PIMCO

FEBRUARY 2025

APAC Market Outlook 2025

Global Influences, Regional Opportunities

A company of Allianz

Stephen Chang
Managing Director
Portfolio Manager

Adam Bowe
Executive Vice President
Portfolio Manager

Tadashi Kakuchi
Executive Vice President
Portfolio Manager

PIMCO's Asia investment team analyse how domestic policies and external influences are shaping growth trajectories and investment opportunities across the APAC region.

In a world characterised by shifting economic conditions and rising uncertainty, the Asia Pacific region faces both challenges and opportunities. Building on the insights from our latest *Cyclical Outlook*, "Uncertainty Is Certain", we examine the specific implications for China, Australia, and Japan, as well as potential knock-on effects for the rest of the region and globally.

CHINA: POTENTIAL ECONOMIC STRATEGIES AND SPILLOVERS

China's economic landscape remains fraught with challenges, as growth and inflation risks continue to trend downward. The combination of constrained fiscal and credit support, high real interest rates, a significant overhang of housing inventory and excess manufacturing capacity underscores the precariousness of the current outlook.

While China has improved its manufacturing capabilities, particularly in semiconductors and other technologies, these advancements are being overshadowed by escalating trade tensions and a long-term decline in both population and productivity growth.

China's economic outlook is crucial for both regional and global markets. In our base case scenario, we project that China's real GDP growth will range from 4% to 4.5% in 2025, down from 5.0% in 2024. We expect this growth will be supported by a fiscal stimulus of 1% to 1.5% of GDP. In addition, we anticipate gradual policy easing, with the People's Bank of China (PBOC) likely to cut the 1.5% reverse repo rate (RRP) by approximately 50 basis points (bps) in 2025.

Despite the government's efforts to maintain a 5% growth target for 2024, China's growth model is increasingly strained. The prolonged downturn in the property sector, coupled with sluggish household spending, raises concerns about the sustainability of growth driven primarily by manufacturing and infrastructure investment.

To assess the potential impact on regional and global markets, along with our base case, we analysed three alternative fiscal scenarios: no direct stimulus, extra stimulus, and a scenario in which China doubles down on manufacturing.

Possible fiscal scenarios for China in 2025 – PIMCO's analysis

Scenario	Global growth	Commodity prices	Global inflation	Offshore yuan (CNH)
1. No direct fiscal stimulus (China GDP growth of around 3.0%)	↓	↓	↓	↓
2. Extra fiscal stimulus (China GDP growth of around 5.0% | Direct fiscal stimulus of 2.0%–2.5% of GDP)	↑	↑	↑	↑
3. China doubles down on manufacturing (China GDP growth of around 3.5%–4.5% | Stimulus to incentivise key sectors)	↓	→	↓	↓

Base case: China's real GDP growth projected at around **4%–4.5% in 2025**, down from 5.0% in 2024, supported by a **fiscal stimulus of around 1%–1.5% of GDP.** Gradual policy easing is anticipated, with the PBOC RRP rate expected to be cut by 50 bps in 2025.

Source: PIMCO. As of 22 January 2025. **For illustrative purposes only.**

In the unlikely scenario of no direct stimulus, we expect a material decline in China's GDP growth to around 3%. This would significantly affect countries with strong trade ties to China, such as Korea, Malaysia, Thailand, and Australia, and place negative pressure on commodity prices, such as oil and metals. In contrast, economies less dependent on commodity exports, such as India, or those that are geographically distant, such as the U.S., would likely experience minimal effects.

Extra fiscal stimulus – the second scenario – would alter this landscape. Targeted transfers to low-income households would likely yield the highest economic multipliers by enhancing consumption, while broad-based transfers would have a more diluted impact.

The nature of the stimulus – whether focused on consumption or investment – also affects China's import dynamics, with investment-focused stimulus showing a clearer link to stronger imports. Countries closer to China, such as Taiwan and Vietnam, are more reliant on Chinese investment, while agricultural exporters like Brazil and New Zealand benefit from Chinese consumption. However, China's import growth has lagged export growth, signalling increased self-sufficiency. This trend may weaken the historical correlation between imports and exports as China continues to enhance its domestic production.

In the third scenario, if China doubles down on manufacturing through sector-specific stimulus, global competition may intensify, leading to greater losses (and therefore higher subsidies) for less competitive Chinese firms. Countries competing with China for the same markets will likely face greater challenges.

