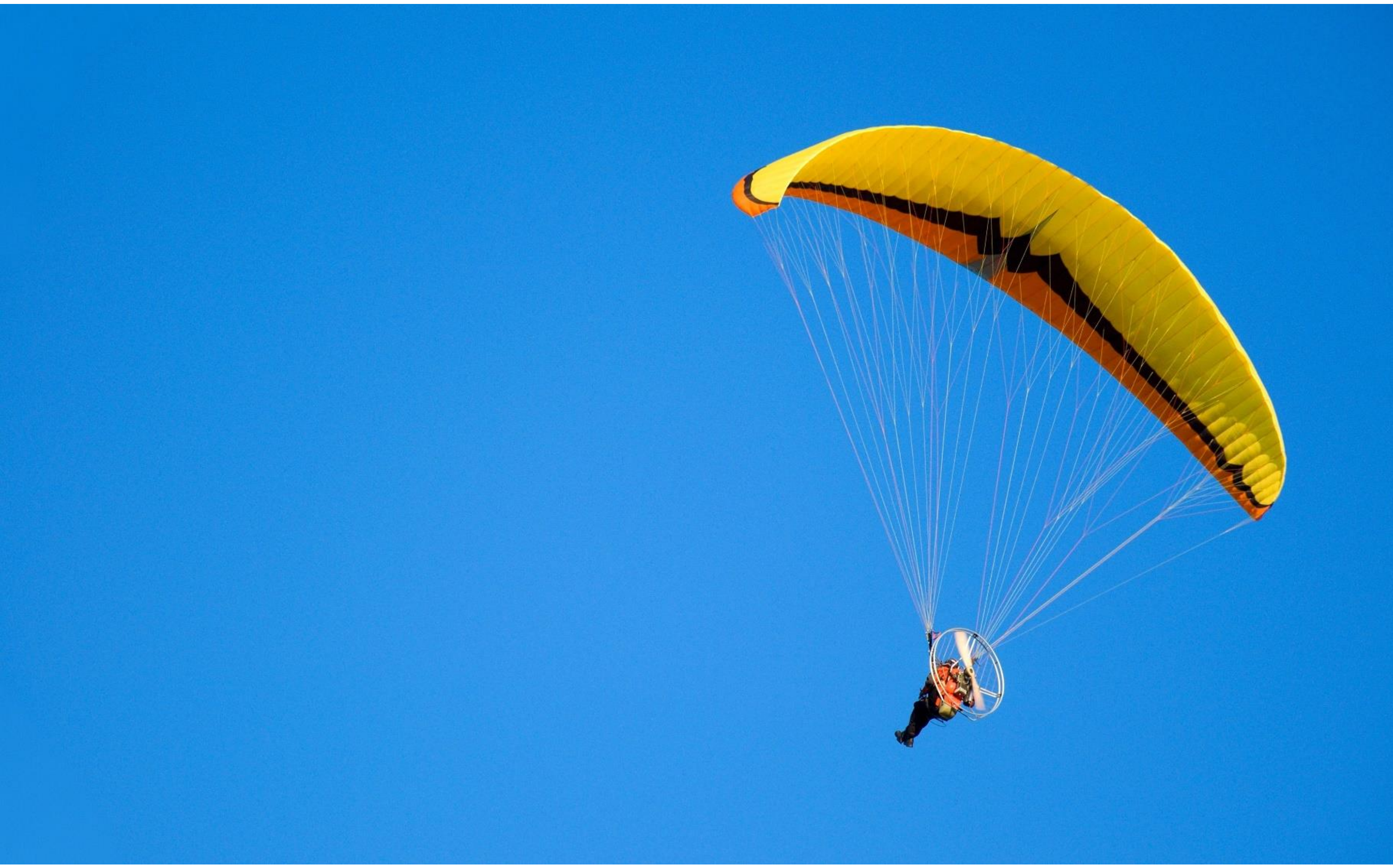
2025 Mid-Year Market Outlook

Navigating the new normal



Macroeconomic

Economic growth likely to slowdown in 2H

The global economy is expected to experience a certain degree of slowdown in the second half of 2025, with the slowdown in emerging markets likely to be more pronounced than in mature markets.

Among mature markets, the United States is expected to see the most significant economic slowdown. In the first half of the year, especially in the first quarter, businesses engaged in substantial pre-stocking due to concerns over tariff wars, a situation that will not recur in the second half. Additionally, the economy itself is in a downward phase of the business cycle, so the growth rate will decline from near-trend growth levels (about 1.8-2.0%) in the first half to around 1% or even below 1% in the second half, with the annual growth rate expected to be only about 1.35%.

As for the Eurozone and the UK, although the economic slowdown in the second half is not as significant as in the U.S., the potential trade war between the Eurozone and the U.S. could have more negative impacts than anticipated. Japan's growth in the first half was relatively decent compared to its long-term economic levels, but in the second half, particularly in the fourth quarter, the economy is expected to slow down significantly. As for China, the market outlook for the second half is also not optimistic, with economic growth expected to slow down significantly compared to the first half in the absence of substantial fiscal stimulus.

