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2025 Market Outlook

Asia and Emerging Markets: Opportunities amid shifting tides

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2025 Market Outlook

Asia and Emerging Markets: Opportunities amid shifting tides

Foreword

"There is a tide in the agents of men. Which taken at the flood, leads onto fortune" – William Shakespeare

The world faces a year of uncertainty going into 2025. While we expect global growth to plod along in the first half of the year, the second half would be largely influenced by developments in the US and China. The policies from the incoming Trump administration are expected to be inflationary and boost US growth in the short term. However, the rise in protectionism and tariffs should weigh on the global economy eventually. The uncertainty surrounding Trump's policies and the sequence of their implementation add a significant level of unpredictability to the outlook. All eyes will also be on further stimulus measures from China. Targeted and effective measures that lift consumer confidence and spending would be viewed positively.

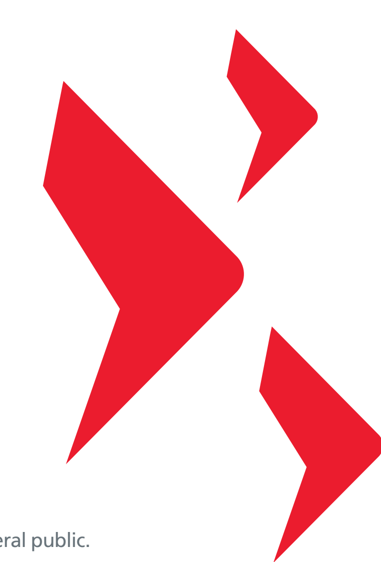
While 2024 marked the start of the US Federal Reserve's (Fed) rate cut cycle, a fuzzier inflation picture in 2025 suggests the pace of rate cuts is going to be tempered, and the Fed's terminal rate may end up higher than initially expected. Carry should be the main driver of bond returns in the new year. The spike in US Treasury yields in the last quarter of 2024 has increased the attractiveness of USD-denominated credits. At the same time, Asian local currency bonds fully hedged to USD can offer higher yields due to meaningful carry advantage from a cross-currency basis.

Periods of market volatility present active opportunities in Asian and Emerging Market (EM) equities. Longer term growth drivers such as increased capital expenditure, decarbonisation, and supply chain diversification can lead to higher earnings in these markets. Ongoing corporate reforms are expected to continue strengthening balance sheets in Asia, especially in Japan.

Market disappointments over rising inflation, the uncertain path of US interest rates, and the risk of a stronger US dollar can impact asset prices in 2025. A more volatile global economic backdrop suggests that investors will need to be smarter about how they diversify and manage risks. There is merit in being nimble and seeking diversified sources of alpha.

As the investing landscape shifts in 2025, the reality of climate change remains. Rising temperatures, extreme weather events, and biodiversity loss continue to intensify and impact EMs disproportionately. A holistic pathway to net zero that includes the brown-to-green transition not only addresses these issues, but also provides mispriced and impact opportunities for investors.

Vis Nayar
Chief Investment Officer
Eastspring Investments



Embracing Asia's giants

Asia is home to some of the world's most dynamic and influential economies. China, India and Japan stand out. Each is unique - China with its rapid industrialisation, India with its growing urbanisation and Japan with its technological prowess. Together they account for more than 60% of the MSCI AC Asia Pacific Index. At the same time, their unique opportunity set merits standalone allocation in investor portfolios.

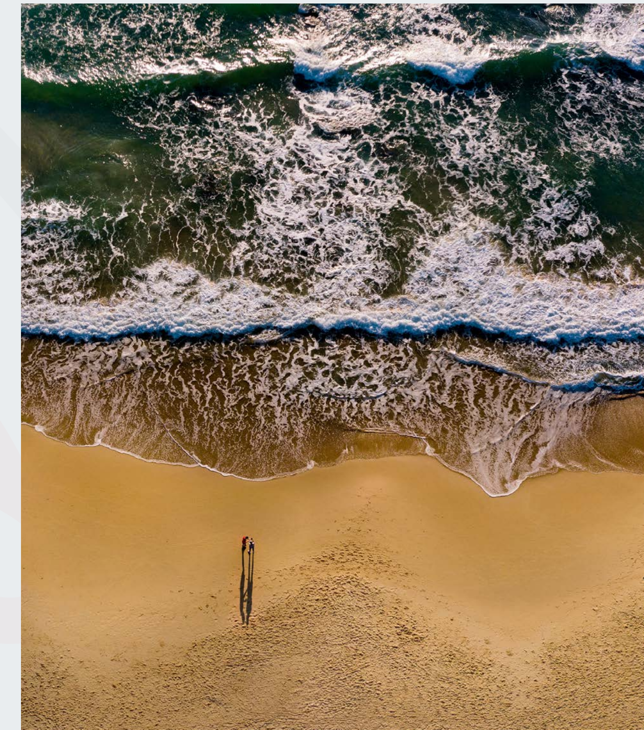
China: Cautiously optimistic

China's near-term uncertainties call for caution, but equity valuations are relatively cheap, and the Chinese government may implement additional stimulus measures. That said, while the government has improved its policy communication, its measured approach to easing may fall short of investors' elevated expectations. As such, picking the right entry points and selecting stocks with visible earnings growth drivers would be key, rather than chasing the market.

We currently favour the Consumer sector that benefits from product and service upgrades, policy support, and cost control measures. Companies within the Materials, Industrial and Technology sectors that have low revenue concentration and face intense price competition can benefit from the consolidation that comes from supply-side reforms. Export-related sectors which are expanding into new geographies beyond the US also offer growth opportunities.

Selecting stocks with visible earnings driver is key, rather than chasing the market.

The government's recent USD1.4 tn debt-swap programme which swaps the local government's off- balance sheet debt (higher interest paying) with longer duration official loans (lower interest paying) aims to repair local governments' balance sheets. Such measures can benefit the state-owned, high-dividend paying companies that provide goods and services to government agencies. This would include the telecommunications, infrastructure construction and waste treatment companies.



At the point of writing, there have been some encouraging signs from China's improving PMI readings, rising housing sales, and increasing home and commodity prices. However, the turnaround in China's economy is not yet conclusive as the Producer Price Index (PPI) fell for the 25th consecutive month in October. The government's debt-swap initiative aims to help local governments settle overdue salary payments and clear arrears owed to contractors. By shifting their focus from revenue collection to increased spending, these measures are expected to help alleviate ongoing deflationary pressures in the economy and positively impact household income and consumer spending.

A key risk for China's economy and markets in 2025 comes from Trump's policies - the proposed tariffs of 60% could reduce GDP growth by up to 2% over the next 4 to 6 quarters. The RMB could also face more depreciation pressure. We believe that the Chinese government could increase its 2025 fiscal deficit by 0.5-1% to address these challenges.

