CIMB preferred

2Q 2025 Outlook

Trump 2.0
Beyond the Noise

Chief Investment Office

April 2025

MOVING FORWARD WITH YOU

Market performance summary

EQUITY	Currency	1M	3M	YTD-17 APR	FY24	FY23	FY22	FY21	FY20
MSCI AC WORLD	USD	-6.0%	-7.3%	-5.8%	15.7%	20.1%	-19.8%	16.8%	14.3%
S&P 500 INDEX	USD	-6.9%	-11.9%	-10.2%	23.3%	24.2%	-19.4%	26.9%	16.3%
NASDAQ COMPOSITE	USD	-8.5%	-17.0%	-15.7%	28.6%	43.4%	-33.1%	21.4%	43.6%
STOXX 600 EUROPE	EUR	-8.1%	-3.3%	-0.2%	6.0%	12.7%	-12.9%	22.2%	-4.0%
JAPAN TOPIX INDEX	JPY	-7.9%	-5.6%	-9.1%	17.7%	25.1%	-5.1%	10.4%	4.8%
MSCI ASIA PACIFIC	USD	-5.1%	-0.3%	-1.8%	7.2%	8.8%	-19.4%	-3.4%	17.1%
MSCI ASIA PAC EX-JAPAN	USD	-5.4%	-1.5%	-2.3%	7.7%	4.6%	-19.7%	-4.9%	19.8%
HANG SENG INDEX	HKD	-11.4%	9.2%	6.7%	17.7%	-13.8%	-15.5%	-14.1%	-3.4%
HANG SENG CHINA ENTERPRISES INDEX	HKD	-11.5%	11.1%	8.3%	26.4%	-14.0%	-18.6%	-23.3%	-3.8%
BLOOMBERG ASEAN INDEX	USD	-2.3%	-4.8%	-5.7%	8.4%	0.2%	-2.9%	0.2%	-9.2%
STRAITS TIMES INDEX	SGD	-3.6%	-2.4%	-1.8%	16.9%	-0.3%	4.1%	9.8%	-11.8%
FTSE BURSA MALAYSIA KLCI	MYR	-2.9%	-5.3%	-9.7%	12.9%	-2.7%	-4.6%	-3.7%	2.4%
THAI SET	THB	-2.5%	-14.9%	-18.5%	-1.1%	-15.2%	0.7%	14.4%	-8.3%
JAKARTA COMPOSITE INDEX	IDR	-0.5%	-10.0%	-9.1%	-2.7%	6.2%	4.1%	10.1%	-5.1%
MSCI EMERGING MARKETS	USD	-5.7%	-0.3%	-0.8%	5.1%	7.0%	-22.4%	-4.6%	15.8%
FIXED INCOME									
GLOBAL AGGREGATE BOND	USD	2.1%	5.2%	4.8%	-1.7%	5.7%	-16.2%	-4.7%	9.2%
ASIAN PACIFIC AGGREGATE BOND INDEX	USD	2.8%	4.4%	4.4%	-4.5%	-0.9%	-12.8%	-5.0%	6.6%
FTSE BPAM ALL BOND INDEX	MYR	0.7%	1.7%	2.0%	4.3%	6.7%	1.5%	-0.9%	6.9%
COMMODITY									
BRENT CRUDE OIL	USD	-4.4%	-15.9%	-8.9%	-3.1%	-10.3%	10.5%	50.2%	-21.5%
GOLD	USD	10.9%	23.1%	26.8%	27.2%	13.1%	-0.3%	-3.6%	25.1%
COPPER	USD	-4.3%	8.2%	19.0%	2.1%	4.0%	-12.1%	22.2%	22.6%

Source: Bloomberg, CIMB Chief Investment Office

As at 17 April 2025

Key Takeaways for 2Q 2025

01 US Supremacy Challenged

Volatility from US tariff uncertainty have reset valuations lower but the re-pricing is an opportunity.

