HP WEALTH MANAGEMENT

May 2025

INVESTMENT STRATEGY
MAY 2025

CIO THOUGHTS

The US may be dialling back some tariff aggression, but we are not buying into a full equity bull trend yet. Effective tariffs are likely to persist, and markets may face challenges as hard data softens. We will continue using market gyrations to realign with our Strategic Asset Allocation (SAA), maintaining risk discipline and a long-term focus..

Michael Foo
CIO and Partner

ASSET CLASSES

Equities

Updates:

- **US:** S&P 500 nears bull case, but tariff risks remain. Large-cap tech resilient.
- **Europe:** NATO defence spending supports, but divisions persist.
- **Japan:** Stable macro, yet yen strength a risk.
- **China:** Exports slow; AI stimulus offers medium-term positives.

Our View:

- **US:** Stay cautious near highs; tariff risks unresolved.
- **Europe:** Neutral stance supported by defence/ energy but challenges remain.
- **Japan:** Neutral; attractive valuations offset by yen strength and lack of catalysts.
- **China:** Neutral, but buyers on dips amid policy and trade shifts.

Credit

Updates:

- Credit spreads have normalized post-Liberation Day blowout, with no signs of systemic stress.

Our View:

- Maintain preference for IG bonds over HY, and stay low in duration.

FX / Gold

Updates:

- **USD:** haven role in Trade War 2 remains uncertain.
- **Gold:** preferred hedge for policy and geopolitical risks. Having hit the near-term target of 3,400, we have partially trimmed positions.

Our View:

- **USD:** settled below 100 after sharp decline; slightly oversold near term despite de-dollarisation.
- **Gold:** plan to top up at $3,100 with $3,500 target, supported by central bank demand and de-dollarisation.

Rates

Updates:

- The US yield curve is a wild card at 4.3%, with the 10-year swinging either way on policy shifts.

Our View:

- Maintain Underweight in government bonds.

MACROECONOMIC OUTLOOK

May 2025

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"The global picture is shifting as tariff-related distortions fade. In the US, frontloaded spending flattered Q1 data, but rising prices and slower income growth should weigh on Q2. Labour remains resilient, yet sentiment and capex are falling as firms pass costs to consumers. Europe's rebound risks stalling amid tariff headwinds. Meanwhile, China's momentum reversed sharply, though redirected trade and monetary easing may soften the blow. Central banks are likely to remain cautious.

Edwin Chan

Head of Fixed Income

US

- Consumer front-loading flattered Q1 consumption, but higher tariffs and slowing income growth will weigh heavily from Q2, with real sales expected to slow sharply.
- Labour market remains resilient for now; unemployment steady and wage growth cooling. However, policy uncertainty raises risks.
- Surveys signal growing pessimism, with firms cutting capex and consumers expecting higher inflation — the worst sentiment in 35 years.
- Firms plan to pass tariff-driven cost increases to consumers. Soft data has deteriorated rapidly, but limited tightening of financial conditions will delay rate cuts.

Europe

- Euro area manufacturing data remain solid, but soft data — consumer confidence and unemployment expectations — highlight growing tariff-related headwinds.
- Q1 GDP rose 1% annualized, but sentiment has deteriorated, suggesting the rebound is unsustainable.
- US tariff shock likely to delay Europe's cyclical rebound, with growth momentum set to weaken through Q2 and Q3.
- Fiscal support and disinflation, aided by redirected Chinese exports, should help recovery into 2026. Markets expect the ECB to deliver three more rate cuts.

China

- China's April PMIs fell sharply, with new export orders down, though freight volumes from major ports remain resilient as exporters redirect shipments.
- Sentiment turned sharply on US tariff hikes, but flexibility in implementation and a 90-day pause may delay and soften the drag.
- Export-driven momentum faded after Q1's AI and front-loading boost, pointing to slower growth ahead.
- Fiscal support may be constrained, leaving monetary easing — including PBOC rate and RRR cuts — as the preferred tool to stabilise growth.