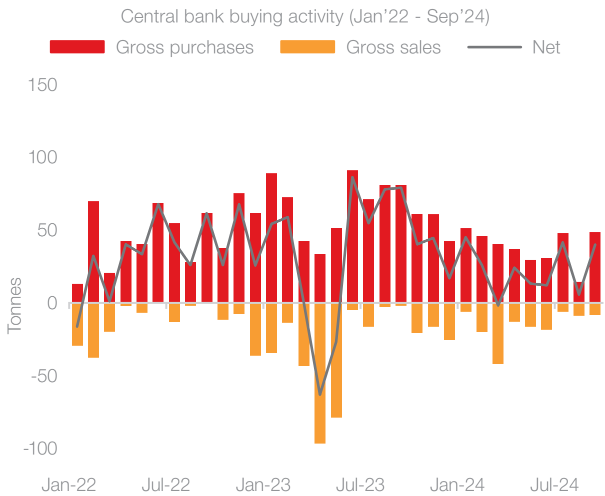


Source: Bloomberg, DBS

themselves from the US and US dollar-denominated assets. Coupled with growing US indebtedness, the appeal of gold as a means to diversify away from the dollar should not be underestimated. Central banks recognise this reality and have been steadily increasing their gold buying over the past three years.

Structurally bullish despite near-term uncertainties. Despite uncertainties surrounding gold's immediate outlook, there are structural factors in place that position the precious metal well for the long run. As mentioned, the start of Trump's second presidency will be marked by falling, not rising rates, and the less-than-ideal fiscal situation in the US, coupled with Trump's adversarial stance on foreign and trade policy, should see gold's safe haven appeal maintained. On that basis, we keep our 12-month target price for gold from the previous quarter at USD2,835/oz. Gold also maintains its key role within the overall portfolio as a risk diversifier due to its uncorrelated nature with public equities and debt.

Central banks maintain their net buying streak for gold in 3Q24



Source: World Gold Council, IMF

Alternatives: Private Assets.

Daryl Ho, CFA
Strategist

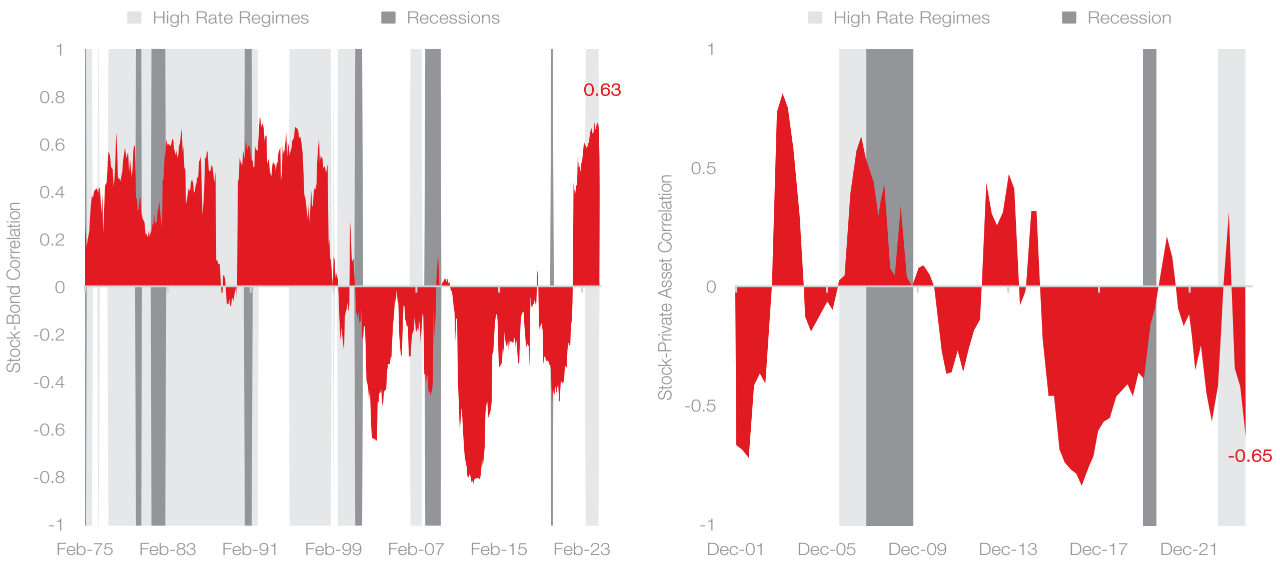
Elijah Tan, PhD
Analyst

Navigating the winds of change. Investors today face the complexities of evolving growth expectations, inflation spikes, geopolitical shifts, monetary policy direction, and fiscal largesse, just to name a few. Amid the deluge of uncertainty, the reliability of the traditional 60/40 portfolio is being challenged at its core. For decades, investors have relied on negative stock-bond correlations to build diversified portfolios, with bonds serving as a buffer during stock market downturns. This correlation flipped in recent times, obliterating the downside protection bonds once offered during downturns.

Rising to the occasion. In its stead, alternative asset classes, particularly those in the private markets, arose as worthy candidates for portfolio diversification. Private assets retained uncorrelated performance against publicly listed assets for most parts post the Global Financial Crisis (GFC), most recently registering a strong negative correlation of -0.65 against stock performances. This likely precipitated the stellar risk-adjusted annualised returns for private assets, in stark contrast to publicly listed stocks and bonds.

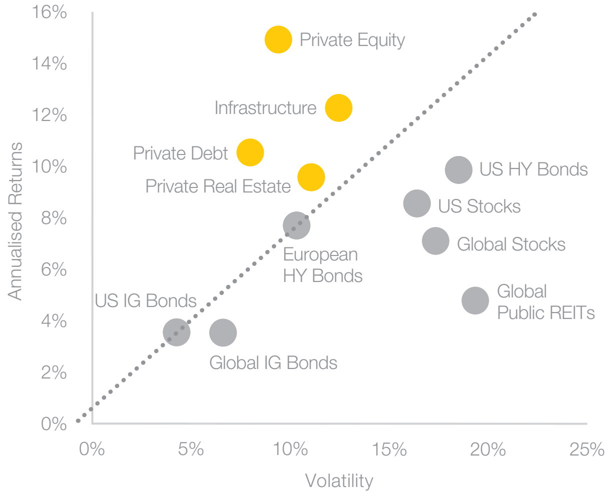
Pay the patient piper. Unlike stocks and bonds, alternative assets can be highly illiquid. Private assets, in particular, are often acquired for their outsized growth potential over the long term. Investments are therefore structured with long holding periods that limit exits prior to maturity. Investors receive, in return, the promise of outsized returns in what is known as illiquidity premium. Institutional investors like endowments, who have stable funding to weather market fluctuations, prioritise long-term growth over liquidity, and allocate exceedingly large proportion of

