

## US strategy

### We prefer consumer discretionary, consumer staples, financial & tech stocks

#### Key message

1. We prefer consumer discretionary, financial, tech, and add consumer staple stocks to our list of preferred sectors.
2. We are Neutral on the energy, materials, industrials, communication service and utilities sectors.
3. We are particularly bearish on real estate, and less so on health care stocks.

#### Event

Last month, the average return of our recommended sectors outperformed the broader market, which advanced by 6.15%, with utilities, tech, consumer discretionary, industrials and financials up by a respective 3.36%, 10.79%, 9.38%, 8.63% and 4.29%. Meanwhile, the sectors that we were bearish about, namely real estate (up 0.85%), health care (down 5.72%), and materials (up 2.8%) underperformed. For this month, we maintain our positive view on consumer discretionary, financial, and tech stocks. We also add consumer staples to our list of preferred sectors.

#### Analysis

We prefer consumer discretionary, financial, tech and consumer staple stocks. The consumer discretionary sector is benefitting from rising real disposable income and stabilizing corporate production and private consumption sentiment. Economic conditions remain decent, but fundamentals are showing signs of softening, with businesses registering slower sales and earnings growth, and consensus has made more aggressive earnings downgrades. That said, stock valuations have been buoyed by investors' interest in growth stocks, positive market dynamics and favorable readings of technical indicators.

Financial stocks are a mixed bag, as the labor market remains resilient, but rising credit card delinquency rates and increasingly cautious earnings forecasts bode ill for the sector. Having said that, stock valuations have rebounded amid expectations for lower yields, and positive market dynamics, as well as technical indicator readings. Overall, the prospects of the financial sector are unchanged. Tech stocks face headwinds from the end of early pull-in demand, which was driven by trade wars. Although tech firms' strong pricing power should help shore up profit margins, uncertainties surrounding tariff policies have weighed on fundamentals and the economic outlook. Valuations could ride on improving market sentiment, and favorable market dynamics and technical indicator results, and thus we are overall optimistic about the sector. Consumer staple names are defensive by nature, and tend to outperform amid a weakening economy. Although low-income consumers will be more affected by tariffs, and deteriorating consumer sentiment bodes ill for the economy, we note that businesses are expecting improvements in sales and earnings with an overall cautiously optimistic view on the future. Valuations are rebounding, backed by better market dynamics and technical indicator readings.

We are Neutral on the energy, materials, industrial, communication service and utilities sectors. Macroeconomic conditions, fundamentals, valuation and technical indicator readings of the energy sector are little changed from the previous month, but market dynamics are improving. The materials sector saw a clear improvement in market dynamics, and macroeconomic conditions, valuations, and technical indicators have all ameliorated on a MoM basis. That said, fundamentals have deteriorated, and our earnings forecast model suggests limited room for growth ahead. For the industrial sector, technical indicators improved, but there has been little change in macroeconomic conditions, fundamentals, valuations, and metrics of market dynamics. The end of early pull-in demand also presents a headwind for the sector. The communication service sector registered improving valuations and technical indicators, and stable dynamics. However, deteriorating macroeconomic conditions and fundamentals are likely to cap share price performance in the near term. The utilities sector managed to maintain stellar market dynamics, but macroeconomic conditions have deteriorated slightly, while fundamentals, valuation, and technical indicators remain largely unchanged.

We are bearish on real estate and health care stocks. Real estate stocks suffered consensus earnings downgrades and deteriorating profit margins as high US Treasury yields have kept mortgage rates elevated, leading to sluggish sales of existing homes. Both macroeconomic conditions and fundamentals are lackadaisical, while technical indicators have deteriorated, and thus the sectors performance was muted. The health care sector enjoyed price hikes for medical equipment, but the benefits were completely offset by higher manufacturing and operating costs, leaving little room for improvement in macroeconomic conditions. Fundamental-wise, although sales and earnings have both improved, a sectorwide de-rating and mixed readings of technical indicators, which seemed to be leaning south, suggest it's better to remain cautious. We thus maintain Underweight on the sector.

#### Conclusion

To sum up, our recommended ETFs for this month are consumer discretionary (XLY), financials (XLF), tech (XLK), software (IGV) and consumer staples (XLP).