02 Inflation Could Bite – Watch Out

Narrative to shift between tariff fears, inflation, and fiscal challenges. Focus on locking-in attractive income, to cushion volatility

03 China – Navigating the great wall of tariffs

Expect stimulus ramp-up to cushion tariff impact; buy domestic-centric growth stocks, balanced with yielders.

04 ASEAN – Caught in the crossfire

AI DC developments questioned. ASEAN needs to depend on domestic resilience to counter external uncertainties.

05 Diversify globally for a resilient portfolio

With higher volatility, portfolios must be diversified globally and with income-earning assets to mitigate unexpected shocks.

01

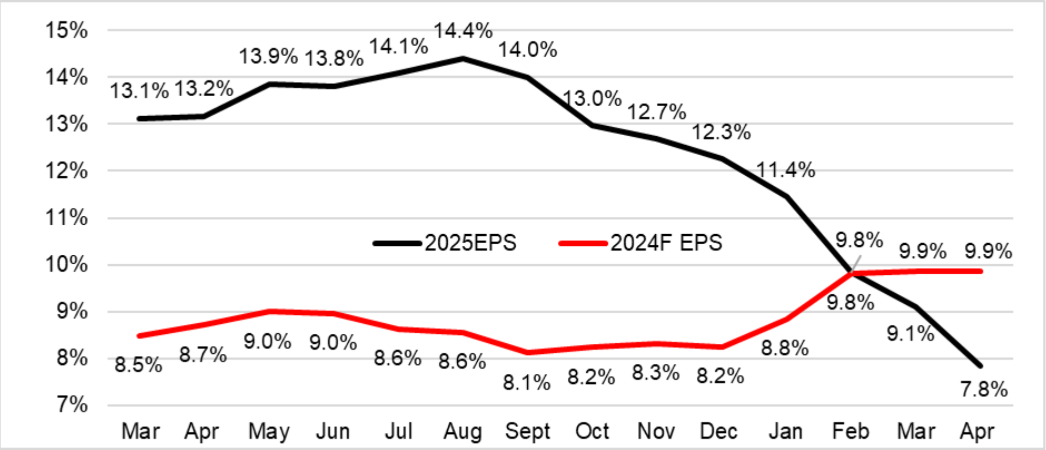
US Supremacy Challenged

The Re-Pricing in US Equities

US policy uncertainty to hit corporate earnings

- US corporate earnings growth is seeing heightened risk of downgrades given the **chaotic trade environment and macro headwinds**.
- Earnings growth expectations stand at 7.8%, lowered from earlier forecasts.
- **Key earnings and outlook to watch**: software and technology, both of which has not seen downgrades.
- S&P500 trades at 20x, in-line with its 10-year mean PER; but **there is risk of de-rating** as macro headwinds mount and lower corporate earnings growth hits.

S&P 500 earnings growth expectations are lower



Source: Bloomberg, CIMB Chief Investment Office

How should investors position in US?

Be Cautious but Selective; Stick to high quality market leaders

- **Be cautious but selective in investment approach**: **Past bust cycles have been followed by strong recoveries** in the S&P500, underscoring its resilience.
- **Stick to high quality market leaders**, such as **software** (solid business model) and **consumer/telco** (defensive).
- **S&P500 year-end target is 5500** based on 21x PER.
- Key upside risk: Possible tax cuts or quantitative easing

Past boom and bust cycles

Event	Decline in period	S&P 500 Performance after initial selldown		
		1 Year	3 Year	5 Year
Black Monday (9 Oct 1987)	-20.5%	23.2%	39.0%	84.6%
Dotcom bubble (Mar 2000-Oct 2002)	-49.2%	33.7%	54.0%	100.5%
Global Financial Crisis (Oct 2007-Mar 2009)	-50.4%	68.6%	102.6%	177.6%
Covid-19 Pandemic (Feb 2020- Apr 2020)	-21.2%	74.8%	76.5%	153.3%
AVERAGE	**-35.3%**	**50.1%**	**68.0%**	**129.0%**