Strong negative correlations under the present high-rate regime favour private assets over bonds for portfolio diversification



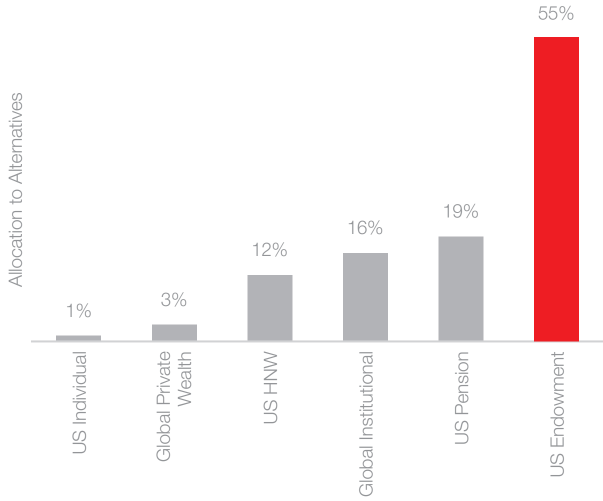
Source: Bloomberg, Pitchbook, DBS
Note: Two-year trailing correlations were computed using S&P 500, Bloomberg US Long Treasury, and Pitchbook Private Capital Indices. High-rate regimes refer to periods where real rates (i.e. PCE-adjusted Fed fund rates) were greater than the 50th percentile.

Attractive risk-reward profiles of private assets invite the reconsideration of the classic "60/40" portfolio allocation



Source: Pitchbook, Bloomberg, DBS
Note: Returns and volatility were computed from 22 years (Mar 2002 – Mar 2024) of quarterly index returns

Institutional investors such as endowments lead individual investors in alternatives allocation



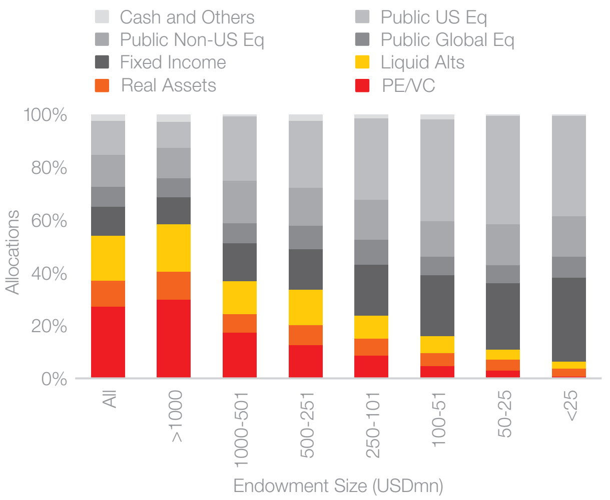
Source: KKR Global Wealth Investment Solutions, DBS
Note: Data as at 31 Dec 2023

their portfolios to alternatives, often exceeding 50%. The endowment investment model exemplifies the pursuit of illiquidity premia. This strategy favours substantial portfolio allocations to illiquid private alternative assets like private equity and venture capital for outsized returns, while also keeping a comparable allocation to liquid assets to manage capital calls on private investments. Larger endowments, with greater exposure to illiquid private assets, have often outperformed smaller ones, highlighting the impact of private assets on the performance of hybrid portfolios.

Pulling out all the stops. While successful, the endowment model presents some room for improvement, particularly in regard to balancing returns with liquidity needs of investors who have greater liquidity constraints. The illiquidity inherent in private alternatives can pose massive challenges to individual investors. When unexpected expenses arise, individual investors may be forced to liquidate assets at unfavourable times. It is essential to adapt the endowment model to individual investors by incorporating stronger liquidity provisions.

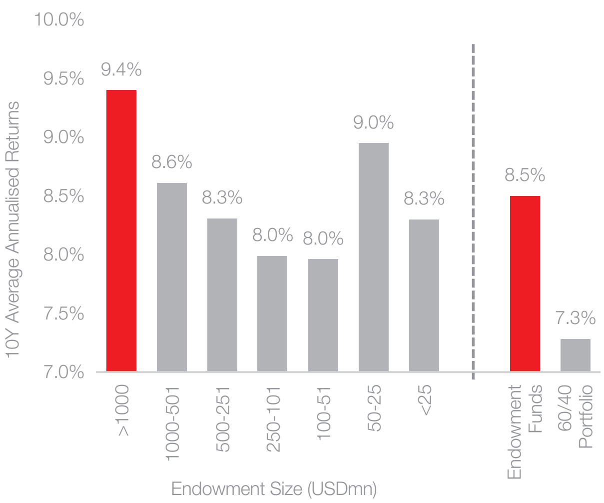
Not quite dry powder. Semi-liquid funds (also known as "evergreen funds") have gained popularity as effective vehicles for liquidity management. Semi-liquid funds maintain a liquidity sleeve of cash and money market instruments. This liquidity sleeve allows funds to meet operational needs without tapping into upfront capital commitments, enabling

Larger endowment funds dial back on public assets for greater exposure to alternatives



Source: NACUBO-TIAA 2021 Study on Endowments, DBS

Funds with higher alternatives allocation appear to reap higher returns over a 10-year period