**Figure 1: We recommend industrials, consumer discretionary, consumer staples, financials, & tech**

KGI score, weighted total score & investment recommendation by US sector

Sector	Macro		Fundamentals		Valuation		Chip		Momentum		Overall Score		Sector Rating	
	May.	Apr.	May.	Apr.	May.	Apr.	May.	Apr.	May.	Apr.	May.	Apr.	May.	Apr.
Energy	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.50	0.00	0.00	0.15	0.08	Neutral	Neutral
Materials	0.00	0.00	0.00	0.00	0.00	0.00	0.50	(0.50)	0.50	0.00	0.13	(0.08)	Neutral	UW
Industrials	0.00	0.00	0.00	0.00	0.50	0.50	0.00	0.00	0.50	0.00	0.18	0.13	Neutral	OW
Consumer Discretionary	0.50	0.50	0.00	0.00	0.50	0.00	1.00	0.00	0.50	0.00	0.48	0.15	OW	OW
Consumer Staples	(0.50)	0.00	0.00	(0.50)	0.50	0.50	1.00	0.00	0.50	0.00	0.20	0.00	OW	Neutral
Health Care	0.00	0.00	0.50	0.00	(0.50)	(0.50)	0.50	0.00	0.00	0.00	0.05	(0.13)	UW	UW
Financials	0.00	0.00	0.00	0.00	0.50	0.50	1.00	0.00	0.50	0.00	0.33	0.13	OW	OW
Information Technology	0.00	0.00	0.00	0.00	0.00	0.00	1.00	1.00	0.50	0.00	0.20	0.15	OW	OW
Communication Services	0.00	0.00	0.00	0.00	0.50	0.00	0.00	0.00	0.50	0.00	0.18	0.00	Neutral	Neutral
Utilities	0.00	0.00	0.00	0.00	0.00	0.00	1.00	1.00	0.00	0.00	0.15	0.15	Neutral	OW
Real Estate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(1.00)	0.00	0.00	0.00	(0.15)	UW	UW

Source: Bloomberg; KGI Research

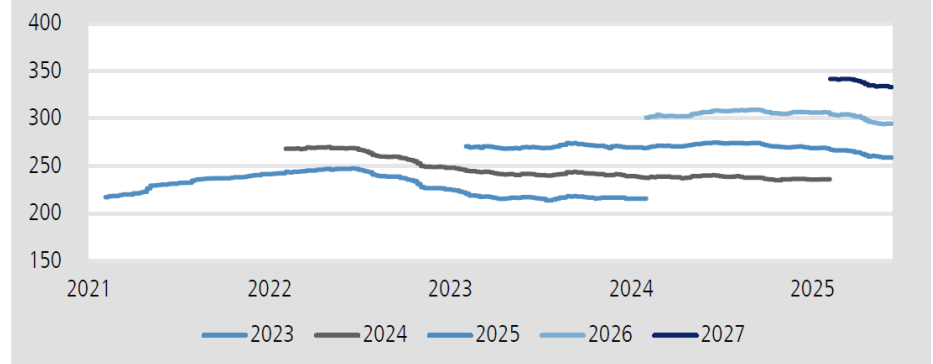
**Figure 2: Major international political & economic events over next quarter**

Date	Major event	Possible effect
6/15-17	51th G7 summit	The themes are "Building the Economy, Tackling Climate Change, and Governing Emerging Technologies".
6/16-17	BOJ monetary policy meeting	A rate hike is not expected, but the meeting may provide guidance on the future pace of balance sheet reduction.
6/17-18	Fed FOMC meeting	The probability of a rate cut remains very low, and absent a recession or systemic risk, any rate cuts this year are likely to be limited in scale.
6/24-26	NATO summit meeting	Whether countries will comply with future targets to raise military spending to 5% of GDP will be a key area of focus.
Q3	U.S. Fiscal Risk	Rising concerns over the U.S. fiscal outlook may lead to an initial uptick in yields, placing simultaneous pressure on both equity and fixed income markets.
July	China Politburo meeting	The meeting will outline economic policy priorities for the second half of the year, with a focus on potential countermeasures should the economy weaken further amid intensifying trade tensions.
July	Japan House of Councillors Election	Market attention will be on whether the ruling coalition of the Liberal Democratic Party and Komeito can retain its majority in the House of Councillors.
7/29-30	Fed FOMC meeting	The federal funds rate is widely expected to remain unchanged.
9/11	ECB Monetary Policy Meeting	The European Central Bank is expected to implement a 25 basis point rate cut.
9/16-17	Fed FOMC meeting	This meeting is currently viewed as the earliest possible window for a rate cut. However, the Federal Reserve may face a policy trade-off between persistent inflationary pressures and signs of economic deceleration.

