

2H 2025 Investment Outlook

Beyond the Horizon: Possibilities in a Changing World



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Foreword

**Elaine Fan**

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As we stepped into 2025, we anticipated that sweeping global changes would bring both challenges and opportunities, and that outlook has certainly held true.

The first half of the year tested our resilience. Uncertainty around US policy and rising tensions in the Middle East stirred up market volatility and made investors rethink their positions. The US's bold tariff proposals initially rattled markets, prompting a flight to safety. But when some of those tariffs were rolled back, we saw a rebound in stocks. Meanwhile, global bond markets remained on edge, with concerns about rising debt levels and fiscal sustainability, especially in the US, adding to the unease.

Looking ahead, we expect market turbulence to persist until there's more clarity around US tariff policies and their ripple effects on growth, inflation, and interest rates.

That said, amidst the uncertainty, the global economy has shown remarkable resilience. Growth may be slower, but it's steady. With signs that the peak of US policy uncertainty may be behind us, alongside tax cut initiatives and more supportive stances from central banks, there's reason to be cautiously optimistic about the second half of the year.

The road ahead has its bumps. But it also offers meaningful opportunities. That's why staying diversified is more important than ever, to help balance potential gains with stability. We encourage investors to stay nimble, actively manage their portfolios, and ensure their strategies align with their risk appetite and long-term goals.

We hope our 2H 2025 Investment Outlook not only offers valuable insights but also equips you with strategies to seize what's next. We're here to support you on your wealth journey and build a stronger financial future together.

Key Considerations and Strategy



INVESTMENT STRATEGY

- 1 Short-term volatility represents a buying opportunity for risk assets
- 2 Diversify investments and seek income-generating assets
- 3 Maintain exposure to technology for long-term structural growth



CORE



Multi-asset
strategies



Investment grade
bond funds

TACTICAL



Quality
dividend
stocks



China



Developed market
financials



Market neutral strategy
(Asia stocks)



Technology



Gold

Source: UOB PFS Wealth Management Advisory (20 June 2025)

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2H 2025 Outlook

Economic Outlook

Economy

The global economy continues to expand but at a slower pace. This comes within a backdrop of US policy uncertainties, ongoing trade tensions, and a cost-of-living squeeze that threatens to dampen business investments and consumer sentiment across many economies. The recent escalation in Middle East tensions has also fuelled concerns that higher crude oil prices may dampen global economic growth.

The global economy outlook will be shaped by evolving US policies and the resilience of consumption demand. The 9 July deadline for US reciprocal tariffs will be a key inflection point, and markets will be watching closely for signs of either further de-escalation or renewed tensions. Once the outcome of US tariffs become clear, investors and central banks will be better placed to ascertain the full economic impact.

The biggest risk to the global economy stems from a re-escalation of trade tensions via the reinstatement of higher reciprocal tariffs and additional sectorial tariffs. This will compound existing 10% baseline tariffs on all US trade partners and sector-specific tariffs, affecting global supply chains and consumption demand. On the other hand, a meaningful de-escalation in trade tensions would improve the global economic outlook. While we expect economic growth to slow, we do not foresee a recession currently (Figure 1).

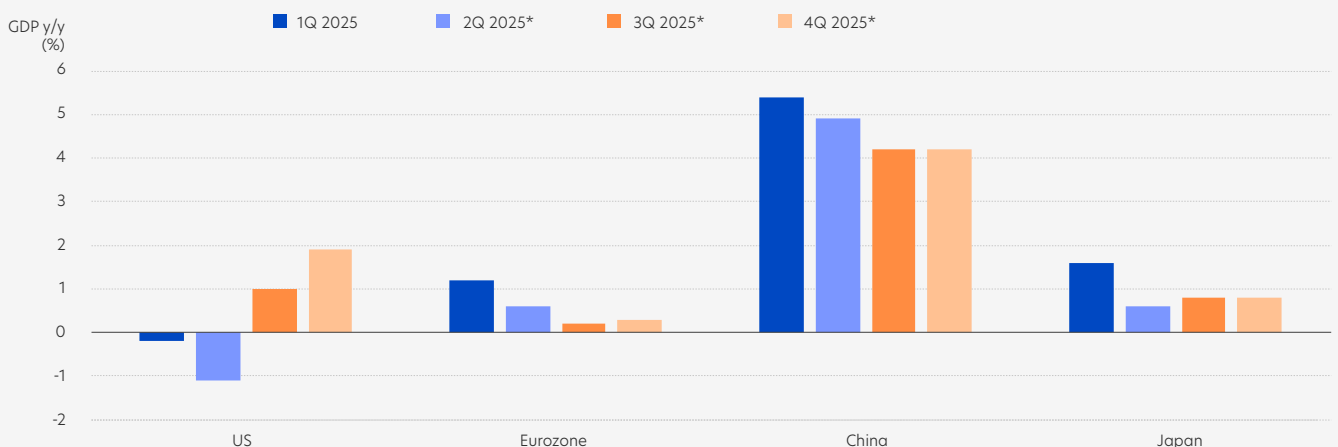
We expect US 2025 economic growth to slow to 1.0% y/y as business sentiment is affected by trade policy uncertainties. The US labour market is also showing early signs of cooling, while a weaker US dollar (USD) will pose headwinds. The extent of the growth slowdown will however be contained if President Trump's tax cut plan is implemented while the outlook could improve if trade tensions de-escalate.

The primary risk for the Eurozone economy is the possibility that the European Union (EU) fails to secure a trade agreement with the US, leading President Trump to impose 50% tariffs on nearly all imports from the EU. As a result of this tariff risk, we have revised our 2025 Eurozone GDP growth forecast down to 0.5% y/y, from 0.9% y/y previously.

We expect China's economy to stabilise, projecting 2025 economic growth at 4.6% y/y with the 90-day tariff truce with the US providing short-term relief. Exports have been the main growth driver recently but it remains to be seen if a lasting trade deal can be reached or if higher tariffs are reimposed. Domestic growth drivers have been more sluggish, which resulted in the Chinese government delivering both fiscal and monetary stimulus.

Japan faces downside risks to economic growth, with 2025 real GDP growth projected at 1.0% y/y. This is due to key export sectors like automotive and steel facing US tariff-related headwinds, while a stronger Japanese Yen (JPY) negatively affects export competitiveness. In addition, high inflation, particularly a surge in the price of rice, has dampened domestic consumption.

Figure 1: Global economic growth is moderating with no recession expected



* Data is forecasted by UOB.

Source: UOB Global Economics & Market Research (20 June 2025)

2H 2025 Outlook

Economic Outlook

Inflation

Inflation has been gradually easing across most economies, and in most countries, converging towards central banks' 2% target. This disinflationary trend is being driven by moderating economic growth, easing supply chain pressures, and a noticeable cooling in wage pressures. In addition, fiscal support has been more targeted and less inflationary by not overstimulating demand, helping to stabilise prices.

For this year, we expect inflationary pressures to remain largely under control (Figure 2). However, the inflation slowdown may prove uneven in the months ahead. Services inflation remains sticky in several economies, and unusual weather patterns continue to disrupt agricultural output, posing risks of renewed food price pressures. The risk of higher oil prices from Middle East tensions must also be factored in.