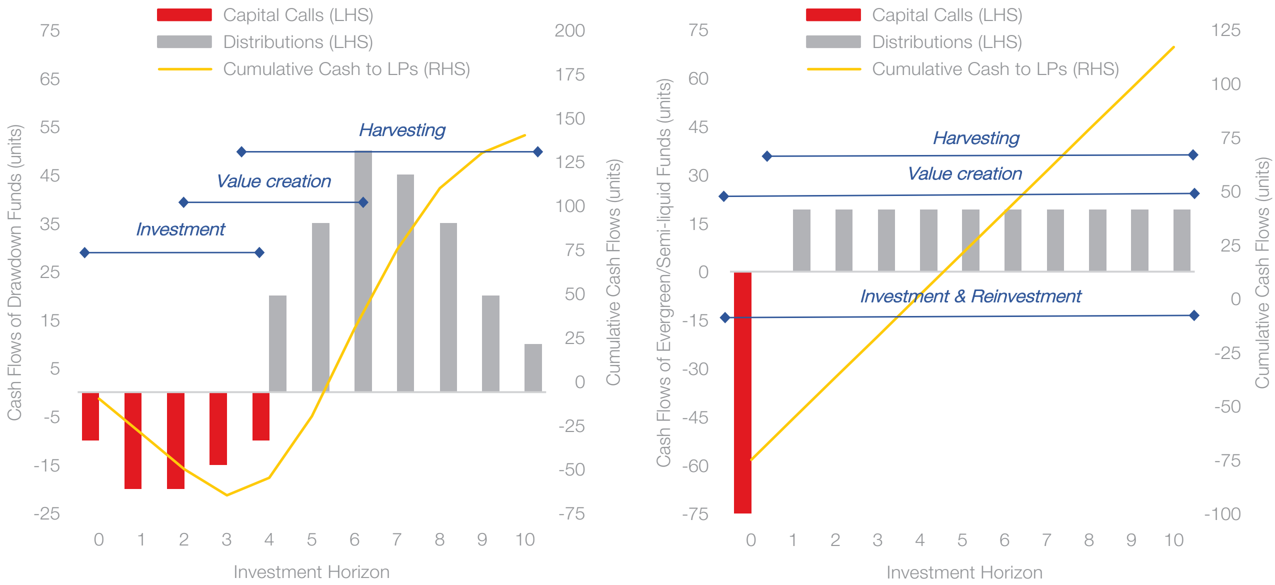
Source: NACUBO-TIAA 2021 Study on Endowments, Bloomberg, DBS

capital to be fully and immediately deployed to target assets. As a result, these funds can achieve faster compounding, more consistent, and earlier distributions. Importantly, the liquidity sleeve enables flexible redemptions. In the absence of redemption requests, the capital base pools from continual reinvestments, circumventing the need for frequent fundraising rounds. The structure scales very rapidly in a cost-efficient manner, allowing fund managers to focus on value creation.

Mind the blind spots. Semi-liquid structures, while offering liquidity provisions, carry some operational risks. Investors could face withdrawal caps (3-5% of NAV) and quarterly processing, limiting annual redemptions to roughly 20%. Insufficient liquidity can further delay withdrawals, contradicting the “semi-liquid” label. Furthermore, a rush of investors cashing out can force the fund to sell assets, potentially weakening diversification and hurting returns for those who remain. Therefore, the composition of assets is crucial. Underlying assets need to be adequately liquid for the fund to better meet redemptions without disrupting core investment activities or impacting performance.

Match made in heaven. There is a growing trend of secondaries being used as core building blocks for semi-liquid funds to create more predictable liquidity outcomes and to mitigate risks. Through secondaries transactions, semi-liquid funds acquire mature underlying assets (which are often yield-generating) at a discount, and with a high visibility of asset quality. What this means is the deployed capital often start compounding returns on fundamentally strong assets at the very outset, securing early and

Committed capital in evergreen/semi-liquid funds are immediately deployed, earning earlier and more regular distributions



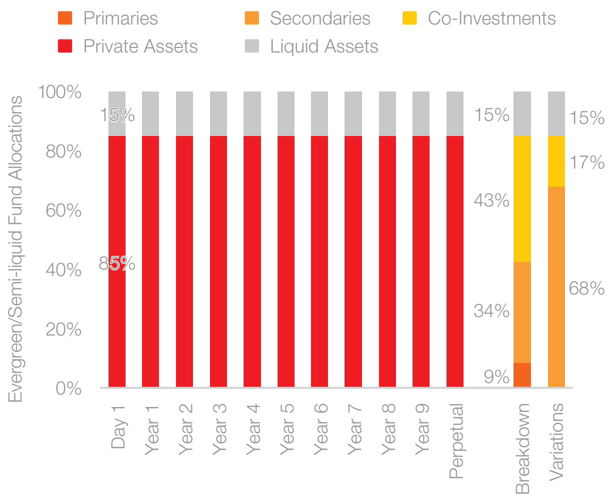
Source: DBS

Note: Cash flows are constructed based on estimated terminal IRR of 13.8% and 11.9% for primary private equity drawdown funds and evergreen/semi-liquid funds respectively. Actual capital calls and distributions may vary for different funds and hence the cash flows are for illustrative purposes only.

reliable streams of distributions. Fund managers can also capitalise on the expediency of secondary transactions and the liquidity sleeves within semi-liquid funds to rapidly build out a diversified portfolio of hundreds of underlying companies. With a broad, high-quality asset base, periodic exits for accessing capital become more efficient, and have a relatively muted impact on the overall liquidity, resulting in a more stable outcome.

Putting it all together. Empirically, semi-liquid funds that consist predominantly of private secondaries display significantly attenuated downsides (compared to primary funds), and enhanced upsides (compared to both primary and secondary funds). This underscores the synergy between the semi-liquid fund structure and secondaries, and the impact the blended offering can potentially deliver. In the context of an endowment-style hybrid portfolio, increasing underlying secondaries exposure via semi-liquid vehicles possesses the potential to improve the risk-adjusted returns via significant risk attenuation.

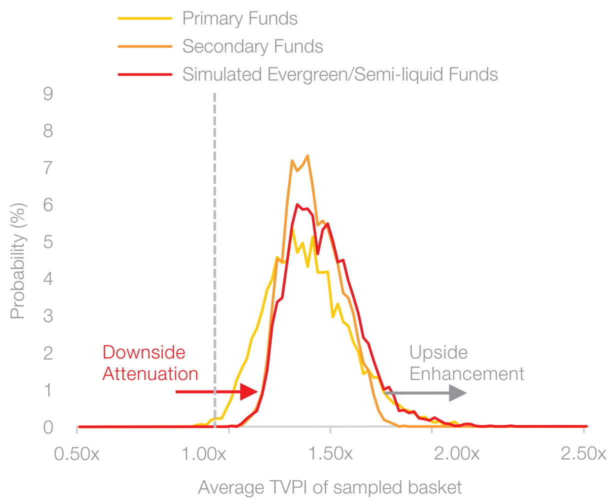
Evergreen/semi-liquid funds have evolved to offer sizeable private secondaries exposure



Source: KKR, Stepstone, DBS

Note: For illustrative purposes only. Liquid assets refer to cash and treasuries. Breakdown variations represent two representative ends of the spectrum of evergreen/semi-liquid fund offerings from the aforementioned managers, containing (left) 40% secondaries, 50% co-investments, 10% primaries and (right) 80% secondaries, 20% co-investments, 0% primaries. The displayed concentrations were adjusted proportionally to cater for a 15% liquidity sleeve. Some evergreen/semi-liquid funds may not contain a full 15% liquidity sleeve.

