Navigating Turbulent Times Amidst Tariff Concerns and Uncertainties

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Key Takeaway

- In the first quarter of 2025, global financial markets experienced higher volatility, driven by escalating trade tensions as well as central bank policy uncertainty. The S&P 500 dipped 4.6% while equity markets outside of U.S. showed greater resilience. U.S. Treasuries rallied as investors sought safer-haven assets amid shifting economic policies and weaker investor sentiments.

- Escalating U.S.-China trade tension continue to impact markets with reciprocal tariffs reaching a high of 145%. Central bank policies remain divergent, with the Fed adopting a wait-and-see approach while the European Central Bank (ECB) maintains a more easing policy stance.

- In view of tariff impact and uncertainty, we maintain a cautious approach while positioning for long-term trends and opportunities, focusing on active portfolio management and diversification to navigate the volatility ahead.

AIA Investments

ASSET CLASS PERFORMANCE (Q1 2025)

<table>
<tr><th>Asset Classes</th><th>Sub Classes</th><th>Benchmark</th><th>Q1 2025</th><th>AIA Commentary</th></tr>
<tr><td rowspan="6">Equity</td><td>Global Equities</td><td>MSCI World Index</td><td>-1.8%</td><td rowspan="2">• <u>Tariff Turmoil</u>:
U.S. equity markets faced persistent volatility in Q1 due to tariff-related headlines, including new tariffs on imports from Mexico, Canada, and China, and uncertainty around impending tariff announcements.
• <u>DeepSeek Phenomenon</u>:
The rise of China's DeepSeek AI, offering similar capabilities at a lower cost, has raised concerns about potential overvaluation in U.S. AI-related stocks, adding to market jitters.</td></tr>
<tr><td>- U.S. Equities</td><td>S&P 500 Index</td><td>-4.3%</td></tr>
<tr><td>Asia ex-Japan Equities</td><td>MSCI Asia (ex. Japan) Index</td><td>1.9%</td><td rowspan="4">• <u>Dispersion and Outperformance in Asia:</u>
Asian equity markets showed high dispersion in Q1, with Hong Kong-listed Chinese stocks outperforming, up 15% year-to-date, due to positive sentiment from DeepSeek's AI breakthrough, and hints of supportive policies from Beijing. In contrast, domestic Chinese stocks fell by 2.8%, and Indian stocks declined by 2.9%, while Japan's market faced headwinds from a stronger yen.
• <u>Stabilization and Intervention:</u>
Following early April dips due to Trump's tariffs, China state-linked investors stepped in to stabilize the Chinese stock market.</td></tr>
<tr><td>- China</td><td>CSI300 Index</td><td>-2.8%</td></tr>
<tr><td>- Hong Kong</td><td>Hang Seng Index</td><td>15.4%</td></tr>
<tr><td>- Japan</td><td>Nikkei 225 Index</td><td>-10.7%</td></tr>
<tr><td rowspan="3">Fixed Income</td><td>World Government Bonds</td><td>FTSE World Govt Bond Index</td><td>2.6%</td><td rowspan="3">• <u>Flight to Safety:</u>
Investors favored government bonds due to heightened global uncertainty and market volatility.
• <u>Stable Corporate Borrowing</u>:
The Federal Reserve's steady interest rates and signals of potential cuts supported confidence in the corporate bond market.
• <u>Yield-Seeking Behavior:</u>
Despite market volatility, investors continued to pursue higher yields in the global high-yield bond market.
• <u>Fed's Growth Focus:</u>
Fed maintained its cautious approach, maintaining rates and hinting at future cuts, reflects a priority on supporting economic growth while managing inflation expectations.</td></tr>
<tr><td>U.S. Corporate Bond</td><td>Bloomberg US Corporate Bond Index</td><td>2.3%</td></tr>
<tr><td>Global High Yield Bonds</td><td>ICE BofA Global High Yield Index</td><td>2.0%</td></tr>
<tr><td rowspan="2">Cash & Currency</td><td>Cash Return</td><td>Bloomberg Cash Index</td><td>1.1%</td><td rowspan="2">• <u>Cash Preference:</u>
Amid global uncertainty, investors favored cash holdings, seeking liquidity and stability.
• <u>Dollar Weakness</u>:
Trump's tariff policies contributed to short-term inflation concerns and longer-term growth worries, leading to a decline in the dollar's strength.</td></tr>
<tr><td>U.S. dollar terturn</td><td>Dollar Index</td><td>-3.9%</td></tr>
<tr><td rowspan="3">Commodity</td><td>Global Commdity</td><td>S&P GSCI Index Spot</td><td>3.7%</td><td rowspan="3">• <u>Commodity Resilience</u>:
Global commodities showed resilience, driven by increased demand for safe-haven assets amid economic uncertainty.
• <u>Gold Surge</u>:
Gold prices rose significantly, driven by its traditional role as a safe-haven asset during periods of market volatility and geopolitical tensions.
• <u>Crude Oil Stability</u>:
Crude oil (WTI) remained relatively stable, reflecting steady demand and supply dynamics despite broader economic uncertainties.</td></tr>
<tr><td>Gold</td><td>Gold</td><td>19.8%</td></tr>
<tr><td>Crude Oil (WTI)</td><td>Generic 1st 'CL' Future</td><td>0.7%</td></tr>
</table>

