

# CIO Insights 4Q25

## Ride The Trend



### Slowdown, Not Recession

Global growth to slow on tariff policy uncertainties. Fed's rate cuts, Trump's fiscal stimulus policies, and AI-related capex will stave off recession in the US, but upside risk on inflation remains.

### Stay Overweight Tech, Asia ex-Japan

Our high conviction stance on US technology and Asia equities has played out well. Capitalise on the wave of AI adoption while simultaneously capturing Asia's attractive valuation amid light positioning among investors.

### Ride Fed Easing Cycle with IG Credit

As the Fed resumes the path of rate cuts, ride the trend through Investment Grade credit. Avoid ultra long maturities as the yield curve steepens.

### Alternatives for Resilience

Private assets, hedge funds, and gold play an integral part in any portfolio as a source of non-market-directional returns and risk diversification.

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# Executive Summary

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Dear valued clients

The wisdom in the adage “Time in the market beats timing the market” is particularly pertinent this year.

If one had capitulated during the “Liberation Day” rout, it would have been daunting to re-enter the markets due to the behavioural bias known as anchoring. As history has repeatedly demonstrated, attempts to time the market have caused many to miss out on entire bull runs.

Year-to-date, our fully-invested Barbell portfolio – comprising outsized exposures to income-generating assets on one end and secular-growth equities on the other – recorded 16.3% (as of 16 Sep 2025) in net returns.

While we expect global growth to slow amid uncertainties over trade tariffs, a US recession is not our base case as the country’s economy will be supported by AI-related capex spending, Trump’s fiscal stimulus, and Fed’s lower rates.

As in past cycles, a macro backdrop with the abovementioned combination of factors is constructive for risk assets, and portfolios should stay invested to ride the trend.

Our conviction for the technology sector remains high, reinforced by AI’s impact on corporate profitability. Oracle’s latest results, which revealed an astounding growth trajectory for its cloud infrastructure business, is a clear sign that AI adoption is only in its early innings.

At a near-30% valuation discount, Asia ex-Japan equities are expected to benefit from fund inflows from richer markets like the US. Constituting less than 10% of the world index, AxJ markets stand to benefit significantly from just a slight reallocation of exposure from the massive US market.

Last but not least, despite this year’s massive 40% surge in gold prices, we stick to our conviction call for the precious metal, given the tailwinds of lower rates and a weaker dollar.

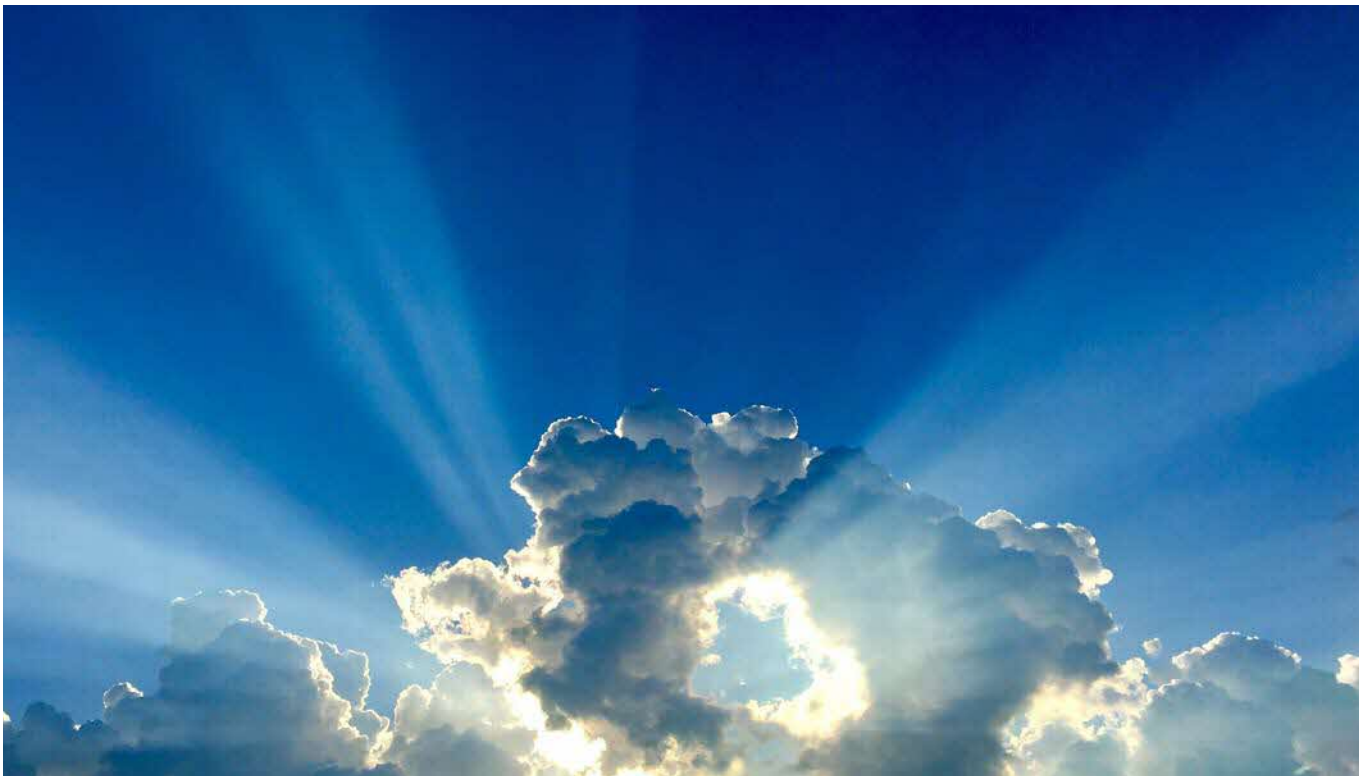
So, stay invested, stay diversified, and ride the trend in this final quarter of 2025.



Hou Wey Fook, CFA  
Chief Investment Officer

# The Rise of Fiscal Dominance

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## Asset Allocation 4Q25

The “everything rally” is here and this melt-up is set to persist amid Fed policy easing. But mind the gap. Given Trump’s attempts to bend monetary policy to his will, the threat of fiscal dominance is real. With markets displaying signs of fragility, diversification is the only free lunch. Add positions to Asia ex-Japan equities and gold.

## Asset Class Views

Our base-case macro outlook anticipates no imminent US recession as the trifecta of AI-related capex spending, tax cuts, and monetary easing will keep macro momentum buoyant. And while the Fed has started the rate cutting cycle, tariff uncertainty is a wild card and upside risks to inflation remains. We expect no more than 100 bps of cuts in this cycle. Valuations for risk assets (equities and credit) remain high, making optimal risk-reward positioning essential for portfolio resilience. Adopt a two-pronged approach: ride the goldilocks environment with tech-related cyclicals while hedging your downside with alternatives exposure in the form of gold, hedge funds, and private assets.

