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AIP

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Three takeaways from a turbulent first half

The first six months of this year will probably go down in history as the period when the world's economic tectonic plates shifted. The US scaled back its leadership position, forcing Europe and China to shoulder more responsibility of driving global growth. The three key takeaways from a turbulent first half: i) "Trump put" is alive – avoid the urge to cut and run; ii) China has found the US's vulnerability (rare earths), reducing all-out trade war risk; and iii) Germany is reflating, helping global rebalancing. The last two takeaways send a salient message to investors: avoid over-concentration in US assets. Europe's banking and industrial sector equities and exposure to JPY as some of the ways to reduce US concentration. Any escalation of conflict in the Middle East is a near-term risk. JPY and gold are likely to benefit from any conflagration in the Middle East.

Equities: What is the outlook for Euro area equites, with the ECB approaching the end of its rate cutting cycle?

Bullish on European banking and industrial equity sectors. Rate cuts, together with expected fiscal spending boost for infrastructure and defence, support Euro area equities.

What are the implications of RBI's larger-than-expected rate cut for Indian equities?

Indian equities are a core holding. Although their valuations remain expensive, fundamentals have been improving. The frontloaded policy stimulus marked a decisive shift in the central bank's outlook towards domestic growth and inflation, supporting the growth momentum.

Currencies: What is the outlook for the JPY amid questions about Japan's debt sustainability?

Expected JPY to strengthen. Japan has a far more stable debt ownership structure than the US. While foreign investors hold much of US government debt, domestic investors hold most of Japanese government debt, insulating Japan's debt burden to some extent against global financial movements. Further downside for USD/JPY and EUR/JPY towards 140 and 163 technical support levels, respectively.

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