Source: Bloomberg, AIA Investments. All figures are total return in percentages and represent data as of 31 Mar 2025.

MACRO BACKDROP

Trump's Aggressive Trade Policy and China's Retaliation

President Donald Trump's return to the White House has sparked a new era of trade protectionism, marked by the introduction of reciprocal tariffs on April 2, which he described as a "Liberation Day." (Check our *Special Fund Insights* for more detailed analysis). Subsequently, Trump announced on April 9 a 90-day delay in implementing higher reciprocal tariffs for all countries except China. Despite this move, the situation remains tense as China has responded with its own reciprocal tariffs, escalating the situation into a tit-for-tat trade conflict.

The implementation of these tariffs is poised to have significant repercussions for the global economy and financial markets. Expected outcomes include increased import costs, disrupted supply chains, and retaliatory measures from major trading partners. The uncertainty surrounding the implementation and potential negotiations add an additional layer of volatility to financial markets, sparking concerns over potential higher inflation and slowing economic growth.

Global Central Banks' Divergent Paths

While the Federal Reserve has kept interest rates steady at 4.25% to 4.5% this year, adopting a "wait-and-see" approach, the European Central Bank (ECB) has taken a more proactive stance. The ECB has cut its main rate for the third time this year, reducing it to 2.25%, to combat slowing eurozone growth and the impact of U.S. tariffs.

The ECB's decisions are data-driven and made on a meeting-by-meeting basis, responding to declining inflation and a deteriorating growth outlook exacerbated by trade tensions. Although the ECB hints that its rate-cutting cycle may be nearing its end, it remains ready to adjust based on incoming data.

In contrast, the Bank of Japan (BOJ) has already raised its short-term policy rate to 0.5% in January and is expected to hike further, potentially to 0.75%, in July. The BOJ's future rate decisions will depend on wage growth and inflation, particularly if food costs continue to drive broader inflation.

AIA GROUP INVESTMENTS HOUSE VIEW

UW (-) | N (=) | OW (+)

Asset Class	–	=	+	Comment
Global Equities		=		• Cutting to neutral from small OW in the wake of the 'Liberation day" Tariff shock. Near-term risks finely balanced. • U.S. underperformance in the sell-off hints at the start of rotation from U.S. due to valuation and growth concerns.
- Asia Ex-Japan Equities		=		• More optimistic on China equities as it is relatively defensive in the trade dispute with potential policy support . • Tariffs and supply chain disruptions affecting Asia. Cautious outlook in Korea & Taiwan due to tech supply chain sensitivity.
Fixed Income		=		• Policy uncertainty creates risks in both directions.
Cash			+	• Holding some cash as buffer amid uncertainty but ready to deploy once risk assets stabilize.