	Asset Class	- Views +	Commentary
Macro	US		Fed rate cuts have commenced amid political pressure and labour market softening. However, strong economic activity, tariff-driven inflation risks, and deteriorating fiscal conditions may prompt market resistance. The yield curve could steepen and lift long-term bond yields, raising concerns over Fed credibility and financial market stability.
	Eurozone		Eurozone's 2025 GDP growth may soften in 2H following an upward revision to 1.2% in 1H. Domestic demand and defense spending remain key growth drivers. ECB's rate-cutting cycle likely done—unless a sharp slowdown, EUR rally, or fiscal restraint prompts a shift.
	Japan		Despite US trade deals, Japan faces external headwinds from slowing exports. Resilient domestic consumption, supported by solid wage growth, offers a buffer. Moderate fiscal stimulus and gradual BOJ rate hikes are expected, though political uncertainty may complicate policy execution.
	Asia		Amid waning global growth momentum and DMs facing rising long-term rates and policy scepticism, Asia's bond markets remain attractive. The outlook is supported by declining local rates, strong central bank credibility, and sound debt dynamics. Favourable external flows and a weak dollar narrative reinforce the region's positive momentum.
Equities	US		The S&P 500 is set to navigate cross currents of stable macro conditions and rising policy uncertainties in 4Q25. Valuation for the S&P 500 looks rich at a time when tariff-related headwinds remain. Downgrade US equity to underweight as oil prices are expected to stay subdued given OPEC+ plans to unwind supply cuts. Maintain conviction view on tech.
	Europe		Europe offers further gains after 1H25's strong rally, driven by improving growth outlook, robust shareholder returns, and German fiscal stimulus. While 4Q25 may see margin compression from tariffs and a strong euro, attractive valuations and under-ownership position European equities as prime beneficiaries of diversification away from US assets.
	Japan		Fed easing and foreign inflows are tailwinds for Japan's continued growth. While valuations appear elevated, corporate governance reforms – evidenced by record buybacks and M&As – should support re-rating. Favour resilient domestic demand sectors and reform-driven companies.
	Asia ex-Japan		Compelling upside driven by steep valuation discounts, resilient earnings, favourable capital shifts, and structural themes. China's policy pivot to ignite sustainable growth momentum while ASEAN's 4Q25 slowdown would be buffered by fiscal and monetary support.
Credit	Investment Grade		Investment-grade credit remains attractive amid rate cut prospects. Fiscal stimulus and tax measures support corporate fundamentals. Opportunities lie in short-duration (2-3Y) and high-quality (A/BBB). Investors should consider extending duration when 10Y Treasury yields exceed 4.5%.
	High Yield		High-yield bonds face valuation challenges as spreads remain historically tight, offering limited compensation for risk. While fiscal expansion supports corporate earnings, tariff uncertainties and possibility of slowing growth could heighten default risks.
Rates	Global		The Fed's policy pivot remains the dominant theme, with growth concerns outweighing inflation risks amid tariff tensions. The ECB approaches neutral following substantial rate cuts, while fiscal vulnerabilities pressure European yields. Persistent inflation supports further BOJ tightening. US intermediate tenors are expected to outperform.
	Asia		Asian interest rate trajectories remain diverse. China pursues further easing through PBOC measures, while Indonesia and Thailand continue accommodative policies amid slowing growth. India maintains a prolonged pause despite tariff headwinds. Korea adopts fiscal expansion, steepening curves, while Malaysia and the Philippines remain broadly stable. Singapore rates decline on USD weakness.
Currencies	US Dollar Index		USD decline will slow down as the market moves on from the structural shock represented by the reciprocal tariffs. Rising Fed dovishness is a cyclical USD-negative, and continues to weigh on the USD into 4Q25. However, given that rate cuts are now well-expected, the FX flow through will be limited.
	G7		EUR benefits from the ECB-Fed divergence and AUD is supported by improving US-China relations; these are our favoured expressions of USD weakness. Meanwhile, GBP and JPY may be the underperformers. Fiscal concerns will weigh on the GBP, while the lack of conviction on BOJ rate hikes depresses the JPY.
	Asia		RMB may see moderate upside as US-China relationship stabilises. This sets a positive overarching tone for the other Asian currencies. Meanwhile, SGD is expected to weaken on potential MAS easing. However, with USD weakness offsetting, USD-SGD movements will be contained within a tight range.
Alternatives	Private Equity		Private equity now prioritises operational improvements and margin expansion over leverage, lowering sensitivity to rate uncertainty. While IPO and M&A exits have slowed to pre-2008 levels, liquidity remains strong via secondaries, continuation vehicles, and sponsor-to-sponsor deals, enabling capital redeployment without stranding investors.
	Private Credit		Stable and high spreads will buoy private credit yields ahead of uncertainty, with default rates generally below those of high-yield bonds. Smaller deals feature stronger covenants and fewer PIK toggles. Diversifying across private credit sub-strategies ensures the probability of excess returns across different volatility regimes.
	Hedge Funds		Hedge funds have historically outperformed during policy uncertainty and rate shocks, offering returns uncorrelated to equities and bonds. A fund of hedge funds approach for diversified exposure to multiple strategies and managers reduces risks while ensuring agility to capture excess returns across dynamic volatility regimes.
	Gold		A backdrop of macro uncertainty, a weaker USD and impending rate cuts continue to power short-term demand for gold while central bank buying and investment demand for a monetary debasement and de-dollarisation hedge provide long-term tailwinds for the precious metal.
	Commodities		Expectations of subdued growth remain due to tariffs, with selective commodity outperformance driven by strategic importance or supply constraints, particularly in precious metals, rare earth elements, and certain agricultural products like coffee.

## Market Data

## Equities

	2025 EPS Growth (% y/y)	2026 EPS Growth (% y/y)	Forward P/E	P/Book (x)	P/Sales (x)	ROE (%)
Global	9.7	11.7	21.1	3.4	2.5	14.9
Developed Markets	9.4	11.2	22.1	3.7	2.7	15.4
Emerging Markets	11.2	14.5	15.3	2.0	1.7	12.9
US	13.6	12.1	25.3	5.3	3.4	18.9
Europe	-1.7	10.4	16.0	2.2	1.7	12.8
Japan	-0.7	9.9	17.5	1.6	1.3	9.0
UK	-3.6	9.2	14.1	2.1	1.5	13.4
Asia ex-Japan	8.8	15.1	16.6	2.0	1.8	11.8
Latin America	15.6	7.0	10.5	1.7	1.4	15.6
EMEA	12.7	12.9	11.8	1.8	2.2	15.2
China	1.1	15.3	14.7	1.7	1.6	10.9
India	7.1	16.9	25.1	3.7	2.6	14.7

Source: Bloomberg, DBS (as at 19 Sep 2025)

## Fixed Income

	Yields (%)	Average Rating	Average Time to Maturity (Years)	Average Coupon (%)	Market Valuation (USDbn)
10Y UST	4.1	-	-	-	-
2Y UST	3.6	-	-	-	-
US IG	4.8	A3/Baa1	10.5	4.4	7,264
Europe IG	3.1	A3/Baa1	5.1	2.7	2,876
Asia IG	4.5	A2/A3	7.4	4.1	593
US HY	6.6	Ba3/B1	4.8	6.6	1,457
Europe HY	5.7	Ba3/B1	4.1	5.2	394
Asia HY	7.2	Ba3/B1	4.0	5.8	82
EM USD	6.1	Baa2/Baa3	9.9	5.2	2,248
Asia USD	4.8	A3/Baa1	7.8	4.4	555
Global AT1s	5.4	Baa3/Ba1	4.9	6.1	323

Source: Bloomberg, DBS (as at 19 Sep 2025)

## Forecast: Interest Rates

		4Q25	1Q26	2Q26	3Q26	4Q26
US	2Y	3.60	3.55	3.45	3.45	3.45
	10Y	4.00	4.10	4.20	4.30	4.40
Japan	2Y	0.95	1.00	1.05	1.10	1.20
	10Y	1.70	1.80	1.90	2.00	2.00
Eurozone	2Y	1.95	2.00	2.10	2.20	2.25
	10Y	2.70	2.80	2.90	3.00	3.00
China	2Y	1.30	1.25	1.20	1.15	1.15
	10Y	1.60	1.55	1.50	1.50	1.50
India	2Y	5.60	5.60	5.60	5.60	5.60
	10Y	6.50	6.30	6.30	6.30	6.30

Source: Bloomberg, DBS (as at 19 Sep 2025)

