EQUITY ADVISORY ASIA

Equity Perspectives

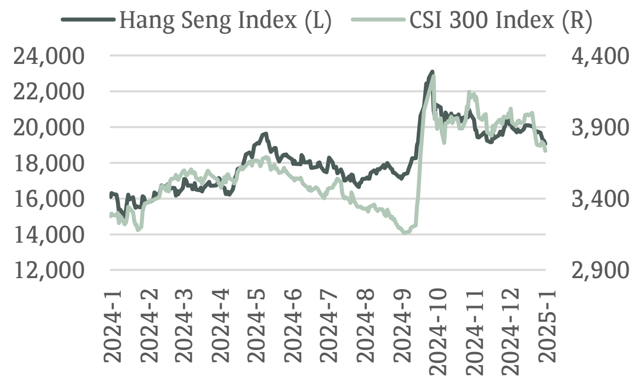
HK / China ▪ United States ▪ Europe / UK

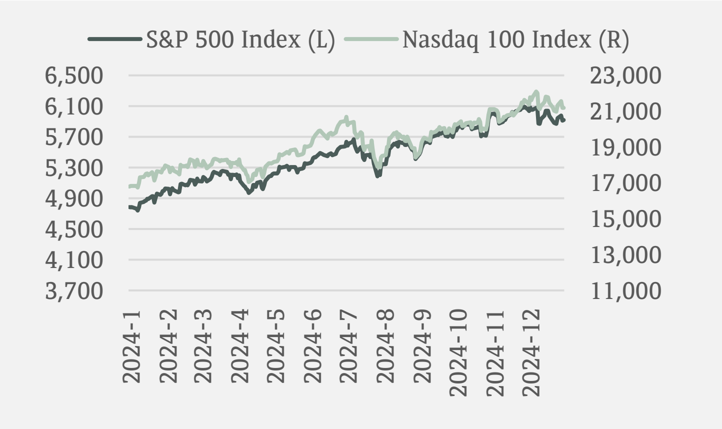
January – February 2025

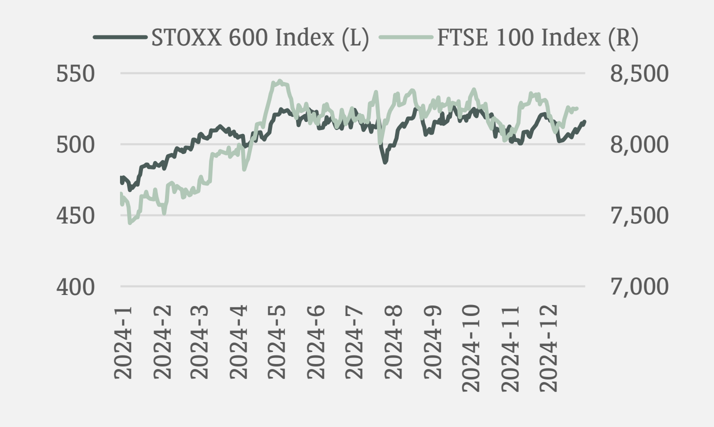
BNP PARIBAS
WEALTH MANAGEMENT

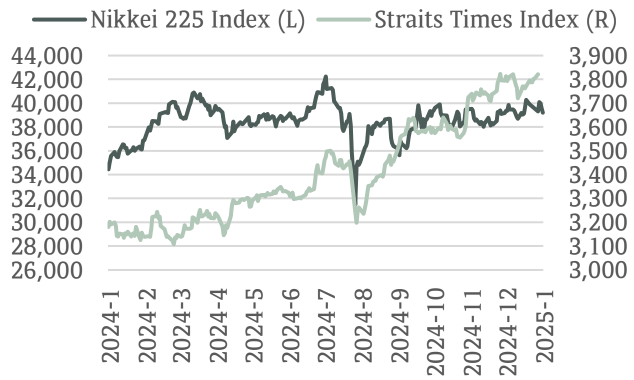
The bank
for a changing
world

Major indices performance at a glance









Source: BNP Paribas, Bloomberg, as of 9 January 2025
Past performance is not indicative of current or future performance

MARKET SNAPSHOT

Stocks around the world experienced a bumpy start to 2025 as an ever-resilient US economy sparked a surge in yields to levels last seen in late 2023. Nevertheless, structural drivers remain intact, supportive of further growth in 2025 albeit amidst some volatility.

