KEY ASIAN TRENDS FOR 2025

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WHAT HAS HAPPENED IN 2024?

Historically, Asia has benefitted from China's strong growth and the Fed's loose policy. However, 2024 was shaped by familiar forces from 2023: China's sluggish recovery, a strong US dollar, and high global interest rates.

China's recovery remained below historical norms, supported only by exports and manufacturing capex. Softer demand post-lockdown persisted due to ongoing property and manufacturing sector pressures, dampening wage growth and consumer confidence.

Global trade and manufacturing, weakened since 2022, showed little sign of a rebound. Meanwhile, higher US rates and a stronger dollar tightened financial conditions, weighing particularly on economies with large twin deficits like Indonesia. India performed well in early 2024, but unexpectedly contested elections slowed its momentum. Conversely, Taiwan continued its upward trend, benefitting from its exposure to AI and semiconductor supply chains. Despite its challenges, China saw a positive year, as government stimulus in September attracted foreign capital back into the stock market.

WHAT'S IN IT FOR ASIA IN 2025?

While each Asian economy has its own idiosyncratic story, regional growth remains closely tied to global trade, PMIs and financial conditions.

Entering 2025, uncertainty looms over global growth, the trajectory of US rates, and Trump's approach to trade tariffs. China is a key focal point, with expectations of further government stimulus and a new wave of technological innovation driven by the emergence of AI company DeepSeek. However, geopolitical tensions with the West, a struggling real estate sector and weak domestic demand continue to cloud its outlook.

AGAIN, WILL 2025 BE A MACRO-DRIVEN OR A BOTTOM-UP MARKET?

Market volatility is expected to persist, with sentiment shifting based on the latest economic data release. Throughout 2024, market sentiment fluctuated between "higher for longer" interest rates, optimism about a "soft landing", and President Trump's imposition (and subsequent delay) of global tariffs.

The base case for Asia suggests that higher interest rates will continue to pressure earnings. While the region's manufacturing improved towards the end of 2024 – driven by frontloading orders ahead of tariffs – underlying weakness remains, with potential spillover effects into the services sector – a primary contributor to GDP in most economies.

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On a positive note, balance sheets across Asia are stronger than pre-COVID, with more conservative fiscal policies and improved current account deficits reducing FX volatility, though this has impacted foreign capital inflows.

The best-case scenario would be inflation easing, leading to improved financial conditions and restoring growth. In such a market, we believe a fundamental approach focusing on country and company-specific strengths would be effective.

The worst-case scenario could be sticky inflation forcing central banks to maintain high rates and delayed China's stimulus due to geopolitical tensions with the West. Trade disruptions can further dampen growth.

TOP COUNTRY PICKS OF ASIA IN 2025?

China: While DeepSeek has supported China's rebound, uncertainties persist. Investor positioning and government stimulus should provide a tailwind for earnings in 2025, but geopolitical tensions and stimulus timing remain key concerns.

India: A strong long-term structural story backed by favourable demographics and shifting FDI flows (from China). However, short-term political uncertainty following Modi's declining support has weakened sentiment. Valuations have become cheaper, presenting a potential buying opportunity for a long-term investment horizon.

Indonesia: Major reforms and strong population growth continue to attract foreign investment. A strong USD and tighter financial conditions have pressured its stock market but could offer a compelling long-term entry point.

Taiwan and South Korea: Both remain heavily tied to tech exports but had different trajectories in 2024. Taiwan extended its strong 2023 performance, though earnings face downside risks. South Korea, in contrast, struggled with Samsung's declining profitability and political issues, particularly President Yoon Suk Yeol's martial law proposals. Unlike Taiwan, expectations for South Korea are now low, setting the stage for a rebound.

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