The path that China will take remains uncertain, but there is no doubt that its economic policies will continue to have a profound impact on global market conditions. For now, we are taking a cautious approach towards Chinese credit and the Chinese Yuan, while maintaining a neutral stance on China local duration, due to the recent substantive downshift in the yield curve.

AUSTRALIA: A GRADUAL RECOVERY AHEAD

Australia's economic outlook reflects a recovery in private demand following the challenges posed by high interest rates and significant tax burdens. In 2025, GDP growth is expected to show a modest improvement as real incomes rise and interest rates begin to decline from restrictive levels. This trajectory follows 2024's growth of approximately 1%, which was primarily driven by public demand, while household consumption and business investment remained flat.

Employment growth, which was robust in the second half of 2024 and largely dominated by the public sector, is anticipated to moderate in 2025, likely leading to an increase in the unemployment rate to the mid-4% range.

On the inflation front, we expect year-on-year core figures to return to the Reserve Bank of Australia's (RBA) target band of 2%–3% by the middle of 2025. With the near-term outlook for both the labour market and inflation consistent with the RBA's objectives, we anticipate that the central bank will begin lowering interest rates back towards neutral in the first half of 2025, with a reduction in the cash rate of 100 bps over the 2025 calendar year.

With the easing cycle set to commence, Australia's relatively lower fiscal deficits compared with other developed markets (resulting in lower relative bond supply), and ongoing constraints on consumption due to high household debt levels and tax burdens, we view Australian duration as attractive relative to many other developed market alternatives.

Within the Australian fixed income sector, several high-quality segments of the bond market present attractive opportunities in 2025, with some areas yielding over 5% while maintaining AAA or AA credit ratings. We believe this offers investors the chance to secure income without significant credit or liquidity risk.

The state government bond market in Australia offers appealing real income and diversification, with 10-year bond spreads ranging from 70 bps to 90 bps over Commonwealth government bonds, providing resilience in various economic scenarios.

The AAA-rated securitisation market, particularly residential mortgage-backed securities, is becoming increasingly attractive, with spreads exceeding the cash rate by 90 bps to 120 bps. Additionally, select 7-year to 10-year investment-grade corporate bonds in the infrastructure and regulated utilities sectors yield between 5.25% and 6.0%, benefiting from strong macroeconomic trends.[1]

1 All data in this paragraph as of 23 January 2025.

JAPAN: BALANCING GROWTH AND INFLATION

Japan's economic outlook is showing signs of improvement. The Bank of Japan (BOJ) hiked the official policy rate to 0.50% at its January Monetary Policy Meeting and we expect the rate to rise to 0.75% by year-end. This expectation for further policy rate adjustment reflects a more stable global macro backdrop, with reduced concerns about a U.S. economic slowdown relative to 3Q 2024, along with continued firmness in domestic wages.

The BOJ has reaffirmed its commitment to policy normalisation, indicating that it will adjust interest rates based on economic activity and the outlook for inflation and wages. Domestic macroeconomic data aligns with the BOJ's forecasts, with firm wage growth anticipated for 2025. We expect around 1% GDP growth for 2025, rebounding from around 0% growth in 2024. We anticipate inflation will hover around the BOJ's 2% target, primarily due to expected real wage increases, which should expand personal consumption and drive wage-related inflation, offsetting the effects of rising (albeit moderating) costs of goods and services.

In terms of investment strategy, we are neutral on Japan duration overall with market pricing for the BOJ looking fair for the rest of 2025, while we view relative value opportunities as more attractive. On the Japanese yield curve, we are relatively cautious on the 5- to 10-year part of the Japanese government bond (JGB) yield curve, since valuations do not adequately reflect the risk of further rate hikes beyond 2025 and the BOJ is expected to gradually reduce its purchases of these bonds. In contrast, long-term JGBs, particularly those in the 20- to 40-year range, are becoming more appealing as they have recently become cheaper relative to historical levels and are reasonably priced compared to other global alternatives.

CONCLUSION: ASIA PACIFIC CONTINUES TO OFFER OPPORTUNITIES, BUT CAREFUL PORTFOLIO POSITIONING IS REQUIRED

In summary, the outlook for the Asia Pacific region in 2025 presents a complex landscape of challenges and opportunities. We do not expect China to emerge from its challenging growth phase this year, which will continue to impact regional dynamics and economies. In Japan, active management will be critical given the market's increasing sensitivity to global interest rates and the anticipated BOJ policy decisions, which will influence bond yields and the shape of the yield curve. Meanwhile, Australia is set to join the rest of the developed world in normalising its monetary policy.

