MAY 2025

# Investment Navigator
## Asia Edition

# Tariff Turmoil Has Come and Gone:
## The Bulls, The Bears and The Beasts

This edition of the Investment Navigator for May 2025 discusses the economic, market and investment implications of the tariff escalation and the recent de-escalation.

### Bulls

The bulls (optimistic investors) expect further tariff de-escalation as trade deals with some major countries are on the horizon.

### Bears

The bears (pessimistic investors) see growing risk of recession amid continued trade uncertainty that hurt business and consumer confidence.


### Beasts

Investors behaving irrationally due to greed or fear during market volatility is the emotional beasts of investing. Diversification is the best strategy to deal with the potential risks and opportunities from the tariff crisis.

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# TUG OF WAR BETWEEN BULLS AND BEARS

> **Our base case scenario is that the US could narrowly avoid a recession.**

Markets have seen a relief rally following Trump's tariff reprieve and the positive outcome from the US-China trade talks. Better-than-expected US earnings results helped improving sentiment as well. The "Bessent put" also seems to be in place, as the Trump administration remains sensitive to bond market stability. When yields spiked in the wake of tariff "Liberation Day" and the rhetoric around firing Fed Chair Powell, the White House responded with some kind of "policy pivot".

Has the market hit bottom? The bulls (optimistic investors) argue that the peak of tariff tantrum may be behind us. They expect trade agreements with major countries in the coming weeks or months, along with growth-positive policies such as tax cuts and de-regulation soon.

The bears (pessimistic investors), on the other hand, remain concerned about rising risks of recession or stagflation which are not fully priced in the market. Passage of big tax cut packages could also create doubts on the administration's commitment to fiscal discipline and put pressure to the long-term Treasuries.

US growth slowing to the edge of recession with 4Q 2025 GDP growth at 0.5% is our base case scenario (70% probability) (see Figure 1). We maintain our view that **the Fed would implement two rate cuts in 2H 2025, and expect two more rate cuts in 2026, with terminal Fed Funds rate at 3.5%.**

We still assign a 20% probability to a significant recession. Despite the tariff de-escalation, fear and risk aversion grip the US economy, resulting in a more severe hit to economic activity and employment, with the unemployment rate rising to 6% in 1H 2026. As a recession is typically deflationary, the Fed would likely respond to a material increase in unemployment with more aggressive rate cuts.

The worst-case scenario is a stagflationary environment (10% probability), with US core CPI rising to 5% in early 2026. In this case, the Fed would have no choice but to hike rates.

## FIGURE 1.
## WE SEE A 20% CHANCE OF A US RECESSION AND A 10% CHANCE OF STAGFLATION

| New Baseline (70% chance) | | Annuals | | | 2025 | | | | 2026 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2024 | 2025 | 2026 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Real GDP | %q/q saar | | | | 0.4 | 0.7 | 0.2 | 0.8 | 1.3 | 1.6 | 1.6 | 1.7 |
| | %y/y | 2.8 | 1.3 | 1.1 | 2.2 | 1.6 | 0.9 | 0.5 | 0.7 | 1.0 | 1.3 | 1.5 |
| Unemployment | period-avg % | 4.0 | 4.4 | 4.9 | 4.1 | 4.2 | 4.4 | 4.6 | 4.8 | 4.9 | 4.9 | 4.9 |
| Core CPI | %y/y | 3.4 | 3.4 | 4.0 | 3.1 | 3.0 | 3.5 | 3.9 | 4.1 | 4.4 | 4.1 | 3.6 |
| **Recession (20% chance)** | | **Annuals** | | | **2025** | | | | **2026** | | | |
| | | 2024 | 2025 | 2026 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Real GDP | %q/q saar | | | | 0.4 | -1.5 | -2.0 | -2.0 | 0.0 | 1.0 | 2.0 | 1.5 |
| | %y/y | 2.8 | 0.4 | -0.2 | 2.2 | 1.1 | -0.2 | -1.3 | -1.4 | -0.8 | 0.2 | 1.1 |
| Unemployment | period-avg % | 4.0 | 4.6 | 6.0 | 4.1 | 4.3 | 4.7 | 5.2 | 5.7 | 6.0 | 6.1 | 6.1 |
| Core CPI | %y/y | 3.4 | 3.2 | 2.2 | 3.1 | 3.3 | 3.4 | 3.1 | 2.7 | 2.2 | 2.0 | 1.8 |
| **Stagflationary (10% chance)** | | **Annuals** | | | **2025** | | | | **2026** | | | |
| | | 2024 | 2025 | 2026 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Real GDP | %q/q saar | | | | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.8 | 0.8 | 1.0 |
| | %y/y | 2.8 | 1.3 | 0.6 | 2.2 | 1.6 | 0.9 | 0.5 | 0.5 | 0.6 | 0.6 | 0.7 |
| Unemployment | period-avg % | 4.0 | 4.4 | 5.1 | 4.1 | 4.3 | 4.5 | 4.7 | 4.9 | 5.0 | 5.2 | 5.3 |
| Core CPI | %y/y | 3.4 | 3.4 | 4.7 | 3.1 | 3.0 | 3.6 | 4.1 | 4.5 | 5.0 | 4.9 | 4.6 |