## Forecast: Currencies

Exchange rates / eop	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
USD/CNY	7.12	7.10	7.06	7.04	7.00
USD/SGD	1.27	1.26	1.25	1.24	1.23
AUD/USD	0.66	0.67	0.67	0.68	0.69
USD/CAD	1.37	1.35	1.34	1.33	1.32
EUR/USD	1.18	1.19	1.20	1.21	1.22
USD/JPY	142.47	139.39	136.28	133.14	130.00
NZD/USD	0.60	0.61	0.62	0.63	0.64
USD/CHF	0.80	0.80	0.79	0.79	0.79
GBP/USD	1.37	1.37	1.38	1.39	1.40
DXY Index	95.68	94.28	92.86	91.43	90.00

Source: Bloomberg, DBS (as at 19 Sep 2025)

## Forecast: Oil

(USD per barrel)	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Brent Crude Oil	64.5	61.0	64.5	65.0	64.0
WTI Crude Oil	61.5	58.0	61.5	62.0	61.0

Source: Bloomberg, DBS (as at 10 Sep 2025)

## Forecast: GDP, Inflation, and Policy Interest Rates

	GDP growth, % y/y		CPI inflation, % y/y, ave			Policy interest rates, eop				
	2025F	2026F	2025F	2026F		4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
China	5.0	4.5	0.2	0.2	China**	2.90	2.80	2.65	2.65	2.65
India	7.1	6.2	5.0	2.6	India	5.50	5.50	5.50	5.50	5.50
India (FY basis)	6.7	6.3	4.6	2.8	Eurozone^	2.00	2.00	2.00	2.00	2.00
Eurozone	1.2	1.0	2.3	2.2	Japan	0.75	0.75	0.75	0.75	1.00
Japan	0.7	0.4	2.7	2.7	US	3.75	3.50	3.50	3.50	3.50
US*	1.5	1.5	3.0	3.0						

Source: CEIC, Bloomberg, DBS (as at 19 Sep 2025)

\*eop for CPI inflation

\*\* 1-yr Loan Prime Rate; ^ Deposit Facility Rate

# Asset Allocation

Hou Wey Fook, CFA  
Chief Investment Officer

Dylan Cheang  
Strategist

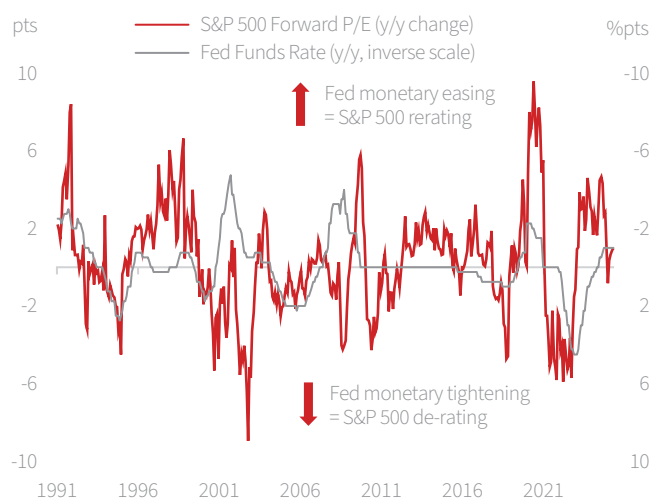
The “everything rally” is here. From technology stocks to gold and cryptocurrencies, risk assets have shot through the roof in 2025. This extraordinary melt-up is set to persist as the Fed embarks on monetary easing, with the futures market pricing in nearly five rate cuts by end-2026. It is a curious irony that investors are showing such exuberance at a time when the US effective tariff rate has reached a historical high since the 1930s, posing detrimental implications for corporate profitability and domestic consumption in the months ahead. Above all, this rally is also unfolding just as Trump’s One Big Beautiful Bill has reignited US fiscal profligacy concerns, driving long-term Treasury yields higher while plummeting the dollar.

**A road less travelled.** As US government debt exceeds 120% of GDP, it is obvious that the administration requires lower rates to fund the cost of servicing its gargantuan debt. Given spiralling deficits and Trump’s frequent demands for the Fed to lower rates and bend monetary policy to his will, the threat of fiscal dominance is a clear and present danger. In such a regime, the government’s fiscal requirements take precedence. Should policies result in rising

debt, the central bank will be obliged to accommodate, either by cutting rates or through debt monetisation. In short, the Fed’s dual mandate of employment and price stability will become secondary to the government’s fiscal needs.

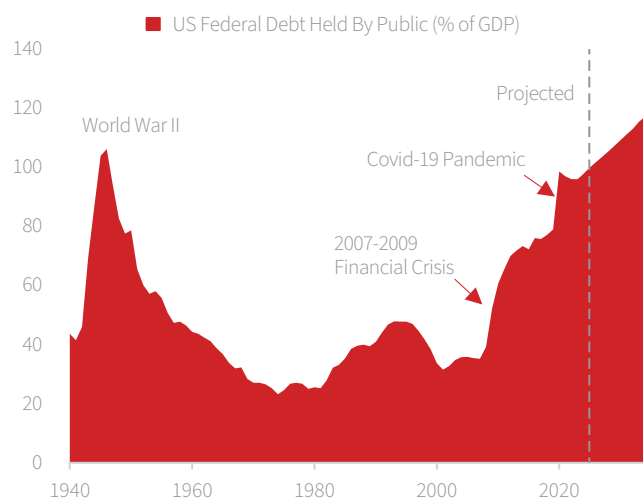
Historically, fiscal dominance is more widely associated with emerging economies, following a familiar cycle like this: Excessive government spending funded by central bank money printing, leading to periods of hyperinflation, subsequent currency devaluation, and ultimately, the loss of central bank independence. Today, the story has evolved – this phenomenon is no longer confined to emerging economies. The US, through years of fiscal largesse, is similarly facing rising debt levels that require low rates for interest servicing. But this approach is problematic. While the Fed controls the short end of the yield curve, the long end is dictated by market forces, and the divergent path we currently see reflects waning confidence on the central bank’s ability to anchor inflation expectations.

