

# CIO Views – Weekly Bulletin



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## What's top of investors' minds?

### Premature rekindling of market optimism?

The tariff cuts from this weekend's China-US negotiations sparked a 3.3% rally in the S&P 500, erasing previous losses and resulting in a modest year-to-date gain of 0.6%. The VIX volatility index has collapsed from its April high of 52.3% to 18.7% which is below what it averaged in August to October last year. We think this rekindled market optimism in the face of a much weaker growth outlook offers investors an opportunity to allocate to defensive, low volatility strategies.

We agree that the tariff cuts reduce the damage to the outlook for Chinese and US growth, but stress that they have not eliminated it. The Trump Administration's cut to the "reciprocal" tariffs on China from over 100% to a base rate of 10%, plus the 20% "fentanyl" tariffs plus 25% tariffs on metals and autos plus the previous Trump and Biden tariffs leaves the US weighted average effective tariff on China at about 35%.

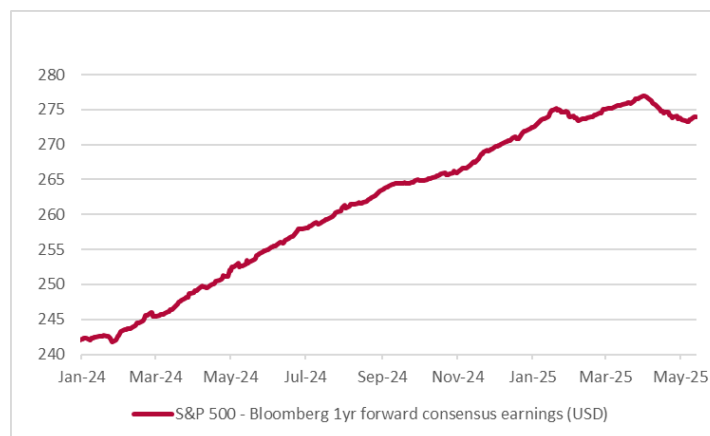
More generally, the result of the US negotiations with China and the UK makes almost certain that Trump will maintain a 10% across the board tariff on all countries. Sectoral tariffs on steel, aluminum, autos, and autos parts will continue and new sectoral tariffs on pharmaceuticals, semiconductors, copper, lumber, and basic materials seem likely.

This suggests the endgame would equate to a roughly 15% effective tariff rate for the US, up from 2.4% in 2024. That implies a tax hike of about 1.5% of GDP. Against this background, the 12-month forward earnings estimates have stagnated. With companies warning about risks to growth, we see risk of earnings downgrades. The US market is now more vulnerable to disappointment and volatility given that the rally has pushed up its valuation.

One source of stress could be that China is likely to negotiate from a position of strength given the US backed down from its tariffs so quickly without concessions from China. This could lead to new bouts of stress like those of the 2018 negotiation period. In the interim, the Trump Administration is likely to announce new sectoral tariffs stemming from current Section 232 investigations and US macro data are likely to begin weakening from May/June.

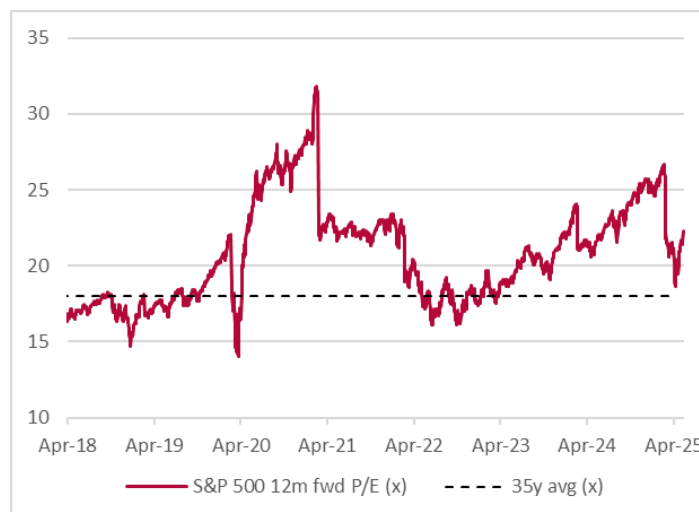
All of this argues for investors using recent market strength to position for future stress by pivoting into the low volatility style. A challenge is many traditional defensive, low volatility large caps have already attracted funds flow that have driven their valuations up sharply. This underscores the importance of disciplined alpha screening, particularly with a focus on valuation, when constructing low volatility portfolios. The challenge can be addressed by integrating filters which include valuation as a key component. This approach enables the construction of low volatility portfolios without overpaying for perceived safety.

