



HEALTHIER, LONGER,
BETTER LIVES

AIA Investments

“Optimism on the Horizon”

—— 2025 Global Market Outlook



EXECUTIVE SUMMARY

“2025 is expected to offer a supportive market backdrop with higher volatility. U.S. markets should remain resilient, driven by earnings growth, though returns will moderate after recent stellar gains.”

Shrikant Bhat

CEO, Investments-Linked and Pensions Business



2024 MARKET CROSSROADS: POLITICS, POLICY AND INNOVATION SHAPE THE GLOBAL ECONOMY

Looking back, the global financial markets in 2024 were shaped by a series of critical political and economic events.

Political Shifts and Market Reactions

In mid-2024, President Joe Biden announced he would not seek re-election, paving the way for Vice President Kamala Harris to become the Democratic nominee. However, the November election brought Donald Trump back to the presidency. Financial markets responded with cautious optimism, anticipating potential policy changes such as tax cuts, higher tariffs, and adjustments to immigration policies. While these potential changes were viewed as short-term boost to U.S. domestic economy, they also introduced uncertainties, particularly around inflation and global trade dynamics.

Monetary Policies and Currency Dynamics

The U.S. Federal Reserve (Fed) reduced interest rates by a cumulative 1 percentage point in 2024, setting the federal funds rate at 4.25%–4.50% at the December FOMC meeting. Despite the cuts, the Fed adopted a more restrained outlook for future

rate adjustments, citing persistent inflation challenges. This careful approach bolstered the U.S. dollar, which reached a two-year high against other major currencies.

In Japan, the Bank of Japan exited from its negative interest rate policy in early 2024 but kept its short-term interest rate at 0.25% ever since July, prioritizing a balance between economic recovery and inflation management. The yen weakened significantly against the dollar in Q4, partly due to a revival of the yen carry trade, wherein investors borrowed in yen to invest in higher-yielding foreign assets, in light of the wide gap between Japanese and global interest rates.

Technological Innovation and Market Leadership

The year saw rapid advancements in artificial intelligence (AI), transforming industries and boosting market sentiment. The “Magnificent Seven” tech giants—Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia, and Tesla—continued to dominate, supported by significant investments in AI and related technologies. Their performance was a key driver of gains in U.S. equity markets, with the tech sector attracting strong investor interest.

Geopolitical Tensions and Economic Outlook

Geopolitical risks remained a prominent factor, with continued conflicts in the Middle East and uncertainties surrounding global trade policies. These challenges, combined with the anticipated policy shifts under the new Trump administration, added complexity to the financial landscape. Investors maintained a cautious approach, weighing opportunities against risks arising from these geopolitical developments.

In summary, the year 2024 was defined by an intricate mix of political transitions, monetary policy shifts, technological advancements, and geopolitical challenges. These factors created a dynamic and sometimes volatile environment for global financial markets. As 2025 approaches, we are closely monitoring these developments to navigate the evolving economic and investment landscape.

