In collaboration with:
J.P.Morgan ASSET MANAGEMENT

Monthly Investment Insights

MAY 2025

TOPIC 1:

Taking stock of tariff shock

The 90-day pause on reciprocal tariffs provides temporary relief for global financial markets but prolongs uncertainty, which may impact economies.

What you can do

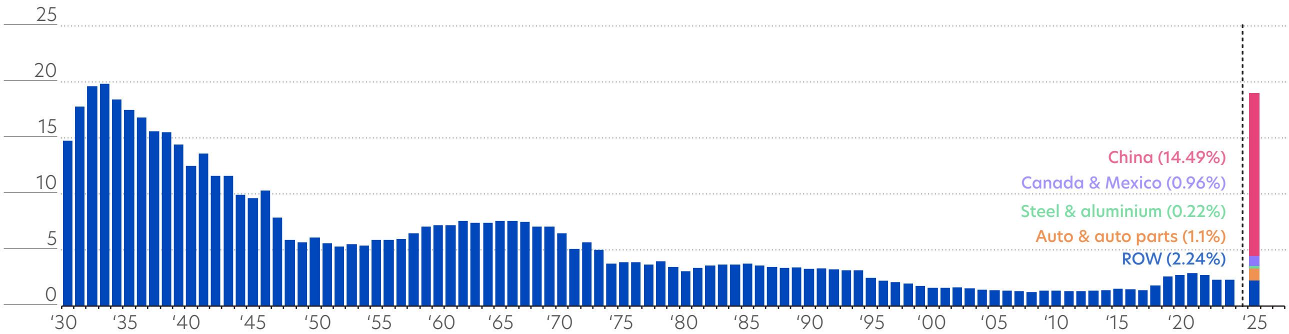
- Consider adding high quality investment-grade bonds to your portfolio to mitigate against heightened market volatility and potential correction in the stock market.

- United States (US) President Trump has announced a 90-day pause in the implementation of reciprocal tariffs. All countries that export to the US now face a 10% baseline tariff, except for China, which had tariffs on its goods raised to 145%. This suggests the Trump administration may now be more sensitive to disorderly market fluctuations as seen in early April.
- The tariff deadline extension offers temporary relief but does not significantly reduce uncertainty for investors, consumers, or businesses. This uncertainty may lead to front-loading as countries rush to buy goods before tariffs take effect.
- Despite the pause on reciprocal tariffs, the US effective tariff rate remains elevated at 19% (Figure 1). This is about eight times higher than the 2.4% level before President Trump's inauguration and the highest in over a century. As a result, global economic growth and inflation may be impacted, although the effects will vary depending on the final tariff rates.
- This issue may be addressed if individual countries successfully negotiate with the US, but the negotiation process may be long-drawn and challenging. During this time, business and consumer sentiment may continue to be cautious.
- The potential for a policy pivot, whether trade, fiscal, or monetary, has always posed a risk of significant changes in market conditions. The escalation of trade tensions between the US and China will likely slow Asia's economic growth, particularly for export-reliant countries. We expect more central banks to ease monetary policy to support their economies.
- Given the twin shocks of potentially higher inflation and weaker growth, investors should maintain a diversified portfolio with allocations across both stocks and bonds. High quality investment-grade bonds can help you earn attractive income and lower the volatility of your overall portfolio.

Figure 1:

Average tariff rate on US goods imports for consumption*

Duties collected / value of total imports for consumption (%)



Source: Goldman Sachs Investment Research, Tax Foundation, U.S. Department of Commerce, United States International Trade Commission, J.P. Morgan Asset Management.
*Imports for consumption: goods brought into an economy for direct use or sale in the domestic market. This does not include goods admitted into bonded warehouses or foreign trade zones. The data above incorporates all current official revisions for 2010-2020 as of July 2021. Forecasts are based on current data and assumptions about future economic conditions. Certain imports are excluded, including copper, pharmaceutical products, lumber, semiconductors, and energy (coal, petroleum, gas, and electric current). Forecasts are based on 2024 import levels. It assumes no change in demand due to tariffs or retaliatory tariffs. Actual results may differ materially due to changes in economic, market and other conditions.
Data reflect most recently available as of 30 April 2025

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TOPIC 2:

Seeking refuge in Gold

Gold has surpassed USD3,500/oz, and its status as a safe haven asset might be worth considering during this period of policy-driven uncertainty.

