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Trump vs. the bond market

As President Trump returns to the White House, one of his first tasks is likely to be assuaging bond markets. A sharp rise in US bond yields in the past month reflects resilient US growth but also rising concerns about the impact of Trump's policies. Investors will look for reassurance that he is responsive to markets. We expect his pro-growth tax cut and deregulation plans to outweigh concerns about his trade and immigration policies and thus remain pro-risk in our asset allocation. We particularly like US equities, with a preference for the financial sector, especially after this week's solid Q4 bank earnings, which reflect underlying strength. The sector is likely to be a primary beneficiary of deregulation under the Trump administration. Meanwhile, we have revised our 3-month USD target higher, with downgrades to GBP, AUD, NZD and CNH estimates. We will look for opportunities to sell the USD in the coming weeks, especially on any near-term tariff-related bump. USD/JPY looks vulnerable if the BoJ hikes rates next week.

Equities: What is the outlook for US equities amid the recent surge in bond yields?

We see the recent consolidation in equities amid the surge in government bond yields as an attractive opportunity to add exposure, given easing inflation concerns from a softer US core inflation data for December and healthy earnings growth. We remain Overweight US equities, with a preference for the financial sector, especially after this week's solid Q4 bank earnings. The sector is likely to benefit from potential deregulation and elevated interest rates.

Equities: Is recent Indian equity market weakness a worry or an opportunity?

Indian equities faced renewed weakness in January, driven by tepid early earnings reports, INR weakness in the face of USD gains and rising bond yields. US tariff policy remains a risk, but a more accommodative trade policy should limit the drag on manufacturing exports. Further near-term volatility is possible. We would adopt a buy-on-dips strategy, especially in large-cap equities, where we see more attractive earnings stability and valuations. We also expect a broadening of fiscal policy measures to support consumption, while the central bank starts to ease monetary policy in H1 2025 to support growth.

FX: What is the outlook for the USD and other major currency pairs?

Our forecast for US Dollar Index (DXY) forecast has been revised higher to 107 (from 106 previously) for the next 3 months, accounting for strong US economic data and potential trade policies. Near-term USD trend is likely to be driven by the scale of Trump's tariff plans. We would look to sell the USD in the event of any tariff-related bump. Our forecast for GBP/USD has been revised lower to 1.24, from 1.28 previously. UK inflation unexpectedly cooled for the first time in three months in December, adding to expectations that the BoE will cut rates this year.

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