In the US, while inflation has moderated, the outlook remains clouded by the effects of President Trump's fiscal and trade policies. Trump's tax cuts could boost consumer demand while import tariffs are likely to raise input costs and consumer prices, potentially causing inflation to re-accelerate.

If reciprocal tariffs are reinstated alongside existing baseline and sector-specific tariffs, the inflationary impact will be more pronounced, but the extent will depend on the level of tariffs imposed. Nonetheless, we view tariff-driven US inflation to be a short-term spike in prices that eases subsequently.

Elsewhere, slowing economic growth will continue to exert downward pressure on inflation though risks remain from supply chain disruptions and volatile energy prices.

Figure 2: Inflationary pressures under control across most economies in 2025

	2024	2025F
United States	3.0	3.6
Eurozone	2.4	2.0
China	0.2	0.0
Japan	2.8	2.9
Singapore	2.8	0.7
Malaysia	1.8	2.3
Indonesia	2.3	2.4
Thailand	0.4	0.6

Source: UOB Global Economics & Market Research (20 June 2025)

2H 2025 Outlook

Economic Outlook

Central Bank Policies

As inflation continues to moderate across most economies, global central banks have shifted their focus towards supporting economic growth by initiating interest rate cuts. This shift reflects a broader recalibration of monetary policy, driven by slowing global demand, trade uncertainties, and financial market volatility.

Importantly, these rate cuts are not driven by recession fears but rather represent a strategic fine-tuning of policy settings to align with evolving inflation and growth dynamics. In the short term, these dynamics will be driven by US tariff and fiscal policies, and geopolitical tensions.

The outlook is for gradual rate cuts ahead. The pace and magnitude of easing will vary across countries, reflecting differences in exposure to trade disruptions, domestic inflation trends, and currency stability.

In the US, the Federal Reserve (Fed) has been reluctant to cut interest rates so far this year given the uncertain impact of tariffs on the economy and inflation. Nonetheless, we expect the Fed to proceed with three 25 basis points (bps) rate cuts in the second half of the year as it prioritises downside risks to economic growth.

Since June 2024, the European Central Bank (ECB) has cut interest rates eight times. With inflation converging to the 2% target, the ECB is expected to continue its rate cut cycle

to ward off downside risks to economic growth. We expect two more 25 bps cuts in the second half of 2025, bringing the deposit rate to 1.5% by year-end.

In Asia, central banks have also adopted a more accommodative approach.

China's central bank (PBoC) is expected to maintain a "moderately loose" policy, focusing on liquidity support through reserve requirement ratio (RRR) reductions and targeted rate cuts. That said, given the PBoC eased monetary policy in May while the 90-day tariff truce is ongoing with the US, further monetary policy easing is only expected in the fourth quarter of 2025.

Other Asian central banks are likely to proceed with measured rate cuts, balancing growth support with the need to maintain currency stability and investor confidence. Nonetheless, with inflation muted across the region, there is scope for more policy easing to offset potential growth headwinds caused by US tariffs and global trade disruptions.

Japan stands apart as the only major economy on a rate hike path, with one 25 bps rate hike expected in September, followed by a final hike in the first quarter of 2026.

Figure 3: Gradual rate cuts are expected

	Current	3Q 2025*	4Q 2025*	1Q 2026*	2Q 2026*
United States	4.50	▼ 4.25	▼ 3.75	— 3.75	▼ 3.50
Eurozone	2.00	▼ 1.75	▼ 1.50	— 1.50	— 1.50
China	3.00	— 3.00	▼ 2.90	— 2.90	— 2.90
Japan	0.50	▲ 0.75	— 0.75	▲ 1.00	— 1.00
Malaysia	3.00	▼ 2.75	▼ 2.50	— 2.50	— 2.50
Indonesia	5.50	▼ 5.25	— 5.25	— 5.25	▼ 5.00
Thailand	1.75	— 1.75	▼ 1.25	▼ 1.00	— 1.00

* Data is forecasted by UOB.

United States refers to Federal Funds Target Rate – upper bound in the United States (US). Eurozone refers to deposit facility rate in the Eurozone. China refers to 1-year loan prime rate in China. Japan refers to short-term policy rate in Japan. Malaysia refers to Overnight Policy Rate in Malaysia. Indonesia refers to 7-day Reverse Repo Rate in Indonesia. Thailand refers to 1-day bond repurchase rate in Thailand. ▼ indicates interest rate is lower than previous quarter. — indicates interest rate remains the same as previous quarter. ▲ indicates interest rate is higher than previous quarter.

Source: Bloomberg, UOB Global Economics & Market Research (20 June 2025)

2H 2025 Outlook

Country Focus



United States

The US economy is expected to slow, weighed down by persistent trade policy uncertainty and a softening labour market. On the labour market, we have seen evidence of declining job openings, an uptick in jobless claims, and easing wage growth.

Although a federal court initially blocked most US tariffs, the Trump administration appealed, allowing tariffs to remain in place for now. The 90-day tariff truce with China and 90-day tariff pause with other countries offer temporary relief, with no clarity on whether it will lead to a trade deal or renewed tariff escalation.

US consumers, import-dependent companies, and tourism companies will also face headwinds from a weaker USD.

Looking ahead, we feel the impact of US trade policies will lead to weaker economic growth without resulting in a recession. We have downgraded our 2025 US GDP growth forecast from 1.8% y/y to 1.0% y/y, although the outlook could improve if trade tensions de-escalate. President Trump's tax cut plan will also provide support though the full impact on economic growth will likely be felt in 2026.

Tariffs will likely lead to higher US inflation in the coming months, but we expect this to be a one-off spike which subsequently subsides in 2026. Our 2025 US headline inflation forecast stands at 3.6% y/y, although we expect core inflation to be higher at 3.8% y/y.

Given it is unclear the extent to which tariffs will impact economic growth and inflation, the Fed has advocated caution and patience to interest rate changes.

Until the outlook is clearer, the Fed is likely to adopt a wait-and-see approach.

It is important to note that rate cuts are merely delayed due to the uncertain outlook. Given our view that tariff-driven inflation will be a one-off and the US economy will slow, we expect three 25 bps rate cuts later this year, bringing the upper bound of the Fed Funds Target Rate (FFTR) to 3.75% by end-2025.



Eurozone

The Eurozone economy is expected to expand 0.5% y/y across 2025, recovering from a shallow technical recession at the end of 2024. The bulk of this recovery is likely to have come in the first half of the year as Germany's fiscal stimulus plan supported industrial sentiment and domestic demand.

The primary risk moving forward is the possibility that the EU fails to secure a trade agreement with the US, leading President Trump to impose 50% tariffs on nearly all EU imports from 9 July. This will compound sectorial tariffs that have already been imposed, and would weigh heavily on European exports, especially for key industries like autos and machinery, which are vital to countries like Germany and France.

Thus far, the EU has failed to make headway in trade talks with the US and it was reported that many of President Trump's tariffs will remain even if a trade deal is struck. In response, the EU is preparing countermeasures, increasing the risk of a trade war. As a result of this tariff risk, we have revised our 2025 Eurozone GDP growth forecast down to 0.5% y/y, from 0.9% y/y previously.

On a positive note, Germany's fiscal stimulus allows for greater military and civil defence spending, and investments in cybersecurity and infrastructure. Nonetheless, the uplift to the Germany economy may only materialise gradually.