Source: KGI Research

**Figure 3: S&P 500 EPS forecasts**

S&amp;P 500 EPS forecasts, US\$



Source: Refinitiv; KGI Research

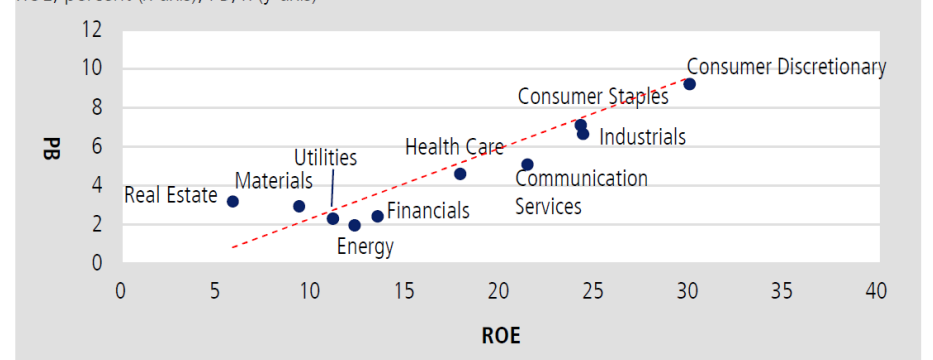
**Figure 4: S&P 500 EPS growth forecasts by sector**

	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2024	2025	2026
S&P 500	17.1	13.7	5.6	7.8	6.1	10.9	12.1	8.3	14.0
Consumer Discretionary	28.5	9.9	(3.6)	(1.2)	(2.8)	10.3	20.2	0.2	15.2
Consumer Staples	1.5	(5.4)	(2.5)	1.3	5.2	7.4	4.0	(0.2)	7.9
Energy	(29.3)	(16.6)	(25.3)	(10.1)	(1.5)	6.6	(20.1)	(12.8)	20.1
Financials	35.1	5.4	2.0	8.1	2.6	12.2	18.9	4.4	13.5
Health Care	14.3	46.4	4.9	7.5	9.0	6.8	5.2	15.1	10.7
Industrials	8.0	11.1	2.1	20.1	1.2	11.9	2.4	8.3	16.3
Materials	2.0	0.9	(4.4)	17.2	13.9	17.3	(6.3)	2.7	16.9
Real Estate	15.3	(7.0)	2.7	20.1	1.2	15.9	3.2	4.5	9.2
Information Technology	19.8	18.1	17.1	16.4	14.4	19.8	21.5	16.4	18.4
Communication Services	31.5	31.2	31.1	1.9	3.6	(3.4)	26.2	15.1	9.4
Utilities	12.5	6.1	0.0	(1.8)	9.6	10.9	16.5	4.9	8.2

Source: Refinitiv; KGI Research

**Figure 5: S&P 500 PB by sector versus ROE**

ROE, percent (x-axis); PB, x (y-axis)