Evergreen/semi-liquid funds with sizeable secondaries exposure provide strong downside attenuation and upside enhancement

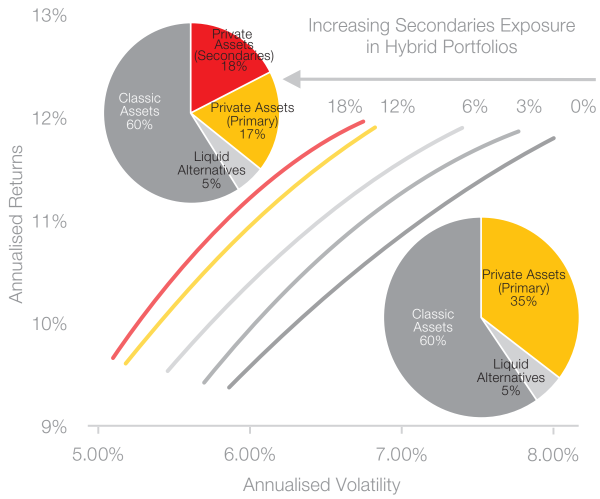


Source: Pitchbook, DBS

Note: Probabilistic model for evergreen/semi-liquid funds is constructed from 5000 simulations of average weighted TVPIs calculated from randomly selected baskets of 20 funds composed by 80% secondaries funds, 15% co-investments funds, and 5% primary funds. Middle market PE (Buyout, Growth) and VC funds of the 2013 to 2024 vintages were sampled from Pitchbook.

Diamond in the rough. The future of private market investing favour strategies that are well-diversified and capabe of addressing liquidity concerns. Endowment-style hybrid portfolios, with their significant allocation to alternatives alongside public assets, are well-equipped to navigate macroeconomic challenges. However, the model can benefit from further optimisations that improve liquidity for individual investors. The inclusion of semi-liquid funds which contain sizeable exposure to the growing secondaries market can fulfil this and unlock strong risk-adjusted returns in the years to come.

Increasing underlying secondaries exposure in an endowment-style hybrid portfolio improve risk-return outcomes



Source: Pitchbook, Bloomberg, DBS

Note: Mean-variance optimisation was performed on quarterly index returns from Mar 2000 to Mar 2024. Primary private asset consisted of 2% Real Estate, 2% Infrastructure, and 31% of a 3:1 mix of Private Equity: Private Credit. Secondaries exposure was introduced at the expense of 31% Private Equity/Private Credit mix whilst keeping 3:1 ratio intact. Liquid alternatives consisted of hedge funds and gold, whilst classic assets consisted of public equities, fixed income, and cash

The Rise of Sports Investment

Thematic Strategy 1Q25

The sports economy has garnered significant momentum, driven by streaming and growing enthusiasm in women's and youth sports. We delve into the compelling investment potential presented by sport franchises and their surrounding ecosystems.

12. Sports Investments.

Dylan Cheang
Strategist

Daryl Lim, CFA
Analyst

Benjamin Goh
Analyst

From the FIFA World Cup captivating almost half the global population – c.3.57 billion people tuned in for the 2018 FIFA World Cup – to the millions that turn up physically to watch the Tour de France each year, sports are an already-massive yet rapidly growing industry that provides entertainment, fosters camaraderie, and promotes fitness.

Accelerating growth: Demand outlook in the evolving sports economy

Driven by robust interest, the sports industry has recently experienced a significant increase in demand. According to Statista, the global sports market revenue stands at USD463bn in 2024 and is expected to grow at a CAGR of 7% to reach USD862bn by 2033. These growth projections can be attributed to the following factors:

» **The streaming revolution.** In recent years, Big Tech giants like Amazon, Apple, Google, Netflix and Meta have been aggressively acquiring live sports streaming rights. According to estimates by S&P Global Market Intelligence, the spending on sports media rights by OTT (Over-The-Top) Platforms has seen impressive growth of 74.3% CAGR between 2016 to 2024.

Furthermore, this trend is expected to continue as more companies realise the value of live sports. According to estimates by PwC, the Global Sports Media Rights market is expected to reach USD60.6bn in 2024, growing at a 5.3% CAGR from 2019 to 2024.

» **Breaking barriers with women's sports.** Historically, women's sports have been overshadowed by men's in terms of media coverage, viewership, and investments. Comparing FIFA events, the Men's World Cup has averaged 3.1mn attendees over 30 years, while the Women's World Cup has averaged 1mn. However, the 2023 Women's World Cup marked a turning point with 1.98mn attendees, a 75% rise from 2019.

» **Harnessing the potential of youth.** Youth sports is emerging as a major growth driver for the sports industry. In the US, youth sports generates over USD19bn annually, with the global market projected to reach USD77.6bn by 2026, growing at a CAGR of 23% from 2019–2026. The sector's benefits extend beyond economics, with studies showing strong parental support for the mental and physical health benefits of youth sports, and a clear link between youth sports participation and lifelong engagement with sports.

» **eSports – The global phenomenon.** With more than 2.58bn gamers worldwide, gaming is one of the most popular forms of entertainment. Sports video games stand out as one of the most popular genres, with titles like FIFA, NBA 2k, and F1 allowing fans to engage with their favourite teams and players on both casual and competitive levels. As digital platforms expand, eSports is poised to reach larger global audiences, unlocking immense growth opportunities.

Why sports investment is becoming the ultimate status symbol

Buying into a professional sports team has become the ultimate status symbol, driven by the prestige of owning one of the highly limited number of teams. Billionaires like Microsoft's Steve Ballmer (Los Angeles Clippers, NBA), Walmart's Rob Walton (Denver Broncos, NFL) and Las Vegas Sands' Miriam Adelson (Dallas Mavericks, NBA) are part of this exclusive group.

