

The Way We See It

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Soft Landing is our base case.

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A brief update report which serves to review the recent market development and to offer our outlook for the rest of the year and beyond.

Review of Developments

- Global Economies

On growth dynamics, the first official estimate of the U.S. Q1'25 GDP showed a modest economic contraction of 0.3% p.a.. This can be attributed to the extraordinarily large amount of imports which are deducted from the GDP growth rate calculation. Forward purchases of imported goods took place as buyers tried to avoid paying for the higher tariffs which are imposed from April onwards. Looking through the GDP data, the growth in consumer demand was a little weaker, but still positive. Despite the backdown by Trump on the initial harsh reciprocal tariff plan against China and the rest of the world, a number of influential economists from large and reputable global investment banks and think-tank organisations continue to assign a probability of 35-50% chance towards a U.S. recession scenario in 2025.

The European economic bloc announced a mild pick up in Q1 GDP of 0.4%, slightly better than expected. It benefited from a recovery of growth in Germany and forward exports orders from the U.S..

Japan just announced a negative Q1 GDP data,

affected by a fall in exports.

We continue to think that China is likely to take the growth baton this year. In addition to the government's attempt to stabilise the debt crisis in the property sector, recent developments in the AI field appeared to have sparked a renaissance in the private sector. The government also showed a more harmonious attitude towards the large private conglomerates. In addition, they have pledged to inject more fiscal stimulus to spur consumption. Should these positive trends prevail, there is a good chance of a solid recovery in the domestic economy in China.

Despite a backdown by Trump in the tariff saga following talks in Switzerland between the U.S. and China, the Chinese export sector is expected to be disrupted, as a result of smaller demand from the US in the future, and potential relocation of production facilities from China to other countries.

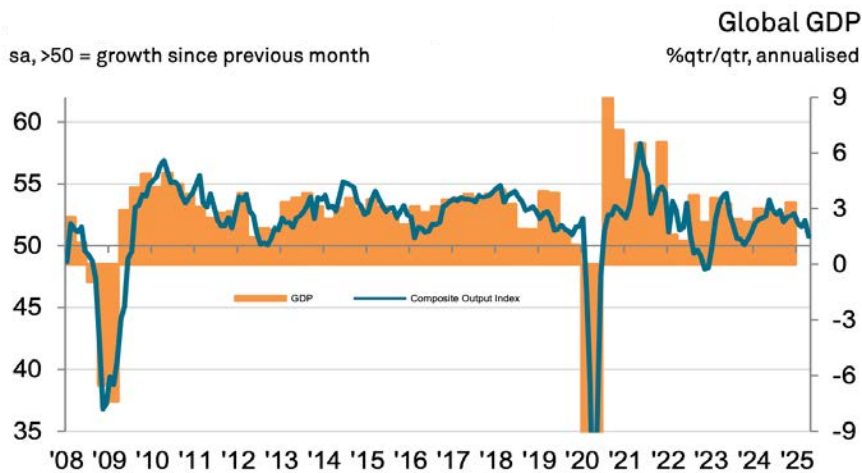
On the inflation front, in the case of Europe and other OECD countries, headline and core inflation indicators continued to decelerate, thus raising expectations of further rate cuts. In the U.S., the core inflation rate has not managed to fall below the annual 2.5% for some time. In the short-term, inflation data in the U.S. could be pushed up by higher tariffs on imported goods. Albeit slowing modestly, the domestic economy appears reasonably solid. This, together with potential inflationary pressures, meant that the Fed's easing policy will likely remain on hold in coming months.

In brief, given the rollback of Trump's tariffs, the global economy is likely to grow on a sub-par basis, as shown by the JPM global composite PMI chart below (overpage).

Finally, while global geopolitical risks have not gone away, they have definitely improved. While still a risk to domestic and global growth, the tariffs situation has definitely shown solid progress, pointing towards a lower tariff regime of around 10% for all countries except China and other specific sectors. The military conflict between Israel versus other warring Arab

Global economy likely to grow on a sub-par basis.