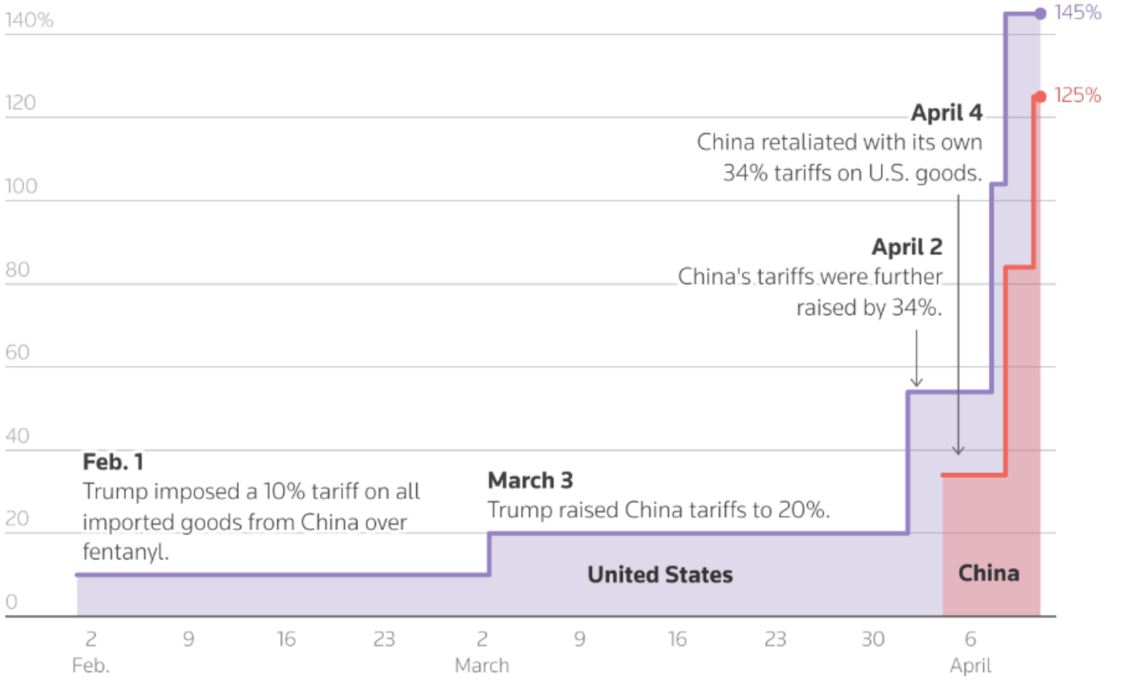
* Note: OW = Overweight; N = Neutral; UW = Underweight

Quarterly Investment Insight --- Spotlight

U.S.-CHINA TRADE ESCALATION: A GROWING GLOBAL CONCERN

Tariff tit-for-tat between Trump and China

The two world superpowers have been engaged in a trade war since U.S. President Donald Trump dramatically escalated his tariffs against Beijing.



Note: Data covers tariffs imposed against all imported goods for either countries. The U.S. and China have slapped separate specific tariffs on select goods like steel and agriculture products, which come on top of these duties.

Source: Reuters reporting

Prinz Magtulis • April 11, 2025 | REUTERS

Step chart showing the rising tariff rates imposed by the U.S. and China against each other since February 1.

President Donald Trump's return to the White House has initiated a new wave of aggressive trade protectionism, highlighted by the announcement of reciprocal tariffs on April 2, termed a "liberation day." This policy introduces a universal 10% tariff on all imports from April 5, 2025, with additional higher tariffs targeting nations with significant trade surpluses with the U.S., effective April 9.

In response to escalating tensions, Trump postponed the higher reciprocal tariffs for 90 days for all countries except China. China retaliated with reciprocal tariffs, resulting in a 125% additional tariff on U.S. imports. China also imposed a 20% tariff on fentanyl-related imports, exacerbating the trade conflict.

The U.S. administration is leveraging tariff negotiations to pressure its partners into reducing their trade with China, while China has warned it will retaliate against any country that cooperates with the U.S. in ways that undermine Beijing's interests. This escalating trade war threatens to draw other nations into the conflict, adding to global economic uncertainty.

AIA STEWARDSHIP – ELITE FUNDS

Portfolio Performance

Our investment approach focuses on long-term opportunities and application of bi-directional risk management. For Elite Funds, we combine AIA stewardship with best-in-class managers to seek long term opportunities. Equity markets entered 2025 on the back of 2 consecutive years of double-digit returns. There was a reversal in 1Q 2025 which saw equity markets ended the quarter down. Elite Funds were also impacted by the drawdown in the equity markets and were down in 1Q 2025. As USD depreciated against SGD, the SGD Elite Funds posted lower returns than the USD Elite Funds. Over a longer timeframe, Elite Adventurous SGD and USD funds delivered high single digit returns since inception. This is a clear testament to the benefits of staying the course and having a disciplined approach to investing.

