

Phillip Singapore Strategy

Playing with a two-legged tail risk

SINGAPORE | STRATEGY

- How do you play a loaded game? A game where an individual can change the rules and outcomes daily with a tweet? You either don't play or raise your odds. We think the odds favour the investors in selected sectors, especially banks with a record forward dividend yield of 7%.
- In a risk-off sell-off, US Treasury yields usually drop as investors pile into this safe-haven asset. The recent equity sell-off has seen the opposite. US bond yields have risen as foreign investors diversify and reinvest domestically over geopolitical and inflation worries. US bond yields have widened against Singapore. We view this as a reflection of our safe-haven status in terms of economic resilience, fiscal capacity, and currency strength.
- We think the worst sell-off due to tariffs is behind us. Our base case is tariff deals, and more bilateral trade deals will be made to appease the US administration. A blowout in US bond yields will derail the US administration's plans to extend the TCJA and introduce new tax cuts. We think Singapore is an attractive safe haven. Singapore's equity valuations have dropped to 11x PE, with a dividend yield of 6.2%. Companies are becoming more aggressive in returning capital to shareholders through higher payouts and share buybacks. We favour banks that are now trading at yields of 7%. Manufacturing is underweight as we worry uncertainty over tariffs will cause lean inventories throughout the supply chain.

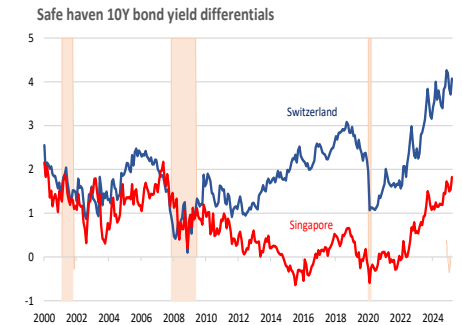
Review: Singapore equities tumbled 11.6% in April, ironically worse than Vietnam's 6.5% decline. Singapore banks have been the epicentre of the sell-off, falling 15%. We view the sell-down in banks as a search for liquidity rather than a sharp drop in bank fundamentals. Other sectors bearing the brunt of the tariff war have been industrial REITs (-10%) and semiconductors (-17%).

Singapore the safe haven: External demand accounts for around 70% of Singapore's GDP, according to an MTI study for 2015-2019. Our base case is a sharp slowdown in US growth (Figure 4). We think Trump has kickstarted a negative economic spiral of weaker sales and lower employment due to uncertainty over his future policies. Any spread of slower US growth globally will be mitigated by higher fiscal spending globally. China is raising its fiscal deficit and issuing more bond swaps to support local government. Europe is pursuing the path to rearm itself. Governments will be forced to spend as trade is no longer a source of growth. Singapore stands out for its strong fiscal position (Figure 3). In the 2001/08 US recessions, US bond yield over Singapore narrowed 30 to 50 basis points. It has expanded by 28 bps, along with Switzerland (Figure 1). Singapore bonds have turned into a safer haven than US Treasuries. The US faces the risks of portfolio outflows in Treasuries (Figure 6) and equities (Figure 7).

Recommendation: Banks bear the brunt of the sell-down due to their trifecta risk from a slowing economy - rising bad debt provisions, falling interest rates or margins and slower loan growth. There has not been a credit boom for Singapore banks on a provisioning cycle. Loans only grew 2.5% CAGR over the past three years. On margins, the steepening yield curve plus rising CASA will ease the margin pressure of lower rates. Loan growth may slow as working capital declines, but the sharp rebound in property sales and the need for additional liquidity could keep loan demand elevated. We expect the volatile market conditions to boost banks' capital market, wealth management, and trading operations. REITs are trading at a yield of 6.7%, but without a clear sight of rate cuts, we think strong outperformance in the near term is unlikely. We have a greater conviction that REITs will outperform in the later part of this year. The slowdown in the US economy will be more evident, and the market may begin to price a new and more dovish Fed chairman. We remain structurally positive on small mid-caps due to a pending liquidity injection from the MAS equity market development programme (EQDP). Sectors less impacted by the trade war include construction, building materials and property.