Trump's policies bring uncertainty to the economy

Our focus is on the U.S. As mentioned earlier, the strong pre-stocking demand in the first half kept consumption stable, and the demand for investment and pre-stocking of imports was especially strong, leading to a good economic performance. However, these demands will gradually disappear in the second half, which will lead to a decline in demand due to the early consumption of these needs, adversely affecting economic performance. Current economic data is still acceptable, but both households and businesses are facing the impact of various policy uncertainties from the Trump administration, leading to conservative consumer confidence, declining momentum, and decreasing business orders, all of which are foreseeable trends. Although the current hard data (real data) is still acceptable, the soft data (survey data) has already weakened significantly. Based on past experience, the final real data will also follow suit. We believe the labor market will be a key area to watch in the future, as leading indicators in survey data have started to show a downward trend, which will further impact wage growth and consumption momentum, thereby affecting the U.S. economy.

Regarding the impact of subsequent policies from the Trump administration, although the trade war actions seem to have eased somewhat compared to the first half, the market's focus has now shifted to fiscal issues, which will become the main theme with stronger market reactions from mid-year to the second half. Under the current budget law, there is no effective way to reduce the deficit and future debt accumulation, which will inevitably put upward pressure on medium- to long-term Treasury yields. High market interest rates are already an unfavorable factor for the performance of the real economy.

With U.S. inflation and the labor market continuing to cool, the economy in the first half of 2025 has returned to a state of roughly balanced risks between employment and inflation. Looking ahead to the second half of 2025, housing inflation will continue to decline, but third-quarter tariffs will push up core goods inflation, which will spread to service inflation in the fourth quarter. At that time, the core inflation rate will rise from 2.7% to 3.3%, and it is expected to gradually slow down in the second half of 2026. As for the labor market, it will also be affected by the economic downturn. Fortunately, companies are more likely to reduce hiring rather than engage in large-scale layoffs, with the unemployment rate expected to rise from 4.1% to 4.6%. Facing the impact of mild stagflation and high uncertainty in the U.S. economy, the Fed will maintain the current interest rates unchanged. It is expected that inflation will start to fall from its peak in the fourth quarter of 2025, while the labor market will continue to deteriorate, prompting the Fed to cut interest rates by 25 basis points, and continue to cut rates by 50 to 75 basis points in 2026. However, the impact of various executive orders from the Trump administration on the economy remains highly uncertain, and attention must be paid to the possibility of a hard landing for the economy and aggressive rate cuts by the Fed.

Valuation under pressure, defensive and quality stock are recommended

Regarding U.S. stock investments, we believe the probability of entering a bear market this year is not high, but the chance of a decline in the third quarter is not small. From a fundamental perspective, the S&P 500's annual earnings growth rate estimate has been revised down from 14.1% at the beginning of the year to less than 9% currently. In particular, sectors such as materials, industrials, and consumer discretionary, which are more exposed to the trade war, have seen their earnings forecasts revised down by 10-15%, making them the groups most affected by the trade war. However, for the overall stock market, this situation is not surprising, as there have been multiple instances since 2000 where the economy only grew slightly but stock market earnings declined. Therefore, the trend of earnings downgrades is expected to continue in the second half. As for valuations, as mentioned earlier, the possibility of rate cuts is low, and the risk-free rate of the 10-year Treasury bond is at a high level, coupled with the stock market continuously reflecting fundamental risks, leading to an increase in risk premiums; these factors all push up the discount rate, creating a bearish outlook for stock market valuations. Overall, we hold a pessimistic view of US stocks in the third quarter, while the fourth quarter will require observation of factors such as whether the economy bottoms out and developments in tax cuts and fiscal policies to determine if there are opportunities for the market to perform. In terms of investment style, we recommend focusing on defensive and quality stocks. Defensive stocks provide protection during economic downturns, while quality stocks are those with healthier balance sheets, making them relatively better choices during turbulent times.

Select high quality investment grade corporate bond

As for bond investments, the weakening U.S. economy in the second half should lead to a decline in bond yields. We expect U.S. 10-year treasury yields to fall to the low range of 4.0%-4.3% from the second half of the third quarter to the fourth quarter, and as the U.S. economy bottoms out and the Federal Reserve's rate cuts come to an end, yields may rise again. However, investors should be aware of factors such as the increased fiscal discipline concerns from the tax cut bill raising the debt ceiling in early third quarter, the U.S. Treasury issuing more bonds to absorb market liquidity, and the possibility of the U.S. economy being stronger than expected, which could limit the decline in Treasury yields. In terms of corporate bonds, given the downward trend in U.S. economic momentum in the second half, we recommend investing in higher-quality investment-grade corporate bonds. When the U.S. economy bottoms out at the end of the year to early next year, consider switching to non-investment-grade corporate bonds to capture potential yield opportunities.

