

CIO Views – Weekly Bulletin



A Prudential plc company



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What's top of investors' minds?

How to invest around the Trump retaliatory tantrum

Are the markets' response to US President Trump's "reciprocal" tariffs now overblown or just beginning? The answer depends on one's trading time horizon and trading style.

The surge in the VIX equity volatility index to just over 45% is a historically extreme level that has been exceeded during "once in a century" events - the Global Financial Crisis, and the Covid-19 Pandemic. However, Trump's increase in the US effective tariff rate from 2.4% last year to about 22% now is a more than once in a century event; one must go back to essentially 1900 to find a higher effective US tariff rate. Yet the impact today may be larger than then because the share of US imports in GDP of about 11% is about 3x higher than in 1900.

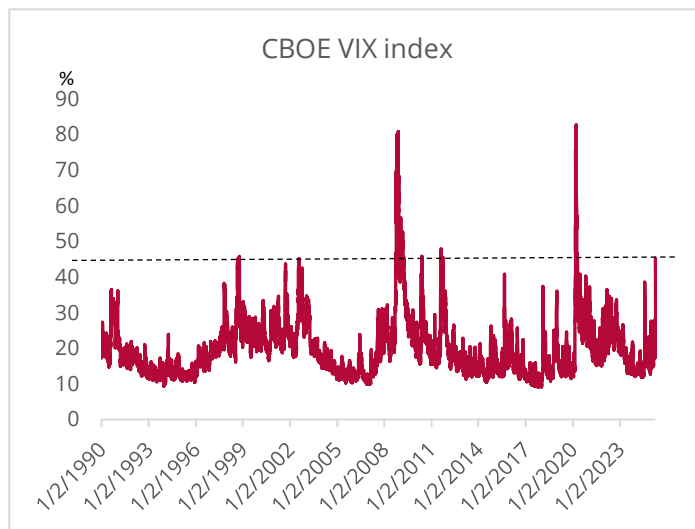
Similarly, market pricing for Federal Reserve interest rate cuts has surged to 114bps by year-end. With Fed Chair Powell stating on Friday that the Fed can be patient about easing policy, more than four cuts by year-end looks rich to us because it would probably require clear evidence that the US economy is in a recession. However, although US Treasuries have rallied and the 3-month vs. 10-year curve has inverted – historically a precursor of recession – the 2-year vs. 10-year curve is still +41bps, not a recessionary level.

No clear conclusion stands out given the magnitude of the shock. **Our bias is to think that the pace at which markets correct should begin to slow in the near-term of the next few weeks.** In technical terms, the volatility of volatility should fall. We would not rule out a "relief" rally in equities, in response to seemingly good news about tariffs. Some countries seeking negotiations with the US might be taken as good news. Bear markets have historically had meaningful, albeit temporary, rallies.

Longer term, we see two main problems for the absolute performance of risk assets. One is that the S&P 500 12-month forward P/E multiple of 18.3x is still above the 10-year and 35-year averages of 20.3x and 18.0x respectively. This implies markets expect earnings growth that is at least in line with historic averages if not a bit better.

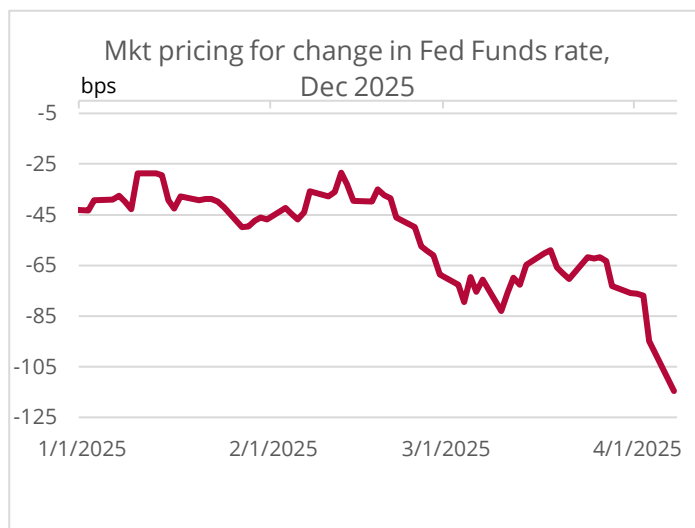
Second, the Trump tariff shock, combined with weaker immigration and some tightening of Federal government spending suggests strongly that US growth will fall below trend over the next couple of years. We now expect US GDP growth to fall from 2.4% last year to 0.6% - 0.8% this year

Equity volatility surge suggests markets may be oversold in the short term



Source: Bloomberg. 7 April 2025.