Contributors

Michelle Qi, Head, China Equities; Jingjing Weng, Head of Research, Eastspring Shanghai.

India: Structural opportunities amid cyclical challenges

Active management will be key for India's equity market in 2025 amid growing concerns over the economy's slowing growth momentum, stretched equity market valuations and earnings uncertainty in the last quarter of 2024.

While the Indian economy may face cyclical challenges, India's equity market presents a structural opportunity.

We are monitoring valuations and potential margin pressures closely and currently see opportunities within the Financials, Telecommunication, and Healthcare sectors. Large-capitalised companies appear more attractively priced compared to their smaller counterparts. While there may be some near-term earnings uncertainty, the corporate landscape remains relatively healthy. From FY2020 to FY2024, corporate debt-to-equity ratios have fallen from 100% to 52%, while the market's return on equity has risen from 10% to nearly 15%. Foreign investor outflows should not be too worrying as domestic investors hold more than 50% of the shares of India's top 75 companies, which should act as a stabilising factor. Meanwhile, India's record high foreign exchange reserves (USD692 bn) post-COVID can be used to stabilise the Indian rupee, if needed. That said, a large Initial Public Offering (IPO) pipeline in 2025 could be a risk, as IPOs absorb fund inflows, leaving little liquidity to drive the secondary market.

While the Indian economy faces some cyclical challenges, India's equity market presents a structural opportunity. Ongoing reforms, rising urbanisation, and supply chain shifts are expected to support India's economic and earnings growth over the longer term.

Contributors

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Japan: Greater opportunities for mid-to-small cap stocks

Japan's equity market rally may broaden out in 2025 with a different set of winners. While 2024's rally was primarily led by large-cap, export-oriented companies which benefited from a weaker yen and high global infrastructure demand, we see greater opportunities for mid-to-small cap stocks in 2025. These stocks have lagged the rally to date and are more closely tied to Japan's domestic economy. Hence, they are likely to benefit more from domestic economic drivers such as rising wages and increased consumer spending. At the same time, select laggards in cyclical sectors such as Machinery and Materials are also trading at attractive valuations.

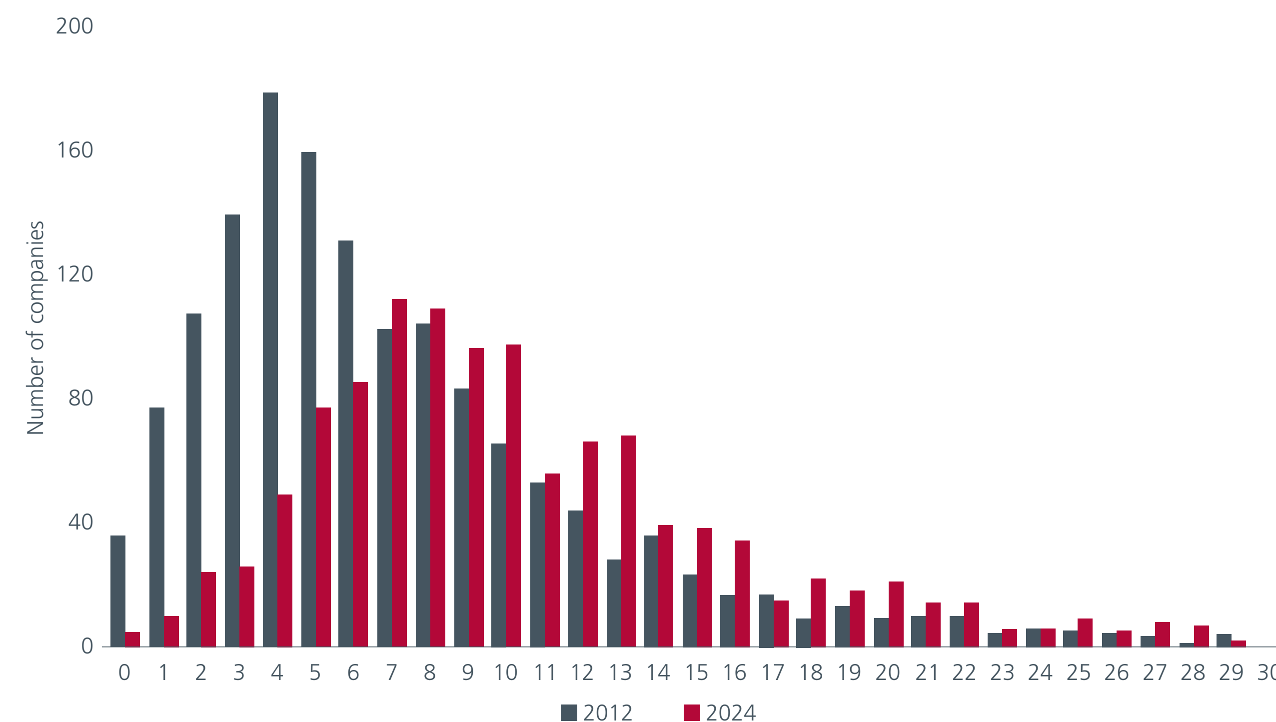
In 2024, we have been encouraged by corporates' efforts to cut costs, restructure underperforming business units and unwind extensive cross shareholdings. We expect Japan's push towards improving corporate governance and shareholder returns to persist, as management teams strive to optimise balance sheets and improve profitability in 2025 and beyond. This should support share prices.

While the yen appears cheap currently, its 2025 trajectory will hinge on the US' and Japan's growth, inflation, and fiscal policies. If Japan normalises its monetary policy, the yen could strengthen. However, political pressure may lead Japan to stimulate its economy, affecting the yen. A stronger yen could impact exporters' profits but benefit import-reliant domestic firms by lowering costs. We prefer to evaluate companies using a long-term average yen level instead of extrapolating the current weak yen levels into future earnings forecasts. This gives us a margin of safety should the yen strengthen.

Contributor

Ivailo Dikov, Head, Japan Equities

Japan's return on equity has improved



Source: Eastspring Investments (Singapore), BofA Global Research, QUICK as at 30 June 2024. *Based on QUICK consensus (current fiscal year) for 2024. "ROE": return of equity.

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Focusing on value

The impact of the policies of the incoming US leadership on Asian and Emerging Markets (EMs) is difficult to assess at this point. Many may not be implemented to the magnitude or speed expected. However, indications of aggressive domestic stimulus and trade protectionist policies could be inflationary in the US, delay the Fed's rate cutting cycle and result in USD strength.