European governments are increasing borrowing to boost military spending amid rising geopolitical tensions. Notably, Germany has revised its strict debt rules to ramp up military spending, and increase infrastructure and climate spending through a EUR 500 billion investment fund. While this will support long-term growth, the uplift to the economy will only materialise gradually but will also lead to higher government debt and larger fiscal deficits.

Both headline and core inflation in the Eurozone continues to ease. This decline is mainly due to lower energy prices, a stronger Euro, and the lagged impact of earlier interest rate hikes. Services inflation, which had been a key concern for the ECB also moderated significantly. Inflation is now forecast to average 2.0% y/y in 2025, the ECB's target.

In line with these trends, the ECB cut interest rates by 25 bps at the June policy meeting, its seventh consecutive cut and eighth since June 2024. With growth slowing and inflation easing, we expect two more 25 bps rate cuts in September and October, bringing the deposit rate down to 1.5%.

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Country Focus



China's economy has shown greater resilience than expected, despite headwinds from the "Liberation Day" tariff shock. Exports have been the main growth driver in recent months as the 90-day tariff truce between the US and China announced on 12 May provided a short-term boost, with manufacturers frontloading shipments to the US and other countries. Industrial production, retail sales, and fixed asset investment have also shown signs of bottoming out.

However, it's still unclear whether the tariff truce will be extended, a lasting trade deal will be reached, or tariffs will rise again after the truce ends. Nonetheless, it is likely that US tariffs on China will remain above 2024 levels.

Domestic growth drivers paint a cautious outlook. China's domestic consumption remains sluggish, leading to price wars, falling prices and deflationary pressures. Private sector investments have been restrained by tariff concerns. Hence, sparking a recovery in the property market is a priority, as a stabilisation in household net wealth will help boost consumption.

These are reasons why the Chinese government has shown a willingness to support the local economy through fiscal and monetary stimulus, in a bid to achieve its "around 5%" growth

target for this year. Specifically, China announced a fiscal stimulus worth 2% of GDP at the March National People's Congress. Monetary stimulus was subsequently announced on 7 May, comprising a 50 bps cut to banks' RRR and 10 bps cut to its key interest rates.

Taking all the above into account, we expect China's economy to stabilise, with our projection of 2025 economic growth revised slightly higher to 4.6% y/y (from 4.3% y/y) following the tariff truce.

Deflation remains a key threat to the Chinese economy given sluggish consumer sentiment. Tariffs and increasing domestic competition leading to price wars will continue to depress manufacturers' profit margins, translating into subdued wage growth and weaker consumption.

With the near-term stabilisation in trade tensions and the monetary stimulus in May, we expect the PBoC to refrain from further easing in the near term. We only expect an additional 10 bps rate cut in the fourth quarter, bringing the 7-day reverse repo rate, 1-year and 5-year loan prime rates (LPR) down to 1.30%, 2.90% and 3.40% respectively by the end of this year. Another 50 bps reduction in the RRR remains possible.



We project Japan's 2025 economic growth at 1.0% y/y. Despite rising wages, robust tourism takings and accelerated investments in semiconductor technology, there are increasing downside risks to the growth outlook.

US tariff measures have weighed on Japan's exports like autos and steel, and export growth is set to slow further as US trade policy uncertainty lingers. Particularly as Japan has yet to reach a trade agreement with the US ahead of the 9 July deadline. A stronger JPY also negatively affects Japan's export competitiveness, potentially dragging on economic growth.

Japan's wage-induced consumption recovery has remained patchy as well. While household spending has risen in most months so far in 2025, it may start to decline ahead given a worsening cost-of-living squeeze on consumers. This comes as real wage growth has been negative for four straight months due to elevated inflation.

Inflationary pressures remain elevated in Japan, with core inflation climbing to a 26-month high of 3.7% y/y in May. This was driven by higher food prices, particularly a 102% y/y surge in the price of rice. In addition, services inflation continues to climb which suggests companies are passing on higher costs for labour and rice to consumers. This means that Japan's inflation has now stayed above the 2% target for more than three years. We have revised our projection of Japan's headline and core inflation higher to 2.9% y/y and 2.8% y/y respectively.

The BOJ has refrained from interest rate hikes over the past three policy meetings as it awaits clarity on US tariffs and the impact on Japan's economy and inflation. That said, with Japan's inflation well above 2%, the BOJ is still expected to raise interest rates ahead. We expect the BOJ to raise interest rates by 25 bps to 0.75% in September, before delivering a final 25 bps hike in the first quarter of 2026.

2H 2025 Outlook

Country Focus

Figure 4: Economic snapshots of major and selected regional countries



Source: UOB Global Economics & Market Research (20 June 2025)

2H 2025 Outlook

Country Focus

**India****6.5%**

GDP Forecast

4.6%

CPI Forecast

- Economic growth has been revised upwards due to lower exposure to US tariff shocks and rising rural demand driven by a strong agricultural sector.
- Inflation is expected to remain low and stable due to reduced risk of food supply disruptions, though rising gold prices are pushing up core inflation.
- Reserve Bank of India (RBI) is expected to keep interest rates at 5.50% in the second half of the year.

**Singapore****1.7%**

GDP Forecast

0.7%

CPI Forecast

- Economic growth will likely moderate as front-loading momentum dissipates, compounded by less favourable base effects.
- Inflation will likely slow for a third straight year due to weaker demand and excess supply, with services inflation capped by a cooling labour market.
- The Monetary Authority of Singapore (MAS) is expected to completely flatten the slope of the Singapore Dollar Nominal Effective Exchange Rate[^] (S\$NEER) policy band in July 2025 to support economic growth.

**Malaysia****4.0%**

GDP Forecast

2.3%

CPI Forecast

- Resilient domestic demand and ongoing and new fiscal measures continue to support the economy.
- Inflation will likely remain muted due to easing global price pressures, lower commodity prices and softer demand pressures.
- Bank Negara Malaysia (BNM) is expected to deliver two 25 bps rate cuts, bringing its Overnight Policy Rate down to 2.50% by year-end.

**Thailand****2.0%**

GDP Forecast

0.6%

CPI Forecast

- Continued support from both fiscal and monetary policy is expected to cushion the economy against domestic and external headwinds.
- Inflation is expected to stay low due to weak demand, government price controls and slower tourism.
- The Bank of Thailand (BOT) is expected to resume its easing cycle with two 25 bps rate cuts in the fourth quarter, bringing interest rates down to 1.25% by year-end.

**Indonesia****4.9%**

GDP Forecast

2.4%

CPI Forecast

- Main reason of slowing growth is ongoing trade uncertainty.
- Average inflation in 2025 is likely to tick slightly lower to 2.4%.
- Bank Indonesia (BI) is expected to cut interest rates by 25 bps to 5.25% in the third quarter and maintain that level for the rest of the year.

**Vietnam****6.0%**

GDP Forecast

3.6%

CPI Forecast

- While Vietnam's economy remains strong, the economic outlook may face headwinds if no trade deal is reached with the US.
- Inflation will continue to edge higher to 3.6% in 2025 but remain below the government's upper estimate of 4.5%.
- The State Bank of Vietnam (SBV) is likely to maintain its interest rates at 4.50% for the rest of the year.