Source: Bloomberg, CIMB Chief Investment Office

Sensitivity of target levels

	Long-term mean PER	10-year mean PER	7-year mean PER	5-year mean PER
PER / EPS Growth	**18**	**20**	**21**	**22**
6%	4,709	5,232	5,494	5,755
3%	4,576	5,084	5,338	5,592
0%	4,442	4,936	5,183	5,430
-3%	4,309	4,788	5,027	5,267
-6%	4,176	4,640	4,872	5,104

Source: Bloomberg, CIMB Chief Investment Office

02

Tariff Pain Boosts Short-term Demand for Quality Bonds

Fixed Income Outlook 2Q25 – Bullish Now But Inflation Could Bite

UST Outlook

- **UST is well supported by tariff-driven recession fears and Fed easing bets, though this may be offset by inflation fears, pushing yields higher**
- **Volatile UST yield throughout 2Q25 amid uncertainties over tariffs, economic growth & inflation**

Ongoing Bullish Narratives

Economic Worries Weigh – Concerns over a trade war boost short-term demand for USTs

Trump Wants Lower Yield – US government intervenes to lower long term UST yields

Rising Fed Put Expectations – strong dovish response expected if the rout goes too far

Possible Bearish Narratives

Foreign UST Holdings – Hostile US policies may shift more flows abroad

Tariffs could disrupt supply chains, push inflation higher, and reduce the appeal of USTs

Disappointment over US fiscal balance may weigh on demand for USTs

Fixed Income – Where To Position

Focus on Shorter-duration Bonds and Pace Purchases

Each Yield Curve is Unique

- Global diversification mitigates US policy uncertainty
- Treat FI assets as stabilizers, not as growth drivers

Focus on Shorter Duration

- Shift from barbell strategy to shorter duration. Prefer 3y to 7y tenor bonds for risk aversion
- Any sharp drop in yields is a chance to exit 30-year UST and Australian Gov't Bond positions

Income is the Name of the Game

- Short-term capital gains may be difficult in 2Q25
- Market weakness is an opportunity to lock in elevated yields for sustained income
- Prioritise long-term income to shelter from volatility

Our Preferred Fixed Income Markets:

- AUD, GBP, USD quality corporate bonds

Volatile Credit Spreads

- **Favour IG over HY corporate bonds** – Tariff uncertainties cloud business outlook, giving rise to higher credit default risk, more so for HY bonds. Potential support from quantitative easing if recession fear mounts.

03
China – Navigating the great wall of tariffs

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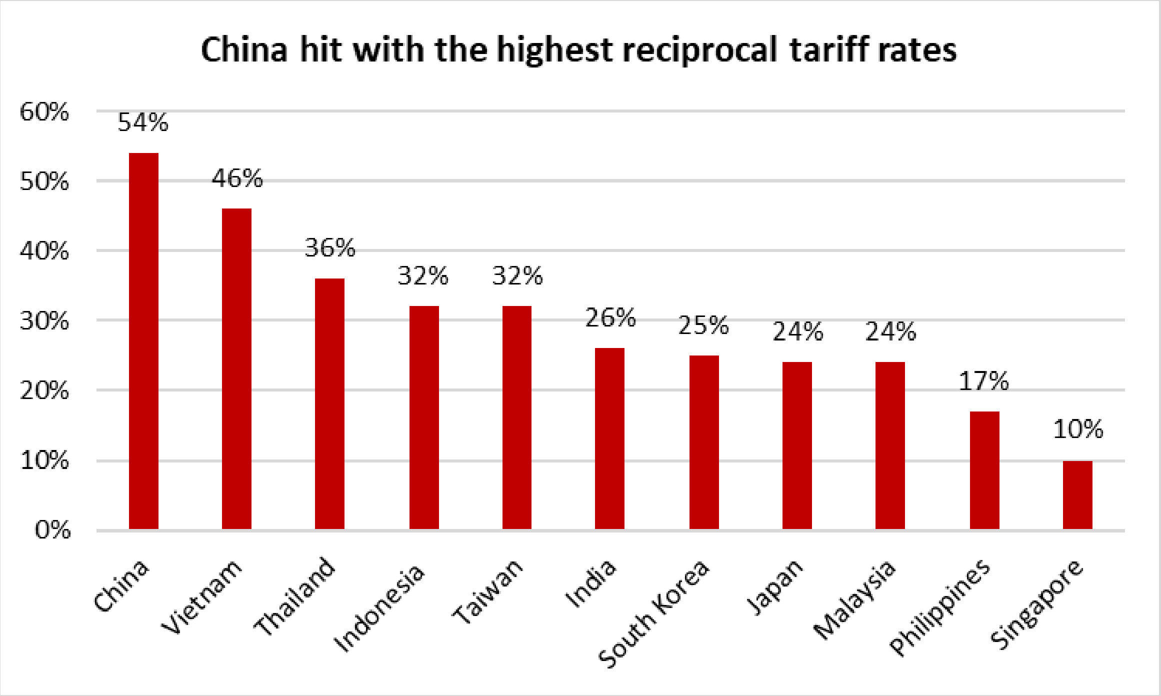
Expect stimulus ramp-up to cushion tariff impact

