In collaboration with:

J.P.Morgan ASSET MANAGEMENT

UOB 90 Years and Beyond

Monthly Investment Insights

JUNE 2025

TOPIC 1:

Teasing signals from the United States (US) economy

With trade negotiations evolving, recent data reveals the US economy is slowing but not yet breaking.

What you can do

→ US stocks should never be ignored, but if your portfolio is heavily tilted towards US stocks, now may be a good time to consider diversifying into global stocks and other asset classes.

→ Tariff developments continue to dominate attention, resulting in continued investor caution and market fluctuations. Though the US Court of International Trade ruled that the vast majority of President Trump's tariffs are illegal, the Trump administration appealed the ruling and an appeals court allowed the tariffs to remain in effect during this time. If the appeal is unsuccessful, it was reported the Trump administration is considering alternative measures to impose wide-ranging tariffs.

→ The contraction in US 1Q 2025 gross domestic product (GDP) was mainly due to businesses rushing to import goods before tariffs took effect. As a result, imports surged an annualised 42.6%, the most in nearly five years, which meant that net exports (exports minus imports) dragged down overall growth by 4.9%. However, consumer spending still expanded, though at a slower pace, especially in durable goods and services, with the latter largely unaffected by tariff policies.

→ April's jobs report was closely watched, being the first since the 2 April "Liberation Day" tariff announcement. It showed US non-farm payrolls rose 177,000, beating expectations. While the April jobs number was positive, the trend over recent months shows hiring is slowing (Figure 1), which is backed up by falling job openings and continuing jobless claims hitting the highest level since November 2021.

→ These economic data suggest the US economy is slowing but not yet breaking. Nonetheless, growth will likely slow further as the uncertain policy outlook makes it difficult for businesses to plan, which could result in delayed investments and hiring.

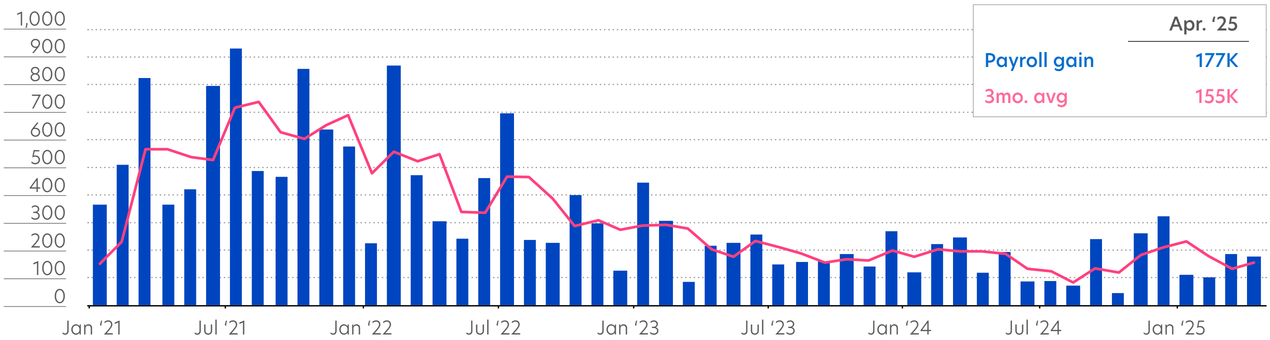
→ It is important to note this slowdown is driven by tariff policy uncertainty, not by structural problems in businesses or households, unlike during the 2008 Great Financial Crisis. The market environment is likely to improve in the second half of 2025 when there is tariff clarity, and the focus turns to US tax cuts, deregulation, and interest rate cuts.

→ US stocks should never be ignored given the sheer size of the market, and the innovation and growth prospects of US businesses. However, if your portfolio is heavily tilted towards US stocks, now may be a good time to consider diversifying into global stocks and other asset classes. This can be done through globally diversified equity funds or multi-asset strategies.