## Fed rate cuts to propel risk assets higher



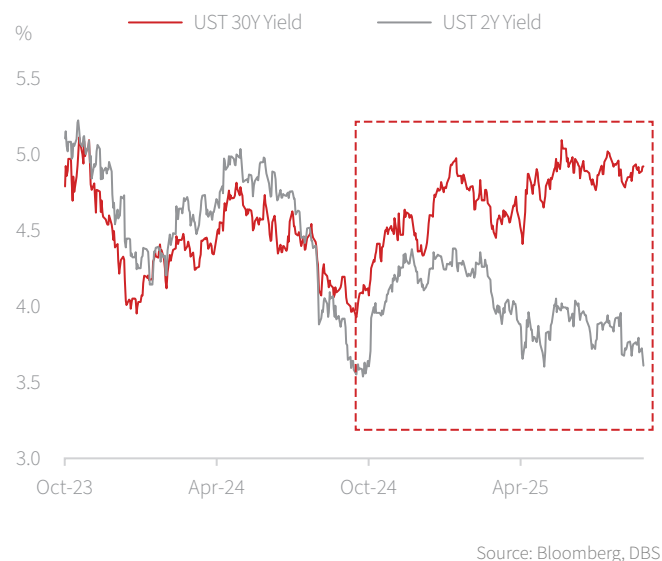
Source: Bloomberg, DBS

## US spiralling debt load underpin the rise of fiscal dominance



Source: Congressional Budget Office, DBS

### Diverging trajectory of short- and long-term UST yields with Fed credibility questioned



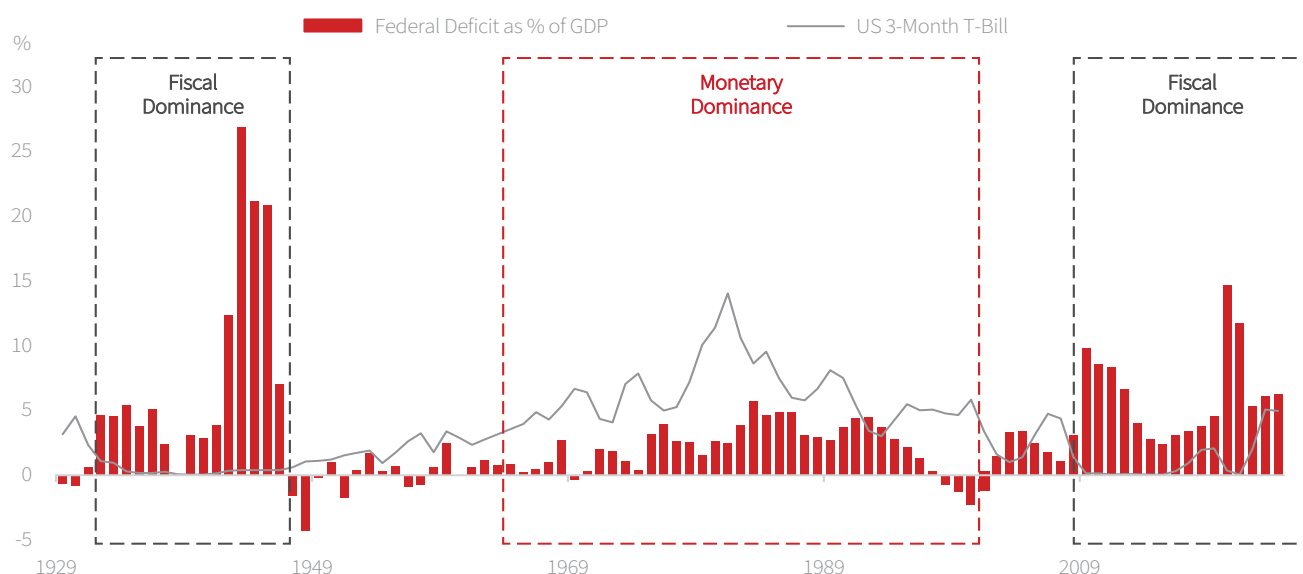
It is said that history does not repeat itself, but it often rhymes. As we stand at the precipice of yet another episode of fiscal dominance, the US experience during WWII serves as a cautionary tale. Back then, the Fed capped interest rates to fund the war effort. This eventually translated to hyperinflation after the war, prompting the central bank to forge the Treasury-Fed Accord in 1951, which restored central bank independence. Today, 80 years after the end of the Second World War, the Fed's credibility is once again on the line. Granted, the central bank can, in theory, print its way out of trouble

via debt monetisation. But bond vigilantes will demand higher yields if they deem the central bank to be losing control of inflation. Based on the current trajectory of US fiscal spending and the limited progress made at DOGE, it is difficult to imagine the deficit situation in the US improving anytime soon.

**Resurgence of stagflation-lite headwinds.** Fiscal dominance aside, another topic that will likely dominate the narrative in the coming quarters is the resurgence of stagflation-lite headwinds, as negative impact from Trump's "beautiful tariff" simmers. Incoming macro data and official forecasts are pointing in this direction. For instance, US employment numbers for May and June have undergone sharp downward revisions while the uptrend in prices (within ISM services) suggests broad-based inflation is creeping in. The Fed's Summary of Economic Projections in June flagged rising stagflation risks, a view echoed by private forecasters. In a recent Bank of America survey, 70% of global investors surveyed expect stagflation over the next 12 months.

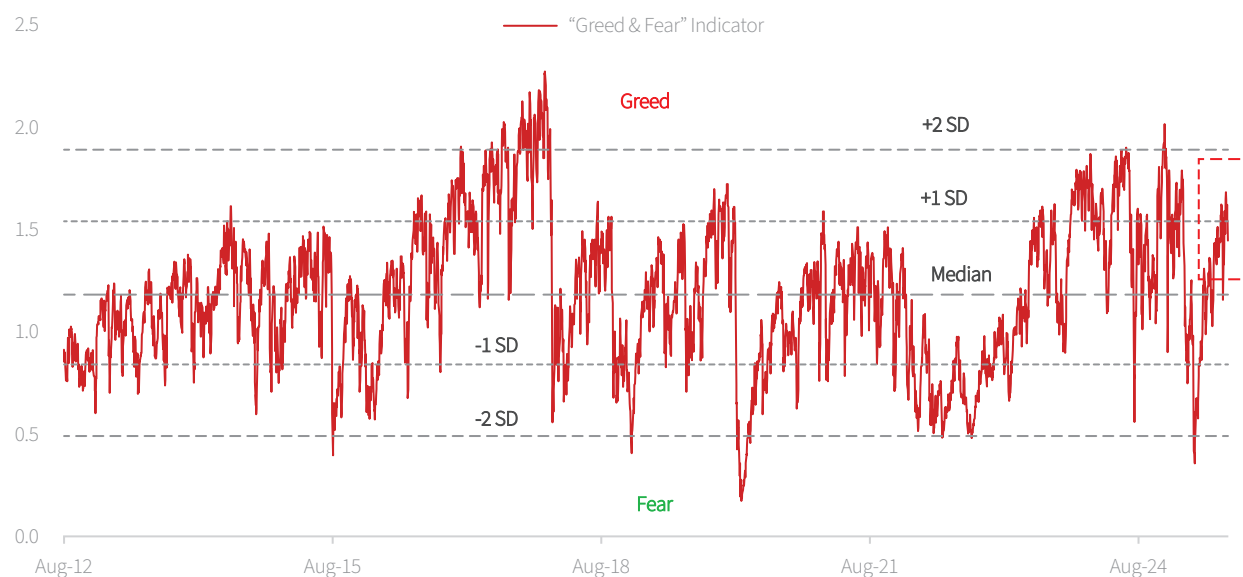
So, given these macro headwinds, what is underpinning the sharp risk-on mood in markets? Clearly, investors are looking at the glass half full rather than half empty. Fuelled by optimism around the transformational qualities of AI and its impact on corporate profitability, the street is pricing in robust earnings growth of more than 10% for 2025 and 2026, compared to an average of 3% in the prior two years. Strong earnings growth expectations, overlaid with falling policy uncertainties and Fed monetary easing, have set the stage for risk assets that are currently "priced-for-perfection".

### Fiscal dominance takes control as Federal deficit spirals up





## Markets showing signs of exuberance



Source: Bloomberg, DBS

Our “Greed & Fear” indicator, which gauges investor sentiment and positioning, is currently hovering near the upper bound of “Greed”. This suggests sentiment is nearing an extreme, and a correction is on the cards should incoming data disappoint. Under such circumstance, portfolio diversification and downside protection are key. For the forthcoming quarter, numerous signs point to potential fragility in the current rally:

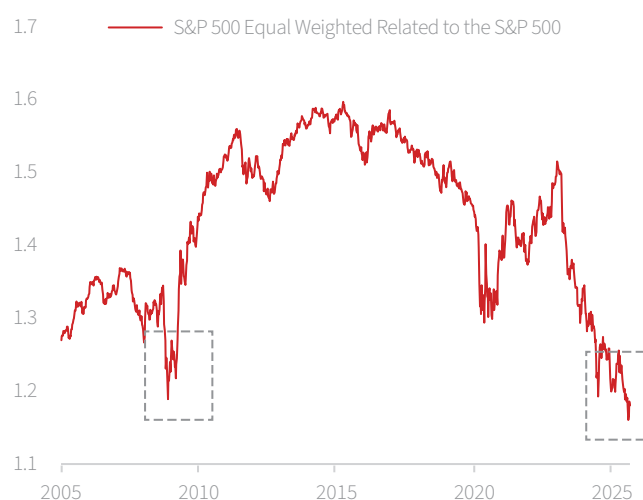
- Overconcentration risk
- Valuation risk
- Earnings risk

**Market Fragility Signal I: Overconcentration risk.** A major concern in the ongoing rally is overconcentration risk – a situation where the largest companies account for a disproportionate share of the total market map. Currently, the top ten largest companies – including the likes of Nvidia, Microsoft, and Apple – constitute 38% of the S&P 500, a significantly larger figure compared to 20% in 1995, when the ten largest companies included names such as General Electric, AT&T, and ExxonMobil.