China Economy

Key Economic Development Priorities for China in Response to External Challenges

Since early 2025, China's economy has shown marginal improvement amid multiple internal and external factors. In the trade sector, after reaching a 90-day short-term tariff exemption agreement with the United States, market expectations for the full-year GDP growth rate have risen from the initially announced "Liberation Day" figure of 4.2% to 4.5% following the preliminary agreement; on the other hand, although exports to the US continue to shrink, exports to ASEAN and India have increased significantly, with exporters actively expanding multilateral markets to mitigate external shocks, and the proportion of China's exports to the US continues to decline. Against this backdrop of external challenges, the Chinese government’s four economic priorities include: (1) maintaining liquidity in the banking system, (2) boosting consumer confidence, (3) supporting innovation and technology to drive high value-added production strategies, and (4) expanding trade alliances beyond the US.

From "Liquidity Shortage" to "Confidence Shortage" — China Needs to Restore Confidence

On the monetary policy front, liquidity is ample and banking system funding is loose, but social confidence still requires further restoration. The 10-year government bond yield is at a relatively low level among major emerging markets, helping to reduce corporate financing costs; deflationary pressure from falling food prices coexists with moderate core CPI growth. The manufacturing PMI hovers near the 50 expansion-contraction threshold, showing no clear short-term expansion. Financial support focus is shifting from "liquidity shortage" to "confidence shortage" (ample funds available but lacking confidence).

In fact, to stimulate domestic growth momentum, besides continuously introducing and updating consumption support policies since the end of last year—such as "trade-in program" and "large-scale equipment renewal" with funding to boost consumption—the People’s Bank of China implemented a new round of monetary easing in early May: a comprehensive 0.5 percentage point reserve requirement ratio cut, a 0.1 percentage point interest rate cut, and expanded reloan and rediscount quotas, releasing about RMB 1 trillion in long-term liquidity to the market to increase corporate financing willingness and lay a foundation for subsequent confidence recovery. The upcoming Central Political Bureau meetings will be key to policy direction, with the market generally expecting continued coordinated monetary and fiscal policies to boost overall economic confidence.

With the gradual effect of policies over time, since the second half of 2024, retail sales growth has stabilized and recovered, with consumption performance continuing to warm up as of April; meanwhile, infrastructure investment remains strong, offsetting downside risks from the weak real estate market. Additionally, the residential market has gradually warmed after bottoming out last year, with sales volume stabilizing; automobile sales have grown rapidly, reflecting some resilience in domestic demand, and consumption pressure on China’s GDP is not as severe as the market imagines. From the capital market perspective, the Shanghai Composite Index can be seen as another confidence indicator; after years of decline and a rebound above 3,300 since last September, it has entered a consolidation phase, reflecting gradual capital inflow and investor confidence restoration.

2025 China High-Tech Manufacturing

As early as 2015, the State Council planned "Made in China 2025," aiming to enhance China’s competitiveness in high-end manufacturing. After a decade of development and upgrading, "Made in China 2025" has achieved multiple technological breakthroughs in artificial intelligence, semiconductors, and new energy equipment, with the next phase focusing on commercialization and widespread application of these technologies.

Since China's real estate crisis, credit resources in the Chinese banking system have accelerated shifting from the real estate sector to manufacturing and high-tech industries, reflecting a change in the source of China's economic growth momentum. With continuous breakthroughs in Chinese innovation, China has the opportunity to experience "Deepseek moments," a result of large investments in research and development. However, China's technological innovation may raise U.S. vigilance, leading to various U.S. restrictions on Chinese technology. Regardless of tariff negotiation outcomes, China-U.S. relations will fluctuate between tension and relaxation, which will become the new normal. Over time, market reactions to China-U.S. disputes will become increasingly muted.

Reduced U.S. Dependence and Risk Diversification

As mentioned, the U.S. has imposed various restrictions on China's innovation development, coupled with recent U.S. global tariff. In fact, China has prepared for this risk since the first trade war under Trump 1.0, with the proportion of Chinese exports to the U.S. significantly decreasing and shifting toward other trading countries. In 2019, about 80% of China's exports went to non-U.S. countries, rising to about 85% in 2025, while direct exports to the U.S. have gradually decreased. China has also increased trade activities with ASEAN and India, enhancing export flexibility and risk diversification.

Meanwhile, amid global trade instability, China has actively increased its gold reserves in recent years, from about 2,000 tons at the beginning of 2023 to nearly 2,300 tons now, accounting for about 7% of China's foreign exchange reserves, still far below the 21% level of other countries using gold as foreign exchange reserves. China may become a major source of gold demand in the future.

Diversified Asset Allocation to Cope with the New Normal

China-U.S. relations will continue to play out in a "periodic tension and relaxation" new normal. Facing U.S. escalating high-tech export controls, China is accelerating the strengthening of domestic supply chains, diversified trade strategies, and independent R&D to promote core technology autonomy and control. The continued growth of gold reserves highlights the value of this safe-haven asset in uncertain environments. Regarding the Hong Kong stock market, the Hang Seng Index has performed strongly since the beginning of the year, reflecting sustained overseas capital allocation to Chinese assets and rising risk appetite. Investors increasingly value risk diversification, making diversified asset allocation a new trend, including moderate overseas market exposure and defensive assets.