Figure 1:

US April non-farm payrolls were robust but the trend is weakening

Month-on-month change and 3 month moving average (seasonally adjusted), in thousands



Source: BLS, FactSet, J.P. Morgan Asset Management

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TOPIC 2:

Solid US corporate earnings cannot mask uncertain outlook

US corporate earnings in 1Q 2025 were solid, with around 77% of companies beating earnings per share (EPS) estimates, slightly higher than the five-year average. However, companies warned of an uncertain outlook.

What you can do

→ Focus on companies with strong balance sheets, solid profit margins, and pricing power. Investors with higher risk appetite can consider opportunities in technology and developed market financials.

→ 1Q 2025 US corporate earnings reveal that consumer spending and manufacturing were brought forward ahead of higher tariffs, while a weaker US dollar (USD) made US exports more affordable for foreign clients.

→ The technology sector remains the main driver of overall earnings growth, with healthcare also contributing strongly due to a lower base of comparison from last year (Figure 2). On the other hand, energy-related companies struggled because of lower oil prices, while a slowing Chinese economy weighed down on the materials sector.

→ For now, 2025 full-year earnings forecasts are still high as investors struggle to recalibrate their projections due to US policy uncertainty, but many companies have become more pessimistic in their outlook.

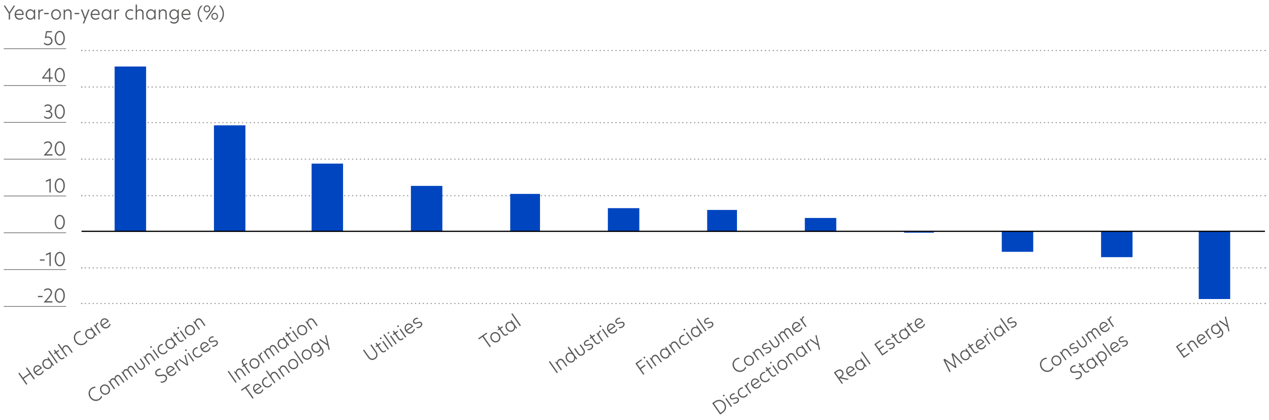
→ It was telling how most companies cited tariffs as their main concern, with some companies not providing earnings guidance for this year due to the uncertain outlook. Higher levies and confusion about specific tariff levels may lead to weaker demand, reduced trade, rising costs, and growing uncertainty. These pressures could shrink corporate revenues and profit margins, and lead businesses to cut back on hiring and capital investment.

→ A key question is whether US consumers, especially the top 10% who account for nearly half of all consumption, will keep spending despite tariffs. The consumer discretionary sector may struggle more, while consumer staples (groceries and personal care for example) may remain resilient as it tends to see steady demand even during economic downturns.

→ In this uncertain backdrop, companies with strong balance sheets, solid profit margins, and pricing power are likely to be most resilient. These can be found in sectors like financials and utilities due to their domestic focus and service-based business models. While the technology sector may face challenges due to its heavy reliance on global supply chains and global sales, it remains underpinned by structural developments and investments in artificial intelligence (AI).

