Maybank

Group Wealth Management Research

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U.S.-China trade truce

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U.S. and China have agreed to a 90-day pause on most tariffs after a meeting between top officials in Geneva. During the pause, U.S. will lower tariffs on Chinese goods from 145% to 30%, while China's tariffs on U.S. goods will drop to 10% from 125%. The better-than-expected outcome has buoyed investor sentiment and fueled a rally in risk assets. Notably, the S&P 500 surged 3.3%, fully recovering from losses sustained since Trump's Liberation Day on 2nd April. In contrast, 10Y U.S. Treasury (UST) yield rose 9 basis points (bps) to 4.5% while gold prices retreated 2.7% on reduced risk aversion.

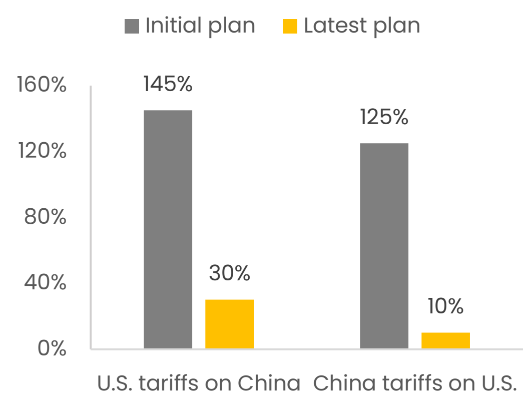
Looking ahead, further engagement between the U.S. and China is expected. Notably, U.S. Treasury Secretary Bessent has indicated that additional meetings are planned in the coming weeks, signalling more bilateral efforts to defuse trade tensions.

Growth may not rebound soon

Despite the progress in U.S.-China trade talks, we would avoid being overly optimistic. The current arrangement remains temporary and is subject to further changes. Trade talks could still stall or even reverse especially given the many unresolved issues between both countries.

In addition, we do not expect a meaningful rebound in growth until greater clarity emerges on trade policy. Notably, the ISM Manufacturing PMI remained well below the 50 mark, indicating ongoing contraction in the U.S. manufacturing sector. Persistent tariff uncertainties will likely continue to weigh on business planning. Consumer sentiment also remains weak with the Conference Board's Consumer Confidence Index falling to a five-year low, reflecting broad-based concerns about the U.S. economic outlook.

Figure 1: Lower U.S.- China trade tariffs for 90 days



Source: Bloomberg | 12 May 2025

Figure 2: Positive market reaction to progress in U.S-China trade talks

Index	Last Px	1D (% Chg)	Since 2 Apr (% Chg)
S&P 500	5,844	3.3%	3.1%
Nasdaq	18,708	4.4%	6.3%
Stoxx Europe 600	544	1.2%	1.4%
Nikkei 225	37,644	0.4%	5.4%
Shanghai SHCOMP	3,369	0.8%	0.6%
China H-shares	8,559	3.0%	0.3%
Hong Kong HSI	23,549	3.0%	1.5%
India SENSEX	82,430	3.7%	7.6%
10-Yr US Treasury*	4.47	9.2	34.3
USD Index	101.79	1.4%	-2.0%
Gold	3,236	-2.7%	3.3%
WTI Crude Oil	61.95	1.5%	-11.2%

*Yield change in basis points (bps)

Source: Bloomberg | 12 May 2025

Fed to ease further

With U.S. economic growth likely to slow, we now expect the Federal Reserve (Fed) to implement a cumulative 75 bps cut by end 2025. While prices may move higher once the tariff effect kicks in, we believe the growth concerns (and hence employment) could outweigh inflation risk, resulting in further easing by the Fed to support the economy.

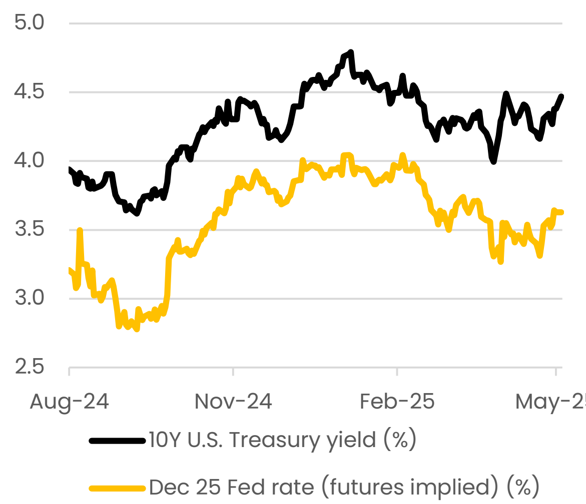
Investment implications

No doubt, the hopes of further de-escalation of trade tensions may support risk assets in the near-term. Nevertheless, investors should continue to exercise valuation discipline especially given the recent market rebound. We also reiterate the importance of diversification and would avoid putting all eggs into one U.S. basket.

Notably, the current level of S&P 500 implies a forward price to earnings ratio of 21x, which is just a tad off the peak valuation of 22x in February. In addition, consensus FY25E earnings may be revised lower amid a softening macro backdrop in the U.S. In view of the above, there is an increased need to focus on margin of safety given the earnings downside risk and higher valuation. We maintain our preference for defensive sectors within the U.S. such as consumer staples and communication services as well as selected healthcare stocks.

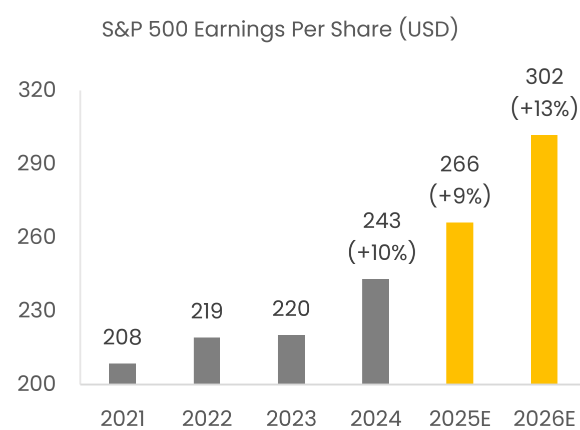
Beyond the U.S., we continue to see opportunities in Asia ex-Japan equities with support from key markets including China and India. Meanwhile, the lower Fed policy rate should help put a lid on U.S. Treasury yields. With the 10-year UST yield back up to 4.5%, we see attractive risk reward in the Treasuries which offer both carry and protection against growth risk. We also retain our positive stance on gold and view the recent pull-back as an opportunity to build strategic exposure in the precious metal for diversification.

Figure 3: Lower Fed policy rates could help put a lid on Treasury yields



Source: Bloomberg | 12 May 2025

Figure 4: S&P 500 consensus FY25E earnings may be revised lower



Source: Factset | 12 May 2025

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