Despite expected volatility, disciplined investors can find opportunities as the long-term economic growth drivers in these markets remain intact. Across EMs, increased capital expenditure, infrastructure investment, decarbonisation, and supply chain diversification are leading to higher earnings. EMs are also expected to grow faster than the Developed Markets (DMs). EMs typically outperform DMs when their growth gap widens. Meanwhile, ongoing corporate reforms and improved capital allocation in Asia are strengthening balance sheets at both the corporate and government levels.

The backdrop for ASEAN markets heading into 2025 remains broadly positive. The region's long-term growth will be driven by a rising middle class, greater banking penetration, and ongoing supply chain migration. ASEAN's share of global Foreign Direct Investment (FDI) has surged from 5.7% in 2015 to 21.3% in 2023, enhancing capital accumulation, technological advancement, and skill development. A growing workforce is driving digital banking, especially in populous countries like the Philippines and Indonesia. Meanwhile positive demographics, with a low median age of 30 and a burgeoning middle class, promise significant consumption power, benefiting the region well beyond 2025.

Contributors

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LATAM and CEEMEA[1]: Potential for upside

2024 was a difficult year for key LATAM markets: Brazil and Mexico. Brazil's stubbornly high interest rates and Mexico's judicial reforms have negatively impacted domestic equities. However, we see potential upside for Brazil due to its attractive valuations, prospect for higher commodity prices and interest rate cuts, as well as the possibility of a more market-friendly Presidential candidate in 2026. In Mexico we expect more FDI driven by global supply chain diversification and near-shoring activities.

Meanwhile markets in Emerging Europe have been impacted by the negative sentiment for Developed Europe. The selloffs have generated some interesting investment opportunities. Many Eastern European markets have well diversified companies that are attractively valued, have strong balance sheets and are less exposed to slowing demand from Developed Europe.

Asia Pacific ex Japan: Attractively valued

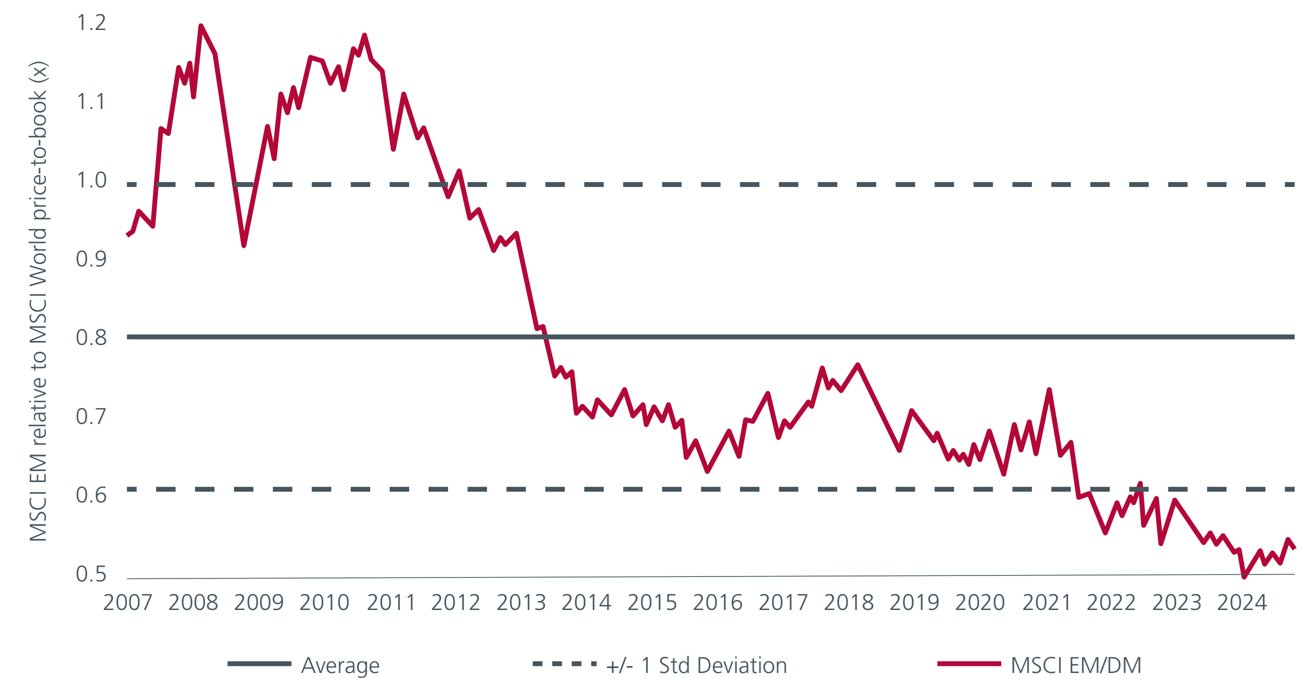
Despite the long-term growth themes, stocks in the region could be adversely affected by higher US tariffs, as 10% of their revenue comes from the US market[2]. Within Asia, the Technology sector is the most exposed to the US, followed by the Autos, Healthcare and Chemicals sectors. On the other hand, the Utilities, Telecoms and Financials sectors have the least US exposure. ASEAN markets on the other hand are more defensive relative to the North Asian markets given their lower revenue exposure to the US and fewer direct US competitors. In addition, 11% of Asia Pacific companies (by index weight) have significant US-based operations which could benefit from the US tax cuts.

Under the new Trump administration, increased fossil fuel extraction could lower fuel prices, helping to keep Asia's inflation under control as fuel prices make up a significant part of the region's Consumer Price Index. On the other hand, this may negatively impact Asia's green energy industries, such as electric vehicles and solar from China and the battery supply chain from Indonesia and China.

Despite the potential impact of US policies, earnings will be the primary driver of share prices. However, we believe the most important factor when investing in equities is the starting valuation. In this regard, Asia and EMs are attractive in absolute terms and extremely attractive relative to the expensive markets of the West. Moreover, global investors are significantly underweight EMs and Asia Pacific ex Japan equities, suggesting room for upside.

In such an environment, a disciplined stock picking approach is key to generating alpha. For now, we are finding interesting opportunities in Hong Kong, Indonesia, and Thailand, particularly within the Communication Services, Financials, and Consumer Discretionary sectors.

EMs offer an excellent entry point at current value



Source: Datastream Refinitiv, MSCI Emerging Markets (EM) and MSCI World (DM) as of 31 October 2024

[1]LATAM: Latin American, CEEMEA : Central & Eastern Europe, Middle East and Africa. [2]Proxied by the MSCI AC Asia Pacific ex Japan Index. Factset, Bloomberg, Company Data, MSCI, Goldman Sachs Global Investment Research.