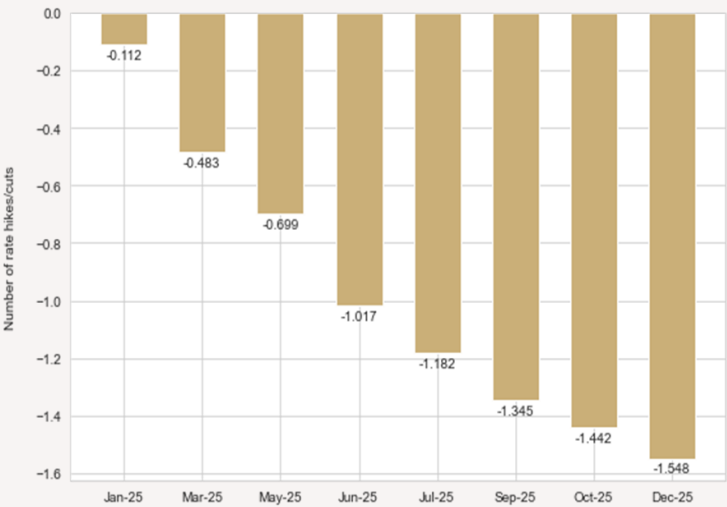
GLOBAL MONETARY POLICY PATHWAY IN 2025



U.S. Federal Reserve: Gradual Easing Amid Resilient Growth

The Fed has adopted a measured approach to monetary easing in 2024, responding to cooling inflation while navigating a robust economy. After three consecutive rate cuts, the federal funds rate now stands at 4.25%–4.50%, down by 1 percentage point since September. However, the Fed signalled a slower pace of cuts in 2025, with projections indicating the rate could settle around 3.9% by year-end, higher than previously forecast.

Fed rate hikes/cuts market expectations as of 06 Jan 2025

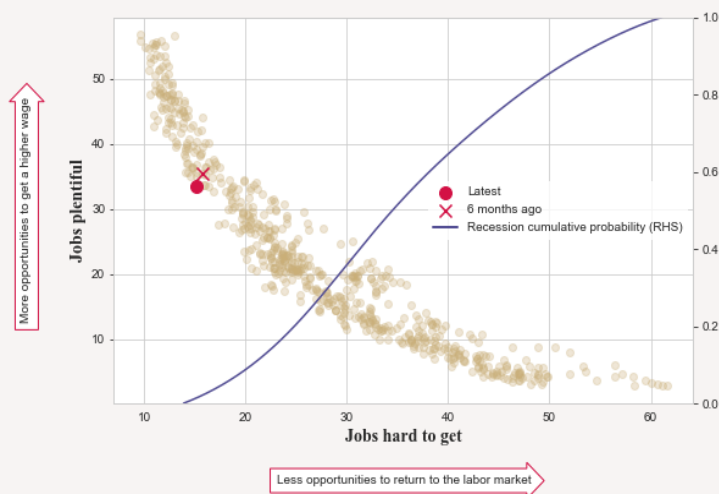


Source: Bloomberg, AIA

Market expectations of Fed policy action have been revised substantially in the aftermath of i) more evidence of strong economic activity for Q3 and Q4 2024, and ii) the Republican sweep victory, raising the odds of a higher level of inflation in 2025. Expectations are now for only 2 rate cuts by end 2025: Jun 2025 and Dec 2025.

Chairman Jerome Powell highlighted the challenges of achieving the Fed’s 2% inflation target, as consumer prices remain sticky, particularly in housing and services. Yet, resilient job growth and stronger-than-expected economic performance have allowed the Fed to tread cautiously. While inflationary pressures are moderating, potential policy shifts under the new Trump administration, such as tariffs, could reignite price concerns. The Fed’s emphasis on data-dependent decision-making reflects its commitment to balancing economic stability and inflation control.

Is the US labor market signalling the imminence of a recession?



Source: Conference Board, Bloomberg, AIA Investments

When an economy enters a recession, businesses cut more jobs than they create. Over the last two years, the Conference Board Consumer Confidence Survey has been signaling a sharp decline in “jobs plentiful”, a proxy of how easy it is to change job to get a higher salary, whereas the “jobs hard to get”, which is more related to unemployed looking for a job, has remained remarkably low over the period.

European Central Bank: Easing Bias in Response to Weak Growth

The European Central Bank (ECB) is taking a more aggressive stance toward monetary easing to counter weaker economic conditions. Following its cumulative 1 percentage point rate cut throughout the year, the ECB’s deposit rate now stands at 3.00%. The central bank also revised down its growth and inflation forecasts for 2024–2027, signalling an extended easing cycle. Economists expect a further 100-to-125 basis points of cuts by 2025, which would bring rates below or close to 2%.