This is especially true in the US, whereby potential pro-growth policies from President Trump are likely to bolster company earnings within the country. AI beneficiaries will likely continue to benefit from the theme, while elevated yields and a strong USD are supportive for sectors such as financials and traditional energy.

Meanwhile in China, the government's recent shift to a more expansionary stance is likely to also lead to stronger stimulus packages throughout 2025.

European shares still trade at undemanding valuations, with the UK's defensive merits remaining favourable, in our view.

LATEST MARKET UPDATE

HK / China: New Playbook 2025

Tackle economic challenges by adequately loose monetary policy, unconventional countercyclical adjustments and resilient stock market

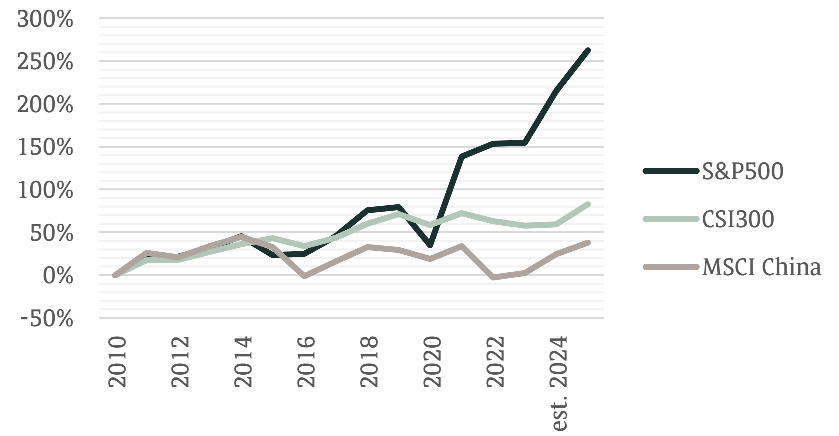
What happened?

Top policymakers vow to double down on fiscal and monetary stimulus in 2025, the final year of the 14th Five-Year Plan. China Politburo steered monetary policy to "adequately loose" from" prudent", which has been the theme since late-2010. Indeed, the phrase "adequately loose" is so far the most dovish expression from China that had only been used during 2009-2010 in response to the global financial crisis and European debt crisis. It is also noteworthy that the top leaders emphasised *more* proactive fiscal policies and *strengthening* unconventional countercyclical adjustments, as well as stabilisation of property market and stock market.

Our view

Though details for corresponding stimuli probably will only be available during "provincial-level Two Sessions" in January-February 2025, we think it is never too late to restart the growth engines. Index level earnings per share (EPS) of China CSI300 has been stagnant in the past six years, whilst EPS of US S&P500 Index took quantum leaps over the same period. Monetary easing, broad-based stimuli and deregulation are proven tools to reinvigorate corporate earnings growth, which is essential for a sustainable stock market rally. However, investor expectations are not low, whereby consensus EPS growth of CSI300 for 2025 is almost 15%, which will be the highest rate since 2011.

CUMULATIVE INDEX LEVEL EPS GROWTH FOR S&P500, CSI300 AND MSCI CHINA INDEX (BASE YEAR 2010)



Source: Blomberg, BNP Paribas as of 2 January 2025
Past performance is not indicative of current or future performance.

How to play the game?

Record low China government bond yield	Large-cap H-shares with track records of resilient dividends. Historical low bond yields may prompt mainland Chinese investors to put their money in high-yield alternatives.

