CIO Virtual Roundtable | Top Questions from Our Clients February 2025

Key strategies to address policy changes and opportunities

Hello everyone, and welcome to our first CIO Virtual Roundtable for 2025, and I'm really happy to be with the team, with our four regional CIOs for Asia, EMEA, the UK and the US. I will be tapping in all of their expertise on the ground to address the most important client questions that we encountered during our Asia Roadshow and our discussions around the world about our Investment Outlook for 2025: 'New Growth Engines for a Changing World.'

Now, we'll be talking about a lot of topics, and in particular addressing the potential impact of the US administration's policies, whether equities can continue to rally, central bank policies, and the importance of that for fixed income, how do we diversify our portfolios, and then is Asia still an important growth engine?

But before I dive into the discussion, I wanted to look at the LinkedIn poll that we did last week to assess your views and what you think is going to be the main driver for further market upside from here.

And, interestingly, the answers are relatively evenly split between supportive US policies, rate cuts, the tech side, and potentially a bit more surprisingly, a potential rebound in China and Europe.

So, let's discuss these points with the team here. But Fan, let me start with you. We did many meetings in Asia, so can you start by summarising the client sentiment?

Business owners and partners who are investors in public and private markets say we have a healthy business environment, especially in the US, India and Southeast Asia; with Europe being seen as weak and China seeing some green shoots, but many taking a wait-and-see attitude. But most of the client questions that we received were about the impact of the new US administration's policy changes on the economy and markets.

Now, there are a lot of questions around the new US government's policy priorities and obviously their impact on markets. So Jose, I have to start with you on this. If you had to use 3 or 4 words or concepts to describe what the US government is doing, what would they be?

Well thank you Willem.

I think clearly the US policies will be pro-US, a little more mixed for the rest of the world in terms of the policy initiatives. But the three words I would describe would be deregulation, will be one, which will help lift what they call animal spirits and lead to a lot more economic activity.

Number two would be pro-growth, and clearly this Trump administration is pro-growth and is going to try to lower taxes and increase incentives to increase investment and growth in the US economy.

And third would be productivity, because this tech revolution, which began actually in the first Trump administration, expanded during the Biden administration, and now we're seeing the second wave of it, which is very focussed on productivity and profitability.

I'd add as well, if I may. There is also a lot we don't know. And one of the things we feel pretty confident about is that there will be some significant surprises this year. I think we've already seen that in the beginning of the year.

We've seen quite a lot of volatility in markets and quite a lot of big dramatic policy changes. So what we are doing is rather than being too cute about the situation and trying to pick and second guess which policies are coming our way, we actually think it's more important to try and build resilience in the portfolio.

And one of the ways we're doing this is through hedge funds, because they have more flexibility and they're able to take advantage of some of these situations where you have higher volatility.

And they also add to diversification as well, which is important to build that resilience. And then also rather than run away from this volatility, we see it as an opportunity.

So, there's times where volatility will spike and then we see that as an opportunity to go in and take advantage of that and monetise that.

And perhaps there'll be times when the market gets a little bit too complacent as well. By kind of always being prepared for this, I think there's going to be significant opportunities this year around that uncertainty.

One of the key questions that we get from clients is whether they should stick with US equities. They have done very well, there is that very big valuation gap between the US and Europe in particular.

Now Jose, from what you and Jonathan just said, especially around the pro-growth and deregulation angle, it does suggest that there are still a lot of opportunities in the US.

Can you detail a little bit more the arguments and the case, for US equities, the specific opportunities?

Certainly, number one is tech. The technology revolution and technological innovation.

And we expect to see, as we've seen in recent weeks, we are getting past the first phase of the technological revolution, heading to a second wave, which is going to be deeper, more profound and enhance productivity, more specifically.

Second, is the manufacturing sector, where we see a real desire to bring jobs back to the US, and these are going to be heavily focussed on technological advancements and automation.

So, this need for manufacturing jobs is going to create opportunities in the industrials sector.

Third is really looking at the next phase of the CHIPS Act that began during the Biden administration, and what does that mean. It means we're going to focus on AI and the deepening of that.

Fourth is energy. Clearly, for the Trump administration, the mantra of drill, baby, drill; he wants to expand, produce and explore more.

And then last but not least, I would focus on financials, where we see a positive yield curve, and clearly there is an opportunity for deregulation, which is going to give the banks more room to lend more, hopefully.

So, it's technology, but also other sectors. In the last two years, the US market has certainly benefited a lot from the rally in technology, but then recently we had this volatility in AI related stocks correlated to that news around DeepSeek. So, what is your view on this? Have the AI opportunities shrunk or are the kind of opportunities different in AI now?

Well, it's a fascinating question Willem. If you look at what DeepSeek was, it was innovation and it was a shot across the bow. It was a sign that AI is not a US-only technology and the innovation in AI and other technologies is just beginning. So, this next wave of innovation and adoption of technology is going to enhance productivity and profitability, we think, even more.

