

CIO Insights 3Q25

The Global Pivot.

Slower Growth

Global growth to slow sharply amid escalating Middle-East conflict, tariff chaos, and policy uncertainties under Trump. Trajectory for lower rates remains despite an expected US inflation bump.

IG Credit for Income

Compared to zero-bound rates of the past decade, IG's absolute yield level is attractive, even with narrow credit spreads. Avoid ultra-long duration bonds amid curve steepening risk.

Resilience in Tech & AI Themes

Stay all-in on tech and AI-related equities for capital gains. Outside US tech, prefer selective sectors in Asian dividend plays and European beneficiaries of fiscal stimulus.

Alternatives in a Sweet Spot

Enhance portfolio resilience with low-correlating alternatives. Gold stays well bid while hedge funds and private assets provide non-market directional "alpha" returns.



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Foreword

Dear valued clients,

At the cusp of this year, we spoke about our efforts in helping you navigate uncertainty.

That was at a time when many points of global tension were simmering concurrently.

Now, at least one of them threatens to boil over; the 47th President of the United States has demonstrated a mercurial disposition for policymaking – a trait that has come to dominate the investing discourse in recent months. While we have previously guided you through periods of uncertainty, our role now additionally entails helping you navigate the certainty of uncertainty; signs include the selective and sustained weakness of the dollar, softening commodity prices, and increased reshoring.

To wit, markets are no longer waiting to react to policy announcements, instead moving forward under the conviction of a changing global order.

In this issue of CIO Insights titled *The Global Pivot*, we present the salient investment themes that have emerged as the world prices in instability and multi-polarity.

I trust that this publication will shed sufficient light on a perceptibly murky future, and thank you for your continued trust in us.



Shee Tse Koon

Group Head, Consumer Banking
& Wealth Management

Executive Summary

Dear valued clients,

Global equities staged an impressive rebound in 2Q25, reversing all losses recorded in the previous quarter. This recovery came despite ongoing tariff chaos, erratic policy shifts from President Trump, and mounting concerns over the United States' gargantuan fiscal deficit.

This V-shaped recovery took many investors by surprise. Even if conflict in the Middle East escalates and threatens volatility, the structural tailwinds we have listed stay relevant and robust – barring any worst-case scenarios.

Here, it is timely for me to reaffirm the old adage: “time in the market beats timing the market”. Trying to exit and re-enter at a more favourable level is easier said than done. Behavioural biases – particularly “anchoring”, which deters investors from buying back into the market at prices higher than their exit point – remains a perennial challenge.

We are clearly entering a new world order: one defined by self-sufficiency and protectionist trade policies, driven by apprehension over US debt sustainability. At the same time, AI-powered technologies are revolutionising the way we live, work, and play.

For sure, these shifts have created headwinds as well as investment opportunities. Gold and technology equities remain strongly at the centre of our conviction call, alongside IG credit as a reliable source for income generation. For deeper insight, refer to the special section in this publication, “New World Order”.

I wish you every success in building a resilient portfolio while seizing opportunities in this volatile market environment.



Hou Wey Fook, CFA

Chief Investment Officer



Everything Everywhere All at Once

Asset
Allocation
3Q25

US fiscal profligacy and policy ambiguity increase the risk premium for financial assets. While pragmatism will underpin further de-escalation of global tariff tensions, expect divergence across the performance of asset classes. Maintain portfolio diversification with exposure to gold and private assets to hedge against tail risks.

Investment Summary 3Q25



Macro Policy

Outside the US, stronger currencies vs the US dollar and a marked decline in commodity prices have muted inflation concerns. Despite the pause in US tariffs, tensions continue to simmer between US and its trading partners.



Economic Outlook

Oil prices surge due to Israel-Iran conflict, but our base-case sees limited second-order effects in the wider markets. The market is likely to shift its focus to the risk of inflation as the China-US trade war reprieve fades. We revise down Europe and Japan growth.



Equities

Maintain high conviction call on US tech as the AI trend persists. Overweight Europe and AxJ on resurgent fiscal impulse, favourable dividend yield, and valuation discount.



Credit

Stagflation risks and long-end volatility have risen. Prioritise A/BBB while maintaining a barbell duration strategy, overweighting 2-3Y and 7-10Y segments. We like US Treasury Inflation-Protected Securities (TIPS), capital securities, and short-duration quality credit.



Rates

Bond vigilantes lurk as fiscal challenges deepen in US and Japan. As investors look to diversify their USD holdings, a shift in capital flows will benefit Asian local currency bonds.



Currencies

Weaker USD trajectory to continue as Trump's controversial policy-making style has eroded confidence in USD assets. Alternative safe haven currencies will be primary beneficiaries.



Alternatives

Favourable risk-reward remains in gold from central bank buying. Add hedge funds, private secondaries, credit, and private infrastructure for additional sources of alpha returns.



Commodities

As the impact of tariff front-running subsidies and growth risks increase, sentiment is likely to lean cautious for all commodity sub-sectors, with the exception of precious metals.



Thematics

We explore humanoids, industrial automation, and defence & aerospace as key beneficiaries of a world that is increasingly shaped by reshoring and self reliance.



Theme: New World Order

“Liberation Day” was a defining moment in 2025 as news of reciprocal tariffs roiled financial markets. However, the impact of Trump 2.0 extends far beyond tariffs: the entire international trade and geopolitical landscape faces a potential sea change.

Under this changing world order, we highlight: i) humanoids & industrial automation and ii) defence & aerospace as key beneficiaries of heightened supply chain disruptions and increasing global fragmentation.



Source: Unsplash

01. Asset Allocation.

Hou Wey Fook, CFA
Chief Investment Officer

Dylan Cheang
Strategist

A lot has happened in Trump's first 100 days. From aggressive cost cuts at the Department of Government Efficiency (DOGE) to the unleashing of a global tariff war, his shock and awe approach has remade America with far-reaching consequences. Rhetoric from the Trump administration suggests policy ambiguity will be an ongoing feature for the next four years, and this means rising risk premium for US financial assets and, certainly, a greater need for agility in investors' portfolio positioning.

The recent passage of Trump's expansive tax reform through congress added another layer of complexity for financial markets as investors begin to question the sustainability of the US' enormous debt load. Based on projections by the CBO, the US budget deficit is expected to hit USD1.9tn this year, and by 2035, federal debt will constitute 118% of GDP. These dire projections tie in with Moody's downgrade of the US credit rating to Aa1 – a symbolic move which heralds a new era where US Treasuries are no longer "risk-free".

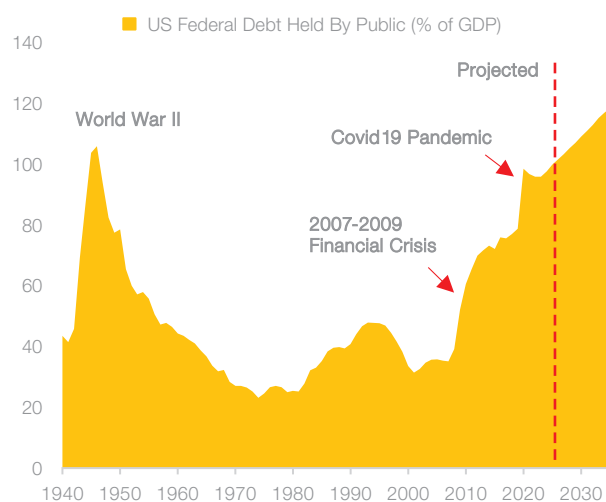
Despite tariff tension clouding the macroeconomic outlook, long-term Treasury yields have broken out decisively with the 30Y yield breaching the 5% mark. The unusual occurrence marks rising unease over US fiscal sustainability and the additional risk premium required for investors to hold long-duration assets. The surge in Treasury yields coincided with similar moves for JGBs, with the 30Y yield hitting 3%.

But while the moves were similar, there is one crucial difference. In Japan, public debt is financed predominantly by domestic savings. In the case of the US, public debt is funded heavily by foreign capital and, today, foreign investors account for 33% of Treasury bonds and 18% of US equities (as of Jun 2024). Such heavy reliance on foreign funding can turn precarious as Trump continues to pursue his "America First" agenda.

Uncle Sam wants your money. The US' failure to meet its obligations through taxation and cost cuts only reinforces the view that Trump's so-called beautiful tariff war is not only about reshaping the world order through strategic containment of China and "Making America Great Again" by bringing manufacturing jobs home; it is also about raising revenue to address America's insolvency issue which underpins the ideological rationale of implementing a "universal tariff" on both friends and foes alike.

If this train of thought runs true, then one can only conclude that Trump's tariffs are here to stay with substantial impact on global inflation and growth outlook. According to the Tax Foundation, universal tariffs of 10%-15% will reduce GDP growth by 0.4%-0.6% as economic output contracts on the back of higher import costs and supply chain disruption. Based on a separate study by the Budget Lab at Yale, the tariffs are also expected to push consumer prices higher by 1.7% as businesses pass on the higher input costs to end-consumers.

Dire outlook for the US debt situation

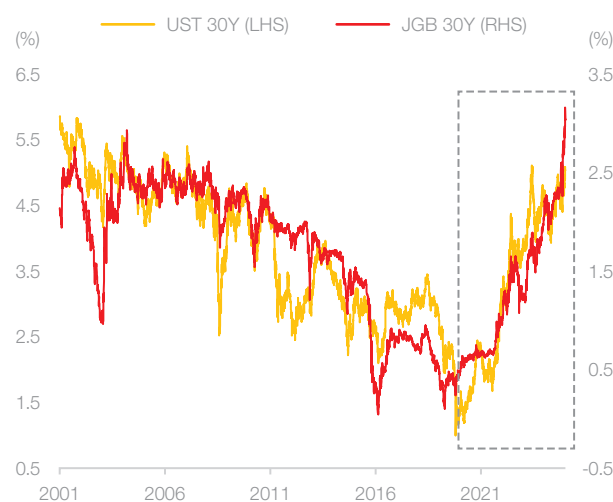


Source: Congressional Budget Office, DBS

A solution for a bygone era. Unlike the 18th and 19th centuries, when tariffs functioned as an important source of government revenue, the situation today is vastly different given the gargantuan size of the US fiscal deficit. Even if one assumes an aggressive 20% universal tariff, the Tax Foundation expects only an additional “conventional” revenue of USD297.1bn for 2025. Should one factor in the “dynamic effects” of tariffs coupled with potential foreign retaliation, the additional revenue will shrink further to USD185.2bn – a sum barely sufficient to offset the interest payments for US debt obligations.

Trump’s so-called beautiful tariff war is therefore no panacea for US fiscal profligacy which will only get worse as the administration pushes ahead with tax cuts in the “One Big Beautiful Bill”. Concerns over the government’s ability to fund its deficit have not

Decisive breakouts for long-term JGB and Treasury yields



Source: Bloomberg, DBS

only pushed long-term yields higher, but also sent the dollar lower (with DXY index poised to hit 92.5 by the end of 2026). The dynamics driving equities were, however, different as markets rebounded close to re-“Liberation Day”, levels riding on the positives of tariff de-escalation and tax cuts.

As we approach the second half, we believe that the following topics will dominate the narrative and determine the trajectory of markets:

- Pragmatism and the de-escalation of tariff tension
- Divergence and polarisation in equity performance
- Fiscal headwinds negative for government bonds and the dollar, positive for gold

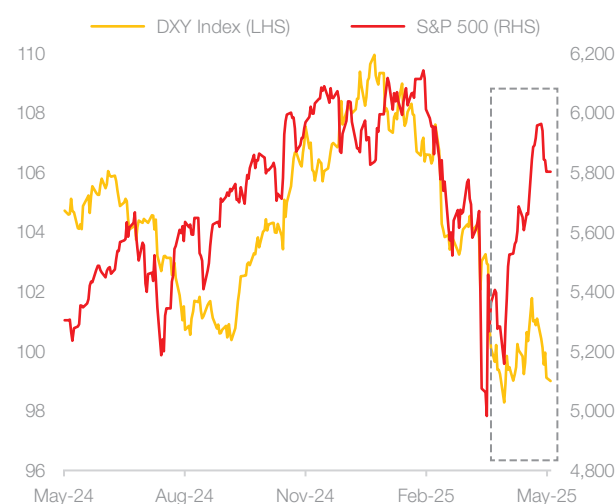
Tariffs: De-escalation, but not elimination

"When the facts change, I change my mind". The words of John Maynard Keynes couldn't be more timely in today's geopolitical landscape. Abrupt US-China de-escalation has taken markets by surprise and the decision is underpinned no less by pragmatism. A tariff of 145% is essentially a trade embargo that will hurt both parties. Above all, the acute surge in bond yields is another crucial factor that has taken the Trump administration by surprise and is causing a re-think in its strategic agenda.

US Debt-to-GDP currently stands at 124% and USD7.8tn of outstanding debt requires refinancing this year, followed by USD3.7tn in 2026. The blended average interest cost currently stands at 3.35% and this is markedly lower than prevailing 2Y, 10Y, and 30Y bond yields. Today, interest payment accounts for c.11.9% of US total expenditure, and given the dire US fiscal situation, the country can ill-afford to incur additional interest expense especially at a time when it is extending previous tax cuts.

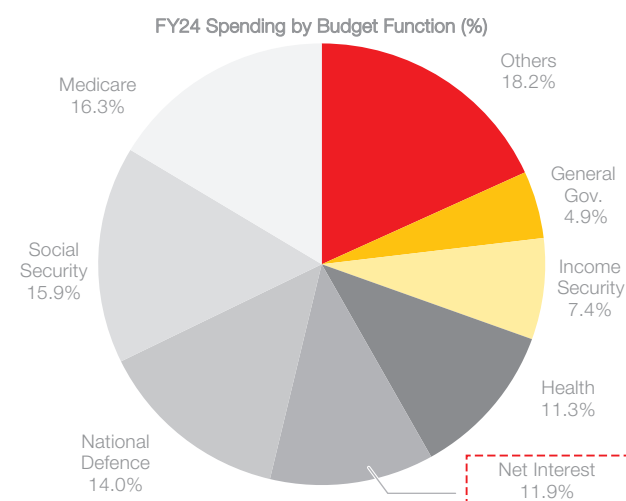
China is not doing much better either. Manufacturing activities are starting to moderate while the government's efforts in boosting domestic consumption has remained futile in the land of savers. In the US, inflation is poised to surge as both Chinese exporters and US importers have showed little appetite to "eat the tariffs" as Trump has suggested, and this could only mean one thing: Higher prices for US consumers.

S&P 500 and DXY driven by diverging dynamics



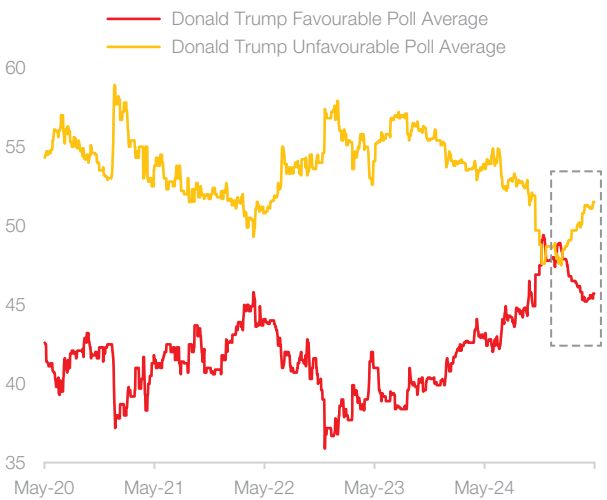
Source: Bloomberg, DBS

The amount US spends on interest payment is close to what it spends on national defence



Source: Bloomberg, DBS

Trump’s favourability rating on the decline



Source: Bloomberg, DBS

Pragmatism rules. Slower growth and rising inflationary pressure will be a disaster for Trump at a time when he is facing waning poll numbers at home. The surprising embrace of policies belonging to the progressive left (such as tax increase for top earners) underlines Trump’s effort in revving his popularity before the 2026 midterms and to reframe the Republicans as a party for the working class. This probably explains the eagerness to taper trade

tension with China, avoiding the economic fallout of a full-blown trade war.

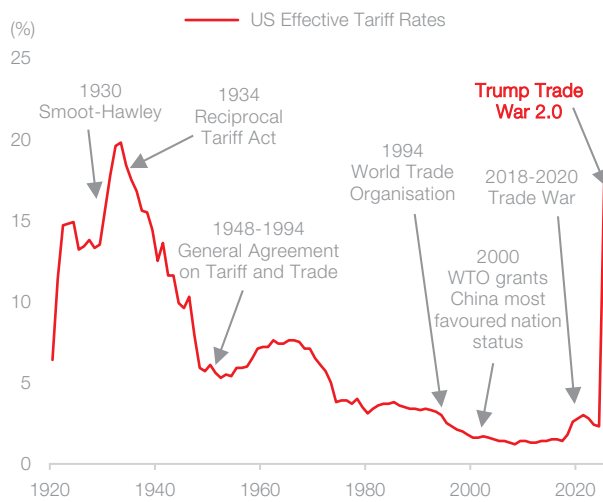
What happens after 90 days? Using the first Trump presidency as a guide, our base-case scenario is further de-escalation with China, agreeing to make substantial purchases and potentially striking a fentanyl deal with the US. Should this transpire, the tail risks for markets will be reduced significantly with low likelihood of a recession. While uncertainties remain, we believe investors will see the glass as “half full” and focus on the positives of trade de-escalation.

Following the mid-June trade talks in London, President Trump has announced US tariffs on China would be set at 55% while Chinese tariffs on US goods would remain at 10%. Such substantial de-escalation will put a floor to equity markets as investors await corporate guidance on how the 10% universal tariff and 55% China tariff will impact corporate earnings in the coming quarters. But given that equity markets have already rebounded back to pre-“Liberation Day” levels (as a result of light positioning), much of the upside is captured in current prices. For markets to grind higher from here, corporate earnings need to strengthen further as valuations are looking stretched by historical standards.

Scenarios	Probability	Details
Base case	60%	- Global (ex-China) effective tariff rate of 15% - China tariff rate of 55%
Positive case	20%	- Global (ex-China) effective tariff rate of 10% - China tariff rate of 55%
Negative case	20%	- Global (ex-China) effective tariff rate of 20% - China tariff rate of 55%

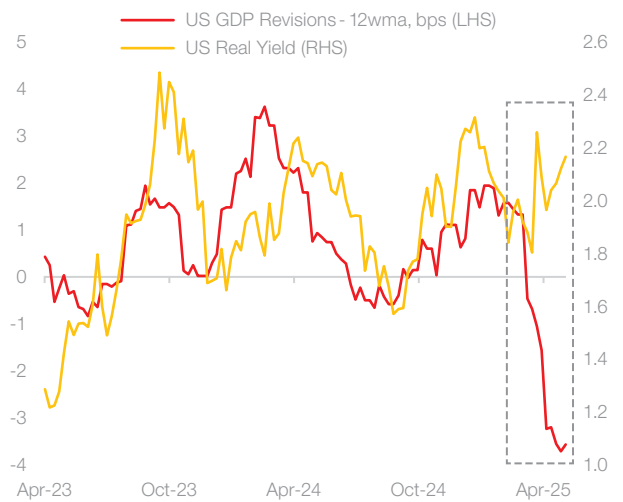
Source: DBS

Huge spike in US effective tariff rate



Source: Bloomberg, The Budget Lab, DBS

Unusual times: US real yield trending north despite growth momentum heading south



Source: Bloomberg, DBS

Equities: Divergence and polarisation

Our assumption of further de-escalation in the tariff war means that the probability of a recession has diminished sharply and this is comforting news for global equities. But avoiding the worst-case scenario does not mean that no damage is done. The uncertainties and chaos brought on by the Trump administration has dampened business confidence and the lack of visibility means that CEOs will hold off corporate capex until the fog clears. The same applies to consumers. Big-ticket purchases will be postponed until further clarity emerges on how the universal tariffs will impact the future cost of living.

Under such conditions, we expect earnings downgrades to take place across sectors, particularly amongst global cyclicals. Based on consensus forecasts, the street is still expecting 11% EPS growth for S&P 500 this year, a level which does not reflect prevailing macro uncertainties. US industries that are most exposed to tariff tensions with China (such as automobiles and agriculture) will encounter the sharpest downward earnings revisions.

This is unfortunately coming at a time when longer-term bond yields are edging higher as US fiscal concerns have compelled investors to start questioning US Treasuries' "risk-free" status. Under normal circumstances, rising bond yields reflect economic strength. But not this time round, as US real yield is trending north just as GDP momentum is heading south.

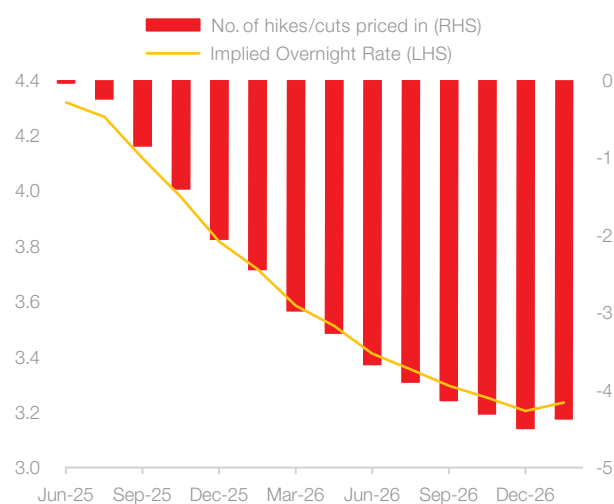
But despite these headwinds, why are we Neutral and not outright bearish on equities? There are three mitigating factors at play:

1. The “shock and awe” antics aside, it is also evident that the Trump administration’s policy approach is overlaid with pragmatism. This is evident from its abrupt U-turn when bond yields were spiralling higher at the peak of the tariff war. With the mid-term on the horizon in 2026, we believe that tariff tensions with China will eventually be resolved, and the avoidance of a recession warrants a Neutral call for equities.
2. AI investments remain a significant tailwind for both economic growth and financial markets. Alphabet, Microsoft, and Amazon, for instance, will be investing a combined USD250bn in 2025 on AI-related infrastructure while on the sovereign front, the Middle East is pumping in c.USD100bn in AI-driven investments over this decade.

3. Tariffs are inflationary and this dampens the Fed’s enthusiasm for cutting rates as the central bank monitors hard data releases to assess the impact on consumer prices. But consensus forecasts suggest that the Fed will nonetheless commence its rate cutting cycle in 4Q as growth starts to moderate and this is a tailwind for equity markets.

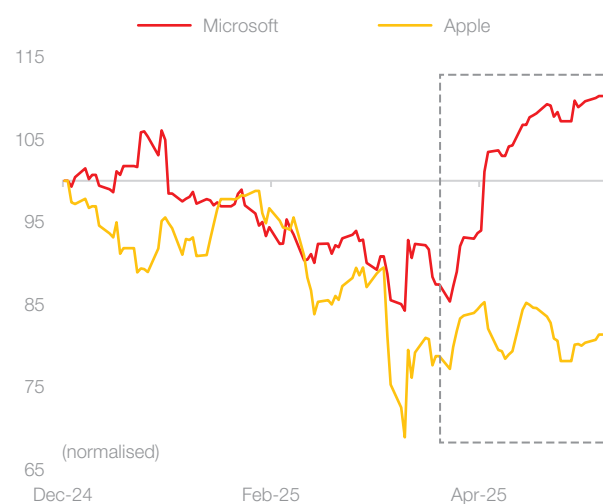
In such an environment, we see divergence in performance across the equity space. Industries focusing on services will be more resilient relative to those focusing on goods. Within the US technology sector, a clear case in point is the divergence in performance between Microsoft and Apple. Microsoft’s focus on cloud services is less directly impacted by tariffs, unlike Apple’s consumer tech business where headwinds are on the rise with Trump insisting that iPhones sold in the US must be manufactured domestically.

Implied Fed policy rate and number of cuts



Source: Bloomberg, DBS

Microsoft has vastly outperformed Apple this year



Source: Bloomberg, DBS

Conviction Calls – Bullish Gold; Bearish Dollar

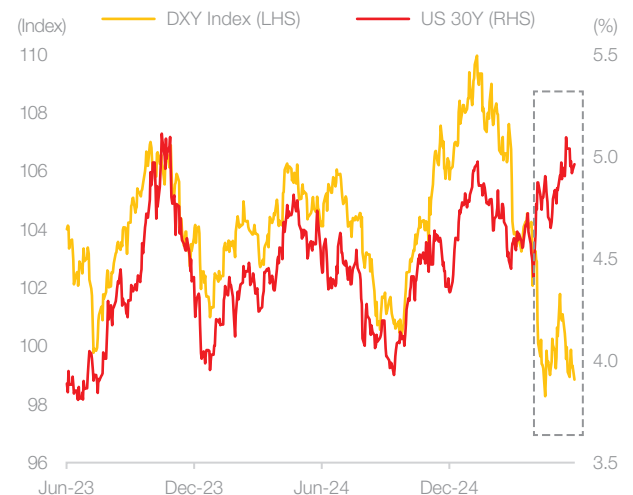
Historically, given the non-yielding nature of gold, the precious metal possesses an inverse relationship with bond yields. Indeed, gold and the 30Y nominal yield exhibited a correlation of -0.22 during 2004-2024. But this inverse relationship has clearly broken down since Trump's "Liberation Day", as concerns about tariffs, coupled with US fiscal sustainability and de-dollarisation, have taken centre stage.

Data from the World Gold Council shows central banks' demand for gold has been on the rise, hitting 1,045 tonnes in 2024 (121% higher than the long-term average for 2010-2021). The latest projection from the CBO on US' long-term debt outlook suggests that this trend will persist as central banks incrementally diversify and reduce their exposure to US financial assets in the face of geopolitical and fiscal sustainability concerns.

An offshoot of US fiscal profligacy is dollar weakness. The greenback has weakened 9.7% despite long term US Treasury yields surging higher this year. This is an unusual occurrence which suggests rising reservations about the greenback as the anchor reserve currency of the world. The dollar weakness, meanwhile, also ties in with Trump's Mar-a-Lago strategy, as a strong dollar was often blamed for the US' loss of export competitiveness and the hollowing out of its industrial base.

We expect dollar weakness to persist with the US Dollar Index (DXY) hitting 97.8 by 4Q25.

Dollar weakness despite long-term UST yields surging higher: Unusual



Source: Bloomberg, DBS

3Q25 CIO Asset Allocation (CIO AA)

Categories	Indicators	Score Range	Equities				Bonds		
			US	Europe	Japan	AxJ	DM Govt	DM Corp	EM Bonds
Fundamentals	PMI	-1 to +1	-1	0	0	0	0	-1	0
	Economic surprise	-1 to +1	-1	0	1	0	0	-1	0
	Inflation	-1 to +1	-1	1	0	1	-1	-1	1
	Monetary policies	-1 to +1	0	0	1	1	0	0	1
	Forecasted EPS growth	-2 to +2	0	0	0	1	-	0	0
	Earnings surprise	-2 to +2	0	-1	0	1	-	0	0
Valuation	Forward P/E	-2 to +2	-1	0	0	1	-	-	-
	P/B vs ROE	-2 to +2	0	0	-1	0	-	-	-
	Earnings yield - 10Y yield	-2 to +2	-1	-1	0	0	1	2	0
	Free Cashflow yield	-2 to +2	-1	-1	0	0	-	-	-
	Credit spread	-2 to +2	-	-	-	-	-	0	-1
Momentum	Fund flows	-2 to +2	0	2	0	0	1	2	0
	Volatility	-1 to +1	0	0	0	0	0	-	-
	Catalysts	-2 to +2	-1	1	0	0	-1	1	0
Raw Score			-7	1	1	5	0	2	1
Adjusted Score*			-0.33	0.05	0.05	0.24	0.00	0.13	0.06

*Note: The "Adjusted Score" is calculated using the "Raw Score" divided by the maximum attainable score for each category.

Source: DBS

3Q25 Asset Allocation – Defensive Shift

Cross Assets – Bonds remain in play. The latest scoring on our CAA framework suggests a preference for bonds over equities in the VUCA era.

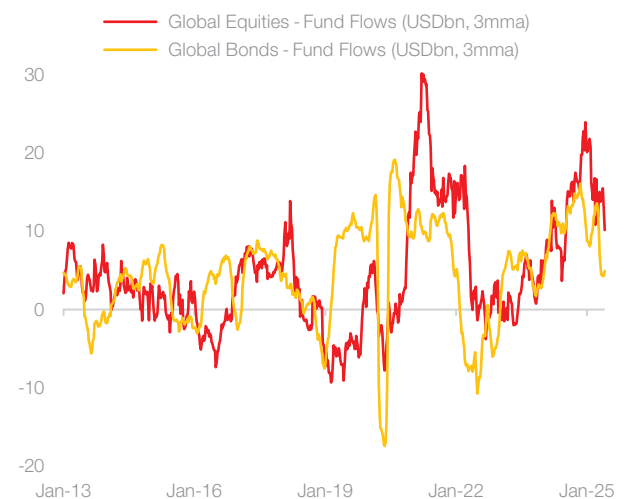
Fundamentals: US manufacturing momentum has moderated since the start of the year, while economic surprise is not looking too upbeat either as the strain of trade war uncertainties gradually erodes business confidence and deters corporate capex. A slowdown in growth momentum, however, is paradoxically met with upward inflation risks amid potential supply chains disruptions, labour market tightness, and rising money supply growth. Companies are already reporting sharp increases in input costs and the situation will get worse should China/Europe fail to cut a trade deal with the US.

On corporate earnings, US earnings forecast has been revised down but the change is marginal and this suggests analysts' assumption of further de-escalation in trade tension. A similar downtrend in earnings revision is evident in Europe and Japan, and the only market that managed to buck the trend is Asia ex-Japan. For FY2025, the region is expected to register earnings growth of 12.4% (vs 6.6% for DMs).

Valuation: The gap between US earnings yield and the UST 10Y yield has deteriorated to -0.4% (as of 30 May) and this reinforces our cautious stance on equities relative to bonds.

Momentum: While bond funds continue to register inflows, the momentum for equity funds appeared to have waned as the latter registered outflows

Moderating inflows to equities and bonds on 3mma basis



Source: EPFR Global, DBS

USD213.6bn in the past two weeks (as of 28 May), compared to inflows of USD44.3bn for bonds. This reflects a broad-based shift to defensive positioning as concerns on tariff uncertainties took hold. Expect this trend to persist as the deadline for trade negotiations between the US and China/Europe looms.

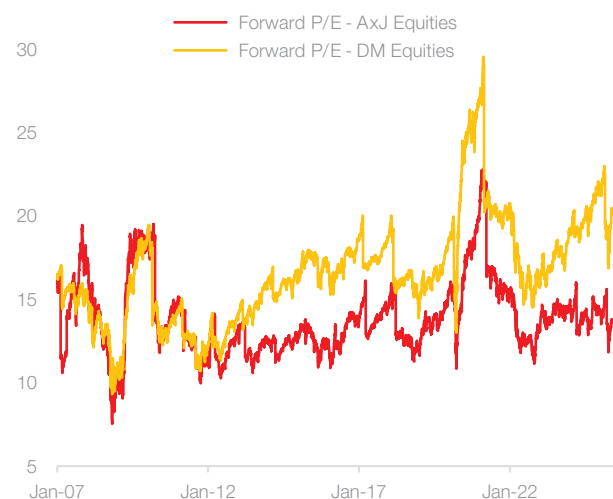
Equities: Maintain conviction call on US Technology; Nvidia's strong guidance reinforces resilience of AI theme. Given prevailing tariff uncertainties, making country allocation calls in 3Q25 will be a challenge as things could swing either way, much depends on whether the country/region can cut a deal with the Trump administration by July. Judging from recent market movements, a "favourable" trade deal will mean an indiscriminate rally in risk assets while a re-escalation will lead to the resumption of market sell-offs – binary outcomes.

We maintain our base-case assumption of pragmatism to prevail in the negotiations, with both China and Europe reaching respective trade deals with the US. And should trade relationships return to pre-“Liberation Day” normalcy, we expect the previous dynamics driving equity markets to take hold. Within DMs, we maintain a slight Underweight on US equities and our cautious stance is premised on:

- Consensus earnings forecast for US remains overly optimistic at 11% despite recent downward revisions (vs 7% for DMs). We expect more progressive earnings cuts in the coming months as the impact of tariff uncertainties (and consequentially, a decline in business confidence) is factored into the business outlook.
- Dollar weakness, coupled with the prevalence of policy uncertainties (tariffs and Section 899) will compel portfolio allocators to lighten their exposure to US financial assets and diversify to other DMs.

But the above headwinds, however, are mitigated by the continuation of strong momentum in the technology space (notably, the AI segment). As evidenced by Nvidia’s results, the growth trajectory for AI remains robust and this augers well for the outlook of the entire US tech ecosystem. We expect weakness in US non-tech sectors to be partially offset by resilience in the tech space.

Asia ex-Japan equities is a deep value play



Source: Bloomberg, DBS

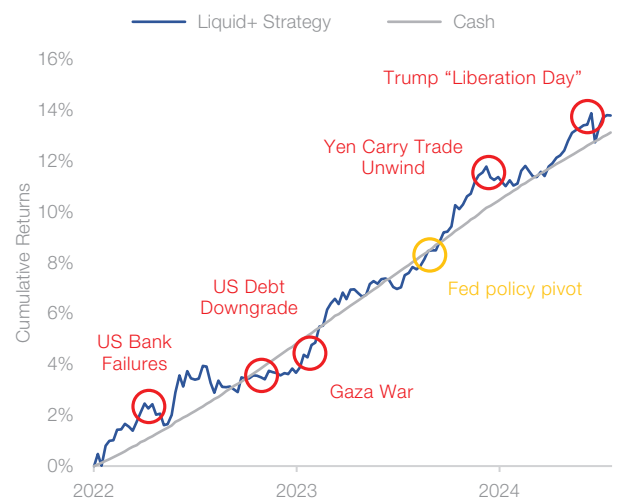
Maintain Overweight on Europe. Prevailing concerns on US fiscal sustainability and policy uncertainties provide tailwinds for Europe equities as global portfolio allocators reduce their US exposure. Above all, resurgent fiscal impulse in Europe will drive macro growth momentum for the region in the coming years as European countries start to increase their defence spending. Earnings expectations in Europe remain low and this provides room for upside surprises.

Trading at a 33% discount to DMs, Asia ex-Japan is a deep value play. The region's valuation merits provide a margin of safety for investors particularly when the economic cycle is starting to turn. China remains massively under-owned by institutional investors and the resurgent domestic tech industry (in the wake of DeepSeek) provides ample opportunities for stock pickers. Stay Overweight.

Bonds: Fiscal sustainability and inflation concerns to drive long-term yields higher; maintain duration barbell approach. While tariff tension remains, the market's attention has since shifted to fiscal sustainability as long-term yields drifted higher on growing demand-supply imbalances. Besides, the recent spikes in long-duration Treasuries and JGB yields also reflect sticky inflation that are not likely to subside anytime soon in the face of tariff uncertainties, labour market tightness, and money supply growth. Backward looking data may present a picture of calm on the inflation outlook but we advise against complacency and this underpins our downgrade of DM government bonds to 3-month and 12-month Neutral. Higher long-term yields and further curve steepening are on the cards in the medium term.

In the credit space, we advise investors to stay with quality in the A/BBB bucket and adopt a duration barbell approach with exposure to the 2-3Y and 7-10Y IG credit. Our 2-3Y Liquid+ strategy has exhibited stable performance with low volatility despite significant market risks in recent years and it is well-positioned to navigate stagflationary conditions should the latter transpire. We are, however, less convinced on the HY segment given higher risks of spreads widening and we advise investors to stay in quality in the BB bucket.

Liquid+ strategy exhibiting stable performance with low volatility

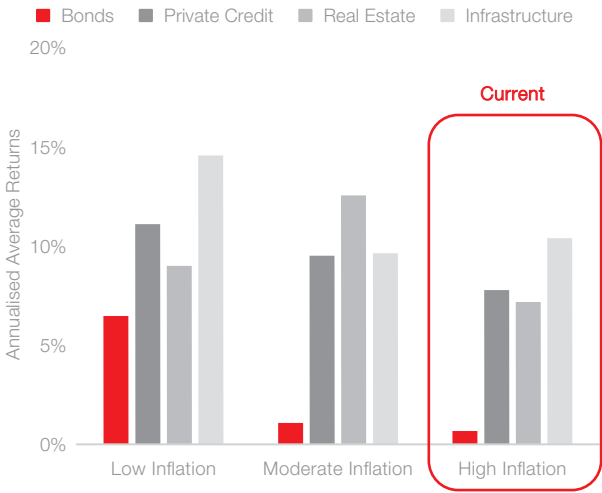


Source: Bloomberg, DBS

Alternatives: Overweight gold with target price of USD3,765/oz. by 4Q25; seek opportunities in income generating private assets. The tailwinds underpinning gold's upward trajectory has been well-flagged, from US fiscal deficit and de-dollarisation to geopolitical uncertainties. The persistence of central banks and investors' demand in the face of these headwinds are key to driving up the price of gold given the precious metal's appeal as an effective diversifier. We expect gold to hit USD3,765/oz. by 4Q25 and this connotes another c.14% upside from current level (as of 30 May). Maintain Overweight.