Notable Developments in Selected Sectors

- **Financials:** Yield of 10-year China government bonds broke below the 2% mark at the beginning of December 2024 and nosedived since then to 1.6% as of 2 January 2025. The downward parallel shift in yield curve should have limited impacts on Chinese banks' net interest margin whilst planned cuts to reserve requirement ratio may underpin loan growth and net interest income, in our view. Meanwhile Chinese insurance companies are likely struggling to meet their assumed long-term investment return of 4-4.5% when interest rates fall rapidly.
- **Consumer Discretionary and New Energy Vehicle (NEV):** Premier Li vowed to extend and expand the government-backed consumer trade-in program to encourage consumption in 2025. He also vowed to promote investments in NEV-charging infrastructure. China has the world's highest NEV sales penetration rate of 52.3% as of November 2024, according to China Passenger Car Association, that is more than double that of Europe and nearly quintuple that of the U.S.

LATEST MARKET UPDATE

US: Pro-growth Policies to Drive Momentum

What happened?

US stocks have outperformed world equities in 2024, driven by better-than-expected earnings growth and supportive financial conditions. Following the stunning Trump election win in November 2024, which led to a jump in risk assets on expectations of potential tax cuts, deregulation and more business-friendly policies, we think market attention should shift to assessing the potential implications on earnings from Trump's campaign proposals to lower corporate taxes from the current 21% and raise import tariffs.

Our thoughts

Going into 2025, we remain overweight on US equities and expect the broad equity market to remain relatively well supported given pro-growth policies expected from the new Trump administration, although bouts of volatility are likely as policies start to get announced in the near term.

For FY24E and FY25E, consensus forecasts for MSCI US index's earnings per share (EPS) growth are for 9.8% and 14.5% respectively, higher than World equities' EPS growth forecast at 7.4% and 11.9% respectively (estimates as of 6 January 2025).

On sector implications, we see positive readthroughs for firms with USD revenue exposures and USD beneficiaries which include sectors such as financials and traditional energy. For banks, we expect deregulation and enhanced Merger & Acquisition (M&A) activities to be supportive of earnings. Relative losers could include tariff-exposed stocks or those related to the climate movement such as renewables, where future executive actions could favour some rollback of green policies.

We also remain constructive over the medium term on the AI theme which we view as a multi-year structural theme and advise a broader investment approach that could include software players that offer AI-enabled software applications and healthcare firms that are deploying AI innovation in their respective fields.

Key industrials ideas are maintained in view of continued reshoring and AI infrastructure development tailwinds expected over the medium term. As financials stocks have outperformed, we favour selective ideas with still decent potential upside in the sector and remain constructive given higher M&A activities and loan demand ahead. Within the pharmaceutical industry, contributions from key existing products and newly launched treatments focused on obesity and oncology should remain key growth drivers.

How to play the game?	
Areas on our radar	Trade and tax policies, AI investment, earnings growth trajectory, USD strength, potential banking deregulation
Investment implications	To pay attention to core asset allocation and diversification of portfolio holdings.

Notable Developments in Selected Sectors

- Information Technology: With hyperscalers continuing to keep capex levels elevated, we expect the accelerator space to continue seeing robust growth rates this year on the back of further AI innovations and developments. Software stocks are looking increasingly appealing given limited direct tariff risk exposure, modest growth expectations and growing AI-enabled software product innovations as cloud demand takes off further.
- Healthcare: Sector stocks have been under pressure in recent months, following the Republican electoral sweep that led to pro-growth expectations and instigated rotation out of defensive stocks. Separately, President Trump's healthcare department nominations are also viewed as potential industry disruptors. We see opportunities in healthcare's defensive-growth merits, while AI also has the potential to transform the industry, reduce costs and improve savings.
- Industrials: The manufacturing sector should expand ahead amid higher industrial activities, data centres and AI-driven infrastructure build-up, while demand for capital goods such as machinery should also pick up helped by pro-growth policies and lower interest rates ahead.

LATEST MARKET UPDATE

Europe/UK: Macro and politics to shape 2025 market mood

What happened?

European equities have remained mixed on the back of weak macro data, political tensions in France, and concerns that tariffs imposed by a Trump presidency could negatively affect regional profitability.