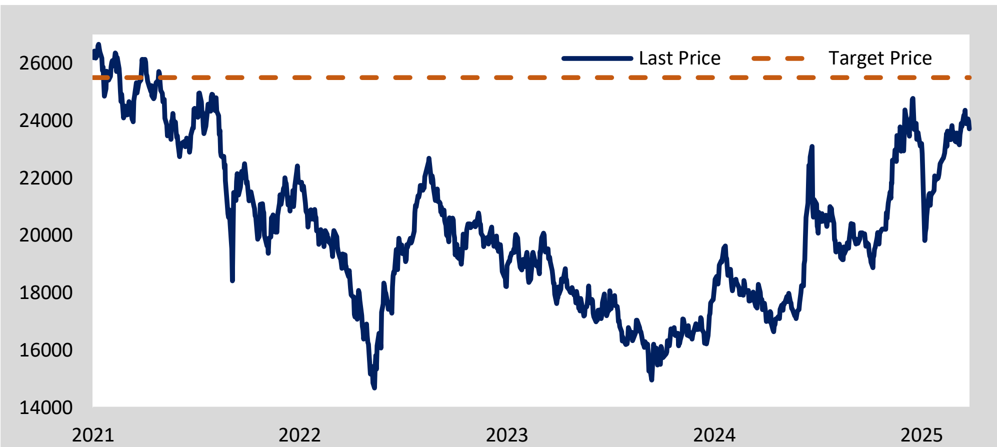
Overall, in the second half of 2025, China's economy will continue to recover driven by policy support, domestic demand rebound, and manufacturing transformation and upgrading. However, attention should remain on uncertainties such as China-U.S. friction, geopolitical issues, and international demand fluctuations.

Hang Seng Index Outlook for Second Half of 2025

2025 Hang Seng Index Target Price: 25,500 points

We previously set a target of 23,200 points for the first half of 2025, when the biggest downside risk was Trump's tariff policies. Considering the above factors, we believe the Hong Kong stock market will reflect more positive factors in the second half, which is also reflected in the market's upward revision of earnings per share estimates for the Hang Seng Index. We raise this year's Hang Seng Index target price to 25,500 points, corresponding to an estimated price-earnings ratio of about 11 times, with potential growth of 6.3% in the second half (as of June 17, 2025), and a total annual increase of 27.5%.

Graph 1: Hang Seng Index



Source: Bloomberg, KGI, 17 June 2025

Sector Commentary

Sector	Weight	Commentary
Industrial	Overweight	● The central government has advanced the issuance of RMB 1.8 trillion in special bonds for 2025, focusing on supporting industrial upgrade projects. China's long-term industrial transformation trend remains significant, with high-tech manufacturing investment continuing to outpace overall industrial investment growth. Due to US tariff impacts, "export-to-domestic" conversion may be a viable approach, but excess supply could trigger price wars among domestic manufacturers. High value-added manufacturing may avoid price competition. ● Automation and humanoid robots: 2025 marks the mass production year for China's humanoid robot (embodied AI robot) industry, with market size approaching RMB 400 billion by 2030. Chinese companies have positioned themselves across the entire industrial chain, particularly excelling in cost reduction of core hardware components globally, with a complete and large-scale industrial chain.
Internet	Overweight	● With AI development, various companies are leveraging artificial intelligence to enhance operational efficiency, particularly in advertising, targeting user preferences to improve click-through rates - this represents the monetization of AI capabilities. ● With DeepSeek's emergence, market confidence in China's AI development has strengthened. The market predicts China's AI software market will exceed RMB 50 billion in 2025, up approximately 32% year-over-year. ● The Chinese government has elevated "AI+" to a national strategy, focusing on supporting large model training and industry applications. China's AI industry development will sustainably improve operational efficiency for Chinese enterprises.
Materials	Overweight	● Battery-related materials will benefit from global NEV penetration increase and rising battery storage demand, driving long-term growth in battery and upstream material demand. ● Gold serves as a hedge, and gold assets are favored given this year's uncertain outlook. ● Cement demand is expected to decline by high single digits this year, mainly dragged by continued real estate market weakness. Infrastructure investment growth can only partially offset the impact, but stricter production restrictions should support stable cement price recovery.
Telecom	Overweight	● Against macroeconomic uncertainty, telecom operators have become a safe haven in China's stock market. Telecom operators maintain stable net profits, and 2025 Capex is expected to decline, leading to more abundant cash flow. As SASAC encourages SOEs to enhance shareholder returns, we expect high dividends to continue, supporting share price performance. ● Due to declining telecom operator Capex, telecom tower and equipment industries may face near-term revenue pressure. Meanwhile, hyperscalers and SOEs show growing interest in AI applications following DeepSeek's technology release, with computing products expected to achieve rapid growth.
Healthcare	Overweight	● Government supports the entire innovative drug industry chain, including newly included Category C drug list items such as CAR-T, cutting-edge oncology drugs, and rare disease medications. ● Medical equipment will receive more policy support in 2H, especially with more active tendering activities. Tendering momentum has already increased in Q1 2025. ● CXOs will benefit from government policies optimizing clinical trials, thereby accelerating innovative drug development. Conversely, the U.S. Biosecure Act remains a major industry pressure source and may further strengthen regulation.
Utilities	Overweight	● Power generation benefits from expanded coal-power spread due to weak coal prices, supporting earnings and providing high dividend yields, with power demand minimally affected by tariff situations. ● Solar and other renewables face challenges from slowing domestic installation growth.