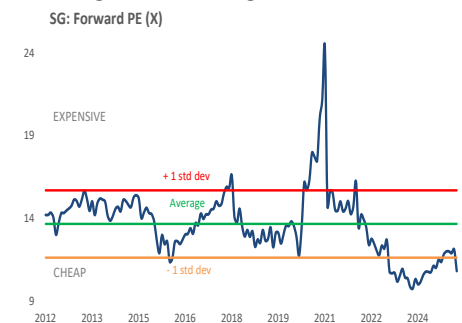
14 April 2025

Figure 1: US bond yields rising against global safe havens Singapore and Switzerland



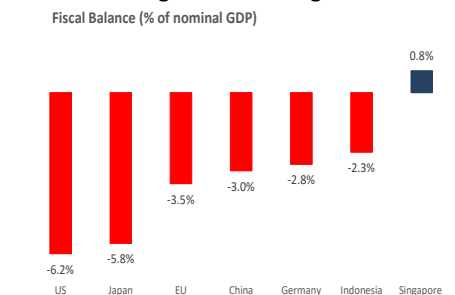
Source: PSR, Bloomberg

Figure 2: Singapore valuations turn attractive at 11x against an average 14x



Source: PSR, Bloomberg

Figure 3: Governments forced to spend as trade is no longer a source of growth



Source: PSR, Bloomberg

*Tax Cut and Jobs Act (TCJA)

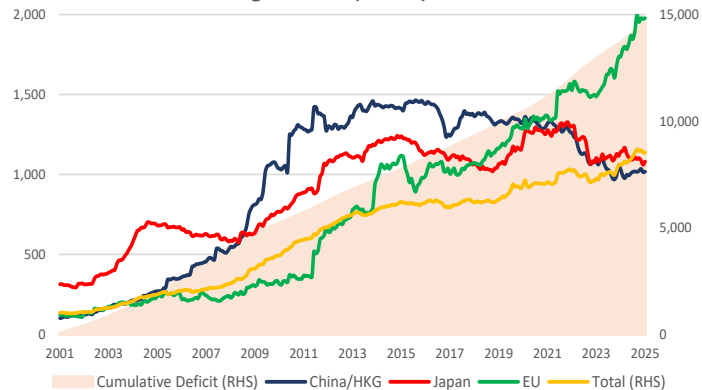
Paul Chew (+65 6212 1851)
Head of Research
paulchewkl@phillip.com.sg

Figure 4: US GDP still contraction mode and likely worsen
US: GDP Now (QoQ) - Atlanta Fed



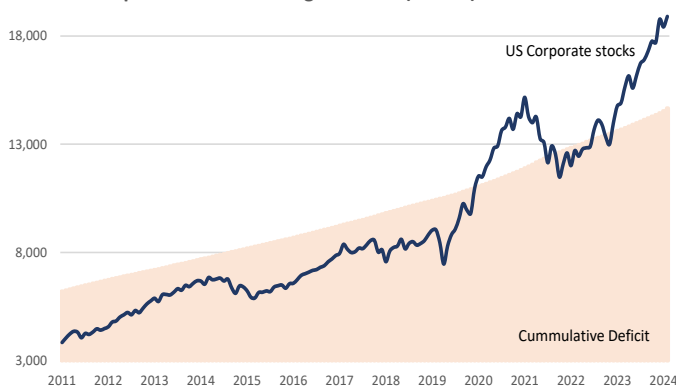
Source: PSR, CEIC

Figure 6: Risk of emerging market like foreign outflows in US bonds
US Treasuries: Foreign holders (US\$bn)



