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AIP

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Growth concerns return

US consumer confidence has begun to wilt amid rising policy uncertainty as US President Trump shakes up US trade, immigration, government employment and foreign policies. The S&P500 index and the US 10-year government bond yield are both down since the day Trump was inaugurated on 20 January and US earnings expectations have come off their peak. These trends suggest investors are getting more worried about the growth, rather than the inflationary, impact of Trump's policies. The base case is that central bank rate cuts and lower bond yields should help mitigate any downside risks. Likely modest fiscal easing in the US, China and Germany is another potential shock absorber against any trade war escalation. Also, Trump is likely to recalibrate his policies if they negatively impact stock and bond markets on a sustained basis. In the near-term, rotation into China technology sector equities, as US peers potentially pull back another 3-4%, and fade the EUR rebound as safe-haven demand lifts the USD.

Equities: What is the outlook for China's technology sector after the recent rally?

Bullish on the Hang Seng Technology Index. A mild pullback in Chinese equities is possible in the near-term, the technical support level for the Hang Seng Index has moved higher, to the 21,600 level. China's low-cost AI-powered chatbot, DeepSeek, is likely to expand demand, speed and performance of a host of technology infrastructure, equipment and service providers, boosting earnings and helping narrow China's equity market valuation discount with US peers.

Bonds: Given recent US data, how should investors allocate within Developed Market corporate bonds?

Still-elevated inflation expectations are driving a higher-for-longer view on rates and bond yields, which supports the case to stay the course with Developed Market Investment Grade bonds. Overweight on Developed Market High Yield bonds. As the economy remains resilient, the bonds are likely to stay well-supported as corporate debt default risks remain contained.

Bonds/ FX: How does Germany's election results affect your view on government bonds and EUR?

Germany's election results likely defuses early stimulus expectations and modestly increases the chances of further ECB rate cuts. Thus, the results are positive for European government bonds and negative for the EUR in the near term. Based on the election results, the conservatives and the socialists parties together have enough seats to form a coalition with majority support in parliament. However, they will need other partners for the two-thirds majority required to ease Germany's strict fiscal policy rules. Against this backdrop, the EUR/USD rally is likely to fade, with first technical support at 1.0330.

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