Positioning portfolios for global shocks

INVESTORS continue to face a world of growing uncertainties as we approach mid-2025. With tariffs and policy shifts fuelling market volatility, the focus now is firmly on flexibility, smart diversification and quality income streams. In this complex landscape, agile investing, defensive positioning and active stock selection are not just recommended – they are essential.

Eastspring Investments Services Pte Ltd underscores that, stating investment strategies should prioritise agile investing, portfolio diversification and defensive sectors to effectively navigate market volatility.

The fund management company is clear that a nimble approach – re-balancing away from stretched markets and into underappreciated ones – can provide crucial resilience.

Its base case assumes "high tariffs, high uncertainty and slower US growth", all of which point to a more subdued global outlook. Asia, however, may still offer pockets of opportunity.

"Asia will see slower growth but also lower interest rates and stronger currencies," Eastspring notes.

Globally, equity and bond markets began 2025 on firm footing, but performance has since diverged. Market volatility rose in late January, triggered by China's DeepSeek artificial intelligence breakthrough and shifting US policies.

US equities initially climbed on US President Donald Trump-era tax cut hopes but then faltered amid immigration and tariff worries. Yet, US equities have recovered following the 90-day tariff reprieve between the United States and China.

Still, the US market looks crowded.

"Strong rallies in US assets in recent years have led to stretched valuations and significant positions in many investor portfolios," Eastspring says.

By contrast, it argues, Asia and emerging markets (EMs) offer "more attractive valuations and lighter positioning", suggesting "greater upside potential".

Rising markets

Take India, which Eastspring sees as "probably Asia's largest winner".

With only 2.2% of gross domestic product (GDP) tied to US exports, it stands relatively shielded from the trade storm.

A potential trade deal with the United States and headline inflation dropping to 3.2% below the central bank's target provide room for 50 to 75 basis points (bps) of rate cuts by year-end. Add to that expected GDP growth of 6.3% this year and 6.5% in 2026, and India's prospects appear bright, Eastspring notes.

China, on the other hand, faces headwinds, it highlights. A partial tariff rollback by the United States still leaves a "roughly 1% of GDP headwind to China's growth this year."

Yet, Eastspring remains constructive. "We expect China's GDP to grow close to 4.4% this year," it says, noting that Beijing has deployed "fiscal stimulus of close to 2% of GDP" and begun "cutting interest rates and increasing special lending".

Valuations are still compelling, it observes, adding "we remain cautiously optimistic towards China equities over the medium to long term".

Japan presents a more nuanced picture. While its growth is projected at just 0.6% to 0.8%, Eastspring highlights several positives: "corporate reform momentum remains strong", with recent headlines like "a large Japanese automaker's US$42bil bid to privatise its subsidiary" fuelling investor enthusiasm.

Rising wages, easing deflation and government support are also encouraging companies to shift from cash hoarding to improving returns on equity.

Despite recent underperformance by large-cap exporters, small caps have outshone, and Japan remains one of the cheapest markets globally, on a price-to-book basis, Eastspring argues.

Among Asean economies, outcomes will vary. "Trade-dependent nations like Vietnam, Malaysia, Singapore and Thailand are likely to slow 0.5% to 2% due to weaker exports," Eastspring explains.

But Indonesia and the Philippines stand out, it points out, with the latter expected to hold steady at 5.6% GDP growth for the year.

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> ■ Enhancing portfolio diversification and identifying tariff winners among the five recommended strategies

Tactical strategy

For Eastspring's multi-asset team, tactical flexibility is front and centre.

"We are using different tools such as derivatives (where allowed) to capture emerging opportunities while limiting downside risks," it explains.

It is also focused on being more agile, banking its wins when they arise to better handle sudden downturns and protect long-term stability.

Bottom-up stock selection remains the group's priority.

"We remain focused at finding companies with strong long-term fundamentals that are trading at attractive valuations," Eastspring states. It also stress-test its portfolios against shifting market correlations and evolving risk metrics to safeguard performance.

Amid volatility, fixed income offers ballast, Eastspring points out. "Slower growth suggests that central banks are likely to adopt a more accommodative stance," it says, particularly where inflation has cooled.

In this space, Asian local currency bonds present a compelling investment opportunity due to their attractive real yields and resilient economic fundamentals, it adds, noting low correlation with developed markets and growing inclusion in major indices add diversification appeal.

Security selection matters, too. Eastspring is focusing on "defensive sectors such as the government, quasi government and utilities", while remaining ready to add duration to bond portfolios across local Asia and EMs on any meaningful rates sell-offs.

On currency strategy, it is more tactical and look for extreme moves to accumulate US dollar as a portfolio hedge. With doubts swirling over the long-term appeal of the greenback, some question its continued reserve currency dominance.

Nonetheless, "US Treasuries should retain their 'safe haven' status", backed by liquidity support from the Treasury and the US Federal Reserve.

Investment playbook

So what's the playbook for the rest of 2025? Eastspring outlines five key investment themes.

First is enhancing portfolio diversification. "It is prudent to diversify as US growth slows," it asserts, highlighting that Asia/EM equities, bonds and currencies are looking more compelling.

Second is to identify tariff winners. According to Eastspring, India stands out again, bolstered by low export exposure, disinflation, and resilient domestic flows. Select EMs may also prove less vulnerable to trade shocks, it says.

Third is harnessing policy opportunities. Reforms in Japan and supportive policy in China could unlock gains, Eastspring notes, adding that low expectations for a major stimulus leave room for upside surprises.

Fourth is navigating rate cuts. With inflation largely contained and currencies stronger, central banks have room to cut rates to support growth, Eastspring says. On this note, high-quality Asia/EM bonds benefit here, it points out.

Fifth is building portfolio resilience. With volatility high and earnings visibility low, income from high quality bonds and dividend-paying equities can help dampen portfolio volatility, Eastspring notes.

Meanwhile, low volatility strategies can help minimise downside while still allowing investors to participate in the market's upside, it adds.