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Being tactical and nimble

The end of aggressive monetary tightening by global central banks followed by the prospects of rate cuts and a stable inflation outlook has generally been a favourable environment for bonds in 2024. Bonds have also benefited from higher starting yields, providing a cushion against economic uncertainties. Meanwhile US Treasury yields experienced significant fluctuations in 2024.

In September, the US Federal Reserve (Fed) cut rates for the first time by a bumper 50 basis points, but yields rose shortly after as the US economy recorded robust growth. Yields have remained above 4% as markets now expect the new US administration to impose broad-ranging tariffs on China and other partners in 2025, pushing up US inflation and limiting the Fed's ability to continue easing. A unified Republican government could also lead to more fiscal spending, worsening the US fiscal deficit and steepening the US yield curve.

Contributor

Danny Tan, Head, Asian Fixed Income

Boost overall returns via carry

Over the past two years, the USD has mirrored the strength of the US economy and the Fed's policy. A Trump presidency with a unified government is expected to boost the economy, extending US economic exceptionalism. Anticipated tariffs may hurt trade-dependent economies like Europe, Emerging Markets (EMs) and Asia, supporting a strong USD outlook over the medium term.

That said, expectations surrounding tariffs and additional fiscal spending remain speculative. The US Fed is unlikely to adjust its easing policy based on actions that have yet to materialise. Nonetheless, recent US economic data, including strong labour market numbers could impact the Fed's policy trajectory, both in terms of pace and terminal rate. This would, in turn, support front-end yields.

The rise in US Treasury yields since early October has increased the attractiveness of USD-denominated credits. The wide interest rate differentials between USD and other currencies have presented opportunities in non-USD credits that yield higher than equivalent USD credits even after taking forex hedging costs into account.

Asian currency bonds (fully hedged back to USD) can deliver an attractive boost to overall portfolio yields via meaningful carry advantage. If US Treasury yields continue to rise, we remain flexible in shifting from non-USD to USD bonds where possible. Carry returns will continue to contribute to the majority of fixed income portfolio returns.

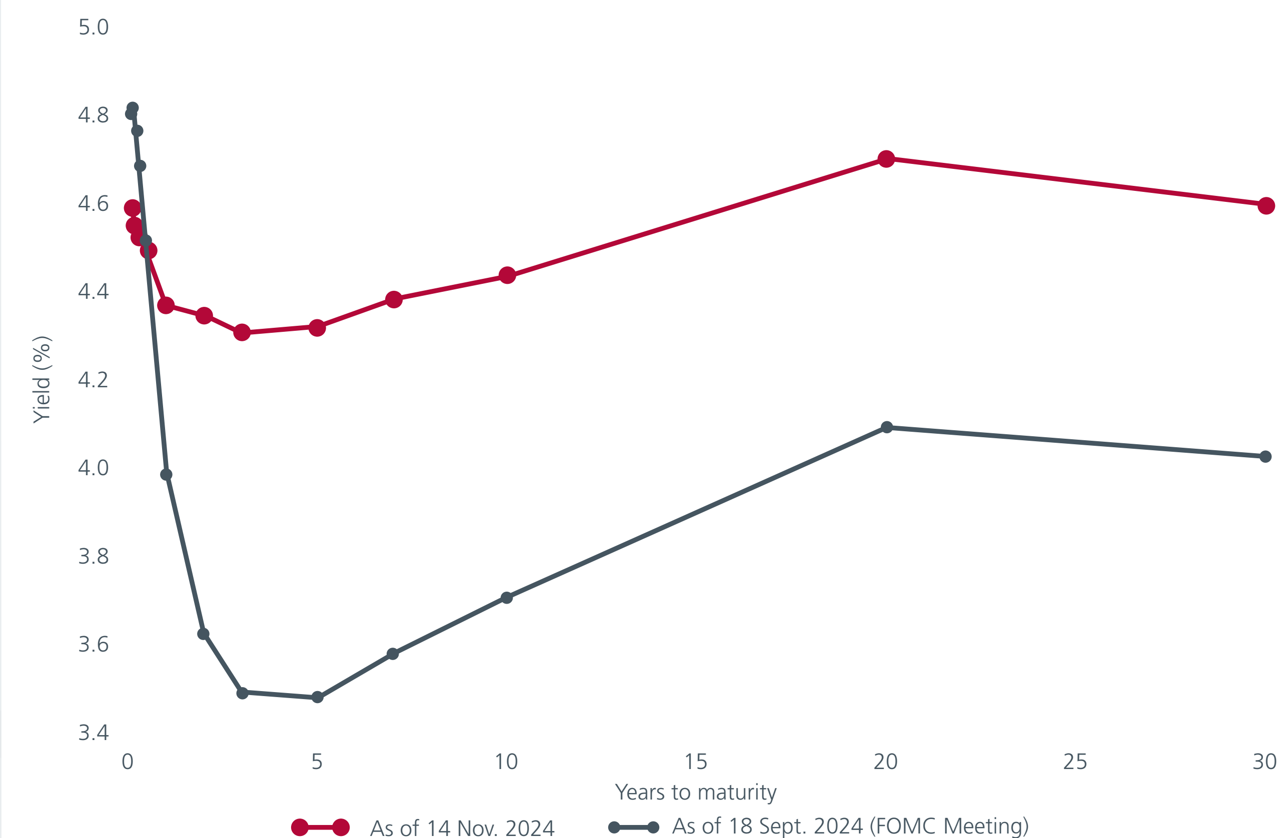
Re-engage at better entry points

Beyond the US, global monetary cycles have turned more accommodative on the back of a broad decline in inflation. Economic indicators are improving across most Emerging Markets (EMs), and this is evident from the continued credit rating up-cycle. Separately, China's stabilisation measures, both on the monetary and fiscal fronts and the potential for further policy stimulus can help mitigate concerns about US policies targeting China, enhancing the constructive outlook for Asia's credit market.

Post the US election results, however, we rotated out of some Chinese credits with tightened spreads in favour of other geographies less exposed to US policies targeting China. We note that in general, credit spreads are at historical tights and that investors are not adequately compensated to scale down the credit curve especially since we are approaching the end of the current economic cycle.

For now, we are staying in higher credit quality. We also see opportunities to rotate investments across local and hard currency debt within the EM universe. We reduced exposure to higher-beta EM local currency debt before the US elections but will look to re-engage at better entry points. Meanwhile positive technicals support credit markets given limited issuance, elevated base yields, and strong demand from cash-rich investors.

US Treasury yields have risen significantly



Source: LSEG Datastream of US Treasuries bond (bid) yields as of 14 November 2024

Add duration on dips

With US Treasury yields having repriced off September's lows, valuation is arguably more attractive now than before, making a more compelling case for USD duration. Looking ahead, we believe that the risk-reward is asymmetric in the bond investor's favour as major global central banks are still more likely to cut than hike rates.

