6 January 2025

2025 Outlook
Pacing Forward

Key Investment Themes
& Opportunities for 2025

Theme 1

U.S. Equities

Expensive But Growth Could Broaden

The outlook for U.S. equities remains robust, underpinned by a resilient economy. Given the strength of underlying indicators, the U.S. economy appears poised for a soft landing.

Households and corporate balance sheets are also at healthy levels. Low debt servicing ratios suggest sustained consumer spending. Similarly, corporates have further room to invest supported by low leverage. These factors, coupled with signs of disinflation and gains in productivity, may keep economic momentum alive.

However, valuations are expensive. Yet, a deeper look presents a more nuanced picture. While the S&P 500's dominance by the "Magnificent 7" has pushed headline multiples higher, the equal-weighted S&P index trades at a discount. A healthier economy and broader earnings growth could see underappreciated sectors, such as non-tech sectors outperform, reducing reliance on the tech-heavy few.

U.S. exceptionalism may continue to see the U.S. market outperforming the rest of the world. While rich valuations warrant caution, a healthy economy and expanding market breadth should bolster the case for U.S. equities in 2025.

Theme 2

Constraints & Guardrails May Temper Trump 2.0

As Donald Trump enters his second term, with Republicans controlling Congress, expectations are high for sweeping economic policies. Yet, the reality may prove more constrained. Within the Republican Party, different factions such as the Freedom Caucus are wary of unchecked fiscal spending, adding hurdles to Trump’s plans for extended tax cuts, deregulation, and investment incentives.

Even if policies gain traction, structural challenges remain. The widening U.S. budget deficit, rising government debt as well as elevated bond yields, will put fiscal restraints to Trump's administration in executing its economic agenda.

Trump's campaign promise of mass deportation of illegal immigrants could also come to terms with economic realities. Labour-intensive sectors like agriculture and construction, which heavily depend on undocumented workers, would be hit hardest. A sweeping deportation could disrupt critical supply chains, jeopardise productivity, and exacerbate labour shortages.

While fears of higher tariffs loom, past experience shows that the actual outcome tends to be more watered down. Under Trump’s first term, tariff threats typically serve as a negotiation tactic, pushing China to the table to secure business deals—such as setting up manufacturing plants in the U.S.—rather than imposing crippling restrictions.

Such agreements could ease geopolitical tensions and pave the way for economic collaboration. Nonetheless if higher tariffs are implemented, we believe Beijing is better prepared this time to counter its effects.

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Theme 3

Malaysia Equities Find Its Footing

Malaysia equities is regaining momentum after years of subdued performance, underpinned by political stability, bold policy reforms and improving investor sentiment.

Policy frameworks, such as the National Energy Transition Roadmap (NETR), New Industrial Master Plan and the National Semiconductor Strategy (NSS) will lay the foundation for sustainable growth and move the country up the value chain. Similarly, the Johor-Singapore Special Economic Zone (JS-SEZ) will strengthen regional connectivity, potentially mirroring the success of Shenzhen - a special economic zone linked to Hong Kong.

Foreign direct investments (FDI) have also surged recently led by the data centre sector. Multinational-corporations are drawn to the country's affordable land and energy resources including ESG-friendly energy solutions.

Domestically, institutional support from government-linked companies (GLC) and government-linked investment companies (GLIC) will provide ample liquidity and support the local market. While foreign shareholding remains low, there is enough domestic firepower to drive market activity.

We expect consumer activity to remain healthy, bolstered by wage hikes, civil servant salary increases, and the wealth-creation effect from a robust stock market performance. These factors are expected to cushion the impact of potential subsidy rationalisation such as RON95 petrol slated this year.