*Source: BNP Paribas, as of 13 May 2025. Past performance is not indicative of current or future performance.*


## THE EMOTIONAL BEASTS OF GREED AND FEAR

No doubt, global trade policy uncertainty remains high, though it has eased from its peak (see Figure 2). In this environment, investors should be mindful not to let the emotional beasts of greed and fear dominate investment decisions.

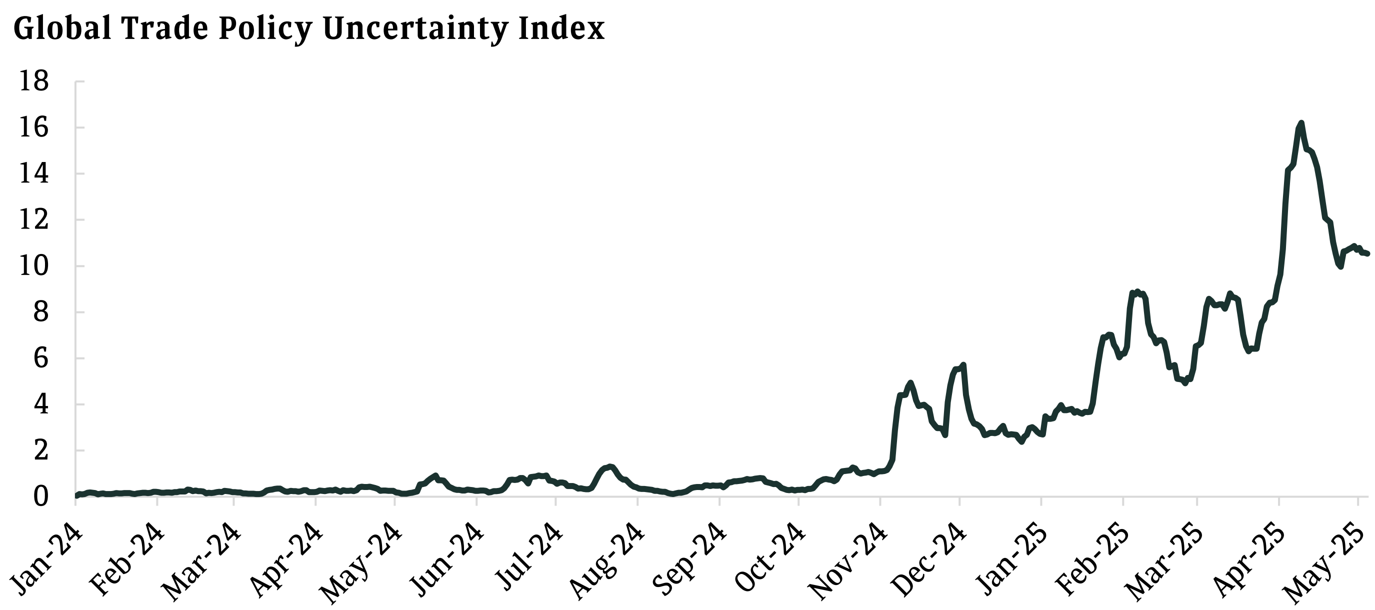
Investors who fear uncertainty and hold very conservative, cash-heavy portfolios could miss out if the bulls are right that the worst of the tariff turmoil is behind us.