We have observed strong market interest in buying duration following the recent yield spike post the US election, reflecting early-stage biases toward a rate-cutting cycle. A slight preference for the 10-year over the ultra-long 30-year is noted, as recent curve flattening may protect against steepening risks should tariffs and greater fiscal spending materialise. That said, the new US administration could take months to over a year, even with Congressional support, to implement policies. Positioning for such a scenario may be premature. As such we remain constructive on duration and view any correction as an opportunity to add duration.

However, as USD duration presents volatility risks arising from its uncertain fiscal outlook, we assess that long duration views may be better expressed in Asian and EM currencies. Our duration sensitivity measure, which adjusts for volatilities and correlations, indicates that non-USD credits are often less volatile and less impacted by US rate changes compared to USD credits. Therefore, non-USD credits can be more effective in mitigating the impact of potentially higher US Treasury yields on USD-based portfolios. We will continue to assess and monitor the value of the credit and risk-free curves both in USD and other currencies.

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Seizing thematic trends

Climate transition and Artificial Intelligence (AI) are two megatrends that are changing the world through their impact on economies, technology, society and the environment. These trends present opportunities and challenges for investors.

Climate transition: A holistic approach brings benefits

The clock is ticking for key economies and industries to meet their carbon emissions' targets. Even before taking into consideration the recent political shifts in the US which may put US climate policies and decarbonisation initiatives at risk, global carbon emissions are expected to hit a new record in 2024, making it more difficult to achieve the 2050 global net zero goal.

Emerging Markets (EMs) play a key role in reducing the world's carbon footprint. Developing countries contributed 95% of global emission increases in the last decade and accounted for 75% of global emissions in 2023[1]. Therefore, unless EMs transition to greener economies and growth, the world cannot achieve the goals of the Paris Agreement.

In a recent whitepaper, we highlighted that about USD2 tn will be required annually by 2030 to finance the transition to a green economy and suggested that capital markets present a key financing platform. In the public markets, assets under management for global sustainable funds have grown in the last three years, partly supported by positive stock selection. Assets under management for climate transition funds have grown even faster but actively managed funds only account for about 11% of global climate fund assets. Many existing climate transition funds define transition risks as sectors with high emissions or scenarios where global temperature targets are exceeded. These funds also only identify transition opportunities in sectors generating green revenue. However, we feel that climate transition should include brown-to-green opportunities.

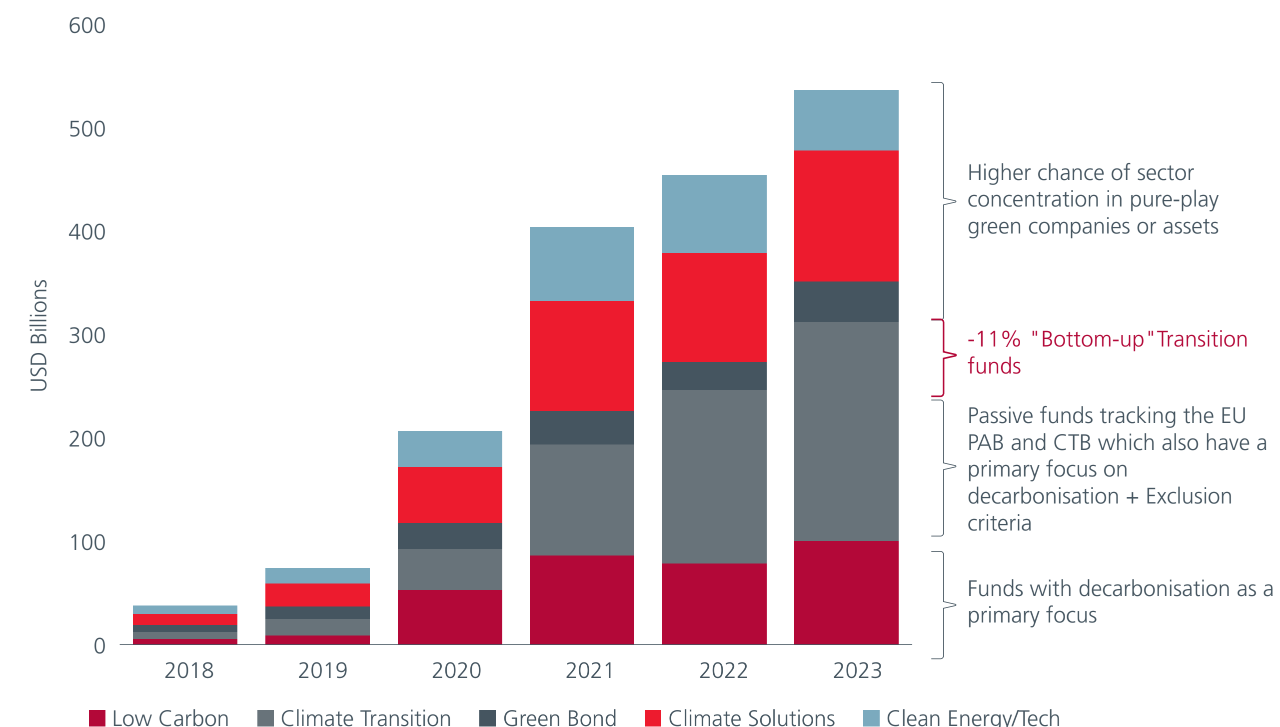
We are seeing greater sophistication in the understanding of Environment, Social and Governance (ESG) within the EMs where greater rigour is required in demonstrating the performance thesis of ESG funds, across both private and public markets. EMs are also sharpening the focus on climate transition funds given how pressing the issue is and the size of the climate financing gap. In Southeast Asia alone, an estimated USD1.5 tn is required until 2030 to fund the transition[2].

A holistic approach that includes the brown-to-green transition over the net zero pathway significantly broadens the investable universe. It includes investing in companies that contribute to climate adaptation, and not just climate mitigation. The former is likely to have a larger addressable market in the future. By identifying potentially mispriced companies that are in the early stages of their climate transition journey, a holisitc approach can offer more alpha opportunities, enabling sustainable investing without sacrificing returns.

Contributor

Joanne Khew (PhD), ESG Specialist, Eastspring Singapore

Actively managed climate transition funds are not yet mainstream



Source: Eastspring Investment (Singapore) Limited. Graph from Morningstar (2024) Investing in times of climate change 2023 in Review. Text adapted by Eastspring from Morningstar (2024). PAB - Paris-aligned Benchmark. CTB - Climate Transition Benchmark.