By dropping references to restrictive policy, the ECB has signalled a clear easing bias, leaving the door open for further action. This dovish stance has been welcomed by European equity markets, which are still trading at a discount to their fair value. However, persistent challenges, including sluggish growth in the services sector and ongoing political transition uncertainties, underscore the need for sustained monetary support.

Bank of Japan: Cautious Tightening Amid Wage-Driven Inflation

The Bank of Japan (BoJ) has taken a gradual approach to tightening, with short-term interest rates currently at 0.25%. Rising wages and benign inflation have prompted the BoJ to cautiously move away from ultra-loose monetary policy. While core inflation has cooled to 2.3%, policymakers are closely monitoring wage growth, which has shown signs of sustaining momentum. External risks, including slowing demand from China and uncertainty around U.S. trade policies, remain key factors in determining the pace of future rate hikes.

Global Divergence and Emerging Markets

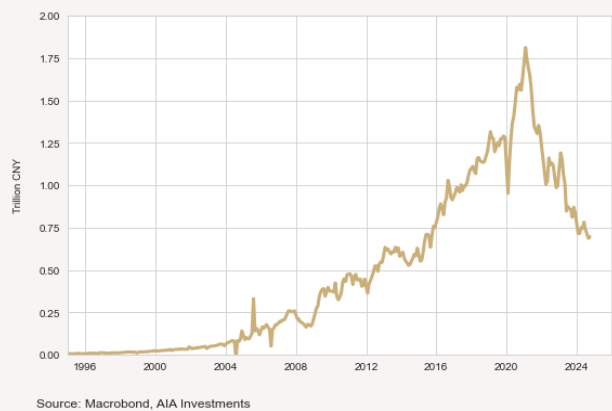
Monetary policy divergence among central banks is becoming increasingly apparent. While the ECB is firmly in an easing cycle, the Fed is moderating its cuts, and the BoJ is tightening gradually. This divergence is influencing currency dynamics, with the euro weakening against the dollar. Meanwhile, emerging market central banks, having navigated currency pressures earlier in the year, are now focusing on domestic growth. The rapid disinflation progress in Asian emerging markets may accommodate the scope for further rate cuts, creating opportunities in local bond markets.

The path of global monetary policy in 2025 will likely depend on evolving economic conditions, inflation trajectories, and geopolitical developments. Investors should remain attuned to these shifts, as they present both risks and opportunities across asset classes and regions.

CHINA – NAVIGATING STIMULUS STRATEGIES AMID ECONOMIC HEADWINDS

“ In 2024, China’s economy faced significant challenges, including a sluggish property market, weak consumer demand, and the looming threat of increased U.S. tariffs under the incoming Trump administration. To counter these issues and stimulate growth, Chinese authorities implemented a series of fiscal and monetary measures. In September, the government introduced a comprehensive stimulus package aimed at revitalizing the economy. Key components included interest rate cuts, reductions in the reserve requirement ratio for banks, and support for the struggling real estate sector.”

China sales of residential buildings



The property market is still contracting on a seasonally adjusted basis. Residential buildings sales are now at their lowest level in nine years. Weak sales are also reflected in tepid growth in mortgages, amid below expectations credit expansion in general. The focus of the government on risk mitigation instead of direct support to consumer demand contributes to delay the stabilization of the housing market.

Additionally, the People’s Bank of China reduced the amount of cash banks are required to hold in reserve, effectively increasing liquidity in the financial system. The government also announced plans to issue special sovereign bonds and expand the budget deficit to fund infrastructure projects and support low-income households.

Despite these efforts, economic indicators such as retail sales and fixed asset investment showed signs of deceleration, reflecting the ongoing fragility in domestic demand. The potential for new U.S. tariffs added external pressure, prompting Chinese leaders to pledge further support, including increased government spending and relaxed monetary policies, to ensure steady economic growth.



