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AIP

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Historic German vote lifts Europe's prospects

The global economic balance of power is starting to shift. This week's historic German parliamentary vote could boost the economy's annual growth by around 2% through increased spending on infrastructure and defence. Sustainably faster growth in Europe's largest economy portends a partial reversal of global fund flows back to the region. That could challenge over a decade of US equity market outperformance and US dollar strength. Impending US tariffs are a near-term risk to Europe; any pullback in Euro area equity markets would present an opportunity for long-term investors who had written off the region for years because of its structurally slower growth. Elsewhere, investor positioning in gold appears excessively bullish, raising the risk of a near-term pullback. Recommended would buy on dips, given structural central bank demand and rising global trade and policy uncertainty.

Equities: Do you expect China offshore stocks to continue to outperform onshore peers?

The outperformances of China's offshore vs onshore equities can be largely explained by the difference in sector weightings. Technology, communications and consumer discretionary sectors comprise approximately 63% of offshore equities but only about 26% of onshore equities. Continued developments in artificial intelligence (AI) and the rising adoption of lower-cost large language models will likely bolster the earnings outlook of technology-related sectors, acting as a catalyst to justify the valuation premium of offshore vs onshore equities going forward.

Bonds/FX: What is the outlook for US government bonds and USD after the latest Fed meeting?

The March Fed meeting kept the policy rate unchanged, revised growth forecasts downwards and revised inflation forecasts upwards. We maintain our expectation for the US 10-year government bond yield to stay in a 4.25-4.50% range over the next three months and would use any spike in yields to add exposure. The US Dollar index is likely to remain in a consolidation phase, with risk of a short-term rebound if the US imposes broad-based tariffs from April. However, in Europe, upside risks to bond yields amid likely German fiscal expansion. This could compress US Europe bond yield differentials, limiting the extent of any USD rebound.

Commodities: What is the outlook for gold now that prices have risen above USD 3,000/oz?

Gold prices to have a mild pullback in the near term after such rapid gains. Impending announcements of US "reciprocal tariffs" will keep trade uncertainty elevated, likely limiting any downside in gold prices. Meanwhile, global gold ETF holdings continue to rise, indicating sustained investor demand. Consequently, use any near-term weakness to add exposure.

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