Additionally, there are sound financial reasons why sports investments are gaining popularity among the elites:

1. **Scarcity fuels soaring valuation of sports franchises**

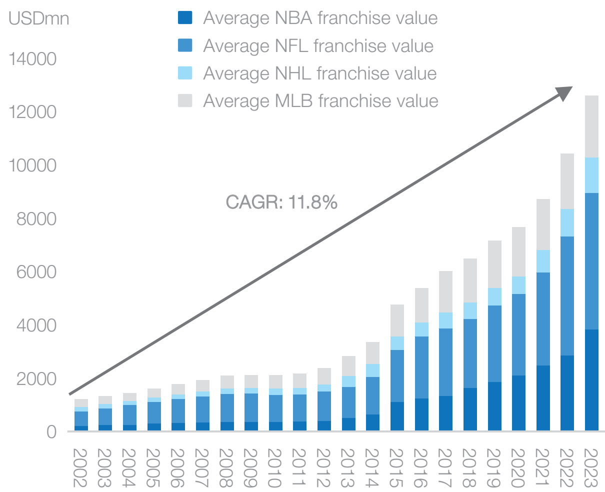
   According to Stadium Maps, there are only 153 sport franchises in North America across the 5 major leagues: National Basketball Association (NBA), National Football League (NFL), National Hockey League (NHL), Major League Baseball (MLB) and Major League Soccer (MLS). This limited number of franchises is primarily due to the stringent requirements established by the leagues to award new expansion teams. This scarcity factor enhances the desirability of franchises, making them coveted assets and driving up their value. The average franchise value of NBA, NFL, NHL and MLB are growing at a robust CAGR of 14.5%, 11.4%, 10.5% and 10.5% respectively.

Scarcity of sports franchises in major leagues

Leagues	Number of franchises
National Basketball Association (NBA)	30
National Football League (NFL)	32
National Hockey League (NHL)	32
Major League Baseball (MLB)	30
Major League Soccer (MLS)	29

Source: Stadium Maps, DBS

Strong growth momentum of sports franchise value



Source: Statista, DBS

2. Diversification benefits of sports investment

Between 2002 to 2023, the average franchise values of major US sports leagues exhibited low or even negative correlation compared to traditional assets like equities and bonds. This low or negative correlation is primarily due the fact that a significant portion of sports revenue is derived from broadcasting rights and sponsorship deals which are typically long-term, providing these sports franchises with stable, recurring income. Additionally, the limited number of available sports franchises create a scarcity factor that helps keep valuations buoyed, making sports franchises less susceptible to gyrations in the market.

3. Private equity's long-term focus drives operational efficiency

Sports leagues were initially reluctant to get involved with PE over concerns that the high leverage and "short-termism" nature of PE funds would be detrimental to their financial stability and long-term success. However, by the 2000s, PE started to adopt a long-term investing approach. They have since demonstrated their ability to enhance value by driving revenue growth, improving operation efficiency and leveraging connections to secure sponsorship deals, prompting sport leagues and franchises to reconsider their involvement. Recognising the benefits of PE, major leagues in North America have amended regulations to allow PE to hold equity stakes in sports franchises.

Correlation of US major sports league with traditional assets (From 2002 to 2023)

	S&P 500	US Bonds	NBA	MLB	NFL	NHL
S&P 500	1.00	-	-	-	-	-
US Bonds	0.28	1.00	-	-	-	-
NBA	0.01	-0.29	1.00	-	-	-
MLB	-0.10	-0.20	0.79	1.00	-	-
NFL	-0.17	-0.46	0.68	0.47	1.00	-
NHL	0.22	-0.41	0.23	0.20	0.02	1.00

Source: Statista, Bloomberg, DBS

Examples of Sports broadcasting deals

Sports events	Broadcasting rights holder	Value of deal (USDmn)	Period of the deal	Duration of the deal (years)
NBA	Disney, NBC, Amazon Prime Video	76,000	2025 - 2036	11
MLB	ESPN, Fox, TNT	12,000	2021 - 2028	7
MLB	Apple	595	2022 – 2029	7
NFL	Amazon, CBS, ESPN, Fox, NBC, NFL Network	100,000	2022- 2033	10
NFL Christmas Day games	Netflix	400	2024 - 2027	3
NFL Sunday Ticket	YouTube	14,000	2023 - 2030	7
NHL	ESPN, TNT Sports	4,400	2021 - 2028	7

Source: The Hollywood Reporter, DBS

Major sports leagues now allow private equity to own stakes in teams

Sports league	Year PE funds were allowed to own stakes in sports franchises	Maximum ownership a franchise can sell to funds	Maximum ownership a single fund can own in a franchise	Maximum number of teams a single fund can own
MLB	2019	30%	15%	No limit
NBA	2020	30%	20%	5
MLS	2020	30%	20%	4
NHL	2021	30%	20%	5
NFL	2024	10%	10%	6

Source: Sportico, DBS

Monetising Sports: How sports franchises generate revenue

Sports leagues are economic powerhouses, driven by multiple revenue streams that capitalise on the passion of fans and the global appeal of live sports. Monetisation in the sports industry is thriving at scale. From multibillion dollar broadcasting deals and league-wide sponsorships to gameday sales and team-specific partnerships, every aspect of the sports ecosystem has been designed to maximise earnings potential. This dual revenue structure of central and local revenues ensures the collective growth of the overall league and the financial autonomy of individual teams.

1. Central Revenue

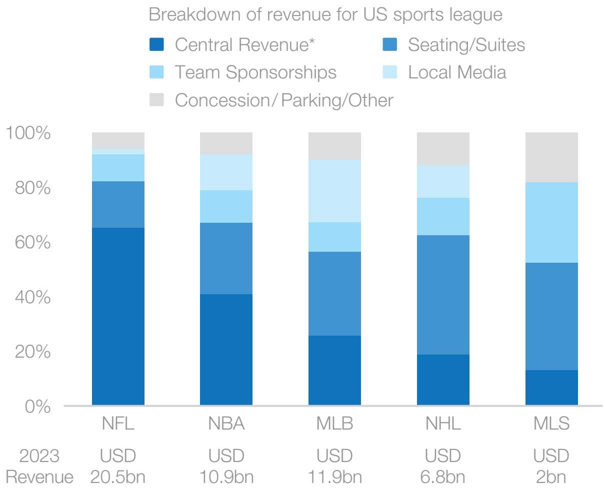
The central revenue forms the main bulk of each team's total revenue. It is generated at the league level and distributed evenly among individual teams. The primary components of central revenue are:

» National Broadcasting Rights: Constituting a significant portion of central revenue, these are broadcasting rights negotiated at a league level with major networks and streaming platforms. A prime example of this is the NFL's 2021 agreement, which was valued at an astounding USD111bn over 11 years, to be divided equally among the league's 32 teams.