- **Stimulus ramp-up** – more urgency to boost consumption and intensify fiscal stimulus given higher-than-expected reciprocal tariffs.
- **China's AI sector remains an underlying growth driver**, catalyzed by DeepSeek's breakthrough.
- **Inexpensive valuations** – HSTECH trades at 14x forward PE and HSI is at 8.7x, both below mean, reflecting uncertainties.



Source: Media reports, CIMB Chief Investment Office

As at 7 April 2025

How should investors position in China?

Reiterate barbell strategy – buy quality growth stocks, balanced with yielders. Avoid exporters heavily reliant on US sales.

- Given strong outperformance in 1Q, expect **market correction** given **trade war escalation**.
- Buy **quality growth stocks on dips**, **balanced with yielders** to ride out volatility.
- Avoid exporters with **high sales exposure to US**.
- We lower our **HSI index target** to **22,000** (from 26,000) implying 10x PE (5-year mean) due to tariffs and retaliation being worse than expected.
- Key to watch: **Politburo meeting (end-April)**

Source: Bloomberg, CIMB Chief Investment Office

Valuations as of 7 April 2025

04

ASEAN – Caught in the crossfire

We Still Like Malaysia

Malaysia’s de-rating is echoed Asia-wide; Buy for medium-term upside

- Malaysian equities experienced large foreign outflows due to: **significant tariff uncertainties** and **risk aversion**.
- We believe fundamentals are supported by:
  - Resilient banking sector – 33% of the index.
  - Government policies – JSSEZ, NETR, NSS, NIMP.
  - Domestic institutional support from Government Linked Investment Companies.
- **KLCI valuations have capitulated** to 12.7x PER – ripe for bargain hunting.
- Buy Dividend Yielders (defensive), Banks (market proxy), Construction (cyclical upside).
- **KLCI target revised to 1550** (from 1760) based on a more conservative EPS growth assumption of 3% for 2025F.

Value has emerged for the KLCI at 12.7x PER

Source: Bloomberg
Valuations as of 7 April 2025

Singapore – A Harbour in Choppy Waters

Singapore's equity market undergoing reform

- **STI forward PER** of 10.7x against the 5Y average of 13.4x presents opportunities.
- MAS Equities Market Review Group is undertaking initiatives to encourage local stock market activity by encouraging both supply and demand.
- SGX will introduce more Singapore Depository Receipts in 2025 to encourage greater trading activity.
- YTD, the STI has returned –6.5% vs the S&P500's –13.9%. As a **safe haven with attractive dividends**, the STI could be a compelling option especially as volatility stays elevated.
- **STI target of 3950** (from 4100) is based on 10Y mean of 12.5x.
- Opportunity to accumulate in (this) volatility for medium-term upside.