Overconcentration of large-cap companies brings substantial fragility to the current rally as the index becomes susceptible to sharp corrections should companies fail to deliver on the earnings front. A clear case in point is the optimism surrounding AI. While companies have committed huge capex to the new technology in aggregate, a recent MIT report suggests that 95% may find zero returns on their AI investments. Given the heavy concentration of Big Tech firms leading this charge, such a prognosis is, to say the least, concerning.

**Market Fragility Signal II: Valuation risk.** Valuation is driven by two factors: (1) share price movement and (2) forecasted earnings. Since the trough of “Liberation Day”, risk assets – both equities and credit – have rallied sharply as investors priced in falling policy risks and impending Fed monetary easing. However, the optimism displayed by investors is unfortunately not matched by actual fundamentals. In the equities space, earnings forecasts have remained flat as analysts remain cautious in their assessment of how tariffs will impact corporate earnings, given limited guidance from company CFOs.

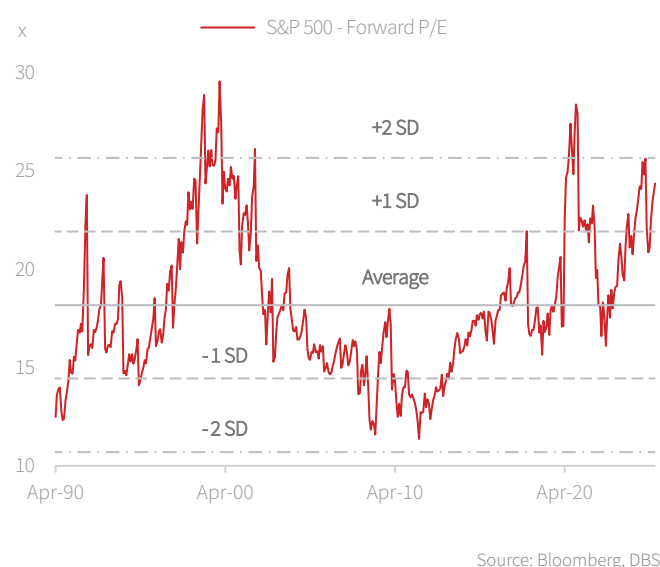
## S&amp;P 500 rally dominated by tech-related plays



Source: Bloomberg, DBS

Rising equity prices and range-bound forecasted earnings have translated to a spike in valuations. At the current level of 24.3x forward P/E (using the S&P 500 as proxy), valuation is edging close to the +2 SD mark, suggesting that equities are currently looking expensive. The same sign of exuberance is evident in the corporate credit market as spreads have tightened to 79 bps (close to the -2 SD tight mark), which came on the back of robust corporate balance sheets and additional tailwind from tax cuts.

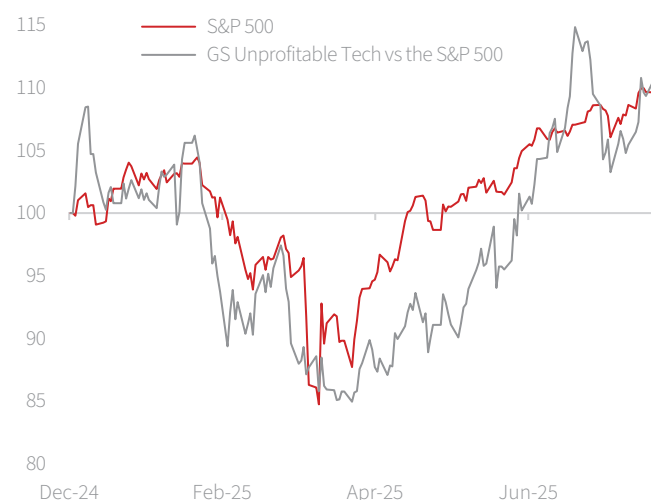
#### Equity valuation hovering near +2 SD expensive mark



#### Credit spreads hovering near -1 SD tight mark



#### Rising tide lifts all companies, including the unprofitable ones



**Market Fragility Signal III: Earnings risk.** An often-cited distinction between the dot-com bubble and recent tech-fuelled rallies is this: unlike the dot-com era, today's rally is driven by profitable companies that are actually cash-flow positive. This is true to some extent – no one can deny the strong earnings prowess of Big Tech. But outside of this space, cracks are starting to emerge:

- Earnings growth momentum for the S&P 500 ex-technology, for instance, is showing signs of tapering after a strong rebound from the Jul 2023 trough.
- Within the tech space, unprofitable companies are expected to remain in the red through 2026. Yet, this has not stopped them from rallying in line with the rest of the market.

We have long maintained that the tariff income currently enjoyed by the US government must be funded somewhere – either from consumers' pockets or by importers of foreign goods in the US. There is no free lunch. It is reasonable to assume that importers will eventually absorb some of the pain and that's when margin compression and earnings downgrades take place.

#### Portfolio Diversification: The Only Free Lunch

The probability of a further melt-up in risk assets remains high, given the trifecta of Fed easing, "Goldilocks" macro conditions, and AI-related capex tailwinds. However, we are also cognisant that this rally is taking place at a time when policy uncertainties and fiscal concerns dominate. With investors caught between a rock and a hard place, our strategy for investors is to ride the rally but protect your downside through portfolio diversification.

For 4Q25, our key market calls are:

- Double-down on our conviction in US technology and raise our weighting for US equities to neutral
- Add positions in Asia ex-Japan to capture upside momentum from Fed monetary easing
- Hedge portfolio downside with exposure to gold, hedge funds, and private assets

#### Add positions in US technology and raise US equities to neutral.

Riding on the back of AI-related capex optimism and earnings upgrades, US technology stocks have been leading the gains on the S&P 500 this year. On a YTD basis, forecasted earnings for AI-related stocks (using the Bloomberg Artificial Intelligence index as proxy) have been revised up by 34 %pts (vs 12% for the broader market). We expect this positive momentum to persist as AI adoption gains pace. We advocate adding positions in US technology, and by extension, bring our overall weighting in US equities to neutral.

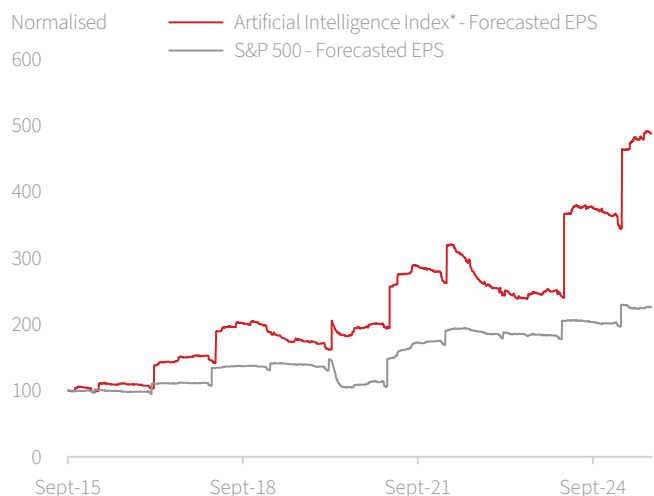
#### Add positions in Asia ex-Japan. Beyond technology, we also advocate for investors to add positions in AxJ.