A summary of absolute portfolio performances is set out below.

Absolute Performance		Q1 - 25	1 Year	2 Year	3 Year	5 Year	Since Inception*
SGD Funds	AIA Elite Adventurous Fund [1]	-4.62%	0.94%	10.01%	1.86%	10.78%	7.49%
	AIA Elite Balanced Fund [2]	-2.83%	2.01%	8.23%	1.04%	7.17%	4.31%
	AIA Elite Conservative Fund [3]	-1.16%	2.78%	6.15%	0.03%	3.45%	1.86%
USD Funds	AIA Elite Adventurous Fund [4]	-3.37%	1.51%	9.63%	2.61%	12.12%	7.95%
	AIA Elite Balanced Fund [5]	-1.57%	2.44%	7.71%	1.72%	8.71%	5.89%
	AIA Elite Conservative Fund [6]	0.09%	3.18%	5.70%	0.66%	4.48%	2.41%

Source: AIA Investment Management, as of 31 Mar 2025.
Performance figures for a period greater than a year are annualised
Performance of the funds are on a bid-to-bid basis with net dividends reinvested, without taking into consideration the fees and charges payable through deduction of premium or cancellation of units
*Fund inception date: [1] 24/7/2019; [2] 25/7/2019; [3] 1/8/2019; [4] 20/7/2019; [5] 31/7/2019; [6] 20/12/2019

Past performance is not necessarily indicative of future performance

Elite funds/SICAV funds featured are not locally registered in Singapore and are only offered to related entities within AIA Group through local insurance wrappers (if appropriate) since they are not offered directly to retail investors.

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Elite Investment Strategy

Risk assets experienced a sharp sell-off since so-called "Liberation Day" (April 2nd) as the tariffs announcements from the U.S. administration were worse than expected. Equities across geographic regions sold off, credit spreads widened significantly, and commodities fell sharply. Markets could remain volatile as market participants are assessing whether a new world order has been established, where the previous regime of globalization and free trade has been abruptly displaced by a regime where countries erect trade barriers and protectionism takes precedence. Over the short term. we remain vigilant and stay on the sidelines. Notwithstanding the short-term focus on downside risk management, taking a medium-term perspective, sharp sell-offs historically were followed by higher-than-average forward returns. A rebound in risk assets could be catalyzed by policy response as past stress episodes typically see policy makers inject liquidity into the financial system as well as fiscal stimulus. The key is to stick to a disciplined investment process, carefully weigh medium term upsides returns versus downside risks and not be whipsawed by the volatile market environment.

Fund Allocation as of 31 March 2025

SGD Funds		AIA Elite Adventurous Fund	AIA Elite Balanced Fund	AIA Elite Conservative Fund
Equity	AIA Investment Funds-Aia Global Select Equity Fund	29.9%	19.5%	9.9%
	AIA Investment Funds - AIA New Multinationals Fund	23.2%	12.7%	5.8%
	AIA Investment Funds - AIA Global Multi-Factor Equity Fund	15.2%	10.4%	5.9%
	AIA Investment Funds - AIA Global Quality Growth Fund	7.0%	3.4%	1.1%
	Vanguard Investment Series PLC - Global Stock Index Fund	6.7%	6.3%	3.3%
	iShares Core MSCI World UCITS ETF	6.6%	5.8%	1.9%
	iShares Core MSCI Asia ex Japan ETF	1.0%	0.9%	1.2%
	Amundi Index MSCI World	0.1%	0.1%	0.2%
Fixed Income	AIA Investment Funds - AIA Diversified Fixed Income Fund	9.7%	40.2%	70.2%
Money Market Fund & Cash	JPMorgan Liquidity Funds - SGD Liquidity LVNAV Fund	0.3%	0.1%	0.1%
	AIA SGD Money Market Fund	0.2%	0.5%	0.2%
	Cash	0.1%	0.2%	0.2%
	TOTAL	100%		
USD Funds		**AIA Elite Adventurous Fund**	**AIA Elite Balanced Fund**	**AIA Elite Conservative Fund**
Equity	AIA Investment Funds-Aia Global Select Equity Fund	30.8%	20.6%	11.4%
	AIA Investment Funds - AIA New Multinationals Fund	24.5%	12.9%	6.3%
	AIA Investment Funds - AIA Global Multi-Factor Equity Fund	15.0%	11.8%	6.0%
	Vanguard Investment Series PLC - Global Stock Index Fund	7.6%	4.8%	1.6%
	AIA Investment Funds - AIA Global Quality Growth Fund	6.8%	3.1%	1.3%
	iShares Core MSCI World UCITS ETF	4.6%	5.2%	1.8%
	iShares Core MSCI Asia ex Japan ETF	0.6%	0.8%	0.8%
	Amundi Index MSCI World	0.1%	0.1%	0.2%
Fixed Income	AIA Investment Funds - AIA Diversified Fixed Income Fund	9.8%	40.2%	70.1%
Money Market Fund & Cash	Morgan Stanley Liquidity Funds - US Dollar Liquidity Fund	0.3%	0.3%	0.3%
	JPMorgan Liquidity Funds - USD Liquidity LVNAV Fund	0.1%	0.2%	0.2%
	Cash	0.0%	0.1%	0.1%
	TOTAL	100%		