Investors who positioned aggressively in risk assets based on recent positive newsflows could suffer if the "known" risk of recession or stagflation materialises.

### Keep the beasts at bay: best to diversify

From a risk management perspective, the best strategy to navigate this uncertain environment is diversification through assets in multi currencies, stock and bond exposures from various economies, precious metals, hedge funds and private assets. A multi-asset portfolio can help lower overall portfolio volatility, as it incorporates asset classes with low or even negative correlation, while investors can still participate in the market in case of any pro-growth policy pivot. The latest market rebound provides a window to rebalance from a relatively concentrated portfolio to a more resilient and well-diversified one.

**FIGURE 2.**
**GLOBAL TRADE POLICY UNCERTAINTY DECLINES FROM THE PEAK, BUT STILL WELL ABOVE NORMAL**




*Source: Bloomberg, BNP Paribas WM, as of 6 May 2025. Past performance is not indicative of current or future performance.*

# Overview of our CIO Asset Allocation for May 2025

| | Views: Current | Views: Prior | Constituents | We like | Comments |
|---|---|---|---|---|---|
| EQUITIES | = | = | Markets | UK, Japan, Brazil, China, South Korea, Singapore & Indonesia | ■ **Remain Neutral on Global Equities**, awaiting more positive signals on tariffs and liquidity. **Diversification is the key.** |
| | | | Sectors | Positive Healthcare and Utilities. For Europe: Financials, Industrials, Materials | ■ **We downgrade US industrials from Positive to Neutral.** |
| | | | Styles/ Themes | Megatrend Themes | ■ Circular economy, electrification, security & income themes. |
| BONDS | = | = | Govies | Eurozone, UK, US | ■ **We like government bonds in US, core EU countries and the UK. We also like US inflation-linked bonds.**<br>■ Our longer-term yield forecast remains unchanged. 12-month US 10Y yield at 4.25%, German 10Y bund yield at 2.5%. |
| | + | + | Segments | EUR and GBP Investment grade | ■ **We continue to like EUR and GBP investment grade corporate bonds.**<br>■ We are neutral on High Yield and EM bonds (USD+local currency). |
| CASH | - | - | | | |
| COMMO-DITIES | = | + | | Gold | ■ **Gold – Turn Neutral as we expect short-term consolidation and raise our 12-month target to $3300/oz.**<br>■ Oil – **Still Negative.** We lower Brent target range to $55-65.<br>■ Base metals – **Neutral. Outlook for the manufacturing sector has been eroded by tariff hikes.** |
| FOREX | | | USDJPY | | ■ 12-month target at 140 |
| | | | EURUSD | | ■ 12-month target at 1.15 |
| ALTER-NATIVE | + | + | | Hedge funds (long-short equities, relative value) | ■ Downgrade Event Driven from Positive to Neutral given reduced deal making. |

Note: + Positve / = Neutral / - Negative

# GDP & CPI Forecasts

| | | GDP (YoY%) | | | CPI (YoY%) | | |
|---|---|---|---|---|---|---|---|
| | | 2024 | 2025f | 2026f | 2024 | 2025f | 2026f |
| Developed | US | 2.8 | 1.3 | 1.1 | 2.9 | 3.1 | 3.7 |
| | Japan | 0.1 | 0.7 | 0.2 | 2.7 | 3.2 | 2.1 |
| | Eurozone | 0.8 | 1.0 | 1.3 | 2.4 | 2.1 | 1.9 |
| | UK | 1.1 | 1.0 | 0.8 | 2.5 | 3.2 | 2.5 |
| North Asia | China | 5.0 | 4.5 | 4.3 | 0.2 | 0.8 | 1.0 |
| | Hong Kong* | 2.5 | 1.5 | 1.9 | 1.7 | 1.9 | 2.2 |
| | South Korea | 2.2 | 1.0 | 1.7 | 2.3 | 2.2 | 2.1 |
| | Taiwan | 4.4 | 2.2 | 2.0 | 2.2 | 2.1 | 1.8 |
| South Asia | India | 8.2 | 6.2 | 6.7 | 5.4 | 4.8 | 4.2 |
| | Indonesia | 5.0 | 4.8 | 5.0 | 2.4 | 1.8 | 2.0 |
| | Malaysia | 5.5 | 4.0 | 4.3 | 1.9 | 1.8 | 2.0 |
| | Philippines* | 5.7 | 5.5 | 5.8 | 3.2 | 2.6 | 3.0 |
| | Singapore | 4.0 | 1.4 | 1.7 | 2.8 | 1.0 | 1.3 |
| | Thailand | 2.8 | 2.0 | 2.4 | 0.4 | 0.9 | 1.5 |

*Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 30 April 2025*
** IMF data and forecasts as of 30 April 2025*

## GROWTH

- **After Liberation Day, we downgraded our US GDP forecast for 2025 to 1.3% from 1.8%.** The key for GDP forecasts will now be the level and duration of tariffs globally. The exemptions and the 90-window give time for trade deals to limit damage. If we don't get framework agreements in the coming weeks, further downgrades are possible. Countries that are further along with negotiations include India, Japan, South Korea, and the UK. The base case could be lower levels on tariffs, circa 10% on allies and 30-50% on China. The key risk is sustained uncertainty regarding tariffs weighing on both consumer and business sentiment

- **Furthermore, the level of China stimulus is also important to cushion the GDP growth. There have been some monetary easing at the beginning of May 2025.**

## INFLATION

- **The longer trade uncertainty (and potential retaliation) lasts, the higher the impact of tariffs on inflation and lower global growth.**

- It is hence not a surprise that short-term inflation expectations surged recently. **The good news is that long-term inflation expectations have not moved up.** Therefore, the bond market has normalised.

- However, the current stagflationary environment, in particular in the US, means that the duration of tariff negotiations will be crucial to any peaking or worsening of near-term inflation.

- **Other parts of the world including Europe and China have ample room to continue cutting rates given falling or low inflation.**

# Equities

POSITIVE NEUTRAL NEGATIVE

## OVERALL GLOBAL: NEUTRAL

| Positive | Neutral | Negative |
|---|---|---|
| **COUNTRY** | | |
| UK<br>Japan<br>Emerging Mkt | Eurozone | US |
| **SECTOR** | | |
| Healthcare<br>Utilities | Comms.<br>Real Estate<br>Financials<br>Materials<br>▼ Industrials | Consumer Staples<br>Energy<br>Technology<br>Consum. Discre. |

## OVERALL ASIA: POSITIVE

| Positive | Neutral | Negative |
|---|---|---|
| **COUNTRY** | | |
| China<br>Singapore<br>South Korea<br>Indonesia | Taiwan<br>India, Thailand<br>Malaysia<br>Philippines | - |
| **SECTOR** | | |
| Comms.<br>Consu. Discre.<br>Consumer Staples<br>Technology | Materials<br>Real Estate<br>Financials<br>Healthcare<br>Utilities | Industrials<br>Energy |

- **Equity market globally rallied after "Liberation Day", largely recovering losses by the end of April 2025.** The de-escalation, including tariff exemptions for 90 days, created breathing room for markets. The S&P 500 market is trading in a 4800 - 5800 range amid more defined tariff outcomes.
- **From Escalation to De-escalation: Tariffs will likely remain at historically high figures**, though not as elevated as they were on "Liberation Day". The market could break upward if there is any breakthrough in trade deals with India, South Korea, or Japan.
- **The White House seems to be employing the classic strategy of "Good Cop, Bad Cop"** to walk the economy down slowly (**recall Treasury Secretary Bessent's "Detox Period" - Disruption by Design**). The US wants a lower dollar, lower yields, and DOGE austerity cost cuts, while they don't mind an inevitable post-election slowdown now, before mid-term elections in late 2026. **In the meantime, this creates periodic relief rallies to avoid breaking anything in markets.**
- We **downgrade US Industrials from Positive to Neutral** due to valuation and growth concerns.