In private assets, our strategist opines that a portfolio of open-ended semi-liquid and hedge funds will gain traction among investors looking to increase exposure to alternatives. The ability to calibrate a portfolio’s liquidity profile allows investors to navigate market volatility in the VUCA era. With tariff uncertainties posing downside risks to inflation, it makes sense for portfolios to gain sufficient exposure to higher yielders, for instance. Our analysis suggests that income generating private assets like private credit, infrastructure, and real estate displayed greater resilience over bonds during inflationary periods.

Income-generating private assets out-perform during high inflation periods



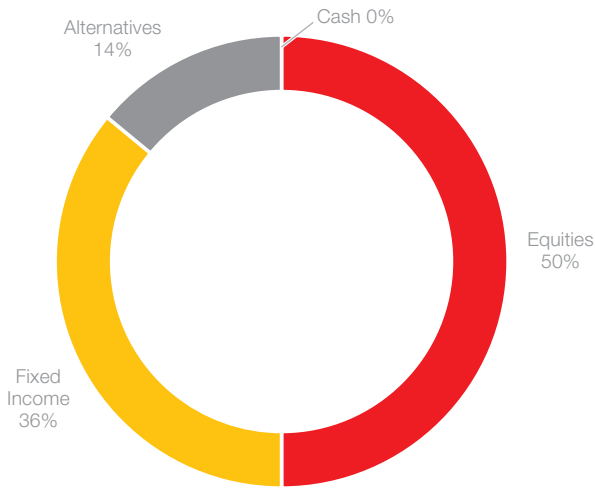
Source: Bloomberg, Pitchbook, DBS

3Q25 CIO Asset Allocation (CIO AA)

	3-Month Basis	12-Month Basis
Equities	Neutral	Neutral
US Equities	Underweight	Overweight
Europe Equities	Overweight	Underweight
Japan Equities	Neutral	Neutral
Asia ex-Japan Equities	Overweight	Overweight
Fixed Income	Overweight	Overweight
Developed Markets (DM) Government Bonds	Neutral	Neutral
Developed Markets (DM) Corporate Bonds	Overweight	Overweight
Emerging Markets (EM) Bonds	Underweight	Underweight
Alternatives	Overweight	Overweight
Gold	Overweight	Overweight
Private Assets & Hedge Funds	Overweight	Overweight
Cash	Underweight	Underweight

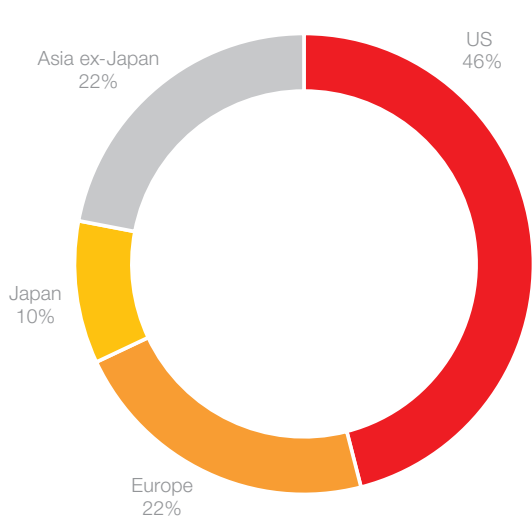
Source: DBS

CIO AA breakdown by asset class (Medium Risk)



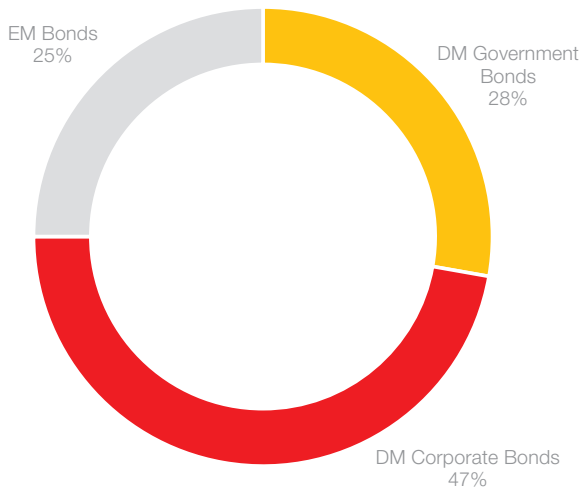
Source: DBS

CIO AA breakdown by geography within equities (Medium Risk)



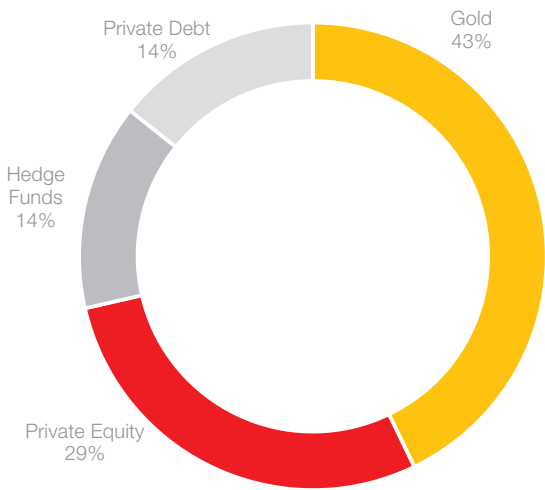
Source: DBS

CIO AA breakdown by bond types within fixed income (Medium Risk)

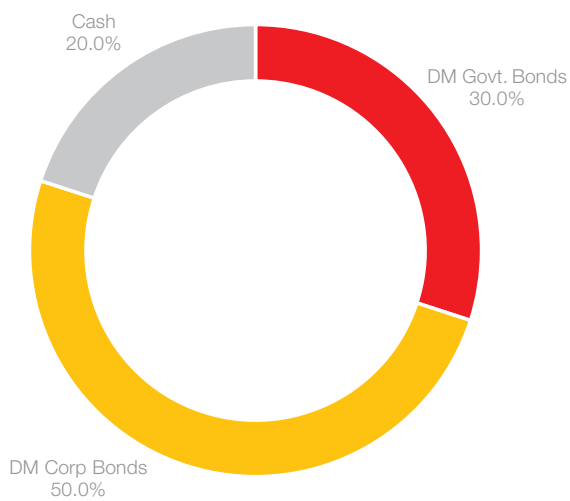


Source: DBS

CIO AA breakdown by segments within alternatives (Medium Risk)



Source: DBS

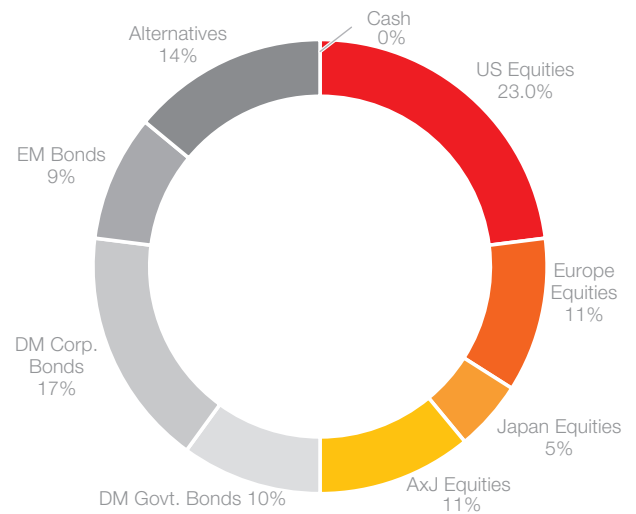


Source: DBS

Low Risk

	CIO AA	SAA	Active
Equities	0.0%	0.0%	
US	0.0%	0.0%	
Europe	0.0%	0.0%	
Japan	0.0%	0.0%	
Asia ex-Japan	0.0%	0.0%	
Fixed Income	80.0%	80.0%	
Developed Markets - Government	30.0%	30.0%	
Developed Markets - Corporate	50.0%	50.0%	
Emerging Markets	0.0%	0.0%	
Alternatives	0.0%	0.0%	
Gold	0.0%	0.0%	
Private Assets & Hedge Funds*	0.0%	0.0%	
Private Equity	0.0%	0.0%	
Hedge Funds	0.0%	0.0%	
Private Debt	0.0%	0.0%	
Cash	20.0%	20.0%	

*Only P4 risk rated UCITs Alternatives

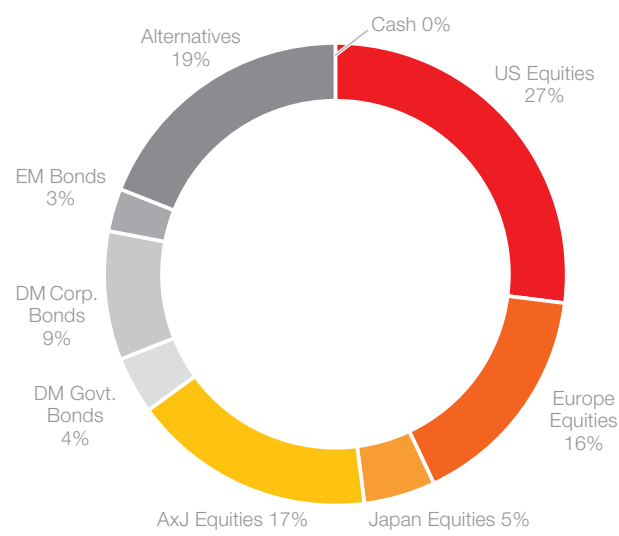


Source: DBS

Medium Risk

	CIO AA	SAA	Active
Equities	50.0%	50.0%	
US	23.0%	25.0%	-2.0%
Europe	11.0%	10.0%	1.0%
Japan	5.0%	5.0%	
Asia ex-Japan	11.0%	10.0%	1.0%
Fixed Income	36.0%	35.0%	1.0%
Developed Markets - Government	10.0%	10.0%	
Developed Markets - Corporate	17.0%	15.0%	2.0%
Emerging Markets	9.0%	10.0%	-1.0%
Alternatives	14.0%	10.0%	4.0%
Gold	6.0%	5.0%	1.0%
Private Assets & Hedge Funds*	8.0%	5.0%	3.0%
Private Equity	4.0%	2.4%	1.6%
Hedge Funds	2.0%	2.0%	
Private Debt	2.0%	0.5%	1.5%
Cash	0.0%	5.0%	-5.0%

*Only P4 risk rated UCITs Alternatives



Source: DBS

High Risk

	CIO AA	SAA	Active
Equities	65.0%	65.0%	
US	27.0%	30.0%	-3.0%
Europe	16.0%	15.0%	1.0%
Japan	5.0%	5.0%	
Asia ex-Japan	17.0%	15.0%	2.0%
Fixed Income	16.0%	15.0%	1.0%
Developed Markets - Government	4.0%	4.0%	
Developed Markets - Corporate	9.0%	7.0%	2.0%
Emerging Markets	3.0%	4.0%	-1.0%
Alternatives	19.0%	15.0%	4.0%
Gold	6.0%	5.0%	1.0%
Private Assets & Hedge Funds*	13.0%	10.0%	3.0%
Private Equity	6.0%	4.9%	1.1%
Hedge Funds	4.0%	4.0%	
Private Debt	3.0%	1.1%	1.9%
Cash	0.0%	5.0%	-5.0%

*Only P4 risk rated UCITs Alternatives

Notes:

1. The above are based on three-month views.
2. Asset allocation does not ensure a profit or protect against market loss.
3. "CIO AA" refers to "CIO Asset Allocation". "SAA" refers to "Strategic Asset Allocation".
4. The investor type classification for the portfolio has no direct relationship with the Financial Needs Analysis customer risk profile types and the portfolios are not assigned any product risk rating based on the bank's proprietary risk rating methodology.

Inflation Risks in the US

Macroeconomics
3Q25

While headline inflation remains subdued, rising input costs and surging inflation expectations signal potential risks. Trade tariffs and policy uncertainty threaten consumer demand and investor confidence. Meanwhile, oil prices are caught between trade talk optimism and OPEC price wars.



02. Macroeconomics.

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Analyst

US

Globally, inflation risks are muted. Demand is soft and the investment environment is facing uncertainties around trade wars. Sustained currency appreciation against the USD and a marked decline in commodity prices have added to the fading of inflation concerns. One major exception to that narrative is the US, which is facing a striking policy-induced upward risk to the price level.

Backward-looking data do not pose much cause for concern. US headline CPI and PCE inflation rates are tracking sub 2.5%, while core readings are below 3%. These are not very comfortable figures by historical standards, but they don't keep Fed policymakers up at night, we're sure.

An economy that has grown robustly in recent years and has so far been blessed with a tight labour market can absorb 2-3% inflation with little friction. The easing of commodity prices, spanning the spectrum from fuel to food, thus far this year, also helps the inflation narrative, especially at the headline level. Even at the core level, Dallas Fed's trimmed mean measures show encouraging developments.

Backward-looking data, however, are an inadequate reflection of underlying inflation risks in the US. As noted by Fed Chair Powell in a speech Mid-May, policies undertaken by the Trump administration have led to a fundamental shift in price expectations.

“We may be entering a period of more frequent, and potentially more persistent, supply shocks — a difficult challenge for the economy and for central banks.”

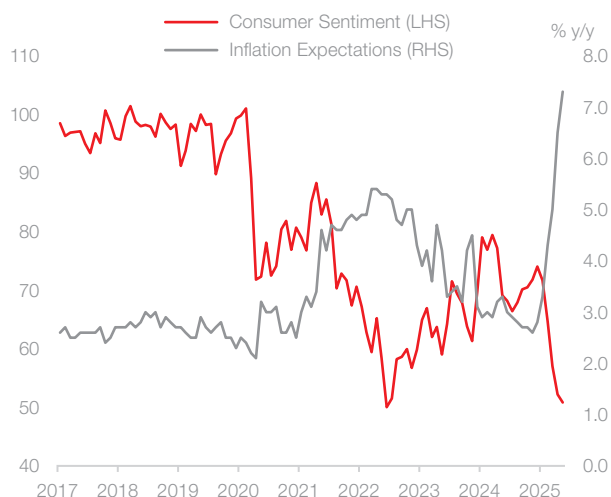
**Fed Chair Jerome Powell,
Second Thomas Laubach
Research Conference,
15 May**

Recent favourable developments on China-US trade talks mask the fact that this year's trade policy measures have taken US import tariffs to levels not seen since the 1940s. These tariffs, even if they settle at 30% on China and 10% on most of the world, along with assorted rates on selected sectoral imports, will contribute to margin compression for firms and/or price pass-through at the retail level. Thanks to on-again, off-again tariffs and other trade restrictions, there have already been episodes of sudden stop and resumption of orders and shipments. These are bound to affect sentiment and prices.

The latest readings from the University of Michigan survey are dramatic. The recent jump in inflation expectations and correction in consumer sentiment coming out of the survey responses reflect crisis-type magnitudes. The fact that these shifts have yet to materialise in higher inflation or lower purchases should not be cause for complacency; it may well be just a matter of time. A combination of tight labour market and rising money growth would have caused some upside risk to inflation in any case. Combine this with trade war matters, and firms have a few excuses to raise prices in the near term.

The fact that weakness in commodity prices has not managed to dent inflation expectations or consumer sentiment is troubling. Equally concerning is the fact that businesses are already reporting a sharp rise in input prices. The survey readings reflect pressures akin to those of 2022, which was a time of much higher inflation. Regional manufacturers' surveys warrant particular attention, as they are likely to be at the front line of the tariff mayhem.

Sudden shifts in inflation expectations and consumer sentiments



Source: University of Michigan, DBS.
Sentiment index set to 100 for 1966 reading. 12-month-ahead inflation expectations are the survey's median reading

“

Higher real rates may also reflect the possibility that inflation could be more volatile going forward than in the inter-crisis period of the 2010s.

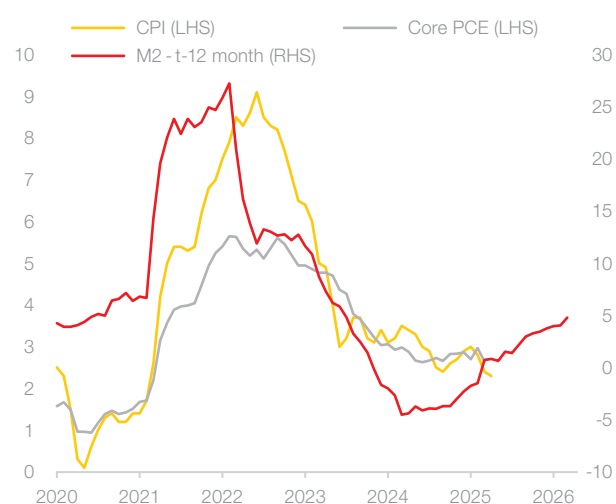
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**Fed Chair Jerome Powell,
Second Thomas Laubach
Research Conference,
15 May**

Chair Powell's observation last week that higher real interest rates than those seen in the 2010s are likely going forward drew our attention. Long-term interest rates in the mid- to high-4% range may well be the outcome of higher inflation expectations, induced by policy volatility. But they would lead to steep yield curves and dampen equity and real estate prices, and hurt the consumption and investment outlook. If the Fed is serious about arresting a rise in inflation expectations, it would have to communicate a more hawkish stance, risking substantial pushback from President Trump and considerable near-term downside to asset prices.

Financial markets, particularly equities, have recovered a large chunk of their losses since the early-April mayhem, cheered by some recent progress in trade talks. We are not at all convinced by this rally though, as we see the risks to inflation and interest rates highlighted by the Fed Chair as not being captured in the pricing. We expect the summer reprieve to risk sentiment, helped by the 90-day pause in China-US trade war, to fade once the survey readings begin to be reflected in actual data.

Money growth rebound points toward an upside to inflation



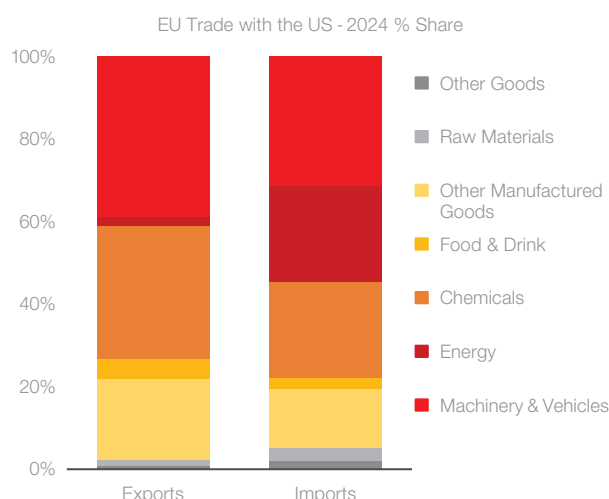
Source: CEIC, DBS

As risk markers, we will look at guidance from large retailers first, as they have the widest views on supply chain related matters. But for the US economy, perhaps equally critical is the situation with small businesses. As Chair Powell pointed out in his speech last week, potential disruptions to supply chains and distribution networks tend to be acute for small businesses, as their operations are less diversified, less able to access credit, and hence more vulnerable to adverse shocks.

Eurozone

Trade tensions between the US and Europe continue to simmer. Despite the 90-day pause in tariffs and the European Union's efforts to delay countermeasures and offer concessions, the US' position remains uncertain. In late-May, the US administration threatened to impose a fresh 50% tariff on Europe, which would be effective in July if trade differences are not smoothed out. For now, Europe faces a baseline 10% tariff rates, as well as a 25% tariff on steel, aluminium, and cars' exports to the US. To placate US' demands, the EU had already offered a deal including plans to purchase LNG and agricultural products, lower the tariffs on cars and industrial goods to zero, and ensure broader economic as well as investment cooperation in strategic sectors.

EU-US trade classification



Source: US Census Bureau, DBS

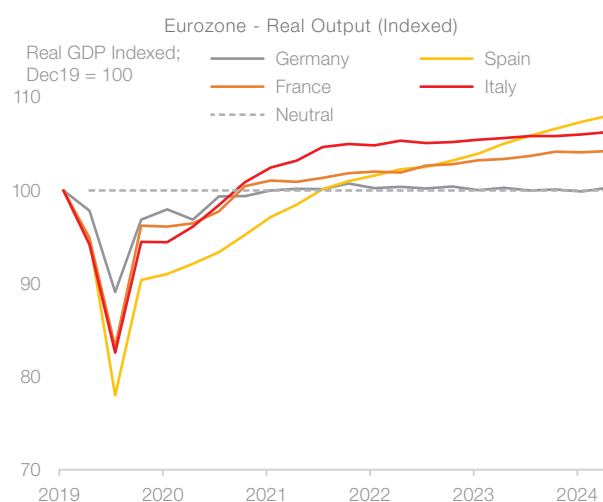
While maintaining a constructive tone, European leaders have also readied retaliatory measures worth EUR95bn, besides tighter regulations on US tech firms, limiting market access to public procurement projects, amongst others.

The US was the EU's biggest trading partner in 2024, accounting for a fifth of total extra-EU shipments, with China's share at c.8%. Pharmaceutical and medicinal products are key exports to the US, followed by motor cars, aircraft and associated equipment. Germany, Ireland and Italy are the largest exporters to the US, among the member countries. Hinging on whether it is a unilateral tariff imposition by the US with minimal response by the trading partners, or US tariffs spurring a symmetric retaliation by all US trade partners, the impact on Eurozone growth could be in the order of c.20-40 bps according to the European Commission. A 1SD in trade policy uncertainty lowers the median real GDP by 0.2 %pts, with the lower tail by 0.8 %pts, according to the ECB.

Frontloading of exports and firm industrial production ahead of the US tariff deadline pushed up German GDP growth by 0.4% q/q at the start of 2025, even as growth was still down 0.2% compared to a year ago. France (up 0.1% q/q) and Italy (0.3% q/q) also posted similar improvements. This outperformance could, however, prove to be short-lived. Germany faces two key shifts this year. Firstly, the new government will have the fiscal headroom to deliver on its promise of jumpstarting infrastructure spending, improving the economy's competitiveness and increasing defence capabilities. Secondly, trade and investment outlooks face heightened global uncertainties. These two-way forces are likely to see growth stay flat this year in Germany, while growth in the remaining core-4 countries slows from the year before.

For the zone, domestic engines will be expected to partly pick up the slack from a weak trade outlook. Households are likely to benefit from easing financial conditions, lower inflation rates, low commodity prices, and an improvement in residential construction. Wage growth is underpinned by tight

Core-4 growth has diverged since the pandemic

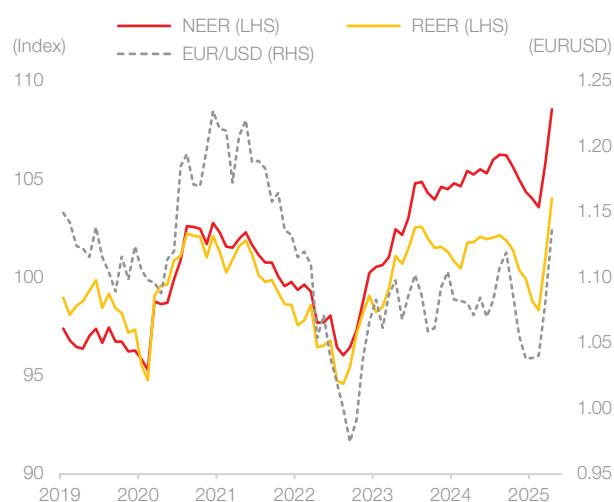


Source: Bloomberg, DBS

labour markets and improving productivity, while nominal compensation per employee moderates from the year before. On the other hand, weaker capacity utilisation amid trade tensions and subdued business confidence are key drags. Public consumption and investments could benefit from additional fiscal room on an aggregate basis. Factoring in two-way forces, we expect 2025 growth to average 0.8% y/y from 1.0% previously, with 2026 at 1.2%.

Disinflationary pressures are likely to dominate the Eurozone price trend in 2025, amid lower commodity prices, potential rerouting of non-energy industrial goods exports towards the Eurozone amid heightened US-China trade tensions and EUR appreciation offsetting imported inflationary risks. Retaliatory tariffs might temporarily push up core readings but we don't expect a material impact. A need to support growth in the face of global uncertainties and subdued price risks could convince the ECB to add another 50 bps

EUR rebounds on effective exchange rate basis



Source: BIS, CEIC, DBS

rate cut to our baseline assumption. This will likely take the deposit facility rate to 1.5% by end-2025, below the indicative 1.75-2.25% range that the ECB considers neutral.

The EUR has appreciated sharply against the USD as well as its key trading partners this year, as the chart highlights. Contrary to expectations that the European authorities will seek to contain the EUR's rise, ECB Chief Lagarde pitched the euro as a viable alternative to the dollar, adding that increasing the international role of the Euro can have positive implications for the euro area. Besides allowing EU governments and businesses to borrow at a lower cost, it would also lower FX fluctuations in the face of more Euro-denominated trade and persistent flows. European equities (core-4 and Netherlands) attracted USD9.3bn foreign inflows in April 2025, up from USD2.0bn in January.

Japan

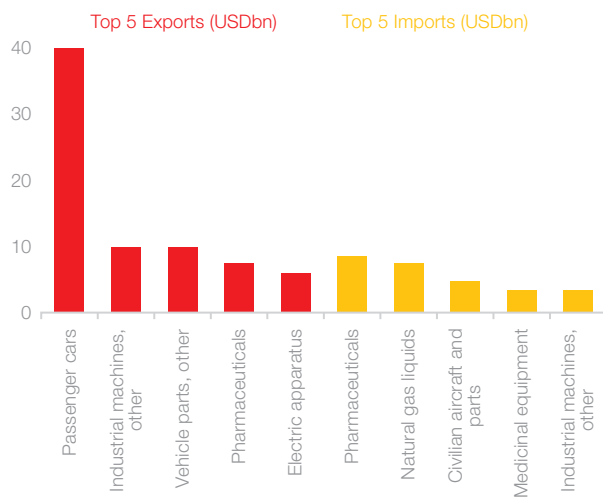
We have revised our GDP growth forecasts downward to 0.7% (from 0.9%) in 2025 and 0.4% (from 0.6%) in 2026.

The current US tariff regime — which includes a 10% universal tariff and 25% levies on automobiles and steel — is expected to directly reduce Japan's GDP growth by 0.2 %pts. If additional tariffs are imposed, such as a 24% reciprocal tariff and a 25% tariff on semiconductors, the total negative impact could increase to 0.3 %pts. Beyond these direct effects, Japan's economy is also vulnerable to second-order impacts from a global economic slowdown.

Full tariff exemptions seem unlikely despite ongoing Japan-US trade negotiations. Japan is unlikely to agree to full liberalisation of agricultural imports due to pressure from rural constituencies ahead of the upper house election in July. Conversely, the US is unlikely to fully eliminate automobile tariffs, given that it only partially reduced auto tariffs to 10% in its trade deal with the UK. As a result, the tentative outcome of the Japan-US negotiations is likely to be only partial tariff reductions. The trade talks could become even more difficult if the ruling Liberal Democratic Party (LDP) loses the upper house election, weakening its political leadership.

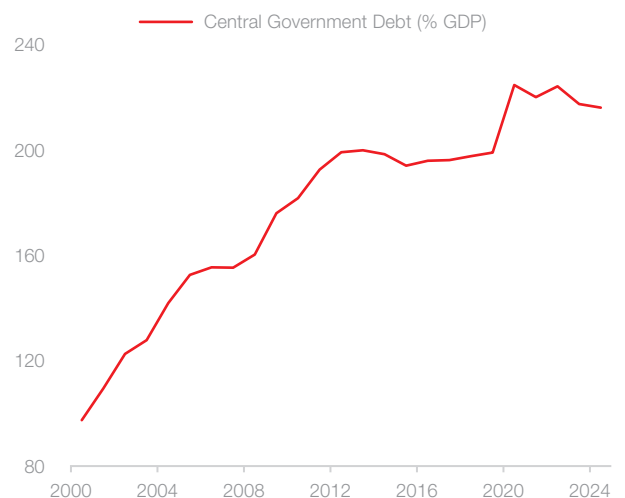
Fiscal policy space remains constrained by Japan's public debt, which exceeds 200% of GDP. The LDP-led ruling coalition is considering a supplementary budget to offset the negative effects of tariffs, while opposition parties are proposing a temporary cut in the consumption tax. A supplementary budget in the range of JPY15-20tn could be expected in the later part of this year, slightly larger than the JPY13-14tn allocated in FY23 and FY24. However, a temporary

Japan-US top 5 export and import products



Source: US Census Bureau, CEIC, DBS

Public debt ratio remains above 200%

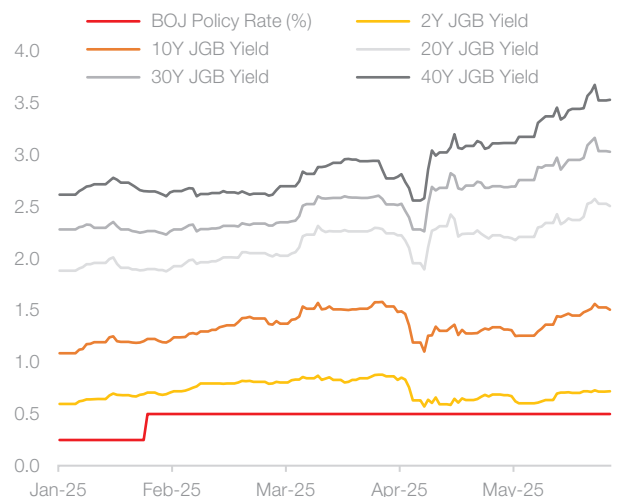


Source: CEIC, DBS

reduction of the consumption tax to 5% remains controversial, particularly given recent spikes in super long-term JGB yields and investor concerns about fiscal sustainability. If the LDP loses the upper house election in July, debates over tax cuts and risks of delayed fiscal spending are likely to intensify.

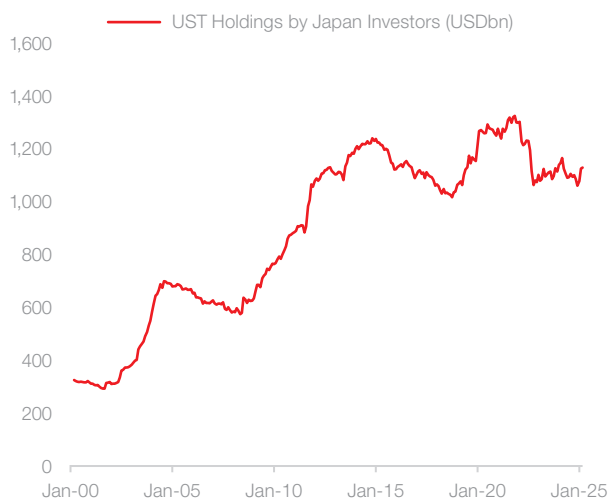
On the monetary policy front, the BOJ signalled a slower pace of policy normalisation at its May meeting, pushing back the expected timing for achieving its 2% inflation target to FY27. We now expect the BOJ to raise rates at a gradual pace of 25 bps per year, with the next rate hike projected for 4Q25. The BOJ also made a slight adjustment to the pace of quantitative tightening at its June meeting, reducing its monthly JGB purchases by JPY200bn per quarter during the Apr26-Mar27 period, slower than JPY400bn per quarter for the Jul24-Mar26 period. By Mar 2027, the BOJ's total JGB holdings are expected to decline to around JPY490tn, a 16% decrease from Jun 2024 levels, representing about 44% of the total outstanding JGBs.

Super long-term yields face upward pressure



Source: Bloomberg, DBS

Japanese investors gradually reduce US Treasury holdings



Source: Bloomberg, DBS

The yen still has potential to strengthen. While the US-Japan trade talks are unlikely to target specific exchange rate levels — adhering instead to the G7 consensus that exchange rates should be market-determined and competitive devaluations avoided— market dynamics could push the yen higher against the dollar. Japan is a large international creditor, holding JPY340tn in foreign equities and JPY356tn in foreign debt securities as of the end of 2024. It is also the largest foreign holder of US Treasuries, with USD1.1tn in holdings. Rising JGB yields may reduce the relative attractiveness of US Treasuries to Japanese institutional investors, prompting capital repatriation. Additionally, expectations of a weaker dollar could lead Japanese investors to increase their foreign exchange hedging ratios and reduce dollar exposure.

Asia

From India to Vietnam to Japan, national authorities are anxious to make conciliatory overtures to the US administration. Asia thrives on trade, and with nearly 30% of global consumption attributed to the US, the imperative to avoid the worst of the tariff storm and find opportunities in the middle of these challenges is understandable. A wide range of overtures are being made to find a more lasting respite from the high “reciprocal” tariffs than the prevailing 90-day pause. As Asian economies engage Washington, we see six types of demands coming their way.

First, buy more from the US. This might be the most obvious and anticipated demand, with the likes of India and Vietnam taking pre-emptive promises to reduce tariffs on US imports, as well as purchase more US goods (agriculture, energy, aviation, and defence equipment are the most cited areas).

Second, invest more in the US. From Nvidia to Novartis, TSMC to Hyundai, many multinational companies have announced multibillion-dollar investments in the US. We are sure these examples will be referenced during trade negotiations, and the US side would demand additional pledges from countries.

Third, sell less to the US. This is where matters begin to become tenuous. With its fixation on trade balances, the US would demand a narrowing of deficits through a variety of channels. One would be a voluntary restraint on exports. This would most prominently feature during negotiations with countries like Vietnam, with their burgeoning imbalances vis-à-vis the US.

Fourth, buy less from China. The US administration is adamant about reducing transshipment of made-in-China goods and equipment. We envision demands of import restraint as part of this strategy.

Fifth, appreciate FX against the USD. The Plaza Accord—a coordinated agreement in 1985 that entailed FX market intervention to appreciate the Yen and Deutsche Mark, is finding resonance in parts of the Trump administration. The US may demand countries prop up their currencies against the USD in the event tariffs cause their currencies to face selling pressure.

Sixth, mirror US tariffs on China. If the ultimate target of this entire exercise is China, the US could push to extend the tariff moat beyond its border. The US could go so far as to demand that to be in its circle of trade, countries would have to mirror its tariffs against China. A country like Mexico may see that as the price of remaining in USMCA. For a country like Vietnam, this could be tremendously problematic.

There could be other elements. Countries with a US military presence may be asked to pay more for the cost of running those operations. But that would be a case for some, not most countries in the region. Finally, the US could even demand a “user fee” for holding US assets or receiving the benefits of the US security umbrella around the world.

All these demands may make sense from the perspective of the Trump administration, but most are unlikely to go down well with many Asian governments. Some would see these as an infringement on their sovereignty, finding the cost of doing business intolerably high. Others may see strong reaction from the local population, who may shy away from purchasing US goods and services, or for that matter no longer see the US as a place to travel for tourism, education, or immigration purposes. The US has economic and military might, but it risks an erosion of its soft power due to a ratcheting up of coercive policies.

Asia's trade exposure and macro risks

	2024 US Import (USDbn)	2025 Tariff (%)	Exports to US as % of GDP	2025 GDP Forecast (%)	Risk to Forecast (%)
Singapore	43	10	7.9	2.8	-0.5 to -0.75
Hong Kong	6	54	9.4	2.5	-0.5 to -1.0
Mainland China	439	54	2.8	5	-0.5 to -1.0
Taiwan	116	32	14.4	3	-1.5 to -2.0
Indonesia	28	32	1.9	5	-0.5
India	87	26	2	6.5	-0.5

Source: Bloomberg, DBS

Geopolitical risks overshadow fundamentals for now

Geopolitical risk premium back in oil prices as Israel-Iran hostilities flare up. In June, Israel and Iran were trading missile and drone attacks. The US intervened over the weekend of 21-22 June, bombing key Iranian nuclear sites. These developments significantly raise geopolitical risks in the Middle East, a critical oil-producing region, though no oil export infrastructure has been impacted directly as yet. Oil prices have jumped from around USD65/bbl in early June before the conflict to approximately USD75/bbl as of 23 June, implying a USD10/bbl geopolitical risk premium in the price. There will be considerable uncertainty as to what happens next, likely leading to high volatility in oil prices in the coming days and weeks. What happens next depends on how Iran responds. In the worst-case scenario of Iran blocking the Strait of Hormuz, oil prices could cross USD100/bbl.

Should de-escalation and an eventual ceasefire ensue, uncertainty will continue to prevail in oil markets, but prices will gradually move towards USD70/bbl in our opinion, given that oil fundamentals remain relatively soft amid tariff fears and OPEC+ price wars.

