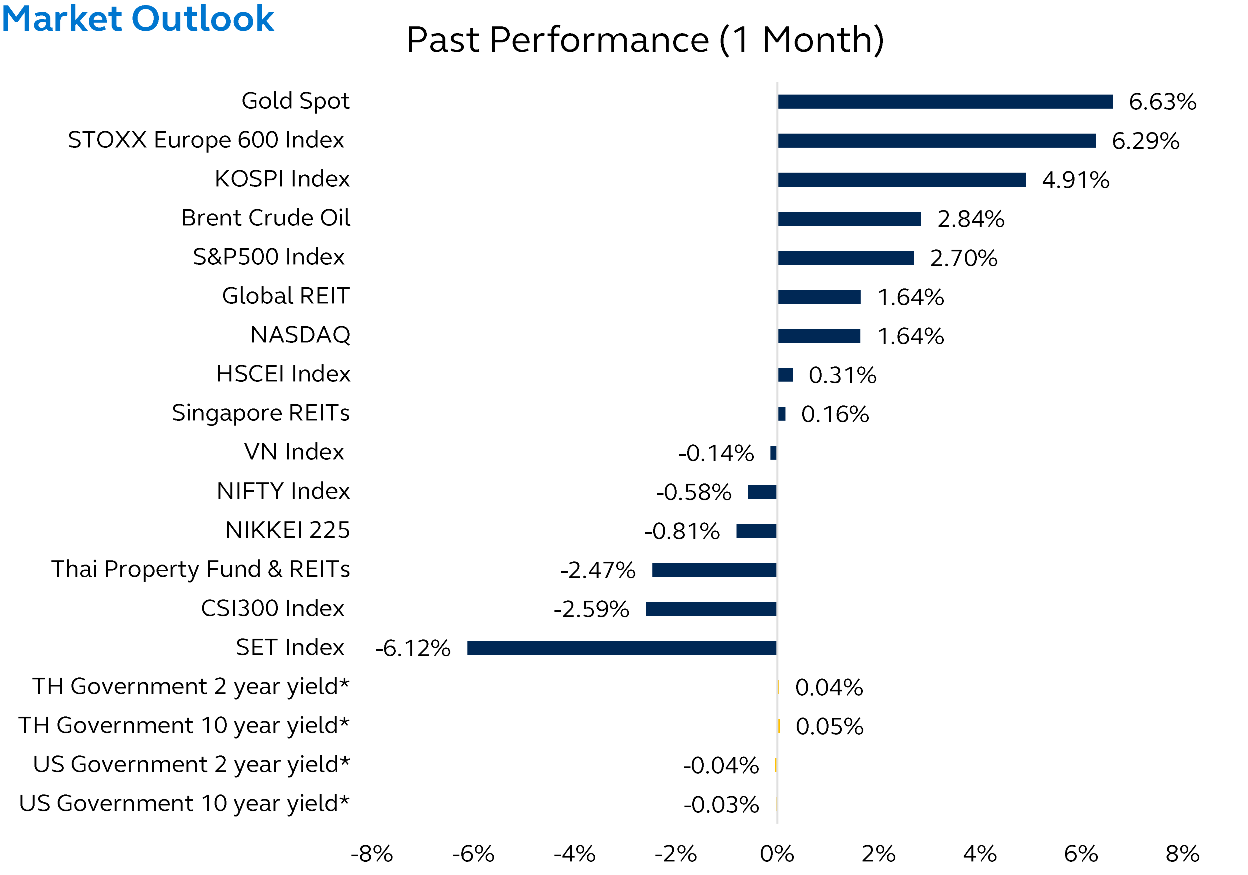
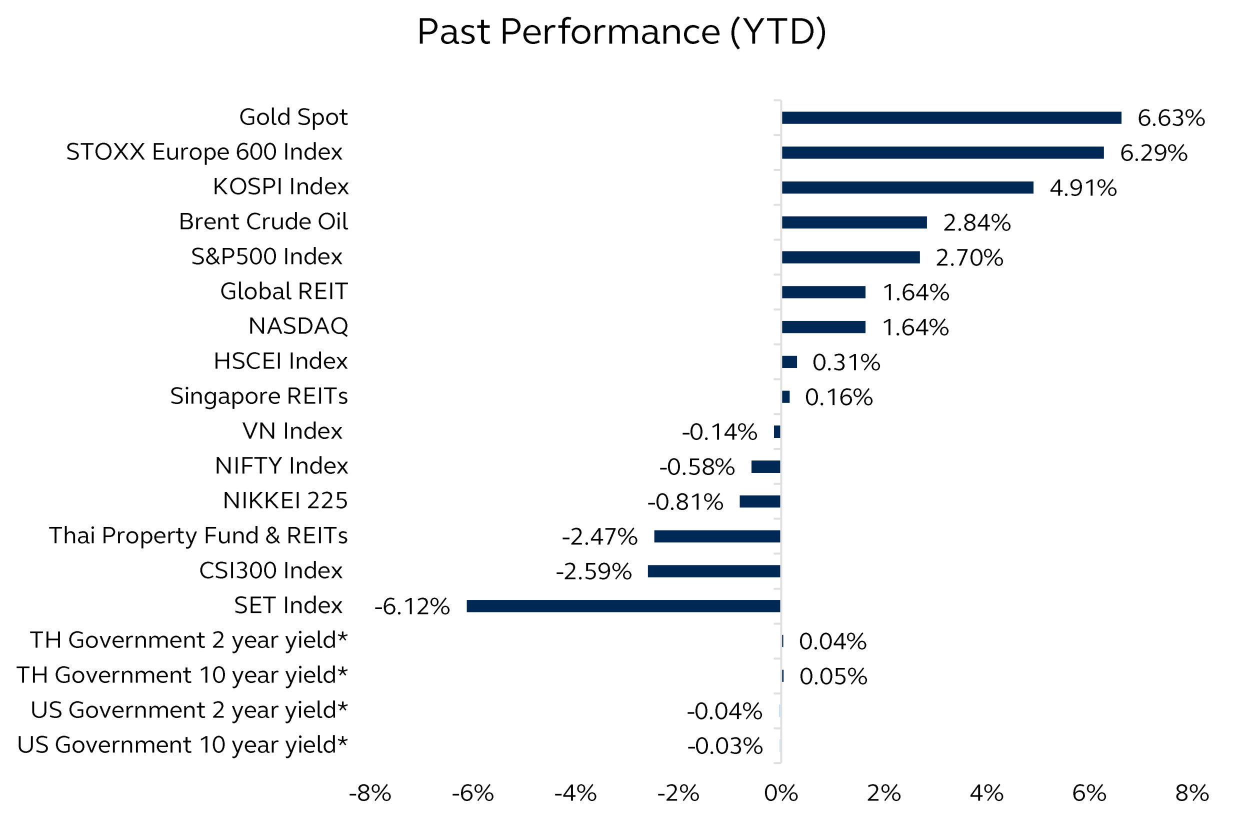
Market Outlook





