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AIP

14th March, 2025

Where is the Trump put?

Recent comments from US President Trump confirm concerns raised two weeks ago that the administration may tolerate a moderate economic slowdown if that helps achieve its primary objective of lowering bond yields. The tolerance of short-term pain raises the risk of further 4-5% US stock market downside. Any such pullback is likely to create an opportunity for long-term investors as Trump is likely to reverse some of his contentious policies as the pain threshold is reached. History shows equities typically generate positive returns 6-12 months after a 10% drawdown, even if there is a recession. While our base case is 'no-recession', conservative investors can protect any equity downside via US government bonds, defensive equity sectors and alternative market-neutral strategies in a diversified portfolio. Exposure to non-US assets, including the haven JPY and cheaper Europe and China equity markets, which should benefit from increased fiscal spending, may help reduce portfolio volatility. Gold and commodities likely to do well in a stagflation scenario.

Equities: How should one position China's technology sector ahead of the earnings season?

Remain overweight China's technology and communication services sectors. A slew of catalysts can be seen to support the two growth sectors, including rising AI adoption and development of low-cost AI chatbots. Potential fiscal policies to boost consumption, support from regulators for a digital economy and the integration of AI functions within businesses are also likely to fuel revenue growth across e-commerce platforms.

Equities: Historically, what were the 6- and 12-month returns after a 10% pullback in US equities?

Since 1970, there have been 24 instances of the S&P500 index correcting by more than 10% from its all-time highs. Of these, only seven instances of corrections were followed by a recession in the next six months. US equities generally go on to deliver better-than-usual returns if the correction is not followed by a recession, with the S&P 500 index delivering average returns of 10.8% / 14.4% over the next 6/12 months.

FX: What is the JPY's outlook as Japan's government bond yields surge to17-year highs?

The USD/JPY is likely to decline further, testing next support at 144.9, as the JPY benefits from the prevailing risk-off sentiment. With increasing uncertainty surrounding US tariff policies, we see better risk-adjusted opportunities in other JPY cross pairs. In particular, AUD/JPY presents an attractive set-up lately, in our view. Should AUD/USD break below its 50-day moving average at 0.6270, short-term downside momentum could strengthen.

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