



BOCHK
2025 Market Outlook &
Investment Strategy
May Version





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- **Global economy** | On April 2, Donald Trump announced a global tariff policy, including baseline tariffs, reciprocal tariffs, and tariffs on specific industries. Subsequently, the global financial system has experienced fluctuation, and the US market has suffered from a simultaneous fall of stocks, bonds and foreign exchange. Caused by the capricious policies adopted by Trump, the market has yet to fundamentally restore confidence. Moreover, a recession risk increased in the US. Subsequent to the announcement of reciprocal tariffs in the US in early April, raising the market's concerns about the European economic prospects, the ECB's Governing Council unanimously supported a "precautionary" rate cut of 25 bps in April. In addition to the Infrastructure Fund in Germany, the EU is also proposing a plan which could free up around EUR 800 billion in defense spending by member countries. These measures are likely to support the economy in the Eurozone. The UK economy experienced a strong rebound in February. In particular, the economy grew by 0.5% month-over-month, superior to the market's expectations of growth of 0.1% and the decline of 0.1% in January, with all three major industries experiencing positive growth. The UK raw material imports and consumer market are largely dependent on the outside world, which may also weaken UK investment and consumer confidence. Regarding the subsequent pace of rate cuts, the BoE needs to take into account the impact on trade, economy and inflation. China's GDP grew by 5.4% year-over-year in Q1 and 1.2% quarter-over-quarter. The final consumption expenditure contributed 2.8 percentage points to the GDP growth, with a contribution rate of 51.7%, higher than the rates in Q3 and Q4, 2024. Net exports of goods and services contributed 2.1 percentage points to the GDP growth, with a contribution rate of 39.5%, hitting a record high. In a nutshell, the economic data in Q1, 2025 performed well. According to estimates, in case that the growth rate of final consumption expenditure in 2025 can recover to the average growth of 5.2% from 2020 to 2023, then the contribution to GDP growth can reach 2.93 percentage points; and in case that the growth rate of gross capital formation can increase to about 4% from 2019 to 2021, then the contribution to GDP can reach 1.65 percentage points. Therefore, achieving the growth target of about 5% requires further macroeconomic policies, and it is expected that policies of RRR and interest rate cuts are likely to be adopted in Q2. In the short term, against the existing of uncertainties, the risk aversion sentiment is still the main logic of the market.
- **Stock market** | Since early 2025, DeepSeek has broken the US monopoly on AI technology. Moreover, the package policies rolled out by Donald Trump affected the market sentiment. The valuation premium of US stocks is decreasing. With future market development, it may trigger a market reassessment of the investment value of US stocks. The S&P 500 Index has formed a pattern of death cross, and short-term corrections may evolve into a prolonged decline. Although European stocks have also experienced declines, their year-to-date returns remain better than those of US stocks. While 20% of EU exports are directed towards the US, they account for merely 3% of nominal GDP. Given that the ECB has cut policy rates multiple times and fiscal policies across the region remain supportive to some extent. Positive news could trigger a rebound in European stocks, and volatility is expected to persist in the near term. In China, upcoming stimulus policies to bolster demand and to stabilize economic fundamentals are likely to restore market confidence. Supported by policy tailwinds, China A-shares may offset the impact and outperform other markets. In May, the China A-share market could exhibit relatively independent market movements. Overall, we adopt a rather bullish view on sectors with long-term growth potential, including consumer staples (benefiting from policy catalysts) and undervalued sectors, and new energy and technology sectors are also particularly promising. Moreover, the Chinese mainland's improving fundamentals and favorable policies are boosting investors' sentiment in the Hong Kong, China market, thereby enhancing the appeal of its undervalued stocks. Japanese stocks heavily reliant on exports, further appreciation of the JPY could erode corporate earnings and trigger a double-dip of the market. Reciprocal tariffs could also impose a significant impact on Asian markets, especially export-reliant economies like Vietnam and Singapore that are specialized in electronic components. While the temporary suspension of tariffs offers brief relief, the future impact of tariffs cannot be ignored.