[^] Singapore Dollar Nominal Effective Exchange Rate (S\$NEER) is a policy tool used by the MAS to manage the exchange rate of the Singapore Dollar.
Source: UOB Global Economics & Market Research (20 June 2025)

2H 2025 Outlook

Asset Class Views

Stocks

The first half of 2025 was characterised by significant volatility in global stock markets, driven by a complex interplay of macroeconomic resilience, tariff uncertainties, geopolitical tensions, and evolving monetary policy. Stock markets have delivered a mixed result, with US stocks underperforming global peers year-to-date.

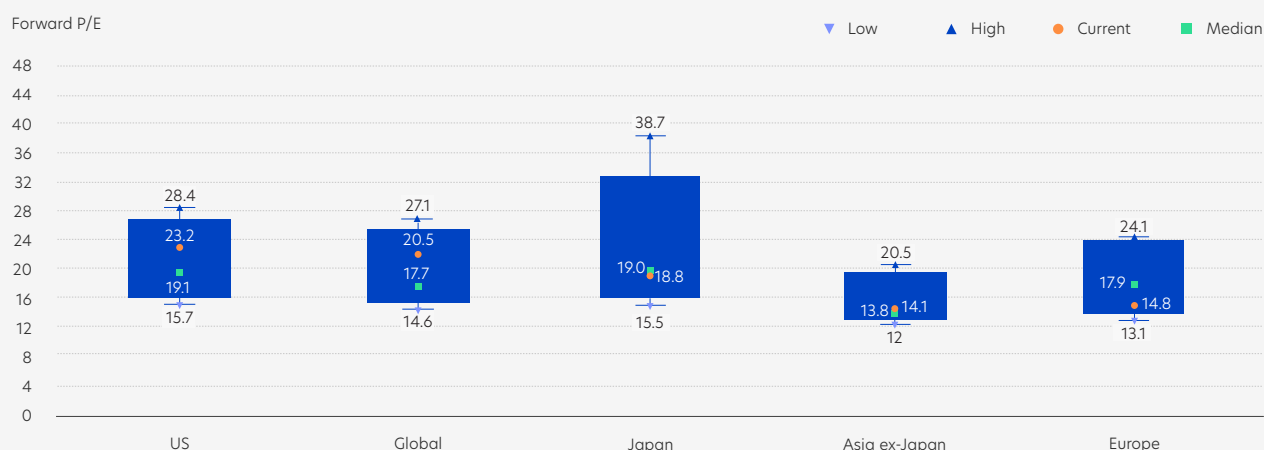
Following a sharp recovery from the “Liberation Day” sell-off in April, stock markets have recovered strongly with the MSCI World Index recently posting a new record high.

For the second half of 2025, we hold a neutral view of stocks as a broad asset class. Investors should be prepared for continued dispersion across regions and sectors, influenced by policy divergence, AI-driven innovation, and the impact

of US tariffs and fiscal policy. This calls for a diversified approach towards stock investing to smooth out potential volatility. However, there are selective opportunities that we like. Firstly, quality dividend stocks for its consistent and attractive dividend payouts, offering an income play amid US trade policy uncertainties. We also retain a positive outlook on technology, developed market financials, and Chinese stocks.

US stocks may see some near-term consolidation but will likely end the year higher than current levels. While US stocks may be trading at a higher valuation compared to global peers (Figure 5), there are reasons justifying this and potentially even higher valuations. These include robust corporate earnings, President Trump's pro-growth agenda of tax cuts and deregulation, and the likelihood of Fed rate cuts.

Figure 5: Clarity on US policies and potential rate cuts will allow US stocks to continue trading at high valuations



Source: Bloomberg (20 June 2025)

US stock markets tend to see seasonal weakness across July and August, but any such outcome will offer investors the opportunity to buy on dips and position for a historically strong stock performance in the fourth quarter.

While valuations of US technology stocks remain elevated, investors should look to accumulate on dips with potential tax cuts and the longer-term AI trend underpinning strong earnings growth.

Eurozone stock markets have been supported by rate cuts from the ECB and resilient corporate earnings. A substantial fiscal stimulus package from Germany and increased military spending in other European countries have also lifted stocks in the defence, capital goods, and infrastructure industries.

While valuations of European stocks remain attractive relative to global peers, there is a potential headwind in the form of higher tariffs on EU products if no trade agreement is reached with the US. This is why we hold a neutral outlook on European stocks.

We maintain a positive outlook on Chinese stocks. China remains a focal point amid geopolitical tensions and domestic

challenges. The expiration of the 90-day US-China tariff truce on 12 August could reintroduce uncertainty.

That said, China's economic growth is set to stabilise while the Chinese government has committed to proactive fiscal and monetary policies to address trade tensions and the property downturn. With solid earnings growth and attractive valuations, Chinese stocks may have room to outperform global peers.

We hold a nuanced view for other Asian stock markets. With potential Fed easing and a weaker USD, Asian stock markets may benefit from increased foreign inflows. That said, regional market volatility may persist as many Asian countries have not secured a trade deal with the US and the threat of higher tariffs remain.

This is the reason why we advocate a market neutral strategy for Asian stocks that is designed to potentially generate returns regardless of market direction. Beyond this approach, we continue to like quality Asian dividend stocks for the attractive income.

Asset Class Views

Bonds

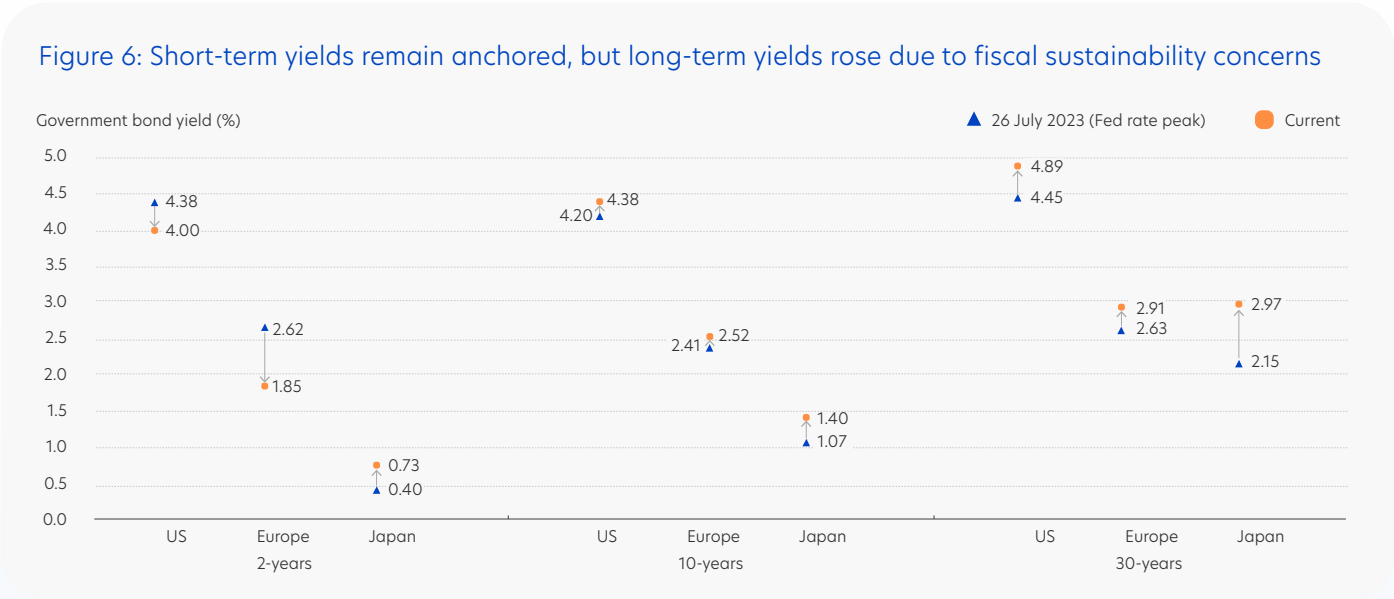
There are crosswinds affecting the bond market.

