FINANCE

European Value, Asia Stimulus Reshape 2025 Market Outlook

13/06/2025

Europe's fiscal surge, India's liquidity injection, and softer US inflation are accelerating a shift from US equity dominance to European banks, Indian growth, selective US tech, defensive UK sectors, short-duration sovereigns, stronger JPY and EUR, and safe-haven gold and Brent exposure for 2025 investors.

Key Points

Equities	In early 2025, global equities reflect the US losing ground to Europe and China with Europe's 21% valuation discount (P/E 14.5x), Germany's fiscal boost narrowing the earnings gap, S&P 500 resistance at 6,147, lower front-end rates aiding growth stocks, US tariffs adding 1.2% to CPI, China's rare earth control showing supply risk, Brent up over 10% to near USD 75/bbl on Middle East tensions, UK unemployment at 4.6% with a 109,000 payroll drop, India's 50bps rate cut injecting INR 2.5 trillion liquidity, and investors favouring European banks and industrials, core Indian equities, selective US tech and financials, UK defensives, and gold at USD 3,386–3,486 for geopolitical hedging.
Fixed Income	US buybacks and bank incentives cap long yields but a steepening 2Y–30Y curve adds term premium risk, US inflation slowing to 0.1% month-over-month supports short-duration Treasuries but leaves long bonds exposed, India's rate and CRR cuts boost 2–5Y sovereigns, US debt limit issues raise sovereign risk premia, Japan's hotter inflation lifts JGB yields, EM local bonds face reversal and liquidity strain at fractal dimension 1.23, and investors prefer US 2–5Y Treasuries, India's 2–5Y sovereigns, short-duration EU bonds like Bunds and OATs, EM USD corporates over local debt, and high-grade UK/EU corporates for moderate spread pickup.
Currencies	USD/JPY is expected to test 140 with BoJ hikes and higher JGB yields backing JPY strength against SGD, EUR is up 11% year-to-date but ECB cuts may limit EUR/SGD gains despite Germany's stimulus, softer US CPI at 0.13% and possible Fed cuts to 3.75–4.0% reduce USD carry appeal versus SGD, Brent's 10% rise pressures SGD, weak China trade (exports +4.8%, imports -3.4%) and deflation at -0.1% weaken CNY/SGD, UK macro softness with 4.6% unemployment pressures GBP, so investors hold JPY for defence, use EUR for diversification, keep core USD exposure, avoid INR after a 50bps cut, and underweight GBP given weak UK GDP and expected BoE easing.

Commodities	Brent rising 10% and possibly to USD 82/bbl amid Israel-Iran tensions lifts gold demand as a hedge, with gold at USD 3,386 facing resistance at USD 3,486 and stable fractal dimension 1.42 supporting SGD-based holdings, soft US inflation and a patient Fed keeping USD weak, trade tensions and low EU/UK yields sustaining gold's hedge value, so investors prioritise physical gold, SGD-listed ETFs, miners like Newcrest, Northern Star, Barrick, and Agnico Eagle, hedge with selective Brent futures, and hold moderate copper/nickel exposure while noting UK GDP weakness at -0.3%.