| | | 1-month (%) | YTD (%) | 2024 (%) | Forward PE (x) | Trailing PB (x) | Dividend Yield (%) 2025f | EPS Growth (%) 2025f | EPS Growth (%) 2026f | ROE (%) 2025f |
|---|---|---|---|---|---|---|---|---|---|---|
| Developed | US | -0.6 | -5.4 | 23.4 | 19.8 | 4.7 | 1.7 | 9.8 | 14.4 | 18.7 |
| | Japan | 0.4 | -5.1 | 18.5 | 12.8 | 1.4 | 2.4 | 9.4 | 7.0 | 9.0 |
| | Eurozone | -0.3 | 7.0 | 6.8 | 13.4 | 1.8 | 3.3 | 2.9 | 11.8 | 12.9 |
| | UK | -1.1 | 4.1 | 5.3 | 11.8 | 1.9 | 3.7 | 3.9 | 11.4 | 13.6 |
| | Asia Ex-Japan | 0.5 | 2.0 | 9.8 | 12.3 | 1.6 | 2.7 | 12.5 | 12.7 | 12.2 |
| North Asia | China | -4.8 | 9.1 | 16.3 | 10.7 | 1.4 | 2.8 | 8.8 | 11.8 | 11.6 |
| | China A-shares | -3.0 | -4.2 | 14.7 | 11.7 | 1.7 | 3.3 | 8.9 | 8.4 | 10.9 |
| | Hong Kong | -0.4 | 3.5 | -4.7 | 11.5 | 0.9 | 4.5 | 7.3 | 7.1 | 7.9 |
| | South Korea | 1.0 | 5.1 | -13.7 | 8.1 | 0.9 | 2.6 | 21.3 | 16.4 | 10.5 |
| | Taiwan | -1.3 | -12.9 | 40.9 | 12.8 | 2.5 | 2.9 | 17.1 | 13.9 | 17.3 |
| South Asia | India | 3.6 | 0.2 | 14.3 | 22.2 | 3.8 | 1.2 | 15.7 | 15.0 | 14.6 |
| | Indonesia | 2.2 | -7.4 | -12.3 | 10.3 | 1.8 | 7.7 | -0.6 | 6.1 | 16.0 |
| | Malaysia | 1.4 | -7.1 | 12.8 | 12.3 | 1.3 | 4.2 | 5.6 | 7.0 | 10.9 |
| | Philippines | 3.0 | 0.1 | 1.6 | 10.2 | 1.7 | 2.9 | 10.2 | 9.5 | 14.8 |
| | Singapore | -4.0 | 0.7 | 20.0 | 13.7 | 1.5 | 5.0 | 5.2 | 7.2 | 10.6 |
| | Thailand | 4.8 | -11.1 | -1.6 | 13.6 | 1.5 | 4.2 | 9.4 | 8.8 | 10.2 |

*Source: MSCI indices in local currency terms, Bloomberg, Datastream, BNP Paribas (WM), as of 30 April 2025*

# Fixed Income

POSITIVE NEUTRAL NEGATIVE

| OVERALL GLOBAL: NEUTRAL | | |
|---|---|---|
| Positive | Neutral | Negative |
| US Treasuries<br>German Bunds<br>UK Gilts<br>EUR and GBP IG | US IG<br>High Yield<br>EMD (LC)<br>EMD (HC) | - |

| OVERALL ASIA (USD): NEUTRAL | | |
|---|---|---|
| Positive | Neutral | Negative |
| Japan<br>Singapore | South Korea<br>Philippines<br>Indonesia<br>Hong Kong<br>India, China<br>Australia | |

| | | Total Return (%) 1-Month | Total Return (%) YTD | Total Return (%) 2024 | Yield-to-Worst (%) |
|---|---|---|---|---|---|
| Asia | Asia USD Bond | 0.2 | 2.6 | 4.5 | 5.1 |
| Asia | Asia Local Currency Bond | 3.6 | 5.7 | 1.0 | 3.8 |
| Asia | China | 0.2 | 2.9 | 5.7 | 5.1 |
| Asia | Hong Kong | 0.3 | 2.9 | 4.7 | 4.9 |
| Asia | India | -0.3 | 2.1 | 7.4 | 6.1 |
| Asia | Indonesia | 0.6 | 2.1 | 0.8 | 5.4 |
| Asia | Singapore | 0.3 | 2.7 | 3.0 | 4.4 |
| Asia | South Korea | 0.5 | 2.9 | 4.4 | 4.5 |
| Asia | Philippines | 0.3 | 3.0 | 1.4 | 5.3 |
| Other Regions | US 10-year Treasuries | 1.3 | 4.7 | 0.1 | 4.3 |
| Other Regions | US Investment Grades (IG) | 0.4 | 3.2 | 1.3 | 4.5 |
| Other Regions | US High Yield (HY) | 0.0 | 1.0 | 8.2 | 7.9 |
| Other Regions | Emerging Market USD Bond | 0.1 | 2.6 | 5.2 | 5.6 |

*Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 30 April 2025*

| US Treasury 12-month Yield Targets (%) | 2Y | 5Y | 10Y | 30Y |
|---|---|---|---|---|
| | ▼ 3.60 | ▼ 3.75 | 4.25 | 4.5 |

- **Rate forecasts**: We push our timing of rate cuts moderately for the Fed and add cuts in 2026 given US tariffs impacts. We now **expect Fed rate cuts in September and December in 2025 and two more in 2026, leading to a terminal rate of 3.5%.** We expect the ECB to further cut rates in June, and we add another in July, bringing the terminal rate to 1.75%.
- **Govies:** Investors are likely to continue to prefer safe havens assets to park their cash. We are Positive on EU core government bonds, UK government bonds, US Treasuries and US inflation-linked bonds. As we expect four more Fed rate cuts, we revise down our 2-year and 5-year UST yield targets to 3.6% and 3.75%, respectively.
- **Our 12-month forecast remains at 4.25% in the US and 2.50% in Germany. Any rebound in yields is a good opportunity to accumulate sovereign bonds.**
- **Corporate IG:** We prefer EUR IG (Positive view) over USD IG (Neutral view) due to its better credit metrics and lower volatility. We prefer maturities up to 10 years in the Eurozone and up to 5 years in the US. Bonds are providing diversification to global multi-asset investors.

# Forex & Commodities

POSITIVE NEUTRAL NEGATIVE

## 12-MONTH FOREX VIEW

| Positive | Neutral | Negative |
|---|---|---|
| KRW<br>THB | USD AUD JPY<br>CAD EUR GBP<br>NZD MYR CNY<br>IDR PHP SGD | INR |

## COMMODITIES

| Positive | Neutral | Negative |
|---|---|---|
| | Base Metal<br>▼ Gold | Oil |

- **EUR**: The USD's recent weakness was due to the fact that high tariffs reduced the potential for US growth in the coming years, and there is a risk of stagflation. Moreover, international investors have started to reverse some USD flows. We also believe that the expected return differential for equities has narrowed in favour of the EUR. Taking these factors into account, our 3-month target is 1.12 and our 12-month target is 1.15 (value of one EUR).

- **GOLD: Turn Neutral -** After the recent strong rally, we expect some consolidation in the short term. The peak of uncertainty should be behind us, with a likely de-escalation in the trade war and a possible ceasefire agreement in Ukraine. The depreciation of the USD in recent months justifies a slight increase in the price target from USD 3200 to **USD 3300**.

- **OIL: Negative -** We see further downside risks: slower global growth, Trump's policies favouring lower oil prices, significant non-OPEC supply growth, OPEC+ production increases and possible lifting of sanctions in case of deals with Russia/Iran. We **lower our target range to $55-65.**

- **BASE METALS**: **Neutral -** Volatility has ruffled the sector, and the outlook for the manufacturing sector has been eroded by tariff hikes.

# Forex Forecasts

| | | Spot | 3-month | | 12-month | |
|---|---|---|---|---|---|---|
| | | As of 30 Apr 2025 | View | Target | View | Target |
| Developed | USD Index* | 99.47 | = | 100.4 | = | 98.7 |
| | Japan | 142.6 | = | 140 | = | 140 |
| | Eurozone | 1.137 | = | 1.12 | = | 1.15 |
| | UK | 1.336 | = | 1.32 | = | 1.32 |
| | Australia | 0.640 | + | 0.66 | = | 0.64 |
| | New Zealand | 0.593 | = | 0.60 | = | 0.60 |
| | Canada | 1.381 | = | 1.40 | = | 1.40 |
| Asia Ex-Japan | China | 7.263 | = | 7.30 | = | 7.30 |
| | South Korea* | 1,422 | = | 1,400 | + | 1,375 |
| | India | 84.48 | - | 88.0 | - | 88.0 |
| | Indonesia* | 16,600 | = | 16,900 | = | 16,900 |
| | Malaysia* | 4.315 | = | 4.35 | = | 4.28 |
| | Philippines* | 55.86 | = | 57.5 | = | 56.6 |
| | Singapore* | 1.306 | = | 1.29 | = | 1.27 |
| | Thailand* | 33.41 | = | 32.8 | + | 32.4 |