### US earnings estimates are weakening even as equities rise



Source: Bloomberg. 13 May 2025.

### The rise in US valuations makes the equity market more vulnerable to future shocks



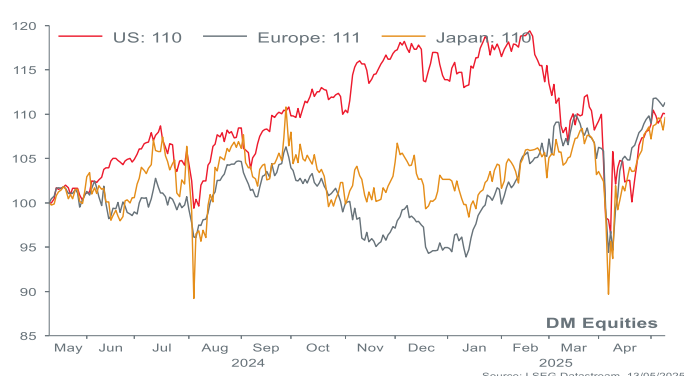
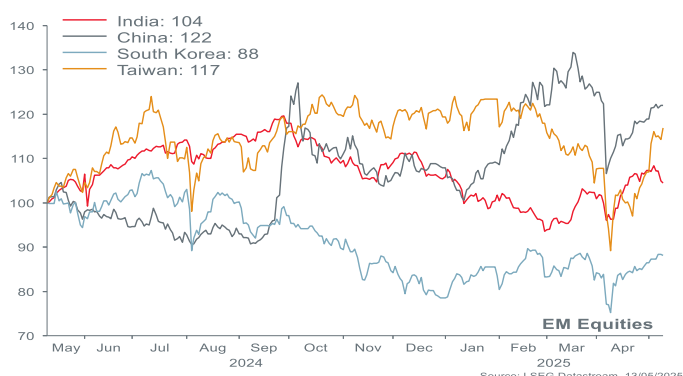
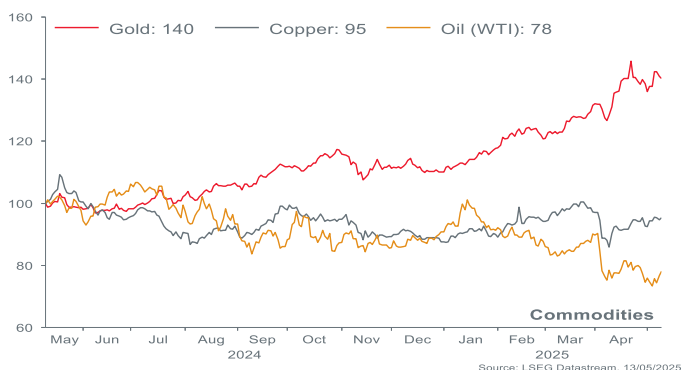
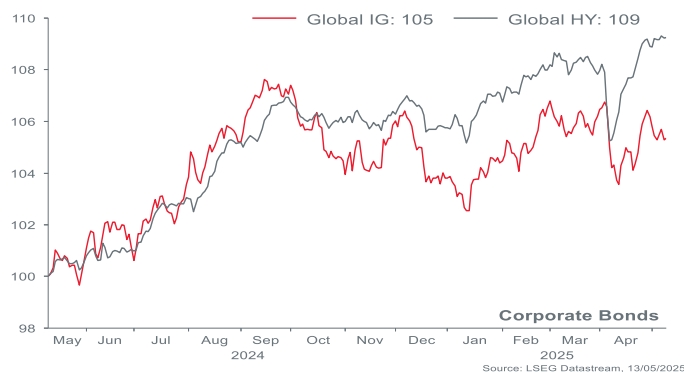
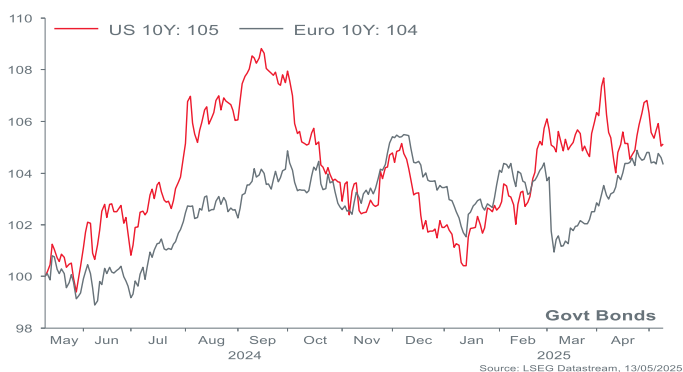
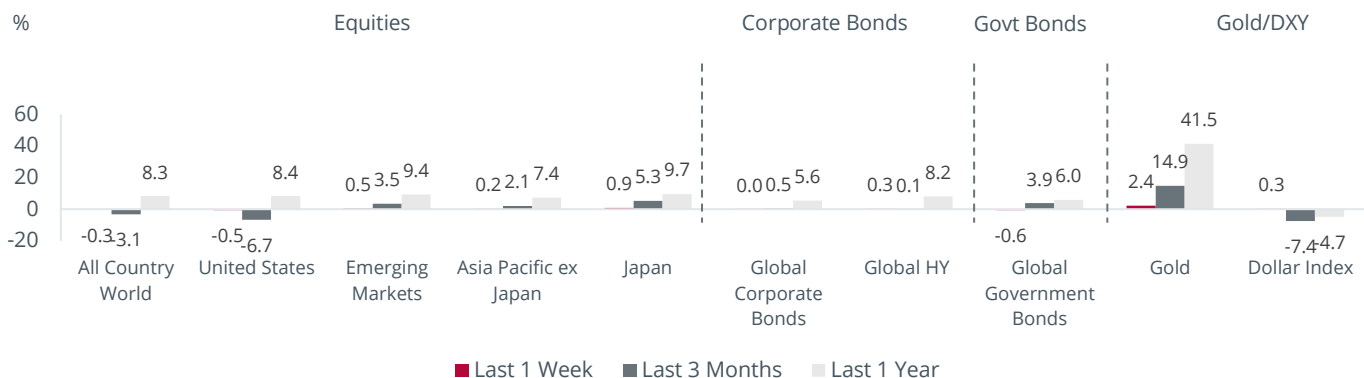
Source: Bloomberg. 13 May 2025.