Indeed, our overweight view on AxJ is reaping dividends: on a YTD basis, the region has outperformed developed markets, with robust performance in China, Hong Kong, and Korea. We expect the positive momentum to persist, given:

- Persistent dollar weakness, which historically translates to Asia's outperformance
- Funds flow momentum improving by the margin. Based on data from EPFR Global, AxJ flows accounted for 1.1% of global flows in 7M25, while its share has rebounded to 3.5% in August.
- Valuation advantage, with AxJ equities trading at a 28% discount to developed markets and the market serving as an important alternative for investors looking to diversify from crowded trades

**Overweight gold, hedge funds, and private assets.** To hedge against portfolio drawdowns, we advocate adding exposure to gold. The precious metal has recently broken out decisively above the USD3,400/troy ounce mark as dollar weakness and expectations of Fed rate cut gather pace. We believe that the longer-term upside remains intact as prevailing concerns on US debt sustainability underpin central banks' shift away from US Treasuries into alternate reserve assets like gold.

#### Sharp earnings growth momentum for AI-related stocks



Source: Bloomberg, DBS  
\*Proxied by Bloomberg Artificial Intelligence index

#### Proportion of gold in international reserves continues to head north



Source: IMF, International Financial Statistics (IFS), World Gold Council

Since 2015, gold's share of total international reserves has increased from 9.1% to 21.8% as of 2Q25, largely at the expense of US Treasuries, which registered declining percentage share over this period. In the alternatives space, quantitative analysis by our private assets analysts suggests that a hybrid portfolio that includes a fund of open-ended funds offers better diversification – outperforming the traditional 60/40 portfolio over a 10Y horizon.

## 4Q25 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	0	0	0	-1	0	-1	0
	Inflation	-1 to +1	-1	0	0	0	-1	-1	0
	Monetary policies	-1 to +1	0	0	0	0	0	0	0
	Forecasted EPS growth	-2 to +2	1	0	1	1	-	0	0
	Earnings surprise	-2 to +2	2	0	0	0	-	0	0
Valuation	Forward P/E	-2 to +2	0	-1	0	0	-	-	-
	P/B vs ROE	-2 to +2	0	0	0	0	-	-	-
	Earnings yield - 10Y yield	-2 to +2	-1	-1	-1	0	1	1	-1
	Free Cashflow yield	-2 to +2	-1	0	1	0	-	-	-
	Credit spread	-2 to +2	-	-	-	-	-	-1	-1
Momentum	Fund flows	-2 to +2	1	1	-2	1	1	2	2
	Volatility	-1 to +1	0	0	0	0	0	-	-
	Catalysts	-2 to +2	0	0	0	0	-1	1	0
Raw Score			0	-1	-1	1	0	0	0
Adjusted Score*			0.00	-0.05	-0.05	0.05	0.00	0.00	0.00

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

Source: DBS

## 4Q25 Asset Allocation – Optimal Risk-Reward

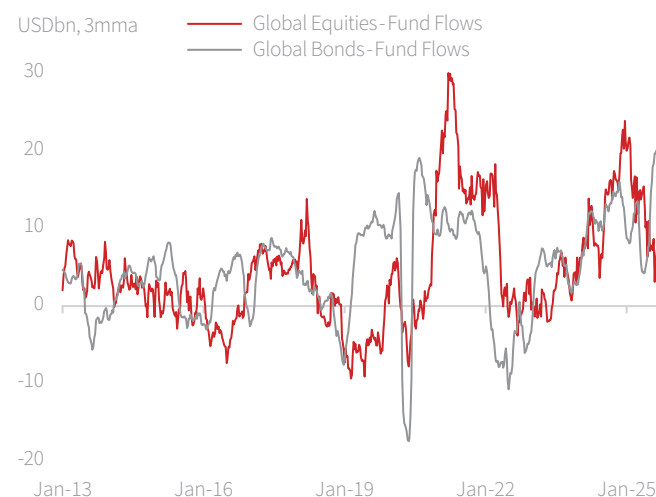
**Cross Assets – Bonds remain in play.** The latest scoring on our CAA framework suggests a preference for bonds over equities.

**Fundamentals:** Despite tariff headwinds, the US economy continues to display broad-based resilience, evident from recent ISM and retail sales numbers which suggests no signs of an extreme slowdown in economic activities. The Atlanta Fed GDPNow is forecasting growth of c.3%, in-line with the growth trend seen since 2022. While jobs growth has moderated somewhat, wage growth remains resilient. On the corporate earnings front, the street is expecting a 12% US earnings growth for 2026, supported by a 6.2% revenue growth and EBITDA margin expansion of 1.6 %pts to 23.4%.

**Valuation:** The gap between the US earnings yield and the UST 10Y yield has deteriorated to -0.5% (as of 2 Sep), reinforcing our preference for bonds over equities.

**Momentum:** Fund flow momentum for equities continues to moderate with USD53bn entering this space in 3Q (as of 27 Aug) and this stands in contrast to the inflows of USD199bn for bonds. Clearly, investors are adopting a wait-and-see stance as they assess the full impact of tariffs on corporate earnings. In contrast, bonds offer attractive yields at this juncture, notwithstanding its defensive qualities that will help cushion portfolio downside during periods of market drawdowns.

## Fund inflows to bonds supersede equities



Source: EPFR Global, DBS

### **Equities: Adding exposure to technology and shifting US equities to neutral; Seek opportunities in Asia ex-Japan.**

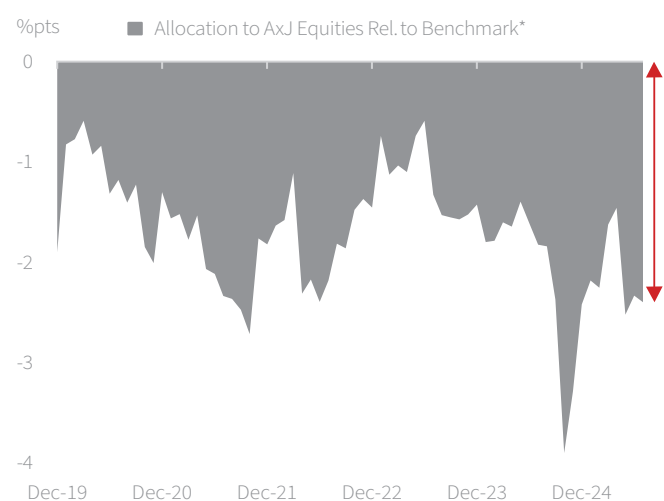
The start of a new rate-cutting cycle by the US Federal Reserve will underpin further upside for global equities in the final months of 2025. But unlike the rally that followed the “Liberation Day” sell-off (which saw markets rising across the board), the impending upcycle will likely be more targeted and less indiscriminate – for one simple reason: valuations are no longer cheap.

Indeed, global equities currently trade at c.16% above their 10Y average (on a forward P/E basis), with premium valuations driven by developed markets, notably in the US. We are currently in an environment where risk assets are “priced for perfection”, with assumptions of Fed accommodation and macro resilience baked into analysts’ forecasts. However, such assumptions leave markets vulnerable to acute profit-taking should jobs or inflation data disappoint in the coming months.

To maximise risk-reward, we advise investors to stay nimble and adopt a “barbell” approach by taking extreme positionings in both growth and value exposures. From a growth standpoint, we advocate adding exposure to US technology. Despite tariff headwinds, technology companies have reported strong earnings and robust forward guidance, underlining their resilience. As the adoption of AI accelerates, we expect the surge in technology investments to sustain earnings momentum, which augers well for the outlook of the sector.