Sector	Weight	Commentary
Financials	Neutral	● Under U.S.-China tariff conflicts, central policies are expected to use more tools to stimulate domestic demand. The financial sector overall benefits from policy support, including expected RRR cuts (40bps decline) and liquidity easing (7-day reverse repo rate expected to drop ~40bps to ~1.1%). ● P&C insurance profits mainly come from underwriting profits, with investment portfolios less sensitive to market volatility than life insurance, benefiting from good expense ratio management and shorter liability duration. ● Life insurance industry profitability and dividend visibility have declined significantly, mainly due to A-share market volatility's impact on investment returns, plus long-term rate downward pressure. ● Domestic banks face impact from rate declines and NIM compression, with 2025 profit growth expected to remain at low-to-mid single digits.
Consumer	Neutral	● This year's China economic growth currently focuses on driving economic growth, with China continuously introducing supportive policies since early year, particularly measures with funding implementation showing significant effectiveness. ● As of Q1 2025, household expenditure-to-income ratio has recovered somewhat from 2020 levels, but spending ratios still have room for recovery compared to pre-pandemic levels. ● Under policy support, social retail sales performance is gradually improving. Future consumption, beyond funding implementation, may develop thematically, such as China's quadrennial National Games potentially triggering sports enthusiasm and driving related product demand. ● However, policy-driven industries may already have elevated valuations.
Real Estate	Neutral	● China's residential market has begun stabilizing since H2 2025, playing an important stabilizing role in overall consumer sentiment. However, we don't expect significant property price increases or meaningful upside for residential developers. ● We believe property management companies like MIXC are among the best ways to invest in China's commercial real estate sector due to their asset-light business model advantages. Additionally, MIXC's large shopping center portfolio provides further operational efficiency improvement opportunities. ● In Hong Kong, we will avoid all commercial real estate companies except non-discretionary categories, where the leader is LINK. The company operates resilient public housing estate malls and is transforming into a REIT management platform, which should enhance long-term returns.
Transportation	Neutral	● **Aviation:** Chinese airlines face continued pressure from weak airfare pricing, still impacting profitability. China's three major airlines have not escaped losses since reopening in 2022. ● **Shipping:** Short-term benefits from major U.S. tariff cuts driving exports and freight rates higher, but medium-to-long-term trade negotiations remain uncertain. Data shows seaport foreign trade volume growth continues slowdown year-over-year. ● **Express delivery:** Changes in consumer spending patterns help drive express delivery demand. For example, live-streaming e-commerce and social commerce create "small package" trends. Market expects 10-15% YoY growth in express delivery volume this year, supported by online shopping demand. However, industry price wars continue.
Technology/ Hardware	Neutral	● Chinese hardware contract manufacturers face long-term pressure as Apple shifts some iPhone production to India. ● 2025 smartphone shipments may be lackluster, evident from Q1 2025's low growth rates. Meanwhile, AI smartphones with Gen AI and basic AI capabilities are gaining market share, driving ASP increases. ● IPhone supply chain may benefit from spec upgrades, especially potential iPhone 17 upgrade cycle. Apple demand may be more resilient with clear upgrade roadmaps for coming years. ● Camera modules will benefit from AI-on-device technology requiring higher-spec camera modules, plus rising demand in autonomous driving.

Sector	Weight	Commentary
Energy	Underweight	● Oil prices face downside risks as OPEC+ relaxes production restrictions, leading to rising global oil production trends. Chinese refining margins may weaken in H2 2025 due to reduced exports, with fuel demand growth limited by EV adoption. Petrochemical demand will gradually recover due to government appliance trade-in programs, but overall capacity utilization remains low with spreads difficult to recover near-term. ● Abundant supply will continue pressuring coal prices through H2 2025, affecting producer profits.