J.P.Morgan Global Composite PMI™



Source: J.P.Morgan, S&P Global Market Intelligence

countries has been cooling down. In addition, the temporary cease-fire between Ukraine and Russia appear to bring some calmness.

- Global Markets – review of month of April

Following a weak performance in the U.S. stock market in the month of March, the month of April saw a continuation of the profit-taking and stop-loss selling in leading U.S. Mega-caps and Magnificent-7 stocks at the beginning of the month. As Trump rolled back on his tariff threat, the U.S. stock market staged a significant recovery, boosted by short-covering by hedge funds and renewed buying by institutions who were underweighted.

Other overseas equity markets again fared better, as investors continued to reduce their exposure to the U.S. in order to diversify elsewhere.

At the time of writing, negative and positive factors appear to be in balance.

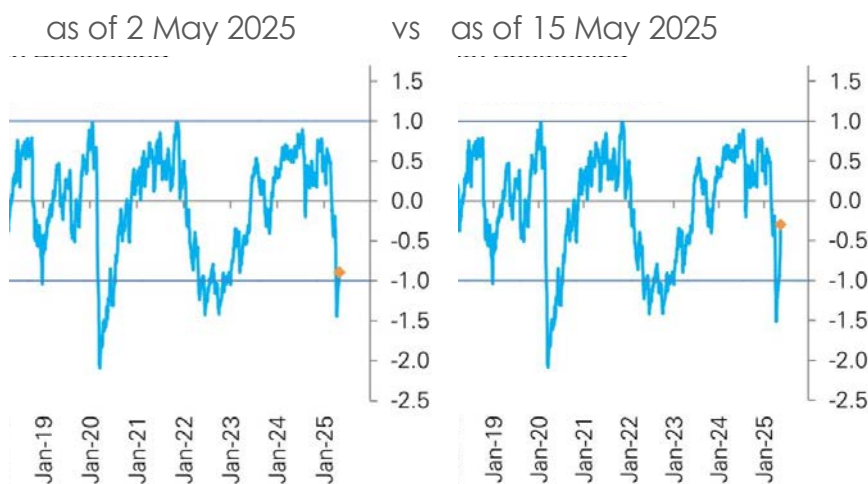
- Positive factors include the continuing AI revolution in the U.S., global ex-U.S. upgrades of economic and corporate earnings, hopes for the continuation of the implementation of an easy monetary policy in the U.S. and OECD bloc, and that the big-spending fiscal trend in the U.S. will continue.

April saw another weak performance in U.S. stock market; other markets fared better.

- In addition, both Europe and China have implemented much easier monetary and fiscal policies in order to attempt to counter the adverse economic impact of Trump's tariffs.
- Negatives include the observation made by many that the vigorous 20% bounce in the S&P 500 leading index from the April bottom was the result of furious short-covering by hedge funds and trend-following CTAs, combined with buying by retail and underweight institutional investors.
- There's a hot debate going around which relates to the question of whether the rally is a quality and sustainable one ? Or whether it will soon give up all gains and return to the April lows. Particularly when quite a large number of investors still assign a 30-40% chance of a recession or stagflation scenario taking place in the U.S. by year end.

Consolidated Equity Positioning

- Equity positioning rose, but in aggregate, remained modestly underweighted



Substantial change in investors' positioning after the U.S. / China talks.

The global equity universe, in USD terms, rose by 0.94% in April. While the U.S. was a drag (-0.51%), non-U.S. equity markets performed well. They rose by 4.6%. Essentially, global equities ex-US have been the bright star YTD, rising by 11.3%, while US fell by 5%. Part of the non-U.S. equity outperformance was helped by the rise of foreign currencies against a weak USD.