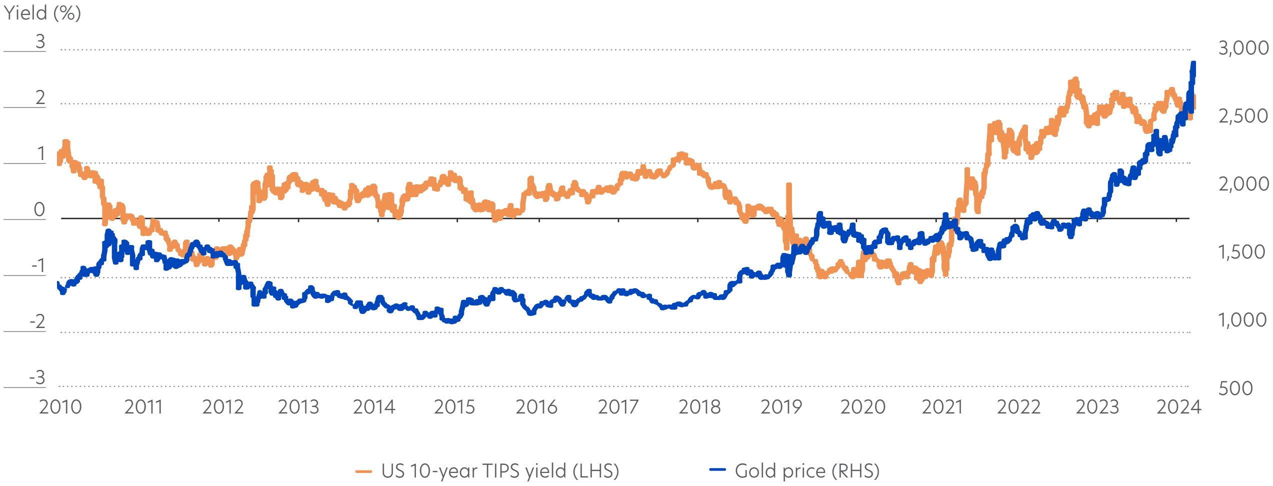
What you can do

- Gold serves as a defensive portfolio diversifier amid geopolitical risks and trade tensions. However, being a non-interest-bearing asset, keep the allocation between 5-10% for diversification purposes.

- In the present climate of economic and geopolitical uncertainty, investing in Gold may be a prudent option for those seeking safety beyond stocks and bonds. The economic policy uncertainty index has risen to levels not seen since the Covid pandemic period, due to the scale of tariffs and the unpredictable policy announcements by the Trump administration.
- The recent announcements of substantial tariffs followed by rapid retractions have resulted in increased volatility in the US Treasury bond market, especially in longer duration bonds. This indicates a potential loss of confidence in US assets due to the current unpredictability in policy decisions.
- Gold has a relatively low correlation with stocks and bonds, making it an attractive portfolio diversifier. Unlike metals such as copper, Gold's value is not tied to industrial usage, which shields it from the negative impact of tariffs. It is also not like bonds or dividend stocks that rely on generating cash flow, which may be impacted by inflation and interest rates. Gold offers protection against geopolitical instability, inflation, and lower interest rates since it is a non-interest-bearing asset.
- Historically, Gold prices have been inversely correlated with real yields, which is the yield after accounting for inflation. One of the measures is the 10-year Treasury Inflation-Protected securities (TIPS). However, since the Russia-Ukraine conflict started in 2022, this relationship has changed (Figure 2). Other factors driving this could be that emerging market central banks have been increasing Gold purchases to diversify away from the US dollar and US government bonds in recent years. This trend may continue given the unpredictability of the Trump administration.
- In this environment marked by geopolitical and trade uncertainty, Gold stands out as a valuable portfolio diversifier and a hedge against market risk. Its unique characteristics make it a resilient asset during periods of economic turbulence.