Economic growth in Germany and France is stagnating, impacted by weak domestic conditions and export exposure to China, notably hurting automakers and luxury goods names. Yet, Germany was the best-performing major Western European market in 2024, driven by stocks aligned with structural themes (e.g. renewable energy, defence spending and AI). German elections in February 2025 will likely have a bearing on market performance. Spain, the second-best performer, grew economically at more than 3 times the pace of the Eurozone as a whole. Tourism, immigration and investment (e.g. renewable energy) have been key drivers.

Given the macro picture, the European Central Bank (ECB) has continued its rate cutting cycle, lowering the key deposit rate for a fourth time in as many meetings to 3%. We expect more cuts in 2025 with a terminal deposit rate at 2% in September 2025.

The Q3 2024 results season was mixed, with earnings downgrades for Europe worse than other regions ahead of company announcements. Energy, metals/mining, technology and consumer discretionary all saw estimates lowered in the run up. The Stoxx 600's 2025 earnings growth is forecast at 8.4% on 2.9% revenue growth, as of 28 November 2024. China remains an important risk factor for revenue, given Europe derives ~8% of revenue from this market (vs. ~2% for the S&P 500), although recent stimulus announcements provide a case for optimism.

Our thoughts

European stocks still trade at reasonable valuation levels (S&P 500 forward Price to Earnings (P/E) of 22.8x compares with the Stoxx 600's 14.2x, as of 3 January 2025). We are positive on healthcare, industrials, materials (notably, mining & construction materials), financials, technology and Real Estate Investment Trusts (REITs).

In the UK, the much-awaited autumn budget by the new Labour government delivered few negative surprises. The Bank of England has also commenced rate cuts, though the pace of reductions is expected to be more measured than those of US and European central banks. The UK still offers value, and is preferred over Continental Europe, trading on 11.9x forward P/E for the FTSE 100 and 11.5x for the MSCI UK as of 3 January 2025, with the market's defensive merits remaining favourable.

Notable Developments in Selected Sectors

- **Financials:** Banks, followed by insurers, were by far the best Stoxx 600 performers in 2024. Broader confidence remains healthy, with the banking sector offering substantial shareholder returns on the back of strong earnings. A potential continuation in regional sector M&A would also be positive, with the sector having seen the most M&A activity since 2020.
- **Consumer Discretionary:** Automakers have remained in the spotlight following profit warnings that highlighted a slump in China demand, EV transition challenges, and supply chain issues. Separately, luxury goods names have also struggled on broker downgrades to earnings estimates. Both subsectors hope for further China stimulus news flow, while also hoping for minimal impact from US tariffs.
- **Industrials:** The sector is expected to be a beneficiary of increased capex spending in key structural growth areas, including defence, electrification, industrial automation and renewables. The sector would also benefit if we see a resolution to the Ukraine-Russia conflict and a Ukraine rebuild. At the same time, parts of the capital goods space remain sensitive to macro conditions, which remain challenging in Europe.

Equities Allocation

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL MARKETS: POSITIVE

Positive	Neutral	Negative
COUNTRY		
US UK Japan	Eurozone	-
SECTOR		
Financials Healthcare Materials Industrials Utilities	Communication Services Real Estate Technology Consumer Discretionary	Consumer Staples Energy

OVERALL ASIAN MARKETS: POSITIVE

Positive	Neutral	Negative
COUNTRY		
China Hong Kong	-	-
SECTOR		
Communication Services Consumer Discretionary Consumer Staples Technology	Energy Materials Real Estate Financials Healthcare Utilities	Industrials

Note: Orange indicates an upgrade, while red indicates a downgrade

AUTHORS
ASIA EQUITY ADVISORY TEAM

CHRIS ZEE
Head Of Equity Advisory, Asia

GODFREY OYENIRAN
Senior Investment Adviser

CAMILIA GOH
Senior Investment Adviser

DARREN LEE
Investment Adviser

JASON LIM
Investment Adviser

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