European Value, Asia Stimulus Reshape 2025 Market Outlook

	Foundational Assumptions	Key Challenges	Strategic Action
Equities	**Equity Trend Insights** Global equities in early 2025 show the US losing dominance to Europe and China, with European equities trading at a 21% discount (P/E 14.5x) and Germany's fiscal push narrowing the earnings gap, while the S&P 500 has upside to 6,147 and lower front-end rates support quality growth stocks.	**Equity Pressure Analysis** US tariffs added 1.2% to CPI components, China's rare earth restrictions highlight supply risks, Brent surged over 10% toward USD 75/bbl on Middle East tensions, the UK jobless rate rose to 4.6% with a 109,000 payroll drop, and India's 50bps rate cut adds INR 2.5 trillion liquidity, reshaping capital flows.	**Equity Investment Guidance** Favour European banks and industrials (STOXX 50 P/E 14.9x), core Indian equities supported by the rate cut and liquidity, selective US tech and financials, stable UK defensives, and gold at USD 3,386–3,486 for geopolitical hedging.
Fixed Income	**Bond Market Trends** US buybacks and bank incentives cap long yields, but a steepening 2Y–30Y curve embeds term premium risk; EM local bonds face reversal risk with low diversity, Japan's rising yields signal higher duration risk, while front-end EU and UK bonds gain from expected Fed 3.75–4.0%, ECB 1.5%, and BoE 3.5% rates by end-2025.	**Bond Pressure Drivers** US inflation slowing to 0.1% m/m supports short-duration Treasuries but leaves long bonds exposed, India's rate and CRR cuts boost local sovereigns, US debt limit issues raise sovereign risk premia, Japan's hotter inflation lifts JGB yields, and EM local debt risks liquidity strain at fractal dimension 1.23.	**Bond Investment Strategy** Prefer US 2–5Y Treasuries, India's 2–5Y sovereigns, short-duration EU bonds (Bunds, OATs), EM USD corporates over local debt, and high-grade UK/EU corporates for moderate spread pickup alongside sovereigns.
Currencies	**Currency Movement Trends** USD/JPY is seen testing 140, suggesting stronger JPY versus SGD; EUR is up 11% YTD but ECB cuts may limit EUR/SGD gains; softer US CPI at 0.13% supports weaker USD/SGD; Brent's 10% rise pressures SGD; weak China trade (exports +4.8%, imports -3.4%) caps CNY/SGD upside.	**Currency Risk Analysis** US inflation cooling and possible Fed cuts reduce USD carry vs SGD, Germany's stimulus and ECB cuts boost EUR, China's deflation (-0.1% y/y) weakens CNY, Japan's higher JGB yields back JPY gains, and UK macro softness (unemployment 4.6%) pressures GBP.	**SGD Currency Picks** Hold JPY for defence (USD/JPY to 140, BoJ hikes), use EUR for diversification (+11% YTD), keep core USD exposure (Fed cuts to 3.75–4.0%), avoid INR (50bps cut weakens it), and underweight GBP given weak UK GDP and expected BoE easing.
Commodities	**Gold & Commodity Trends** Brent up 10% on tensions lifts gold demand as a hedge, gold at USD 3,386 with resistance at USD 3,486 and stable fractal dimension 1.42 supports SGD-based holdings, while soft US inflation and Fed cuts also favour gold; Asia ex-Japan drives demand, Australia and Canada benefit as exporters.	**Commodity Pressure Factors** Israel-Iran escalation and Brent's path to USD 82/bbl lift safe-haven demand, patient Fed keeps USD weak, trade tensions and low EU/UK yields sustain gold's hedge value in SGD portfolios.	**Gold Investment Picks** Prioritise physical gold, SGD-listed ETFs, and miners like Newcrest, Northern Star, Barrick, and Agnico Eagle; hedge geopolitical risk with selective Brent futures, and keep moderate copper/nickel exposure for China's cyclical upside but watch UK GDP weakness (-0.3%).

Reference:

Goldman Sachs Asset Management. (2025). Fixed Income Musings.

Standard Chartered Bank, WS Global CIO Office. (2025). Three Takeaways from a Turbulent First Half.

8nalytics

Equities shift as US leadership wanes, policy risks rise, and value emerges

US equities lose ground while Europe and China drive more growth

Global equity performance in early 2025 shows the US gradually losing its dominance. Europe and China are taking larger roles in driving growth.

The earnings gap between the US and the Euro area is projected to narrow in 2026. Germany's fiscal impulse could lift national growth by up to 2 percentage points annually.

European equities trade at a forward P/E of 14.5x, a 21% discount to global equities versus a historical 13% gap. The S&P 500 has resistance at 6,147, with spot at 6,045, suggesting tactical upside.

Lower front-end rates and an expected Fed rate of 3.75–4.0% by end-2025 support quality growth and tech equities.