The Fed is priced for recession...



Source: Bloomberg. 7 April 2025.

and about 1.3% in 2026, well below average.

Crucially, we judge the risk of a recession in the next 12 months to now be about 60%- 65%. Equity valuations tend to fall substantially below historic averages during recessions.

A happy ending to this increasingly bad story requires President Trump to reverse the increase in tariffs in the next couple of months. However, we struggle to see a path to him reversing policy given that his clear focus is on bilateral trade balances, not trading partner tariff rates per se.

Take Taiwan as an example. The press reports that Taiwan's president has offered to discuss zeroing out tariffs. But Taiwan's effective tariff rate on industrial imports is only a bit over 4%. We struggle to see a 4% change in relative prices suddenly making the US much more competitive in foundry or other electronics. Taiwan's tariff on agricultural products is just over 15%. But will zeroing that out allow Taiwan's 23m population to buy enough US beef and corn to balance out the US' 340m population's demand for Taiwanese electronics?

Or take Singapore which has a free trade agreement with the US, runs a trade deficit with the US, and already spends significantly on national defense including on purchases from the US, and yet still got hit with a 10% tariff. What exactly is there to negotiate?

What should investors do?

What to do? First, we caution against wishful thinking that Trump will reverse policy. The clear message is that US tariff rates will remain close to the highest in a century, give or take a percent or two. This is likely to cut US growth to below 1% this year and reduce global growth by at least 1pp. Asia is going to bear the brunt of this shock.

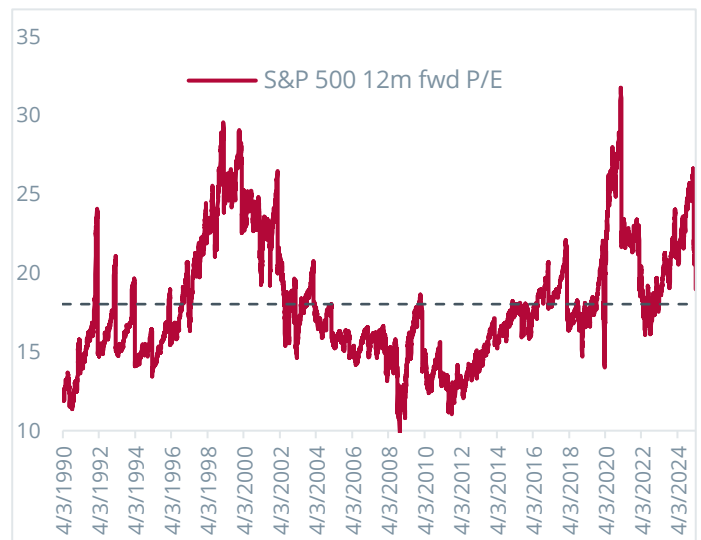
Investment policy should focus on being defensive and on relative performance rather than absolute performance per se. Few global equity markets are likely to rally if the S&P falls from 18.3x forward earnings to something like 16x over the next year with earnings estimates simultaneously being revised down.

In equities, we think investors should tilt towards lowly valued markets in countries that have the capacity to ease fiscal or monetary policy significantly to support domestic demand as an offset to the shock to exports.

China stands out in this regard. The National People Congress in March announced a fiscal stimulus amounting to roughly 2% of GDP. Crucially, we think China's decision to retaliate with a 34% across the board tariff on the US signals Beijing is going "all in". That leads us to expect it to increase domestic stimulus as needed to try to keep growth above 4% and likely close to our 4.6% forecast for this year.