Over recent months, we have witnessed growing concerns of US trade protectionism and the risk of tariff-induced inflation. Rising government debt levels sparked by uncontrolled spending on fiscal stimulus and defence also led to fiscal sustainability concerns in some countries. These factors contributed to a rise in long-term government bond yields. Some of these factors may remain intact for the time being, potentially causing long-maturity yields to stay elevated across the second half of 2025.

In contrast, short-maturity bond yields have remained anchored, as markets anticipate more interest rate cuts by global central banks, most importantly being Fed policy easing in the second half of the year (Figure 6).

In Asia, export-driven economies may be more vulnerable to an economic growth slowdown amid ongoing trade tensions. However, the fundamentals of Asian investment-grade issuers remain solid, which should help cushion some of the macroeconomic uncertainties.

Given the persistent uncertainty around tariffs, we continue to favour investment grade bonds from both Developed Markets and Emerging Asia. These bonds continue to offer attractive yields and can serve as a hedge against broader risk aversion.



Source: Bloomberg (20 June 2025)

2H 2025 Outlook

Asset Class Views

Foreign Exchange and Commodities

The USD experienced a significant selloff in the second quarter of 2025, largely due to President Trump's unpredictable trade policies which led investors to move away from USD-denominated assets.

Following Moody's recent downgrade of their US sovereign credit rating and growing concerns that President Trump's proposed tax cuts will substantially increase the fiscal deficit, investors have begun to question the USD's role as the world's reserve currency.

Global trade tensions may start to ease in the second half of 2025. If tariff-related risks abate, the shift away from US assets may decelerate, briefly alleviating USD weakness.

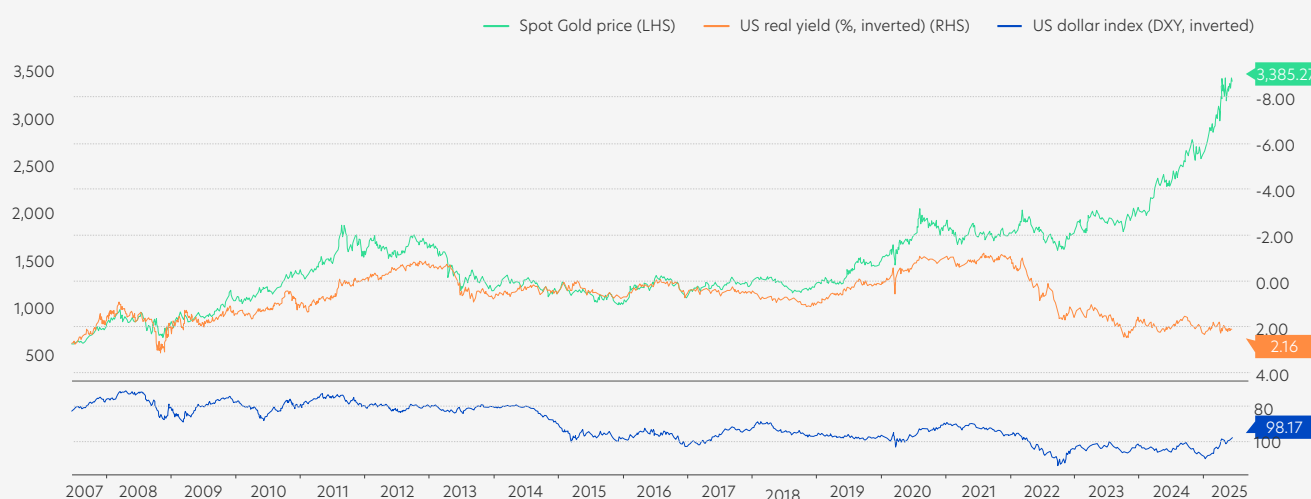
That said, monetary policy considerations will subsequently return to the fore. With the Fed set to deliver a new round of rate cuts while other central banks gradually conclude their easing cycle, this could exert renewed downward pressure on the USD. As such, we retain a negative outlook on the USD, expecting the US Dollar index to fall to 98.4 in the fourth quarter of 2025.

Several key factors may affect the recent rally in Asian currencies. These include uncertainty over future tariff policies, the sustainability of the de-dollarisation trend, a weak economic outlook for Asian economies, and the fact that the year-to-date rally in Asian currencies limits the scope for further appreciation. As such, we retain a cautious near-term outlook for Asian currencies.

Gold continues to benefit from several long-term positive drivers. Strong and persistent safe-haven demand, consistent central bank purchases, and a weakening USD all reinforce our constructive long-term outlook for gold. Despite elevated real yields, Gold continues to serve as a diversifier from stocks and bonds (Figure 7). We expect Gold prices to hit USD 3,500 per ounce in the fourth quarter of this year.

On 23 June, following the escalation in Middle East tensions, we raised our Brent crude oil forecast to USD 80 per barrel for the second half of this year. Nonetheless, it is important to note that previous conflicts between Israel and Iran in 2024 had little sustained impact on oil prices, while OPEC+ has been aggressively ramping up oil supply.

Figure 7: Gold prices continue to surge despite elevated real yields and a firm dollar since 2022



Source: Bloomberg, UOB Private Bank (20 June 2025)

Key Themes to Watch

Theme 1:	18
Impact of Trump 2.0	
Theme 2:	20
Brief Phase of Slower Economic growth	
Theme 3:	21
Rising AI Adoption	



Key Themes to Watch

Theme 1: Impact of Trump 2.0

1. A new era of uncertainty

The return of Donald Trump for a second term as US President, commonly referred to as "Trump 2.0", has reignited global economic uncertainty, particularly around trade and fiscal policy.

His leadership style is known for abrupt and often unpredictable shifts in policy, particularly on trade. Mirroring "Trump 1.0", his unpredictability has begun to affect investor sentiment and upended prior financial market expectations.

2. Tariff implications

A defining feature of Trump 2.0 is an even more aggressive stance on tariffs. "Liberation Day" on 2 April marked the introduction of sweeping new tariffs, with effective tariff rates reaching levels not seen since the 1930s, marking a sharp reversal from decades of global trade liberalisation.

These tariffs, a universal 10% baseline rate, higher reciprocal tariffs that have been temporarily suspended, and sectorial tariffs, raised concerns about inflation and corporate profitability.

For businesses, tariffs mean higher input costs which can squeeze profit margins and reduce competitiveness. For consumers, it means higher prices across a wide range of products, adding inflationary pressures to already elevated cost-of-living expenses in many parts of the world. The immediate impact was a sharp deterioration in business and household confidence, and companies struggled to plan amid unclear and shifting rules.

3. Tax cuts and fiscal stimulus: A double-edged sword

But it's not all bad news. The Trump administration is also pushing for tax cuts and deregulation, which could stimulate business investment and consumer spending. This in turn could lift US corporate earnings and boost US economic growth.