Downside risks had earlier dissipated as trade tensions dialled down to an extent. From the gloom and doom of peak tariff wars and an OPEC+ supply glut, which drove Brent crude oil prices to the low USD60/bbl earlier in May, oil prices had already begun to turn a corner even before the ongoing Middle East crisis, supported by renewed optimism over global demand. The scare of President Trump forcing a US-EU tariff war had subsided after the mulled 50% tariff was postponed until at least 9 July. This came on the heels of some thawing in US-China trade talks earlier in the month, where they agreed

Expect volatility in Brent crude oil prices as geopolitical risks return

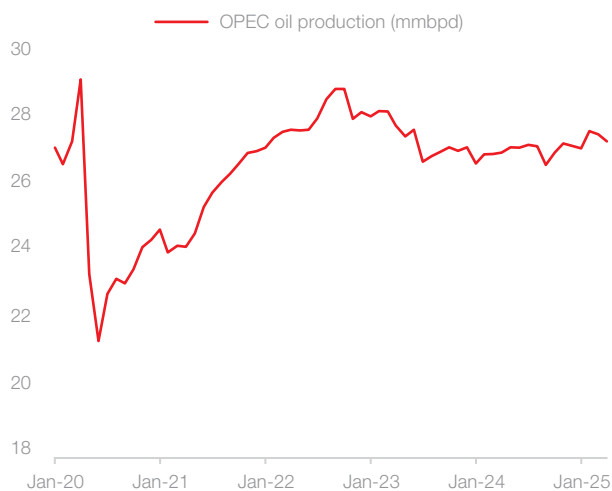


Source: Bloomberg, DBS

to temporarily lower tariffs on each other's goods, while keeping communication lines open to arrive at a more long-lasting agreement. These events have taken some macro risks off the table as far as demand is concerned. Refining margins have also recovered in May, which show demand is holding up even as input costs decline. So, even if OPEC+ continues its optics of accelerated output hikes, we expect oil prices to feel only slight tremors, but no big shocks. If the trade wars are resolved to a satisfactory extent over the next few weeks and months, that would be a bigger driver of oil price trajectory in our view. There will, of course, continue to be volatility from the supply side as OPEC+ price wars may continue, but major downside risks of a global recession or negative oil price demand seem well out of the way now.

OPEC+ output hikes limit upside. The OPEC+ group of eight producers – known as the Voluntary 8 or V8 comprising Saudi Arabia, Russia, Iraq, UAE,

OPEC supplies are slated to increase hereon, for the first time since 2022



Source: Bloomberg, DBS

Kuwait, Kazakhstan, Algeria, and Oman – met in end-May to decide on output plans for July. Over the last couple of months, OPEC+ had surprised the market by announcing accelerated production increases of 411,000bpd per month in May and June, triple the earlier expected rate of monthly increases. July plans turned out to be a continuation of the same acceleration policy, much along expected lines, and we could be in a situation wherein the entire 2.2mn barrels per day of output cut reversals could be done by the time we reach October of this year, at least on paper. The current geopolitical flare ups – assuming

it does not escalate into a Strait of Hormuz blockade – could encourage Saudi and its Gulf allies to push through even more additions and regain market share at the expense of non-OPEC producers like the US, amid peak demand season dynamics in 3Q.

While the OPEC+ supply response continues to remain flexible depending on market conditions, their current course of action seems driven by a desire to punish non-compliant members rather than support oil prices at any specific level. Compliance will be difficult to enforce, especially in the case of Kazakhstan, where western oil majors like Chevron are ramping up production, hence this mini oil price war could continue for a while in our view, limiting oil price upside despite improvement in demand sentiment.

We raise our forecasts by around USD5/bbl for 2025/26 given recent geopolitical developments.

Factoring in higher geopolitical risks and uncertainty, we raise our average base-case Brent crude oil price forecasts to USD70-75/bbl in 2025 and USD65-70/bbl in 2026, up from USD65-70/bbl and USD62-67/bbl earlier. In the event the Middle East crisis boils over and impacts oil exports through the Gulf of Persia, that would represent further upside risk for our forecasts. Fundamentally though, we expect the trajectory of oil prices to moderate from the 2024 average level of USD80/bbl, as demand-side risks have risen post tariff wars and supplies from OPEC+ are returning faster than expected.

Quarterly average oil price forecast 2025/26 – DBS base case view

(USD PER BARREL)	1Q25A	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Average Brent crude oil price	75.0	68.0	74.0	69.5	67.0	65.5	69.0	68.0
Average WTI crude oil price	71.5	65.0	71.0	66.5	64.0	62.5	66.0	65.0

Source: DBS
Data as at 20 Jun 2025

GDP growth and CPI inflation forecasts

	GDP growth, % y/y						CPI inflation, % y/y, ave					
	2021	2022	2023	2024	2025F	2026F	2021	2022	2023	2024	2025F	2026F
Mainland China	8.1	3.0	5.2	5.0	5.0	4.5	0.9	2.2	0.2	0.6	1.0	1.5
Hong Kong	6.3	-3.5	3.3	2.5	2.5	2.5	1.6	1.9	2.0	1.5	1.5	1.5
India	10.3	7.2	8.7	6.5	6.4	6.0	5.1	6.7	5.7	5.0	3.5	4.0
India (FY basis)*	9.7	7.6	9.2	6.5	6.1	6.0	5.5	6.7	5.4	4.6	3.8	4.0
Indonesia	3.7	5.3	5.1	5.0	4.8	4.9	1.6	4.2	3.7	2.3	1.8	2.2
Malaysia	3.3	8.9	3.6	5.1	4.0	3.8	2.5	3.4	2.5	1.8	1.8	2.3
Philippines	5.7	7.6	5.6	5.6	5.8	5.6	3.9	5.8	6.0	3.2	2.6	2.4
Singapore	9.8	4.1	1.8	4.4	2.0	1.8	2.3	6.1	4.8	2.4	1.3	1.7
South Korea	4.6	2.7	1.4	2.0	1.0	1.9	2.5	5.1	3.6	2.3	2.0	2.0
Taiwan	6.7	2.7	1.1	4.8	3.0	2.4	2.0	2.9	2.5	2.2	1.9	1.7
Thailand	1.6	2.6	2.0	2.5	1.8	1.6	1.2	6.1	1.2	0.4	0.4	0.7
Vietnam	2.6	8.0	5.0	7.1	5.8	5.5	1.8	3.2	3.3	3.6	3.2	3.3
Eurozone	5.3	3.5	0.5	0.7	0.8	1.2	2.6	8.4	5.5	2.3	2.0	1.7
Japan	2.7	0.9	1.5	0.1	0.7	0.4	-0.3	2.5	3.3	2.7	2.7	1.8
United States	6.1	2.5	2.9	2.8	1.5	1.5	4.7	8.0	4.1	3.0	3.0	2.8

*2020 represents Fiscal 21; ending Mar 21

Source: CEIC, DBS
Data as at 20 Jun 2025

Policy interest rates forecasts, eop

	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
Mainland China*	3.10	3.10	3.00	2.90	2.80	2.80	2.55	2.55	2.55
India	6.50	6.25	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Indonesia	6.00	5.75	5.50	5.25	5.00	5.00	5.00	5.00	5.00
Malaysia	3.00	3.00	3.00	2.75	2.50	2.50	2.50	2.50	2.50
Philippines	5.75	5.75	5.25	5.00	5.00	5.00	5.00	5.00	5.00
Singapore**	3.08	2.36	2.10	2.05	2.00	1.97	1.95	1.95	1.95
South Korea	3.00	2.75	2.50	2.25	2.25	2.25	2.25	2.25	2.25
Taiwan	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.875	1.875
Thailand	2.25	2.00	1.75	1.50	1.50	1.25	1.00	1.00	1.00
Vietnam***	4.50	4.50	4.50	4.00	4.00	4.00	4.00	4.00	4.00
Eurozone^	3.00	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75
Japan	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00
United States	4.50	4.50	4.50	4.25	4.00	3.75	3.50	3.50	3.50

*1-yr Loan Prime Rate; ** 3M SORA OIS ; *** Refinancing Rate; ^ Deposit Facility Rate

Source: CEIC, DBS
Data as at 20 Jun 2025



Policy Cross-Currents

US Equities
3Q25

High octane rebound in US equities suggests swift pricing-in of “no recession” scenario for the US economy. Headwinds emanating from fiscal sustainability concerns to be mitigated by tailwinds from AI investments and impending Fed easing.

03. US Equities.

Dylan Cheang
Strategist

Wall of worries: Fiscal sustainability, de-dollarisation, and Section 899. The high octane rebound in US equities since early-April suggests swift pricing-in of tariff de-escalation and by extension, a “no recession” scenario for the US economy. Expect binary outcomes for the negotiation between US and China, with “favourable” trade deals leading to indiscriminate rally in risk assets and conversely, a re-escalation translating to acute market selloffs.

For the coming quarter, we maintain a cautious stance on the S&P 500 amid policy uncertainties and ongoing paring down of US exposure as de-dollarisation and fiscal sustainability concerns take hold. Based on country allocation data from EPFR Global, global fund managers are currently underweight on US equities and this trend is likely to persist given the broadening concerns on Section 899 of Trump’s budget bill.

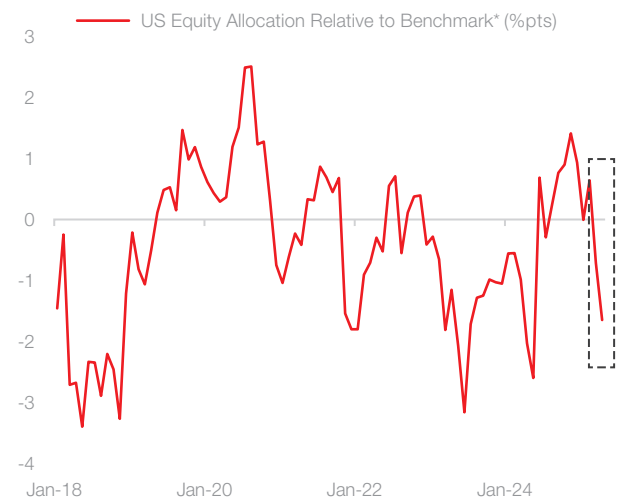
Indeed, embedded in the House’s bill is a provision that will allow the US to tax non-US investors on both passive income (dividends and interests) and business income (profits) from US financial assets. A form of retaliatory tax measure, this bill is aimed at countering foreign tax practices seen as “unfair” to US firms and can be applied to non-US individuals, governments, and companies.

The main mode of implementation for Section 899 is via a higher withholding tax. At the time of writing, the Senate version of this provision will commence in 2027. Starting at 5%, the tax will increase annually by 5% with a cap of 15% after three years.

It remains to be seen whether this provision will be implemented and there are two schools of thoughts here. One, Trump is using this provision as a negotiation tool to pressure foreign governments into reversing their tax measures. Two, the US government is using this as a means to increase its revenue intake.

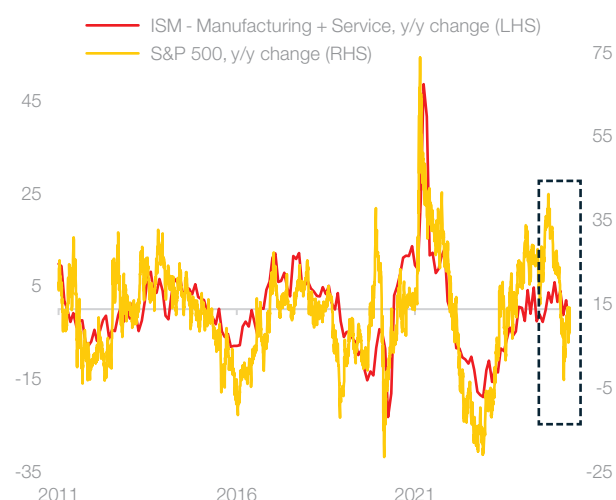
Should Section 899 come into effect, it will deter foreign investments in US assets while compelling portfolio allocators to re-access their exposure to the market.

Fund managers are currently underweight on US equities

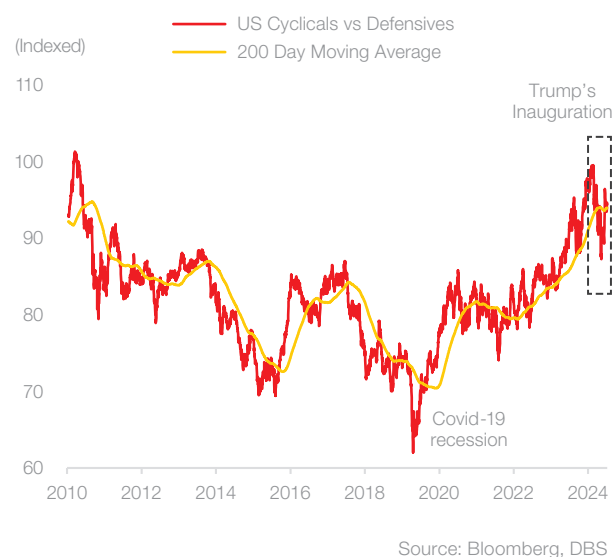


Source: EPFR Global, DBS
*This is proxied by ETF weights.

Markets have been pricing in some degree of moderation in macro momentum



Investors are starting to become more conservatively positioned in the US



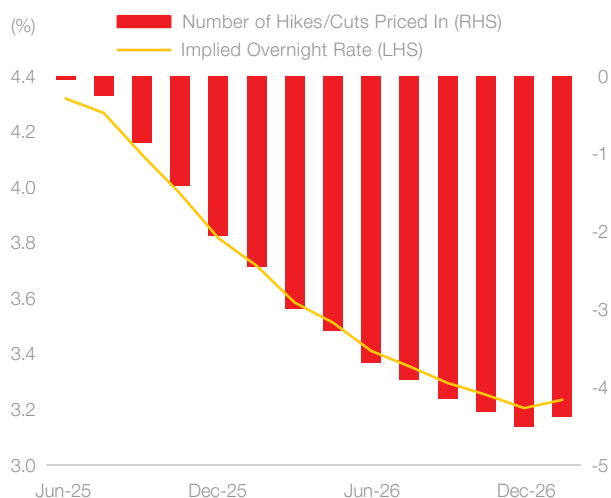
Downside risks to US earnings forecast; Defensive portfolio tilt amid uncertainties. With markets pricing in tariff de-escalation and the positives of Trump's tax plans, valuation for the S&P 500 has rebounded to 23x and above its five-year average. Yet, this is based on forward earnings growth of 11%, which is unrealistic in our view. As the ISM chart shows, the market has been pricing in some degree of weakening in macro momentum, but the forecasted earnings growth remains overly optimistic in an era where companies will increasingly postpone corporate capex decisions until further policy clarity emerges.

At the margin, the US cyclicals vs defensive ratio suggests that investors are positioning themselves more conservatively as the Trump 2.0 agenda takes hold. Expect this trend to persist until clarity emerges on the tariff front. The failure to reach a "beautiful trade deal" with China will mean that the "no recession" scenario is off the table and until then, we foresee portfolios to be defensively positioned. Within the defensive space, go for quality plays with resilient demand and undemanding valuation.

Mitigating factors for our underweight call. As we have highlighted in 2Q25, US equities present a case of "self-inflicted" pain with current headwinds caused by policy uncertainties unleashed by the new administration. Under Trump's "America First" policy agenda, the rule-based global system that has served US for decades is fast becoming a thing of the past. That said, despite the proverbial wall of worries, there are mitigating factors that compel us to pare back our degree of underweight on the market and they are:

- 1) Tailwind from AI investments: AI investments remain a significant tailwind for US macro and earnings growth outlook. Big Tech companies like Alphabet, Microsoft, and Amazon will be investing a combined USD250bn in 2025 on AI-related infrastructure. On the sovereign front, the Middle East will also be investing c.USD100bn in AI-driven investments within this decade. Recent earnings guidance from Nvidia has certainly allayed concerns on the trajectory of AI investments.
- 2) Fed policy easing: The Fed has held off cutting policy rates in part due to the lack of clarity on how tariff uncertainties are going to impact the macro-outlook and job market. Based on consensus forecast, the central bank will proceed with policy easing nonetheless and cut the Fed Fund rate twice by end-2025. This will be a tailwind for US equities, in particular growth plays.

Implied Fed policy rate and number of cuts



Source: Bloomberg, DBS

3Q25 US Sector Strategy – Defensive shifts

Lack of policy clarity; Stay the course on sectoral calls. Performance for our 2Q25 sector allocation has been on-track, with overweight (+4.3% on average) calls outperforming the neutral (-0.1%) and underweight (+2.9%) calls by 4.4 %pts and 1.4 %pts respectively (as of 5 Jun).

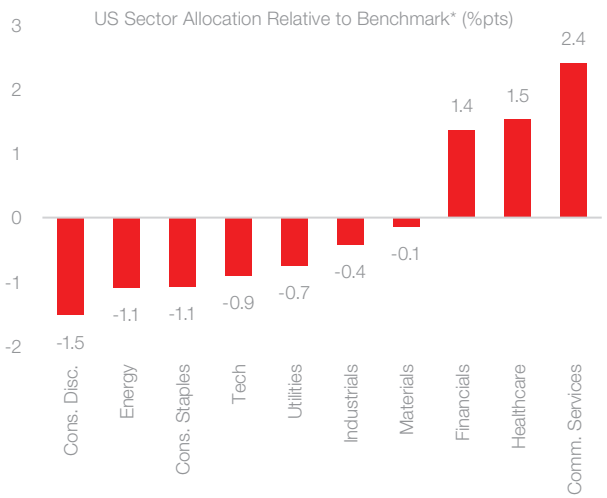
Within the overweight basket, the sudden de-escalation of tariff tension has propelled technology and communications services to respective gains of 15.2% and 11.9%. However, extreme weakness in healthcare (-8.7%) detracted from overall performance.

Performances of materials (+2.2%) and real estate (-0.3%) within our underweight basket were lukewarm, which are in-line with expectations. Consumer discretionary registered returns of 6.7% as performance was underpinned by “Big Tech” companies within the sector, such as Netflix (+34.1%), Tesla (+9.9%), and Amazon (+9.3%).

For the upcoming quarter, we would refrain from making active switches in our sectoral calls as the tariff negotiations in July can result in binary outcomes for equity markets. Based on data from EPFR Global, fund managers are currently most overweight in communication services, healthcare, and financials, which is broadly in-line with our view.

On the flipside, fund managers are most underweight on consumer discretionary, a sector which we downgraded in 2Q25 amid concerns around (1) new immigration policies driving down the number of undocumented migrants, (2) aggressive job cuts by DOGE, as well as (3) sticky inflation and weak affordability.

Fund managers are overweight on communications services, healthcare, and financials in the US



Source: EPFR Global, DBS
* This is proxied by ETF weights

US Sector Allocation – 3Q25

US Sectors	Overweight	Neutral	Underweight
	Technology	Industrials	Real Estate
	Comm. Services	Utilities	Materials
	Healthcare	Energy	Cons. Discretionary
	Financials		
	Cons. Staples		

US Valuation Table

	Forward P/E (x)	P/Book (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	OPM (%)
S&P 500 Index	23.4	5.1	16.3	18.7	4.0	14.3
S&P 500 Financials	17.4	2.5	8.9	12.5	1.5	19.6
S&P 500 Energy	17.2	2.1	8.5	11.8	5.9	10.7
S&P 500 Technology	31.6	12.4	27.7	31.0	12.6	26.0
S&P 500 Materials	21.0	2.9	13.4	12.0	4.3	11.7
S&P 500 Industrials	25.5	6.7	17.8	24.0	6.9	13.2
S&P 500 Cons. Staples	22.7	7.0	17.4	27.1	6.9	7.2
S&P 500 Cons. Discretionary	28.9	9.0	16.9	25.9	7.8	11.0
S&P 500 Comm. Services	20.1	5.0	14.2	21.0	9.2	23.0
S&P 500 Utilities	18.6	2.3	13.0	11.4	2.8	21.6
S&P 500 Real Estate	38.1	3.1	21.9	7.8	2.4	20.6
S&P 500 Healthcare	17.0	4.5	15.9	21.0	6.0	7.4

Source: Bloomberg
*Data as at 20 Jun 2025



Source: Unsplash

Defensive Strengths Amid Trade Headwinds

Europe Equities
3Q25

We view Europe as a safe haven from macroeconomic headwinds, given its defensive sector tilt, relative valuation appeal, and Germany's proactive fiscal stance. Lower interest rates and AI-driven demand shifts are likely to support the technology, utilities, and industrials sectors.

04. Europe Equities.

Joanne Goh
Strategist

Investment landscape amid policy tailwinds and trade risks. Despite persistent global uncertainty, Europe equities have staged a strong performance in 2025. The STOXX 600 is up 7% YTD, recovering 14% from recent lows. Earnings downgrades for the region have been limited as trade-related concerns have been offset by a stronger-than-expected Q1 earnings season. However, risks remain concentrated in key export-facing sectors – including autos, steel, pharmaceuticals, industrials, and luxury goods – which are vulnerable to tariffs ranging from 10% to 50%. The euro's appreciation poses an additional challenge for exports.

Balancing these pressures, the region benefits from several tailwinds: lower interest rates, a substantial fiscal expansion from Germany, and an emerging uplift from AI-linked industrial investment. While the OECD has revised its global growth forecast down by 20 bps since Mar 2025, euro area projections remain stable at 1.0% for 2025 and 1.2% for 2026. These forecasts are supported by robust labour markets, policy easing, and fiscal measures that are likely to extend their impact well into 2026.

Europe as a safe haven. Despite macro headwinds, we remain overweight on Europe given its defensive sector tilt, relative valuation appeal, and Germany's proactive fiscal stance. Together, these factors help cushion against global volatility and make Europe an increasingly attractive allocation for global investors seeking resilience and value.

Key economy and market metrics

	2025F	2026F
GDP Growth (%)	0.8	1.2
Inflation (%)	2.0	1.7
Earnings Growth (%)	2.5	11.6
P/E (x)	15.5	13.9
Policy Rate (%)	1.75	1.75
10Y Bond Yield (%)	2.7	3.0
EUR/USD	1.15	1.2

Source: LSEG, IBES, DBS

Policy flexibility and monetary support. The ECB's shift toward an accommodative stance has provided a key policy cushion. Through 1H25, it cut interest rates by 100 bps, bringing the deposit facility rate to 2.0%. With the euro's appreciation tightening financial conditions, there is scope for additional easing – particularly if disinflation continues and tariff threats remain unresolved. We expect further rate cuts toward the lower bound of the ECB's estimated neutral range (1.75–2.25%).

EUR resilience and shifting capital dynamics. The euro has defied expectations, appreciating by 10% YTD against the US dollar despite a widening rate differential that typically favours US assets. This strength reflects shifting capital flows and renewed optimism toward the European outlook, underpinned by two key drivers:

1. Expectations for Europe's "Readiness 2030" initiative to address structural stagnation.
2. Diminishing appeal of US assets amid fiscal concerns, tariff risk, and geopolitical tensions.

ECB President Lagarde's call for a more internationalised euro also signals a broader ambition to attract global capital. In tandem with regulatory risks in the US, such as potential withholding tax changes under Section 899, this backdrop is encouraging a rotation towards euro-denominated assets.

Combined with Europe's underweight positioning in global portfolios, a stronger euro and easing monetary stance create favourable conditions for inflows into both bonds and equities.

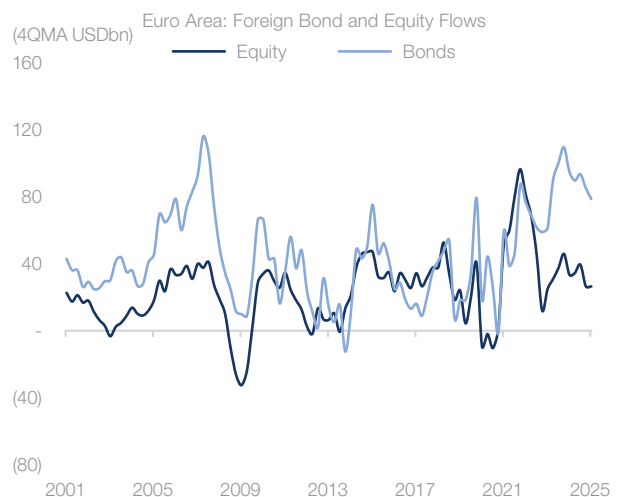
Germany: Fiscal Expansion Amid Tariff Risks

As the EU's top exporter to the US, Germany is especially exposed to any escalation in transatlantic trade frictions. The US accounts for c.10% of German exports, with key sectors at risk including:

- Autos: 23% of German car exports head to the US
- Pharmaceuticals and Medical Equipment
- Machinery and Electrical Equipment

Given its economic size and export dependency, Germany is the most critical European market to monitor for trade-related developments. To offset external risks, Berlin has unveiled an ambitious EUR1tn 12-year fiscal plan focusing on infrastructure and defence. This programme not only counters potential trade shocks but also highlights the strategic use of fiscal tools to preserve macroeconomic stability.

Portfolio rebalancing towards Europe accelerates



AI Infrastructure: Opportunities and Structural Pressures

The accelerated adoption of AI is transforming Europe's industrial landscape, especially through a boom in demand for data centre infrastructure. This is driving robust growth in areas such as semiconductor manufacturing, automation, and high-performance computing.

However, the rise of AI also presents cross-sector challenges:

- **Energy and Grid Stress:** AI-optimised data centres consume vastly more power than conventional infrastructure, requiring urgent investment in grid modernisation, renewable integration, and storage capacity.
- **Sustainability:** Environmental issues – including emissions, water usage for cooling, and waste heat – are becoming more prominent, elevating the role of advanced cooling and efficiency technologies.

- **Labour and Skills:** Scaling and maintaining next-gen infrastructure requires highly specialised skills across engineering, HVAC (heating, ventilation, and air conditioning), and digital operations, creating a parallel need for workforce reskilling and training programs.

AI remains both a driver of capital investment and a stress test for energy, environmental, and labour systems.

Structural Advantages of the European Equity Market

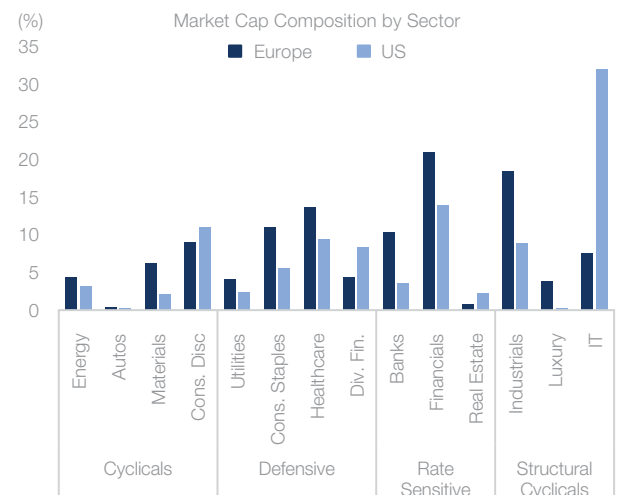
i. Defensive sector composition

One of the key structural strengths of the Europe equity market lies in its sectoral makeup, which is relatively defensive in nature. A significant proportion of market capitalisation is concentrated in sectors such as consumer staples, healthcare, and utilities – industries that tend to exhibit more stable earnings and resilient cash flows regardless of the economic cycle. This defensive tilt provides a natural hedge against macroeconomic volatility, making European equities comparatively more stable during periods of global uncertainty, slowing growth, or geopolitical tension. Moreover, the healthcare and consumer staples sectors are supported by long-term structural drivers such as aging demographics, demand for essential goods, and public health expenditure, further enhancing their appeal.

ii. Attractive dividend yields

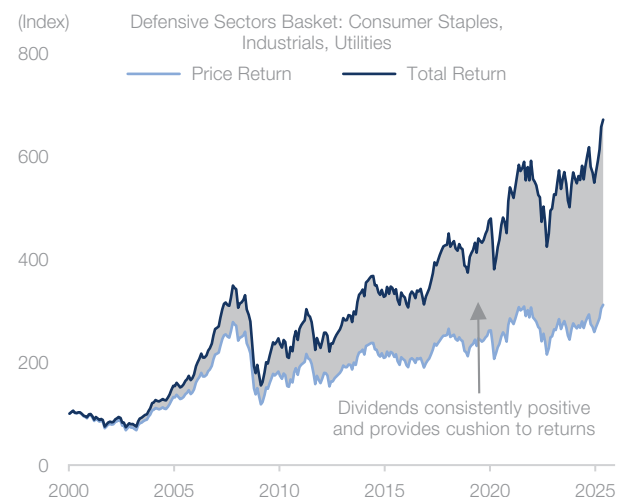
European equities continue to offer comparatively higher dividend yields than their US counterparts, reflecting a market culture that prioritises shareholder returns through regular cash distributions. This dividend premium is particularly appealing in the context of declining or low interest rates, as investors

More defensive, less cyclical



Source: LSEG, DBS

Dividends enhanced total returns



Source: LSEG, DBS

increasingly seek stable sources of income outside of traditional fixed-income instruments. In addition, many European companies maintain strong balance sheets and conservative payout policies, providing a degree of reliability in dividend payments. For income-oriented investors, this yield advantage – combined with the market’s defensive profile – positions Europe as a compelling allocation within a diversified global equity portfolio.

iii. Valuation appeal and capital discipline

In addition to its sectoral and yield advantages, the European equity market also trades at more attractive valuation multiples compared to the US, particularly on a P/E and P/B basis. This valuation discount offers potential for upside re-rating, especially if earnings expectations improve or macro headwinds abate.

Europe’s cheaper valuations provide cushion for earnings downgrades



Source: LSEG, DBS

Sector Strategy: Navigating Key Macro Drivers

European sector earnings will be shaped by a blend of cyclical and structural forces. Five major themes will influence relative performance:

1. Euro appreciation pressuring export-heavy sectors.
2. Tariff escalation/de-escalation, particularly affecting autos, luxury, industrials, and materials.
3. Lower interest rates supporting rate-sensitive sectors such as utilities and real estate.
4. German fiscal spending boosting domestic demand and infrastructure activity.
5. AI-led demand shifts reshaping tech, industrial, and utility sectors.

We outline sector-specific implications below:

Industrials

Europe’s industrial firms excel in automation, electrical systems, and precision manufacturing – often underpinned by high-margin and recurring-revenue models. These businesses are well-positioned to withstand cyclical pressures thanks to strong IP, software support, and licensing streams.

Defence-related names are gaining traction as European nations increase defence budgets, particularly in aerospace and cybersecurity. This theme aligns with geopolitical shifts and long-term modernisation goals.

Utilities

As a core defensive sector, European utilities offer regulated cash flows, stable dividends, as well as increasing alignment with decarbonisation and energy transition agendas. Rising demand for electrification and clean energy investment, combined with policy support, makes this sector structurally attractive, particularly amid falling rates.

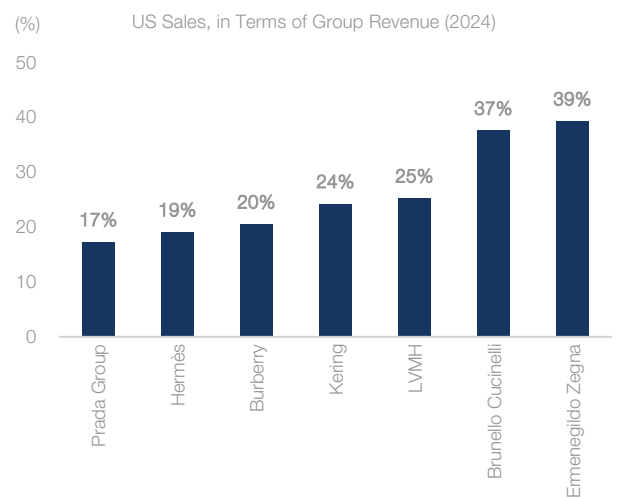
Consumer Staples

A core pillar of defensive strategies, European consumer staples are backed by globally recognised brands and inelastic demand. Firms in this sector typically deliver strong cash flow, attractive dividends, and pricing power.

Current macro tailwinds, such as positive real income growth, solid household balance sheets, and accelerated credit expansion, support consumer spending. As ECB rate cuts progress, falling savings rates could further unlock consumption. A stronger euro and pound are also curbing imported inflation, strengthening discretionary purchasing power.

Meanwhile, trade diversion from Asia is improving cost structures for retailers, boosting margins and earnings potential.

Prefer luxury firms with lower US exposure



Source: Company, DBS

Consumer Discretionary

The luxury segment is vulnerable to trade disruptions. US–EU tariff negotiations pose meaningful risks, with little likelihood of sector-specific exemptions due to limited US manufacturing capacity. Brands may raise US prices, encourage tourism to Europe, or shift limited production abroad, but passing costs fully to US consumers is unlikely given the weak sentiment.

We prefer luxury firms with lower US exposure, strong pricing power, and robust fundamentals, as they are better equipped to weather near-term pressures.

Europe Sector Allocation – 3Q25

Europe	Overweight	Neutral	Underweight
	Technology	Energy	Materials
	Utilities	Financials	Cons. Discretionary
	Cons. Staples	Real Estate	
	Industrials	Comm. Services	
		Healthcare	

Source: DBS

Europe Valuation Table

	Forward P/E (x)	P/Book (x)	EV/EBITDA (x)	FW ROE (%)	ROA (%)	OPM (%)
Europe	15.2	2.1	10.9	12.1	1.4	12.7
Financials	10.8	1.3	-	12.0	0.7	18.2
Energy	10.0	1.1	4.2	11.8	2.8	9.2
Technology	28.8	5.2	22.1	15.8	6.6	15.5
Materials	17.2	1.7	9.1	9.2	2.9	7.9
Industrial	21.7	3.9	12.4	16.3	5.0	11.0
Cons. Staples	16.6	3.1	12.0	17.1	4.9	10.6
Cons. Discretionary	15.7	1.7	7.4	11.3	2.7	8.3
Comm. Services	20.8	2.2	7.4	8.4	2.1	14.3
Utilities	14.0	1.8	8.3	5.5	3.1	14.4
Real Estate	14.6	0.9	32.4	6.7	1.0	35.9
Healthcare	15.1	3.5	12.9	17.4	5.7	17.9

Source: Bloomberg, DBS
Data as at 20 Jun 2025

Navigating a Delicate Balance

Japan Equities
3Q25

Despite global uncertainties, Japan's ongoing domestic transformation, driven by corporate governance reforms, is likely to support market strength in 2H25, alongside gradual policy shifts from BOJ.



05. Japan Equities.

Joanne Goh
Strategist

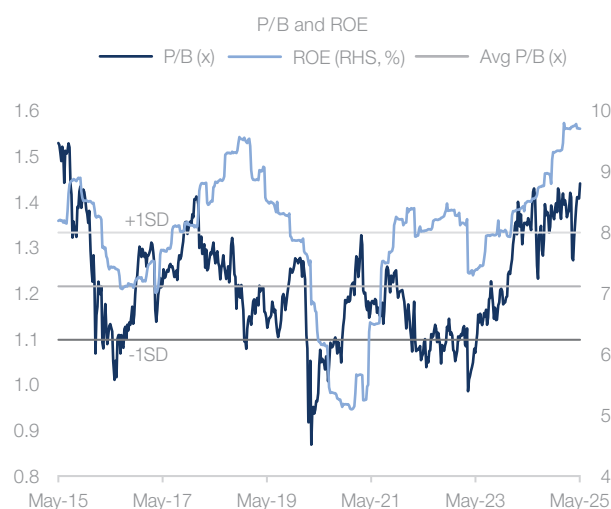
After an unsettling April, Japan equities have recovered to pre-“Liberation Day” levels and are expected to regain its upward momentum as concerns over tariff escalation ease. Key domestic drivers, including corporate reform, BOJ interest rate normalisation, and reflation policy measures remain intact. Recent tariff sagas, however, create ambiguity around BOJ policies as global growth remains uncertain. The latest GDP growth also suggests that Japan’s growth continues to stagnate below potential growth. Our conviction call lies in corporate restructuring, which is gaining traction beyond expectations.

Corporate restructuring in Japan gaining momentum

Japan’s corporate landscape is undergoing a fundamental shift with management capabilities and reforms taking centre-stage from a bottom-up perspective. This transformation is evident across both private and public markets, signalling a broader effort to unlock value and enhance corporate governance. Two years into this reform-driven shift, we are seeing tangible results that are reflected in corporate re-ratings and strong TOPIX gains. Japan’s domestic transformation is no longer just a narrative; it is actively reshaping its financial markets and corporate culture.

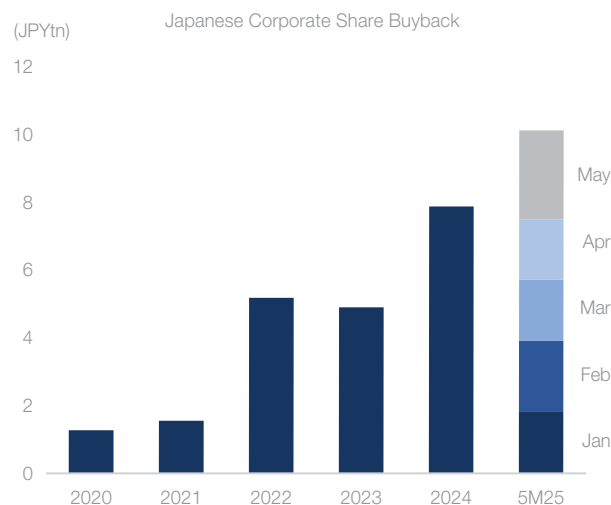
In the public markets, Japanese corporations have emerged as the largest equity buyers, repurchasing JPY7.9tn (USD50bn) worth of domestic stocks in 2024—a record amount. This surge in buybacks comes as the Tokyo Stock Exchange pressures listed firms to enhance shareholder value and improve capital efficiency. Buybacks continue into this year with the first five months of 2025 exceeding 2024 full-year numbers.