*Information illustrated percentage of bond yield change not return.
Source : Bloomberg, data as of 31 Jan 2025

After Donald Trump completed his presidential inauguration ceremony on January 20th, 2025, he signed multiple executive orders. One notable order is concerned with the trading policy with the United States' top three trade partners: Canada, Mexico, and China. He enacted a 25% tax increase on goods imported from Canada and Mexico, aiming to address issues related to Fentanyl and illegal immigration. Additionally, he imposed a 10% tax increase on goods imported from China, which is lower than the 60% rate mentioned during his election campaign. He also highlighted his intention to create a strong economic environment for America with his "Make America Great Again" policy, which contributed to the continued rise of the U.S. and European stock markets. However, the markets fluctuated following the announcement by "DeepSeek AI" last week, claiming potential similar to established American AI platforms like ChatGPT, but with lower operational costs due to less reliance on high-quality chips and semiconductors. Most Asia-Pacific stock markets were closed during the golden week when DeepSeek was announced. The Japanese stock market remained steady from last month after the Bank of Japan increased the policy rate again. Additionally, Japanese policymakers introduced various economic stimulus measures. The Thai stock market experienced a significant decline due to the decline in DELTA, a prominent data center-related stock. Chinese stock markets continued to decrease as the market anticipates clear strong economic stimulus announcements expected in the upcoming politburo meeting in March.