Near-term performance of various asset classes

Asset Class Index	US Equities MSCI USA	Global Equities MSCI World	Global ex US Equities MSCI World ex USD
1 month	-0.51%	0.94%	4.66%
3 months	-7.81%	-4.17%	6.02%
YTD	-5.00%	-0.77%	11.30%
FY 2024	25.08%	19.19%	5.26%

Asset Class Index	US Corporate Bloomberg US Corporate	US Treasury Bloomberg US Treasury	US Aggregate Bloomberg US Agg
1 month	-0.03%	0.63%	0.39%
3 months	1.71%	3.04%	2.64%
YTD	2.27%	3.57%	3.18%
FY 2024	2.13%	0.58%	1.25%

Asset Class Index	Global Govt Bonds Bloomberg Global TSY	Global Aggregate Bloomberg Global Agg	Global Commodities CBR
1 month	3.64%	2.94%	-6.64%
3 months	5.72%	5.06%	-5.31%
YTD	6.33%	5.65%	-2.68%
FY 2024	-3.58%	-1.69%	12.47%

Asset Class Index	GEM Equities MSCI EM	Asia ex Japan Equities MSCI AC AxJ	China Offshore MSCI China
1 month	1.34%	0.76%	-4.25%
3 months	2.54%	1.88%	9.14%
YTD	4.39%	2.66%	10.18%
FY 2024	8.05%	12.51%	19.67%

Source: GOJI, MSCI, Bloomberg; data as of 30/4/2025

In the Emerging Markets universe (which rose by 1.34%), Chinese offshore equities detracted this month. It fell by 4.25% (this was before the better-than-expected Genena talks outcome). Chinese domestic A-shares also declined by 3.4%. For the YTD period, Chinese equities performed strongly, rising by 10.2%, while Emerging Markets rose by 4.39%.

U.S. Treasuries and other domestic fixed income markets achieved a small positive return. Global bonds did better, thanks to the appreciation of their currencies va the USD.

The USD again weakened against its trade-weighted index of currencies, as investors began to price in a potential severe slowdown in the U.S. economy, which may force the U.S. Fed to consider cutting rates a few times this year.

The Commodities complex fell substantially in Aoril. The significant fall in energy prices explained the commodities weakness. This was caused by the decision by Saudi Arabia to increase production while global demand is weak. Political motives may be in play here.

Market Outlook

As our readers and clients are aware, GOJI's Market Outlook is based on our assessment of macro economic developments, forecasts of growth of sales and profits of companies, valuation of key asset classes, and last but not least, investors' positioning and sentiment towards key asset classes, together with their likely resulting flows and the technical charts' trends.

First, depending on how damaging Trump's tariffs are, the macro economic backdrop is expected to be reasonably favourable for economies excluding the U.S.. In the U.S., investors are increasingly concerned that uncertainties relating to the tariffs war, together with the reduction in the migrant workforce and loss of public service jobs, could cause a severe slowdown or a mild recession. We are less bearish now that Trump's tariffs are rolled back and that the U.S. government will more likely focus on tax cuts and other growth-enhancing policies.

We expect that, depending on the intensity of the global tariff trade war and the potential European / China recovery potential, global GDP growth is expected to be moderately below their long-term equilibrium. This would allow more rate cuts (even in the U.S.), which will thus make liquidity stay market-friendly.

Second, we expect that while companies will likely, in general, be able to deliver reasonable sales and profit growth, the potential severity of the tariff war and U.S. economic slowdown could cause analysts to downgrade earnings growth in the overall U.S. (and to a lesser extent, global) investment universe.