China inflation



Source: Macrobond, AIA

Insufficient domestic demand is still weighing significantly on China inflation. Both core and services consumer price index (CPI) have been below 0.5% year-over-year for the last few months, and public policies prioritizing the supply side of the economy are likely to limit the scope of reflation. High youth unemployment and falling property prices also contribute to the risk of deflation.

Overall, while the stimulus measures have provided some relief, the Chinese economy has continued to grapple with both internal and external challenges, necessitating ongoing policy adjustments to achieve sustainable growth (e.g. robust demand-side fiscal stimulus or deeper economic reforms). Until such measures are effectively implemented, macroeconomic challenges will likely limit sustained gains, as reflected in the current low yields on Chinese government bonds.

“As a result, we maintain a stance of cautious optimism towards China. Agile positioning is essential to capitalize on short-term equity moves, while long-term optimism depends on major policy shifts.”



KEY INVESTMENT VIEWS



2025 is expected to offer a broadly supportive environment for markets, albeit with heightened uncertainty regarding the year's trajectory. Two primary themes shape our outlook :

U.S. Exceptionalism Continues

The likely policies under the new Trump administration are set to reinforce the strength of the U.S. economy, emphasizing business-friendly measures, tax cuts, and a loose fiscal approach. These actions should sustain U.S. economic momentum and growth prospects.

Increased Market Volatility

However, the specifics and timing of these policies remain uncertain. Historical precedent suggests that actions such as trade tariff implementations could trigger periods of market volatility, particularly in equity markets.

Equity Market Outlook

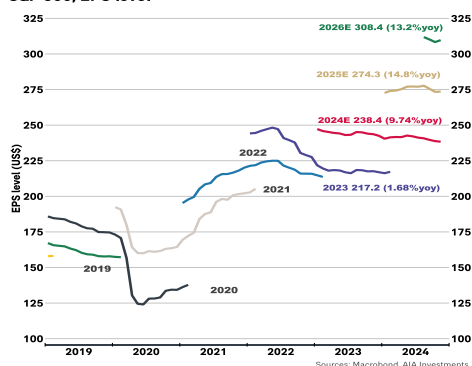
The equity rally, which began in October 2022, has driven U.S. equities up by 70%, outperforming Europe and Japan (+50%) and Asia ex-Japan (+40%). We anticipate continued U.S. outperformance in 2025 despite elevated valuations, as both structural and cyclical growth remain concentrated in the U.S. The Trump administration's policies are likely to reinforce this trend while potentially posing challenges for other regions through trade measures.

Moderating Returns in 2025

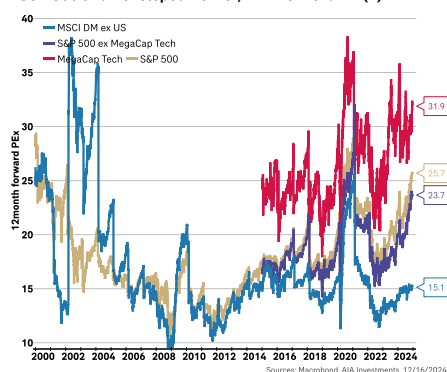
Equity gains in 2025 are expected to moderate, driven primarily by earnings growth rather than valuation expansion. While high valuations limit upside potential, low double-digit earnings growth in the U.S. appears achievable, offering room for decent returns.

U.S. Equities: Earnings per share growth is healthy, despite high valuations

S&P 500, EPS level



S&P 500 and Developed Market, 12m forward PE (x)