Theme 4

Carrying On With Bonds

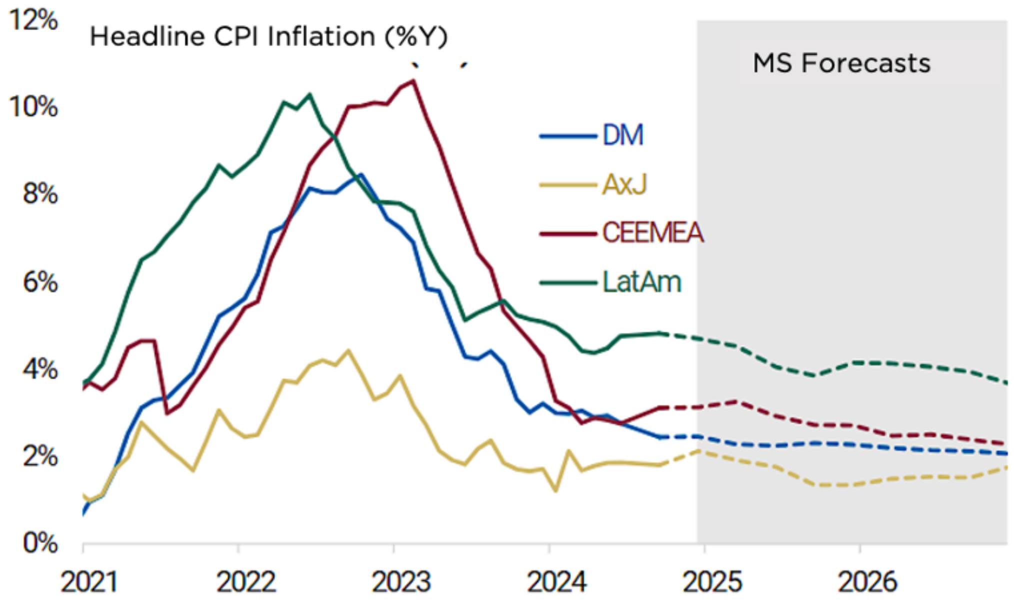
Attractive yields and declining interest rates will continue to provide a positive backdrop for bond investors in 2025. Major central banks including the U.S. Federal Reserve (Fed), are maintaining an easing stance, and inflation should continue to trend lower.

While the risk of a resurgence in inflation cannot be ruled-out if Trump is able to pursue his radical economic policies, this is currently not the base case. The Fed's latest dot plot signals two (2) rate cuts in 2025 as the U.S. central bank recalibrates its monetary policy.

In view of potential upside inflation and growth risk, we would prefer short- to medium-tenured investment-grade (IG) bonds for our global bond portfolios. A shorter duration mitigates exposure to interest rate fluctuations, while still offering attractive carry. Additionally, we foresee potential for higher returns through price appreciation as central banks continue to cut rates. However, actual price movements will largely depend on the extent to which policy actions meet market expectations.

In summary, declining rates and normalising inflation set the stage for fixed income to perform well, providing opportunities for investors to enhance portfolio resilience and generate steady income through bonds. While there is a possibility that the pace of rate cuts may slow and interest rates could remain higher-for-longer, the current environment still presents a rare window for investors to lock-in higher yields today.

Inflation Declining



Source: Morgan Stanley Research, November 17, 2024

Theme 5

ASEAN Still in Focus

Backed by secular drivers such as favourable demographic trends and a reshuffling of supply chains, the ASEAN region may sustain its strong momentum in 2025. However, its performance hinges on several key macro factors including:- i) a U.S. soft landing, ii) the direction of interest rates & U.S. dollar, and iii) China's economic recovery.

ASEAN's diverse markets each exhibit unique traits and opportunities. Singapore, with its strong currency and well-managed economy, remains a safe haven. There are opportunities in financials as banks begin to prioritise capital returns through dividends and share buybacks. REITs could also see potential gains if bond yields decline, and the U.S. dollar weakens.

Other defensive plays such as healthcare stocks in the region should continue to see resilient demand driven by rising insurance penetration and an ageing population. This demographic shift is expected to continue supporting demand for healthcare services, making the sector a key area of focus for stability. Similarly, Indonesia's consumer space remains robust, with a large and growing middle class driving consumption.

With the right conditions, ASEAN's diverse markets offer a compelling case for investors to diversify their portfolios and achieve their distinct investment goals.

Theme 6

China
The Dark Horse

China's outlook for 2025 hinges on several key factors, positioning it as a potential "dark horse" or hidden gem in global markets. If a grand bargain with the U.S. materialises, combined with domestic reforms and more muscular stimulus measures, the performance of China could surprise investors. While this scenario is ambitious, it is worth considering for investors with minimal or no exposure to China.

While China's stimulus measures have historically provided temporary boosts, their impact on stock prices and market sentiment often diminishes with repetition. A more comprehensive approach addressing structural challenges especially in rebuilding consumer confidence, revitalising the property sector, and fostering a risk-taking mindset—is essential for long-term market health.

Currently, China's policy measures are incremental but consistent, focusing on economic recovery. If these efforts succeed in stimulating domestic demand and job creation, alongside market reforms, China's market may outperform expectations. The prospect of renewed U.S.-China dialogue could also provide a positive catalyst, boosting sentiment across Asia.

While China's path is uncertain, its combination of reforms and strategic positioning presents a unique opportunity for tactical investors looking to capture potential growth in a region poised for change

Recalibrate With Purpose

As we step into 2025, the investment landscape demands careful navigation. Opportunities abound across global markets but so do risks.

The importance of diversification cannot be overstated—overconcentration in a single asset class, sector, or region can amplify vulnerabilities, especially in volatile environments.

While it's tempting to chase trending markets or short-term fads, success in investing lies in knowing your goals, understanding your risk capacity, and being consistent.

Speak with us today on how you can navigate your portfolios in 2025 or visit aham.com.my to learn more.

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