Stock Commentary

Stock	TP	Commentary
		Industrial
Xiaomi (1810)	HK$ 64.7	● Xiaomi has profound technology accumulation in the AIoT field, providing rich perception and decision-making algorithm foundations for humanoid robots. Xiaomi's hardware advantages are gradually transforming into competitiveness in IoT and AI, likely driving robots to be applied in multiple scenarios. ● Xiaomi's April SU7 deliveries were 28,000 units, a slight 3.4% month-on-month decrease. Despite a fire incident from a car crash between March and April, the official sales target of 350,000 units this year is still likely to be met.
		Internet
Tencent (700)	HK$ 545	● New games have topped China's mobile gaming daily active user charts in recent years, reflecting Tencent's game appeal. ● Rich game pipeline remains, with the recent conference updating 46 domestic and international games, including 24 new titles. ● Advertising revenue grew across most key sectors, indicating broad demand recovery, supporting further advertising income growth, echoing improvement in consumer goods sales. ● Tencent will continue integrating AI in operations, including AI anti-cheating in games, content generation, and enhancing ads with better click rates, user engagement, and ad conversion.
Alibaba (9988)	HK$ 127	● Cloud intelligence business revenue growth is accelerating, with AI-related product revenue achieving triple-digit growth for seven consecutive quarters, reflecting strong AI demand. ● Main profit contributor Taobao & Tmall group supports profitability due to rising Take Rate.
Ctrip (9961)	HK$ 570	● AI applications significantly enhance marketing efficiency by optimizing advertising, reducing cost per click and improving conversion rates. ● Platform merchants use AI customer service tools for self-service problem resolution, greatly lowering operating costs. ● With increased automation, the group's operating profit margin is expected to steadily improve over the next three years.
		Materials
CATL (3750)	HK$ 350	● CATL covers nine of the top ten global new energy vehicle customers, reflecting its technical leadership. ● As a global leading auto battery manufacturer, CATL is actively expanding European capacity and continues investing in next-gen battery R&D (such as solid-state and sodium-ion batteries).
Gold ETF (2840)	HK$ 2670	● This ETF only tracks gold, and the ETF price movement closely follows gold prices. Compared to gold mining stocks, investing in gold ETFs avoids individual stock risks. The Target price of Gold is USD3700/oz.

Stock	TP	Commentary
Telecom		
China Unicom (762)	HK$ 11	● China Unicom's AI and cloud business are growing rapidly; overall revenue growth is expected to outperform peers in coming years. ● Current dividend payout ratio is around 60%, below peers' ~70%. With earnings growth and State-owned Assets Supervision and Administration Commission (SASAC) measuring central SOEs by ROE and shareholder returns, dividend room is expected to expand.
Healthcare		
AKESO (9926)	HK$ 112	● An innovative drug company with globally leading immuno-oncology (I/O) bispecific antibody (BsAb) business, now commercialized and compliant. ● Strong outlook: 2024 sales at RMB 2.2 billion, projected to grow about 4x to RMB 9 billion by 2027 driven by key BsAb therapies and new product pipeline. ● Robust new pipeline and global expansion: over 50 new projects and 24 global clinical trials, leading in bispecific antibody field.
Financials		
AIA Group (1299)	HK$ 97	● Quarterly new business value (NBV) growth exceeded expectations; margin improvements mainly due to product mix optimization. New business contract servicing margin is higher than NBV, laying a strong foundation for future profit growth.
Futu Holdings (FUTU)	US$ 141.7	● U.S. market trading volume proportion fell from 81% to 72%, reducing revenue concentration, while trading volume and assets under management (AUM) remain stable due to shift to Hong Kong and China ADR stocks by core clients. ● Additionally, average daily Hong Kong stock turnover grew 30% since early 2025, reflecting stronger market confidence, supporting Futu's business performance.
Consumer		
Pop Mart (9992)	HK$ 266	● Pop Mart continues expanding overseas; after a boom in Asia, focuses on the North American market this year. ● Collaborates with internationally famous IPs like Disney and One Piece, boosting additional revenue potential. ● Plans to launch animations to increase customer loyalty and attract new customers for its products.
Utilities		
CR Power (836)	HK$ 20.2	● Dual profit growth drivers: 1) benefiting from widened coal power spread; 2) new energy installed capacity is expected to grow nearly 30%, significantly faster than peers, boosting return on invested capital (ROIC). ● Strong profit growth supports dividend yield and valuation.
Real Estate		
Link REIT (823)	HK$ 49.5	● Link REIT is considering spinning off a real estate investment trust (REIT) listed in Singapore, including its properties outside mainland China and Hong Kong. A successful listing would be a major catalyst. ● Although Hong Kong retail rents still face single-digit negative rent adjustments, retail tenants under Link show low single-digit sales declines significantly better than the overall market. Tenant renewal rate exceeds 80%, and overall occupancy maintains at 97-98%, indicating strong asset cash flow. ● Link REIT's latest remuneration framework underscores a strong alignment between executive bonuses and shareholder returns. While the short-term incentives primarily focus on rental income and distribution performance, the long-term rewards are benchmarked against approximately 30 industry peers, requiring outperformance above the median to qualify for awards. This structure ensures that management's performance is closely tied to market competitiveness and shareholder value, thereby enhancing incentive effectiveness and fostering sustainable growth momentum.

Taiwan Market

Taiwan stocks expect to see headwinds before stabilizing

Taiwan's stock market has been increasingly volatile in 1H25F due to Trump's capricious tariff policies. However, the Taiex has fully recovered from the shock following Trump's April 2 announcements of tariffs due to a recent de-escalation of U.S. trade wars and the continued strong momentum in AI-related spending by major U.S. tech giants. Looking ahead, we believe the negative economic impact of the trade wars will steadily surface, suggesting that the Taiwan stock market may face downside risks before 3Q25F. That said, a moderate correction could help stabilize and underpin an index rebound in 4Q25F.