Amidst this regional and global uncertainty, we continue to see opportunities in Asia Pacific fixed income markets for active investors who can take advantage of structural inefficiencies in markets and short-term volatility. However, as countries respond to both domestic pressures and external influences, investors should prioritise caution and flexibility in their portfolio positioning.

IMPORTANT NOTICE

Please note that the following contains the opinions of the manager as of the date noted, and may not have been updated to reflect real time market developments. All opinions are subject to change without notice.

Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. There is no guarantee that results will be achieved.

This material has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product.

All investments contain risk and may lose value. Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

This material contains the current opinions of the manager and such opinions are subject to change without notice. This material is distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

PIMCO as a general matter provides services to qualified institutions, financial intermediaries and institutional investors. Individual investors should contact their own financial professional to determine the most appropriate investment options for their financial situation. This is not an offer to any person in any jurisdiction where unlawful or unauthorized. | **Pacific Investment Management Company LLC**, 650 Newport Center Drive, Newport Beach, CA 92660 is regulated by the United States Securities and Exchange Commission. | **PIMCO Europe Ltd (Company No. 2604517, 11 Baker Street, London W1U 3AH, United Kingdom)** is authorised and regulated by the Financial Conduct Authority (FCA) (12 Endeavour Square, London E20 1JN) in the UK. The services provided by PIMCO Europe Ltd are not available to retail investors, who should not rely on this communication but contact their financial adviser. Since PIMCO Europe Ltd services and products are provided exclusively to professional clients, the appropriateness of such is always affirmed. | **PIMCO Europe GmbH (Company No. 192083, Seidlstr. 24-24a, 80335 Munich, Germany), PIMCO Europe GmbH Italian Branch (Company No. 10005170963, via Turati nn. 25/27 (angolo via Cavalieri n. 4), 20121 Milano, Italy), PIMCO Europe GmbH Irish Branch (Company No. 909462, 57B Harcourt Street Dublin D02 F721, Ireland), PIMCO Europe GmbH UK Branch (Company No. FC037712, 11 Baker Street, London W1U 3AH, UK), PIMCO Europe GmbH Spanish Branch (N.I.F. W2765338E, Paseo de la Castellana 43, Oficina 05-111, 28046 Madrid, Spain) and PIMCO Europe GmbH French Branch (Company No. 918745621 R.C.S. Paris, 50–52 Boulevard Haussmann, 75009 Paris, France)** are authorised and regulated by the German Federal Financial Supervisory Authority (BaFin) (Marie- Curie-Str. 24-28, 60439 Frankfurt am Main) in Germany in accordance with Section 15 of the German Securities Institutions Act (WpIG). The Italian Branch, Irish Branch, UK Branch, Spanish Branch and French Branch are additionally supervised by: (1) Italian Branch: the Commissione Nazionale per le Società e la Borsa (CONSOB) (Giovanni Battista Martini, 3 - 00198 Rome) in accordance with Article 27 of the Italian Consolidated Financial Act; (2) Irish Branch: the Central Bank of Ireland (New Wapping Street, North Wall Quay, Dublin 1 D01 F7X3) in accordance with Regulation 43 of the European Union (Markets in Financial Instruments) Regulations 2017, as amended; (3) UK Branch: the Financial Conduct Authority (FCA) (12 Endeavour Square, London E20 1JN); (4) Spanish Branch: the Comisión Nacional del Mercado de Valores (CNMV) (Edison, 4, 28006 Madrid) in accordance with obligations stipulated in articles 168 and 203 to 224, as well as obligations contained in Tile V, Section I of the Law on the Securities Market (LSM) and in articles 111, 114 and 117 of Royal Decree 217/2008, respectively and (5) French Branch: ACPR/Banque de France (4 Place de Budapest, CS 92459, 75436 Paris Cedex 09) in accordance with Art. 35 of Directive 2014/65/EU on markets in financial instruments and under the surveillance of ACPR and AMF. The services provided by PIMCO Europe GmbH are available only to professional clients as defined in Section 67 para. 2 German Securities Trading Act (WpHG). They are not available to individual investors, who should not rely on this communication. According to Art. 56 of Regulation (EU) 565/2017, an investment company is entitled to assume that professional clients possess the necessary knowledge and experience to understand the risks associated with the relevant investment services or transactions. Since PIMCO Europe GMBH services and products are provided exclusively to professional clients, the appropriateness of such is always affirmed. | **PIMCO (Schweiz) GmbH (registered in Switzerland, Company No. CH-020.4.038.582-2, Brandschenkestrasse 41 Zurich 8002, Switzerland)**. According to the Swiss Collective Investment Schemes Act of 23 June 