Tariffs, supply chain constraints and geopolitical tensions raise equity risks

US policy volatility and tariff increases have added an average 1.2% to CPI components. This has modestly lifted monthly core CPI by 0.04% recently, pressuring low-margin manufacturers and retailers.

China's rare earth export controls, covering 60% of production and 90% of processing, highlight supply chain risks. Middle East tensions pushed Brent up over 10% toward USD 75/bbl, impacting energy and inflation-sensitive equities.

The UK's unemployment rate rose from 4.5% to 4.6% in March, with payrolls down by 109,000, the largest drop since May 2020. Diverging central bank paths, India's 50bps rate cut and BoE's easing signal shifting capital flows.

Europe's banks, India's equities and select US tech stand out for value

European banks and industrials benefit from ECB cuts, German fiscal expansion, and a STOXX 50 P/E of 14.9x versus the S&P 500's 22.0x.

Indian equities remain a core growth position, backed by a 50bps rate cut and INR 2.5 trillion liquidity injection despite a 20.5x Nifty 50 forward P/E.

Investors should maintain selective US tech and financials exposure as soft inflation and a patient Fed support premium valuations.

UK defensive sectors like utilities, telecoms, and consumer staples provide stability amid weak spending and policy easing.

Gold at USD 3,386 with resistance near USD 3,486 offers a tactical hedge against heightened geopolitical risk.

Bonds show curve steepening, inflation divergence, and short-duration appeal

US buybacks and a steeper curve highlight bond market dynamics

US Treasury buybacks and efforts to re-incentivise banks aim to support liquidity and cap long-duration yields amid volatility.

The US 2Y to 30Y yield curve shows steepening, with the 20Y and 30Y bonds pricing a term premium that weighs on performance.

Emerging market local currency bonds face increased reversal risk, as diversity indicators fell below critical thresholds, raising volatility concerns.

Japanese sovereign yields are rising compared to stable-to-falling G10 peers, indicating higher duration and inflation risk exposure.

Expected end-2025 rates of Fed 3.75–4.0%, ECB 1.5%, and BoE 3.5% point to declining front-end yields for EU and UK bonds.

UK gilts and EU short-duration sovereigns benefit from lower volatility and tightening spreads.

Inflation cooling, liquidity injections and policy divergence shape bond risks

US headline and core inflation decelerated to 0.1% month-over-month, raising the chance of Fed rate cuts in the second half of the year.

This supports shorter-duration bonds but leaves long-duration Treasuries exposed to term premium volatility.

India’s 50bps policy rate cut and 100bps CRR reduction inject INR 2.5 trillion in liquidity, benefiting short and medium tenor sovereign bonds.

US debt limit brinkmanship and a steepening yield curve embed higher risk premia in US sovereigns, particularly long-dated maturities.

Japan’s hotter inflation outlook and expected BoJ hikes signal rising JGB yields and reinvestment risk.

Emerging market local bonds face increased reversal and liquidity risks due to investor diversity dropping below the safe fractal dimension threshold of 1.23.

Short-duration US, Indian and EU sovereigns preferred; EM USD corporates stronger than locals

Shorter-duration US Treasuries, particularly 2–5 year maturities, remain core holdings due to capped inflation and the possibility of Fed cuts.

This avoids term premium drag on 20Y+ bonds.

Indian sovereign bonds in the 2–5 year range benefit from RBI’s frontloaded stimulus and benign inflation.

Short-duration EU sovereigns such as German Bunds and French OATs are resilient given underappreciated ECB cuts and lower volatility spreads.

EM USD-denominated corporate bonds are more resilient than EM local currency bonds, which face liquidity stress from low fractal dimensions.

Investment grade UK and European corporates offer modest credit spread pickup while balancing sovereign exposure.

FX market sees JPY gains, EUR strength, and weaker USD as policies diverge

JPY strength, EUR uptrend and USD softness shift currency positions

The USD/JPY is expected to test the 140 support level from 143.6. This indicates probable JPY strength, which could lead to JPY outperformance against the SGD.

