HP WEALTH MANAGEMENT

April 2025

INVESTMENT STRATEGY
APRIL 2025

CIO THOUGHTS

While it is still too early to re-risk, if market dislocations persist and result in meaningful deviations from current positioning, we would aim to systematically realign with our Tactical Asset Allocation (TAA) framework to preserve risk discipline and stay anchored to our long-term investment goals. With a cloudy macro-outlook, markets may be over-discounting downside risks. Any signs of stabilizing inflation, resilient labour markets, or a reduction in geopolitical heat—however tentative—could set the stage for tactical market rebounds, especially given oversold sentiment across risk assets.

Michael Foo
CIO and Partner

ASSET CLASSES

Equities

Updates:

- The outlook for the Q2 earnings season remains cautious.
- Firms are likely to guide conservatively and lower full-year outlooks due to ongoing macro uncertainty and lingering downside risks from geopolitical tensions.

Our View:

- **US:** avoid re-risking / de-risking at current levels until there is sufficient policy and data clarity.
- **Europe:** maintain cautious stance near-term, as recent outperformance may reverse.
- **China:** GDP growth potentially dropping below 4% but could see market resilience due to policy support for energy, telecoms, financials, and utilities.
- **Japan:** GDP growth likely reduced by ~0.5 percentage points, with sharp falls discounting most of the negative implications while negotiations are ongoing.

Credit

Updates:

- IG bonds have been rather resilient as wider spreads are mitigated by softer front-end Treasury yields.
- High yield, however, suffered more as spreads rose sharply on macroeconomic uncertainties.

Our View:

- Preference for IG bonds and stay low in duration.

FX / Gold

Updates:

- **US Dollar:** role as a haven asset in the context of Trade War 2.0 is unclear. The DXY has dropped by more than 5% YTD and almost 2% since Liberation Day.
- **Gold:** has held gains, with demand supported by flows and hedging interest. Strong demand from central banks and de-dollarization trends support long-term positioning.

Our View:

- **Gold:** preferred hedge for policy uncertainty and geopolitical risk; target $3,200/oz, with upside to $3,500/oz.
- Maintain or increase allocation for both as a tactical risk-off hedge and strategic portfolio anchor.

MACROECONOMIC OUTLOOK

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"The imposition of new tariffs—dubbed 'Liberation Day'—has upended the global macro landscape, triggering an uneven mix of inflation, trade disruption, and policy responses. With asymmetric effects across regions, the US faces consumption drag, Europe leans on fiscal levers, China ramps up easing, and Japan's optimism stalls. As these dynamics evolve, the global economic outlook will increasingly hinge on regional responses and policy flexibility.

Zhao Yen

Head of Alternatives

US

- Tariffs now at 100-year highs, with inflation disproportionately hitting lower-income households and a forecast 0.8 to 1.3 percentage points of GDP drag in 2025.
- Fed remains on hold despite market pricing for 4 cuts; inflation remains sticky and political pressure complicates policymaking.
- Consumption may weaken further, as retail and discretionary spending face pass-through costs and softening sentiment.
- Mixed macro data and lack of fiscal offsets reinforce an uncertain trajectory heading into the election cycle.

Europe

- Tariff exposure is concentrated in Germany, Ireland, and Italy, with a modest GDP drag of 0.3 to 0.6 percentage points from 2025 to 2026.
- Rising EU-wide defence spending and Germany's €500bn infrastructure fund are expected to lift medium-term growth.
- ECB cuts are now priced in from mid-2025, driven by falling inflation and weak activity indicators.
- Fiscal support and varied country-level exposures may influence how the region adjusts to external trade pressures.

China

- Facing the steepest tariff burden of 125%; GDP drag forecasted to be (at least) 1.5 to 2.5 percentage points.
- Policy response has remained measured, with a modest fiscal adjustment and continued use of liquidity tools to support domestic demand.
- March PMI shows service sector resilience, helping to offset external drag and improve short-term sentiment.
- Government remains focused on stability, balancing near-term stimulus with long-term economic restructuring goals.

Japan

- Tariff impact erodes export competitiveness, with estimated GDP drag of ~2.9% over 5 years and ~0.7% short-term.
- Despite a 27%-yen depreciation since 2018, exports have not materially improved, while import costs remain elevated.
- Core inflation remains sticky, but the BOJ has signalled a cautious stance due to global and domestic uncertainty.
- Business sentiment is holding, but policy normalization may be delayed further if tariff-related drag deepens.