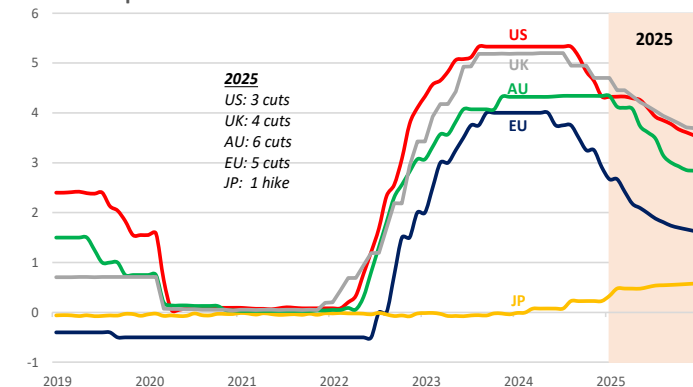
Source: PSR, CEIC

Figure 7: ... and equities
US Corporate Stocks: Foreign holders (US\$bn)



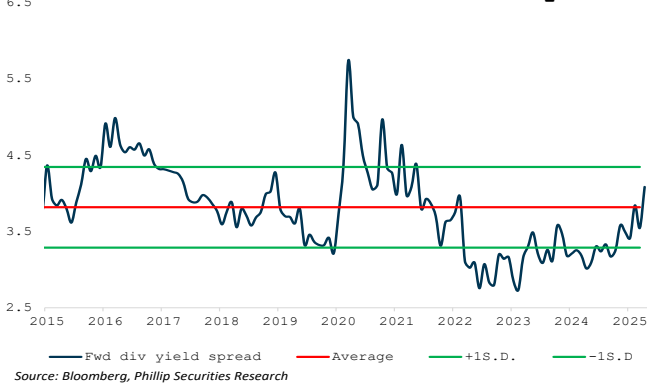
Source: PSR, CEIC

Figure 8: Three rate cuts in US and four cuts expected in China
Developed countries: Interest Rates



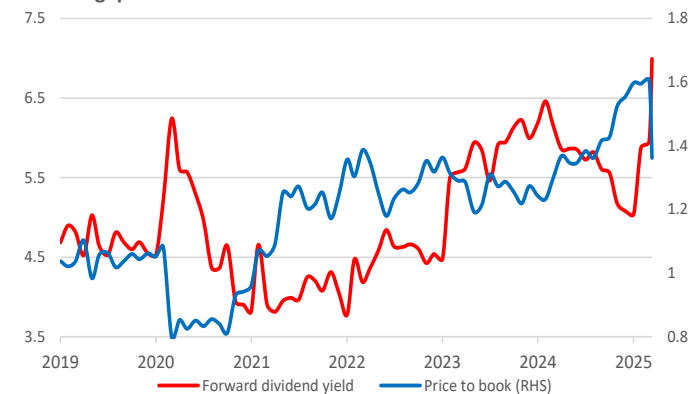
Source: PSR, Bloomberg

Figure 9: REITs yield spread widening
10-Year Dividend Yield Spread



Source: PSR, Bloomberg

Figure 10: Singapore bank dividend yield climbing to record 7%
Singapore bank index



Source: PSR, Bloomberg

Head of Research Paul Chew – paulchewkl@phillip.com.sg	Contact Information (Singapore Research Team)	Research Admin Qystina Azli - gystina@phillip.com.sg
Technical Analyst Zane Aw – zaneawyx@phillip.com.sg	Property REITs Darren Chan – darrenchanrx@phillip.com.sg	Property REITs Liu Miaomiao – liumm@phillip.com.sg
Banking Auto Glenn Thum – glenthumjc@phillip.com.sg	US Tech Hardware E-commerce ETF Helena Wang – helenawang@phillip.com.sg	Construction Semiconductors Yik Ban Chong (Ben) – chongyb@phillip.com.sg

Contact Information (Regional Member Companies)