Figure 2:

Gold and Treasury Inflation-Protected Securities became positively correlated since 2022



Source: CME group, FactSet, J.P. Morgan Asset Management

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TOPIC 3:

Asia hit hardest by tariffs

Some Asian economies have been hit with the highest reciprocal tariff rates. However, tariff exposure varies across countries, and the varying economic impact may prompt different policy responses.

What you can do

→ Quality dividend stocks provide consistent and attractive income amid trade uncertainties. Asian dividend stocks should not be ignored as they are typically domestic-focused businesses that may be less affected by higher tariffs.

→ Asian markets have been heavily impacted by tariffs due to a higher reliance on exports. Most Asian policymakers are open to negotiating with the US, aiming to reduce both tariff and non-tariff barriers.

→ Policymakers in Asia are expected to address the impact on growth through a combination of fiscal and monetary policies, although the specific measures will vary by country.

→ In China, additional fiscal measures are anticipated to mitigate the effects of tariff shocks. The fiscal measures may involve increased issuance of government bonds to boost domestic demand, and a focus on investments in emerging sectors such as green technology. Monetary policy easing, such as cuts to key policy rates and the Reserve Requirement Ratio (RRR), is also expected to support the economy.

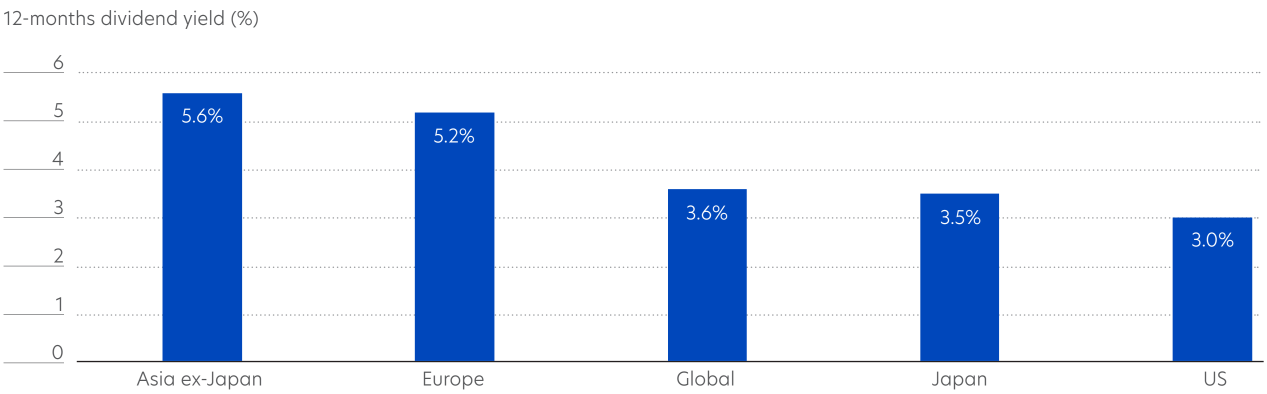
→ Outside of China, trade-dependent markets like Vietnam, Thailand, Singapore, and Malaysia could be disproportionately affected if reciprocal tariffs are reinstated after the 90-day pause.

→ Most of these governments may not be able to deliver substantial fiscal stimulus due to budget constraints and the need to cap their budget deficit. This places an increased reliance on monetary policy to support economic growth. Given softer growth and inflation dynamics, elevated real interest rates, there is scope for regional central banks to deliver more interest rate cuts.

→ In terms of investment implications, there are still structural factors that could bolster Asian financial markets, including room for policy support and attractive stock valuations. In this uncertain environment, we continue to focus on high quality dividend stocks. Asian dividend stocks remain attractive despite trade tensions as regional companies that pay dividends are typically domestic-focused and may be less affected by higher tariffs (Figure 3).

Figure 3:

Asia ex-Japan companies have the highest dividend yield among the broader markets



Source: Bloomberg. Asia ex-Japan refers to MSCI AC Asia ex-Japan High Dividend Yield Index. Europe refers to MSCI Europe High Dividend Yield Index. Global refers to MSCI World High Dividend Yield Index. Japan refers to MSCI Japan High Dividend Yield Index. US refers to MSCI USA High Dividend Yield Index.

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