» League-Wide Sponsorships: These are partnerships secured at the league level. The size of the global sports sponsorship market was valued at USD105.5bn in 2023 and is expected to grow at a CAGR of 7.6% to reach USD189.5bn by 2030.

» Tickets and Luxury Suites: While ticket sales are often associated with individual teams, a portion of this revenue is pooled and distributed centrally under the ticket revenue sharing system. In the NFL, 40% of all ticket sales enter a pool to be redistributed among all teams, while the home team keeps 60%. In 2023, the NFL generated USD3bn from tickets and luxury suites. The robust demand is evident in pricing trends, with 13 NFL teams implementing double-digit price increases for tickets in 2023, with an average increase of 8.6% across the NFL.

Breakdown of revenue for US sports league



Source: Visual Capitalist, Sportico, DBS
*Central revenue includes media/broadcast rights, merchandise, shared ticket revenue, and other sponsorships

2. **Local Revenue**

Local revenue includes ticket sales (excluding shared revenue from the league level), premium seating, team-specific sponsorships, local media rights, concessions, parking, merchandising, and other income. These revenues are made and retained by the individual teams.

» Ticket Sales and Premium Seating: Teams generate significant income from the sale of general admission tickets, premium seating, and luxury suites.

» Team Sponsorships: Individual teams negotiate and secure their own sponsorships deals with brands. This could include naming rights for the stadium, advertising, and partnerships.

» Local Media Rights: Teams negotiate local broadcasting rights with local television networks and radio networks. This could include rights to broadcast preseason games and content not covered by the league-level national deals.

» Concessions, Parking, Merchandise: Gameday revenue such as the sale of food and beverages, parking fees, and team merchandise sold at the stadium goes directly to each team.

Scoring Beyond the Field: Opportunities outside of sports franchises

Ecosystem surrounding sports franchises. The growing global interest in sports franchises creates a beneficial ripple effect. Listed below are the key areas that will benefit from the rapidly expanding industry:

1. **Sports Analytics**

Sports analytics refers to the collection and analysis of data to enhance a team's decision-making, driving improvement both on the field and in the business aspects of the organisation. The use of data analytics in the realm of professional sports gained widespread attention thanks to the popular 2011 film, Moneyball, which portrays a real-life story where Oakland Athletics general manager Billy Beane leveraged sports analytics to identify undervalued players and build a competitive team with a limited budget. As a result of the benefits that sports analytics bring to franchises, the market for sports analytics is projected to grow at a CAGR of 30.04%, increasing from USD2.87bn in 2024 to USD13.93bn in 2029, according to Mordor Intelligence.

2. **Streaming**

The convenience of high-speed internet and smartphones has led to streaming platforms eroding the dominance that traditional pay television (also known as subscription television) once had on live sports.

According to eMarketer, the US live sports streaming viewers (classified as individuals who watch at least one live sports event digitally at least once per month) will increase at a robust

Proportion of gamers that follow sports (%)

Sports followed	Sports Video Games played				
	Madden NFL	NBA 2K	MLB The Show	FIFA	NHL
Football	67	59	56	47	59
Basketball	56	62	52	41	55
Baseball	51	47	58	29	56
Soccer	20	18	33	47	31
Ice Hockey	25	22	33	18	59

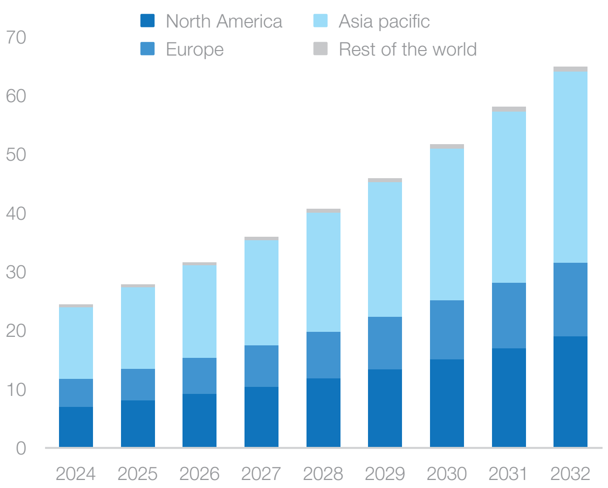
Source: YouGov, DBS

CAGR of 9.6%, from 84.0mn in 2022 to 121.1mn in 2026. This significant rise offers streaming platforms increased revenue opportunities, with advertisers' spending expected to grow from USD28.75bn in 2022 to USD44.32bn in 2026, reflecting a strong CAGR of 11.4%.

3. Ticketing

Ticketing is a vital segment of the sports industry. With the rise of the experiential economy, live events have become a popular choice for them. This is evident looking at the market size of the global event tickets market. According to estimates by Statistia Market Insights, the worldwide events ticket space was valued at USD77.53bn in 2023 after experiencing a strong recovery post-pandemic.

Global sports video gaming revenue (USDbn)



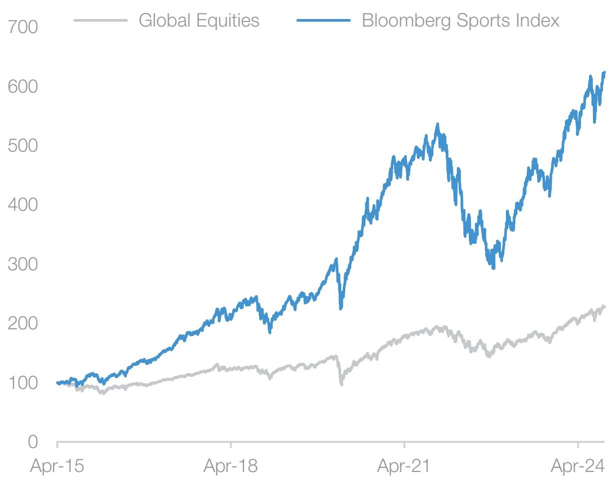
Source: Statista, DBS

In 2023, live sports and music events dominated the ticketing revenue landscape, accounting for 41% and 39% of total revenue respectively. This distribution is expected to continue as the total revenue from live events is projected to grow significantly, reaching USD94bn by 2028.