Higher ROE and P/B achieved



Source: LSEG, DBS

Enhancing value via buybacks



Source: LSEG, DBS

Market sensitivity to trade and political news

Market sentiment remains highly responsive to developments in both trade negotiations and domestic politics, reflecting an environment of elevated uncertainty. We expect this pattern to continue in the near term, particularly around key dates such as election results or major US-Japan trade announcements. Investors should be prepared for short-term volatility with high-beta sectors and cyclicals as the most exposed out of the lot. Conversely, companies with strong balance sheets, high domestic exposure or active shareholder return programs may outperform during periods of uncertainty.

Below, we outline the key dynamics investors should monitor closely, along with our views on likely outcomes and their expected impact.

Political developments: Upper House election

Japan's Upper House election in July will serve as a referendum on the ruling Liberal Democratic Party (LDP)'s mandate. The outcome has the potential to shape the trajectory of trade policy, fiscal stimulus efforts, and structural reforms. A strong showing by the LDP-led coalition would support continued policy continuity and enable smoother negotiations with the US. Conversely, a weakened position could delay trade agreements and heighten political uncertainty. The election outcome will also influence the timing and scope of fiscal initiatives, including potential supplementary budgets or tax reforms.

Japan-US tariff negotiations

Ongoing trade discussions between Japan and the US will be a central focus in the coming months. Negotiations are aimed at reducing reciprocal tariffs, particularly in the automotive, energy, and agricultural

sectors. We expect partial progress by the end of the truce period with average tariffs declining from approximately 24% towards 10%. While concessions on autos and energy are likely, agriculture remains politically sensitive due to domestic opposition, especially from rural constituencies ahead of the Upper House election. A successful outcome could reduce uncertainty and improve investor sentiment, especially for export-oriented manufacturers. However, the absence of a comprehensive deal could prolong sector-specific volatility.

Fiscal policy response and stimulus measures

In response to the tariff environment and potential electoral uncertainty, Japan is likely to introduce a supplementary budget which is modestly larger than recent years in the second half of 2025. This is aimed at offsetting the economic drag from US tariffs and supporting domestic consumption. While proposals to temporarily cut the consumption tax to 5% are gaining political traction, such a move remains contentious amid rising Japanese Government Bonds (JGB) yields and mounting concerns over fiscal sustainability. Should the LDP suffer electoral setbacks, debates over tax cuts and the pacing of fiscal consolidation would likely intensify.

Monetary policy and BOJ normalisation

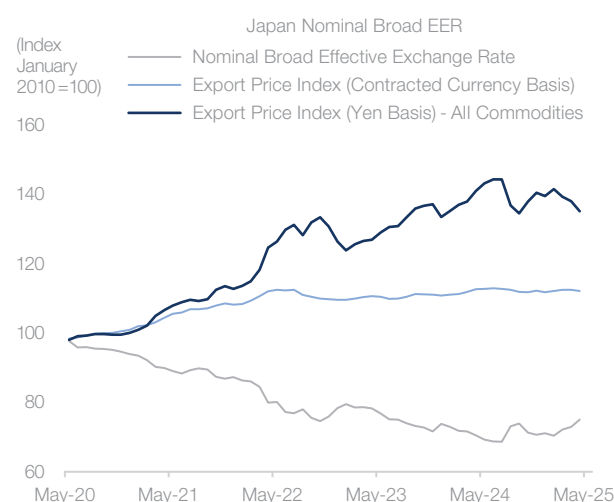
The BOJ's next policy meetings in June and July are likely to stand pat on interest rate normalisation and may temporarily intervene—particularly through purchases of super long-term JGBs—if yields in the 30- to 40-year segment rise sharply. A more decisive policy shift could benefit financials, while rapid changes may introduce market instability.

Rising bond yields render market expensive from yield gap perspective



Source: LSEG, DBS

Weak yen spurs export competitiveness



Source: LSEG, DBS

JGB yield curve and long-term interest rates

For the first time in over a decade, Japan's yield curve is displaying a meaningful steepness, driven by rising long-term JGB yields. This development reflects both the BOJ's policy shift and improving inflation dynamics. While steeper curves enhance bank profitability and may encourage a return of domestic institutional capital to the JGB market, they also raise concerns about fiscal sustainability—particularly for long-duration public debt. We expect the BOJ to proceed cautiously with quantitative tightening continuing, though it would be balanced by tactical long-end purchases if market conditions warrant intervention.

Currency trends and yen volatility

Movements in the yen remain a key driver of market sentiment, particularly for Japan's large exporter

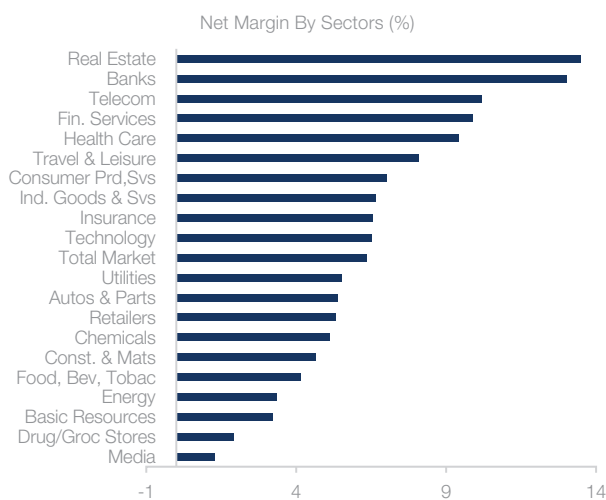
base. USD/JPY could ease towards 140, even if the pace of BOJ policy normalisation looks slower due to growth-related uncertainty from tariffs. Besides narrowing rate differentials, stronger foreign portfolio demand for JPY assets is a driver of JPY. Indeed, foreign portfolio inflows into long-term JPY assets surged after Trump announced his reciprocal tariffs, underscoring a growing appetite to diversify away from USD assets. Yen appreciation also supports capital repatriation by domestic institutions, especially towards the longer-end JGB market. Also, USD/JPY could fall towards 130 if it breaks the 140-support level. Amid Trump's criticism of the JPY's excessive weakness, Japan is unlikely to intervene if the JPY appreciates.

Should USD/JPY continue to trend lower, the pressure on corporate earnings—particularly in the automotive and technology sectors—could intensify.

Implications and strategy for Japan equities

Despite being surrounded by macro uncertainties, Japan's ongoing domestic transformation, driven by corporate governance reforms, is expected to sustain market strength into the second half, alongside economic policy shifts (e.g. BOJ policy shifts) and structural improvements (e.g. TSE corporate governance policies). This period will further underscore the resilience of Japanese companies as management teams continue to execute reforms and adapt to evolving economic conditions, reinforcing a strong bottom-up growth story. Corporate restructuring beneficiaries are likely to be prevalent in big caps with non-core businesses and cross-holding structures (where value can be unlocked) and small mid-cap companies which could be subject to delisting if they fail to meet continued listing criteria.

High margin business preferred



Source: LSEG, DBS

Japan Sector Allocation - 3Q25

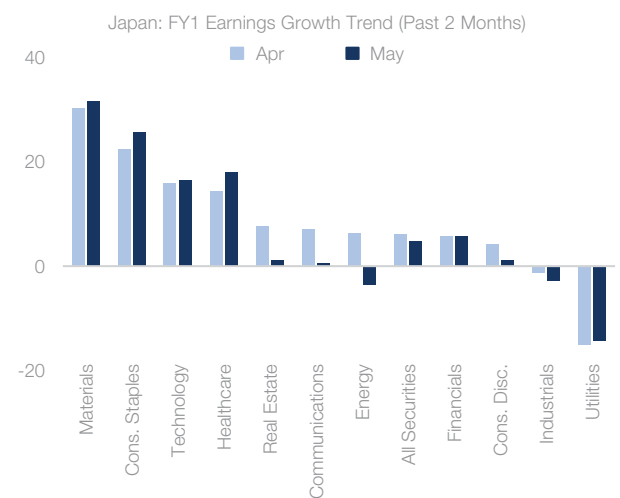
Our preference for sectors is analysed around earnings resilience amid a strengthening yen, higher US tariffs, and higher interest rates. High margin businesses should provide more cushion for rising costs.

The best positioned sectors are those that are domestic-focused, less reliant on exports, and capable of passing costs onto customers. Investors should favour these areas for stability and growth potential in uncertain external environments.

Most positive sectors under this environment:

1. Consumer staples retailing such as drugstores and supermarkets with strong domestic demand, margin improvement potential, and market share gains

Modest changes in earnings growth due to a lack of guidance



Source: LSEG, DBS

2. Pharmaceuticals and medical devices where demand is inelastic and are, thus, less affected by tariffs or currency fluctuations
3. Banks and insurance benefit from rising interest rates and steady profit growth; banks are undervalued, while insurance is less exposed to trade risks
4. Rising demand for electricity and gas is driven by domestic consumption and infrastructure projects such as data centres and semiconductor plants
5. Domestic-focused technology and services such as software and IT services where domestic market is strongly driven by digital transformation and margins improvement via offshoring; internet and digital media companies where growth is driven by local user engagement, advertising, and digital services—these activities are less impacted by tariffs or currency
6. Industrial sectors such as the defence and aerospace industry benefit from government contracts and are less vulnerable to trade and currency fluctuations

Conversely, the worst positioned sectors in such an environment are primarily those with significant export exposure, high capital expenditure needs, low margins, and are highly sensitive to cost increases and currency fluctuations with reliance on

international trade and supply chains. Their margins and growth prospects are at risk from (i) tariffs which increase costs and disrupt supply chains, (ii) strong yen which erodes competitiveness and reduces foreign earnings, and (iii) rising interest rates which raise financing costs and potentially slow investment and demand.

These include:

1. Export-dependent manufacturing and capital goods such as machinery, plant engineering, and shipbuilding. They are sensitive to tariffs and yen appreciation which increase costs and reduce international competitiveness. Higher interest rates can raise financing costs for large projects and investments
2. Steel and metals which are export-oriented sectors heavily impacted by yen strength and tariffs which can erode margins
3. Semiconductor equipment and electronics exporters have strong fundamentals, though there are sector risks which include export restrictions (e.g. China) and potential demand slowdown from tariffs and geopolitical tensions. Yen appreciation could also pressure international competitiveness

Japan Sector Allocation - 3Q25

	Overweight	Neutral	Underweight
Japan	Technology	Utilities	Cons. Discretionary
	Financials	Energy	Materials
	Cons. Staples	Industrials*	
	Healthcare	Real Estate	
	Comm. Services		

Source: DBS

*Industrials: Overweight Defence

Japan Valuation Table

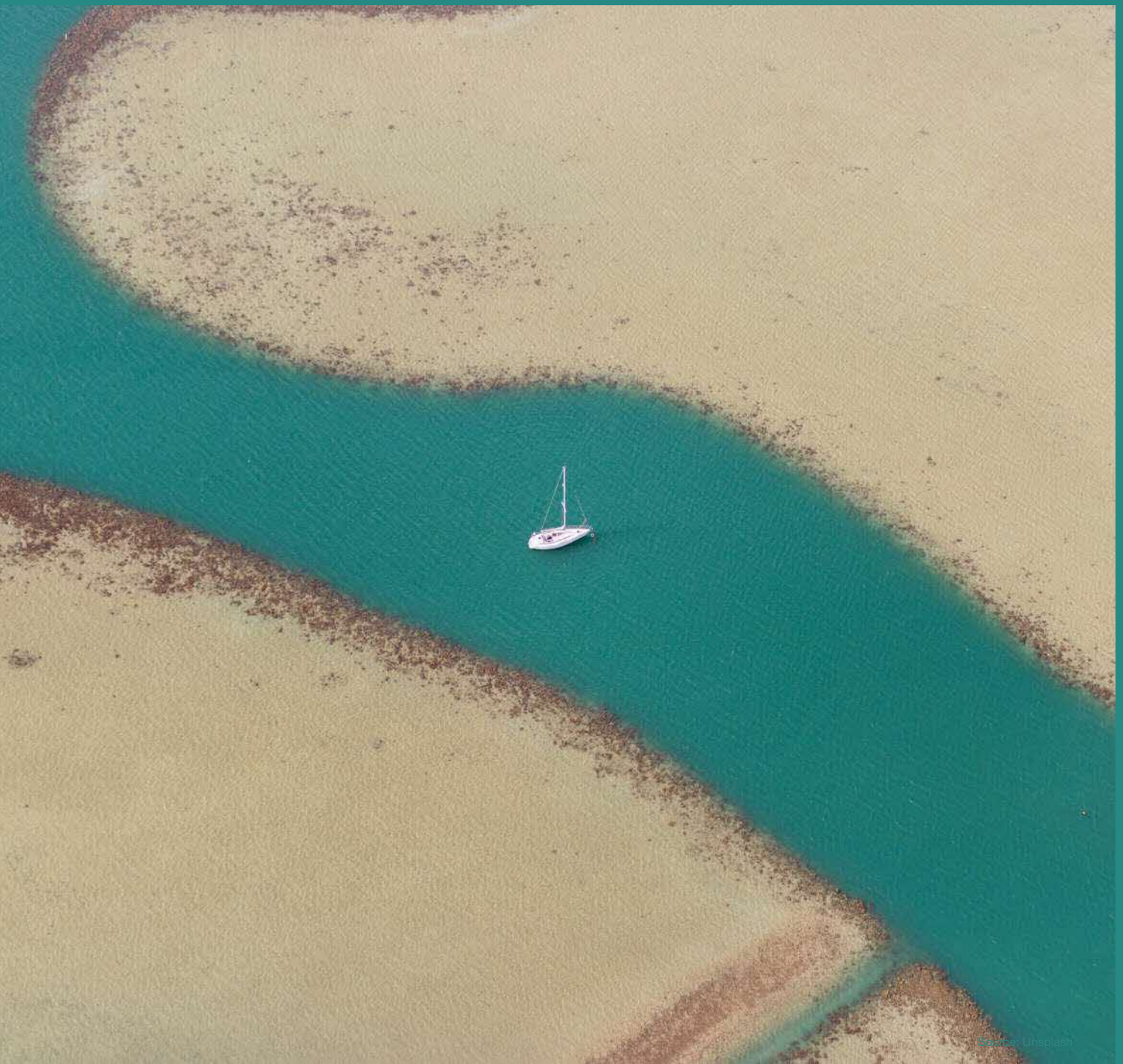
	Forward P/E (x)	P/Book (x)	EV/EBITDA (x)	FW ROE (%)	ROA (%)	OPM (%)
Japan	16.4	1.5	6.3	8.5	1.4	9.9
Financials	12.1	1.0	-	7.9	0.5	14.6
Energy	17.5	0.6	4.7	4.4	3.6	5.2
Technology	23.4	2.8	13.3	10.6	6.1	12.2
Materials	14.1	1.0	7.1	6.0	3.5	7.3
Industrial	16.4	1.7	11.5	9.8	5.1	7.2
Cons. Staples	22.0	2.0	11.2	8.5	2.3	5.7
Cons. Discretionary	17.1	1.4	6.5	6.9	3.5	7.9
Comm. Services	18.1	2.3	8.6	11.7	3.1	25.2
Utilities	7.8	0.7	7.5	8.4	3.5	7.9
Real Estate	14.3	1.3	13.7	9.0	3.2	13.4
Healthcare	17.3	2.1	12.3	8.7	4.8	13.5

Source: Bloomberg, DBS
Data as at 20 Jun 2025

Looking Beyond Shifting Tariffs

Asia ex-Japan
Equities
3Q25

Recent easing of trade headwinds to support sentiment across AxJ, opening the door to a re-rating. Fiscal stimulus and monetary easing to support growth. Domestic demand-driven equities in ASEAN present strong investment opportunities.



06. Asia ex-Japan Equities.

Yeang Cheng Ling

Chief Investment Officer,
North Asia

Joanne Goh

Strategist

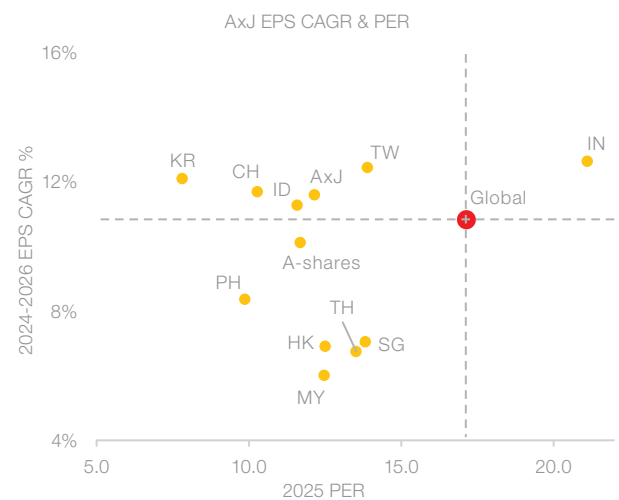
Tariffs are popping up like weeds — here, there, and just about everywhere. The back-and-forth developments surrounding the US tariff regime have amplified volatility for risk assets in the region, and likewise, investors' risk-on-and-off sentiment. For investors, it's a storm of uncertainty that's hard to navigate and even harder to ignore. The chaos isn't just a passing cloud; it's casting a long shadow over trade and investment.

The situation will remain fluid and gradually become the new norm. A wide range of nations that have trade relationships with the US now face a slew of tariffs and trade tensions. Under this backdrop, countries with large domestic markets and consumption breadth to shield against external tariff-instigated headwinds will emerge as winners.

The heightened uncertainty arising from the fluid reciprocal tariff framework looks set to drag global growth. Asia and corporate earnings will not be spared, to say the least. Industries and firms are less inclined to issue forward-looking guidance owing to heightened tariff-related uncertainty, evolving regulatory pressures, fluctuations to corporate profitability, and uncertainty in demand across end markets.

However, the recent temporary relief in trade headwinds should support sentiment across Asia ex-Japan, opening the door to a re-rating in undervalued, quality names as fiscal packages and monetary easing among nations could continue to support growth.

Attractive valuations with stable earnings growth



Source: Bloomberg, DBS

More importantly, the US-China tariff pauses mark a diplomatic pivot, restoring some clarity for investors. While temporary, it signals a willingness for dialogue, thereby reducing near-term policy risks. Overall, this will not only reaffirm the investment outlook on China, but also Asia ex-Japan as a whole, setting precedence for more trade deals to be struck. While uncertainties remain, as the deal is only for a 90-day respite at present, the diversity of demand/supply balances and rebalancing of trade partnerships across member countries will mitigate the downside risks.

Valuation discount gap at multi-year low



Source: Bloomberg, DBS

Additionally, the steep discount gap effectively provides a buffer against downside, demonstrating that investors are factoring in the ongoing fluid backdrop in their positioning, as well as global macro volatility and adjustments to earnings outlook. Continued monitoring of policy developments will be crucial as a sustained resolution could unlock further upside in the region's growth outlook and investment performance.

The increased trade and investment linkages with China will be an ongoing benefit to ASEAN. Furthermore, headwinds to exports augur well for positioning in domestic defensive sectors as ASEAN governments expedite their respective policy pushes to nurture domestic consumption.

As trade uncertainties persist in the long term, ASEAN countries are poised to leverage both fiscal and monetary measures to drive domestic growth with policymakers accelerating their strategic initiatives. ASEAN also stands to benefit from falling energy prices and limited inflation pass-through, creating policy room for rate cuts that support risk assets.

This shift will be especially pronounced in trade-dependent nations like Thailand, Malaysia, and Vietnam, which are already grappling with direct impacts. Looking ahead, these nations will likely prioritise resilience-building measures to adapt to evolving global dynamics.

As push comes to shove, policymakers across the region will introduce more forceful supportive measures that aim to uplift domestic consumption, establish new ecosystems, and broaden trade partnerships with stronger intra-region collaborations. Notably, with the backing of the massive and relatively younger population (700mn), boosting consumer spending is key to countering US policies that are upending global trade.

Within the context of Asia, populous regions with low GDP weightage to direct exports will be less vulnerable to the uncertainty in the US tariff framework. For instance, India, China, Indonesia, and the Philippines all possess a vast population size of more than 100mn. On the other hand, exports account for less than one-fifth of total GDP and direct exports to the US account for less than 4%, highlighting the relative defensiveness of these economies against the backdrop of a head-on trade spat.

Harnessing population power

	2024 Exports as a % of GDP	2024 % Exports to US	2024 US Exports as % of GDP	Population (mn)
Indonesia	21.8	9.2	2.0	279
India	11.8	19.3	2.3	1,401
Mainland China	18.6	12.6	2.3	1,408
Philippines	21.3	14.4	3.1	115
Korea	41.1	17.1	7.0	52
Singapore	56.9	13.9	7.9	6
Malaysia	78.2	11.3	8.8	33
Thailand	62.6	18.7	11.7	72
Taiwan	59.7	23.4	14.0	23

Source: Bloomberg, DBS

Looking beyond the noise, the region's investment outlook remains reassuring, driven by the following fundamental factors:

1. An increase in intra-regional trade flows
2. China's strong policy support will be mirrored by neighbouring countries to drive corporate earnings and support valuations
3. The improvement in liquidity support from share buybacks
4. Relatively less cautious fund flow as the region's equities have been massively under-owned

5. Historical high levels of domestic household savings in China (USD20tn) and North Asia (i.e. combined banking deposits in Hong Kong, Taiwan, and South Korea at USD6tn). A gradual reallocation of idle bank deposits into capital markets will have profound effects on asset prices
6. Markets have largely conditioned the effect of tariffs and the on-going trade stalemate
7. A softening global rates backdrop is positive for Asia ex-Japan equities

These developments continue to reinforce our optimistic outlook on the region, underpinned by a barbell investment strategy. On the growth side, we continue to focus on sectors poised for strong performance, including technology and platform giants, beneficiaries of tourism expansion, under-valued cyclical, and those poised to benefit from a resurgence in consumer spending. On the income side, our conviction remains firm in large banks with quality balance sheets, and real estate investment trusts, with both offering attractive and stable yields that align with our long-term objectives.

China – Facing off with tariffs

China equities started the year with a blistering rally as DeepSeek's unexpected rise in prominence sparked optimism over China. The region's technological advancements re-rated investors' optimism about the growth and economic benefits of AI, though it was derailed by the escalation in US trade tariffs.

While the 90-day tariff reduction is encouraging, sustained economic recovery will depend on long-term resolutions and structural reforms within China. China's consumption-to-GDP ratio remains below that of global peers, and the government will continue to drive growth in this area to support the economy, fix the imbalance, and reduce reliance on exports. We believe China will take steps to revive consumption by boosting income as authorities have pledged to support demand, thereby acknowledging a necessity for a broad recovery in income. This will include measures like stabilising stock and real estate markets and rebuilding the confidence of the public. Policymakers may reintroduce more property easing measures if consumption remains sluggish in order to support the sustainability of consumption sentiment.

Recent CSRC messaging emphasises stabilisation, revitalisation, and investor protection as core goals. Market reform, equity inflows, and selective national team support continue to underpin market stability. This is also evidenced by the rising pace of dividend payouts and share buybacks across leading Chinese corporates, which are expected to continue boosting sentiment through the narrative of stronger total shareholder return.

Buffering trade shocks

Corporate earnings and AI innovation: The strength of the technology sector, highlighted by DeepSeek's success, bodes well for the outlook and sentiment on capex commitment. AI adoption in key industries is expected to drive efficiency gains, enhancing overall profitability. The country's capacity to participate in AI innovation adds a layer of optimism across technology sectors from semiconductors to software solutions.

Policy headroom to cushion impact from tariffs:

Tariff relief puts China in a better position to defend its growth target. Policymakers will use this window to table incremental easing policies to achieve stable growth, support corporate earnings, and boost domestic consumption. The tariff pause will greatly reduce the urgency for additional fiscal stimulus in the short term and provide room for the government to set aside measures for any future needs. This is further shielded by the combination of the central government's low leverage ratio and the availability of onshore funding at cheap costs. Total deposits in the onshore banking system rose to CNY43tn (a substantial amount equivalent to 2.4x of GDP), providing a gargantuan pool of cheap liquidity for tapping into. More importantly, onshore CNY funding costs have more than halved (compared to a decade ago) to a low of 1.8%.

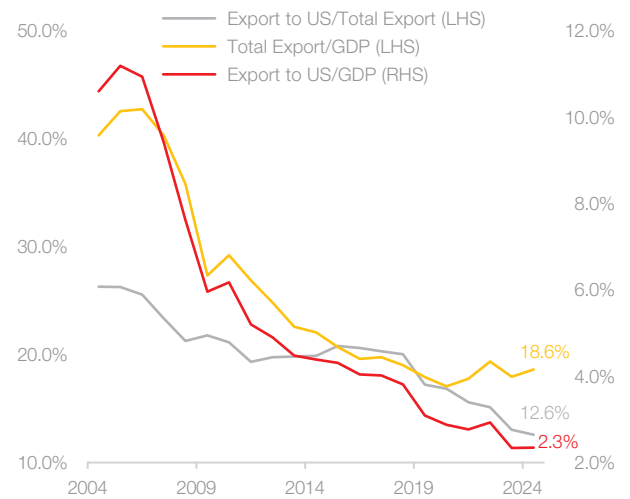
Exports account for a smaller part of GDP: While China remains the world's largest manufacturer and exporter, the contribution of exports to GDP has declined significantly over the years. Exports now account for less than one-fifth of GDP, down from more than 40% in 2005. Notably, direct exports to the US also shrunk to only 2.4% of GDP equivalent, falling to nearly one-third of the level seen two decades ago due to diversification of trade partnerships and expansion in the value chain.

High domestic savings...



Source: Bloomberg, DBS

The role of exports to GDP has shrunk, so have the exports to US



Source: Bloomberg, DBS

...and availability of cheap onshore funding



Source: Wind, DBS

Looking beyond the shifting tariffs

As the world grapples with the development and impact of reciprocal trade tariffs, the Asia ex-Japan market could benefit from this baffling situation and emerge as a candidate for rebalancing from a target of de-risking. As trade headwinds ease, we anticipate a potential re-rating in regional equities and currencies, alongside renewed capital flows into undervalued or cyclical names.

Navigating the evolving landscape of US trade tariffs remains challenging, but we maintain a forward-looking investment stance by focusing on themes that drive innovation, benefit from government stimulus, and capitalise on the revival of domestic consumption and growth of intra-regional trade flows. While cyclical sectors exposed to trade tensions have faced headwinds, we see potential rebound opportunities, particularly among export-oriented and supply chain-sensitive industries as global trade patterns continue to realign.

Asia ex-Japan markets have been trading at risk-case valuations, yet remain underpinned by resilient earnings growth, supported by multi-frontal growth engines, including robust domestic consumption, accelerating AI and digital infrastructure investment, and recovering tourism flows and policy stimulus. We see scope for valuation re-rating as macro volatility fades, particularly in markets with structural reforms, dividend visibility, and balance sheet optionality.

A narrowing of underweight positions among portfolio investors could lend significant tailwinds to asset prices. As top global investors shift away from US assets due to dampening growth expectations and weaker visibility, they will diversify across geographies, particularly those with sound fundamentals and growth opportunities, and this region is well-positioned to benefit from the global risk rebalancing trend.

The multiplicity of investable themes from technology innovation and government driven stimulus to the permeation of energy transition, combined with favourable demographic trends, will continue to bolster the attractiveness of Asia equities. While risks remain, particularly related to cross-continent tariffs and political uncertainties, the region's robust economic momentum, coupled with the government's ability to roll out measures, will position Asia as a compelling choice for investors seeking resilience and long-term growth in turbulent times.

Convergence of the performance gap between Asia and global equities is projected to continue from here as Asia will benefit as the strong option for diversification after years of muted investment performance.

Asia ex-Japan Valuation Table

	Forward P/E (x)	P/Book (x)	EV/EBITDA (x)	FW ROE (%)	ROA (%)	OPM (%)
Asia ex-Japan	14.1	1.9	11.1	12.0	2.0	12.9
Financials	10.0	1.2	-	11.2	1.0	23.2
Energy	12.6	1.3	5.9	4.6	3.7	7.0
Technology	15.9	3.1	10.2	17.1	8.6	11.2
Materials	18.0	1.4	9.7	7.4	2.3	7.3
Industrial	15.4	1.7	9.7	9.9	2.9	9.7
Cons. Staples	20.4	3.1	12.2	14.5	6.0	9.5
Cons. Discretionary	13.4	2.2	9.4	13.1	6.3	8.9
Comm. Services	18.9	3.4	13.1	14.7	7.5	21.6
Utilities	11.8	1.5	9.3	11.4	3.2	14.2
Real Estate	14.7	0.7	17.4	4.5	1.2	14.3
Healthcare	32.1	3.8	20.9	10.6	6.3	9.1

Source: Bloomberg, DBS
Data as at 20 Jun 2025

AxJ Geographical Allocation - 3Q25

Overweight	Neutral	Underweight
China#	Hong Kong	Thailand
India	Taiwan	Philippines
Singapore	South Korea	
Indonesia	Malaysia	

- Including China stocks listed in Hong Kong

AxJ Sector Allocation - 3Q25

Overweight	Neutral	Underweight
Technology	Energy	Healthcare
Cons. Discretionary	Real Estate*	Materials
Financials	Utilities	Industrials
Comm. Services	Cons. Staples	

* - Our neutral position reflects a balanced view, underpinned by a positive outlook on Singapore REITs as reliable income generators, while maintaining a cautious stance towards China real-estate developers due to prevailing market uncertainties

In this quarter, we initiate the following changes to the AxJ Geographical Allocation table:

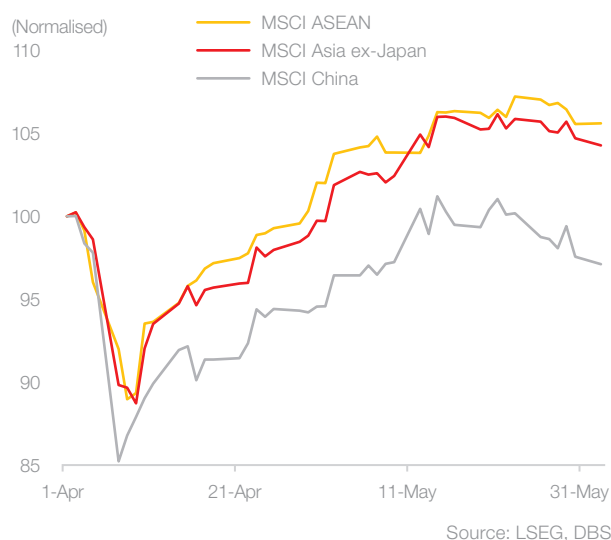
Downgrade Taiwan and Thailand to neutral and underweight respectively, and upgrade India and Indonesia to overweight as countries with large population sizes and policy headroom are better positioned to withstand external shocks.

While we stay constructive on the outlook of the region's technology sector and Taiwan's steadfast position as a major global semiconductor player, other heavy-export-dependent and downstream industries will nonetheless face tariff-related headwinds: auto parts, panel displays, ferrous/steel products, plastic components, refined petrochemical products, and machinery equipment. With a high reliance on export and US as its major trade partner, on top of the absence of a strong domestic consumption composition, Taiwan is exposed to mounting external uncertainties.

South Korea's Lee Jae-myung's presidential victory ends months of political turmoil, giving the Democratic Party full control of the government. His expansionary fiscal agenda—including support for households, SMEs, housing, and tech—should boost market sentiment amid global uncertainty. With Korea trading at 8.6x forward P/E, we see room for re-rating and upgrade our view on South Korea to neutral.

From a sectoral perspective, we upgrade consumer staples to neutral as it benefits from the tailwinds of domestic consumption and downgrade healthcare to underweight. With rising protectionist trade policies from the US, the region's healthcare supply chain will be adversely affected.

ASEAN's outperformance after "Liberation Day"



ASEAN - Benefits of integration

The recent economic disruptions caused by US tariffs have led to multiple GDP downgrades across the region, emphasising the critical need for ASEAN countries to diversify both their trade relationships and domestic growth drivers. In response to a weakening US dollar and moderating regional inflation, several central banks have commenced easing monetary policy, thereby fostering a conducive environment for domestic demand. While the surge in exports and industrial activity prior to July's tariff truce may contribute to a less negative 2Q performance, investment momentum is expected to decline amid ongoing global uncertainties.

In the medium term, ASEAN stands to benefit from the reconfiguration and diversification of global supply chains away from China. Countries with abundant natural resources, favourable demographics, robust infrastructure, and deep integration with China—such as Indonesia, Vietnam, and Malaysia—are strategically positioned to capitalise on this shift.

From an investment perspective, our focus remains on quality and resilience, emphasising domestic demand-driven equities. Indonesia and India continue to be our preferred markets due to their lower export dependence, accommodative monetary policies, and supportive policy frameworks aimed at bolstering internal growth. Singapore also remains attractive with banks and REITs offering yields exceeding 5%, providing a buffer against market volatility. India's limited exposure to US tariffs (exports at 2.3% of GDP) and falling oil prices bolster its resilience. The Reserve Bank of India (RBI) has adopted an accommodative stance, supported by liquidity injections and rate cuts. Foreign investor sentiment is turning positive amid early signs of a cyclical recovery.

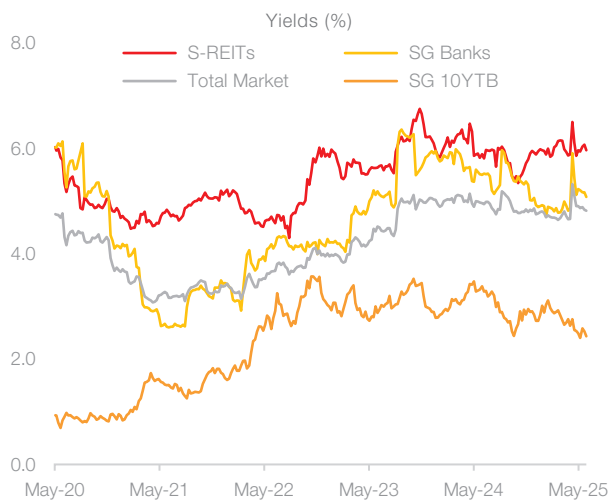
Outlooks and key investment themes for the ASEAN markets:

Singapore – Quality and yields

We maintain a positive outlook on Singapore equities, primarily due to their quality and dividend yields. The market offers an average yield of approximately 4.2%, mainly derived from banks and REITs which we believe are sustainable. Although net interest margin (NIM) has peaked and bank earnings growth may plateau this year, dividends—hovering around 5%—are expected to support share prices. An increase in fee income (driven by regional liquidity flows) and heightened market volatility (which prompted hedging activities) could provide additional upside.

For REITs, concerns over financing costs have been largely priced in, given the lower interest rates compared to the previous year. While rental revisions warrant ongoing monitoring, sector-wide positive revisions of 5-10% offer a cushion, supporting stable distributions per unit (DPUs). Moreover, MAS' initiatives to bolster stock exchange activities are favourable for large-cap Singaporean

Shelter for yields



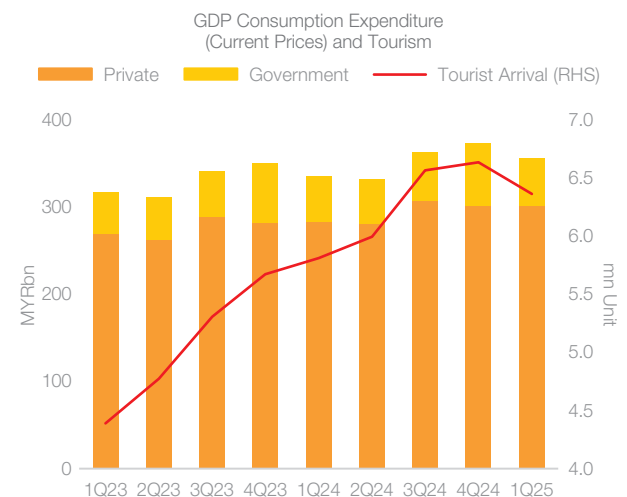
Source: LSEG, DBS

companies, including global champions in aviation and engineering, as well as domestic household names in retail, telecommunications, and healthcare which benefit from liquidity inflows. The steady development of digitalisation across ASEAN, along with rising online engagement in e-commerce, transportation, and logistics, underpins the outlook for the various digital platforms.