The US Congress is currently debating a nearly USD 6 trillion budget reconciliation package that would extend the 2017 Tax Cuts and Jobs Act (TCJA) and introduce new fiscal support.

The complication is that while Trump's tax cut plan could provide a short-term boost to the economy, it also raises concerns about long-term fiscal sustainability. The Congressional Budget Office warns that extending the TCJA provisions without offsetting revenue increases could add USD 2.8 trillion to the deficit over the next decade, even after accounting for dynamic economic effects.

Federal debt held by the public is projected to surge from 99% of GDP today to over 214% by 2054, and potentially exceed 250% of GDP if interest rates rise.

Even if tariff receipts are used to partially fund the tax cuts, the US Treasury would still likely need to raise more debt.

While fiscal stimulus may offer short-term relief, it underscores the double-edged nature of expansionary policy: boosting growth today while risking financial instability tomorrow.

Financial markets have already reacted, with the concern reflected by a steepening US Treasury bond yield curve. Long-term bond yields have risen, with the 30-year yield briefly topping 5%.

At the same time, the USD has weakened, which is unusual given the rise in yields. Typically, higher interest rates attract foreign investments and strengthen the currency. But in this case, global investors are reassessing their exposure to US assets due to concerns about long-term debt sustainability and the unpredictability of US policies. The USD's role as the world's reserve currency is being questioned more seriously now than in previous years. This could have profound implications for global financial markets, especially if countries begin to diversify away from USD-denominated assets.



Key Themes to Watch

Theme 1: Impact of Trump 2.0

Figure 8: President Trump still cares about market reaction

The Trump Put

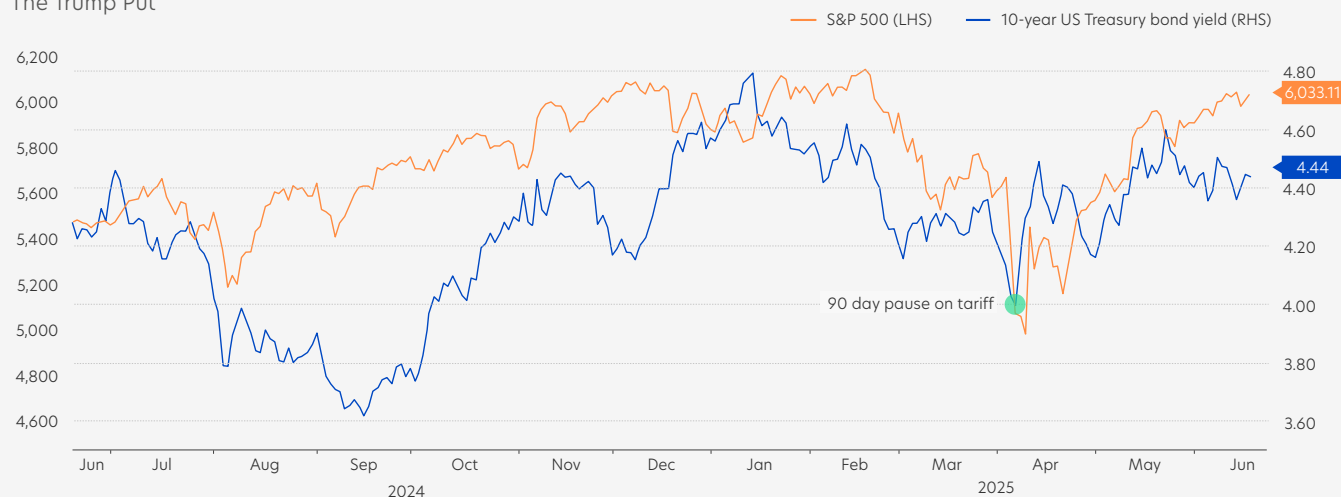
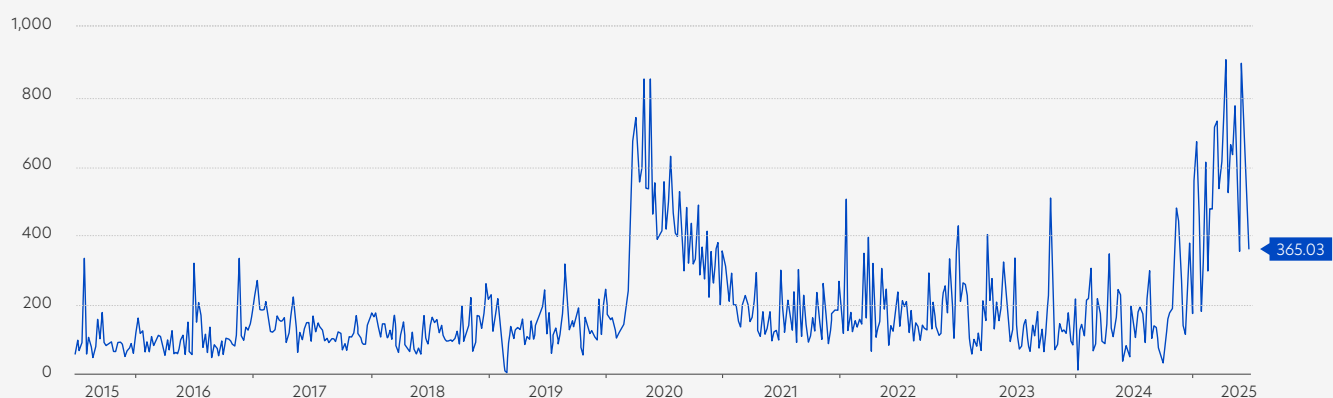


Figure 9: US policy uncertainties likely peaked but may stay elevated for now

US Economic Policy Uncertainty Index



Source: Bloomberg, UOB Private Bank (20 June 2025)

4. Trump still attentive to financial markets; "Trump Put"

As global financial markets saw a big sell-off in early April, President Trump was sufficiently concerned to roll back some of his tariff measures (Figure 8). This suggests that Trump remains attentive to developments in the financial market, seeing it as a referendum on his presidency.

A widely held view is that there is a certain level of economic pain and market instability that President Trump is willing to tolerate before he relents, an outcome termed the "Trump Put". What transpired on 9 April was a 90-day pause on reciprocal tariffs, a temporary reprieve that allowed markets to stabilise and US businesses to front-load critical imports.

With the reciprocal tariff deadline fast approaching on 9 July, another phase of uncertainty and market volatility may be seen. The "Trump Put" may yet re-emerge.

5. Resilience amid uncertainty

Despite these challenges, financial markets have shown resilience, and US policy uncertainties may have likely peaked (Figure 9). The initial shock of Trump's tariff announcements appears to be fading, and markets are adjusting to the new reality.

Corporate earnings are still expected to grow, and the US economy is projected to avoid a recession, supported by potential tax cuts.

While short-term volatility may still be seen, the market environment will likely improve over the coming months. For investors, diversification and a focus on quality assets remains key. Stay agile to capture unfolding opportunities.

Key Themes to Watch

Theme 2: Brief Phase of Slower Economic Growth

As we move through 2025, the global economy is entering a phase of slower growth. This isn't a recession, but rather a period of moderation.

What's driving the slowdown?

The growth slowdown across global economies is largely due to President Trump's trade policies causing reactionary shifts in consumption and investment behavior.