4. Sports video gaming

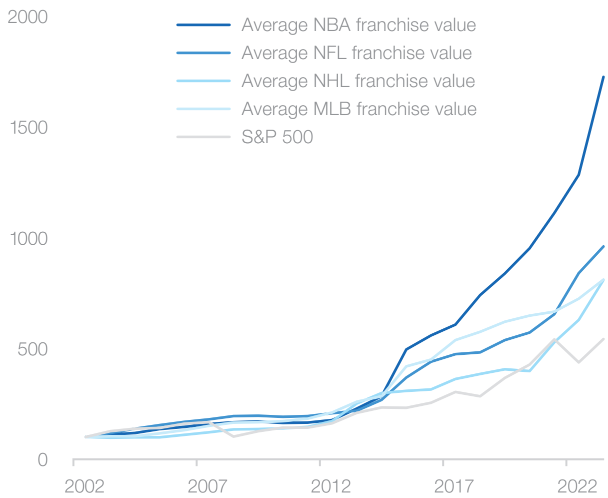
According to a survey conducted by YouGov, sports video gamers tend to be fans of the corresponding sports. For instance, 67% of the gamers who plays Madden NFL are also avid football fans. Sports enthusiasts seek a connection with their favourite sports not only in real life but also in the virtual world. As traditional sports continue to gain traction, this enthusiasm will also translate to rising interest in sports video gaming. As such, the global sports video gaming market is expected to grow at a robust CAGR of c.13.0%, growing from c.USD24bn in 2024 to c.USD65bn in 2029.

(1) Outperformance of sports index



Source: Bloomberg, DBS

(2) Outperformance of US major league franchises



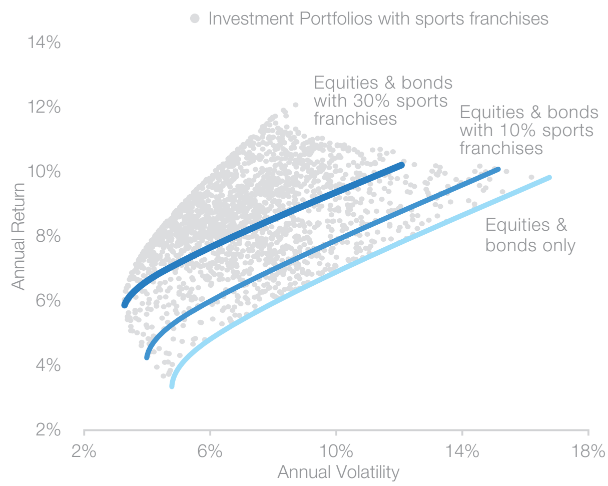
Source: Statista, Bloomberg, DBS

Robust outperformance of the sports theme

With the advent of streaming, and the robust growth of women and youth sports markets, the sports economy has garnered significant momentum and become a compelling growth story. The sports theme (using the Bloomberg Sports Index as a proxy) has dramatically outperformed global equities by 396 %pts over the last decade. In the private space, sports franchises in NBA, NFL, NHL and MLB have posted robust outperformance of 1,184 %pts, 418 %pts, 266 %pts and 268 %pts respectively, from 2002 to 2023.

Furthermore, incorporating sports franchises in portfolio also offers diversification benefits, improving any overall portfolio's risk-return profile. As illustrated in the chart on the right, allocating 10% of a portfolio to sports franchises shifts the efficient frontier upwards, compared to the efficient frontier limited by just equity and bonds. Increasing the allocation to 30% further expands the efficient frontier. This demonstrates the benefits of adding sports franchises to a portfolio, allowing investors to have a higher return for a given level of risk taken.

Sports franchise expands efficient frontier upwards



Source: Statista, Bloomberg, DBS

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Glossary.

Acronym	Definition
AI	artificial intelligence
ASEAN	Association of Southeast Asian Nations
ASP	average selling price
AT1	additional tier 1
AUM	Assets under management
AxJ	Asia ex-Japan
bbl	barrel
BCOM	Bloomberg Commodity Index
BI	Bank Indonesia
BIBOR	Bangkok Interbank Offered Rate
BNM	Bank Negara Malaysia
BOC	Bank of Canada
BOE	Bank of England
BOJ	Bank of Japan
BOK	Bank of Korea
BOT	Bank of Thailand
BSP	Bangko Sentral ng Pilipinas
bpd	barrels per day
bps	basis points
CAA	CIO Asset Allocation
CAGR	compound annual growth rate
CBO	Congressional Budget Office
CET1	Common Equity Tier 1
CGB	China Government Bonds
CIPS	Chartered Institute of Procurement & Supply
CPI	consumer price index
CRE	commercial real estate
CSIS	Centre for Strategic and International Studies
DACS	DBS Aggregate Credit Spread
DM	Developed Markets
dma	day moving average
DPU	distribution per unit
DXY	US Dollar Index
EBIT	earnings before interest and taxes
EBITDA	earnings before interest, tax, depreciation, and amortisation
EC	European Commission
ECA	European Chips Act

Acronym	Definition
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EGB	European Government Bonds
EIA	Energy Information Administration
EM	Emerging Markets
eop	end of period
EPFR	Emerging Portfolio Fund Research
EPS	earnings per share
ESG	Environmental, Social, and Governance
ETF	exchange-traded fund
EU	European Union
EURIBOR	Euro Interbank Offered Rate
EUV	extreme ultraviolet
EV	electric vehicle
FDA	US Food and Drug Administration
FDI	foreign direct investment
FOMC	Federal Open Market Committee
FX	foreign exchange
G2	Group of Two
G3	Group of Three
G7	Group of Seven
G10	Group of Ten
GDP	gross domestic product
GFC	Global Financial Crisis
GLP-1	glucagon-like peptide 1
GNSS	Global Navigation Satellite System
GPU	graphics processing unit
GPS	Global Positioning System
GPT	Generative Pre-trained Transformer
GSCI	Goldman Sachs Commodity Index
GSFCI	Goldman Sachs US Financial Conditions Index
GST	goods & services tax
HIBOR	Hong Kong Interbank Offered Rate
HICP	Harmonised Index of Consumer Prices
HKMA	Hong Kong Monetary Authority
HY	high yield
IEA	International Energy Agency