Note: Total Fund Allocation may not sum up to 100% due to rounding

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Stewardship Insights:

Exploring Investment Excellence with BlackRock

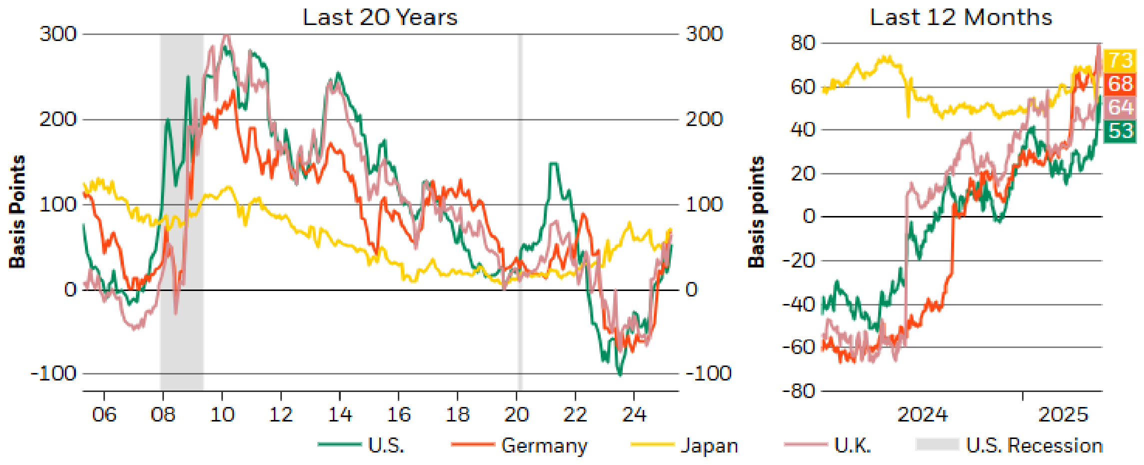
How has the portfolio been positioned leading to Trump's reciprocal tariff announcement ("Liberation Day")?

BlackRock: We came into the year with relatively conservative positioning in the Diversified Fixed Income (DFI) strategy. Despite Trump campaigning on aggressive tariffs to curtail the U.S.'s trade deficit and intended to drive a U.S. manufacturing renaissance, markets largely ignored the potential "stagflationary" (negative growth, positive inflation) risks associated with these policies until it was largely too late. This led to a significant spike in volatility and uncertainty, which started in equity markets but eventually spilled into corporate credit spreads as well. We have seen significant decompression, with higher beta asset classes like High Yield underperforming IG, and BBBs underperforming Single-A rated credit.

The conservative positioning of the portfolio has been beneficial for active performance throughout the first quarter and into April – we have outperformed the benchmark by +33 basis points so far this year, led by our underweight allocations to both overall spread risk and an underweight to more cyclical areas of the market like Automotive and Energy sectors. Leading into April we had near zero exposure to higher beta sectors like High Yield or Capital securities. We used the widening of spreads weakness, particularly ahead of Trump's pivot to pause tariffs on April 9th, to cover the underweight and monetize some of the outperformance.