AI: Focus on the enablers

AI has the potential to transform the world by lifting productivity and growth, but its significant energy requirements impact the environment. There is hope that AI technologies like machine learning will be able to improve climate models that help us better understand how our behaviours are impacting the world. For now, investors have responded to the AI potential with great enthusiasm, as seen from the performance of the Magnificent 7 in 2024.

As important players within the AI ecosystem, Asian tech companies offer investors exposure to the AI theme but at cheaper valuations. This includes companies within the semiconductor upstream supply chain: raw material suppliers, chip vendors, foundries, and outsourced semiconductor assembly & test (OSAT) players. It also includes downstream component and original design manufacturing/original equipment manufacturing (ODM/OEM) vendors, as well as semiconductor production equipment (SPE) suppliers.

Findings from our Singapore investment team's recent road trip where our portfolio manager met with 30 Asian companies suggest that AI chip demand is set to increase as companies are increasingly monetising their usage of AI technologies. AI chips are enhancing advertisers' ability to find and target audiences by enabling precise audience segmentation, real-time personalisation of ads, and optimised ad placements. AI chips are also enabling cost savings by enhancing machine learning for operations and smart manufacturing. In one use case, leveraging AI to translate call conversations between customers and agents in real time led to significant cost savings. The global AI High Performance Computing market, including GPU- and ASIC-configured AI servers, AI smartphones, AI smart cars, and AI PCs is projected to grow from USD120 bn in 2024 by 45% in 2025 and surpass USD200 bn in 2026. This implies a Compounded Average Growth Rate (CAGR) of 55% over 2023-2026[3].

Contributors

Rebecca Lin, Head of Investments, Eastspring Taiwan; Terence Lim, Portfolio Manager, Equities, Eastspring Singapore

[1]Climate Leadership Council. Emissions Growth in the Developing World. June 2024. [2]Southeast Asia's Green Economy 2024 Report. Bain & Company. April 2024. [3]Daiwa. October 2024.

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Enhancing portfolio buffers

Incorporating diversified alpha streams with varying time horizons has become even more important following the policy lags and disruptions arising from the COVID-19 pandemic. It is also critical to ensure that quantitative and qualitative risk tools remain effective in the current market environment. Our Multi Asset Portfolio Solutions team continues to fortify our stress testing framework by adding recent tail-risk scenarios, such as the Ukraine-Russia crisis and the COVID-19 pandemic. This is in addition to scenario testing based on evolving growth and inflation expectations.

This provides a better understanding of potential risk concentrations within portfolios and their implications during market shocks. Combining human judgment with a rigorous data-driven process should help to better navigate rapid market drawdowns, similar to those witnessed during recent left-tail risk events.

Historically, a negative stock-bond correlation has helped multi asset portfolios deliver stable returns across economic and market cycles. This correlation, which was negative for two decades, started to break down in early 2021 as inflation rose rapidly. It has continued to be volatile inspite of US inflation trending lower in 2024. While we believe that the diversification provided by multi asset portfolios remains more relevant than ever, we stress the need for agility and tactical adjustments as market conditions evolve.

Contributor

Craig Bell, Head, Multi Asset Portfolio Solutions

Dividend income boosts total returns

Adding dividend income streams in multi asset portfolios can provide additional buffer during market drawdowns. Dividends have been an important contributor to total returns, especially in Asia. We foresee this trend continuing into 2025, as the emphasis on shareholder returns grows among the numerous cash-rich and cash-generating companies across the region.

We have noticed that Asian management teams consistently prioritise shareholder returns throughout economic cycles.

Despite the high dividend payouts, many Asian companies still possess the financial resources and solid cash flows to increase dividends or initiate buybacks. Additionally, among companies experiencing cyclical recovery or structural growth, we have noticed that Asian management teams consistently prioritise shareholder returns throughout economic cycles. This leads to a dual advantage: higher shareholder returns, and potential valuation increases due to improved corporate governance.

Income stocks generally perform better in a declining interest rate environment. The rising appeal of dividend income, alongside benign macroeconomic conditions and abundant income opportunities in Asia, fuels our optimism about income stocks in 2025.

Contributor

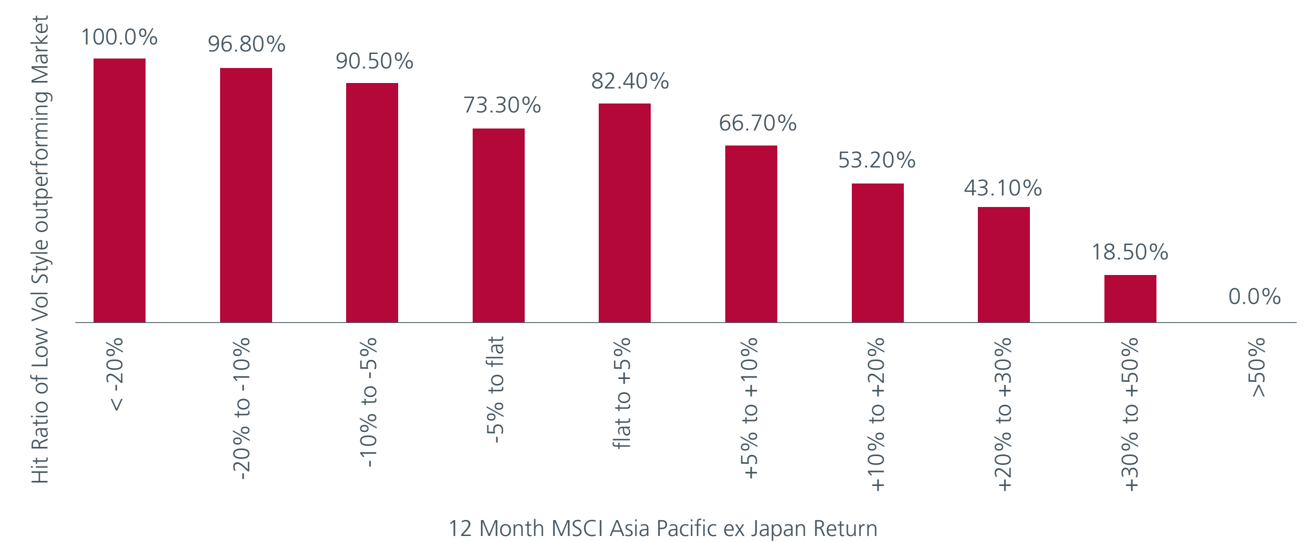
Christina Woon, Portfolio Manager, Equities

Low volatility strategies mitigate downside risks

Similar to dividend income, low volatility equity strategies can also buffer portfolios. 2024 has proven to be an eventful one for investors, full of notable market movements, heightened geopolitical tensions, and political transitions. Market concentration has been a prominent theme, particularly in the US, where a handful of mega-cap stocks—especially those linked to Artificial Intelligence—has driven substantial gains. These market distortions not only expose concentration risks, but such hype can fizzle out just as quickly.