Acronym	Definition
IndoGB	Indonesian Government Bonds
IG	investment grade
IGB	India Government Bonds
IMF	International Monetary Fund
IPO	initial public offering
IRS	interest rate swap
ISM	Institute for Supply Management
IT	Information Technology
JGB	Japanese Government Bond
JIBOR	Jakarta Interbank Offered Rate
JPM GBI-EM GD	JP Morgan Government Bond Index-Emerging Markets
KLIBOR	Kuala Lumpur Interbank Offered Rate
KTB	Korea Treasury Bonds
LBMA	London Bullion Market Association
LEO	low Earth orbit
LERS	Linked Exchange Rate System
LGB	local government bonds (China)
LGFV	local government financing vehicle
LP	limited partner
LPR	loan prime rate
LSTA	Loan Syndications and Trading Association
LVMH	Moët Hennessy Louis Vuitton
M&A	mergers and acquisitions
MAS	Monetary Authority of Singapore
MBS	Mortgage-backed securities
MLF	medium-term lending facility
MIBOR	Mumbai Interbank Offer Rate
MICE	Meetings, Incentives, Conferences, and Exhibitions
mmbpd	million barrels per day
mmt	million metric tons
MNC	multinational corporation
MPC	Monetary Policy Committee (India, Thailand)
MSCI	Morgan Stanley Capital International
NATO	North Atlantic Treaty Organisation
NEER	nominal effective exchange rate
NIM	net interest margin

Acronym	Definition
NIRP	negative interest rate policy
NISA	Nippon Individual Savings Account
NPL	nonperforming loan
NYSE	New York Stock Exchange
OBR	Office for Budget Responsibility (UK)
OECD	Organisation for Economic Co-operation and Development
OIS	overnight indexed swap
OMO	Open Market Operations
OPEC+	Organisation of the Petroleum Exporting Countries
OPM	operating profit margin
OTC	over the counter
P/B	price-to-book
P/E	price-to-earnings
PBOC	People's Bank of China
PC	personal computer
PCE	personal consumption expenditure
PE	Private Equity
PEG	price-to-earnings-to-growth
PEPP	Pandemic Emergency Purchase Program
PER	price-to-earnings ratio
PMI	purchasing managers' index
PNT	Position Navigation and Timing
PPI	producer price index
PSL	pledged supplementary lending
Q-GARP	Quality Growth-at-a-Reasonable-Price
QE	quantitative easing
QT	quantitative tightening
R&D	research and development
RBA	Reserve Bank of Australia
RBI	Reserve Bank of India
RBNZ	Reserve Bank of New Zealand
REER	Real Effective Exchange Rate
REIT	real estate investment trust
RPGB	Philippine Government Bonds
ROA	return on asset
ROE	return on equity

Acronym	Definition
RRP	reverse repo facility
RRR	required rate of return
SAA	Strategic Asset Allocation
SBV	State Bank of Vietnam
SD	standard deviation
SEA	Southeast Asia
SGS	Singapore Government Securities
SME	Small and medium-sized enterprises
SNB	Swiss National Bank
SOE	state owned enterprise
SOFR	Secured Overnight Financing Rate
SORA	Singapore Overnight Rate Average
SRBI	Bank Indonesia Rupiah Securities
TAA	Tactical Asset Allocation
ThaiGBs	Thailand Government Bonds

Acronym	Definition
TIBOR	Tokyo Interbank Offered Rate
TOPIX	Tokyo Stock Price Index
TP	target price
TPI	tax and price index
TSE	Tokyo Stock Exchange
TSMC	Taiwan Semiconductor Manufacturing Company
UAE	United Arab Emirates
UCITS	Undertakings for Collective Investment in Transferable Securities
UHNW	ultra high net worth
UST	US Treasury
WFH	work from home
WTI	West Texas Intermediate
YCC	Yield control curve
YTD	year-to-date
ZIRP	Zero Interest-Rate Policy

CIO Collection

4Q24 CIO INSIGHTS
In A Sweet Spot
September 2024

3Q24 CIO INSIGHTS
Risk Assets In Play
June 2024

2Q24 CIO INSIGHTS
A Broadening Rally
March 2024

1Q24 CIO INSIGHTS
Shifting Currents
December 2023

4Q23 CIO INSIGHTS
The Next Yield Play
September 2023

3Q23 CIO INSIGHTS
King, Queen & Castle
June 2023

2Q23 CIO INSIGHTS
Break in the Clouds
March 2023

1Q23 CIO INSIGHTS
The Return of 60/40
December 2022

4Q22 CIO INSIGHTS
Fed in Focus
September 2022

3Q22 CIO INSIGHTS
Rising Above Inflation
June 2022

2Q22 CIO INSIGHTS
Anchor in the Storm
March 2022

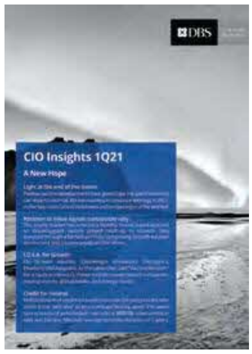
1Q22 CIO INSIGHTS
A Divergent World
December 2021

CIO Collection

4Q21 CIO INSIGHTS
Stay the Course
September 2021

3Q21 CIO INSIGHTS
Hope Into Reality
June 2021

2Q21 CIO INSIGHTS
Back on Track
March 2021



1Q21 CIO INSIGHTS
A New Hope
December 2020

4Q20 CIO INSIGHTS
On the Mend
September 2020

3Q20 CIO INSIGHTS
Resilient in the Storm
June 2020

2Q20 CIO INSIGHTS
Build to Last
March 2020

1Q20 CIO INSIGHTS
New Wine, New Skin
December 2019

4Q19 CIO INSIGHTS
Ride the Wave
September 2019

3Q19 CIO INSIGHTS
A Changing World
June 2019

2Q19 CIO INSIGHTS
Lift to Win
March 2019

1Q19 CIO INSIGHTS
Tug of War
December 2018

CIO Collection

4Q18 CIO INSIGHTS
Window of Opportunity
September 2018

3Q18 CIO INSIGHTS
Steer Through Rough Seas
June 2018

2Q18 CIO INSIGHTS
Mind the Bends
March 2018

1Q18 CIO INSIGHTS
The Bull Ain't Done
December 2017

DBS