ABS Local Specialist Partners' 2025 Predictions

Local Views

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ABS GLOBAL INVESTMENTS

SUMMARY

Investors have approached 2025 with a sense of caution. On the positive side, the global environment appears more favorable than in recent years. Central banks across most countries have begun reducing interest rates, and global growth remains resilient, with recession fears largely diminishing. In emerging markets, domestic drivers of structural transformation and growth are still in play. However, uncertainties surrounding geopolitics, trade relations, and their potential effects on inflation have sparked caution. We believe the evolution of these positive and negative factors will vary significantly by country. Success in this environment will depend on identifying opportunities and managing risks effectively. With their specialized knowledge of specific markets, local experts will be crucial in navigating these complexities, understanding the risks and opportunities, and making informed investment decisions.

To better understand the key topics shaping the year ahead, we asked our local partners to share insights regarding key opportunities and risks within their area of expertise.

KEY HIGHLIGHTS

ASIA:

- The Chinese stock market is expected to continue to face headwinds from internal and external sources, ranging from insufficient internal demand to escalating external trade tensions. However, a shift in domestic policy in 2025 is expected to help tackle the ongoing economic pressures and increasing uncertainties from the external environment. Meanwhile, opportunities continue to develop and generate opportunities despite this backdrop.
- India and Taiwan's upward trajectory is expected to continue as technology-related themes drive opportunities. In Taiwan, tailwinds associated with the ramp-up of artificial intelligence infrastructure are set to benefit the Taiwanese technology supply chain. Meanwhile, the new economy, technology, and technology-enabled businesses remain at the forefront of this growth and change in India.
- After a sell-off in both equity markets and the currency in 2024, Korea offers attractive valuations despite uncertainty about Korea's key trading partners, the US and China.
- The key opportunity in Southeast Asia lies in the gap between growth prospects, profitability, and valuations, with many stocks trading at low multiples despite strong growth.

EUROPE, MIDDLE EAST & AFRICA:

- Saudi Arabia's economic transformation continues as the country diversifies away from an oil-dependent economy and creates opportunities across a range of domestic sectors.
- South Africa is poised for renewed economic growth in 2025, driven by a stabilized energy supply and reforms that will lower business costs, boost industrial output, and attract investment.

LATIN AMERICA:

- Chilean equities offer an attractive opportunity due to low valuations, with a potential rating driven by the 2025 general election, market-friendly policy shifts, and low interest rates.

PERSPECTIVES FROM CHINA

Opportunities

Looking ahead to 2025, a shift in domestic policy is undoubtedly confirmed in order to tackle the ongoing economic pressures and increasing uncertainties from the external environment. Market consensus suggests that policies may continue to be strengthened in a layered manner, potentially providing more structural opportunities in 2025.

Macroeconomic considerations aside, 2025 is poised to be a breakthrough year for AI applications and commercialization and should create meaningful opportunities for China investors. The emergence of new consumer electronics like Artificial Intelligence (AI) glasses, Augmented Reality (AR) glasses, AI smartphones, and AI toys is underway. China's robust manufacturing and Original Equipment Manufacturing (OEM) capabilities in consumer electronics are set to benefit from these trends. The initial beneficiaries of this integration are expected to be AI glasses and AI toys, with sales projected to soar to 200 to 300 million units over the next 2–3 years. This growth will positively impact segments such as System-on-a-Chip (SOC) chips, optical devices, and consumer electronics OEMs. Additionally, the electric vehicle (EV) sector, a key domain for AI applications, will witness intensified competition among Chinese auto manufacturers as comprehensive autonomous driving solutions mature.

Risks

In 2025, the Chinese stock market is expected to face risks from both internal and external sources. Internally, insufficient demand remains a core issue: after three years of wage cuts and layoffs, domestic income has dropped, thus lowering the willingness to spend. This trend is further dampened by the decline in asset values driven by the drop in real estate and capital markets in recent years. Drawing from Japan's experience in the 1990s, domestic policies must provide substantial stimulus in 2025; otherwise, it will be challenging to reverse the current problem of balance sheet deflation. Externally, the possibility of a new round of trade war lingers. Trump has announced an additional 10% tariff on imports from China, with the possibility of further increases. If the U.S. significantly raises tariffs on China and sanctions are applied to certain Chinese companies, we can expect greater export and supply chain pressures for domestic enterprises, adversely affecting their development and profitability.

PERSPECTIVES FROM TAIWAN

Opportunities

As the Artificial Intelligence (AI) infrastructure build-out ramps up, a rich opportunity set of supply chain beneficiaries in Taiwan is poised to capitalize on each new generation of AI servers. We are excited about the upcoming launch of NVIDIA's GB200 / GB300 servers and their related supply chain. Specifically, there are suppliers well-positioned for robust growth driven by increases in both market share and content value. Some subsectors that will benefit from this trend include Original Design Manufacturers (ODMs) and select hardware components (e.g., heat spreader, switch tray, battery module, etc.).