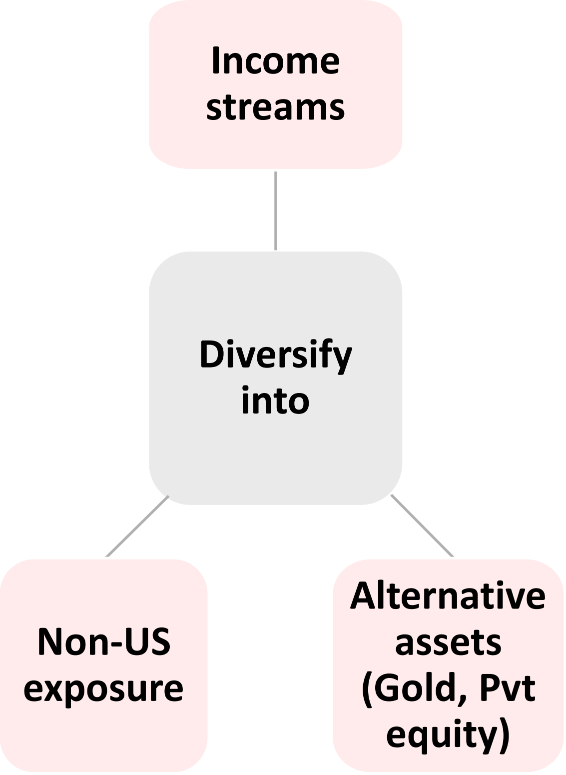
Source: Bloomberg, MAS, SGX

05

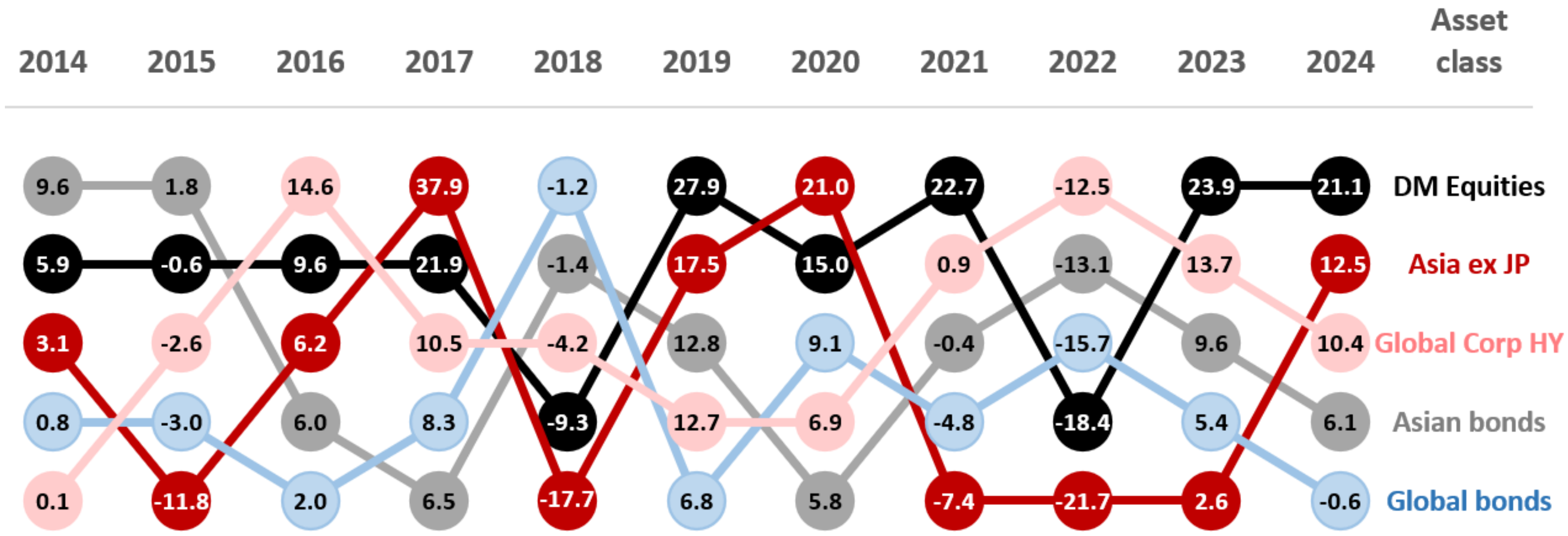
Building Globally Resilient Portfolios

Building Globally Resilient Portfolios

To prepare for a future with greater risk, and uncertainty, and a more diverse range of outcomes, investors must diversify to other asset classes and geographies



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



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

Source: Bloomberg, Dec 2024

Income's role in a portfolio

Why Income?