Although the U.S. and China have reached a temporary agreement, and Trump's tariff orders are facing legal challenges, leading to a partial easing of trade tensions, we note that the applicable tariff rates on Chinese imports during the 90-day truce are still quite high, at 37.5-55.0%. Such high tariffs will leave general manufacturers unprofitable, and thus we believe it will be difficult for the two countries to resume normal trade. Though Trump's tariff policies are being challenged in court, the Trump administration is seeking other legal means of imposing global tariffs. Overall, it would be risky to be overly optimistic and assume that the worst of the trade war has passed.

What concerns us more is that Trump's broad-based tariffs could lead to a combination of slower economic growth and rising inflation. According to the Peterson Institute for International Economics, a 10-20% blanket tariff levied by the U.S. government would hurt U.S. GDP growth by 0.4-0.9ppts, and the impact would double to 0.9-1.8ppts if trade partners of the U.S. retaliate. In a nutshell, whatever tariffs the Trump administration opts for will undermine the economy. Taiwan's supply chain is highly correlated to the U.S. economy. This suggests that once the ripple effects of tariffs hit the U.S. economy, earnings forecasts for Taiwan stocks may face downward revisions.

Lastly, if Taiwan's stock market can play out these headwinds before 3Q25F, the market will be well positioned for stabilization in 4Q25F. An economic slowdown may also prompt policy adjustments from Trump or stimulus measures from the Federal Reserve. In addition, strong demand for AI will remain a key driver of earnings growth for Taiex constituents into next year. With valuations having undergone moderate revisions, Taiwan's stock market may become more attractive to capital inflows by year-end.

Singapore Market

Resilience Amid Global Uncertainties

In 2H25, Singapore's economy is expected to experience cautious growth due to global trade uncertainties and a challenging external environment. While sectors like wholesale trade, manufacturing, finance, and insurance provide some support, geopolitical tensions and protectionism weigh on sentiment. Inflation remains manageable, but the labor market shows strain. Trade activity, boosted recently by tariff suspensions, is expected to moderate.

Looking ahead, growth is influenced by external factors such as US trade policies and China's recovery. The government has revised growth expectations downward, but strengths in electronics and financial services persist. Strategic investments in AI, digitalization, and green technologies aim to future-proof the economy. Risks remain from potential trade conflicts and weakening global demand. Domestic measures to boost innovation and stabilize the property market are anticipated to support growth, though challenges for businesses and households may arise. Overall, Singapore's economy is positioned to remain steady with limited near-term upside.

Economy overview

GDP: In the first quarter of 2025, Singapore's GDP grew by 3.9% YoY, slightly exceeding estimates of 3.8% but moderating from the 5% growth seen in fourth quarter 2024. This modest outperformance was driven by wholesale trade, manufacturing, finance and insurance sectors. The Ministry of Trade and Industry (MTI) remains cautious despite talks between major economies to de-escalate global trade tensions that arose from the sweeping tariffs announced by U.S. President Donald Trump. MTI continues to expect the global economic outlook to remain relatively gloomy, due to lingering uncertainties that have led to pullback in economic activity and potential re-escalation of retaliatory tariffs. In the near-term, manufacturing, finance and insurance, information and communications and professional services alongside consumer-facing sectors in Singapore are expected to be negatively impacted, as well as the domestic labour market. For 2025, MTI has revised Singapore's 2025 growth forecast downward to 0% to 2%, from 1% to 3% previously.

CPI: In April, Singapore's core inflation rose to 0.7%, from 0.5% in March, marking the first YoY increase after six months and fourth consecutive month where the reading was below 1%. The Monetary Authority of Singapore (MAS) and MTI attributed this increase to higher inflation in services and food, which outweighed lower retail and other goods inflation. Inflationary impact from potential trade conflicts alongside imported inflation and food commodity price increases is expected to be contained by overall weaker global demand. MAS projects core inflation and overall inflation to average between 0.5% to 1.5% in 2025.

Labour market: Total employment rose by 2,300 in 1Q25, down from 7,700 in 4Q24 and 3,200 in 1Q24. Resident unemployment rate for the quarter was 2.9%, while the overall unemployment rate held steady at 3.1% in March. Employment gains in health and social services and financial services were offset by declines in the professional services, manufacturing, and information and communications. Retrenchments declined from the previous quarter from 3,680 to 3,300 over the quarter. The Ministry of Manpower anticipates moderation in employment growth and a slight uptick in unemployment due to headwinds arising from trade policy uncertainty and weaker external demand stemming from global trade conflicts.