Malaysia – Benefitting from low beta

Malaysia's economic outlook is facing growing downside risks, primarily due to a potential deepening of the slowdown among key trading partners, subdued business and consumer sentiment, and lower-than-expected commodity output. The recently announced 24% US tariff on Malaysian exports—currently under a 90-day review period—poses a specific threat to sectors, including non-semiconductor electronics and electrical (E&E), machinery, scientific instruments, rubber products, furniture, and palm oil.

Resilient private consumption and tourism (Malaysia)



Source: Bloomberg, Immigrant Department of Malaysia, DBS

Despite these external challenges, domestic demand remains a pillar of strength, underpinned by higher household spending, driven by the increase in minimum wage, targeted cash subsidies, and ongoing public investment. Inflation is projected to stay moderate, supported by softening global commodity prices and muted domestic demand, although RON95 fuel subsidy rationalisation could introduce some upward pressure. This contained inflationary environment may provide BNM with room to consider monetary easing to cushion the economic slowdown.

Historically, Malaysia has shown resilience during periods of global market volatility, and it benefits from its low market beta and ample domestic liquidity. Several key structural factors continue to underpin this stability:

1. A healthy investment cycle
2. Accelerated infrastructure development

3. Expanding opportunities in energy transition and renewable energy
4. Sustained consumer spending

Aligned with these themes, select sectors such as banking, utilities, construction, property, Malaysian REITs, and healthcare offer compelling investment opportunities.

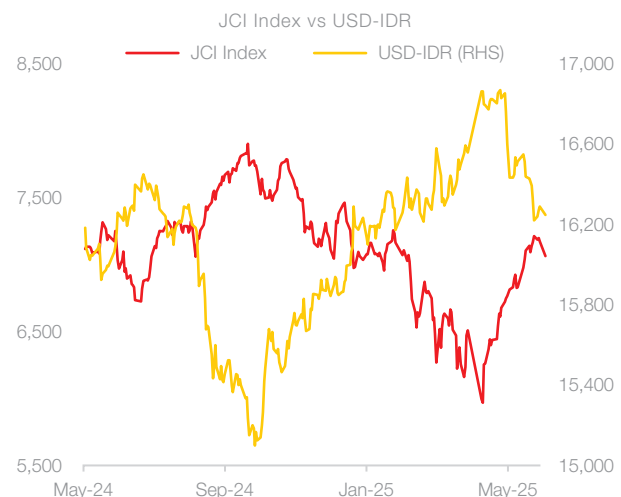
Indonesia – Positive momentum from weak dollar

Our outlook for Indonesia remains constructive. The Jakarta Composite Index (JCI) surged over 16% following a bottom in early April, buoyed by improved sentiment after the US delayed reciprocal tariffs. The recent US-China trade truce is poised to sustain this positive momentum with the JCI potentially remaining above the 7,000 level. A softer US dollar and attractive valuation levels further support foreign inflows.

We moderate our GDP growth forecasts for 2025/2026 to 4.8% and 4.9% respectively to reflect the sluggish start in 1Q25 and potential tariff impacts. Domestic consumption experienced a slowdown due to base effects from last year's election period. In the near term, increased public expenditure, positive net exports, easing monetary conditions, and welfare initiatives are expected to support growth in the second half of the year. Consequently, we have also revised our earnings growth forecast for 2025 from 9% to 5%, reflecting increased market volatility.

Our preferred investment picks remain focused on high-quality, industry-leading companies with strong liquidity profiles, particularly within banking, consumer staples (notably instant noodles and convenience retail), and telecommunications, especially in emerging AI and tech segments that offer attractive dividend yields (>7%). Caution is warranted regarding sectors such as poultry and

JCI Index rebounded strongly amid weakening USD



Source: Bloomberg, DBS

commodities which could be adversely affected by tariff negotiations and policy shifts.

Thailand - External threats from exports and tourism

Thailand's SET Index declined by 7.3%, following the announcement of US reciprocal tariffs, though it recovered 11.5% from its lows after President Trump's indication of a 90-day pause pending negotiations. The country remains vulnerable due to its heavy reliance on US exports which constitute approximately 10% of GDP. The economic outlook has been downgraded by multiple institutions with expected growth revised downward by over 1% from the previous 2.5–3% baseline. Further interest rate cuts are anticipated with policy rates potentially approaching 1% to stimulate the economy.

Tourism, a vital sector, has seen a decline in international arrivals for three consecutive months since Feb 2025, primarily due to a sharp decrease

in Chinese tourists. Contributing factors include lingering safety concerns, economic challenges in China, and evolving travel preferences that favour domestic destinations. Competition from regional peers such as Japan, Malaysia, and Vietnam—who are actively attracting Chinese outbound tourists through aggressive marketing and streamlined visa policies—poses additional headwinds.

We recommend adopting a defensive stance, focusing on resilient sectors such as telecommunication providers, hospitals, and consumer goods companies which are better equipped to withstand macroeconomic uncertainties. With multiple rate cuts anticipated, non-bank financial companies

and smaller banks are positioned to benefit. High dividend yielding stocks among banks and REITs also offer resilience.

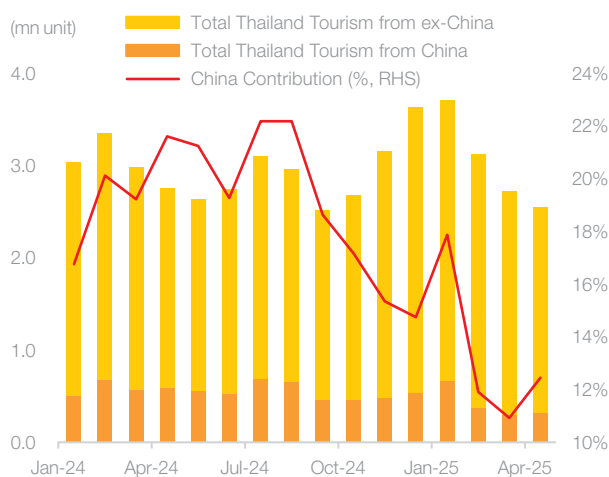
India – Second-half cyclical recovery in focus

India's FY26 growth outlook presents a nuanced investment landscape. While headline GDP growth is projected to moderate slightly to 6.1%, the underlying structural drivers of the economy remain robust, offering selective opportunities for investors. In the near term, sectors linked to household consumption—particularly those exposed to rural demand and urban discretionary spending—are well-positioned to benefit from easing inflation, fiscal support, and an anticipated Pay Commission-led income boost.

Infrastructure-related sectors, such as capital goods and construction, are expected to continue outperforming, driven by sustained public sector investment. However, private sector capex may remain subdued due to lingering demand-side uncertainty and ongoing trade tensions which could weigh on industrial and export-oriented segments.

Over the medium term, investor focus should shift to structural growth themes, including digitalisation, high-value manufacturing (such as semiconductors), and firms leveraged to India's increasing integration into global value chains. While near-term external performance may face challenges—particularly from slowing US growth and potential tariff-related headwinds—India's long-term fundamentals continue to underpin a constructive investment outlook.

Thailand tourism registered three consecutive monthly declines after a peak in Jan 2025

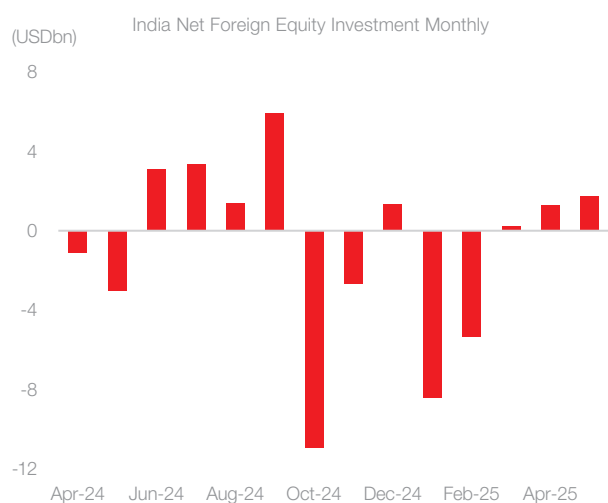


Source: Bloomberg, DBS

We are upgrading India to overweight, reflecting its relative insulation from global tariff risks. Notably, exports to the US account for just 2.3% of India's GDP, limiting direct exposure to trade disruptions. Supported by a resilient domestic economy, India is better positioned than many of its emerging market peers to weather a potential global downturn.

Following the pause in tariff escalations, foreign institutional investors (FIIs) returned as net buyers in the second half of the fiscal year with inflows of USD3.7bn, reversing prior YTD outflows of USD10bn before April. This renewed interest coincides with signs of a cyclical upturn in India's economy. In April, the RBI shifted its policy stance from "neutral" to "accommodative", following liquidity injections totalling INR6.21tn (approximately USD73bn) and two consecutive rate cuts. Additionally, declining crude oil prices are favourable for India as a net oil importer.

India net foreign equity investment turned to a meaningful inflow in Apr 2025



Source: Bloomberg, DBS

Amid global tariff uncertainties, India is emerging as a viable manufacturing alternative to China. The country offers a compelling value proposition with its young labour force, cost competitiveness, and expanding domestic market. Key government initiatives, such as "Make in India" and the Production-Linked Incentive (PLI) schemes, are aimed at attracting foreign direct investment and reinforcing the industrial base. Furthermore, ongoing improvements in infrastructure, digital connectivity, and regulatory reforms are progressively enhancing the ease of doing business.

Challenges remain, including bureaucratic inefficiencies and regulatory hurdles, but India's strategic geopolitical position, stable democratic institutions, and commitment to economic reform strengthen its long-term prospects in the global manufacturing arena. Finance Minister Nirmala Sitharaman recently outlined plans to increase the manufacturing sector's share of GDP from 12% to 23% over the next two decades, aiming to spur job creation and drive broader economic growth.

With the US reciprocal tariff on India at 26%, India is likely to make concessions and import more US goods while reducing import tariffs on US goods during the trade negotiations for a favourable deal.

Corporate earnings growth in India is forecast at 14% for FY25 and FY26, broadly in line with historical trends. However, downside risks remain, especially in globally exposed sectors like IT services, oil & gas, metals, and mining amid heightened external uncertainty. In contrast, earnings in domestically focused sectors—including banking, consumer, restaurants, cement, and healthcare—are expected to be more resilient. Sectors such as pharmaceuticals and automobiles may face uncertainty from potential tariff impacts.

Bond Vigilantes Lurk

Global Rates
3Q25

Bond vigilantes lurk as fiscal challenges deepen in US and Japan. As investors look to diversify their holdings away from USD assets, a shift in capital flows will benefit Asian local currency bonds.



07. Global Rates.

Eugene Leow
Strategist

Samuel Tse
Strategist

Within the G3 space, bond vigilantes featured heavily since the start of the year. However, we should also consider the cyclical aspects as economic/political dynamics shift. Below we lay out our thought along these two themes:

First, bond vigilantes have been on alert this year. Debt levels across the DM space is becoming elevated and historically, higher level interest rates (compared to the 2010s) are not helping. US' spending on interest has now reached an annualised 3.2% of GDP as of Apr 2025. Within the G3, only Germany has a benign government debt load (60% of GDP). Worries about the US' debt load (>100% of GDP) and Japan's (>200% of GDP) have caused recurrences against the long to ultra-long end. Notably, 30Y US yields briefly poked above 5% and came within this cycle's high of 5.17%. Meanwhile, there has been a relentless shift higher in ultra-long end JGB yields. Bund yields have been buoyant, but we think that investors are pricing in a more optimistic economic outlook rather than factoring in a higher required rate of return for fiscal laxness.

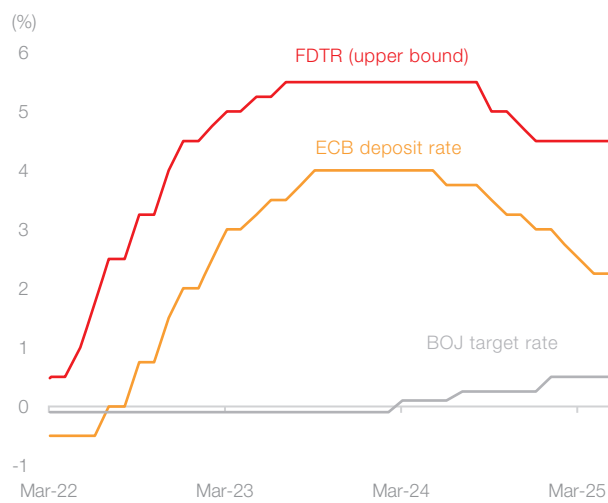
There are several watchpoints. In the US, the non-partisan CBO has indicated that Trump's tariffs (if kept at current levels and without considering second order impact) could bring in USD2.8tn over the coming ten years, offsetting the extra USD2.4tn in spending that would come from extending the TCJA. This should perhaps ease some concerns on US debt at the margin but probably means that tariffs would have to remain at fairly high levels. It is not clear how much of Trump's Big Beautiful Bill would pass. The public spat between Trump and Musk suggests vastly differing views at the administration. In the short term, at least, there is some hope that a compromise might be reached and the final bill that Trump gets to sign would be more restrained on the spending side. Monetary authorities/governments can also take some steps to cushion bond market

volatility, including increasing bond buybacks (the Fed did it) or rejigging issuances away from the longer tenors (the MOF is mulling this while the UK has already done it). However, these steps only provide temporary relief. Investors need to regain confidence that DMs have their budget under control.

Second, economic dynamics are shifting. The growth outlook is generally challenging across the DM amid the trade war. Despite the resilience of NFP, we think that doubts about the US economy's strength would remain. A stronger case could be made for further calibrated cuts with US inflation surprisingly well behaved thus far. Bets on rate cuts would probably keep a bid on front-end USTs. Meanwhile, the ECB has been steadily cutting rates, but with the policy rate already at 2% (at neutral), Lagarde has indicated that there may not be much room to ease further. In any case, if the tariff war stays as-is and fiscal spending kicks back in, the outlook for the Eurozone may turn more positive. Lastly, the BOJ is still facing considerable inflation pressures and is therefore incentivised to further normalise policy settings. However, the volatility of the yen and gyrations in the ultra-long tenors means a quicker rate hike path is difficult.

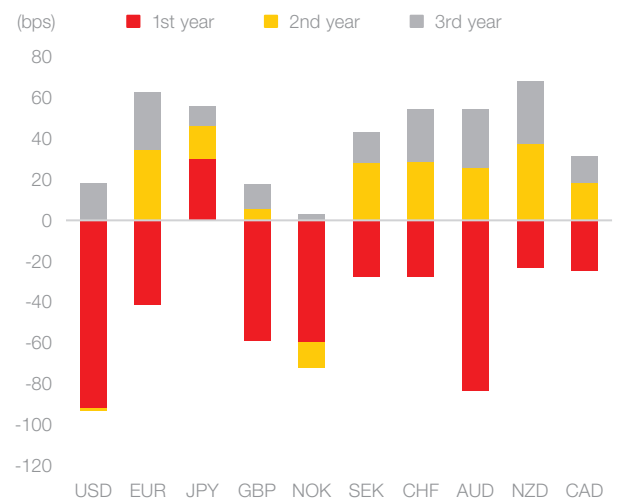
The upshot is that the Fed and ECB are likely to shift gears. After the extended pause, we see the Fed cutting 50 bps in 2H with the market likely to demand more in 2026. The ECB may be close to done (if not already done) for the time being. Meanwhile, the BOJ remains on the slow tightening path. We see a decent chance that US yields would shift lower in the coming few months as market participants mull a US economic slowdown, further steepening the curve in the process. Meanwhile, we think EUR rates would be somewhat more buoyant. Lastly, the JGB curve may be due for some flattening pressures amid ongoing BOJ tightening and a potential tilt in issuances away from the long end, into the short tenors.

Differing monetary stances across the G3



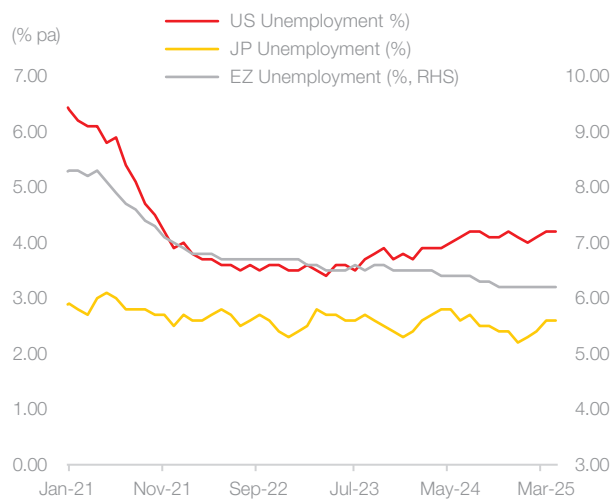
Source: Bloomberg, DBS

Market sees the Fed as the most dovish



Source: Bloomberg, DBS

Labour market still stable across the G3



Source: Bloomberg, DBS

Steepening pressures kicking in



Source: Bloomberg, DBS

Asia Rates

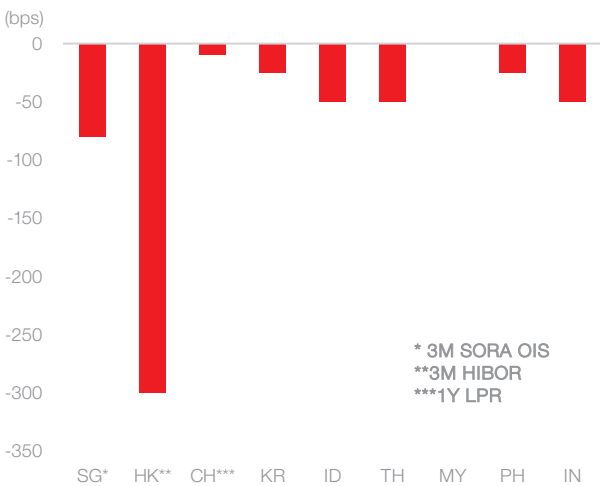
CNY rates: Limited upside in CGB yields

The onshore CGB yields are expected to stay steady after the promising trade talks. While recent data print surprised on the upside, investors are not comfortable with the cloudy growth outlook. First, exports growth could ease after the 90-day truce. Contracting imports reflect softer demand for intermediate goods as manufacturers brace for weaker orders. Second, subdued investment sentiment is evidenced by the sharp divergence between robust government bond issuance and soft private credit growth. Household sentiment is also under pressure from weak job prospects, declining income growth, and the negative wealth effect from the property market. Third, the deterioration in credit demand can be partly attributed to elevated real interest rates. Tariff driven overcapacity and front-

loading will weigh on producer prices. For instance, we note a diverging trend between rising automobile production and investment vs tepid domestic sales and exports. Auto PPI thus underperforms the already deflating headline PPI.

Further easing is warranted. After the recent cuts, we expect an additional 20 bps cut in the 1Y LPR and a 50 bps reduction in the RRR in 2H. These could keep CGB yields in check. More importantly, incremental liquidity could flow into the fixed income market in the midst of weak credit demand. The share of bond investment within financial institutions’ portfolio stays with its march. China’s bond market also received the strongest inflow amongst Asia EM peers since the Two Sessions in March, especially after the announcement of the rate cut on 7 May.

Change in policy rates YTD



Source: Bloomberg, DBS

Change in 10Y Government Bond Yields YTD



Source: Bloomberg, DBS

IDR rates: Rate cut and fiscal developments

IndoGB yields are expected to fall moderately.

Domestically, easing growth momentum (we have downgraded our growth forecast to 4.8% this year, compared to 5% previously) and contained CPI calls for further monetary easing. While this was constrained previously, USD weakness should allow for another 50 bps cut in 2H25. Liquidity conditions have also become much more flush with recent SRBI auctions showing low rates despite an increase in auction sizes. While fiscal slippage is a concern keeping the curve steep, we suspect that investors would be willing to reach for yield in this environment. IndoGB yield differential against USTs will also likely compress further.

INR rates: Compressing IGB-UST spreads

Demand for India bonds has been recovering steadily since the third week after the US' "Liberation Day." Equity markets have also seen net foreign inflows. India's favorable fiscal position, easing inflation, a lower terminal repo rate, and inflows from the "China+1 Strategy" are the key catalysts. On the fiscal front, the February budget set a central government deficit estimate of 4.8% and 4.4% of GDP for FY25 and FY26, respectively. RBI's dividend transfer further supports IGBs, providing a cushion of +0.12% of GDP to the fiscal deficit.

Against this backdrop, liquidity conditions appear to be easing. The RBI has injected net INR5tn YTD, and cut the benchmarked rate by 50 bps surprisingly earlier on 13 Jun. The spread between overnight MIBOR and the policy repo rate has fallen below zero. Finally, still-elevated US tariffs on Chinese imports are inducing FDI inflows.

Strategy-wise, a further grind lower in short end yields may be possible under benign global conditions. However, the largest part of the adjustment may be largely done as further RBI easing requires weak data. Second, we think that there may be interest to extend duration out to 10Y segment. The yield pickup would likely prove enticing to investors in a weak USD environment.

KRW rates: Rate cuts and ongoing fiscal spending

The KTB curve steepened on the back of monetary easing and expectations of increased long-end KTB supply post elections. The supplementary budget plan, along with potential welfare spending under the new government, points to a much more aggressive fiscal stance as political uncertainties/gridlock gets put behind. That said, the selloff in KTB is orderly as market participants are not overly concerned about the debt load. Instead there is arguably more optimism about Korea, especially when we look at the performance of the won. We think that investor interest will return to the long end after the recent yield adjustment.

MYR rates: Outperforming MGS as door for first cut opens

A prospective easing cycle by BNM should support long MGS positions. Asia central banks are already on course with rate cuts since 2024, and BNM has just opened the door for looser monetary policy. Despite holding its OPR at 3.00% on 8 May, BNM provided a more downbeat economic growth outlook, alongside slashing the statutory reserve requirement ratio by 100 bps, which will inject c.MYR19bn worth of liquidity into the banking system. Rising global risks from escalating trade tensions are negative for Malaysia's export-oriented sectors and the economy is set to miss its current official 2025 growth projection of 4.5-5.5%. Steepening will at play as investors bet on the start of the rate cut cycle.

PHP rates: Reaching terminal rate in 3Q25

The BSP is on course with its rate cuts. Another 50 bps cut is likely, bringing the benchmark overnight repo rate to its terminal level of 5.00% by the end of 3Q25. Including the previous 100 bps in cuts, the BSP will have reduced the policy rate by a total of 200 bps since mid-2024. While previous reciprocal tariffs on the Philippines were relatively low at 17%, a potential trade war renewal poses risks to the external sector. The US accounted for over 15% of the country's exports in 2024. Potential spillover effects on the domestic economy and labour market warrant concern. On the monetary front, rapidly decelerating CPI inflation, which fell from 8.7% in early 2023 to 1.4% in Apr 2025, allows further rate cuts. At this juncture, the real interest rate remains restrictive at 4.1%. Short-end Philippine government bond yields will see more notable downward pressure, and the spread against UST yields should compress.

SGD rates: Widening discount vs USD rates

The discount of SGD rates vs USD rates has been widening since the start of the year. In the front of the curve, SORA fixings have been grinding lower even as the Fed stayed on hold and the MAS flattened the SGD NEER slope. At the start of the year, it was flush SGD liquidity that drove SGD rates lower. This was exacerbated over the past two months as confidence in USD assets eroded amid the tariff war and large US fiscal deficits. In the rates space, it meant that a premium had to be built into USD interest rates. Simultaneously, there are more flows into SGD assets as investors rebalance away from the USD. Accordingly, SGD rates are likely to maintain a sizable discount to USD rates with USD weakness being a more important driver for relative value than the slope of the SGD NEER.

THB rates: Domestic and external headwinds call for cuts

Downside risks on THB rates are emerging. The BOT unexpectedly cut its policy rate by 25 bps to 2% during its first meeting of 2025. The downside growth risks and subdued inflation call for further easing ahead. The potential reciprocal tariffs by the US could also dent Thai exports performance. Note that the US accounted for almost 20% of Thailand's goods exports, and Thailand is the US' 11th largest goods trade deficit partner. Meanwhile, tight financial conditions from credit deterioration also prompted the BOT to ease rates. Lower interest rates and weaker THB could support the recovery of inbound tourism. We expect the BOT to cut the benchmark rate by another 25 bps to 1.75% in 2025. Outstanding government bonds increased by THB199bn between Jun and Dec 2024. Strategy-wise, Thai government bonds yields will likely fall further with steepening as the core theme.

Rates forecasts

		2025				2026			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
US	3M SOFR OIS	4.29	4.38	4.13	3.88	3.63	3.38	3.38	3.38
	2Y	3.89	3.90	3.80	3.70	3.65	3.65	3.65	3.65
	10Y	4.21	4.20	4.20	4.50	4.60	4.70	4.75	4.80
	10Y-2Y	33	30	40	80	95	105	110	115
Japan	3M TIBOR	0.82	0.65	0.65	0.90	0.90	0.90	1.05	1.15
	2Y	0.86	0.65	0.70	0.90	1.00	1.00	1.10	1.10
	10Y	1.51	1.25	1.35	1.50	1.60	1.60	1.70	1.70
	10Y-2Y	65	60	65	60	60	60	60	60
Eurozone	3M EURIBOR	2.33	2.20	1.95	1.95	1.95	1.95	1.95	1.95
	2Y	2.05	1.90	1.90	1.95	2.00	2.10	2.20	2.25
	10Y	2.74	2.60	2.60	2.70	2.80	2.90	3.00	3.00
	10Y-2Y	69	70	70	75	80	80	80	75
Indonesia	3M JIBOR	6.68	6.35	6.10	5.85	5.85	5.85	5.85	5.85
	2Y	6.69	6.25	6.10	6.10	6.10	6.15	6.15	6.15
	10Y	7.00	6.75	6.70	6.65	6.65	6.65	6.65	6.65
	10Y-2Y	31	50	60	55	55	50	50	50
Malaysia	3M KLIBOR	3.66	3.50	3.25	3.00	3.00	3.00	3.00	3.00
	3Y	3.38	3.10	2.90	2.70	2.70	2.70	2.70	2.70
	10Y	3.77	3.50	3.40	3.30	3.30	3.30	3.30	3.30
	10Y-3Y	39	40	50	60	60	60	60	60
Philippines	3M NDF implied yield	4.99	5.00	4.75	4.75	4.75	4.75	4.75	4.75
	2Y	5.71	5.50	5.25	5.25	5.25	5.25	5.25	5.25
	10Y	6.21	6.00	5.80	5.85	5.90	5.90	5.90	5.90
	10Y-2Y	50	50	55	60	65	65	65	65
Singapore	3M SORA OIS	2.36	2.10	2.05	2.00	1.97	1.95	1.95	1.95
	2Y	2.50	1.90	1.80	1.80	1.85	1.90	1.90	1.90
	10Y	2.69	2.40	2.50	2.50	2.50	2.50	2.50	2.50
	10Y-2Y	19	50	70	70	65	60	60	60

Units -
Interest rates: %, eop
Interest rates spreads (10Y-2Y / 10Y-3Y): bps, eop
*swap rates

Source: CEIC, Bloomberg, DBS

		2025				2026			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Thailand	3M BIBOR	2.15	1.90	1.65	1.65	1.65	1.40	1.40	1.40
	2Y	1.76	1.55	1.45	1.45	1.25	1.15	1.15	1.15
	10Y	2.05	1.85	1.80	1.80	1.65	1.60	1.60	1.60
	10Y-2Y	29	30	35	35	40	45	45	45
Mainland China	1Y LPR	3.10	3.00	2.90	2.80	2.80	2.55	2.55	2.55
	2Y	1.51	1.40	1.30	1.20	1.10	1.00	1.00	1.00
	10Y	1.81	1.65	1.50	1.50	1.45	1.40	1.40	1.40
	10Y-2Y	30	25	20	30	35	40	40	40
Hong Kong, SAR	3M HIBOR	3.88	2.80	2.55	2.30	2.05	1.80	1.80	1.80
	2Y*	3.42	2.80	2.70	2.60	2.55	2.55	2.55	2.55
	10Y*	3.42	3.10	3.10	3.40	3.50	3.60	3.65	3.70
	10Y-2Y	0	30	40	80	95	105	110	115
Korea	3M CD	2.84	2.60	2.35	2.35	2.35	2.35	2.35	2.35
	3Y	2.56	2.30	2.10	2.10	2.20	2.30	2.30	2.30
	10Y	2.77	2.60	2.50	2.50	2.60	2.70	2.70	2.80
	10Y-3Y	21	30	40	40	40	40	40	50
India	3M MIBOR	7.29	6.65	6.45	6.45	6.45	6.45	6.45	6.45
	2Y	6.42	5.60	5.50	5.45	5.40	5.40	5.35	5.35
	10Y	6.58	6.10	6.00	5.95	5.90	5.90	5.90	5.90
	10Y-2Y	16	50	50	50	50	50	55	55

Units -
Interest rates: %, eop
Interest rates spreads (10Y-2Y / 10Y-3Y): bps, eop
*swap rates

Source: CEIC, Bloomberg, DBS

Stagflation Resistant Bonds

Global Credit
3Q25

Trump's paradigm-changing policies require out-of-the-box considerations. We recommend that investors look at stagflation-resistant bonds such as TIPS, capital securities, and short duration credit. Stay up in quality with A/BBB. Investors must time entry points for longer duration given the elevated rates volatility.



08. Global Credit.

Daryl Ho, CFA
Strategist

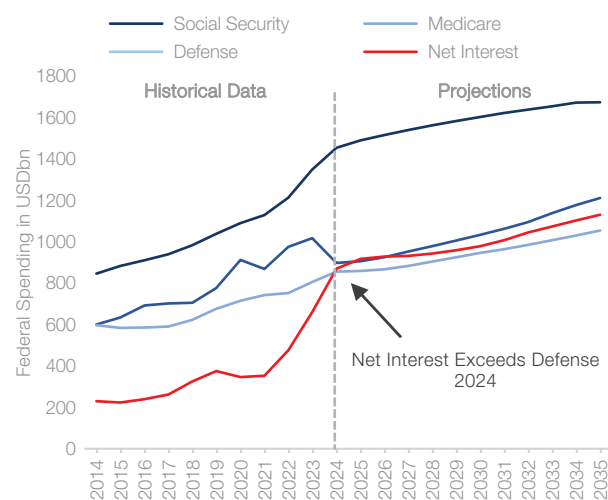
Elijah Tan, PhD
Analyst

Weeks where decades happen. The image of President Trump holding up a giant smorgasbord of reciprocal tariffs on 2 Apr 2025 would likely feature in future history books as the day the American-led global order came to an end. For many investors, “Liberation Day” was a foretaste of the next four years under President Trump – a man who epitomises VUCA (volatility, uncertainty, complexity, ambiguity) but had somehow been given access to the most influential position in the modern world. If the movements of risk assets in 2Q25 alone were anything to go by, investors are certainly wondering how they would ever make it to 4Q28 with their portfolios in one piece.

Making sense of madness. It is becoming evident that staying ahead of this volatility involves understanding the seemingly whimsical approach that President Trump has in implementing his “America first” policies. Yet, how can one distil rationality from what seems to be Richard Nixon’s “madman theory” on steroids? Short of installing Elon Musk’s Neuralink technology in Donald Trump’s brain, we find that the next best solution is to study the thoughts of the policymakers in his administration – those who have postulated the ills of America’s decline and their prescriptions of bitter pills that the world needs to swallow to “right the imbalances”.

Fortunately (maybe not) for us, there exists a “User’s guide” on how they think the global trading system needs to be restructured – written by the current chair of the council of economic advisors to the Trump administration, Stephen Miran. While this paper was written back in 2024, it describes in vivid detail the policies that have come to light in 2025. The gist of Miran’s diagnosis is highlighted in the paragraphs of “problem” and “solution” as follows:

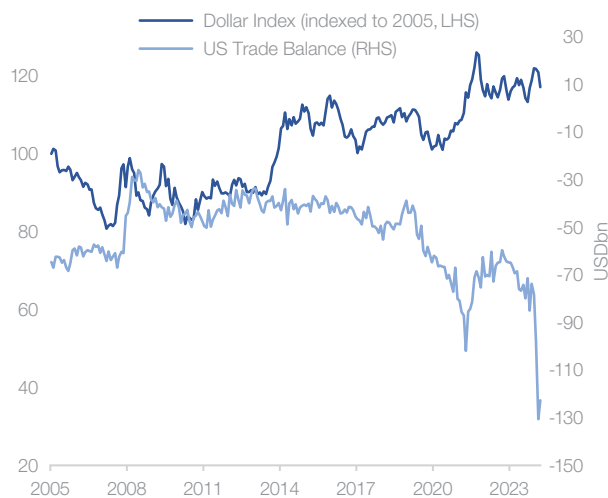
America can no longer afford the global defense umbrella



Source: Congressional Budget Office, DBS

The problem – America’s “charity”. The world has seen unprecedented prosperity under the American-led global free trade system since World War II. This, however, was enabled only by America’s provision of what economists’ call “global public goods,” for the entire world. Firstly, the US has provided a defence umbrella for peaceful trade to flourish. Secondly, the US has provided a stable reserve asset in the dollar and treasury securities that facilitate both trading and savings, even for non-Americans. Both provisions have perhaps reached the point of non-viability as at end-2023, with the US having “exported” such eye-watering amounts of Treasury debt that credit risk has emerged in the risk-free reserve asset, resulting in the downgrade of its credit ratings from AAA to AA+. Moreover, this gargantuan debt – on the back of an aggressive rate hiking cycle – has seen the US government’s net interest expenses exceed its defence budget, threatening its continued provision

Deficit nations generally do not see strong currencies – the US being the only exception

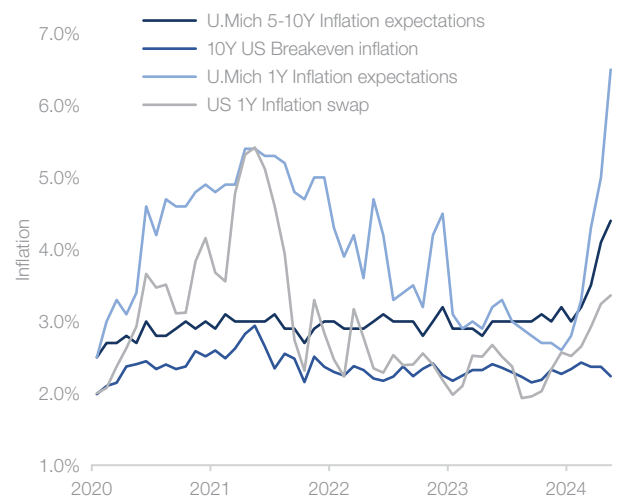


Source: Bloomberg, DBS

of said defence umbrella. Reserve demand for the dollar has also led to its persistent overvaluation against fundamentals, resulting in unsustainable trade deficits, the hollowing out of US manufacturing and the loss of US industrial capacity to its geopolitical adversaries.

The solution – Tax Americana. Miran postulates that it's time for the world to pay its dues. While the focus of Tariffs 1.0 was to rectify trade imbalances and unfair business practices against surplus nations, the world was caught off-guard by the severity of Tariffs 2.0 because it seemed almost indiscriminate. What they had not anticipated, was that tariffs have now come not just as a tool of trade negotiation, but also as a tax for utilising the dual provisions of the US defence umbrella and the global reserve currency. This is why it was imposed as a universal tariff – levied against even the Heard and McDonald Islands which are purportedly inhabited only by penguins. It

The fight against inflation has taken a dramatic turn



Source: Bloomberg, DBS

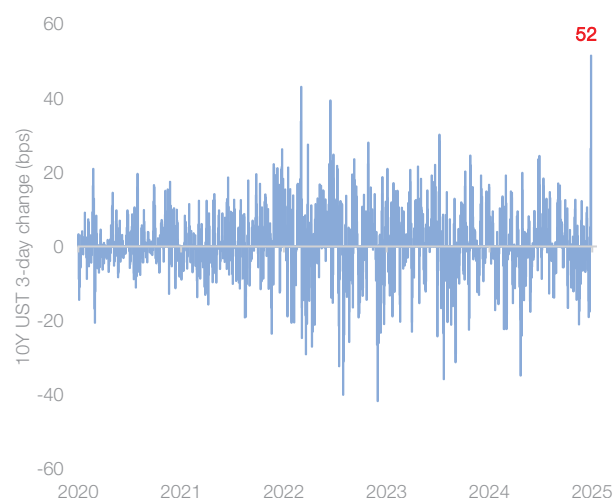
is essentially a tax for the “public goods” that the US no longer wishes to foot the bill for. Investors who think that such tariffs are merely a negotiating tool that would disappear after favourable negotiations would likely find themselves quite disappointed at the end of the 90-day pause.

What about the inflationary implications of tariffs? To counter the inflationary impact of universal tariffs, the US would pursue three parallel courses of action, including (a) increasing US oil production to 3mn barrels/day to bring down crude prices, (b) deregulating the private sector to increase productivity and boosting real GDP growth to 3%, and (c) fiscal tightening of the budget deficit to -3% of GDP to reduce the growth impulse – essentially Treasury secretary Bessent's 3/3/3 rule. The net effect of moderating growth and inflationary pressure would then provide cover for the Fed to cut rates and bring down the near USD1tn that the US pays annually in interest on its debt.