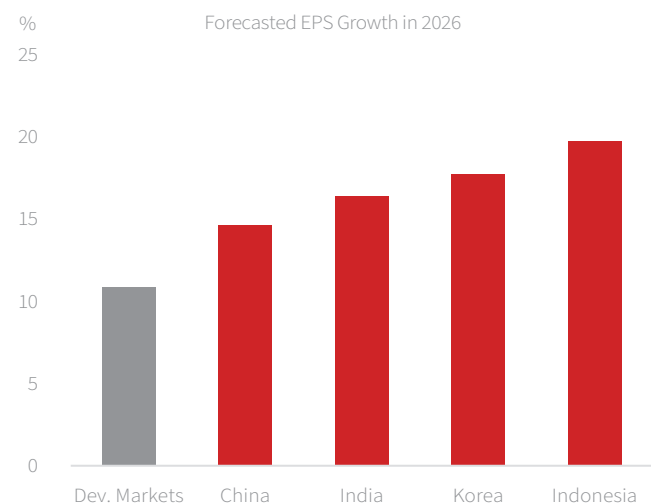
In terms of value play, Asia ex-Japan comes to mind. At 15.6x forward P/E, the region trades at a 28% discount to developed markets, offering a margin of safety for investors during episodes

### **Fund managers remain underweight on Asia ex-Japan**



Source: EPFR Global, DBS  
\* Using ETF weight as proxy

### **Strong earnings growth outlook for Asian markets in 2026**



Source: Bloomberg, DBS

of market sell-offs. Above all, persistent dollar weakness will lend further tailwinds for the market, given the sharp inverse relationship between the US Dollar Index (DXY) and AxJ equities.

Our Asia strategists believe that corporate earnings in populous economies such as China, India, and Indonesia, as well as technology-oriented markets like Korea are poised for positive surprises. Based on consensus forecasts, the street expects 17% average earnings growth for these markets, well above the 11% growth projected for developed markets.

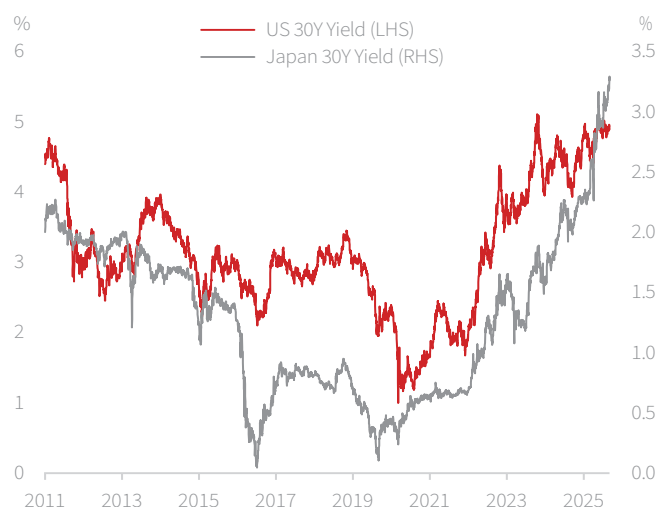
To fund our addition of weights in US technology and AxJ equities, we are downgrading Europe to neutral and Japan to underweight on a 3-month basis.

### **Bonds: Maintain cautious view on ultra-long bonds; prefer IG credit over govies.**

The combination of a softening US labour market and unrelenting political pressure has compelled the Fed to thread the path of least resistance and begin its rate-cutting cycle. However, with tariff-induced inflationary pressures gradually showing up in macro data, this move will no doubt trigger concerns over Fed independence and credibility. Rising long-term yields and a steepening yield curve are clear signs that investors are losing confidence on the Fed’s ability to control inflation further down the road. In this environment, we maintain a cautious view on ultra-long bonds.

On a relative basis, we maintain our preference for corporate credit over govies given that US companies are poised to benefit from tax cuts which bolster their balance sheets. Govies, on the other hand,

### Stay cautious view on ultra-long bonds



Source: Bloomberg, DBS

face perpetual headwinds from fiscal deficits and rising government indebtedness. That said, we are cognisant that credit spreads are currently near historical tights, but for good reasons:

- Expectations of impending rate cuts have compelled corporates to delay bond issuance in hopes of lower financing costs further down the road, resulting in a demand-supply mismatch.
- The Fed's intervention in the credit market during the pandemic has created a perception of "Fed put" in play, leading to a compression of premiums.

In terms of portfolio strategy, we maintain our preference for quality in the A/BBB space, and continue to see better value in IG credit over HY.

**Alternatives: Overweight real assets as US embarks on twin easing (fiscal and monetary); favour private infrastructure and gold.** In a polarising world marked by rising volatility and geopolitical uncertainties, the role of alternatives in portfolio construction has never been more important. Our quantitative analysis shows that a hybrid portfolio consisting of semi-liquid private assets and hedge fund strategies outperforms a pure equity play as well as traditional 60/40 equity-bond portfolio over a 10-year period. Now, as the US embarks on twin easing – both monetary and fiscal – inflation is poised to rise in the years ahead, translating to rising demand for real assets such as private infrastructure and gold.

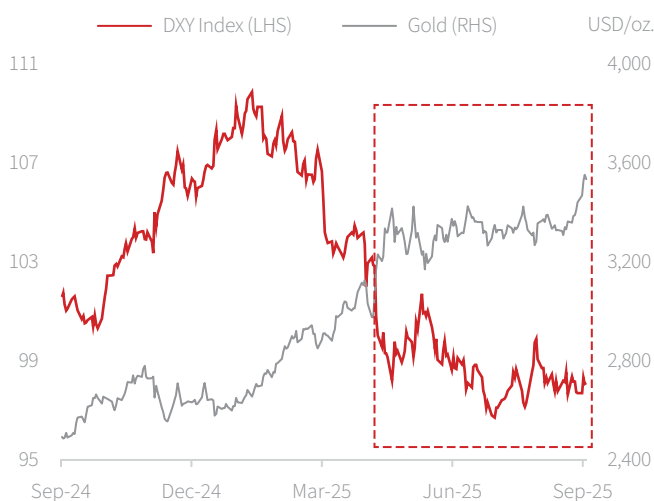
Private infrastructure assets possess two unique qualities that allow investors to generate inflation-protected distributions and hedge against rising inflation: (1) it possesses inflation-linked revenue structures and (2) cash flows are contracted and long-term in nature.

### Private asset's income generators outperform bonds under inflationary pressures



Source: Bloomberg, Pitchbook, DBS

### Surging gold price signals unease over geopolitics, Fed independence, and de-dollarisation



Source: Bloomberg, DBS

We favour infrastructure assets with low elasticity in demand, such as utilities, which allow service providers to pass inflation-driven cost increases on to end users.

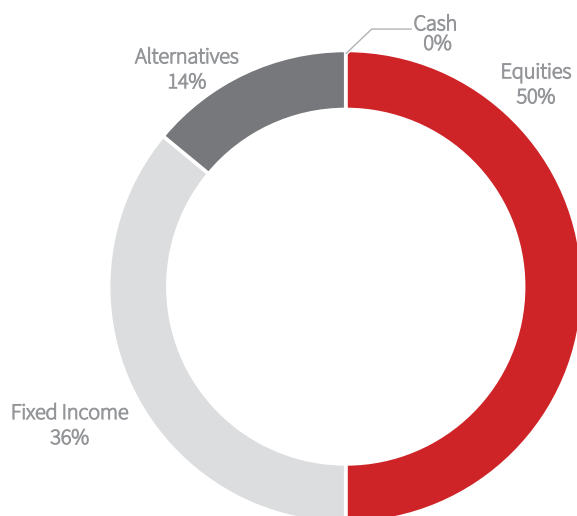
The recent breakout in gold prices beyond the USD3,400/troy ounce mark reflects more than just rising inflationary concerns; it signals growing investor unease over global geopolitical tensions, Fed independence, and de-dollarisation. Gold remains a crucial component of portfolio construction and based on the current pace of central bank purchases, we expect gold prices to hit USD4,000/troy ounce in 1H26.