Consumers are cautious amid concerns of higher prices. Businesses are reassessing supply chains dependencies and accelerating efforts to re-shore or diversify production. Policy uncertainties have also caused businesses to delay investment decisions.

Seasonality trend could play out

US policy developments, particularly on tariffs, could continue to cause market volatility in the near term. Particularly as the reciprocal tariff deadline looms on 9 July, with the US-China tariff truce currently only lasting until the middle of August.

This could play into the seasonal trend where volatility rises in financial markets during the third quarter of the year.

That said, stock markets historically see strong performance in the fourth quarter of the year.

This ties in with our view that the market environment will improve across the second half of this year, and the possibility that US tax cuts will be passed by Congress before year-end. Potential Fed rate cuts will also be a supportive factor.

This means that investors should view any short-term volatility in the third quarter as an opportunity to accumulate Core and Tactical investments to position for a strong end to 2025.

For long-term investors, time in the market triumphs all

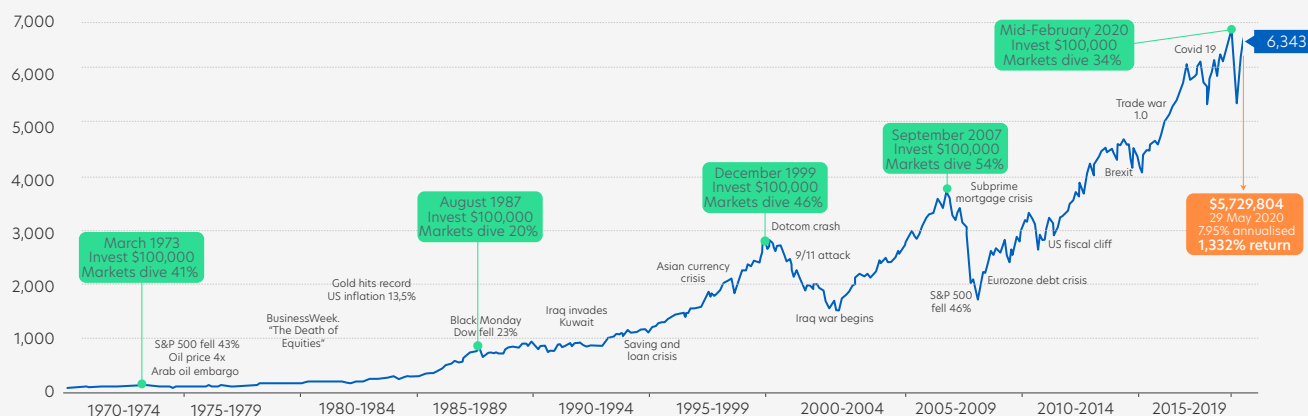
As proven over history, time in the market always beats timing the market. (Figure 10).

To smooth out volatility, diversify your portfolio across asset classes, regions, and sectors. You can also consider a dollar-cost averaging approach.



Figure 10: The worst market timer who invested at each peak would have done all right

MSCI World Index (Net Dividends, Net Total USD Returns) - Jan 1970 to May 2020



Key Themes to Watch

Theme 3: Rising AI Adoption

1. AI moves from hype to reality

Artificial Intelligence (AI) has rapidly evolved from a speculative theme to a transformative force across industries. In 2025, AI is no longer just a buzzword, it's a foundational technology reshaping how businesses operate, improving productivity, and driving innovation. The AI ecosystem is expanding beyond traditional tech giants. Companies across sectors, from healthcare and finance to manufacturing and logistics, are embedding AI into their workflows to enhance efficiency, reduce costs, and unlock new revenue streams. This broad-based adoption is creating a multi-decade investment opportunity.

2. The race for AI leadership

While the US continues to lead in foundational research and commercial deployment, China is rapidly closing the gap through aggressive investment, state-backed initiatives, and a growing pool of AI talent. The rise of DeepSeek, a Chinese AI startup, exemplifies this shift. DeepSeek has demonstrated that innovation can thrive even under resource constraints, offering high-performance models at a fraction of the cost of Western counterparts.

3. Positioning for the future through AI innovation

Investment opportunities are shifting from upstream hardware, such as chips and servers, to downstream applications like AI agents, smart robotics, autonomous vehicles, and AI-powered software. The AI cycle is maturing, and costs are falling, making AI more accessible to smaller businesses and startups. This is encouraging a wave of innovation that is disrupting traditional industries and creating entirely new markets.

As geopolitical noise fades and markets refocus on fundamentals, AI is expected to regain investor attention. AI is not just a trend, it is a structural growth engine that will continue to shape the future of investment portfolios, with China and the US leading the charge in a new era of technological competition. We retain a positive outlook on technology stocks. The resilience in earnings growth will continue to serve as a significant supporting factor for global technology stocks (Figure 11).

For long-term investors, the year-to-date underperformance of Magnificent Seven stocks may present a strategic opportunity to position in these companies that continue to lead in AI (Figure 12).



Key Themes to Watch

Theme 3: Rising AI Adoption

Figure 11: Resilient global tech earnings continue to sustain positive sentiment in tech stocks



Figure 12: The case to get back into Magnificent 7 stocks following their recent underperformance



Source: Bloomberg, UOB Private Bank (20 June 2025)

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What You Can Do

Building Your Portfolio

When building an investment portfolio, first consider your financial goals, risk tolerance and investment time horizon. Anchor your portfolio with Core investments that are less reliant on market cycles before considering Tactical investments that are of higher risk but offers potentially higher returns over the short and medium term.

The worst of US trade policy uncertainty appears to be over, although it remains unclear whether trade negotiations will result in agreements for lower tariffs or if higher reciprocal tariffs will be reinstated once the 90-day pause ends.

In the short term, financial markets may stay volatile until this uncertainty clears and geopolitical tensions recede. Ensure your portfolio is well diversified across different asset classes, regions, and sectors with Core investments like multi-asset strategies and investment grade bond funds.

The market environment is however likely to improve through the second half of this year when there is clarity on trade deals, the focus turns toward US tax cuts and deregulation, and the US Fed cuts interest rates. As such, investors should view short-term dips as a buying opportunity for risk assets.

For clients with higher risk appetite, we see selective Tactical opportunities listed below. Nevertheless, it will be prudent to be nimble in portfolio allocation and to avoid concentration risks.