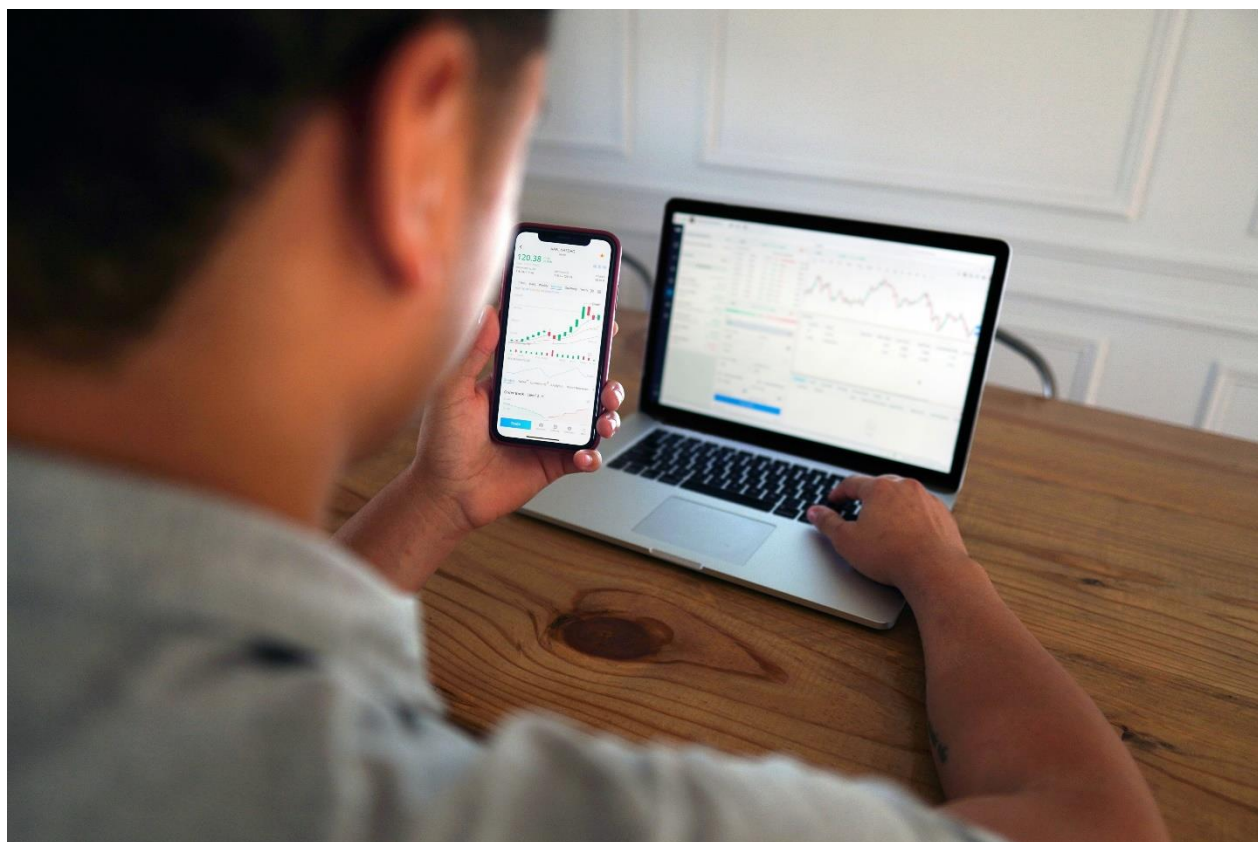
Bond Market Outlook – Challenges Ahead

The outlook for bond markets in 2025 remains complex. Fundamental trends point to lower yields as central banks continue cutting rates and inflation moderates. U.S. long bond yields could fall back towards 4%, but this scenario hinges on market confidence regarding inflationary pressures from trade and immigration reforms, as well as the large government deficit. Policy uncertainties in these areas could lead to bond market volatility and yield spikes.

Equities: U.S. markets should remain resilient, driven by earnings growth, but returns are expected to moderate compared to the outsized gains of the last two years.

Bonds: A cautious stance is warranted as policy uncertainties and deficit concerns could lead to yield volatility.

Investors should prepare for a year characterized by opportunity and volatility, leveraging clear policy signals and macroeconomic trends to navigate this evolving landscape.



KEY TAKEAWAYS – LOOKING INTO 2025



Growth



U.S. growth expectations are rising again after Trump's election win, and recession risk has dissipated despite a slower labor market and heightened policy uncertainty.