Figure 2:

1Q 2025 S&P 500 earnings per share (EPS) growth by sector



Source: J.P. Morgan Asset Management

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TOPIC 3:

US Federal Reserve (Fed) waiting for uncertainties to clear

The Fed will continue to be patient given the uncertain outlook for the economy and inflation, but is expected to cut interest rates later this year to ward off downside growth risks.

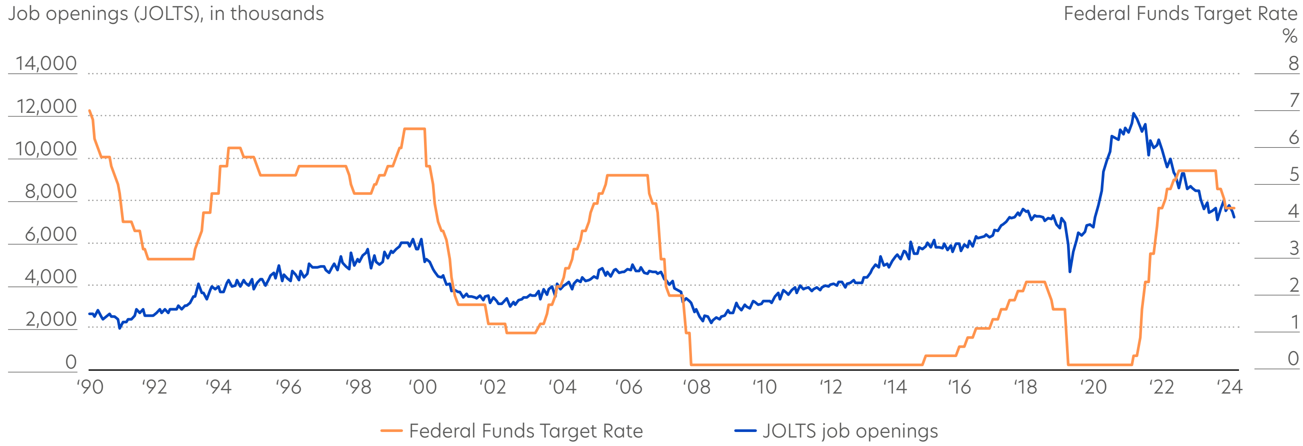
What you can do

- With rate cuts merely delayed, investors should focus on high-quality, income-generating assets such as investment grade bonds and quality dividend stocks.

- At the Federal Open Market Committee (FOMC) meeting in May, the Fed kept interest rates unchanged at 4.25% - 4.50% for the third time in a row. Although signs of a policy-driven economic slowdown are starting to appear, the Fed is sticking with a cautious "wait and see" approach and feels this is appropriate until the tariff impact is clearer.
- The policy statement highlighted the difficult balancing act faced by the central bank. For now, the Fed prefers to be patient and is not ready to react based on just one quarter of weak economic growth. Broadly speaking, their view is the US economy is still expanding at a solid pace while the labour market remains resilient. Nonetheless, the Fed did warn that uncertainty about the economic outlook has increased, and both inflation and unemployment risks have increased due to tariffs.
- The Fed has avoided the question of whether it will prioritise fighting inflation or supporting employment if both became a problem. As things stand, we hold the view that tariff-led inflation will be a one-time spike that subsequently fades. A key metric to watch is US job openings, as the trend typically corresponds with Fed policy shifts (Figure 3). If job openings continue to fall ahead, that may lead to a greater acceptance within the Fed to lower interest rates.
- In short, rate cuts will happen, but later than previously expected. The Fed is holding off on action until it knows more about the tariff impact. Investors now expect the next rate cut to only happen in September. We expect three 25 basis points (bps) rate cuts this year, especially if job openings keep declining.
- With rate cuts still expected later in the year, investors should focus on high-quality, income-generating assets such as investment grade bonds and quality dividend stocks.

Figure 3:

Fed policy shifts typically corresponds with the trend in US job openings



Source: U.S. Department of Labour Statistics, U.S. Federal Reserve, FactSet, J.P. Morgan Asset Management.

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