- Provides a baseline of **secure** and **predictable returns.**
- Sources of income include **Equity Income**, **Fixed Income Coupon**, and **Call Option Strategies.**
- A combination of several sources of income in a well-crafted globally diversified portfolio **provides buffer from higher inflation, or potential volatility** from equities.

Equity Income | Yield : 4 – 5%p.a.

- Income derived from dividends or distributions
- Exposure to corporate risk and market risk
- Exposure to REITS or dividend paying companies

Fixed Income Coupon | Yield : 4 – 6%p.a.

- Income derived from bonds or fixed income
- Exposure to credit, duration or interest rate risk
- Exposure to high yield, investment grade or sovereign

Options Call Strategy | Yield : 7 – 9%p.a.

- Income derived from selling call options
- For investors to have equity exposure but in lower risk
- Complement high growth strategies

More value outside US?

- Diversifying into markets with lower correlation to others could add incremental returns.
- **Non-US equities are attractively valued:**
  - DM ex US is at 11.9x PER (Japan at 12.0x)
  - EM at 11.6x PER

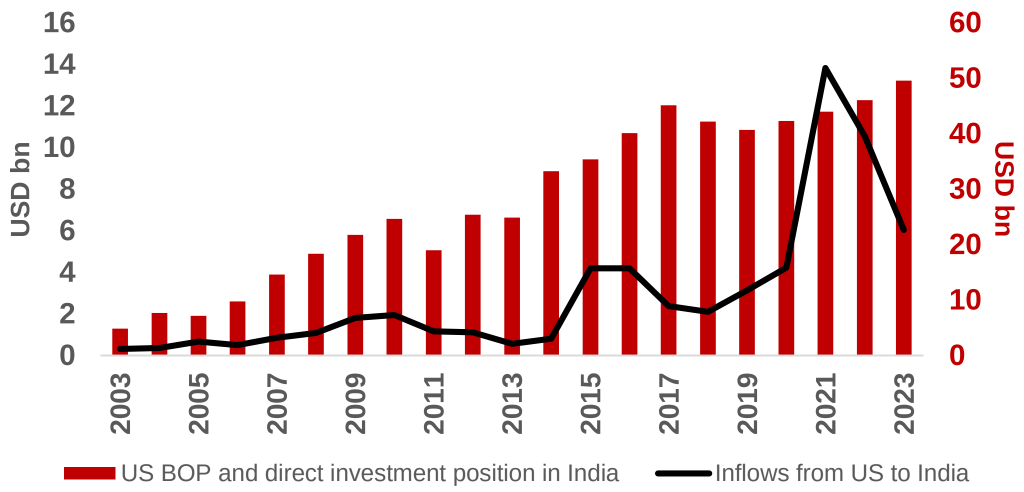
The Case for India

- Falling inflation prompt rate cuts
- Low correlation with other markets
- Lower fiscal deficit, lower income tax to spur spending