Hypothesis becomes reality. If all this sounds familiar, it's because some of these mechanisms were described in our [2Q25 Global Credit piece – Why Trump needs lower yields](#). To recap, in order to mitigate the ills of fiscal dominance (a phenomenon where deficits surpass private sector lending and/or monetary policy in driving economic activity), the Trump administration needed to pivot from an easy fiscal/tight monetary to a tight fiscal/easy monetary policy – delivering concessionary fiscal cutbacks (and now, universal tariffs) to cool the economy and pave the way for lower rates as the private sector takes the reins of economic growth from the government sector. What we did not anticipate was that (a) the dollar would weaken so dramatically under tariffs, and that (b) there would be an aggressive flight from US assets, exemplified by the rapid selloff in UST yields in the week following “Liberation Day”.

Trump administration did not anticipate weak USD and yield spike. We believe that the Trump administration was just as surprised by this market

The 10Y UST yield spike in April was extremely unusual



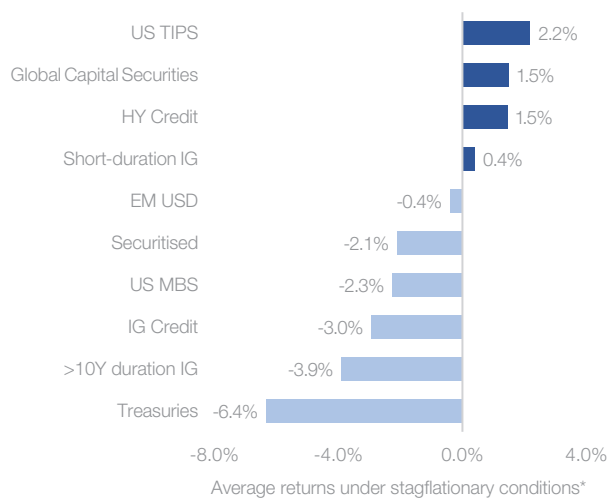
Source: Bloomberg, DBS

reaction, given that they had also anticipated trade partners to weaken their currencies against the dollar (as was observed in the 2018-2019 trade tensions). It is no coincidence that President Trump gave a 90-day reprieve on tariffs right after highlighting that he saw the bond markets “getting a little queasy”. There is a “Trump put” on the bond markets after all – seemingly with US 10Y yields at c.4.5% – as even he is not willing to see an irreversible exodus from the global reserve asset.

Bond investors stuck between a rock and a hard place. For fixed income investors looking for dependability, the unstable equilibrium that the world finds itself in is most unnerving. Even the time-tested reading of the tea leaves of monetary policy forward guidance leaves little clues; how does a central bank react under the great dilemma of (a) potential growth slowing from tariff uncertainty and (b) rising inflation expectations from the very same tariffs? The Fed has emphasised data dependence for now, but that offers no consolation; the intersection of tariffs, weaker USD, lower oil prices, deregulation, fiscal tightening, and business uncertainty likely portends volatile m/m CPI prints henceforth. Nonetheless, stagflation risks have certainly risen under Trump’s tariff agenda, implying that fixed income investors need to bolster their portfolios with stagflation-resistant bonds to weather the storm.

Stagflation fighters. We ran an analysis on how the spectrum of fixed income assets performed under stagflationary conditions, which we have defined as periods where inflation expectations exceeded 2.3% and growth expectations fell below 1%. While we expected poor performances across the board, we were pleasantly surprised that there are four segments that have shown resilience in stagflation, three of which we think are worth highlighting.

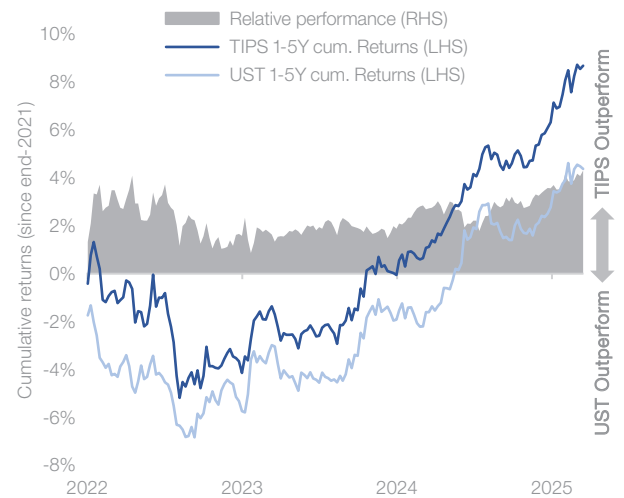
Looking for stagflation-resistant bond expressions



Source: Bloomberg, DBS

*Note: Stagflation conditions defined as periods where inflation expectations > 2.3% and growth expectations < 1%

TIPS have outperformed treasuries as inflation surprises on the upside



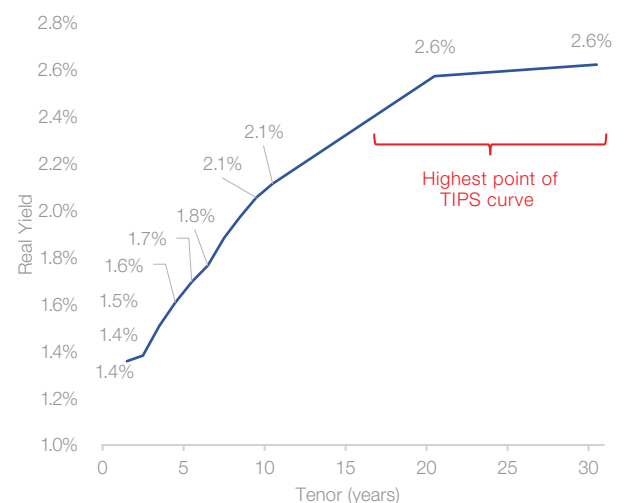
Source: Bloomberg, DBS

1. US Treasury inflation-protected securities (TIPS)

TIPS are government-backed securities issued with maturities of 5, 10, and 30 years, with coupons paid semi-annually. The security functions like a bond in essence, except for the use of an index ratio to adjust the principal and coupon payment to match the rate of inflation. These securities are unique given that they excel under conditions of lower growth and higher inflation, the very conditions that precipitate from Trump's erratic tariff policies.

Real yields at a tipping point. As the Fed maintains a bias for lower rates, we believe that real yields have plateaued and could see support when the Fed eventually resumes a rate cutting cycle. Moreover, the higher prices from tariffs would be factored into

Long duration TIPS look attractive



Source: Bloomberg, DBS

both the principal and coupon of TIPS, protecting fixed income investors from dreaded inflationary headwinds.

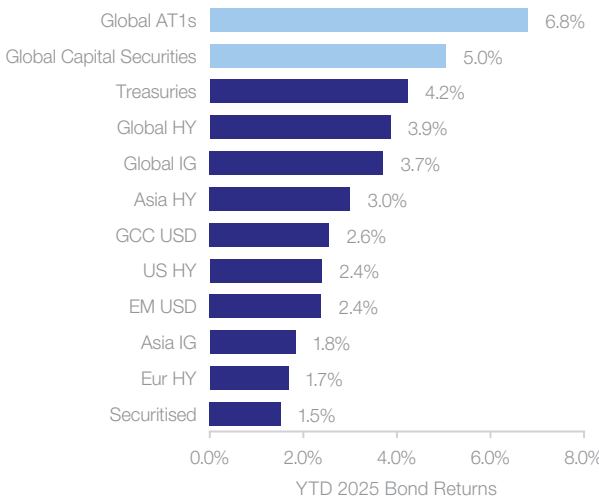
Ultra-long duration TIPS look attractive. For all our caution on duration, TIPS is one instrument that we have a favourable long duration view, given that the TIPS curve is very steep; investors are adequately compensated for going long. Given the level of indebtedness in the US, it makes little sense for debt sustainability if real yields remained positive for the very long term. Also, this is one debt instrument that the US cannot “inflate away”, given that the principal adjusts with inflation.

By extension, seeing as the creditworthiness of US debt has been called into question with the recent Moody’s downgrade, we advocate for investors who have a government bond allocation to go for “government+” allocations – securities like TIPS described above and MBS (that provides a spread cushion over treasuries) that are (a) also backed by the government but (b) still provide diversification and alpha over traditional nominal treasury bonds.

2. Bank capital securities (AT1)

We have remained positive on bank capital securities for several years now, and the thesis remains intact. The steepening of yield curves under tariffs also implies that the cost of bank liabilities (deposits, influenced by the short end) is now lower than the returns on bank assets (loans, influenced by the longer end). As such, bank profitability is likely to remain resilient. One potential risk is that a steeper-than-anticipated downturn in growth could see rising NPLs, but we believe that banks are defensively positioned and have made adequate provisions.

Bank capital securities are the best performers YTD 2025



Source: Bloomberg, DBS

Tier 1 capital ratios remain healthy in the 16-17% range – far above regulatory requirements. It comes as no surprise that this segment remains the top performing fixed income market for 2025 to date.

3. Short-duration credit (Liquid+ strategy)

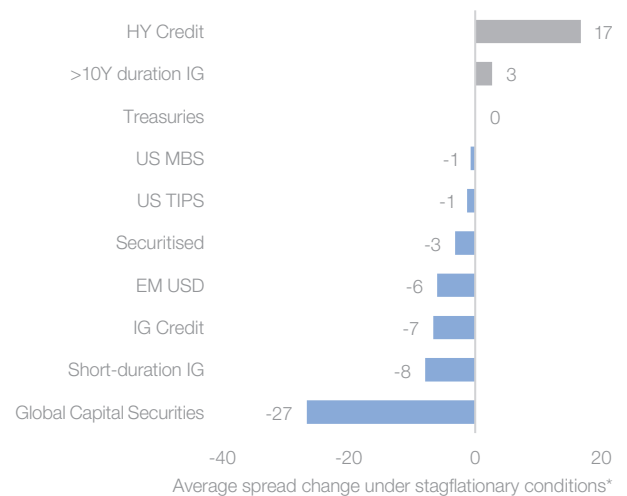
We proposed that short-duration high quality credit would be a viable alternative for cash – expressed in our Liquid+ strategy – which has shown steady performance with low volatility despite having to navigate several significant risks over the last three years. Moreover, the Liquid+ strategy has shown outperformance over cash ever since the Fed pivoted to a cutting cycle in mid-2024. We think that the strategy would continue to hold up against the tariff uncertainty, given its tested resilience even amid stagflationary conditions.

Liquid+ strategy remains a strong cash alternative



Source: Bloomberg, DBS

HY and long-duration spreads are most at risk under stagflation



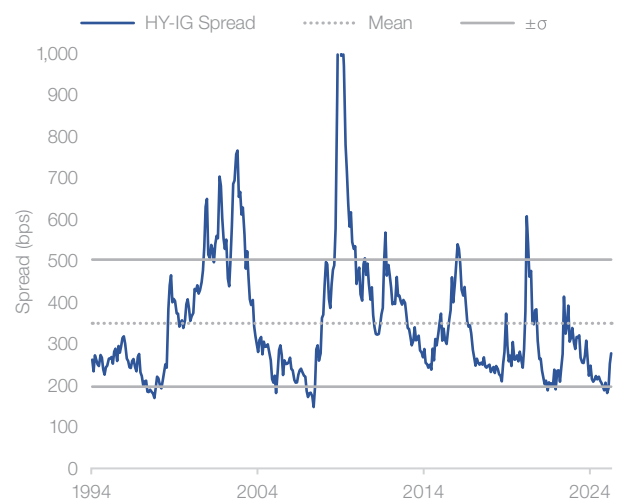
Source: Bloomberg, DBS

*Note: Stagflation conditions defined as periods where inflation expectations > 2.3% and growth expectations < 1%

Lower conviction with HY credit. While HY performance was commendable under stagflation, a deeper dive reveals that risks of spread widening remains high – a risk that is more acute given that HY spread valuations remain on the tighter end of its longer term levels. As such, investors in HY should remain up in quality in the BB bucket to mitigate risks of credit events and defaults.

In summary, we think that fixed income investors should be prepared for stagflationary outcomes. Stay up in quality with A/BBB credit, and only make selective picks in the better quality HY BB segment in the 1–3Y duration segment. While we like the 2–3Y (Liquid+ strategy) segment, we continue to

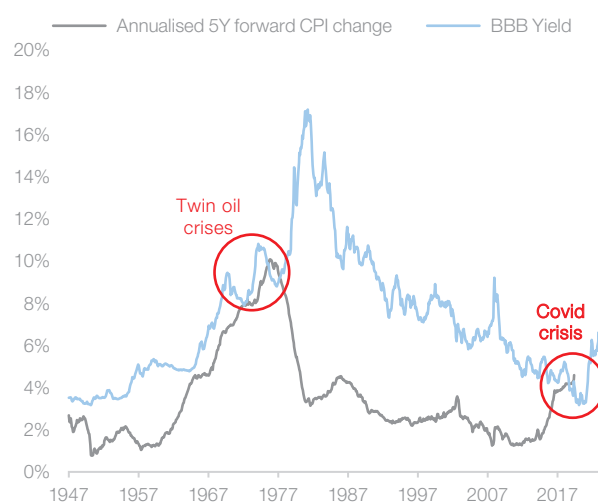
HY spread over IG remains tight against historical levels



Source: Bloomberg, DBS

think that a duration barbell approach with 7-10Y IG credit remains sensible. However, given the long end volatility, investors should time the opportunities when extending duration – picking entry points when 10Y UST goes beyond 4.5%; knowing that these are levels of discomfort for policymakers which would result in actions to bring down yields. While we generally discourage investors from timing the market, we think that staying nimble to capture opportunities is now just as important in navigating an uncertain rates and inflation outlook. Nonetheless, over the very long term, there were only two cases where BBB credit yields underperformed inflation in a subsequent five-year period (the 1970s oil crisis and the 2020s Covid crisis); bond investors can take comfort that time in the market beats inflation in most other scenarios.

Credit has generally outperformed inflation in the long term



Source: Bloomberg, DBS



Source: Unsplash

A Weaker USD Trajectory

Global Currencies
3Q25

Weaker USD trajectory to continue as Trump's controversial policy-making style has eroded confidence in USD assets. Alternative safe haven currencies will be primary beneficiaries.

09. Global Currencies.

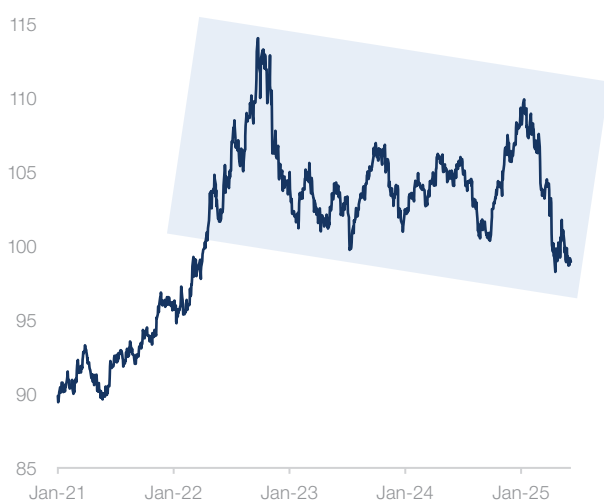
Terence Wu
Strategist

Carie Li
Strategist

FX in review. Going into 2Q25, we hinted at potential USD weakness that may overflow into the quarter, citing pockets of US data weakness and the reframing of tariffs as a growth risk. At that time, we thought it too early to abandon the bullish-USD view. The USD still enjoyed a sizable yield differential advantage, and the threat of a risk-off tilt was thought to be a potential USD-positive. Instead, the USD-negative drivers have gathered momentum throughout 2Q, and have dominated the FX narrative since.

Tariff headlines drive near-term volatility. Twists and turns in the trade environment dominate the headlines, and the FX space remains highly reactive on this front. Any development that reduces the tariff threat is likely to impart a USD-positive impetus. For example, the commencement of trade talks between the US and other countries –following the 90-day delay in reciprocal tariffs – led to a USD run-up off lows from late-Apr to its recent peak in mid-May.

Structural downtrend of the DXY index



Source: Bloomberg, DBS

The USD also bounced immediately after the US Court of International Trade ruled against the fentanyl-related tariffs and reciprocal tariffs on 28 May. However, these USD-positives will be modest at best – the Apr-May run-up in the DXY Index does not materially alter its medium technical picture, while the 28 May bounce also quickly faded.

A quick word on the legal aspects of the US tariffs. Some observers were hopeful that the judicial branch could rein in their executive counterpart on tariff matters, taking heart from the 28 May court ruling. However, that hope may be misguided. For one, the ruling only applies to tariffs imposed through the 1977 International Emergency Economic Powers Act and not those under the 1974 Trade Act (tariffs imposed on China in 2018) and 1962 Trade Expansion Act (sector-specific tariffs). There are many alternative ways to impose tariffs to a similar effect. In any case, a long-drawn legal process may take months to reach a binding outcome.

The US fiscal situation is a growing market concern. This concern is encapsulated by the sovereign downgrade of the US by Moody's and the One, Big, Beautiful Bill (OBBB). The OBBB seeks to extend and make permanent the 2017 Trump tax cuts. In essence, it represents fiscal expansion at a time where the US deficit and indebtedness are at record highs. While fiscal expansions are usually positive for the respective currency, if debt sustainability becomes a concern, the impact is more likely to be currency-negative. The latter case may play out in the US.

Two underlying themes at work: (1) US growth is moderating relative to the rest of the world. In the medium term, the reversal of US macro

exceptionalism will weigh on the USD. Expectations are now for the previously firmer US growth to normalise towards the slower global average, putting the USD on the defensive. The Fed's forecast for US growth in 2025 has been downgraded from 2.3% y/y in Dec 2024, to 1.7% y/y in Mar 2025, and to 1.4% in Jun 2025.

DBS macroeconomists' forecast was also substantially downgraded on 5 May. The reason why positive tariff headlines are now seen as USD-supportive is that they improve the US growth outlook. However, the factors affecting US growth moderation runs deeper than just the impact of tariffs. Factors such as the tightening of immigration policy and the impending expiry of pandemic-era tax cuts also weigh on US growth. Moreover, even though a rollback of tariffs will help US growth in absolute terms, it may not help in relative terms. It pays to remember that growth in the rest of the world, especially in export-dependent Asia, will also benefit with a rollback of tariffs. Thus, the relative growth gap with the rest of the world may widen even if all/most of the tariffs are reversed.

(2) Investors looking to de-risk from the US. With the Trump administration's controversial style of policymaking, the US may be losing its reputation as a bastion of stability. This encompasses structural issues such as the Fed's independence, the USD's role as a reserve currency, and de-dollarisation. Intuitively, this should be priced in as a USD discount. The global investment community remains heavily long on US assets. The risk is for a secular rebalancing of global asset holdings which necessarily implies a substantial sell-off in US assets and a subsequent repatriation of funds out of the US. A mini version of this was seen in the "Sell America" trade up to early

April. While the immediate fear has receded with the US equity rebound, it will not be fully off the table so long as the mercurial Trump is at the helm.

On balance, a weaker USD trajectory is still the path of least resistance unless there is a perceptible rebound in the US growth outlook on a relative basis, and the market regains confidence in the dollar. Till then, the prime beneficiaries of this round of USD weakness will be USD-alternatives such as the EUR and JPY.

Long EUR is our strongest conviction call. We look for further upside in the EUR, both against the USD and other majors. In absolute terms, the Europeans hold the largest long position in US equities. In terms of the size and depth of the market, the Eurozone may well be the next best alternative to the US. Thus, any resumption of the "Sell America" trade could see sizable repatriation from the US and into Europe. In

EUR-USD remains supported



Source: Bloomberg, DBS

addition, the EUR has a fiscal tailwind supporting it. A fiscal expansion in the Eurozone after decades of fiscal prudence can be seen as a growth driver and should present as a clear EUR-positive. Thus, levels towards 1.1600 (or even higher) in the EUR-USD should not come as a surprise in 3Q25.

The JPY upside is likely, but there are some complications. JPY fares well as a USD-alternative given its status as a haven currency and the relative size of the Japanese financial system. Thus, the JPY may also be a prime beneficiary of this bout of USD weakness. However, this is complicated somewhat by the BOJ's reluctance to commit to a clear path of rate hikes. This is, in turn, a function of needing to keep the JGB market well-behaved, something that is not straightforward as the BOJ tries to ease off its sizable JGB purchases.

In addition, elevated UST yields, traditionally a JPY-negative, also complicates the JPY strength thesis. However, if UST yields are high due to debt sustainability concerns, then this linkage between UST yields and the USD-JPY should rightfully break. Overall, despite the complications, we still lean in favour of JPY strength. Expect the USD-JPY to periodically test the 140.00 – 142.00 support, with occasional breaches not ruled out.

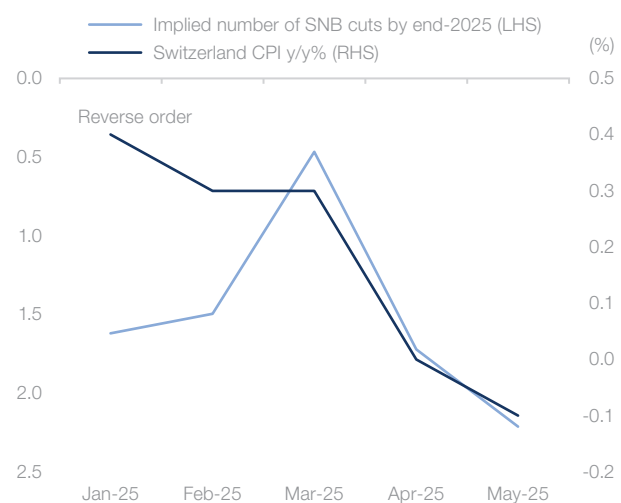
CHF bulls face up against the SNB. In line with the EUR and JPY, the CHF may also benefit as a reserve currency as investors seek to de-risk from the US and USD. However, current inflation dynamics are not favourable to excessive CHF strength. Swiss inflation has dipped back into negative territory in the May 2025 reading. A further strengthening of the CHF will add more deflationary impetus - something that the SNB is unlikely to favour.

Long-end JGB yields are grinding higher



Source: Bloomberg, DBS

Deflation risk and SNB rate cut bets



Source: Bloomberg, DBS

Thus, it is likely that the SNB will use the tools within its disposal to contain the CHF. Note that the SNB has stepped up on its verbal intervention efforts, with Governor Schlegel very explicit in referring to the CHF as having strengthened “too much”. Further policy rate cuts in 2H25 is also likely as the SNB seeks to spur growth and inflation. Direct FX intervention will send the strongest message. It is unlikely to be utilised given the Trump administration’s sensitivity towards such practices, but it will remain an option on the table. Overall, the SNB will be on hand to limit any outsized CHF strength. However, the USD-CHF downside may be driven more from the USD side, where the SNB will have little control. Expect the EUR-CHF to lean from sideways to higher in 3Q25 instead.

The AUD to be supported as a China- and Asia-proxy. We picture an AUD-positive scenario. However, it will be to a lesser extent, and of a different construction compared to the EUR and JPY strength. The AUD is likely to benefit from any further positive progress in the US trade talks with China and other Asian economies. Improvement in trade sentiment will support Chinese growth, which then strengthens the prospects of Australian commodity exports. In addition, the broad-based risk-on sentiment that should follow any trade détente will also be positive for the AUD as a cyclical currency. These AUD-positives will see some offset from the RBA’s dovish tilt and China’s still-sluggish economy. Nonetheless, if we believe that we have seen the worst of Trump tariffs and the worst of the Chinese growth outlook, then there should be better times ahead for the AUD. Overall, expect a slow and choppy grind higher towards 0.6600.

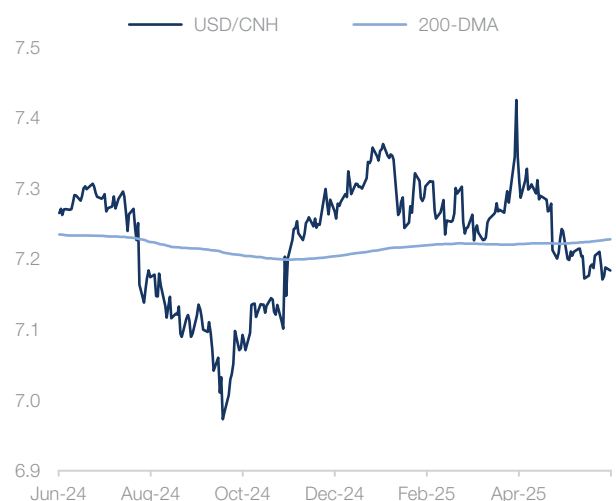
AUD-USD gradually recovers



Source: Bloomberg, DBS

The worst may be over for the RMB... The US-China trade truce, if sustained, can be seen as a turning point for the RMB. It will lift the risk premium imputed on the RMB due to trade tensions, giving China a better chance in reviving its economy. With the USD under pressure, regional exporters may be more willing to sell their USD holdings. Companies that underhedged their USD-dominant assets may be keener to increase the hedging ratio as well. Any rotation out of US assets will also see sizable inflows into Chinese assets. These factors contribute to a more positive RMB outlook. Nevertheless, we are conscious of the PBOC’s reluctance to see outsized RMB strengthening. This implies an element of control in the RMB’s pace of appreciation. Overall, we see that the resistance zone for USD-CNH has shifted lower from 7.26-7.27 to 7.2000-7.2277 (200-DMA). However, USD-CNH downside may also be limited to the 7.1400 – 7.1800 range for now.

USD-CNH to be capped at the 200-DMA



Source: Bloomberg, DBS

... and that also lifts the other Asian currencies.

Apart from a more positive trade and RMB outlook, speculation about currency accords being discussed as part of trade talks between the US and Asian countries, such as South Korea, has added upward pressure on all Asian currencies. While these currency accords are not confirmed, the market is right in partially pricing in additional positives. Nonetheless, we do not expect swift and excessive gains in Asian currencies. Expect the authorities to manage the pace of currency appreciation. Taking cues from the RMB, the gradual appreciation of other Asian currencies is likely to be slow.

USD-SGD within the 1.2800-1.3000 range



Source: Bloomberg, DBS

SGD outperforming even within Asian currencies.

The SGD benefits from the trade dynamics supporting Asian currencies. As a regional safe haven, it also benefits from, albeit to a lesser extent, the rotation out of the USD to the other haven currencies like the JPY and CHF. These drivers have allowed the SGD to outperform. However, this outperformance is likely to slow as SGD strength tests the top end of the MAS policy band. Going forward, downside risks to Singapore's growth outlook and anaemic price pressures will compel the MAS to maintain an easing policy bias. This then implies that the SGD will broadly remain flat against a basket of currencies. Barring a substantial USD capitulation, the 1.2700 – 1.2800 zone is likely to be a firm support for the USD-SGD in the near term. 1.3000 is the key support-turned resistance level, but the pair will need to breach 1.3200 to negate downside bias.

The interesting case of the HKD. Unlike other Asian currencies, the HKD has been one of the few to depreciate against the dollar recently. The peg system has contributed to this difference, as it is designed to keep the USD-HKD within the 7.75–7.85 range through direct HKMA intervention. The HKMA's sizeable total assets (approximately HKD4tn as of March 2025) and the lack of better alternatives mean the peg system will remain intact in the foreseeable future. Should the peg remain stable, the limited upside for the HKD and the relatively low HKD interest rates would likely make the HKD an attractive funding currency.

HIBOR fell to an over two-year low



Source: Bloomberg, DBS

Meanwhile, we expect the USD-HKD forward to outright grind higher in the coming months on the prospect of a narrowing US-HK interest rate gap.

DBS currency forecasts

Exchange rates, eop							
	23-Jun	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
China	7.1789	7.16	7.13	7.10	7.07	7.03	7.00
Hong Kong	7.8500	7.80	7.80	7.79	7.78	7.78	7.77
India	86.753	85.2	85.0	84.9	84.7	84.5	84.3
Indonesia	16,492	16,320	16,230	16,150	16,070	15,980	15,900
Malaysia	4.2948	4.27	4.26	4.24	4.23	4.21	4.20
Philippines	57.613	55.4	55.2	55.0	54.8	54.6	54.4
Singapore	1.2846	1.29	1.28	1.28	1.27	1.27	1.26
South Korea	1,381.3	1,380	1,365	1,350	1,340	1,325	1,310
Thailand	32.746	33.0	32.8	32.6	32.4	32.2	32.0
Vietnam	26,195	25,880	25,850	25,820	25,800	25,770	25,740
Australia	0.6460	0.65	0.66	0.67	0.67	0.68	0.69
Canada	1.3734	1.38	1.38	1.37	1.36	1.35	1.34
Eurozone	1.1578	1.13	1.15	1.16	1.17	1.18	1.20
Japan	146.15	142	140	137	135	132	130
New Zealand	0.5977	0.60	0.61	0.61	0.62	0.63	0.64
Switzerland	0.8127	0.82	0.82	0.81	0.80	0.79	0.78
United Kingdom	1.3524	1.35	1.36	1.38	1.39	1.41	1.42
United States	98.42	99.1	97.8	96.5	95.1	93.8	92.5

Australia, Eurozone, New Zealand, and United Kingdom are direct quotes.

Source: DBS
Data as at 23 Jun 2025



In Limbo

Commodities
3Q25

As tariff deadlines approach and stockpiling behaviour subsides, commodities will see a demand overhang in 2H25. Stay cautious on industrial metals and agricultural commodities amid continued policy uncertainty and macroeconomic weakness.

10. Commodities.

Goh Jun Yong
Strategist

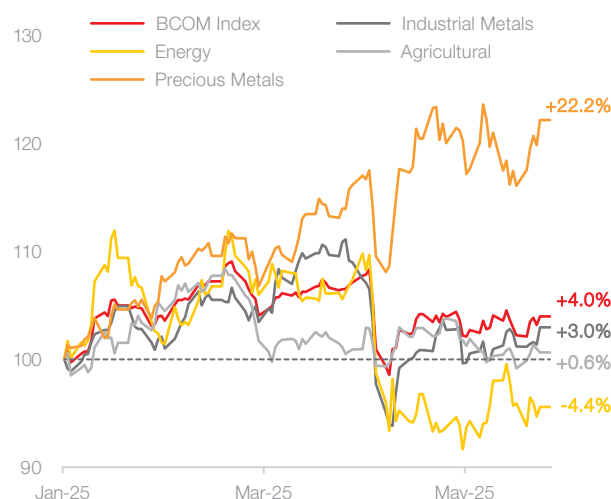
“Liberation Day” affirmed our cautious view.

When we last took stock of the commodities complex in late February, the asset class had surprised on the upside despite the presence of headwinds such as policy uncertainties and macroeconomic weakness. Accordingly, our view was to practise caution due to potential second-order effects from tariffs, and to favour commodities that had a secular rather than cyclical growth story. While not wishing to overstate our foresight, that call has played out to a tee with the events of “Liberation Day” shaking financial markets to their core. Since the reciprocal tariff announcements on 2 Apr, the world has been thrown into heightened volatility, and macroeconomic tail risk has grown significantly.

Waiting for the tariff shoe to drop. Amid the turbulence, commodities gave up some of its first quarter gains. On a YTD basis, performance among sub-sectors continues to be heavily bifurcated with precious metals significantly outperforming (+22.2%) thanks to gold’s stellar rally. On the other hand, industrial metals, agricultural commodities, and energy have struggled, recording YTD performances of, +3.0%, +0.6%, and -4.4% respectively, weighed down by demand worries and recession risk. The fate of commodities in the second half will largely depend on how the tariff situation plays out. All eyes will be on Trump and his administration and where they take tariffs after the 90-day pause on 9 Jul.

A mixed macroeconomic picture. From a manufacturing PMI perspective, US and Europe have been surprisingly resilient. But this is somewhat expected given how: i) the tariff impact has not been

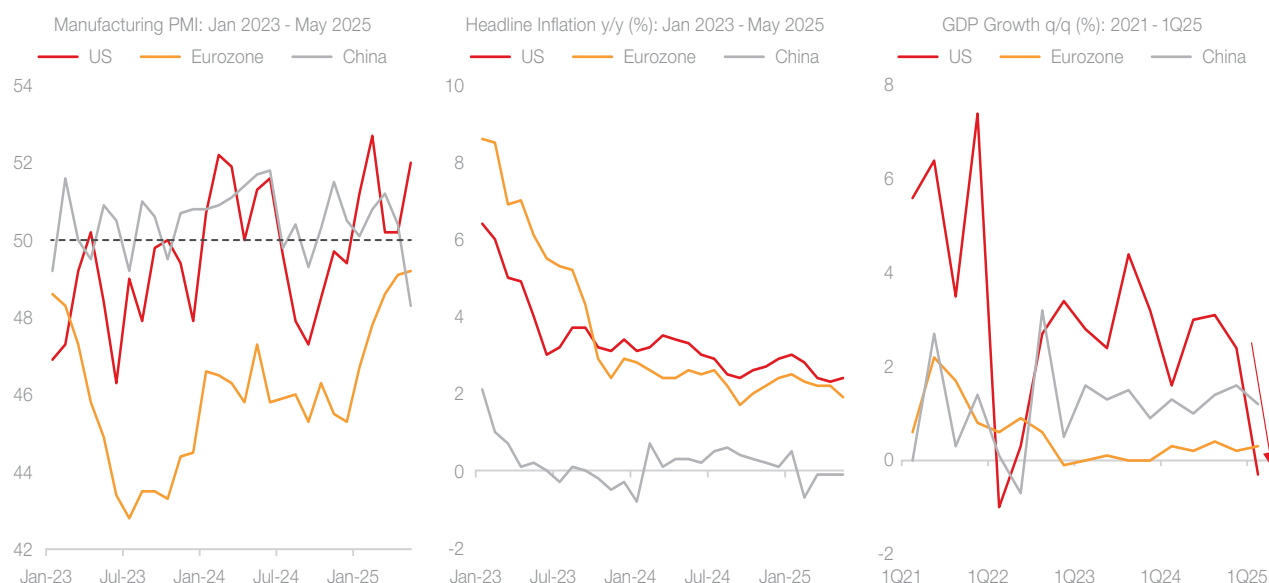
Continued bifurcation of commodity sub-sectors post “Liberation Day”



Source: Bloomberg, DBS
Data as at 26 May 2025

fully factored in due to delays in implementation; and ii) Europe’s fiscal stimulus drive should provide a boost for manufacturing activity in that region. China however, showed a marked decline in manufacturing in May, with PMI falling to 48.3, its lowest level since 3Q22. Inflation continues to reflect slowing economic momentum worldwide: US headline inflation has fallen to +2.3% y/y in April, Europe’s to +2.2% y/y, and China’s to -0.1% y/y. GDP growth remains positive on a y/y basis for all three major regions. But on a q/q basis, there is a marked bifurcation between the US and the rest of the world; the Eurozone recorded a q/q GDP growth of +0.3% in 1Q25 while China expanded its GDP at an annualised rate of +1.2% q/q during the same quarter. The US, however, shrank at an annual pace of -0.3% in 1Q25, a stark change from the +2.4% in the previous quarter.

Slowdown in China PMI and US GDP growth



Source: Bloomberg, DBS
Data as at 21 May 2025

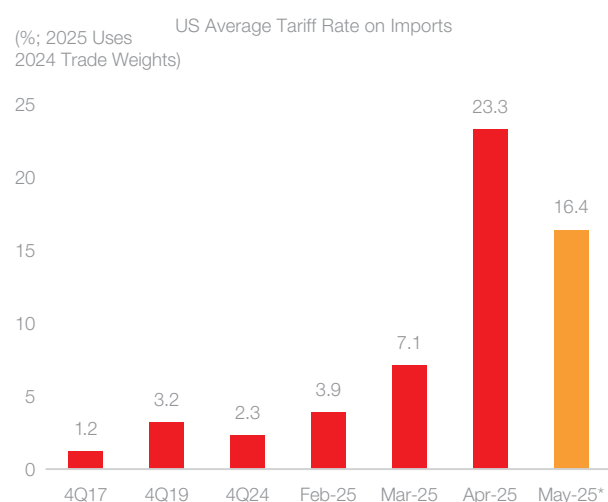
Slowing US growth should be watched closely.

The Bureau of Economic Analysis attributed this sharp drop to an increase in imports, which is classified as a subtraction in the calculation of GDP. The hypothesis is that this increase in imports was due to firms and consumers trying to front-load their purchases before tariffs kicked in. However, this explanation is not entirely convincing. If pre-tariff stockpiling was truly the culprit, the effect on GDP would have been minimal since the act of firms and consumers buying more would have been captured under consumption and investment respectively, cancelling out the effect of rising imports in the calculation of GDP. For now, we can only wait and see if this quarter was an aberration, or if the US is really headed for a material growth slowdown. Outside of the US, economic conditions remain soft; where growth is present, it is at least partially the result of government stimulus.