The EUR has appreciated 11% year-to-date versus the USD, implying a stronger EUR/SGD trend. However, market-implied ECB cuts may temper this.

US core CPI inflation slowed to 0.13% in May from 0.24% in April, supporting a weaker USD bias against SGD as Fed rate cuts are priced in.

Brent oil prices surged 10% amid Middle East tensions, raising near-term risk for energy-importing currencies like the SGD.

China's exports grew by 4.8% year-over-year while imports contracted by 3.4%, suggesting soft CNY fundamentals that limit CNY/SGD upside.

Tariff effects, inflation divergence and policy moves raise FX volatility

Cooling US inflation and possible Fed cuts in the second half of the year reduce USD carry appeal against the SGD.

Germany's fiscal impulse and ECB rate cuts support EUR strength. Renewed tariff pressures add inflation volatility in the US and EU, raising FX uncertainty.

China's slowing exports and consumer deflation at -0.1% year-over-year weaken CNY fundamentals relative to SGD.

Japan's hotter inflation and rising JGB yields back JPY resilience and potential gains against SGD.

The UK's rising unemployment to 4.6% and falling payrolls increase GBP downside risk versus SGD amid expected BoE rate cuts.

JPY hedges and EUR diversification outperform; avoid INR and GBP weakness

Hedging into JPY is supported by expectations for USD/JPY to test 140, Japan's stable debt ownership, and anticipated BoJ hikes.

This offers defensive value for SGD-based investors.

The EUR, which has gained 11% year-to-date versus the USD and is backed by Germany's fiscal boost, provides diversification potential relative to SGD.

The USD has limited upside against SGD due to cooling US inflation and projected Fed cuts to 3.75–4.0%.

Weaker macro data and a surprise 50bps rate cut reduce the attractiveness of the INR compared to SGD.

The GBP is less appealing given the UK's GDP decline and expected BoE rate cuts.

Gold and commodities gain from geopolitical tensions and hedging demand

Middle East conflict and energy prices drive gold's safe haven demand

Brent oil prices surged over 10% amid Middle East tensions. This creates risk spillovers that support gold demand as a hedge for SGD investors.

Gold is trading at USD 3,386 with technical resistance near USD 3,486, indicating upside potential. Global gold maintains a mid-level fractal dimension of 1.42, showing stable liquidity for SGD-denominated positions.

Softer US inflation at 0.1% month-over-month and prospects for Fed rate cuts bolster gold's role as a store of value. Regions most affected include Asia ex-Japan for retail demand and gold exporters like Australia and Canada benefiting from stable production costs and favorable currency trends.

Geopolitical events and trade frictions sustain commodity inflation pressures

Israel's military strikes on Iran's nuclear sites have escalated geopolitical tensions. This lifts demand for gold as a safe haven and supports SGD-denominated gold valuations.

Rising Brent oil prices, with potential to test USD 82/bbl, raise inflation fears and increase the appeal of gold for SGD investors as an inflation hedge.

A patient Fed and possible policy easing reduce USD strength, creating conditions for sustained upside in gold prices. Gold maintains stable liquidity with a fractal dimension of 1.42, offering moderate volatility compared to other commodities for SGD-based portfolios.

Trade tensions and persistent low sovereign bond yields in Europe and the UK further incentivise shifts into gold to protect purchasing power in SGD terms.

Physical gold, SGD ETFs, top miners and selective Brent futures recommended

Gold, trading at USD 3,386 with resistance near USD 3,486, shows clear technical upside and remains the primary inflation hedge for SGD holders.

High liquidity, reflected by a fractal dimension of 1.42, makes gold preferable under stress scenarios. SGD-based investors should prioritise physical gold, Singapore-listed gold ETFs, or global miners such as Newcrest, Northern Star, Barrick, and Agnico Eagle.

Middle East tensions and energy price surges justify pairing gold with selective Brent futures exposure to hedge geopolitical risks.

Moderate positions in base metals like copper and nickel may add cyclical upside if China's stimulus strengthens. Industrial commodities require caution given UK GDP softness at -0.3%.