Heading into 2025, we expect heightened periods of volatility from uncertainty over US and China policies. These periods often coincide with shifts in market dynamics, presenting opportunities to diversify portfolios and capitalise on evolving trends. That said, investment decisions should focus on longer-term fundamentals, with an understanding that uncertainty can stem from numerous sources. Defensive strategies, such as low volatility investing, help cushion against downside risks and contribute to more stable returns.

Low volatility strategies work exceptionally well in most market environments



Source: Eastspring Investments, Bloomberg. All rolling 12-month returns from May 2001 to August 2024.

Historical data supports this view: an analysis of the low volatility strategy using the MSCI AC Asia Pacific ex Japan index, covering all rolling 12-month periods from May 2001 to August 2024, shows that this approach consistently outperformed during times of extreme stress, as well as during periods of weaker and steady market gains. While the performance does taper off during extreme euphoric market conditions (where markets rise by more than 30%), this is a minor exception for an otherwise strong track record.

Contributors

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Views from the region

China

Michelle Qi
Head of Equities

We expect Chinese equities to be supported by attractive valuations and potential additional fiscal and monetary stimulus in 2025. Given that the Chinese equity market has rallied following the Chinese policy announcements in September, we would caution against chasing the market but to be selective in picking stocks with visible earnings growth drivers. The Consumer sector could benefit from product and service upgrades, policy support, and cost control measures.

We have started to see some improvements in China's economic data in the fourth quarter of 2024, although deflationary pressures remain persistent. Potential tariffs from the Trump administration pose risks to economic growth as well as the RMB. A well-designed stimulus package would be needed to boost consumer spending and offset these external uncertainties. Given the need to maintain fiscal flexibility for future challenges, we expect the Chinese government to adopt a measured approach towards easing. A potential moderation of Trump's policies towards China could be an unexpected upside for the market.

Indonesia

Liew Kong Qian
Head of Investments (Equities)

The new Prabowo government aims to boost the economy through welfare state, food and energy security, and industrialisation initiatives. Their goal is to accelerate GDP growth from 5% to 8% by 2029. Their 100-day plan, costing IDR113 tn (0.5% of GDP), focuses on expanding the welfare state and supporting low-income households. Funding will come from reallocating energy subsidies and the Value Added Tax (VAT) hike from 11% to 12% in January 2025. The 2025 fiscal deficit is expected to exceed 2.5% but stay within the 3% ceiling.

The government's pro-growth policies and fiscal initiatives are expected to bolster the Consumer Staples and Financials sectors. Welfare spending will boost mass market consumption, benefiting value-for-money food brands. Pro-growth policies offer participation opportunities for private sector and banks in national projects, extending the banking industry's loan growth trajectory. Banks with strong equity capital and funding franchises will be well-positioned to capitalise on new investment and loan demand.

Korea

Paul HJ Kim
Head of Investments (Equities)

The performance of major economies, particularly the US and China, will greatly impact Korea's export-driven economy. Major exporters such as information technology hardware and auto players may face challenges. On the domestic front, government policies will remain vital; potential reforms in corporate regulations, fiscal stimulus measures and the possibility of further rate cuts by the Bank of Korea could enhance the business environment and stimulate domestic demand.

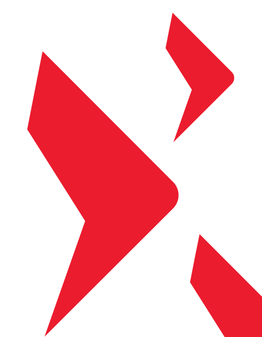
The Korean stock market will be influenced by the overall global economic health, policy decisions, and the growth of Korea's high-tech industries i.e. semiconductors in Artificial Intelligence (AI) and electric vehicle (EV) batteries. These sectors are poised to drive new growth over the next decade. Advances in chip technology, increased EV battery demand, and widespread AI adoption could catalyse the Korean economy and stock market, providing upward momentum from relative weakness and low valuations in 2024.

Malaysia

Doreen Choo
Head of Investments

The Malaysian equity market is expected to see positive returns in 2025, with earnings growth in the mid-to-high single digits and dividend yield around 3-4%. Political stability, strong GDP growth (4.5-5.5%), near-full employment, wage hikes, robust Foreign Direct Investment (FDI), and growth in renewable energy and data centres are expected to underpin the market. The recovery in electrical and electronics exports and tourism, along with ample domestic liquidity, especially from domestic pension funds, are also favourable factors.

The banking sector will continue to be supported by the strong economy, export recovery, and consumption growth. Government infrastructure projects such as light railway transits and FDI going into manufacturing plants, data centres and logistics warehouses will benefit the Construction and Building Materials sectors. Rising discretionary spending and strong employment will aid the Consumer sector while medical tourism will boost the Healthcare sector.



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Taiwan

Rebecca Lin
Head of Investments

Taiwan's economy is well-positioned for growth in 2025, driven primarily by its leading role in the semiconductor supply chain and Artificial Intelligence (AI) ecosystem. With its significant technological lead, Taiwan's semiconductor industry is likely to maintain its competitive edge. Meanwhile, Taiwan Semiconductor Manufacturing Company (TSMC), the world's leading independent semiconductor foundry, is expanding globally in a way that already aligns with US policies aimed at localising semiconductor production.

The AI High Performance Computing (HPC) market is forecast to be one of the biggest growth drivers for the wafer manufacturing and advanced packaging and testing industries. The AI HPC market, especially AI semiconductors used in applications like Chat GPT, is projected to reach over USD 200 bn by 2027. Additionally, the rise of autonomous vehicles boosts the demand for automotive semiconductors, with the Advanced Driver-Assistance Systems (ADAS) market expected to grow to USD120 bn by 2029. Edge AI, which deploys AI applications directly on devices like phones, cameras, and computers, instead of sending data to the cloud or data centres, will benefit from increased shipments of AI servers, PCs, and smartphones. Meanwhile the growing requirements of data centres, cloud computing and high-performance networking will drive demand for next-generation networking solutions.

Thailand

Bodin Buddhain
Head of Investment Strategy

The Thai stock market is poised for a rebound in 2025. The new government plans to boost the economy with expansionary fiscal policies. Large-scale infrastructure investments are expected to stimulate private sector investment, create jobs, and raise incomes. Potential rate cuts by the Bank of Thailand will free up more disposable income for spending and investment. The reintroduction of the Vayupak Fund, a government-sponsored investment vehicle, too has the potential to significantly boost market sentiment and liquidity.