Industrial metals

Tailwinds from front-loaded demand will eventually fade. Some of the immediate tail risk from tariffs has been mitigated following the 90-day tariff pause agreed between the US and China. In the near term, this development, alongside continued front-loading of Chinese demand ahead of potential tariff reinstatement, is expected to support industrial metal prices. However, depending on how tariff policy evolves after the pause, a significant demand hangover is likely to emerge in the second half of 2025. In fact, Trump's abrupt decision to double Section 232 tariffs on steel and aluminium imports to 50% on 4 Jun could see this overhang develop sooner rather than later. If current tariff levels are maintained beyond the 90-day window, the average US tariff on imports is projected to settle at approximately 16.4%

US-China truce notwithstanding, US tariffs remain at an 88-year high



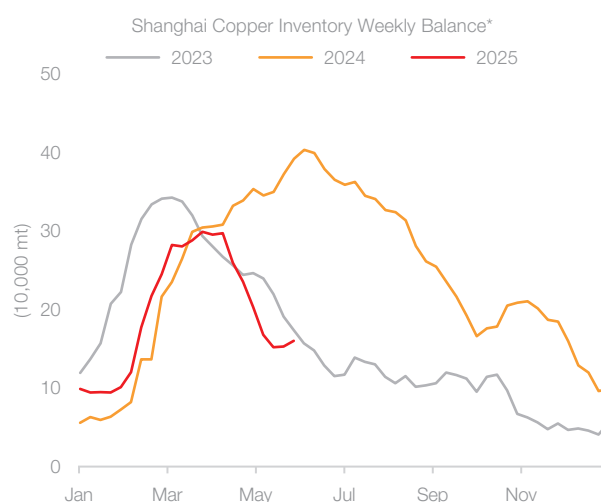
*Post substitution

Source: J.P. Morgan Global Economics, Historical Statistics of the United States Ea424-434, Monthly Treasury Statement, Bureau of Economic Analysis, The Budget Lab analysis

— a reduction from the pre-truce level of 23.3%, but still substantially higher than the 2.3% rate observed in 4Q24. As such, even under a scenario where a formal recession is avoided, we anticipate a material slowdown in economic momentum over the later part of the year.

Copper – tough second half expected. China continues to be the primary driver of copper prices, but its demand has shown sensitivity to elevated price levels, particularly above USD9,500/mt. While Chinese copper inventories remain low, global inventories (after adjusting for increase in US unreported stocks) are rising, with April data showing a 270kt increase YTD – 85kt above the seasonal norm – indicating a broader market surplus despite recent front-loaded demand tied to tariff front-running. Moreover, the approximately 9.6% YTD

Falling China copper inventories don't show the full picture

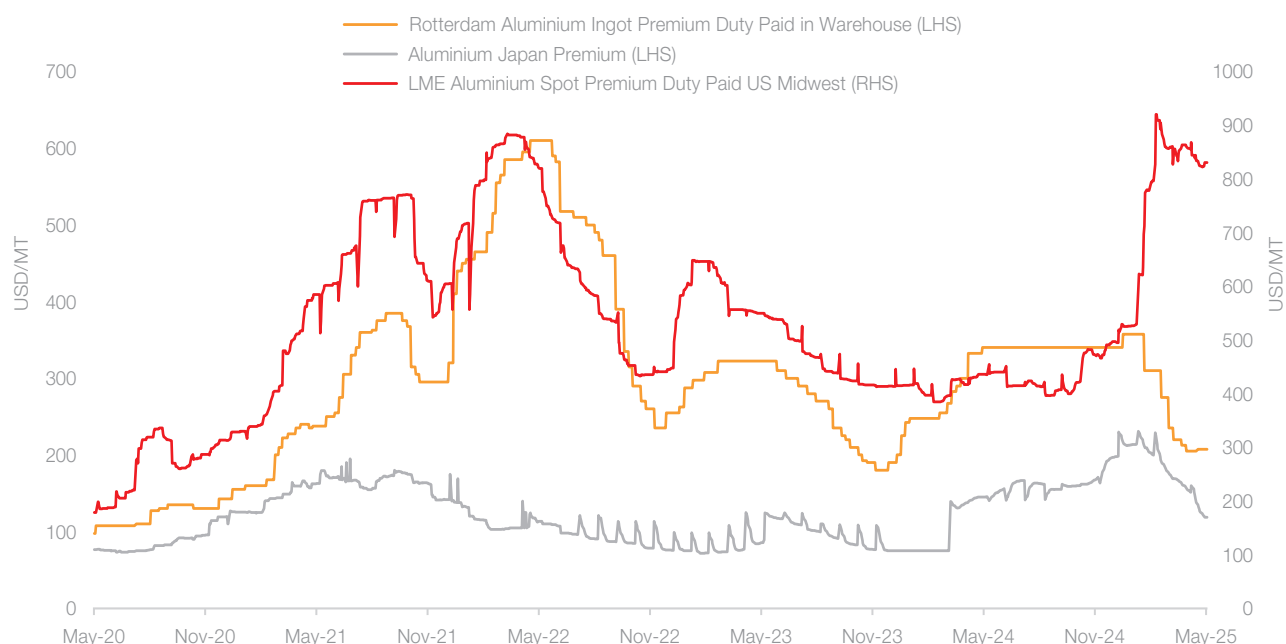


*Consists of both bonded warehouse and social inventory
Source: SMM International, Bloomberg, DBS

increase in copper prices is beginning to weigh on downstream consumption, adding pressure to the demand outlook. Compounding this, widespread market expectations of a 25% Section 232 tariff on US refined copper by mid-2025 are expected to curb the current wave of elevated US imports. This shift would likely redirect supply back to Asia, easing regional tightness and presenting yet another headwind for copper prices in 2H25.

Aluminium – Auto exposure presents downside risks. Aluminium markets have been supported by tight inventories and stronger-than-expected early-year demand, especially from the auto sector, which accounts for almost a quarter of global aluminium demand. Having said that, there is significant downside risk later in the year due to front-loaded demand; S&P's Global Mobility forecast showed a 1.3% y/y increase in global automobile production

Aluminium premiums have fallen in Asia and Europe



Source: Bloomberg, DBS

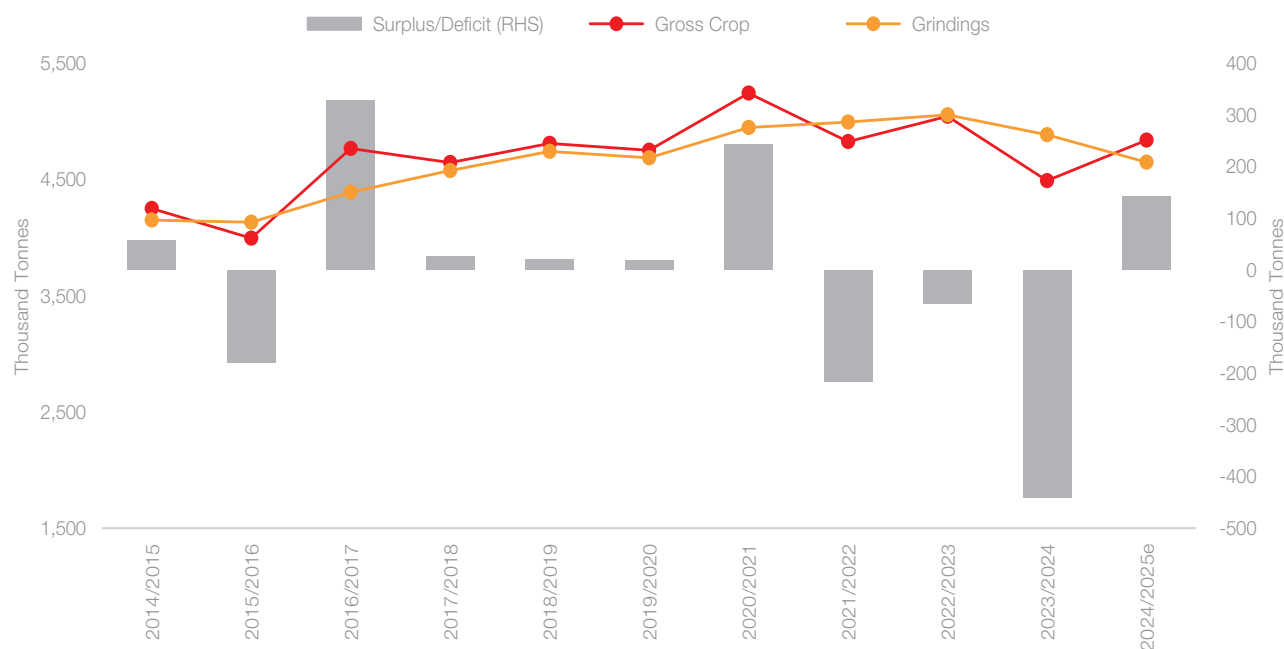
in 1Q25 but a -1.7% decrease in full year 2025 production. With the implementation of additional section 232 tariffs on aluminium on 4 Jun, we are also likely to see a reduction in US demand as tariff front-running stops and the impetus for businesses to stockpile aluminium reduces drastically. Additionally, declining premiums in Europe and Asia suggest emerging slack, and falling alumina prices have reduced aluminium production costs, increasing downside price risks.

Agricultural and soft commodities

Time to hop off the cocoa train. With cocoa prices having tripled since the start of 2023, it appears demand destruction is finally settling in. Cocoa grindings (a proxy for demand) is expected to fall

for a second consecutive year 2024/2025, showing consumers' reluctance to chase higher prices. Supply is also forecasted to grow almost 8% in 2024/2025 and put the cocoa market in a surplus for the first time since 2021. This material shift suggests that structural issues in the global supply chain for cocoa could be resolving, and accordingly, the tailwinds for cocoa are abating. In the short-term, price volatility may persist, especially given thin liquidity, a moderate mid-crop harvest this year, and low stock levels (stocks-to-grindings are projected to remain at multi-year lows this year), however longer-term fundamentals are suggesting a more balanced market going forward.

World cocoa market expected to shift into surplus this year

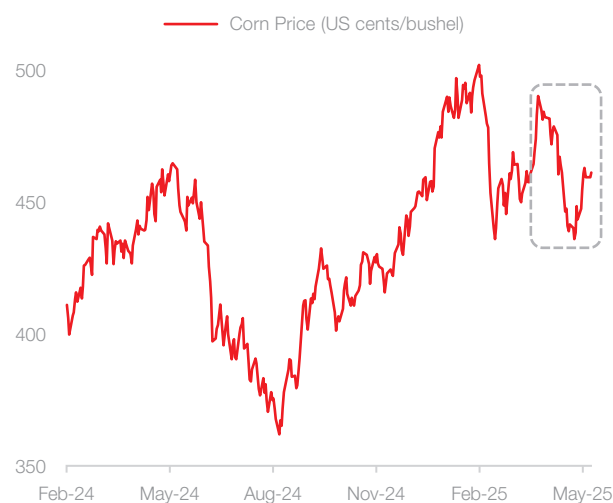


Source: International Cocoa Organisation

US record production to weigh on corn prices.

Corn prices remain at the low end despite easing of US-China trade tensions. As such, there is a possibility of a short-term rebound in flows on the back of a bullish USDA May WASDE (World Agricultural Supply and Demand Estimates) release for the corn market. Global corn demand is expected to remain robust, with countries such as China, Vietnam, Venezuela, Iran, as well as the EU expected to increase corn imports this year. Total demand in 2025/2026 is expected to rise 2% to a record 1.274bn mt, exceeding forecasted production of 1.265bn mt. However, despite the bullish demand outlook, uncertainty over demand due to tariffs as well as expectations for a record year for US corn production are expected to put downward pressure on corn prices in the second half of the year. The USDA has been explicit with this expectation as they project a season-average farm price of USD4.20 per bushel, down USD0.15 from the prior year.

Corn prices remain at low-end despite thawing of US-China tensions



Source: Bloomberg, DBS

Record corn production and stock builds in US offset rising world demand

(Figures in mmt)	Beginning Stocks	Production	Imports	Domestic Feed	Domestic Total	Exports	Ending Stocks
World	287.3	1,265.0	187.5	801.6	1,274.4	195.8	277.8
World Less China	89.1	970.0	177.5	562.6	953.4	195.8	95.7
United States	36.0	401.9	0.6	149.9	324.8	68.0	45.7

Source: USDA May 2025 WASDE report

Conclusion

In limbo. There is no way to sugarcoat this: navigating the commodities complex is and will continue to be challenging under Trump 2.0. Tariff-related growth risks and general policy uncertainty are likely to keep sentiment and fund flows on the cautious side for all commodity sub-sectors other than precious metals. The only clear bullish call we have in this space is gold, buoyed by safe haven demand and de-dollarisation tailwinds. Even for commodities that have structural tailwinds such as copper (electrification), rare earth

metals (technology demand) and oil & gas (non-road transport), price action is likely to be capped due to the macro-overhang and cyclical demand-supply factors in the short-term. Nonetheless, for investors who have specific views on commodities, structured products can help to express those views, and potentially aid in investment objectives such as yield generation, capital preservation, portfolio diversification, or hedging existing commodity exposures amid macroeconomic uncertainties.

Stars Align for Alternatives

Alternatives 3Q25:
Gold, Private
Assets & Hedge
Funds

Favourable risk-reward in gold from central bank buying.
Add hedge funds, private secondaries, credit, and private
infrastructure for additional source of alpha returns.



11. Alternatives: Gold.

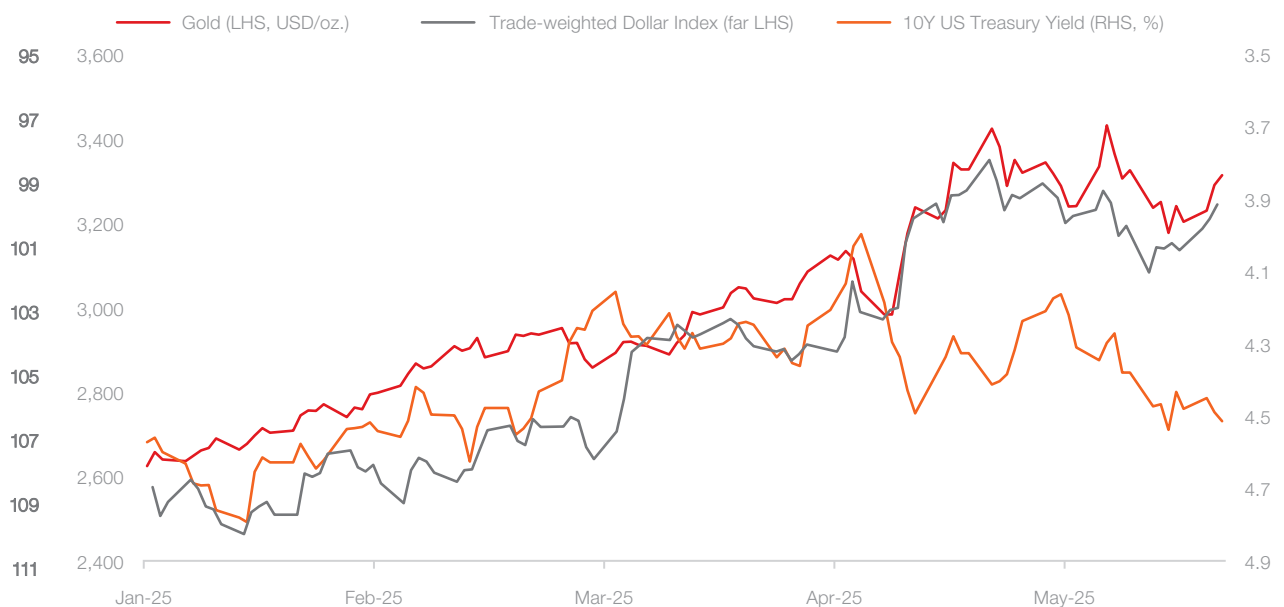
Goh Jun Yong

Strategist

Running circles around analysts' predictions. By now, it is well-established that gold has largely been in a consistent bull market for the better part of the last three years. We had covered in past publications the various tailwinds for the precious metal: geopolitical uncertainty, a widening US fiscal deficit, de-dollarisation, and fiat currency debasement among others. For 2025, the clear consensus on the street has been bullish gold with upsides far outweighing potential downsides. Despite this, few could have predicted gold's prodigious rally in April. It is as if gold had suddenly floored the figurative gas pedal and kicked into high gear, peaking at an intraday high of USD3,500/oz. on 22 April. Having said that, the key question is this: how high can gold go? The DBS CIO Office is revising our gold TP to USD3,765/oz. by 4Q25 (vs USD3,330/oz. by 1Q26 previously) against the backdrop of accelerating tailwinds under a changing world order.

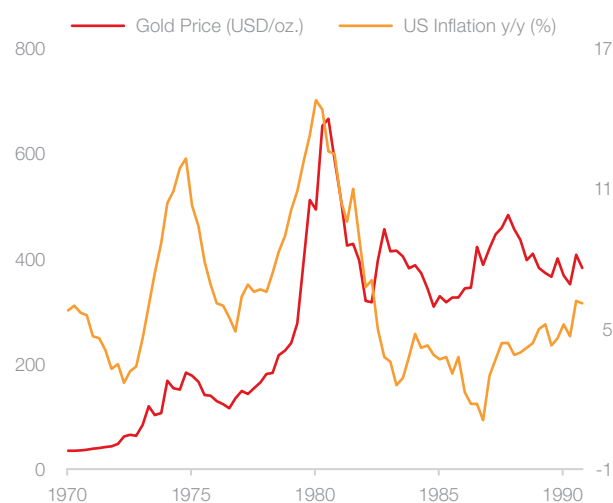
A new era for gold. Gold prices have experienced various "eras" in the past, each with a distinct price driver at play. The persistent and elevated inflation during the 1970s made investors see gold as an inflation hedge. As such, gold prices tracked US 10Y inflation expectations (and to a lesser extent, inflation) during that period. This backdrop, however, underwent a marked change as inflation fell and stabilised at lower levels in the late 1990s to early 2000s. As a result, gold's primary driver shifted from inflation to US real yields. From the early 2000s to 2021, gold prices demonstrated a strong inverse correlation with US 10Y Treasury yields due to the former's yield-less nature. Today, gold is arguably in a new era. Its inverse relationship with Treasury yields and the dollar remains, albeit significantly weaker and patchier as factors such as geopolitical uncertainty and central bank buying provide support for prices even during periods of dollar and rate strength.

A weakening dollar has aided gold's rally in 2025



Source: Bloomberg, DBS

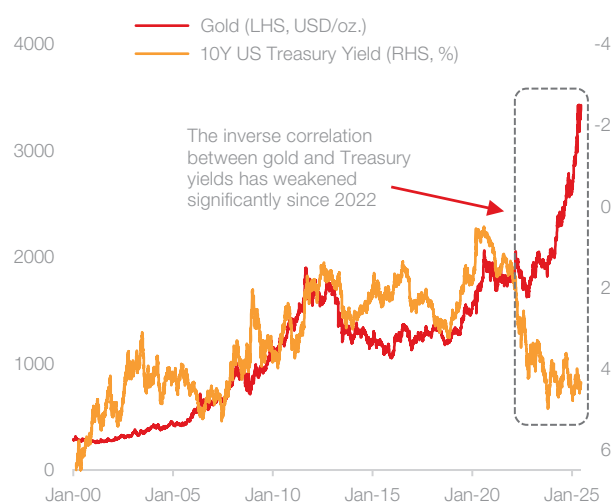
1970s to 1980s: Inflation drove gold prices



Source: Bloomberg, DBS

Central bank and investor demand are key to gold's continued rise. We have long opined that one of the key tailwinds for gold in this new era is central bank and investor gold buying on the back of geopolitical uncertainty and fragmentation. This not only provides steady structural demand for gold in the long run, but also maintains a price floor and caps downside risk for the precious metal during times of broad de-risking, as was illustrated post-"Liberation Day" in April. We performed a linear regression analysis (using quarterly data from 2017 to 1Q25) of the q/q change in gold price against the combined quarterly central bank and investment (bar, coin, and ETF) demand for gold and found that it takes

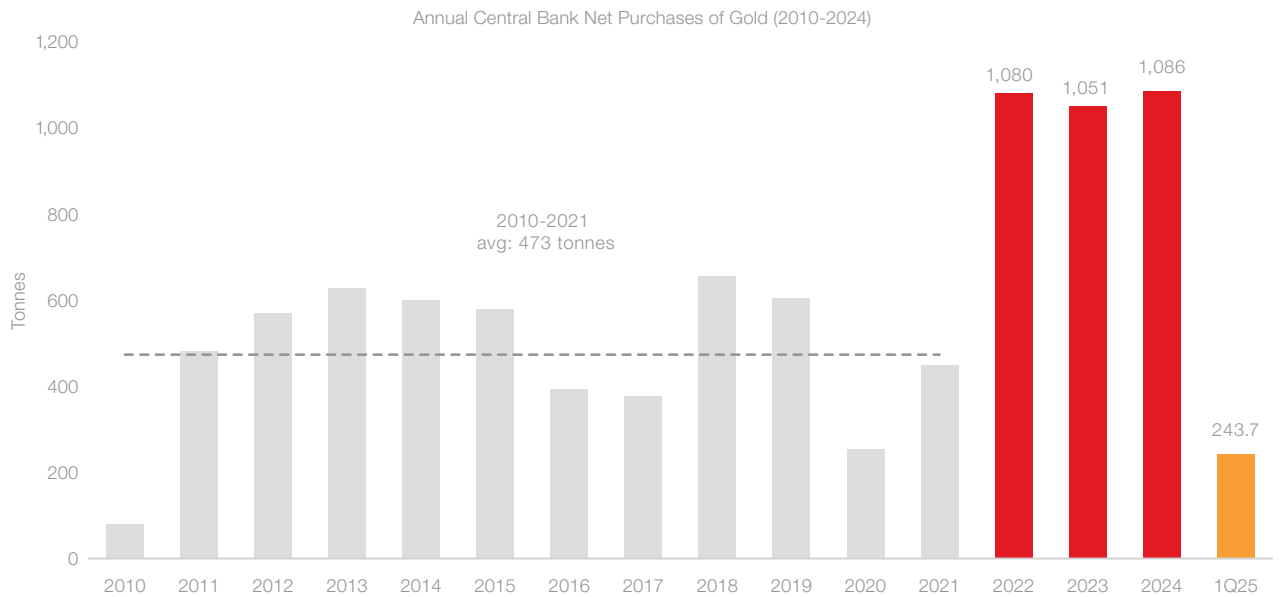
2000 to 2021: Strong correlation between US rates and gold price



Source: Bloomberg, DBS

approximately 600 tonnes of quarterly demand to produce a quarterly increase of 6.4% in gold prices. This is one of the key assumptions underpinning our revised TP of USD3,765/oz. by 4Q25. The average quarterly central bank and investment demand for gold per quarter was roughly 500 tonnes from 2017 to 1Q25. We believe that the assumption of demand increasing to an average of 600 tonnes per quarter is fairly justified given how: 1) the geopolitical landscape has deteriorated under Trump which will further spur central bank buying and 2) gold as a percentage of international reserves remains at roughly 21% (as at Feb 2025), well below the historical 54-year average of 29%. On point 2, the percentage falls drastically to

1Q25 central bank buying remains at a healthy 244 tonnes



Source: Bloomberg, DBS

11% if the US, Germany, France, and Italy (countries with the largest gold reserves) are excluded from the calculation which shows that there is still plenty of headroom for reserve diversification for central banks from other nations such as China, Poland, Turkey, Singapore, India etc.

Recession and stagflation risk at play. Another reason that the assumption of increased investment demand for gold is justified is that the macroeconomic backdrop has weakened thanks to the Trump administration's tariffs and the ongoing US-China trade war. The US recession probability, while off the

highs of 2023, remains at a substantial 30.5% (as at Apr 2025, as measured by the 3M and 10Y US Treasury yield spread). The Atlanta GDPNow forecast also reflected uncertain economic conditions earlier this year, hinting at the possibility of recession and stagflation. Against this backdrop, we believe rate cuts are on the cards which should benefit gold significantly. Yes, there is a possibility of tariffs being called off and successful trade deals being negotiated which would potentially derail this tailwind for gold. However, as long as Trump remains in office, the uncertainty factor remains high regardless of subsequent trade and policy developments that

Gold as a percentage of international reserves has room to grow



Source: IMF, International Financial Statistics (IFS), World Gold Council
*As at Feb 2025

take place. We maintain that gold is one of the best hedges that investors can hold in their portfolios as it protects not only against recession/stagflation risk but also a myriad of others, including fiat currency debasement, de-dollarisation, and other US policy-related risks.

A sustained rebound in gold ETF demand. The favourable backdrop for gold has seen gold ETF demand rebound in 2025. ETF demand for 1Q25 was 227 tonnes, its highest since 1Q22. This positive momentum continued as April saw a further 115 tonnes of ETF demand, the strongest inflow since Mar 2022, taking the total YTD demand to 342

US recession probability remains elevated



Source: Bloomberg, DBS

Atlanta GDPNow forecast reflects uncertain economic conditions



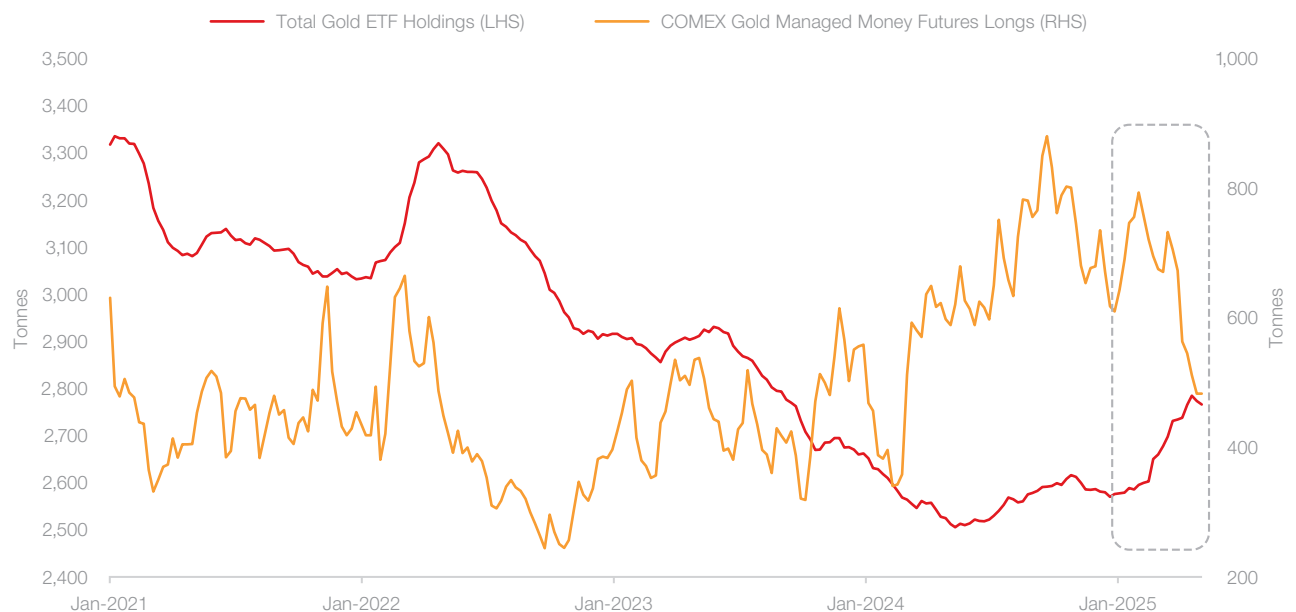
Source: Bloomberg, DBS

tonnes. Despite the surge, however, total gold ETF holdings remain 10% below the month-end peak in Oct 2020, suggesting that this rally still has room to run. In terms of regional flows, Asia and North America dominate on a YTD basis. Unsurprisingly, gold trading volumes also boomed in April by 48% on a m/m basis. This was for both OTC (LMBA) and exchange-traded (COMEX and Shanghai Futures Exchange) activities. Nonetheless, long positions held by money managers fell in April due to profit-taking amid record high gold prices.

New target: USD3,765/oz. by 4Q25. As we delve into a new era for gold, structural tailwinds remain

well in place, and we see asymmetric risk-reward for the asset class; limited downside with plenty of upside yet to materialise. In this new era, we see gold prices buoyed by strong central bank and investor demand amid macroeconomic and geopolitical uncertainty, recession/stagflation risk and ongoing monetary debasement concerns. Even during episodes of relative dollar and rate strength, gold prices should remain fairly supported as heightened risk and uncertainty should encourage strong dip-buying behaviour. Accordingly, we are upgrading our target price for gold to USD3,765/oz. by 4Q25 (vs. USD3,330 by 1Q26 previously) with the possibility of further upside in 2026.

Total gold ETF holdings have spiked in 2025



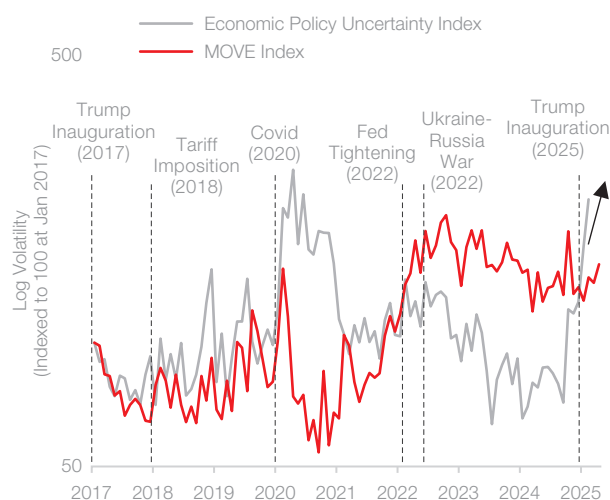
Source: Bloomberg, DBS

Alternatives: Private Assets & Hedge Funds.

Daryl Ho, CFA
Strategist

Elijah Tan, PhD
Analyst

Rate volatility has decoupled from policy uncertainty post-Covid

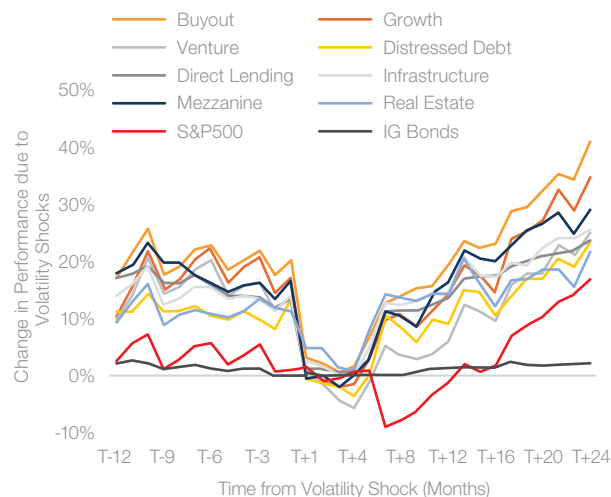
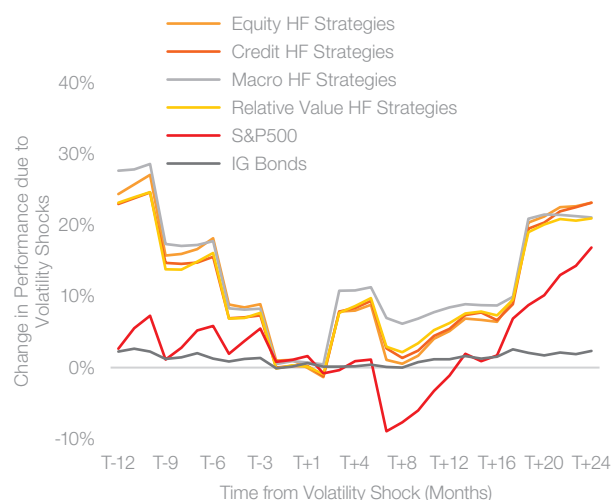


Source: Bloomberg, FRED, DBS

Uncertainty has a polarising effect on investors. It can paralyse decision-making or provoke overreaction. In moments of uncertainty, the epiphanic words of Marcus Aurelius – “The impediment to action advances action. What stands in the way becomes the way.” – echo from the past as a reminder for investors to anchor themselves in their longer-term objectives, exercise discipline and intent when positioning their portfolios, and avoid reacting to every whim of volatility perpetrators. In doing so, the obstacle of uncertainty can be turned into a strategic advantage.

Know thy enemy. Strategic positioning necessitates deep insights to market volatility patterns. Over the past decade, equity and oil market volatilities have

Private assets and hedge funds recover from volatility shocks faster

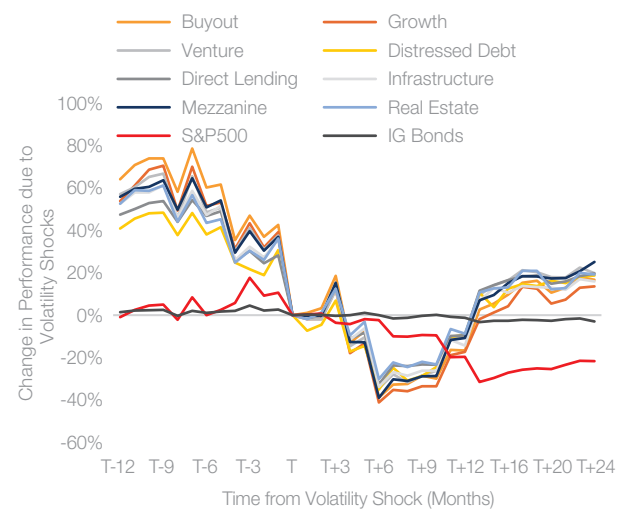


Source: Bloomberg, Preqin, DBS

moved in tandem with economic policy uncertainty. Interest rate volatility, in contrast, has diverged from economic policy uncertainty post-Covid and trended structurally higher in 2022, reflecting the effects of inflationary pressures. As we approach the third quarter of 2025, interest rate volatility is showing no signs of abating but appears to be coming back in synchrony with economic policy uncertainty. The double whammy of higher and more policy-sensitive interest rate volatility warrants a closer examination, especially with an executive order-wielding POTUS at helm.

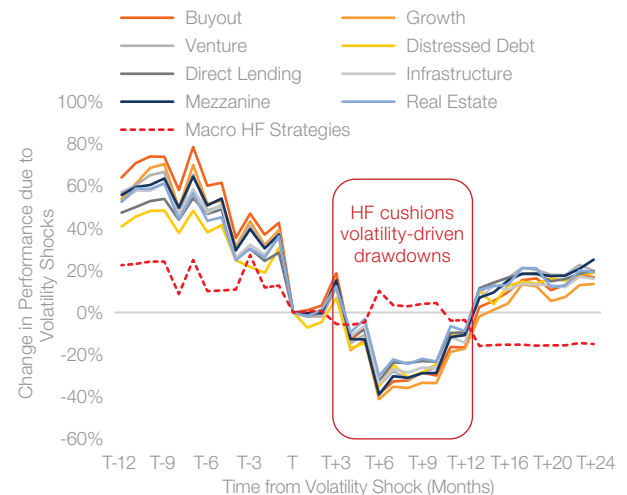
Positioning for success. A deep dive into market performance around volatility shocks reveal public markets take longer to recover from volatility-triggered drawdowns, compared to private and hedge fund markets. In the case of an interest rate volatility shock, public markets can take more than two years to recover, while a strategic combination of private assets and selective hedge funds can circumvent drawdowns altogether. This empirical observation supports our endowment-style hybrid portfolio strategy – one we have extensively expounded upon in the last quarters – which advocates for the inclusion of non-correlating private assets and hedge funds to a portfolio of public assets, as a remedy for rising equity-bond correlations and weakening hedging efficacy of bonds. Compared to the conventional 60/40 portfolio, our endowment-style hybrid portfolio is more capable of hedging against drawdowns, and lifting portfolio returns by capturing higher illiquidity premia.