- **Bond market** | Due to uncertainties, the yield movements of US Treasuries may fluctuate repeatedly. From a tactical aspect, short-term US bonds may be utilized to lock in yields while mitigating the impact of volatile bond yields. The European economy is still faced with downside risks, and the ECB is expected to remain in a cycle of interest rate reductions. Coupled with rising demands for safe-haven assets, European sovereign bonds and investment-grade corporate bonds are likely to be supported. Nevertheless, given the recent great rally in European bonds, yields may experience periodic rebounds amid the broader downtrend. Global economic uncertainties have been intensified, and PBOC aimed at prioritizing domestic recovery are faced with relatively limited pressure on exchange rates. As such, monetary easing is likely to speed up, and expectations have been raised for RRR cuts and interest rate reductions. In May, the bond market is expected to remain strong with a bullish bias, and bond yields are likely to maintain a downward trend. Chinese USD bonds are likely to benefit from heightened global economic risks and rising sentiment of risk aversion, along with anticipated monetary easing in China and a recovery in IPO. The current timing remains favorable for asset allocation. Furthermore, emerging market bonds remain constrained by declining risk appetites with overall performance likely to stay subdued.
- **Commodities** | In April, the gold market hit a record high as driven by the dual forces of “increasing safe-haven demands and monetary easing”. Looking forward to May, closer attention shall be paid to the market sentiment and technical overbought pressure. In the mid-to long-term, it is to adopt a strategy of “buy on dips” to cope with uncertainties. In May 2025, both supply and demand factors are weighing on crude oil price. As such, the market is still likely to consolidate near the bottom. On the demand side, global economic growth is facing challenges. According to the forecasts by the Fitch, the global economic growth in 2025 is expected to drop significantly to below 2%, marking the lowest level in 16 years since 2009, sending bearish signals for oil prices. On the supply side, the OPEC’s oil production remains relatively stable, while the US is encouraging increased crude oil output to gain greater market share and to achieve its goal of lowering oil prices and curbing inflation.
- **Foreign exchange** | The policies of reciprocal tariffs rolled out by Trump emerged as the dominant variable in global financial markets in April. The market’s confidence is affected and introduced uncertainties over future economic prospects and briefly pushing the USD index back below the level of 100. Looking forward to May, with respect to specific currencies, US dollar: USD is likely to hover at lows. Euro: EUR is likely to be bolstered by the loosening of fiscal constraints. British pound: GBP tends to skew to the downside. Japanese Yen: JPY is expected to have greater room of appreciation, and attention shall be paid to the negotiations between the US and Japan. With respect to commodity currencies, Canadian dollar: CAD is likely to oscillate with a rather weak pattern amid resistance. Australian dollar: AUD is expected to oscillate with a rather bullish pattern, and attention shall be paid to key support levels. Renminbi: RMB is likely to remain basically stable at a reasonable and balanced level against the backdrop of greater pressure imposed by external as well as maintenance of policy support.



Asset Allocation

Fig. 1: Overview of Global Asset Allocation Perspectives for 2025

Stocks	Underweight		Standard Allocation	Overweight	
	Bearish	Conservative	Neutral Allocation	Recommended	Bullish
US (S&P 500)		●	●		
Europe (DAX, CAC)		●	●		
UK (FTSE 100)		●			
Japan (Nikkei 225)			●		
China A-shares (CSI A500)				●	
China Hong Kong Stocks (Hang Seng Index)				●	
Bonds	Bearish	Conservative	Neutral Allocation	Recommended	Bullish
US Treasuries				●	
Chinese USD Bonds				●	
China: Money Market			●		
China: Rate Securities			●		
China: Credit Bonds			●		
China: Convertible Bonds				●	
Commodities	Bearish	Conservative	Neutral Allocation	Recommended	Bullish
Gold				●	
Silver				●	
Crude Oil		●			
Copper		●	●		
Aluminum			●		
Foreign Exchange	Bearish	Conservative	Neutral Allocation	Recommended	Bullish
US Dollar (USD)			●	●	
Euro (EUR)		●	●		
British Pound (GBP)			●		
Canadian Dollar (CAD)		●			
Australian Dollar (AUD)			●		
Japanese Yen (JPY)		●	●		
Malaysian Ringgit (MYR)			●		
Indonesian Rupiah (IDR)			●		
Renminbi (RMB)			●		

Source: BOC Investment Strategy Research Center

Notes: The black dots represent annual opinions, and the red dots represent revised opinions for Q2.



Opportunities and risks of investors' asset allocation in Q2

In general, Q2 is likely to be a period of multi-party development. Global trade development, economic growth and sustainable development will be subject to multi impact, and the impact is expected to reach the maximum extent in Q2, 2025. The direct consequence of rising uncertainties within the market is the increase in global asset volatility. Except for gold, which has a strong function of hedging volatility, the timing of the conversion between risks and opportunities of other asset categories may be difficult to grasp.

With respect to opportunities, every cloud has a silver lining. First, gold is the most certain opportunity among major asset categories. This is the common belief of global funds for “establishing the new before abolishing the old” international economic order. Second, at a certain moment, risk assets are mixed with turbulence, and there is an opportunity for mean reversion brought about by overreaction. It is foreseeable that the fluctuation in US stocks will be transmitted to Internet stocks of Chinese concept shares, and then drag down the irrational and sharp declines of the Hang Seng TECH Index. We tend to focus on the opportunities brought by the oversold Chinese equity assets, including the STAR board and the Hang Seng TECH Index, as well as the opportunities of asset allocation into the oversold US stocks. Third, closer attention shall be paid to the opportunities brought by the development of US policies and the adjustments of the Fed's policies. Furthermore, it may be too early for opportunities of “establishing the new before abolishing the old” international economic order to arise in Q2, but once the trend is initiated, the capital market will definitely react in advance, thus providing opportunities of investments.

With respect to risks, closer attention shall be paid to the risks after substantial adjustments. The market atmosphere in Q2 must be filled with the coexistence of bad news and good news of policy hedging. The mix of information, requires investors to have a vision in investment and maintain composure. It is recommended to adhere to the principles of asset allocation, while adapting to changes by remaining unchanged. Moreover, investors shall refrain from massive selling after a big drop. The risks that need to pay attention to do not mean they will inevitably occur, but responsive measures shall be taken in the portfolios of asset allocation.

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