Risks

From a risk perspective, we continue to monitor the evolution of the AI ecosystem and, in particular, overall plans for AI capital expenditures for 2026 across Cloud Service Providers (CSPs), enterprises, and sovereigns. Considering the aggressive spending by CSPs since 2023, there is potential for some moderation in the coming years. Capital expenditure trends today are largely dependent on breakthroughs in AI applications. While we have not observed any slowdown in the development or adoption of new AI applications, we continue to closely monitor this area.

PERSPECTIVES FROM SOUTH KOREA

Opportunities

The recent decline of Korean equities and weakness in the Korean Won have increased the attractiveness of dollar-based equity valuations and created significant opportunities for Korea investors. The Korea Composite Stock Price Index (KOSPI) is trading at approximately 0.83x price-to-book ratio, approaching the historical lows of 2008 and 2019.

From a bottom-up perspective, the ongoing trade tensions between the US and China present significant opportunities for Korean industries that compete with China, including semiconductors (particularly AI-related stocks), shipbuilding, defense equipment, and alternative energy. Korean companies in these industries have traditionally been discounted because of competition from Chinese firms that are reliant on government subsidies. However, we believe such discounts should gradually be eliminated.

Risks

Uncertainty about China's political and economic outlook continues to linger, and a further deceleration in its growth rate is likely. For Korean companies, the resulting overcapacity in China is expected to exacerbate price competition in sectors like chemicals, steel, and consumer goods. While Korea's dependence on exports to China has decreased in recent years (25% in 2020 to 19% in 2024), it remains significant and thus represents risk.

Additionally, potential tariffs expected to be imposed by the US under President-Elect Trump are key risk factors for the year ahead. While the market continues to expect that the high tariff levels initially proposed by President Trump are unlikely to materialize, there is still meaningful uncertainty around the level of tariffs that will end up getting implemented. Given that Korea's export dependence on the US is approximately 18%, tariffs could lead to reduced exports and weakened profitability. However, it should be noted that these tariffs could also present an opportunity, depending on how US-China tariff negotiations play out.

PERSPECTIVES FROM INDIA

Opportunities

MSCI India delivered +11.2% in USD in 2024, which aligns with India's long-term USD performance. We expect similar market performance in 2025 supported by expected earnings growth of 14%-16% in Indian Rupee and slightly lower in US dollar terms. 2024 saw good market breadth as 242 out of 500 companies in the NSE500 Index outperformed the benchmark. It also experienced high dispersion, with the 150th-best-performing stock delivering +34% and the 350th-best-performing stock losing -2.6% over the year in local currency terms. Dispersion in Indian equities has been high year after year, and 2025 will be no different, aided by rapid growth, change, and ever-shifting market dynamics.

New Economy, technology, and technology-enabled sectors and businesses remain at the forefront of this growth and change in India. In particular, e-commerce and quick commerce companies are growing rapidly, taking market share away from incumbents who struggle to scale up, offer less choice, and lack the necessary reach, technology, and logistics to survive and thrive as consumers prioritize convenience, choice, and time. We are finding attractive opportunities in industries such as fintech, music streaming, electronics manufacturing for electric vehicles (EV) and other industries, and digitally driven services to corporations. In addition, incumbent IT services companies have found space as these are benefiting from a rise in discretionary spending by global clients after a relatively slow period over the last few years.

Risks

The most immediate risk for India investors emanates from changes in sentiment from quarter to quarter, driven mainly by cyclical variation in growth. This risk carries moderate probability and has a limited impact on markets. The more material risk would typically be a protracted slowdown in domestic growth that dents the confidence of the domestic investor, who then reduces incremental allocations to Indian equities and alters the buy-the-dip approach to investing that has worked very well over recent times. We see a low probability of this risk eventuating in the foreseeable future. India has hit escape velocity on growth driven by widespread efficiency gains from digitization, reforms of the last decade, stable governance, and dynamism of its young, educated demographic makeup.

PERSPECTIVES FROM SOUTHEAST ASIA

Opportunities

The key opportunity in Southeast Asia is born of the mismatch between growth outlook, profitability, and valuations. Even some of the better-known companies experienced a significant delay in share prices, which reacted to rebounding profitability. In these cases, stocks almost doubled in 2024 once their growth was recognized. There are many instances of stocks trading at a fraction of their former valuation, and smaller companies still languishing on very low multiples despite very positive growth outlooks. Return-on-capital-employed (ROCE) ratios are near 10-year highs, while valuations are near 10-year lows, showing the kind of gap we haven't seen since the Global Financial Crisis. These "coiled springs" are ready to bounce.

Risks

The key risk in the ASEAN outlook remains currencies, particularly as the inflationary outlook in the US seems set to persist this year. For some consumer companies, this risk is double. It impacts the translation of performance from local currency to US dollars, and company results as most consumer companies have some imported or dollarized components of costs. This has been a headwind since 2014, and most leading companies now know how to deal with this, particularly if it is not too sudden, but it remains a drag on performance.

PERSPECTIVES FROM THE MIDDLE EAST

Opportunities

With the strong economic transformation in Saudi Arabia, significant funding is required to finance both the private sector activity and the public sector projects. This need will result in incremental tailwinds for the banking sector, underpinning strong lending growth. This comes at a time when valuations of Saudi banks have been pressured, resulting in an attractive investment opportunity. A further tailwind would be slower rate cuts signaled by the FED favoring their margins.

