Singapore Strategy – Shelter in a Storm

Summary

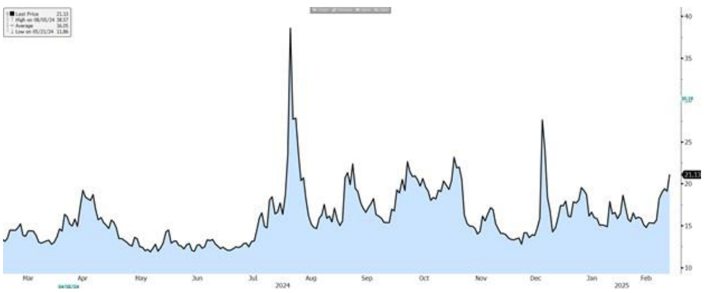
We upgrade Singapore equities to Neutral on several grounds. **Firstly**, Singapore could benefit from safe haven flows, given risk-off sentiment and volatile financial markets. **Secondly**, Singapore is the only ASEAN nation that runs a trade deficit with the US, which reduces the risk of reciprocal tariffs. **Thirdly**, the government is proactively attracting capital to the city state, focusing on longer term growth drivers and enticing fund managers to raise Singapore equity allocation. **Finally**, we think REITs are close to an inflection point, supporting a more constructive stance on the sector.

Analysis

The recent rise in market volatility, concerns about US tariffs, supportive Singapore Budget, and decline in UST 10Y bond yields are providing much-needed catalysts for Singapore equities.

1. The VIX index has jumped from 17 in early 2025 to over 23 now, an indication of heightened volatility. Singapore is viewed as a safe haven and could attract fund flows in this situation.

Spike in VIX index supports safe haven flows



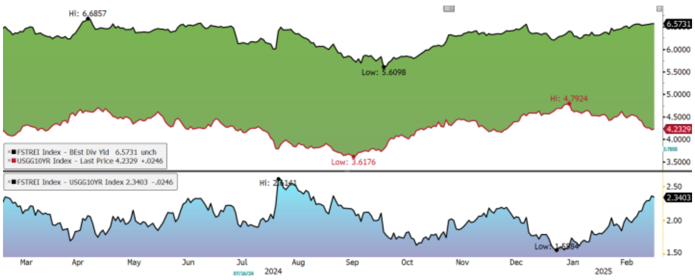
Source: Bloomberg

2. Singapore will likely see a limited direct impact from US tariffs as the country runs a trade deficit with the US (USD2.8bn deficit in 2024), in stark contrast to its ASEAN neighbours, all of which have trade surpluses with the US.

3. Singapore's Budget 2025 and the Equities Market Review Group introduced targeted measures to support the local bourse, such as a SGD5bn liquidity injection to asset managers with Singapore stock mandates, tax exemptions for domestic-focused fund managers, and research grants for small-mid caps to broaden market participation. See our report *Singapore Budget 2025: Don't spend it all in one place* dated 20 February 2025 for more details.

4. The 10Y US Treasury yield has fallen from 4.8% in early 2025 to 4.25% currently. After years of underperformance, we expect Singapore REITs to finally see some support from lower treasury yields. A potential inflection point warrants a more neutral stance on both the sector and broader market.

REITs are at an attractive 230 bps spread over UST10Y yield



Source: Bloomberg

Recommendation

We upgrade Singapore equities to Neutral with a **revised STI target of 4100** (from 3900 previously) implying 5% upside potential. Our index target pegs the STI to 12.5x earnings, in line with its 10Y average valuation.

The STI trades at a discount to 10Y mean of 12.5x

Source: Bloomberg

Key catalysts: i) Risk-off in financial markets ii) Fund flows into Singapore as a safe haven iii) Effective measures by the Equities Markets Review Group to boost trading liquidity iv) Lower treasury yields driving valuation re-rating.

Key risks: i) Singapore gets caught in between US-China trade war ii) Risk-on sentiment which drives fund outflows from Singapore in pursuit of more exciting markets.

Our top picks – **UOB, SingTel, Sembcorp Industries, CapitaLand Investment, CapitaLand Ascendas REIT, Mapletree Industrial Trust** and **Frasers Centrepoint Trust** – offer a good mix of growth, value and yield.

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