So, it's a real positive for the global economy and markets. In the US, if you look at where we are. Jevons paradox, which is a technology paradox, basic economic concept, that says as you make technologies easier and cheaper, it actually increases the adoption rate and lowers barriers to entry.

So, generally, AI should do well. If you look at where AI is going in the future, this next wave is deeper, more specific end use cases, and it is going to be a lot more value added. It will result in more productivity, but require more energy and more computing power.

So, we're not done yet. We have a long way to go with AI.

So, certainly a lot of opportunities, but you're talking about the entire ecosystem, not just the chips. Also, very much, the adoption too. Thank you for that.

This will obviously add to the economic impetus and the earnings potential, which are actually already quite healthy. The flip side of this could be that American vitality, together with the fiscal stimulus, could lead to stickier inflation, which is something that we have seen can add to volatility.

So, Georgios, may I turn to you on this. What has been going on in the rate markets as a result of this and what's our view?

Yes, thank you Willem. Indeed, rates have been reacting to the strength of economic data, but also to the expectation that some of the policies of the new US administration will have reflationary aspects. Now, what we do have to consider is that some of the policies of the Trump administration may also entail some offsetting characteristics. For instance, a stronger dollar but also higher oil production, as Jose alluded to before, can also create a cap, in terms of energy prices.

So, I think looking forward, there is still some uncertainty in terms of the outlook on inflation. But the good news is that we are at a slightly better starting point. The December print for CPI was more benign, and base effects for the next few months are also a little bit more favourable.

So, when it comes to Fed policy, we still think that the Fed is still poised to deliver cuts, but it might not be in such a hurry to do so.

So, it might be a little bit more gradual. In terms of equity markets, we started the year with some concern that the level of Treasury yields could be an obstacle for multiple expansion going forward. Now, when we look at our expectations for equity market performance, we're of the view that it's rather earnings growth and not multiple expansion that should drive returns going forward. And indeed, expectations for earnings are still relatively conservative, whereas corporates are expected to deliver on those results, and that should support our view on equity markets for this year.

Now Jonathan, Georgios has described our view on inflation and on the Fed. What does that mean in terms of our bond strategy?

The start of the year we saw a bit of volatility in bonds. Actually, what was happening is volatility in the US bond market was spilling over to other regions, and you saw that in the UK, in the gilt market. And we were getting a lot of questions about the gilt market and what that meant because of those high yields for the fiscal position of the UK.

So that is something that's created a bit of uncertainty. And we take a step back and look at this and see what is the opportunity here. And because of the volatility in the high yields, you've got to the point where the opportunity was to take a little bit more duration, because you are now seeing real yields, that's inflation adjusted yields, at attractive levels.

So, we are happy, given that we think that there's probably going to be more rate cuts than the market anticipates. We're happy to take that duration, particularly, in places like the UK, because we want to lock in those attractive real yields. But it also underscores the importance of taking an active approach as well. And using active managers, where we feel appropriate.

Jonathan, if I may add, I think you've just summarised very well one of our four priorities in our quarterly Investment Outlook, which is Fighting falling cash rates through active fixed income and multi-asset portfolios. I think this year will provide several opportunities for investors to look at any swings in terms of market pricing and really take that as an opportunity to either lengthen duration, shorten it, and potentially go down or up the credit rating ladder as well. So, I think that's a healthy reminder for investors to look at the fixed income space in order to seize elevated real yields, but also to use them as a tool for diversification across their portfolios.

Regarding the multi-asset approach, I think it's important to include alternatives, which are another tool to help diversify and manage volatility. In fact, I think that in 2025, this is the area where many clients in Asia will be adding exposure. It's about broadening the opportunity set, as many companies stay private for longer. Looks like 85% US companies with more than $100 million of revenue are private. Valuations of private companies are typically also cheaper, as acquisition purchase multiples in private markets did not rise much in the past year, in sharp contrast of what we saw in the public markets. And that may have been due to PE managers being prudent as financing costs were high. So, some clients are looking at private markets as a way to address their concerns about high public market valuations.

And, I think, Fan, that there are actually good reasons to believe that valuation gap may narrow. One of the things that we've not yet talked about is the fact that the US administration is relatively friendly to M&A, and that should create more exits from the private equity funds and distributions to investors.

And, of course, with a healthy sentiment in public equity markets, we could see more IPO deals as well, which will then improve the reference pricing points for private equity and narrow that valuation gap. Rising capital market activity, which we are seeing is usually also positive for private equity managers, and clients tend to be quite optimistic about private equity here.

