What's New

BEA MPF Asset Allocation Outlook

Equities	**Overweight**	**The strength of the corporate earnings cycle, gradual easing conflict in Middle East and macro data remain supportive to our risk-on stance. The AI arms race and data center buildout momentum continue to be the dominant themes in global markets, which propelled markets in the U.S. and Asia to all-time highs.**
U.S.	Overweight	In the U.S., equities rebounded strongly in April, supported by progress toward a ceasefire with Iran, first-quarter corporate earnings that exceeded expectations, and renewed enthusiasm for AI. Headline Consumer Price Index rose 3.8% year on year, driven mainly by higher oil prices and shelter components, while Producer Price Index increased 6.0% year on year to its highest level since December 2022. Market surveys indicated that annualized headline Consumer Price Index in the second quarter could reach 6.0%. The Federal Reserve kept interest rates unchanged at its April meeting and gave no clear guidance on the future policy path. As investors reassessed the monetary policy outlook, market expectations for rate cuts in the near to medium term faded markedly.
Asia	Overweight	Despite ongoing geopolitical concerns, the rally in April was driven by strong first quarter earnings especially from the AI supply chain. Strong capex guidance by U.S. hyperscalers also boosted sentiment in tech-heavy Asian markets. The outlook of Asian equities remains constructive on the back of the durability of the global AI capex and supportive local policies.
Europe	Slightly Overweight	In Europe, equities rebounded after a sharp pullback in March. Markets were lifted by optimism around Middle East peace negotiations, but came under pressure toward the end of April on concerns that the U.S. might impose higher tariffs on the EU. Eurozone GDP grew 0.8% year on year in the first quarter, in line with expectations, while inflation rose from 2.6% to 3.0%. The European Central Bank left rates unchanged in April, but continued to face a policy dilemma between containing inflation and supporting economic growth.
Japan	Slightly Overweight	In Japan, equities outperformed developed markets, with artificial intelligence and semiconductor stocks posting strong gains and offsetting the impact of oil price volatility. Core Consumer Price Index rose 1.8% year on year in March, still below the central bank's 2% target. The April composite PMI edged down slightly to 52.4. The yen continued to weaken, supporting export growth of 11.5% year on year. The Bank of Japan faced further pressure to raise interest rates to curb inflation and support the yen. In April, the Bank of Japan kept its policy rate unchanged, while lowering the median forecast for real GDP growth this year to 0.5%.

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Hong Kong & Chinese Mainland	Underweight	Chinese Mainland's economic activity remained structurally mixed: traditional and consumer sectors were still weak, while high-end manufacturing, exports and the semiconductor supply chain continued to expand. The April manufacturing PMI stayed in expansionary territory at 50.3, while exports rose 14.1% year on year, underscoring that strong exports remained an important engine of China's growth. Consumer Price Index rose 1.2% year on year, while Producer Price Index increased to 2.8%, the highest level in nearly four years.
Bonds	**Underweight**	**U.S. Treasury yield increased by 4 to 6 basis points along the curve in April. Risk remains at higher inflation in coming months with the surge of oil price and the closure of Strait of Hormuz. Offsetting this is the more dovish stance from the new Fed Chair Kevin Warsh who points to a trimmed-mean inflation measurement. Given the rate hike actions by other central banks and the volatility of long end bonds in other countries due to political concerns, long-end U.S. Treasury yield may face upward pressure.**