## Market Review

Global equities declined 0.3% over the past week, with the S&P 500 down 0.5%. Asia ex-Japan rose 0.6%, Japan 0.9%, EM 0.5%, and China 2.0%. The Global Aggregate Bond index fell 0.5%. The 10Y US Treasury yield increased by 7bps, while the 5Y/30Y spread flattened by 4bps. Meanwhile, the 10Y Singapore government bond yield dropped by 6bps. US investment-grade credit spreads tightened by 3bps, and Asia credit spreads by 10bps.

The US Dollar was mostly stronger against major global currencies with the Dollar index (DXY) rising by 0.3%, whilst Asian currencies were mostly stronger against the Dollar with the ADXY index rising by 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)	865.58	-0.27	8.69	-3.07	8.30	0.67	887.72	742.96
North America								
US S&P 500 Index	5,844.19	-0.47	7.44	-6.70	8.37	-3.77	6,147.43	4,835.04
US Nasdaq Composite Index	18,708.34	-0.27	9.41	-9.06	9.72	-7.16	20,204.58	14,784.03
Europe								
MSCI Europe	2,303.56	-0.66	11.11	7.33	7.84	15.24	2,323.40	1,976.06
Asia Pacific								
MSCI Asia Pacific ex Japan	607.03	0.22	10.97	2.14	7.40	4.54	629.66	513.60
Japan Nikkei 225	37,644.26	1.83	8.36	-3.34	-1.90	-5.99	42,426.77	30,792.74
Shanghai Stock Exchange Composite	3,369.24	1.92	3.67	0.60	5.94	-0.29	3,674.40	2,689.70
Hong Kong Hang Seng	23,549.46	1.61	10.57	6.25	20.59	14.00	24,874.39	16,441.44
Taiwan TAIEX	21,129.54	0.61	10.08	-10.05	1.00	-9.20	24,416.67	17,306.97
Korea KOSPI	2,607.33	0.68	5.41	2.22	-5.51	7.41	2,896.43	2,284.72
India NIFTY 50	24,924.70	-1.39	7.18	2.68	8.85	1.54	26,277.35	21,281.45
Australia Stock Exchange 200	8,233.50	-0.08	6.77	-2.97	6.22	0.88	8,615.20	7,169.20
Indonesia Jakarta Composite	6,832.81	0.25	9.26	2.78	-3.61	-3.49	7,910.56	5,882.61
Thailand SET	1,210.94	1.00	6.79	-4.69	-11.73	-13.52	1,506.82	1,056.41
Malaysia FTSE Bursa KLSE	1,546.50	0.26	5.70	-2.73	-3.38	-5.84	1,684.68	1,386.63
Philippines Stock Exchange PSE	6,458.20	0.72	6.26	6.98	-0.83	-1.08	7,604.61	5,804.56
Singapore FTSE Straits Times Index	3,876.16	0.81	8.34	0.03	17.79	2.34	4,005.18	3,198.44

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	4.46	1.27	-0.39	-2.67	-2.86	-4.41	4.81	3.62
10 Year Bond Yield (%)								
Japan	1.39	7.20	-1.17	3.04	48.90	23.74	1.59	0.77
China	1.66	0.92	-0.30	1.11	-29.30	-2.32	2.32	1.61
Australia	4.37	3.34	0.07	-2.14	-0.69	-1.44	4.70	3.82
Singapore	2.43	-2.52	-9.05	-15.49	-25.39	-14.96	3.37	2.39
Malaysia	3.56	-3.16	-4.61	-6.93	-9.14	-6.88	3.99	3.56
Indonesia	6.86	-0.03	-2.54	0.37	-1.65	-2.35	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	93.63	-0.20	0.49	-0.14	1.83	0.22	96.21	91.73
Bloomberg U.S. Aggregate USD	91.04	-0.23	0.66	0.56	2.62	1.08	94.86	88.61

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	-1.42	-0.42	0.45	9.13	4.44	8.64	1.15	1.02
GBP	-0.99	0.25	2.60	7.59	6.25	6.34	1.34	1.22
CHF	1.71	0.53	0.95	-8.77	-8.30	-8.39	0.92	0.81
JPY	2.14	0.28	0.62	-4.38	-6.67	-7.53	161.68	140.60
Asia								
CNY	-0.48	-0.47	-1.06	-0.93	0.14	-0.86	7.35	7.01
HKD	0.16	0.37	0.26	-0.13	-0.44	0.14	7.82	7.75
INR	-0.61	1.04	-0.94	-2.39	2.20	-0.20	87.63	83.06
MYR	-	0.85	-3.85	-3.87	-9.35	-3.89	4.74	4.12
KRW	1.43	-0.20	-3.96	-3.82	1.86	-5.53	1,485.83	1,308.30
SGD	0.64	0.03	-2.54	-4.26	-4.18	-4.96	1.37	1.28
TWD	0.66	-1.66	-7.95	-7.89	-6.82	-7.90	33.25	29.16
IDR	-	0.49	-1.70	1.04	2.93	2.61	16,865.00	15,095.00

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## Sources

**Asset performances: (top chart)** Eastspring Investments, Refinitiv, as at 9 May 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. **(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.

**Market data:** Eastspring Investments, Refinitiv, as at 9 May 2025. Equities: MSCI indices in USD, other indices in local currency. Other indices or assets as stated.

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