Fixed Income: The U.S. government bond yields for both 2-year and 10-year maturities remained consistent with last year's levels, following the Federal Reserve's decision to maintain the policy rate at 4.25% - 4.50% during its latest meeting on January 29th. This decision was based on achieving two key objectives: controlling the inflation rate to sustain at 2% and optimizing the labor market. The U.S. inflation rate in December was recorded at 2.9%, aligning with market expectations. Meanwhile, the labor market remained strong, with an unemployment rate of 4.1% year-over-year in December, which was lower than the 4.3% year-over-year market expectations. These factors indicate a reduced likelihood of a recession in the United States. However, U.S. bond yields have remained high despite the Fed cutting rates three times since the second half of 2024 due to market concerns about Trump's policies, including those on tax tariffs with Canada and Mexico—America's top two trade partners—which may lead to higher inflation. Additionally, concerns about the increased use of budget deficits potentially impacting the country's economy negatively persist.

The Thai government bond yield also stayed at the same level as last year's end after the MPC decided to hold the policy rate at 2.25% in the 6/2024 meeting. MPC members expressed concern over the uncertainty facing the Thai economy from multiple external factors, particularly the policies of major economies. The Thai industrial sector is recovering at a slow pace due to lower competitiveness.

In conclusion, given that both Thai and global (especially U.S.) bond yields remain high, **Principal Asset Management maintains a neutral view on the overall fixed income asset class.**

Global Equity: **Principal Asset Management has a neutral view on major economy stock markets**. In January, the U.S. stock market fluctuated due to several factors like Donald Trump's inauguration, the "DeepSeek" announcement, and the Federal Reserve's first meeting. The market rose after Trump's Jan 20th signing ceremony, as tax tariffs were more flexible than his campaign suggested. However, DeepSeek's claim of rivaling OpenAI with lower costs pulled the market down in the last week of January.

The European stock market increased by 6.3% in January due to reduced concerns about U.S. tax tariffs on European countries compared to the election campaign period last year. Additionally, the geopolitical risk between Russia and Ukraine may resolve sooner than expected because of Trump's stance against foreign wars. The European Central Bank's (ECB) decision to continue rate cuts also positively influenced the stock market.

The Japanese stock market slightly dropped in January due to fragile production and export sectors. The Bank of Japan raised the interest rate from 0.25% to 0.50%, its highest level in 17 years, indicating further hikes if economic indicators and inflation targets are met.

Chinese stock markets fell after weak economic data. Manufacturing and Service PMIs dropped to 49.1 and 50.2 in January, respectively. The economy also faced prolonged deflation. Markets are now focused on upcoming economic stimulus measures expected in March and uncertainty from Trump's policies on China.

India: The NIFTY50 index slightly decreased by 0.6% from the previous year, consistent with trends in other developing countries, due to changes in tariff tax policy with the U.S. However, India's stock market experienced a smaller decline compared to many other nations because 60% of the country's GDP comes from domestic consumption rather than exports. In December of last year, the inflation rate was 5.22% year-on-year, exceeding the central bank's target of 4.8%. This increase was largely driven by higher food and beverage prices, which constitute about half of the inflation index, following recent weather fluctuations. Consequently, expectations for a rate cut in India diminished, considering the goal of preserving the Rupee currency. As of November last year, manufacturing production rose 5.8% year-on-year, the highest since October 2023. Basic metal and electronic devices led this growth. However, foreign direct investment remained low, especially compared to Vietnam. **Principal Asset Management ,therefore, maintains a neutral view on India stock market**.

Thai equity: The Thai stock market fell by 6.1% from last month due to net selling by foreign investors. The significant drop was primarily caused by the sell-off of DELTA, a major technology stock in Thailand. DELTA's price declined after global AI-related tech stocks were sold following the launch of DeepSeek, China's generative AI platform, which claims to rival top American AI platforms at lower costs by not requiring high-performance chips and semiconductors. Regarding Thai economic data for December, the inflation rate was 1.23% year-on-year. Export growth was 8.7% year-on-year in December, driven primarily by a 43.5% increase in computer parts and equipment exports. For 2024, the exportation value is projected to be around $300 billion, reflecting a 5.4% growth from 2023. These figures have led the Ministry of Commerce to set an export growth target of 2%-3% for 2025. The Bank of Thailand anticipates a 2.9% GDP growth this year, supported by tourism and domestic consumption sectors. However, the Thai economy faces pressure from the policies of major economies and limitations in the country's competitive advantages compared to similarly ranked countries. Consequently, **Principal Asset Management maintains a neutral outlook on Thai stock market**.