Willem, it's not just private equity, though. We also see strong opportunities in private credit and infrastructure, especially where they intersect with the data driven economy and the re-shoring on the creation of manufacturing jobs. Private credit is stepping into key sectors like manufacturing, logistics, infrastructure, energy. If you look especially at the AI and data centre businesses, there's a great need for capital, and capital is flowing in.

And last but not least, I would say the convergence of credit infrastructure and re-shoring is leading to a lot of high growth investment opportunities. And the final point I would make is if you look at distressed debt opportunities in the commercial real estate markets, they exist as well.

Let's cross the Pacific now Fan, towards Asia. I saw many clients who are looking at that valuation gap between the US and China in particular. And some find it hard to sell China here and to buy a much more expensive US because of that gap. What do you say to those clients?

We stay neutral on Chinese stock in anticipation of increased two-way market volatility driven by Trump's additional tariffs imposed on Chinese goods and Beijing's policy stimulus to mitigate the trade challenge. The markets have been waiting for more convincing demand-side fiscal stimulus to boost private consumption, but we still need to wait for policy clarity at the National People's Congress in March. We expect China's GDP growth to decelerate to 4.5% this year from 5% last year, due to persistent debt deflationary pressure.

Now, it struck me during our trip that the sentiment in Southeast Asia is actually much more optimistic than in China. On the one hand, the region would, of course, benefit from China's policy stimulus, and in addition, there are beneficiaries of the "China+1" strategies in Southeast Asia. But that's not without a risk, because of course, there may be quite a bit of Chinese content in the products that they export to the US. So that could make them subject to some tariffs, isn't it?

Indeed. So, to navigate the trade uncertainties, we focus on discovering domestic resilience in Asia. We position in quality, domestically driven industry leaders that rely on domestic demand and have limited exposure to the US market. We are overweight stocks in Japan, India and Singapore, which are less exposed to US tariff risks, and they are also well supported by positive domestic growth drivers. We find more attractive structural growth opportunities in India and ASEAN.

Now for the final section of our discussion, let's take a step back. In our discussions and in our

Investment Outlook as well, we listed a lot of interesting thematic ideas, and every client of course, will make their own choice. But may I ask all of you to tell me your favourite topic and the one that you really want to highlight? Fan, maybe I start with you.

Sure. We have launched a new theme called Power Up Asian Shareholder Returns that focuses on companies that enhance ROE by paying high dividends or increasing share buybacks. Consensus estimates project broad-based improvement in Asia ex-Japan ROE to an average of 12% this year. Another theme that we like is the Rise of India and ASEAN, that focus on structural growth opportunities from the young demographics, rising middle class consumers, supply chain reorientation and tech investment boom in India and Southeast Asia.

Willem, for me, not surprisingly, it would be American Vitality and Automation & AI. If you look at the new administration: pro-growth, pro-business, deregulation, hopefully lower Fed funds rate and lower inflation give us a pretty good recipe for productivity and profitability. And on the AI & Automation side, the re-shoring and near-shoring and on-shoring of jobs, these are going to be heavily tech driven jobs and plants that are being built. And it's all going to be very automated. So, the need for automation and that next wave of AI is bigger than ever.

If I may, I would like to highlight Aerospace & Security, because I feel that this theme captures both the opportunities as well as the risks from technological innovation. On top of that, I would also add seeking Income Through Active Credit Selection. As we mentioned before, real yields are elevated, and also the volatility that we may see in the months and quarters to come provide a ripe environment for active managers to seize upon.

I'd like to highlight NextGen Medicines, that governments are spending way too much on healthcare and they really want to cut those costs down. So, to get those productivity gains, you're going to have to look for these kind of NextGen advancements. And I think it was important to highlight that the Nobel Prize for Chemistry was actually given to DeepMind with their work on proteins using AI. So, I think it's also a play on AI and tech. And I'd also like to highlight Silver Economy & Demographics. There are a lot of baby boomers with a lot of savings, very low leverage. And they're really starting to spend those savings now. You can see that coming through in the data.

And for me, if I may add, it's actually not a thematic, it's about portfolio construction. I think multi-asset portfolios to broaden that opportunity set and building out alternatives for 2025 is super important.

Thank you all very much for this quick tour around the world. Those are some really practical ideas, which we have conviction in. So, all that remains for me is to summarise our priorities for investors.

So first, as you know, we capture earnings tailwinds from policy priorities and innovation.

Secondly, we fight those falling cash rates with multi-asset and active fixed income strategies, as I mentioned.

Thirdly, we build out our core allocation to private markets and hedge funds.

And lastly, Fan has discussed how we discover domestic resilience in an evolving Asia.

This is clearly going to be a year with a fair degree of volatility, so we need to be tactical. But there are many opportunities, as you heard, so cash is not the right place to be.

And the strategies we described are here to power up your portfolio.

Thank you, Fan, Georgios, Jonathan, and Jose for your insights and the interesting discussion.

And thanks to all of our clients for watching.