We expect India's central bank to cut its policy rate

...but the S&P 500 is still priced for above trend growth



Source: Bloomberg. 7 April 2025.

China A -shares are at historical average



Source: Bloomberg. 7 April 2025.

25bps this week and signal more to come. Cuts of 75bps by year-end combined with easing of regulatory restrictions on lending to households seem likely to us. This should work to support India's economy given its export exposure to the US is the second lowest in EM Asia at 2.2% of GDP.

The outlook for US rate cuts to begin in the second half of this year and continue into 2026 should enhance the value of higher quality yield in portfolios. The recent widening in Asian credit spreads makes it look more interesting in this regard.

We also think that low equity volatility strategies have a defensive role to play in portfolios in this environment.

#USeconomy #tariffs #equities #rates

India's export exposure to the US is the 2nd lowest in Emerging Asia

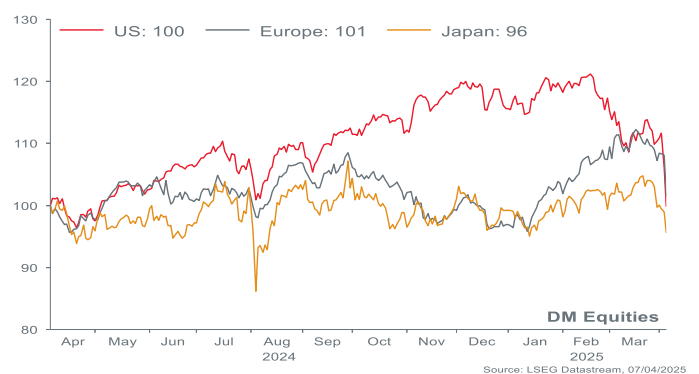
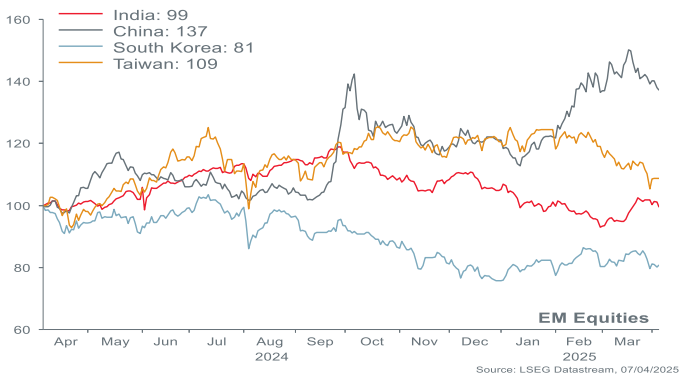
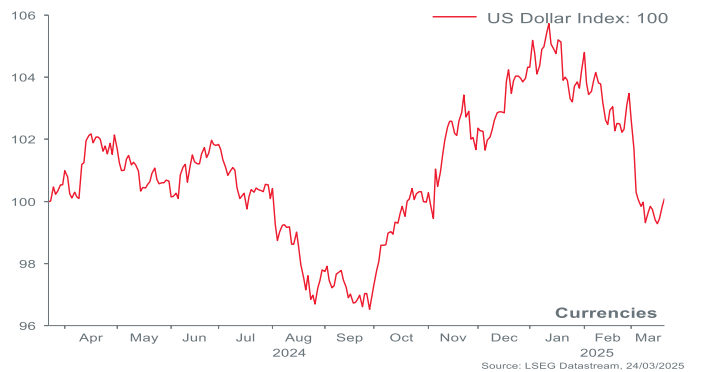
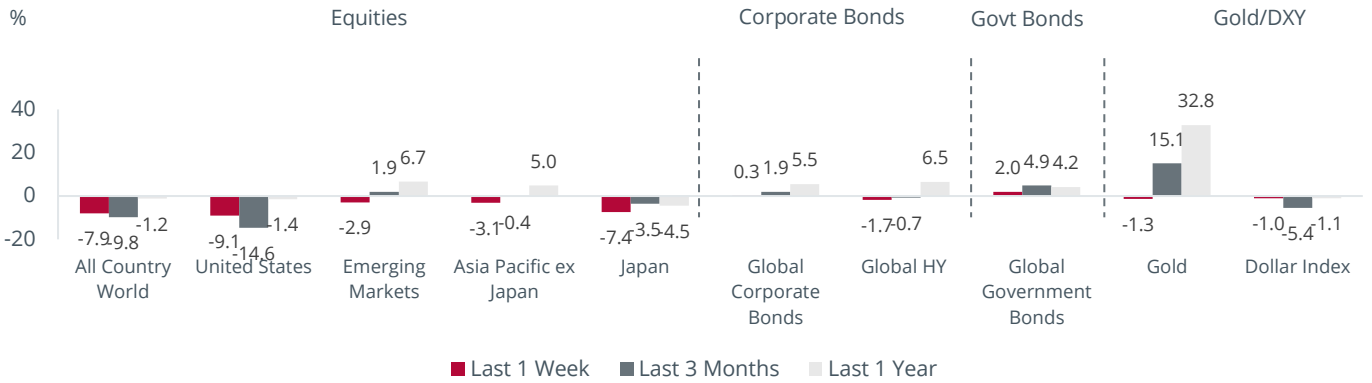