Vietnam: The VN Index experienced a slight decline by 0.1% in January. The index remained between the 1,220-1,280 levels with limited trading volume per day. However, Vietnam's economic performance continued to be impressive. In December of the previous year, the inflation rate reached 2.94% year-on-year, slightly surpassing market expectations due to an increase in food prices. The export value for 2024 was just under $406 billion, reflecting a 14.3% growth over the year. Industrial production increased by 8.4% in 2024, primarily driven by the manufacturing sector. Retail sales and services attained a value of approximately $252 billion, representing a 9% growth from 2023, which is considered normal following a period of below-average growth in recent years. This growth can be attributed to the economic stimulus package, which included a reduction in Value Added Tax on essential goods and an increase in the minimum wage starting in July 2024. Additionally, the arrival of around 17.6 million international tourists, accounting for 97.6% of pre-COVID-19 levels in 2019, positively impacted the accommodation, food and beverage, and other services sectors. Despite the Vietnam stock market trading at lower levels, earnings of many stocks exceeded market expectations. Consequently, **Principal Asset Management recommends maintaining a slightly overweight position in Vietnam stock market**. Investors are recommended to gradually accumulate positions while VN Index is trading between the 1,200 – 1,280 range.

Property Funds/REITs: Global REITs gained 1.6% in January while Thai property funds/REITs fell by 2.5%. The rise in global REITs was driven by expectations of limited Federal Reserve rate cuts, matching U.S. inflation rates. U.S. core inflation was slightly below market expectations. Thai property funds/REITs dropped with the Thai stock market, pressured by LTF sales, foreign investors, and lack of new support measures. **Principal Asset Management remains neutral on both domestic and global property funds/REITs** due to steady bond yields and the absence of innovative sectors like data centers in Thailand.

Gold: The gold price increased by 6.6% and reached a new high in January, closing at around $2,800 per ounce on the last day of the month. This increase was influenced by demand during the Chinese New Year or golden week. Additionally, uncertainties related to Donald Trump's policies affecting North America and the global economy, along with the initiation of a rate cut cycle in the U.S., supported the rise in gold prices. However, **Principal Asset Management maintains a neutral stance on gold**, believing that the U.S. economy can continue to grow with a low likelihood of recession and that the Dollar may appreciate in the short term

Asset Allocation Outlook

	UW	Slightly UW	Neutral	Slightly OW	OW
Cash		●	◌ (previous month)		
Fixed Income			●		
• Global			●		
• Thai			●		
Equity			●		
• Global			●		
• Thai			●		
• India			●		
• Vietnam			◌ (previous month)	●	
Property Funds/REITs			●		
Gold			●		

Viewpoints reflect a 12-month horizon

indicates a change in preference from the previous month (light blue) to the current month (dark blue)

Description of Asset Allocation Outlook table

- OW or Overweight : Allocate asset more than its benchmark
- Slightly OW or Slightly Overweight : Allocate asset slightly more than its benchmark
- Neutral : Allocate asset equal to its benchmark
- Slightly UW or Slightly Underweight : Allocate asset slightly less than its benchmark
- UW or Underweight : Allocate asset less than its benchmark

Our investment strategy team has maintained a neutral stance on **Fixed Income**, both Thai and global, due to signals from the Federal Reserve indicating fewer rate cuts than market expectations and uncertainties in the U.S. economy stemming from Trump's policies. Similarly, we hold a neutral view on **Equity** markets, except for the Vietnam stock market. We believe that the U.S. stock market may experience a correction in large technology stocks, while most developing stock markets are under pressure from Trump's tax policies. However, due to attractive valuations and earnings growth along with improving economic conditions, we recommend investors to slightly overweight the **Vietnam stock market**. Lastly, we maintain a neutral stance on both domestic and global **property funds/REITs**, as the Fed is expected to cut rates only a few times this year, and government bond yields will likely continue to exert pressure on these assets.

Caution: Principal Asset Allocation Plan is a service providing advice on allocating investment portfolios by diversifying investment into various financial assets according to investor's investment risk tolerance. Advisement is considered on market conditions to create or adjust balance portfolio, which will be monthly evaluated and adjusted investment mix or portfolio to ensure that the portfolio is well-diversified and consistent with investment outlooks. Due to market price changing from market conditions, the proportion of each asset may deviate from appropriate allocation. This may cause the portfolio to be at higher or lower risk than it should be. Principal Asset Allocation Plan is only advice from Principal Asset Management and investors may not receive return as expected. Investors should make sure that understand about basic investment allocation, recommended by SEC. / Investors should understand product characteristics (mutual funds), conditions of return and risk before making an investment decision.

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