<p>SINGAPORE</p> <p>Phillip Securities Pte Ltd Raffles City Tower 250, North Bridge Road #06-00 Singapore 179101 Tel +65 6533 6001 Fax +65 6535 6631 Website: www.poems.com.sg</p>	<p>MALAYSIA</p> <p>Phillip Capital Management Sdn Bhd B-3-6 Block B Level 3 Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur Tel +603 2162 8841 Fax +603 2166 5099 Website: www.poems.com.my</p>	<p>HONG KONG</p> <p>Phillip Securities (HK) Ltd 11/F United Centre 95 Queensway Hong Kong Tel +852 2277 6600 Fax +852 2868 5307 Websites: www.phillip.com.hk</p>
<p>JAPAN</p> <p>Phillip Securities Japan, Ltd. 4-2 Nihonbashi Kabuto-cho Chuo-ku, Tokyo 103-0026 Tel +81-3 3666 2101 Fax +81-3 3666 6090 Website: www.phillip.co.jp</p>	<p>INDONESIA</p> <p>PT Phillip Securities Indonesia ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A Jakarta 10220 – Indonesia Tel +62-21 5790 0800 Fax +62-21 5790 0809 Website: www.phillip.co.id</p>	<p>CHINA</p> <p>Phillip Financial Advisory (Shanghai) Co Ltd No 550 Yan An East Road, Ocean Tower Unit 2318, Postal code 200001 Tel +86-21 5169 9200 Fax +86-21 6351 2940 Website: www.phillip.com.cn</p>
<p>THAILAND</p> <p>Phillip Securities (Thailand) Public Co. Ltd 15th Floor, Vorawat Building, 849 Silom Road, Silom, Bangrak, Bangkok 10500 Thailand Tel +66-2 6351700 / 22680999 Fax +66-2 22680921 Website www.phillip.co.th</p>	<p>FRANCE</p> <p>King & Shaxson Capital Limited 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel +33-1 45633100 Fax +33-1 45636017 Website: www.kingandshaxson.com</p>	<p>UNITED KINGDOM</p> <p>King & Shaxson Capital Limited 6th Floor, Candlewick House, 120 Cannon Street, London, EC4N 6AS Tel +44-20 7426 5950 Fax +44-20 7626 1757 Website: www.kingandshaxson.com</p>
<p>UNITED STATES</p> <p>Phillip Capital Inc 141 W Jackson Blvd Ste 3050 The Chicago Board of Trade Building Chicago, IL 60604 USA Tel +1-312 356 9000 Fax +1-312 356 9005 Website: www.phillipusa.com</p>	<p>AUSTRALIA</p> <p>Phillip Capital Limited Level 10, 330 Collins Street Melbourne, Victoria 3000, Australia Tel +61-03 8633 9803 Fax +61-03 8633 9899 Website: www.phillipcapital.com.au</p>	<p>CAMBODIA</p> <p>Phillip Bank Plc Ground Floor of B-Office Centre, #61-64, Norodom Blvd Corner Street 306, Sangkat Boeung Keng Kang 1, Khan Chamkamorn, Phnom Penh, Cambodia Tel: 855 (0) 7796 6151/855 (0) 1620 0769 Website: www.phillipbank.com.kh</p>
<p>INDIA</p> <p>PhillipCapital (India) Private Limited No.1, 18th Floor, Urmi Estate 95, Ganpatrao Kadam Marg Lower Parel West, Mumbai 400-013 Maharashtra, India Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969 Website: www.phillipcapital.in</p>	<p>TURKEY</p> <p>PhillipCapital Menkul Degerler Esentepe Mah. Harman 1 Sk. Nida Kule Kat 3-12 Levent-Şişli 34394, İstanbul Turkey Tel: +90 (212) 239 10 00 Fax: 0212 233 69 29 Website: www.phillipcapital.com.tr</p>	<p>DUBAI</p> <p>Phillip Futures DMCC Member of the Dubai Gold and Commodities Exchange (DGCX) Unit No 601, Plot No 58, White Crown Bldg, Sheikh Zayed Road, P.O.Box 212291 Dubai-UAE Tel: +971-4-3325052 / Fax: + 971-4-3328895</p>

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- i. recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- ii. to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.