Source: LSEG Datastream. April 2025.

Market Review

Global equities returned -7.9% over the past week. The S&P 500 and Japan equities underperformed by falling -9.1% and -10.3% respectively. The MSCI Asia Pacific ex-Japan equity index returned -3.1%, while Emerging Markets and China equities fell -2.9% and -1.4% respectively. The Global Corporate Bond index returned 0.3% while the 10-year US Treasury yield declined by 26bps. Meanwhile, the US 5-year/30-year yield spread steepened by 5bps. The yield on the 10-year Singapore government bonds declined by 22bps. US investment grade credit spreads widened by 16bps while Asia Credit spreads widened by 9bps. The Dollar mostly weakened against major currencies as the Dollar index DXY fell -1.0%. The Asian Dollar Index declined -0.1%.

Asset Performances



Market Data

Equity Indices	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
World								
MSCI AC World Index (USD)	764.29	-7.91	-9.67	-9.79	-1.18	-9.16	887.72	743.29
North America								
US S&P 500 Index	5,074.08	-9.08	-12.19	-14.61	-1.42	-13.73	6,147.43	4,953.56
US Nasdaq Composite Index	15,587.79	-10.02	-14.75	-20.56	-2.87	-19.28	20,204.58	15,222.78
Europe								
MSCI Europe	2,080.99	-6.99	-6.21	4.44	-1.78	3.90	2,309.45	1,979.88
Asia Pacific								
MSCI Asia Pacific ex Japan	566.36	-3.11	-1.57	-0.40	4.97	-0.54	629.66	514.71
Japan Nikkei 225	33,780.58	-9.00	-9.51	-15.33	-15.07	-15.33	42,426.77	31,156.12
Shanghai Stock Exchange Composite	3,342.01	-0.28	0.54	4.07	8.89	-0.29	3,674.40	2,689.70
Hong Kong Hang Seng	22,849.81	-2.46	-0.40	15.64	36.62	13.91	24,874.39	16,044.45
Taiwan TAIEX	21,298.22	-1.41	-5.75	-7.03	4.72	-7.54	24,416.67	19,291.88
Korea KOSPI	2,465.42	-3.62	-2.51	0.96	-10.09	2.75	2,896.43	2,360.18
India NIFTY 50	22,904.45	-2.61	3.72	-4.58	1.73	-3.13	26,277.35	21,281.45
Australia Stock Exchange 200	7,667.80	-3.94	-6.47	-7.06	-1.91	-6.02	8,615.20	7,492.60
Indonesia Jakarta Composite	6,510.62	-	2.04	-9.13	-10.25	-8.04	7,910.56	5,967.20
Thailand SET	1,125.21	-4.27	-4.45	-18.74	-18.10	-19.64	1,506.82	1,122.51
Malaysia FTSE Bursa KLSE	1,504.14	-0.63	-3.31	-7.69	-3.16	-8.41	1,684.68	1,478.84
Philippines Stock Exchange PSE	6,084.19	-1.03	0.33	-7.87	-10.88	-6.81	7,604.61	5,862.59
Singapore FTSE Straits Times Index	3,825.86	-3.69	-1.67	0.63	18.26	1.01	4,005.18	3,136.44

