Asset Allocation Outlook

May 2025

Slightly Overweight	
Europe	Although Europe's main economic drivers are expected to continue, market may experience volatility due to U.S. tariffs and global uncertainties. The market draws support from Germany's fiscal reform, including higher military and infrastructure investments, as well as the accommodative monetary policy from the European Central Bank. This has led us to adopt a relatively optimistic stance on European stocks.
Asia	The recent performance of ASEAN countries was a function of the 90-day tariff pause, weaker USD and its relative valuation attractiveness. Near term, we monitor the further policy announcements from China, Trump's tariff and 'Make America Great Again', and fund flow momentum between countries and regions. The recent emergence of India-Pakistan tension also warrants close monitoring.
Neutral	
U.S.	U.S. employment data remains robust in April, showing limited impact from DOGE policies, tariffs and immigration restrictions. Unemployment rate held steady at 4.2% and annual income growth of 5.3% continues to outpace inflation. The Fed kept interest rates unchanged in May as expected. Chair Powell reiterated that Fed is in no rush to lower borrowing costs until greater clarity emerges regarding trade policy and economic trajectory, flattening market expectation for imminent rate cuts.
Hong Kong & Chinese Mainland	U.S.-China trade tariff tensions have moderated following the 2-day negotiations in Switzerland, aiming at de-escalating trade conflicts and establishing a mechanism and framework for further discussions. While the diplomatic progress is encouraging, the final trade agreement remain uncertain. Meanwhile, China is supporting its stock market through state-backed funds. We believe China may announce broader stimulus measures to offset the impact of U.S. tariffs.
Slightly Underweight	
Japan	Reciprocal tariffs and automobile taxes could reduce economic growth by 20 to 70 basis points and may cause the Tokyo Stock Price Index earnings to decline by 7-8% in 2025. In terms of monetary policy, the turmoil induced by the U.S. tariffs raised market questions about whether the Bank of Japan would slow down the tightening pace in response to the increasing economic uncertainty, which ended the Japanese's strengthening trend and showed support to risk asset.