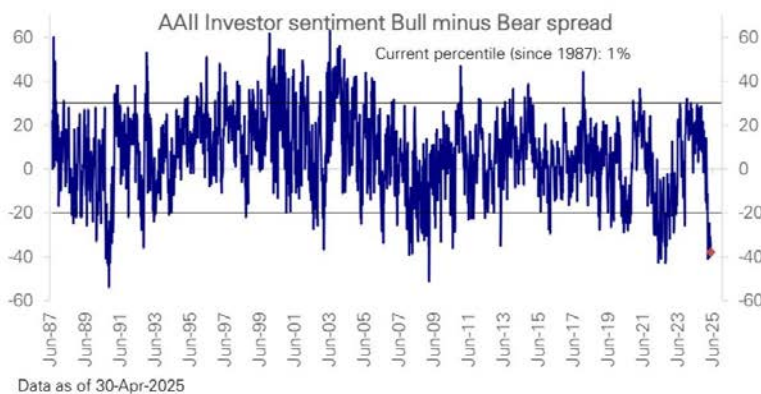
Third, we note that the U.S. bond market remains unsettled at present. There are both technical and structural reasons to explain this (more below). As a result, we would only advocate to buy US bonds when their embedded risk premium is rising adequately to compensate buyers. As the long bond yield of many global-ex-U.S. bond markets has already been falling quite substantially, unless there is a deep recession, non-U.S. bond markets no longer offer value.

Relatively more favourable economic backdrop in ex-U.S.

We note that the historically high valuation of 22x forward P/E on the S&P 500 is becoming more expensive. Hence, for US equities to perform well, we need to see the majority of the S&P 500's corporates (especially Magnificent-7 and other high-growth stocks) achieving their high sales and profit growth targets, and that the 10-year Treasury Bond yield should not significantly rise above 4.50% p.a..

Fourth, the latest data on the equity positioning of Systematic investors in early May shows that they remained slightly underweighted. Discretionary managers appear to have bought quite a lot and they are now moderately overweighted.

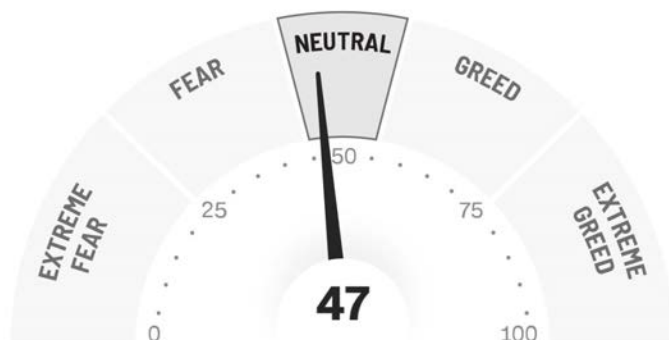
Investor bull minus bear spread



In the month, traders and investors' sentiment weakened significantly, oscillating between Fear and Extreme Fear. Following the breakthrough in the Genena talks, sentiment has swung dramatically from Fear to Greed / Extreme Greed.

Fear & Greed Index

- What emotion is driving the market now?



Source: CNN Business
Last update May 1 at 8:00:00 PM ET

Sentiment has further swung to Greed (71) as of May 16th.

Short-term Technical Analysis

Finally, a quick assessment of U.S. and global technical charts suggests that the world leading equity indices, Dow Jones Industrials and S&P 500, remain in a long-term bull market, supported by the Golden Cross which was formed in October / November 2023. After a temporary break of the 200 DMA line, the above indices have been rising back up, with the S&P 500 and Nasdaq just crossing the crucial 200 day moving average line.