2006 ("CISA"), an investment company is entitled to assume that professional clients possess the necessary knowledge and experience to understand the risks associated with the relevant investment services or transactions. Since PIMCO (Schweiz) GmbH services and products are provided exclusively to professional clients, the appropriateness of such is always affirmed. The services provided by PIMCO (Schweiz) GmbH are not available to retail investors, who should not rely on this communication but contact their financial adviser. | **PIMCO Asia Pte Ltd** (8 Marina View, #30-01, Asia Square Tower 1, Singapore 018960, Registration No. 199804652K) is regulated by the Monetary Authority of Singapore as a holder of a capital markets services licence and an exempt financial adviser. The asset management services and investment products are not available to persons where provision of such services and products is unauthorised. | **PIMCO Asia Limited** (Suite 2201, 22nd Floor, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong) is licensed by the Securities and Futures Commission for Types 1, 4 and 9 regulated activities under the Securities and Futures Ordinance. PIMCO Asia Limited is registered as a cross-border discretionary investment manager with the Financial Supervisory Commission of Korea (Registration No. 08-02-307). The asset management services and investment products are not available to persons where provision of such services and products is unauthorised. | **PIMCO Investment Management (Shanghai) Limited**. Office address: Suite 7204, Shanghai Tower, 479 Lujiazui Ring Road, Pudong, Shanghai 200120, China (Unified social credit code: 91310115MA1K41MU72) is registered with Asset Management Association of China as Private Fund Manager (Registration No. P1071502, Type: Other). | **PIMCO Australia Pty Ltd** ABN 54 084 280 508, AFSL 246862. This publication has been prepared without taking into account the objectives, financial situation or needs of investors. Before making an investment decision, investors should obtain professional advice and consider whether the information contained herein is appropriate having regard to their objectives, financial situation and needs. To the extent it involves Pacific Investment Management Co LLC (PIMCO LLC) providing financial services to wholesale clients, PIMCO LLC is exempt from the requirement to hold an Australian financial services licence in respect of financial services provided to wholesale clients in Australia. PIMCO LLC is regulated by the Securities and Exchange Commission under US laws, which differ from Australian laws. | **PIMCO Japan Ltd**, Financial Instruments Business Registration Number is Director of Kanto Local Finance Bureau (Financial Instruments Firm) No. 382. PIMCO Japan Ltd is a member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and Type II Financial Instruments Firms Association. All investments contain risk. There is no guarantee that the principal amount of the investment will be preserved, or that a certain return will be realized; the investment could suffer a loss. All profits and losses incur to the investor. The amounts, maximum amounts and calculation methodologies of each type of fee and expense and their total amounts will vary depending on the investment strategy, the status of investment performance, period of management and outstanding balance of assets and thus such fees and expenses cannot be set forth herein. | **PIMCO Taiwan Limited** is an independently operated and managed company. The reference number of business license of the company approved by the competent authority is (112) Jin Guan Tou Gu Xin Zi No. 015 . The registered address of the company is 40F., No.68, Sec. 5, Zhongxiao East Rd., Xinyi District, Taipei City 110, Taiwan (R.O.C.), and the telephone number is +886 2 8729-5500. | **PIMCO Canada Corp.** (199 Bay Street, Suite 2050, Commerce Court Station, P.O. Box 363, Toronto, ON, M5L 1G2) services and products may only be available in certain provinces or territories of Canada and only through dealers authorized for that purpose. | **Note to Readers in Colombia:** This document is provided through the representative office of Pacific Investment Management Company LLC located at Carrera 7 No. 71-52 TB Piso 9, Bogota D.C. (Promoción y oferta de los negocios y servicios del mercado de valores por parte de Pacific Investment Management Company LLC, representada en Colombia.). **Note to Readers in Brazil:** PIMCO Latin America Administradora de Carteiras Ltda.Av. Brg. Faria Lima, 3477 Itaim Bibi, São Paulo - SP 04538-132 Brazil. **Note to Readers in Argentina:** This document may be provided through the representative office of PIMCO Global Advisors LLC AVENIDA CORRIENTES, 299, Buenos Aires, Argentina. | No part of this publication may be reproduced in any form, or referred to in any other publication, without express written permission. PIMCO is a trademark of Allianz Asset Management of America LLC in the United States and throughout the world. ©2025, PIMCO.

CMR2025-0122-4181044