Source: Bloomberg; KGI Research

## Key US economic data

Indicators		Units	2021	2022	2023	2024	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
GDP	GDP QoQ SAAR	QoQ %, SAAR					3.0			3.1			2.4			(0.2)		
	GDP YoY	YoY %	6.1	2.5	2.9	2.8	3.0			2.7			2.5			2.1		
Consumer prices	CPI	YoY %	4.7	8.0	4.1	3.0	3.0	2.9	2.5	2.4	2.6	2.7	2.9	3.0	2.8	2.4	2.3	
	Core CPI	YoY %	3.6	6.2	4.8	3.4	3.3	3.2	3.2	3.3	3.3	3.2	3.2	3.1	2.8	2.8		
	PCE price index	YoY %	4.1	6.6	3.8	2.5	2.4	2.5	2.3	2.1	2.3	2.5	2.6	2.5	2.6	2.3	2.1	
	Core PCE index	YoY %	3.6	5.4	4.2	2.8	2.6	2.7	2.7	2.7	2.8	2.8	2.9	2.7	2.9	2.7	2.5	
Labor market	Labor force participation rate	%	62.0	62.3	62.5	62.5	62.6	62.7	62.7	62.7	62.5	62.5	62.5	62.6	62.4	62.5	62.6	62.4
	Unemployment rate	%	5.4	3.6	3.6	4.0	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4.0	4.1	4.2	4.2	4.2
	Non farm payrolls	'000	7,233	4,555	2,594	2,012	87	88	71	240	44	261	323	111	102	120	147	139
	Net Change In total employment in labor force	'000	6,124	4,555	2,594	2,012	(9)	64	206	377	(346)	(273)	478	2,234	(588)	201	461	(696)
	Challenger job cut announce	YoY %	(1.2)	(1.7)	2.1	(0.9)	20	9	1	53	51	27	11	(40)	103	205	63	47
	Openings/ hiring	x	1.56	1.75	1.58	1.43	1.46	1.38	1.46	1.29	1.42	1.51	1.40	1.45	1.39	1.33	1.33	
	Avg. hourly earnings	YoY %	5.0	4.9	4.1	4.0	3.9	3.6	4.0	3.9	4.1	4.2	4.0	3.9	3.9	3.9	3.9	3.9
Economic activity & business condition	Industrial production	YoY %	4.4	3.4	0.2	(0.3)	0.9	(0.5)	(0.1)	(0.7)	(0.4)	(0.9)	0.4	1.7	1.4	1.3	1.5	
	Durable goods orders	YoY %	18.4	8.8	3.7	(1.7)	(9.8)	2.2	(1.0)	(1.8)	4.8	(5.1)	(3.4)	3.5	(0.1)	9.8	2.6	
	Core capital goods orders	YoY %	13.4	8.6	(2.5)	(0.6)	(4.0)	(0.6)	(1.8)	0.5	0.2	(1.1)	1.9	3.3	(0.9)	2.2	0.4	
	Total business inventory/ sales ratio	x	1.29	1.34	1.37	1.37	1.38	1.37	1.37	1.37	1.37	1.37	1.35	1.36	1.35	1.34		
	Manufacturing inventory/ sales ratio	x	1.49	1.53	1.59	1.58	1.58	1.57	1.58	1.58	1.58	1.58	1.58	1.57	1.57	1.57	1.58	
	Retail inventory/ sales ratio	x	1.14	1.23	1.27	1.31	1.32	1.31	1.33	1.33	1.32	1.31	1.29	1.31	1.31	1.29		
	ISM manufacturing index	Point	60.6	53.5	47.1	48.2	48.3	47.0	47.5	47.5	46.9	48.4	49.2	50.9	50.3	49.0	48.7	48.5
	ISM non-manufacturing index	Point	62.4	56.1	52.7	52.4	49.2	51.4	51.6	54.5	55.8	52.5	54.0	52.8	53.5	50.8	51.6	49.9
	ISM manufacturing index: new orders	Point	64.3	51.6	46.0	48.7	48.9	47.6	45.6	46.7	47.9	50.3	52.1	55.1	48.6	45.2	47.2	47.6