Several sectors are expected to benefit from the Thai government's economic stimulus measures. A recovery in tourism should benefit hotels, restaurants, and airlines. Cash handouts and debt relief will enhance consumer purchasing power, boosting retail sales. The stimulus measures and digital transformation will create growth opportunities in cloud computing, data centres, and fintech. Separately, the Renewable Energy sector will be supported by the global shift towards clean energy, growing demand from data centres, cloud computing, and high-performance networking.

Vietnam

Ngo The Trieu
Chief Executive Officer &
Head of Investments

Market returns in 2025 are likely to be bolstered by a stable macroeconomic landscape. The country's GDP growth is expected to be strong, backed by a recovery in trade and production, supportive government policies (like VAT cuts and fee reductions), a 30% public sector salary increase, strong foreign direct investments, and a gradual recovery in real estate and construction. A potential upgrade to Emerging Markets status by FTSE Russell, a global index provider, by September 2025 is expected to boost market sentiment and attract foreign investment. The market continues to look attractive, with an expected price-to-earnings ratio of 11.8x in 2025, significantly lower than the 5-year average of 17.1x.

Earnings growth is anticipated to be around 18%. The Financial sector will benefit from robust credit growth, enhanced asset quality, and increased non-interest income. Non-financial sectors such as Consumer Discretionary and Information Technology will see improvements due to stronger private consumption, export activities, and margin expansion. Industrial parks may enjoy double-digit growth in land sales, driven by global manufacturers relocating to Vietnam.

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Risk radar

Market disappointments over rising inflation, the uncertain path of US interest rates, and the risk of a stronger US dollar can impact asset prices in 2025. Given resilient US economic data and potentially higher inflationary pressures under a unified Trump government, the risk of long-term inflation expectations being unanchored is rising. As such, the Fed may maintain a tighter-for-longer monetary policy.

At the same time, global growth has largely been driven by robust US consumer demand post COVID-19. However, headwinds to US consumption will continue as the excess savings accumulated during the pandemic decline, wages trend lower, and banks tighten lending standards. The cooling labour market and slowing wage growth will also dampen US consumption by reducing consumers' purchasing power. In addition, US real policy rates remain above 2%, implying that financial conditions continue to be restrictive and could further weigh on growth. While the odds of a US recession have decreased, we cannot rule out the possibility entirely. In fact, we believe the chances of a recession may be higher than what is currently being reflected in the market.

Geopolitical events can significantly impact investor sentiment and it will be prudent not to underestimate or discount them. With Trump's victory and his "America First" approach, there will be less predictability in foreign relations. We continue to monitor ongoing geopolitical tensions such as the Russia-Ukraine conflict and the Middle East crisis. While such geopolitical tensions can be disruptive, they can also present unique investment opportunities.

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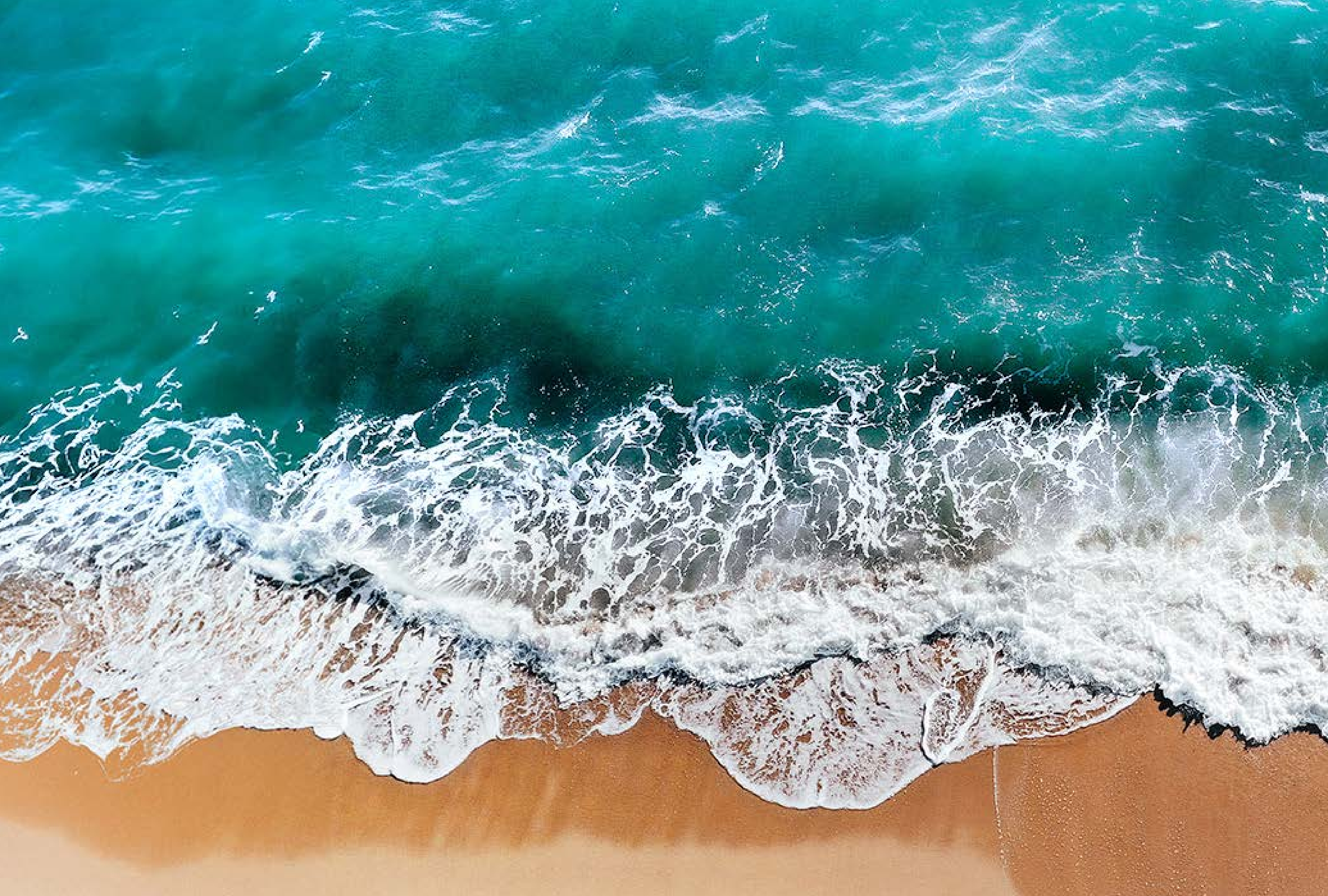

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