Government Bonds	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
US Treasury Yield (%)								
10 Year	3.99	-6.20	-5.20	-13.14	-7.38	-12.80	4.81	3.62
10 Year Bond Yield (%)								
Japan	1.18	-24.14	-17.43	7.31	51.61	7.31	1.59	0.77
China	1.87	-1.06	5.72	16.12	-18.62	11.07	2.32	1.61
Australia	4.18	-6.59	-2.31	-4.80	-0.10	-4.26	4.70	3.82
Singapore	2.46	-8.09	-8.16	-14.65	-23.81	-13.88	3.45	2.41
Thailand	2.09	-	-6.08	-8.95	-19.34	-8.15	2.83	2.07
Malaysia	3.66	-3.25	-3.46	-4.12	-5.77	-4.29	4.01	3.66
Indonesia	6.98	-	1.47	-0.87	4.44	-0.60	7.30	6.43

	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
Bond Indices								
Bloomberg Global Aggregate USD	94.84	0.98	0.33	1.36	1.97	1.15	96.21	91.49
Bloomberg U.S. Aggregate USD	93.04	1.01	0.74	3.14	3.52	2.89	94.86	87.88

Currencies (vs USD)	Latest	1 week Change	1 Month Ago	3 Months ago	1 Year Ago	YTD	52 week high	52 week low
Developed Markets								
EUR	-0.86	1.18	3.12	6.28	1.11	5.81	1.12	1.02
GBP	-1.57	-0.37	0.75	3.78	1.98	3.03	1.34	1.22
CHF	0.16	-2.25	-3.27	-5.25	-4.53	-5.15	0.92	0.84
JPY	0.58	-1.94	-1.94	-6.59	-2.93	-6.54	161.68	140.60
Asia								
CNY	-	0.25	0.22	-0.53	0.67	-0.25	7.33	7.01
HKD	-0.05	-0.05	0.04	-0.05	-0.69	0.08	7.84	7.76
INR	0.30	-0.04	-2.01	-0.30	2.59	-0.06	87.63	83.06
MYR	-0.14	-0.02	-0.67	-1.40	-6.40	-0.76	4.79	4.12
KRW	0.55	-0.77	0.37	-0.67	7.95	-1.24	1,476.78	1,308.30
SGD	0.95	0.23	0.59	-1.76	-0.21	-1.44	1.37	1.28
TWD	0.38	-0.08	1.22	0.76	3.43	1.15	33.25	31.58
IDR	-	-	0.70	2.29	4.19	2.89	16,590.00	15,095.00

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Sources

Page 2 (top chart): Eastspring Investments, Refinitiv, as at 7 April 2025. Equities: using MSCI indices in USD, United States is using the S&P 500. Corporate Bonds: using ICE BofA indices in USD. Government Bonds: using the FTSE Global Sovereign Bond index, in USD. Gold is London Bullion Market US Dollar per Metric Tonne. DXY is US Dollar Index.

Page 2 (remaining charts): Eastspring Investments, Refinitiv, as at the end of the prior week, rebased to 100 as at 1 year ago. Equities: MSCI indices, in USD. Corporate Bonds: using Bloomberg indices in USD. Government Bonds: using ICE BofA US 10 Year US Treasury and ICE BofA 7-10 Year Euro Government indices. Commodities: Gold is London Bullion Market US Dollar per Metric Tonne Ounce. Copper is LME Copper Grade A Cash US Dollar per Metric Tonne. Oil is Crude Oil WTI Spot Cushing US Dollar per Barrel. US Dollar is US Dollar Index.

Pages 3 and 4: Eastspring Investments, Refinitiv, as at 21 March 2025. Equities: MSCI indices in USD, other indices in local currency. Other indices or assets as stated.

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