	Chicago Fed National activity index	Point	0.38	(0.00)	(0.13)	(0.15)	(0.13)	(0.34)	(0.05)	(0.21)	(0.50)	(0.05)	0.37	(0.25)	0.37	0.03	(0.25)	
	Conference board leading index	YoY %	7.1	0.4	(7.5)	(4.8)	(4.5)	(4.7)	(4.6)	(4.3)	(3.7)	(3.0)	(3.0)	(2.7)	(3.0)	(3.6)	(4.0)	
	C&I Loans for large/medium - tightening lending standard	%	(15.1)	11.8	43.9	9.5		7.9			0.0			6.2			18.5	
	C&I Loans for large/medium - stronger demand	%	(1.2)	12.4	(42.3)	(18.2)		0.0			(21.3)			9.4			(20.3)	
Housing market	Building Permits	'000, SAAR	1,735	1,684	1,516	1,474	1,461	1,436	1,476	1,434	1,428	1,508	1,480	1,460	1,454	1,481	1,422	
	Housing starts	'000, SAAR	1,603	1,552	1,421	1,371	1,327	1,265	1,391	1,357	1,352	1,295	1,514	1,358	1,490	1,339	1,361	
	New home sales	'000, SAAR	769	637	665	685	671	710	693	717	621	675	718	662	653	670	743	
	Existing home sales	mn, SAAR	6.1	5.1	4.1	4.1	3.9	4.0	3.9	3.9	4.0	4.2	4.3	4.1	4.3	4.0	4.0	
	NAHB housing market index	Point, SA	81	59	44	45	43	41	39	41	43	46	46	47	42	39	40	34
	S&P/Case-Shiller 20-city composite home price index	YoY %	18.7	4.9	6.4	4.6	6.5	5.9	5.2	4.6	4.3	4.4	4.6	4.8	4.5	4.1		
Consumption	Personal expenditures	YoY %, SA	8.8	3.0	2.5	2.8	2.9	2.9	2.9	3.2	3.1	3.1	3.1	3.0	2.7	3.1	3.2	
	Retail sales	YoY %	18.1	9.1	3.5	2.6	2.0	3.0	1.9	2.0	3.1	3.9	4.6	4.6	3.9	5.2	5.2	
	Retail sales ex-autos	YoY %	17.2	10.6	3.3	2.8	3.4	3.4	2.2	2.5	3.0	3.1	3.7	4.4	4.3	4.4	4.2	
	Domestic vehicles sales	mn, SA	179.2	164.8	185.2	189.3	15.3	15.8	15.1	15.8	16.0	16.5	16.8	15.6	16.0	17.8	17.3	15.7
	Conference board consumer confidence	Point	112.7	104.5	105.4	104.5	97.8	101.9	105.6	99.2	109.6	112.8	109.5	105.3	100.1	93.9	85.7	98.0
	Michigan Consumer Sentiment Index	Point	77.6	59.0	65.4	72.5	68.2	66.4	67.9	70.1	70.5	71.8	74.0	71.7	64.7	57.0	52.2	52.2
Fiscal	Budget balance	As % of GDP	(10.4)	(5.3)	(6.3)	(6.9)	(5.4)	(5.4)	(7.0)	(6.2)	(6.9)	(7.1)	(6.9)	(7.2)	(7.2)	(7.0)	(6.8)	
Int'l balance	Current account balance	As % of GDP	(3.7)	(3.9)	(3.3)	(3.9)	(3.3)			(3.6)			(3.8)					
	Net foreign securities transactions	US \$bn	907	1,321	1,005	761	21.6	102.3	95.0	208.9	118.5	49.9	46.7	(42.1)	112.9	161.8		
Monetary & financial	Federal funds rate	%	0.25	4.50	5.50	4.50	5.50	5.50	5.50	5.00	5.00	4.75	4.50	4.50	4.50	4.50	4.50	4.50
	10-Year treasury yield	%	1.51	3.87	3.88	4.57	4.40	4.03	3.90	3.78	4.28	4.17	4.57	4.54	4.21	4.21	4.16	4.40
	Dollar index	Point	95.7	103.5	101.3	108.5	105.9	104.1	101.7	100.8	104.0	105.7	108.5	108.4	107.6	104.2	99.5	99.3