Fixed asset investment: In 2024, Singapore secured S$13.5 billion in Fixed Asset Investment commitments, a 6.3% YoY increase from the S$12.7 billion in 2023 and achieved a Total Business Expenditure per annum of S$8.4 billion. These investments are expected to create 18,700 jobs and add S$23.5 billion in Value-Added annually over the next five years. While 2023 saw investments across chemicals, electronics, and R&D, the majority of 2024's investments came from the electronics sector. The Economic Development Board (EDB) acknowledges that global protectionist policies and tariffs pose risks to the investment climate. Nonetheless, it plans to leverage Asia's expanding share of global GDP, expected to rise from about 50% today to 60% by 2030, to attract investments in key sectors and emerging growth areas. The EDB will focus on AI, digitalization, and climate technologies to bolster Singapore's position as a global innovation hub, supported by initiatives such as the Johor-Singapore Special Economic Zone.

International trade: In April 2025, Singapore's total trade rose 14.7% YoY, following a 3.4% rise in March 2025, with exports up by 22.1% and imports up by 7.0%. Non-oil domestic exports (NODX) grew by 12.4%, continuing their 2025 strong performance. Electronics and non-electronics exports both saw gains, with electronic NODX expanding by 23.5% in April, and non-electronic NODX growing by 9.3%. NODX to Indonesia, Taiwan, and South Korea also saw significant growth, while NODX to China and Malaysia contracted. Non-oil re-exports (NORX) grew 39.4%, driven by a sharp increase of electronic NORX by 58.5%. Non-electronic re-exports also saw growth of 15.6%. NORX to Taiwan, the United States, and Malaysia registered significant growth in April 2025. However, the strong growth in exports and imports in April is primarily due to the temporary suspension of high tariffs rates by President Trump, which has resulted in businesses rushing to front-load shipments to take advantage of the temporary reduction. China's ongoing slow economic recovery, alongside the uncertainties surrounding U.S. tariffs, is expected to keep Singapore's trade growth in the single digits through 2025.

Personal disposable income and savings: Personal disposable income grew by 5.2% YoY in 1Q25, lower than the 9.9% increase in the previous quarter. Growth for the quarter was also supported by the compensation of employees. Personal savings expanded by 6.7% YoY in 1Q25, moderating from the 19.6% increase in the fourth quarter of 2024. Personal income growth in 2025 is likely to remain subdued as companies cut jobs and freeze hiring amid economic uncertainties such as trade wars. However, the anticipation of interest rate cuts in 2H25 could improve hiring levels and boost disposable income in 2025.

Housing and rental prices: In 1Q25, private housing prices rose by 0.8%, easing from the 2.3% increase in 4Q24. Meanwhile, private residential rentals also rose by 0.4% in 1Q25 after remaining unchanged in the preceding quarters. Rentals for non-landed properties increased by 0.5%, while landed property rentals increased by 0.3%, reflecting a slowing demand in the rental market. Excluding Executive Condominium (ECs), take-up fell slightly by 1.3% QoQ but remains elevated on a YoY basis. On The other hand, pipeline supply increased marginally by 0.2% to 35,364. The supply gap marginally declined YoY, with lower take-ups and increasing pipeline supply, indicating a slight moderation in 1Q25 compared to 4Q24. ECs present a bright spot within the property market, with 760 EC units launched for sale, and 830 EC units sold in 1Q25. Going forward, with a progressive ramp up in overall private housing supply through the Government Land Sales (GLS) program in recent years, the increase in pipeline supply for housing may bring about a moderation of housing and rental prices.

Asia wealth hub

Singapore is currently home to approximately 333 centi-millionaires (individuals with a net worth of at least US$100mn), ranking 6th globally. Total number of millionaires also increased by 62% over the past 10 years from 2014 to 2024, ranking 21st in the world's fastest growing wealth hub. Singapore also ranks 3rd in terms of net inflow of HNWIs, behind UAE and the U.S., with an expected 3,500 HWNIs relocating to Singapore in 2024.

Singapore was also ranked 2nd globally in 2024 as the International Wealth Management Centre globally in competitiveness, according to Deloitte International Wealth Management Centre Rankings 2024, also currently has over 2,000 single family offices established in Singapore, managing 13O and 13U funds, as of December 2024.

Furthermore, MAS is set to launch a S$5 billion program to boost the local equities market through the Singapore Exchange. This involves putting money with domestic fund managers, with the focus on investing in Singapore stocks. The program is expected to improve valuations, enhanced liquidity, and attract more IPOs, and accordingly, to strengthen Singapore's position as a wealth hub in Asia.

Favourable sectors

Government-linked local companies: Re-rating catalyst due to low valuation amidst government support and stable business and outlook.

Investment Products and Solutions Department

- **LEUNG Kai Tong, CFA**

SFC licensee (CE No. ADU276)

cusson.kt.leung@kgi.com

- **LEUNG Wai Hang**

SFC licensee (CE No. ARA294)

vitus.wh.leung@kgi.com

- **MOK Raymond, CFA**

SFC licensee (CE No. BHJ465)

raymond.mok@kgi.com

- **KUNG Chun Wah, CFA**

SFC licensee (CE No. BRY438)

tommy.kung@kgi.com

- **YIP Chun Yi**

SFC licensee (CE No. BSQ196)

derek.yip@kgi.com