Biggest risk resides in rate volatility shocks



Source: Bloomberg, Preqin, DBS

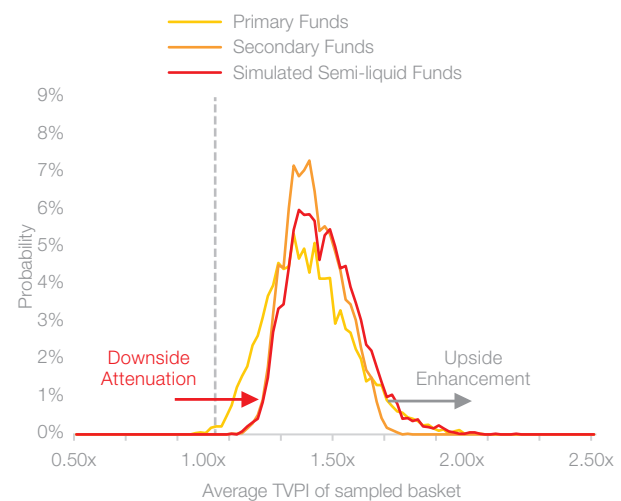
Hedge funds can cushion the dent while markets recover



Source: Bloomberg, Pitchbook, DBS

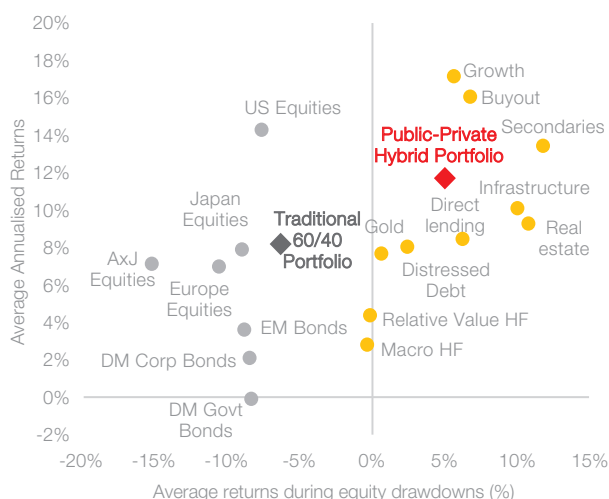
Details that matter. Beyond the hedging benefits of the endowment-style hybrid portfolio, individual investors need to consider constructing these portfolios with liquidity considerations in mind, especially amid uncertainty. A good way would be to gain exposure to private assets via open-ended vehicles, such as semi-liquids, which have embedded liquidity sleeves and mechanisms to generate early and regular distributions. These features facilitate more predictable cash flows which can help individual investors meet liquidity needs and stay invested longer. Indeed, our probability distribution studies highlight enhanced upsides and smaller downsides in semi-liquid vehicles, compared to other access points, lending support to the use of these open-ended structures in portfolio construction for individual investors.

Open-ended private asset access points offer enhanced upside



Source: Bloomberg, DBS

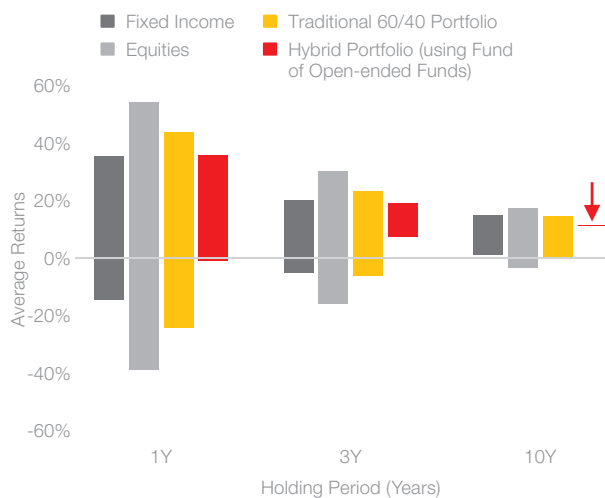
Volatility-driven drawdowns necessitate a hybrid portfolio approach



Source: Bloomberg, Pitchbook, DBS

A cut above the rest. Building upon these insights, we believe a fund of open-ended funds which integrates semi-liquid and hedge fund strategies will likely gain traction among individual investors seeking to expand alternatives exposure in a hybrid portfolio framework. This format can deliver operational efficiency and economies of scale for investors who would otherwise have to source and commit multiple tranches to separate primary funds. Additionally, this allows the active calibration of a portfolio's liquidity profile as market conditions evolve, lending investors the agility to navigate volatile times ahead. Our quantitative analyses reveal a hybrid portfolio constructed using fund of open-ended funds can outperform both a pure equity play and the conventional 60/40 portfolio over a 10-year horizon, and deliver diversification benefits that outlast the latter.

A hybrid portfolio of open-ended funds can generate higher average returns with lower volatility

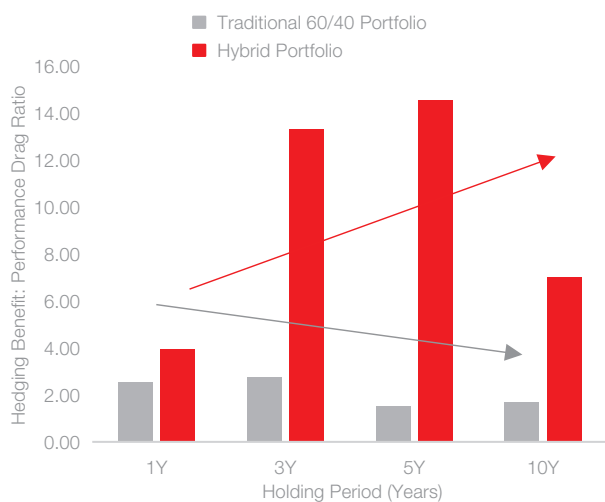


Source: Bloomberg, Pitchbook, DBS

Watch out for inflation. For all the benefits of the hybrid portfolio strategy, inflation could still rear its ugly head as the ultimate wet blanket by eroding an investor's hard-earned portfolio returns. With Trump's tariff and tax policies continuing to pose significant risks to inflation, investors will need to position their portfolios with higher-yielding and inflation-adjusting assets. Empirically speaking, private income generators such as private credit, infrastructure, and real estate displayed greater resilience over bonds under inflationary regimes, and are worthy considerations.

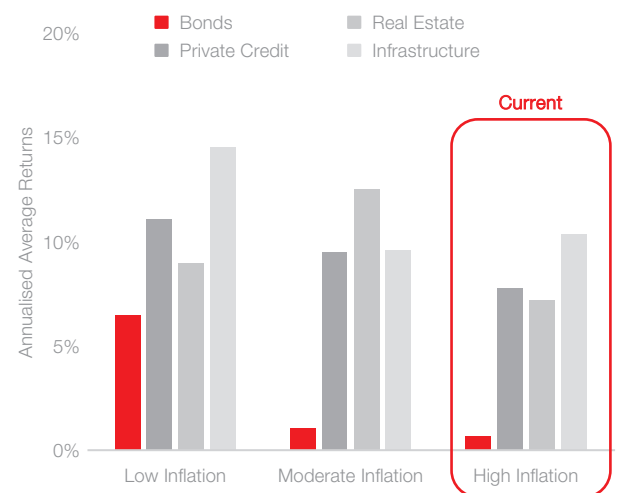
Private credit. Demand will likely ramp up on the back of the Basel III endgame implementation. As banks face stricter capital requirements, the c.USD500bn bank loans maturing in 2028 could see refinancing in the private credit market. Beyond these tailwinds, private credit's floating rate structure

Diversification of the hybrid strategy improve over the longer term, unlike the 60/40



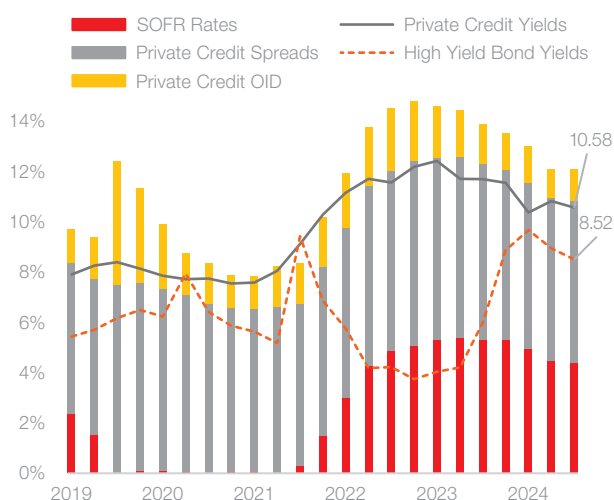
Source: Bloomberg, Pitchbook, DBS

Income generators in the private markets outperform under inflationary pressures



Source: Bloomberg, Pitchbook, DBS

Private credit offers higher and more stable yields than high-yield bonds

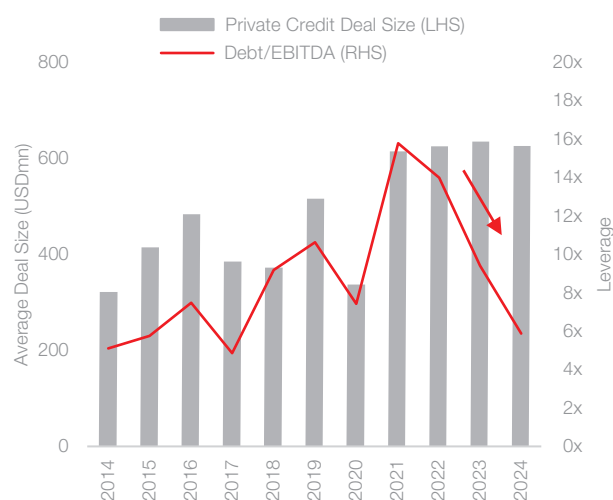


Source: Bloomberg, Houlihan Lokey, DBS

should continue to keep yields high at c.10.5% as it adjusts with monetary policy and rises in tandem with inflation. Attractive illiquidity and complexity premia will also buoy yields beyond what public fixed income markets can offer. Importantly, the stability of spreads will continue to buffer against rate volatility. Lastly, lower leverage ratios among private credit issuers could signal stronger covenant fulfilment going forward.

Private Infrastructure. Private infrastructure assets carry long-term contracted cash flows and inflation-linked revenue structures, making them capable of generating inflation-protected distributions for investors. To illustrate how this benefits investors, we conducted vintage analyses using Monte Carlo

Private credit issuers exhibit lower leverage ratios in recent years



Source: Pitchbook, DBS

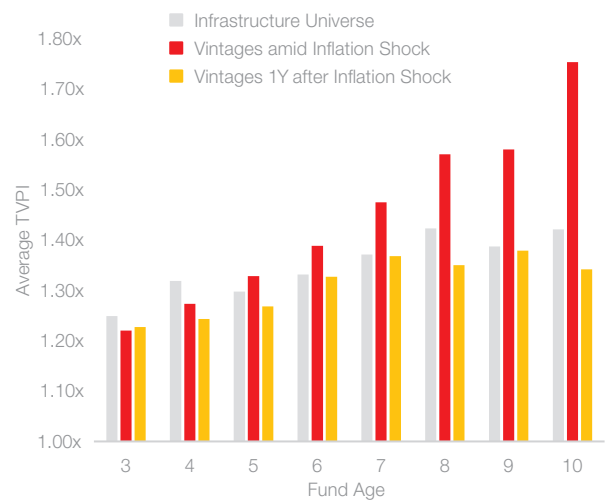
methods on empirical infrastructure funds data. The studies reveal infrastructure vintages amid inflation shock tend to outperform vintages after shock events, highlighting the phenomenon of a vintage-year premium. The vintage-year premium works when an inflation shock compresses infrastructure valuations just as inflation-linked revenues spike, generating higher cash flows per paid-in capital.

Even with the vintage-year premium, private infrastructure investors should stay selective with brownfield over greenfield developments to minimise exposures to construction risks and cost overruns. Investors will also do well to prioritise infrastructure assets with low demand elasticity and non-

volumetric growth, such as essential utility services that can pass inflation-driven cost hikes to users. Beyond AI-driven infrastructure which amounts to c.USD1.1tn per annum opportunity, we think the shift in global trade routes triggered by intensifying trade tensions and protectionist policies could represent a larger c.USD1.9tn per annum opportunity. As supply chains get diversified away from geopolitical flashpoints, trade activity through southern corridors of Latin America, Africa, and Southeast Asia could see a c.21% increase.

There is no time like the present to invest. We think neither volatility nor inflation should paralyse investors from pressing on with private markets investing. Private secondaries, private credit, and private infrastructure, in particular, present timely opportunities for investors to capture vintage-year premia amid high volatility and inflationary regimes. For unparalleled diversification benefits, it is imperative for investors to adopt a hybrid portfolio approach and employ a fund of open-ended funds format to build out private asset exposure.

Private infrastructure vintages during inflation shocks outperform



Source: Pitchbook, DBS



Source: Unsplash

New World Order

Thematic
Strategy
3Q25

Trump's protectionist policies and adversarial stance on geopolitics are driving an increasing impetus for nations to build strategic self-reliance. We explore humanoids, industrial automation, defence, and aerospace as beneficiaries of this new world order.

12. New World Order.

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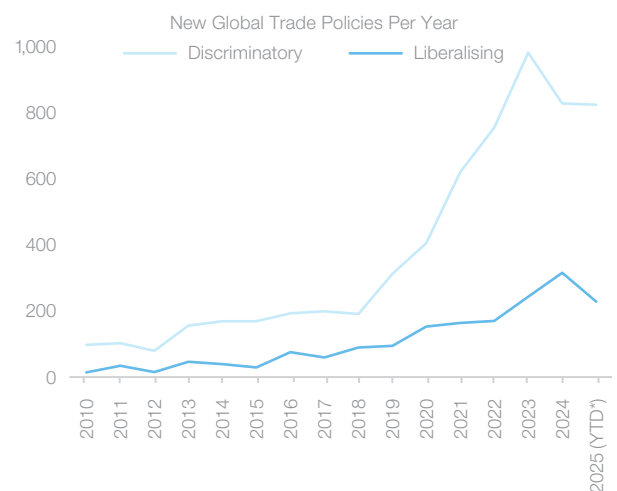
Tariffs and Protectionism

2 Apr 2025, now dubbed as “Liberation Day”, Trump announced his reciprocal tariff programme against the rest of the world, resulting in a trail of destruction. While subsequent temporary pauses and sectoral carveouts (e.g. pharma, semiconductors) offered some relief, 10% base tariffs remain in place, with an even steeper 30% against China. This brought the average US tariff rate to 17.8% pre-substitution and 16.4% post-substitution, the highest since 1937.

Trump’s tariff programme goes beyond revenue collection. Based on estimates by the Tax Foundation, even an aggressive 20% universal tariff, would raise just USD297.1bn of revenue in 2025. Factoring in reductions in income and retaliatory tariffs from other countries, that figure falls significantly to USD185.2bn, which barely addresses the 2024 US fiscal deficit of USD1.8tn. Instead, tariffs appear to serve as a negotiation tool for Trump, supporting his ‘hub-and-spoke’ model, where the US relies on bilateral negotiations and ensures that, as the biggest in size and relevance, they are able to secure favourable deals.

The Covid-19 pandemic further exposed the vulnerabilities of a global supply chain and rekindled interests in friendshoring, reshoring, and broader policies focused on self-sufficiency. This anti-globalisation sentiment peaked with Trump’s latest barrage of protectionist trade policies. However, tariffs and protectionist practices are inflationary and negative for economic growth.

Discriminatory trade policies have risen in the past decade



Source: Global Trade Alert
Data as at 14 Apr 2025

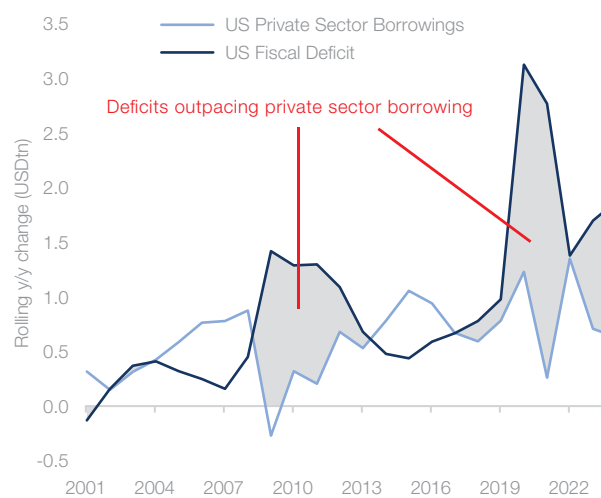
Debt Ceiling Dilemma

The US national debt pile has grown significantly to USD36tn, driven by decades of deficit spending. A major contributor is trade; a country that spends more on foreign goods and services than it is earning will have to pay for the difference by either (i) borrowing from foreigners, (ii) selling assets to foreigners, or (iii) attracting foreign investment. For the US, a big part of this difference is made up through borrowing, particularly through the issuance of US Treasuries, which trade partners have accumulated as reserves. This dynamic illustrates the “Triffin

Paradox”: A dilemma faced by the issuers of the world’s reserve currency, where they must supply enough of its currency to the rest of the world by running persistent trade deficits, resulting in conflicts of interest between long-term international and short-term domestic objectives.

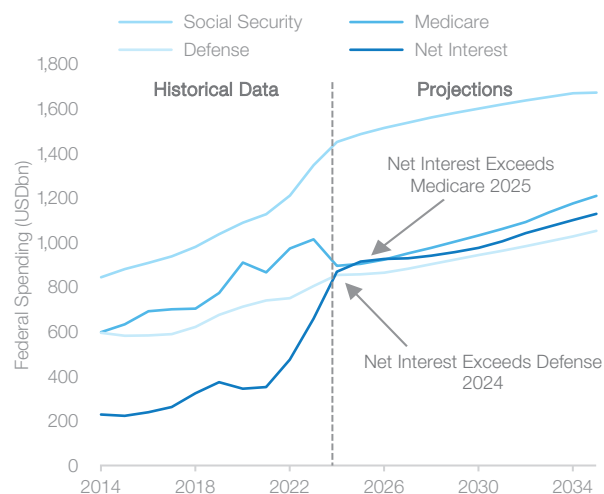
The actions of the Trump administration suggest that they are prioritising the latter. Stephen Miran – chair of the Council of Economic Advisers – argues that the current global trading order comes at the expense of US military protection and a strong dollar, resulting in US manufacturing and exports losing its competitiveness. With the high interest rates pushing net interest payments above its defence spending, the US can no longer shoulder these burdens alone. The US debt problem was once seen as a domestic issue, but as the bill outgrows the means of the US, the rest of the world will soon feel the pressure as the taxman cometh for his dues.

Persistent deficits have allowed for the “export” of US Treasuries



Source: FRED, Department of the Treasury, Bureau of the Fiscal Service, DBS

Net interest continues to exceed other critical budgetary items



Source: Congressional Budget Office, DBS

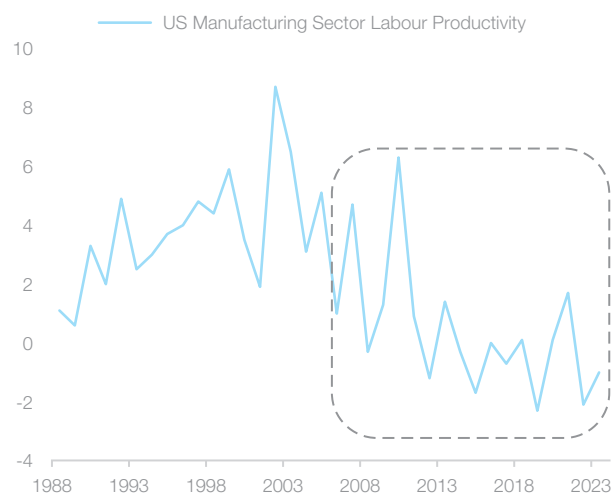
Humanoids

Trump's shift towards economic nationalism and "America First" policies are driving a global move towards supply chain realignment and strategic self-reliance. As countries reshore manufacturing, humanoids and automation become essential for cost-efficiency. As such, the global humanoid market is projected to grow from USD2bn in 2024 to USD28.1bn by 2033, potentially replacing over 62.7mn workers by 2050.

Key demand drivers

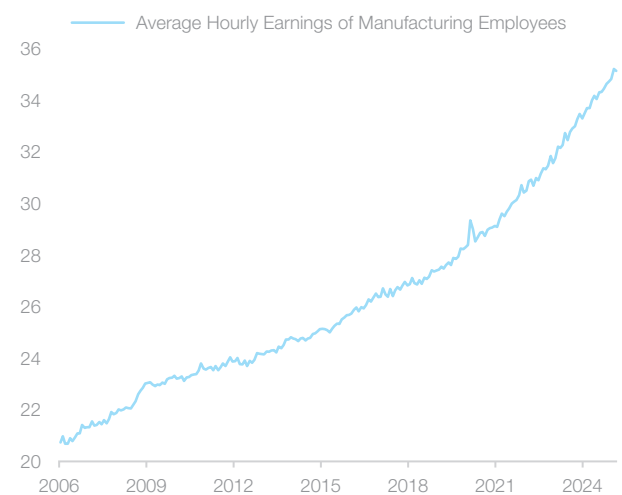
- 1. Demographic imperatives.** With ageing populations and declining birth rates, advanced economies face chronic labour shortages — especially in physically demanding roles. Humanoid robots and automation present a scalable solution to bridge this gap.
- 2. Need for productivity gains.** Rising labour costs, persistent labour shortages, and stagnant productivity growth create compelling incentives for humanoids and adoption of industrial automation. Manufacturing wages in the US have increased c.41% since 2006 while productivity gains have remained stagnant over the same period.
- 3. Reshoring movement.** Amid supply chain risks and geopolitical tensions, reshoring manufacturing has become a strategic priority as nations prioritise security and sovereignty. However, the very nations pushing for industrial sovereignty also face shrinking workforces and high labour costs, making humanoids and automation essential in making reshoring viable.

US manufacturing sector labour productivity (y/y)



Source: US Bureau of Labour Statistics, DBS

Average hourly earnings of US manufacturing workers (USD/hour)



Source: US Bureau of Labour Statistics, DBS

Beneficiaries of the humanoid theme

As humanoids become increasingly advanced, their practical applications in real-world settings grow — creating compelling investment opportunities across their value chain. Key segments include:

1. Computational and control systems

The computation and control systems of a humanoid process sensor data which enables it to interpret its environment and make decisions. It can then send signals to sensory and mechanical components to trigger appropriate movements. Its core components include:

- i. Semiconductors: Semiconductors are the hardware that provides the computing power and memory required to run AI models. As adoption rises, firms involved in Integrated Chip

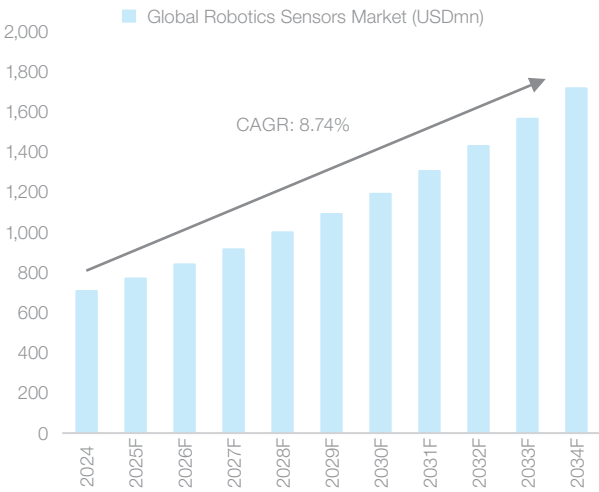
(IC) design, memory chips, and semiconductor foundries are poised to benefit.

- ii. AI models: Generative AI models, particularly the Vision-Language-Action (VLA) model, enable humanoids to link visual and language inputs with physical actions. By processing multimodal data to perform human-like tasks, companies developing VLA models for humanoids stand to be key beneficiaries.

2. Sensory and Mechanical Components

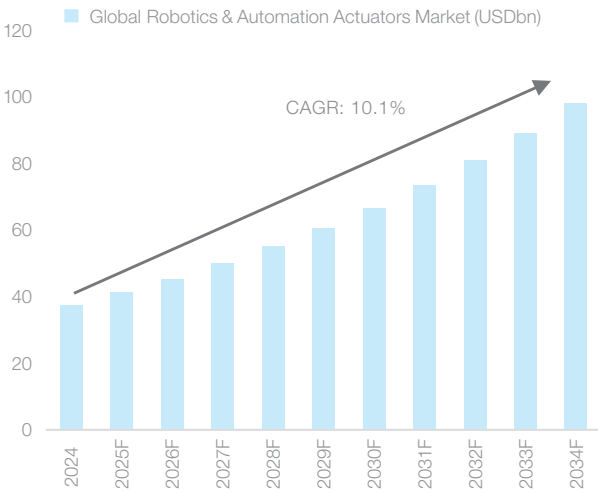
The humanoid’s sensory and mechanical components enable it to perceive its environment and carry out decisions from its computational systems via mechanical movement. Sensors collect environmental data for processing, while actuators convert computational decisions into physical actions. As such, manufacturers of sensors and actuators are well-positioned to benefit.

Robotics sensor market is set to rise steadily



Source: Precedence Research, DBS

Global actuator market is poised for robust growth



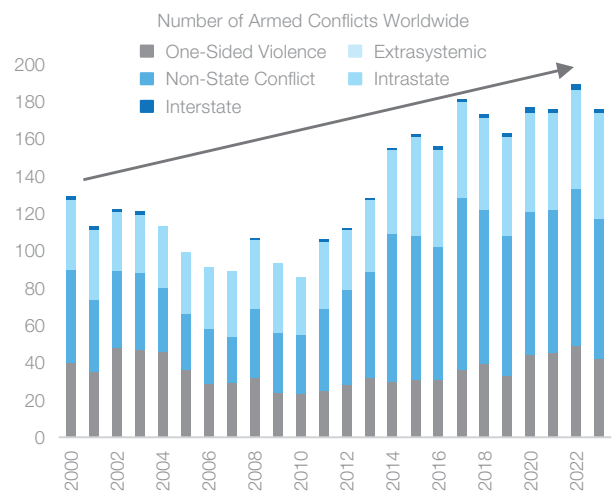
Source: Market.US, DBS

- i. **Sensors:** Sensors act as the sensory organs of humanoids, akin to human eyes, ears, and skin. They capture visual, auditory, and tactile information for the “brain” to process, which then directs actuators to perform actions such as walking or grasping. The main type of sensors are camera sensors, LiDAR, tactile sensors, and torque sensors. Given the indispensable role that sensors play, demand for these components are set to rise. According to Precedence Research, the robotic sensors market is forecasted to grow at a CAGR of 8.71%, reaching USD1,717mn in 2034.
- ii. **Actuators:** Actuators are critical to humanoids, converting signals from the “brain” into mechanical motion — similar to how muscles respond to the human brain. Since each joint offers up to six Degree of Freedom and requires at least one actuator, greater human-like movement translates to greater actuator demand. According to Market.US, the global robotics and automation actuators market is projected to grow at a 10.1% CAGR to USD97.9bn by 2034.

3. Humanoid end manufacturers

Humanoid end manufacturers build fully functioning humanoids by putting together both computational and mechanical components, serving as the primary source for industries seeking to purchase humanoids. Automotive firms, especially those in autonomous vehicles, are well-placed to benefit from the humanoid theme due to shared core technologies such as

Global conflict on the rise



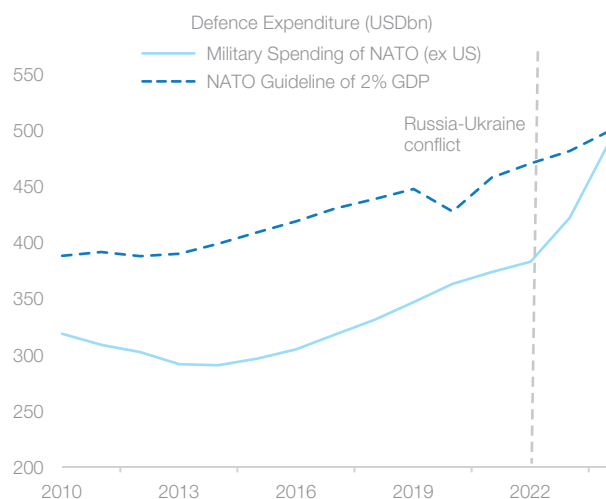
Source: OurWorldinData, DBS

AI models, LiDAR, cameras, and battery systems which allow them to leverage existing expertise in advancing humanoid development.

Defence

Defence in an era of transactional diplomacy. The global geopolitical landscape is shifting as President Trump abandons traditional multilateralism, using defence aid and foreign policies to secure favourable US deals. His suspension of military aid to Ukraine for peace talks and mineral agreements mark a new era of cost-benefit-driven international relations over unconditional alliances. This unpredictability weakens old alliances and pushes countries to rethink defence, leading to higher NATO spending over doubts about the credibility of Article 5, the clause that promises collective defence for member states.

NATO (excluding the US) spending on military is on the rise



Source: SIPRI, DBS

Key demand drivers for defence spending.

Recent India-Pakistan hostilities, sparked by a terrorist attack in Kashmir, led to missile and drone exchanges before a ceasefire, highlighting fragile peace between nuclear-armed neighbours. This regional conflict reflects a broader trend: armed conflicts worldwide have risen 105% between 2010 and 2023. With diplomatic safeguards weakening, countries prioritise defence spending to ensure deterrence and security should diplomacy fails.

NATO has long pledged 2% of GDP for defence, but most European allies fell short, leaving the US to cover about 70% of NATO's expenditure. Since Russia's invasion of Ukraine, NATO countries (excluding the US) increased military spending at a 13% CAGR from 2022 to 2024, vs 0.05% from 2012 to 2022. President Trump is also pushing NATO allies to target 5% of GDP, further fuelling sector growth.

Lessons from the Russia-Ukraine war. Since Russia's invasion of Ukraine in Feb 2022, militaries worldwide have had to rethink the demands of modern warfare. Key lessons include:

- **Quantity over quality.** Russia's GPS jamming technology reduced the effectiveness of advanced weapons such as JDAMs, Excalibur shells, and HIMARS rockets, making 'dumb' munitions such as artillery and inertial guided bombs more reliable due to their resistance to interference. Consequently, artillery has returned to prominence with Ukraine rapidly exhausting stockpiles and NATO prioritising shell production as a strategic imperative.
- **Commercial space assets are a force multiplier.** Services like Starlink, Maxar, and ICEYE provide imagery, communications, and GPS alternatives when traditional military systems are jammed. Ukraine's effective use of private satellite companies highlight the growing need for nations to develop sovereign satellite capabilities.
- **The rise of drones and air defence.** Drones have reshaped modern warfare with their low-cost and high-impact role in surveillance, where targeting and munitions delivery prompt an increase in demand for robust air defence systems like Raytheon's Patriot, NASAMS, and Germany's Skynex. As drone technology advances rapidly in range and lethality, militaries must accelerate investment in offensive UAVs and both short and long-range air defence to maintain dominance.

Given these trends, companies specialising in artillery and “dumb” munition production stand to benefit as militaries expand their jam-resistant weapon systems. The critical role of space assets points to promising prospects for satellite communication companies, while the drone revolution benefits both drone manufacturers and air defence system producers.

Investing in a Disordered World

The events of 2025 have made one thing clear: the old world order is unravelling, and in its place emerges a more fractured, transactional, and unpredictable landscape. Trump 2.0’s tariff regime, debt reckoning, and the unorthodox reordering of alliances and obligations mark a decisive shift away from multilateralism and towards bilateral deal-making and economic nationalism. While these changes have stirred volatility and uncertainty, they also present investors with rare structural opportunities.

This new world order demands portfolios that are not just diversified, but deliberately aligned with emergent global realities: 1) automation and humanoids as a response to reshoring and demographic decline, and 2) defence and aerospace as nations rethink the cost of security and sovereign risk.

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Glossary.

Acronym	Definition	Acronym	Definition
AI	artificial intelligence	EPFR	Emerging Portfolio Fund Research
ASEAN	Association of Southeast Asian Nations	EPS	earnings per share
ASP	average selling price	ETF	exchange-traded fund
AT1	additional tier 1	EU	European Union
AUM	Assets under management	EV	electric vehicle
AxJ	Asia ex-Japan	FOMC	Federal Open Market Committee
bbl	barrel	FRED	Federal Reserve Economic Data
BCOM	Bloomberg Commodity Index	FX	foreign exchange
BEV	battery electric vehicles	G3	Group of Three
BNM	Bank Negara Malaysia	G10	Group of Ten
BOJ	Bank of Japan	G20	Group of 20
BOK	Bank of Korea	GDP	gross domestic product
BOT	Bank of Thailand	GPT	Generative Pre-trained Transformer
BSP	Bangko Sentral Ng Pilipinas	HIBOR	Hong Kong Interbank Offered Rate
bpd	barrels per day	HY	high yield
bps	basis points	HVAC	heating, ventilation, and air conditioning
CAA	CIO Asset Allocation	ICE	Intercontinental Exchange
CAGR	compound annual growth rate	IndoGB	Indonesian Government Bonds
CET1	Common Equity Tier 1	IG	investment grade
CGB	China Government Bonds	IGB	India Government Bonds
COMEX	The Commodity Exchange	ISM	Institute for Supply Management
CPI	consumer price index	IT	Information Technology
DM	Developed Markets	JGB	Japanese Government Bond
dma	day moving average	KLIBOR	Kuala Lumpur Interbank Offered Rate
DOGE	Department of Government Efficiency (United States)	KTB	Korea Treasury Bonds
DPU	distribution per unit	LBMA	London Bullion Market Association
DXY	US Dollar Index	LGFV	local government financing vehicle
EBIT	earnings before interest and taxes	LME	London Metal Exchange
EBITDA	earnings before interest, tax, depreciation, and amortisation	LPR	loan prime rate
EC	European Commission	LVMH	Moët Hennessy Louis Vuitton
ECB	European Central Bank	M&A	mergers and acquisitions
EM	Emerging Markets	MAS	Monetary Authority of Singapore
eop	end of period	MBS	mortgage backed securities

Acronym	Definition	Acronym	Definition
MFN	Most Favoured Nation	REIT	real estate investment trust
MGS	Malaysia Government Securities	ROA	return on asset
MIBOR	Mumbai Interbank Outright Rate	ROE	return on equity
mmbpd	million barrels per day	RRR	required rate of return
mmt	million metric tons	SAA	Strategic Asset Allocation
MSCI	Morgan Stanley Capital International	SD	standard deviation
NATO	North Atlantic Treaty Organisation	SEA	Southeast Asia
NEER	nominal effective exchange rate	SGDNEER	Singapore Dollar Nominal Effective Exchange Rate
NIM	net interest margin	SNB	Swiss National Bank
NYSE	New York Stock Exchange	SOE	state owned enterprise
O/N	overnight	SOFR	Secured Overnight Financing Rate
OAS	Option-Adjusted Spread	SORA	Singapore Overnight Rate Average
OECD	Organisation for Economic Co-operation and Development	SPD	Social Democratic Party of Germany
OIS	overnight indexed swap	SRBI	Bank Indonesia Rupiah Securities
OMO	Open Market Operations	T-bills	Treasury bills
OPEC+	Organisation of the Petroleum Exporting Countries	TAA	Tactical Asset Allocation
OPM	operating profit margin	TCJA	Tax Cuts and Jobs Act (United States)
OPR	overnight policy rate	TIPS	Treasury inflation-protected securities (United States)
P/B	price-to-book	TOPIX	Tokyo Stock Price Index
P/E	price-to-earnings	TP	target price
PBOC	People's Bank of China	TPI	tax and price index
PCE	personal consumption expenditure	TSE	Tokyo Stock Exchange
PE	Private Equity	TSMC	Taiwan Semiconductor Manufacturing Company
PER	price-to-earnings ratio	UCITS	Undertakings for Collective Investment in Transferable Securities
PMI	purchasing managers' index	UST	US Treasury
PPI	producer price index	VAT	value-added tax
QE	quantitative easing	WTI	West Texas Intermediate
R&D	research and development	YCC	Yield control curve
RBA	Reserve Bank of Australia	YTD	year-to-date
RBI	Reserve Bank of India	YTW	yields-to-worst

CIO Collection



2Q25 CIO INSIGHTS
Build Resilience Amid Tariffs
March 2025



1Q25 CIO INSIGHTS
Game Changers
December 2024



4Q24 CIO INSIGHTS
In A Sweet Spot
September 2024



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Risk Assets In Play
June 2024



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A Broadening Rally
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Shifting Currents
December 2023



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June 2023



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Break in the Clouds
March 2023



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The Return of 60/40
December 2022



4Q22 CIO INSIGHTS
Fed in Focus
September 2022



3Q22 CIO INSIGHTS
Rising Above Inflation
June 2022

CIO Collection



2Q22 CIO INSIGHTS
Anchor in the Storm
March 2022



1Q22 CIO INSIGHTS
A Divergent World
December 2021



4Q21 CIO INSIGHTS
Stay the Course
September 2021



3Q21 CIO INSIGHTS
Hope Into Reality
June 2021



2Q21 CIO INSIGHTS
Back on Track
March 2021



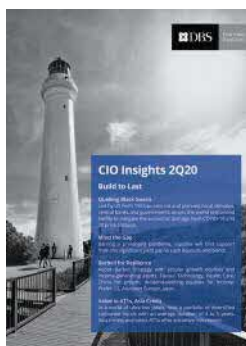
1Q21 CIO INSIGHTS
A New Hope
December 2020



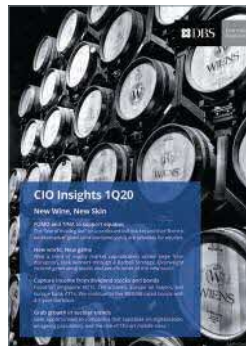
4Q20 CIO INSIGHTS
On the Mend
September 2020



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March 2020



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New Wine, New Skin
December 2019



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September 2019



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A Changing World
June 2019

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March 2018



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