Risks

A key risk to the pace of the transformation and the liquidity in the system to fund it lies in the stability of the oil price, which remains a key driver of government revenue, despite the big achievements in the last few years to diversify revenue sources. While we do not foresee a drop in oil price to change the course of the transformation, it will strain government finances and might reduce the pace of activity. On the other hand, tight liquidity will give banks better pricing power for their lending rates and non-interest income.

PERSPECTIVES FROM EASTERN EUROPE

Opportunities

Investors had high hopes for the Polish equity market in 2024 following the surprise victory of the liberal Civic Platform party in the late 2023 parliamentary elections. However, this optimism proved premature, as the MSCI Poland Index delivered a -6.7% return in dollar terms in 2024. Looking ahead, 2025 holds more promise for Polish equities for several reasons. GDP growth is projected to accelerate to 3.3%, supported by rising consumer demand and European Union (EU) co-funded investments. Interest rates, which remained stubbornly high at 5.75% in 2024—partially due to political factors—are expected to decline by 75–100 bps over the year. Once May's presidential elections are behind us, the main obstacle to implementing essential reforms and cost reductions in state-owned enterprises will be removed. Finally, after years of geopolitical tensions hindering international capital flows, a potential ceasefire in the Ukraine-Russia conflict could reignite foreign interest in the region's largest economy. The Polish equity market trades at 8.3x 2025E price-to-earnings ratio, a 30% discount to its historical average. In addition, it offers a 5.5% dividend yield, in line with the Polish 10-year government bond yield.

Risks

Central banks in the region find themselves in a challenging situation. Markets widely anticipate declining inflation and interest rates across the region, which are expected to drive a sentiment and consumer spending recovery. However, consumer price inflation has proved stickier than expected in H2 2024 and may remain a challenge for central banks in 2025. Nominal wage growth in the low teens, driven partly by extraordinary minimum wage hikes in 2024, could exert secondary inflationary pressures in 2025. A stronger dollar and relatively weaker regional currencies also add to inflationary risks. Commodity prices, which were disinflationary in 2024, may not be as cooperative in 2025. Overall, central banks could face significant challenges in maintaining their guided rate-cut paths even if the macroeconomic outlook should deteriorate.

PERSPECTIVES FROM SOUTH AFRICA

Opportunities

South Africa stands on the cusp of renewed economic growth, primarily driven by the stabilization of its energy supply and the progressive implementation of rail reform. The cessation of load-shedding, alongside deregulation in rail infrastructure, is poised to unlock significant economic growth. These developments promise to reduce business operational costs, enhance industrial output, and stimulate investment in sectors heavily reliant on reliable energy and transportation networks. This could lead to a noticeable uptick in GDP growth, positioning South Africa as an attractive destination for investment in 2025.

Risks

A major risk for South Africa is the continuation of problematic policies from the past administration by the Government of National Unity (GNU). This is largely due to the political infighting within the African National Congress (ANC). If the GNU fails to diverge from these policies, the pace of economic growth could be severely hampered. This political uncertainty discourages foreign direct investment and slows down critical policy decisions necessary for economic advancement. The risk is compounded by the possibility of a fragmented political landscape post-election, leading to governance challenges and delayed reforms, which might undermine the economic recovery and investor confidence.

PERSPECTIVES FROM LATIN AMERICA

Opportunities

One particularly attractive opportunity we see in Latin America is Chilean equities. Chilean stocks have traded at extremely low valuations for some time, but we now see a catalyst for rerating coming from the 2025 general election that is expected to mark a meaningful shift towards more market-friendly policies. Chilean equities are also enjoying tailwinds from interest rates that, along with Peru, are the lowest in Latin America and close to the levels in the US. We also expect a positive contribution from exposure to the Argentine consumer, where several companies have significant operations, and real GDP growth is expected to be 5% in 2025. These companies have very little value attributed to their Argentine operations after a very weak 2024, contrasting with the substantial value placed on Argentina's pure-play stocks.

Risks

One risk that is not well appreciated by the market is a potential reduction in oil prices. Non-OPEC production growth is set to grow by around 1.5 million barrels a day in 2025, while demand growth is likely to be lower. The United States, Brazil, Guyana, Argentina, and Canada are all expected to show meaningful production growth in 2025 and 2026, together with higher biofuel production. In addition, OPEC has continued to lose market share as it has restrained production and, with significant spare capacity, does not have any more room to curtail production further. Meanwhile, we are seeing demand weakness as growth is slowing in China, the world's largest oil importer, due to a weaker economy, light vehicle electrification, and heavy vehicle conversion to natural gas. Other risks to demand come from potential changes to trade from the new Trump administration. A decline in oil prices would hurt South American exports and investments in energy and could adversely impact agriculture. Ecuador, Colombia, Venezuela, Argentina, and Brazil would be among the countries most negatively impacted by a reduction in oil prices.

DISCLOSURES