*Source: BNP Paribas (WM) as of 30 April 2025*
**BNP Paribas Global Markets forecast as of 30 April 2025*

Note: + Positve / = Neutral / - Negative

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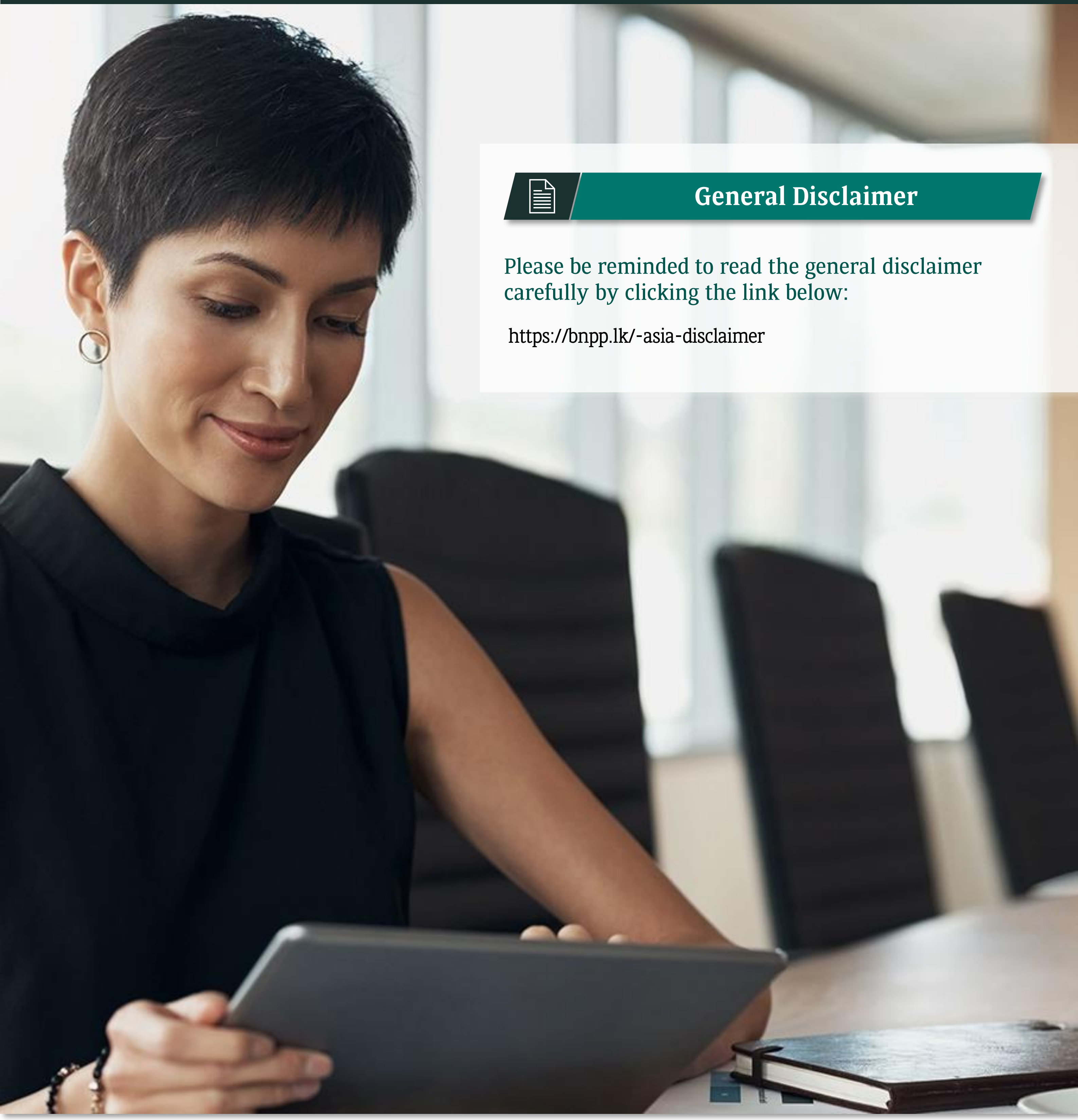

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