Inflation



The downward trend in U.S. inflation has become less certain, and the Fed should at least slow down with its rate cuts. More divergence elsewhere.

Rates



Bond yields outlook torn between ongoing rate cuts (though fewer than expected before), and uncertain U.S. policy that could easily spike risk premia.

Credit



Spreads remain at near record lows as overall yields have risen. They should widen under most scenarios, but a real blow-up remains unlikely.

Developed Market Equities



Equities can run further in 2025 in line with robust earnings growth, although high U.S. valuations should be a headwind.

Asia Ex-Japan (AxJ) Equities



China continues to release more policy support but outlook for external demand is highly uncertain after Trump's victory. Stronger dollar further weighs on local Asian markets.

TACTICAL ASSET ALLOCATION (TAA) PREFERENCES

Asset Classes	TAA 6-month Preference			Key Thesis
U.S. Treasury		N		Balancing declining yields with the risk of yield spikes driven by U.S. politics
U.S. Investment Grade (IG) Credit	UW-			Spreads at record lows; even slight widening can offset gains due to long duration.
Asia IG Credit	UW-			Similar to U.S.; record-tight spreads mean mild widening erodes returns on long-duration benchmarks.
Global Developed Market Equities			OW+	U.S. market has strong growth fundamentals despite high valuations; benefits from Trump’s protectionist policies
AxJ Equities		N		Offshore Chinese equity outflows are pressuring the region. Taiwan may benefit from AI but remains vulnerable to Trump policies.
USD Cash		N		Some limited cash holdings can make sense as dry powder into a potentially volatile start of 2025.
<div><div><div></div><div>OW+</div></div><div><div></div><div>N</div></div><div><div></div><div>UW-</div></div></div> <div><div>= Overweight</div><div>= Neutral</div><div>= Underweight</div></div>				



DISCLAIMER

AIA Investment Management Pte. Ltd.

This document/presentation has been prepared for information purposes only and does not have regard to the specific investment objectives, financial situation and particular needs of any persons. Neither should this document be construed as an offer or the solicitation of an offer, recommendation or solicitation to enter into any transaction or adopt any hedging, trading or investment strategy, in relation to any securities or other financial instruments issued or managed by AIA Investment Management Private Limited ("AIAIM") or its affiliates (collectively the "AIA Group") in any jurisdiction in which such offer is not authorised to be made to any person. Nothing in this document/presentation should be construed as investment, tax, legal or other advice. References to specific securities are presented to illustrate the application of our investment philosophy only and are not to be considered as recommendation by the AIA Group.

The information herein should not be used as the basis of any investment decision. This document/presentation is not research material and it has not been prepared in accordance with legal requirements designed to promote the independence of investment research. All views expressed and references to specific securities are included for illustrations only and does not necessarily represent the views of every function within the AIA Group. No representations or warranties are given as to the reliability, accuracy and completeness of the information. Opinions, projections, estimates and other information presented in this document/presentation are solely those of AIA Group as at the date of this document/presentation and subject to change without notice. The AIA Group may have interests in the securities or instruments mentioned in this document/presentation.

Past performance figures, and any economic and market trends or forecast, are not necessarily indicative of future performance of any strategy or portfolio. Investment is subject to investment risk, including the possible loss of the principal amount invested.

AIAIM and the AIA Group, their respective officers and employees, accept no liability for any damage or loss, including loss of profit, whether direct or indirect or consequential in respect of the use or reliance of any information contained herein and whether arising as a result of AIAIM's negligence or otherwise.

You may wish to seek advice from a financial adviser before making a commitment to invest. You should consider carefully whether an investment is suitable for you in light of your own circumstances, financial resources and entire investment programme.

This document/presentation may only be used and/or received in accordance with the applicable laws in your jurisdiction.

AIA Investment Management Private Limited (UEN Registration No. 201616304H).