HP WEALTH MANAGEMENT

March 2025

INVESTMENT STRATEGY
MARCH 2025

CIO THOUGHTS

Our strategy remains measured rather than reactive amid global risks from tariffs, US fiscal tightening, and geopolitical uncertainties. While US growth may slow, policy offsets like tax cuts and China's pro-growth measures provide support. The AI boom, though evolving, adds further resilience. Given these dynamics, a neutral equity allocation is maintained while tracking policy shifts and trade risks. European equities are now neutral on looser fiscal and monetary policies, Japan was downgraded due to tighter policy and tariffs, and China's AI-driven rally may sustain momentum.

Michael Foo

CIO and Partner

ASSET CLASSES

Equities

Updates:

- **US:** Favour large caps over mid-caps, with growth risks increasing and Fed cuts delayed.
- **Europe:** Improved sentiment due to fiscal stimulus and potential Ukraine ceasefire. Tariff risks loom.
- **Japan:** Trump's trade war holding back any rebounds. Stronger yen weighs on performance.
- **Asia:** AI-driven rally in Chinese tech; broader region faces US trade risks.

Our View:

- Maintain Neutral across all regions.
- **US:** Favour large caps over mid-caps.
- **Europe:** Fiscal stimulus supports growth, but tariff risks persist.
- **Japan:** Corporate governance reforms should raise EPS and P/E ratios.
- **Asia:** Current recovery should have more staying power. Monitor risks from US trade tensions.

Credit

Updates:

- Repricing of credit risk due to trade policy uncertainty and stretched valuations.
- Lower Treasury yields due to increased expectations of more easing, mitigating the impact of wider credit spreads.

Our View:

- Starting yields for main credit segments remain attractive on a historical basis.
- Maintain Overweight on higher quality credit (Developed Investment Grade).
- Maintain Neutral on Developed High Yield and Emerging Market bonds.

FX / Gold

Updates:

- **Gold:** ETF net buying in Feb was the highest since Mar 22 and the onset of the Ukraine war.

Our View:

- **USD:** risk that a weaker dollar could push up the price of US imports, potentially stoking inflation.
- **Gold:** Maintain long, as gold remains an attractive hedge against US policy uncertainty.

MACROECONOMIC OUTLOOK

March 2025

HP WEALTH MANAGEMENT

"Trade policy uncertain is much higher than during Trump 1.0, resulting from larger and broader tariff proposals. While the US labour market remains healthy, we see risks in Federal employment due to downsizing. Projections for Eurozone growth are bullish due to Germany's fiscal announcement. In China, 2025 economic targets were broadly in line; more fiscal easing may be required to counteract tariff headwinds and stabilize growth.

Edwin Chan
CFA

US

- The US economy added 151k jobs in Feb, driven by stronger hiring in goods producing sectors.
- There is, however, weakness in Fed employment because of downsizing efforts. With the government accounting for 25% of jobs added over the past two years, this is a risk to labor market strength in the coming months.
- With higher tariffs, inflation may not come back down to the Fed's 2% target till 2027.

China

- The official on-budget fiscal deficit target was raised to a record high of 'around 4%' of GDP in 2025.
- Policymakers provided broad policy directions for boosting consumption, pushing forward high-tech manufacturing development (including AI) and stabilizing the property sector.
- The 2025 budget may not have fully reflected the second 10% of additional US tariffs, which implies fiscal expenditure may need to be even stronger to counteract tariff headwinds and stabilize growth.
- More monetary easing is expected, including cuts in both the RRR and the policy rate.

Europe

- Germany announced an exemption of defence spending surpassing 1% of GDP from the debt brake limit and the establishment of a EUR 500b off-budget infrastructure fund.
- Stronger growth in Germany is expected to spill over into neighboring countries, with the rest of the EU likely to step up military spending.
- Downside risks from ongoing US trade tensions, where an across-the-board tariff could have a negative impact of 0.5% on growth in 2025.
- Slight re-pricing in ECB rate cuts, with the market expecting a terminal rate close to 2.00% rather than 1.75%.