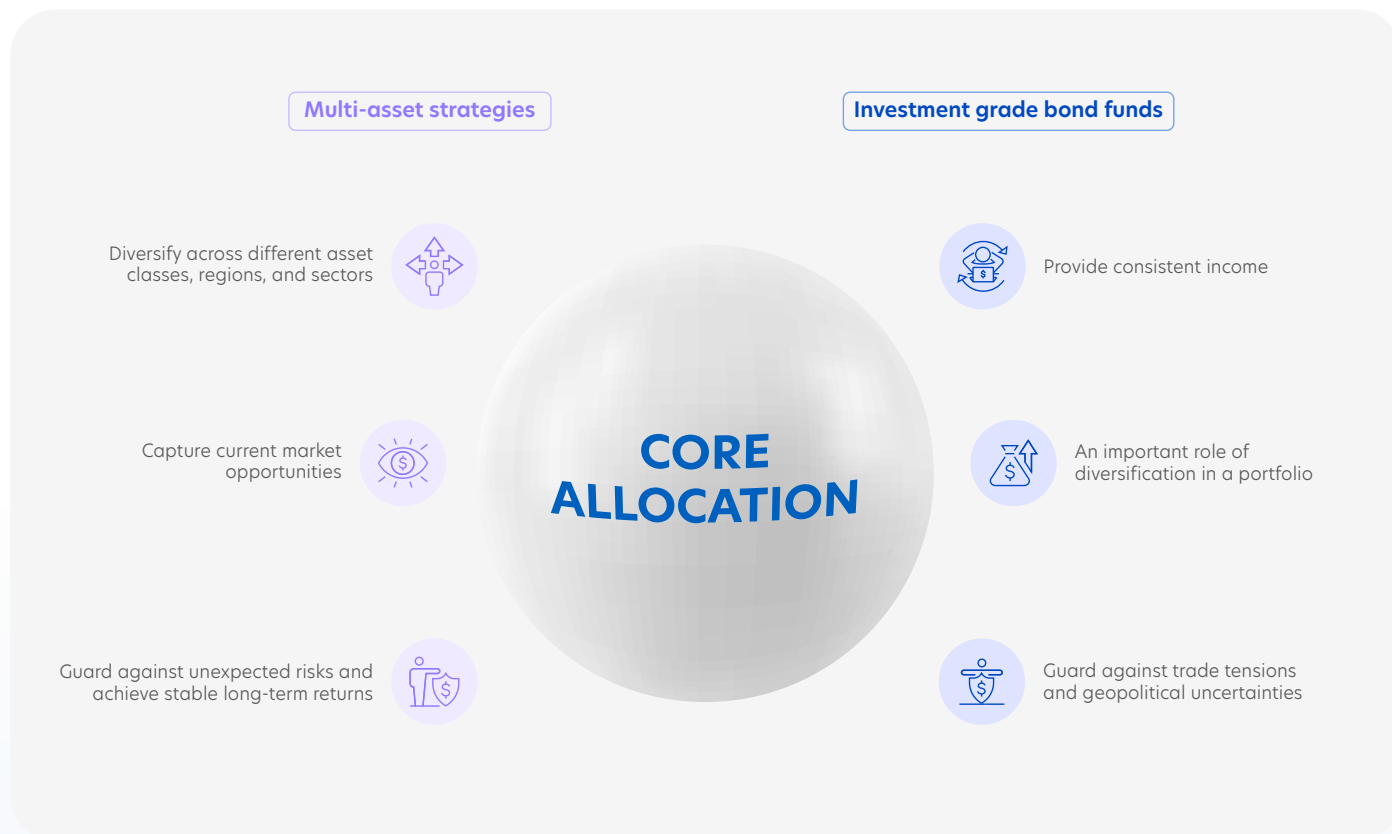
Retain a small allocation to Gold which serves as a portfolio diversifier. Income-seeking investors can consider quality dividend stocks which we believe will continue to perform well. We remain positive on the Technology sector as the long-term growth story is underpinned by AI. The fundamentals of developed market financials remain strong.

The approach to Asia should be dynamic. We like Chinese stocks given attractive valuations which could rise as the Chinese economy stabilises. Beyond this, we advocate a market neutral strategy for broader Asian stocks which can potentially generate returns regardless of market direction.



What You Can Do

Core Allocation



Multi-asset strategies

In an uncertain backdrop, diversifying your portfolio across different asset classes, regions, and sectors is important to avoid concentration risks. One way is through Core investments like multi-asset strategies, which will potentially allow you to achieve stable and consistent returns and capture opportunities to meet your long-term financial goals.

Investment grade bond funds

Given the recent volatility in bond markets, holding an investment grade bond portfolio professionally managed by funds should be considered. These bond funds will dynamically manage the portfolio duration of bond holdings and allows you to diversify across a range of bonds to gain consistent and attractive income. Investment grade bonds also play an important role of diversification in an investment portfolio.

What You Can Do

Tactical Allocation



Gold

While prices have consolidated after hitting a record high on 22 April, we retain a positive outlook for Gold given safe haven demand. While reciprocal tariffs have been paused, US tariffs remain at multi-decade highs and global economic growth is likely to slow.

A weaker USD will also support Gold by making it more affordable for investors using other currencies. Demand for Gold from central banks and retail investors will likely remain strong amid the uncertain backdrop.

Being a safe haven asset, Gold plays an important role in portfolio diversification.

Nonetheless, the recommended Gold allocation is between 5-10% given it is a non-interest-bearing asset.

Market neutral strategy (Asia stocks)

Though Asian stocks have recently regained favour due to attractive valuations, the US-China tariff truce, a weaker USD, and a rotation out of US assets, market volatility in Asia will likely stay elevated until tariff negotiations conclude and there is clarity on US trade policy.

For investors with higher risk appetite, a market neutral strategy for Asian stocks will allow you to seize opportunities and lower portfolio volatility. This is because the strategy benefits from its flexibility in taking long and short positions in a volatile market, potentially generating returns regardless of market direction.

China

We hold a positive outlook on Chinese stocks as valuations are attractive in comparison to global peers while China's economic growth is set to stabilise. China has committed to proactive fiscal policy that aims to boost domestic consumption and drive technological innovation and adoption, which are expected to support the Chinese economy and domestic financial markets.

China's central bank has also been easing monetary policy via interest rate cuts and boosting liquidity in the financial system.

Given solid earnings growth and attractive valuations, Chinese stocks may have room to outperform global peers.

However, investors need to be mindful of challenges such as the ongoing property sector weakness and trade tensions.

What You Can Do

Tactical Allocation

Developed market financials

While an economic growth slowdown is a potential headwind, fundamentals of the financial sector remain strong.

This is because banks' return on equity (ROE), a measure of profitability, has risen significantly since 2020.

Corporate earnings have been strong, and this will likely continue as higher trading volumes will offset any potential weakening in loans growth and net interest margins.

Bond yields of the financial sector remains attractive, offering consistent income generation.

Technology

While there may be some short-term headwinds, the technology sector represents a long-term growth story underpinned by AI.

In addition, President Trump's pro-growth policies may be rolled out in the second half of the year, which will support the US economy and sustain tech earnings growth momentum, aided by AI demand.

Mega-cap tech companies with large global revenue streams will stand to benefit from a weaker USD boosting the value of foreign earnings, thereby lifting earnings and profit margins.

While mega-cap tech companies still lead the way on earnings, the focus will also broaden out to other companies that benefit from AI innovation.

Quality dividend stocks

Stocks of quality companies with steady cash flows and strong balance sheets that pay attractive and consistent dividends have done well so far this year, and we expect this to continue.

Quality dividend stocks are a defensive allocation amid an uncertain backdrop. They also allow you to generate attractive portfolio income to combat inflation over the long term, particularly when interest rates decline. In addition, quality dividend stocks can offer potential capital appreciation and a compounding wealth effect when capital gains and dividends are reinvested.

One region that stands out is Asia ex-Japan, where domestic focused companies offer attractive and consistent dividend payouts.

In conclusion

Ensure your portfolio is well diversified and prioritise Core investments like multi-asset strategies and investment grade bond funds.

The market environment is likely to improve through the second half of this year. Short-term dips in risk assets should be viewed as buying opportunities.

For clients with higher risk appetite, there are selected Tactical opportunities to consider but be nimble, review your portfolio regularly, and avoid concentration risks.



Right By You

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