Source: Bloomberg, KGI Research

## Key Taiwan economic data

Indicators		Units	2021	2022	2023	2024	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
GDP	GDP YoY	YoY %	6.7	2.7	1.1	4.8	4.9			4.2			3.8			5.5		
Consumer prices	CPI	YoY %	2.0	3.0	2.5	2.2	2.4	2.5	2.4	1.8	1.7	2.1	2.1	2.7	1.6	2.3	2.0	1.6
	Core CPI	YoY %	1.9	2.7	2.4	1.7	1.8	1.9	1.8	1.8	1.6	1.7	1.7	2.3	1.0	1.7	1.7	1.6
Labor market	Unemployment rate	%	3.7	3.6	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	
Economic activity	Industrial production	YoY %	14.7	(1.7)	(12.5)	11.6	13.3	13.2	13.1	11.8	8.9	10.6	19.8	4.9	18.2	12.8	22.3	
	Markit Taiwan manufacturing PMI	Point			46.3	50.9	53.2	52.9	51.5	50.8	50.2	51.5	52.7	51.1	51.5	49.8	47.8	48.6
	NDC monitoring light signal						Red	Yellow-red	Red	Yellow-red	Yellow-red	Yellow-red	Red	Yellow-red	Yellow-red	Yellow-red	Yellow-red	
	NDC monitoring indicators	Point	39.0	24.2	14.4	34.0	38.0	35.0	39.0	34.0	32.0	34.0	38.0	35.0	37.0	35.0	33.0	
	NDC composite leading index	YoY %	4.8	(3.2)	(1.6)	2.2	5.2	6.0	6.5	6.8	6.8	6.6	6.3	5.9	5.2	4.1	2.9	
	NDC composite coincident index	YoY %	8.5	(1.5)	(9.0)	5.7	9.4	9.5	9.5	9.3	9.3	9.6	10.2	10.8	11.7	12.6	13.6	
Consumption	Retail sales	YoY %	3.3	7.4	9.7	3.3	3.9	3.1	1.1	3.4	(0.5)	2.2	3.1	5.5	(3.8)	0.4	(0.6)	
Trade	Exports	US\$bn	446.6	479.7	432.6	475.3	39.9	39.9	43.6	40.6	41.3	41.1	43.6	38.7	41.3	49.6	48.7	51.7
	Imports	US\$bn	381.3	428.1	352.1	394.7	35.2	35.1	32.1	33.5	34.4	33.2	37.5	28.7	34.8	42.6	41.5	39.1
	Trade balance	US\$bn	65.3	51.6	80.5	80.5	4.7	4.8	11.5	7.1	6.9	7.9	6.1	10.0	6.6	7.0	7.2	12.6
	Export growth	YoY %	29.4	7.4	(9.8)	9.9	23.4	3.1	16.8	4.5	8.4	9.7	9.1	4.4	31.4	18.5	29.9	38.6
	Import growth	YoY %	33.4	12.3	(17.8)	12.1	33.9	15.8	11.6	17.3	6.0	19.7	30.4	(17.2)	47.5	28.8	33.0	25.0
	Export orders	US\$bn	674.1	666.8	561.0	589.5	45.6	50.0	50.2	53.8	55.5	52.3	52.9	47.0	49.5	53.0	56.4	
	Export order growth	YoY %	26.3	(1.1)	(15.9)	5.1	3.1	4.8	9.1	4.7	4.9	3.3	20.8	(3.0)	31.1	12.5	19.8	
Monetary & financial	M1B	YoY %	12.8	4.1	3.1	4.0	5.2	5.2	4.1	4.1	4.9	4.6	4.0	4.4	3.1	1.8	1.9	
	M2	YoY %	8.0	7.1	5.3	5.5	6.3	6.2	5.8	5.6	5.8	5.5	5.5	5.5	5.2	4.4	3.9	
	Foreign reserves	US\$bn	548.4	554.9	570.6	576.7	573.3	571.7	579.1	577.9	576.9	578.0	576.7	577.6	577.6	578.0	582.8	593.0
	Rediscount rate	%	1.1	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
	Exchange rate	USD/TWD	27.7	30.7	30.7	32.8	32.4	32.8	32.0	31.7	32.0	32.5	32.8	32.7	32.8	33.2	32.0	29.9

Source: Bloomberg; KGI Research

**All the above named KGI analyst(s) is SFC licensed person accredited to KGI Asia Ltd to carry on the relevant regulated activities. Each of them and/or his/her associate(s) does not have any financial interest in the respectively covered stock, issuer and/or new listing applicant.**

### Disclaimer

Some of KGI Asia Ltd. equity research and earnings estimates are available electronically on KGIWORLD.COM. Please contact your KGI representative for information. The information and opinions in this report are those of KGI Asia Ltd. internal research activity. KGI Asia Ltd. does not make any representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. The information and opinions contained in this report are subject to change without any notice. No person accepts any liability whatsoever for any loss however arising from any use of this report or its contents. This report is not to be construed as an invitation or offer to buy or sell securities and/or to participate in any investment activity. This report is being supplied solely for informational purposes and may not be reproduced or published (in whole or in part) for any purpose without the prior written consent of KGI Asia Ltd.. Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers and employees may from time to time have a position in any securities mentioned herein.