Another key driver of outperformance in 2025 has been our interest rate positioning – particularly our view that rising uncertainty, tariffs, and a likely expansion of the U.S.'s fiscal deficit, would all put upward pressure on the long-end of the U.S. rate curve as investors demand more premium to own longer-duration treasuries. We have held this curve-steepening (long-end of the curve rising more than the front end) view throughout the year, which has been a material positive. We have monetized about half of this trade as we have reached more long-term normal valuations, but we still see scope for further steepening.

Government bond yield curves (10-year minus 2-year)



Source: LSEG Datastream, BlackRock Investment Institute. Apr 14, 2025
Notes: Lines are calculated by taking the 10-year benchmark government bond yield minus the two year. U.S. recession bars based on NBER definition

Given the uncertainty surrounding U.S. tariffs, what is the benefit of a fixed income strategy like AIA Diversified Fixed Income Fund for an investor's portfolio?

BlackRock: Despite the volatility to start 2025, and the broad selloff across financial assets, fixed income has fared relatively well as compared to equities, with Investment Grade (IG) Corporate markets returning +1%, with U.S. equities down -10%, with the Magnificent 7 down -23%. Investment Grade corporate assets have been particularly well supported, as the yield and carry profile continue to attract significant amounts of investment from institutional investors like Insurance Companies and Pensions. IG corporates now yield over 5.5%, which is in the 65th percentile over the last 30 years. Even with the selloff in U.S. equities cheapening valuations, U.S. IG corporate credit still out-yields the implied earnings yield of the S&P 500 by more than 1%.

The flexibility of the Diversified Fixed Income fund, which allows us to allocate to Investment Grade, High Yield, and Emerging Market assets also will benefit investors during a period of higher volatility and greater dispersion. Because we are able to allocate to a variety of sectors that have different historical return betas and fundamental sensitivities, it allows for greater alpha generation when asset classes become dislocated from historical trends. We have already seen High Yield corporates underperform Investment Grade by more than -2.5% YTD, creating compelling cross-sector relative value opportunities.

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Looking ahead, what is the strategic positioning of AIA Diversified Fixed Income Fund? Are there any specific areas that deserve attention?

BlackRock: Strategically we remain cautious on risk assets - growth concerns and uncertainty-fuelled volatility premium expansion have pushed credit valuations back toward post-Global Financial Crisis median levels. The 90-day tariff pause, plus all-in yield levels we have only seen for a brief period in late-2023 leave scope for a tactical rally, so we no longer view a meaningful underweight as the correct positioning. Longer term, we believe the tights are in for credit spreads for this cycle and we will see wider spreads through 2025. The uncertainty caused by the chaotic and unpredictable tariff rollout has caused both business and consumer confidence to fall precipitously. This will constrain domestic capital investment by businesses, as well as consumer spending and GDP as we progress through the remainder of the year. The still very elevated tariff levels on China, which is the largest U.S. trading partner, leave effective tariff rates very elevated. Recession risk has not been removed by the pause, and credit spreads are not appropriately compensating us for a recessionary outcome.

We expect more dispersion and decompression as we move through the year. While Energy, Autos, and Chemicals have underperformed on tariff concerns, more generic low-BBB credit has only marginally underperformed. We still think caution is warranted on these sectors that are in the eye of the storm of tariffs and policy uncertainty, as there is still little clarity on the ultimate form of tariff policy implementation. High Yield spreads have de-compressed to more compelling valuations vs. Investment Grade, and we added a small tactical trade to that sector in April. We would look to grow that trade to the extent that underperformance and decompression continues. Within IG, given the lack of quality decompression we remain focused on up in quality trades for the time being. We are still maintaining significant dry powder in the form of cash and U.S. treasuries to deploy into what we expect will be volatile markets.

On interest rates, we maintain our core curve steepening bias, albeit in smaller size given the reset in valuations. We expect the Trump administration to be very sensitive to the market pressuring UST yields in response to policy implementation, so will be watching for opportunities to add duration when levels near 5%. We still think the Federal Reserve will have trouble cutting more than 2-3 times this year given the inflation outlook, putting a cap on just how large the rally in rates can be.

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