The Case for Japan

- Domestic reflation
- Policy rate normalisation
- Focus on share-holder return

FDI flows continue into India



Nifty 50 and TOPIX weekly correlation with other equity indices, Dec 2022-2024

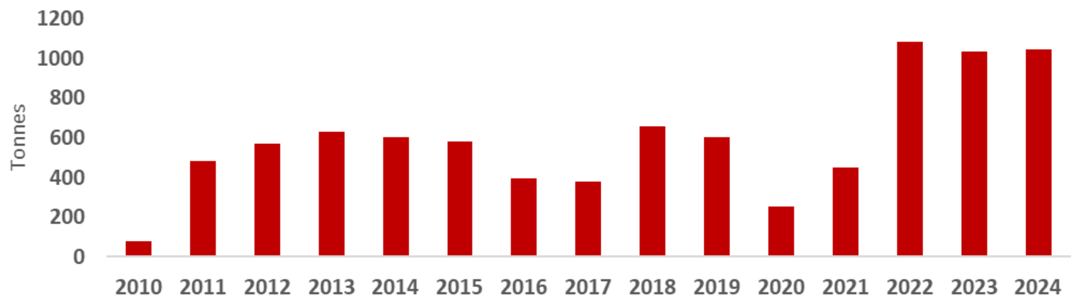
	NIFTY 50	TOPIX	MSCI Wrld	Asia x-Jpn	NASDAQ	S&P500
NIFTY 50		0.306	0.435	0.363	0.365	0.395
Topix	0.306		0.587	0.451	0.518	0.535
MSCI World	0.435	0.587		0.736	0.892	0.974
MSCI Asia ex-Jpn	0.363	0.451	0.736		0.639	0.664
NASDAQ	0.365	0.518	0.892	0.639		0.941
S&P500	0.395	0.535	0.974	0.664	0.941	

Source: Bloomberg

Gold – Driven by tariff, inflation and growth fears

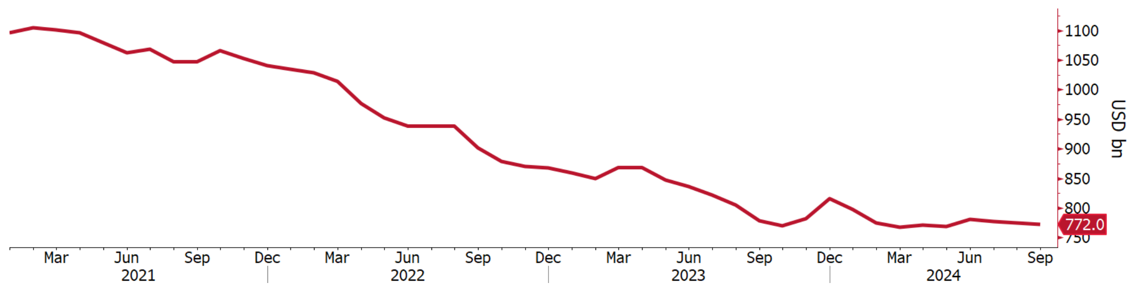
Unpredictable Trump policies support Gold	• YTD +13.7% in 2025, better than US Treasuries, and all equity indices • Markets focused on tariff uncertainty, inflation expectations and US growth, not existing geo-political stress
Higher tariffs ahead trigger growth and inflation concerns	• CIMB forecasts gold at USD3,225/oz in end-2025 • Tariff escalation via retaliation worsens growth and output prospects • Gold now less sensitive to Middle East or Ukraine conflicts
Central banks are large buyers	• In 4Q24 central banks bought over 50% more gold than 4Q23 • From February 2025, 10 Chinese insurers allowed to buy Gold as alternative asset, potentially allocating up to USD27bn to gold

Central Bank net purchases of Gold jumped since 2021



Source: World Gold Council

PBOC holdings of US Treasuries fell 30% in just 2.5 years



Source: Bloomberg

Conclusion

Diversify globally, add income assets	• Expect continuing volatility and unpredictability as Trade War 2.0 enters its main act • We favour globally diversified income & mixed asset funds
US - in transition	• Worst case, US equities another 5-10% downside- accumulate on pullback • Fixed income- US rates to stay volatile; diversify outside of US; shorten duration.
Be selective in Asia	• Stay cautious on China in the short term pending trade negotiations. Focus on high quality growth stocks, balanced with yielders • Selective opportunities in Malaysia
Asset allocation	• 45% equities, 47.5% fixed income, 5% alternatives (gold) and 2.5% cash

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