S&P 500 Stock Price Index

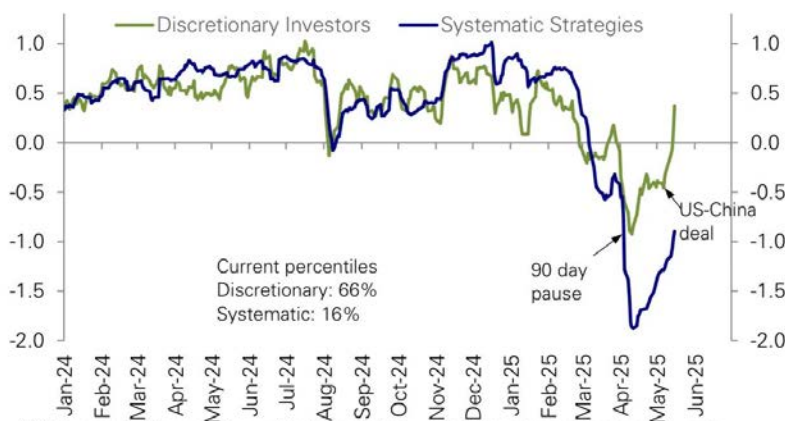


Source: MarketWatch.com

The latest Positioning chart shows that Discretionary and Systematics investors have been adding to their equity exposure following Trump's tariff backdown. Discretionary investors have bought enough to put them in the overweight zone. While Systematics also bought, they are still underweighted.

Investors have been adding back in equity exposure since late April.

Consolidated Equity Positioning



*Wtd average of Z-scores for positioning indicators, weights based on explanatory power in regression of equity performance on indicators

Source: Deutsche Bank Asset Allocation

The Way We See It

- Global Markets and Investment Thematics

At GOJI, we advocate a two-pronged strategy to invest in risk assets.

While our shorter-term tactical (3-6 months) and long-term strategic (1-2 years) views may differ substantially, since the end of November 2024, we have been advocating a risk-adjusted stance towards equities. Give the relatively significant correction in U.S. equities in early April, we took the opportunity to upgrade this asset class again. As it has risen by over 20% in a short period of time, we are recommending to take profit and stay neutral for now.

Long-term Risk-Neutral Strategy Rationale:

Despite Trump's disruptive and uncertain tariffs policy changes, it is our belief that both fundamental and quant-driven investors have priced in, positioned for and have been prepared to pay up for a best-case scenario of a pro-growth and pro-equities/-crypto investment scenario under Trump 2.0.

Thus, our long-term strategy recommendation continues to advocate to hold a neutral exposure to risk assets, with a modest underweight exposure to expensive risky growth assets, and overweight cash and less volatile quality assets.

Positive tactical positioning in early April turning Neutral now:

Now that the U.S. equity market has risen by 20% from the lows in early April, we have decided to take profit and go back to neutral.

Postscripts

This month's Special Section is focused on the discussion of the recent credit downgrade of US government debt and the likelihood of a Recession or Soft-landing scenario occurring in the U.S., in the coming 6 to 12 months.

Our TAA view: take profit and stay neutral for now.

1. U.S. Recession scenario (20% chance):

Readers of GOJI monthly reports may recall that we have been arguing that a U.S. recession with high inflation is almost a sure thing should Trump's punitive tariffs get implemented (please refer to our last two monthly reports).

2. Soft Landing scenario (80% chance):

This scenario looks increasingly more like a base case as Trump appeared to have substantially rolled back his punitive tariff policy.

There was an announcement made late on Friday, 15/5/2025 by the credit ratings agency, Moodys, that they have just downgraded U.S. government bonds from Aaa to Aa1. While this may make headlines, we don't think that it is that significant. Moodys is late in making this decision. Two other reputable credit agencies, namely Standard & Poors and Fitch have already downgraded the US credit rating from AAA by one notch to AA+ back in 2011 and 2023 respectively.

Trump's tariff and potential tax cuts matter more than the credit downgrade.

The consensus and we are delighted to see Trump offering a 90-day cool-off period during which trading nations can attempt to negotiate a lower tariff level with America, as well as selective tariff exemptions (albeit stated as temporary at present), on certain export items to the U.S..

In our view, should the Rest of World ex China end up with a 10% U.S. tariff and China with a 30% tariff, then we most probably would end up with a soft landing scenario.

If so, the U.S. and global equity markets are likely to rise modestly from current levels.

Bond markets are most likely to earn their coupon.

The U.S. Dollar is likely to continue to trade within a 5-10% range from current levels, with a weakening bias.

Soft Landing is our base case.

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