## 4Q25 CIO Asset Allocation

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

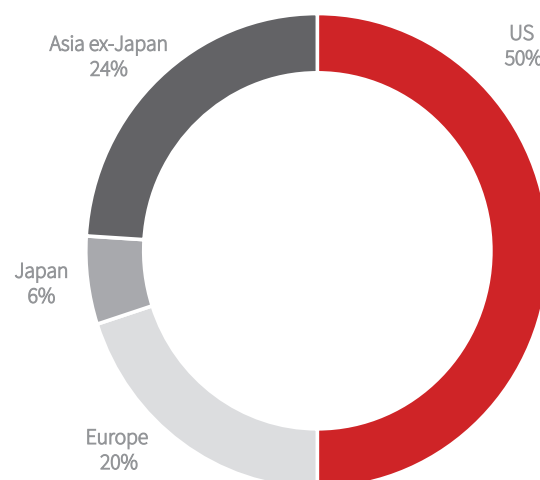
Source: DBS

CIO AA breakdown by asset class (Medium Risk)



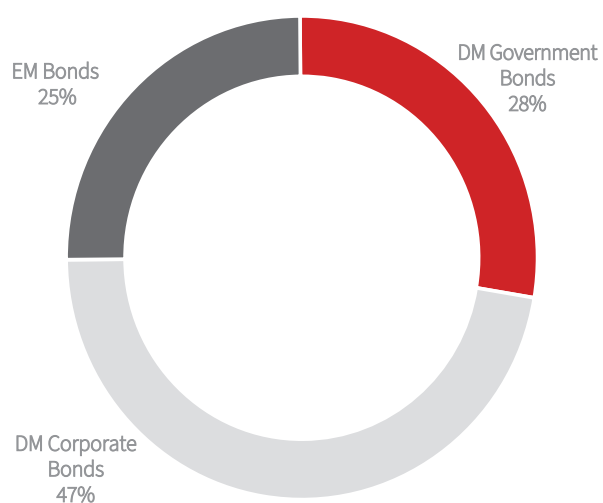
Source: DBS

CIO AA breakdown by geography within equities (Medium Risk)



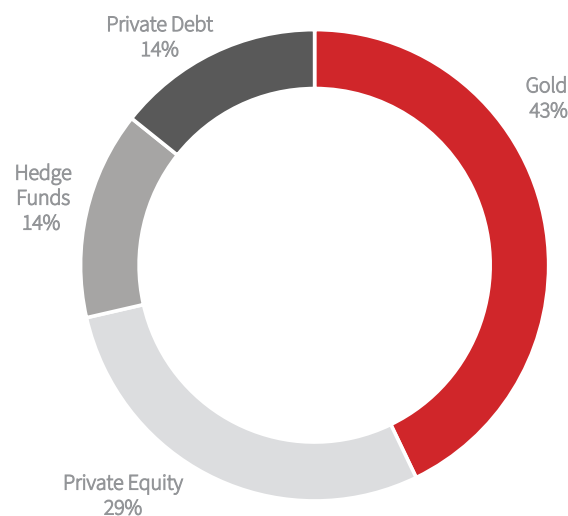
Source: DBS

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



Source: DBS

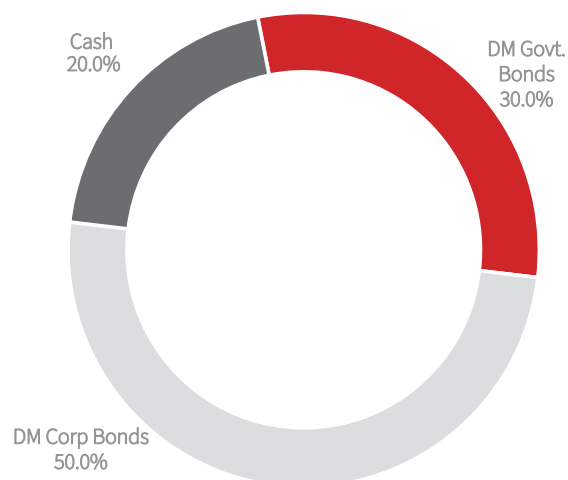
CIO AA breakdown by segments within alternatives (Medium Risk)



Source: DBS

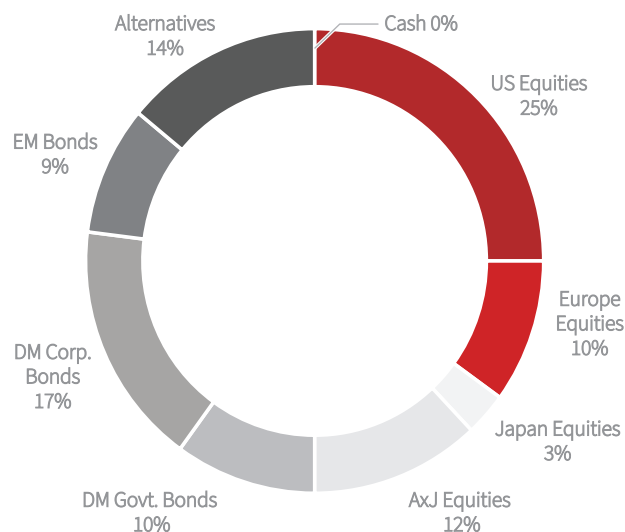


## Low Risk



Source: DBS

## Medium Risk



Source: DBS

## Low Risk

	CIO AA	SAA	Active
<b>Equities</b>	<b>0.0%</b>	<b>0.0%</b>	
US	0.0%	0.0%	
Europe	0.0%	0.0%	
Japan	0.0%	0.0%	
Asia ex-Japan	0.0%	0.0%	
<b>Fixed Income</b>	<b>80.0%</b>	<b>80.0%</b>	
Developed Markets - Government	30.0%	30.0%	
Developed Markets - Corporate	50.0%	50.0%	
Emerging Markets	0.0%	0.0%	
<b>Alternatives</b>	<b>0.0%</b>	<b>0.0%</b>	
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%	
<b>Cash</b>	<b>20.0%</b>	<b>20.0%</b>	

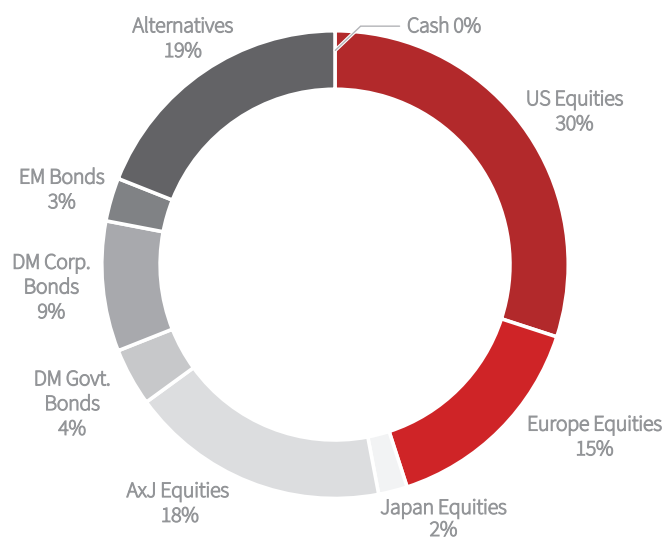
\*Only P4 risk rated UCITs Alternatives

## Medium Risk

	CIO AA	SAA	Active
<b>Equities</b>	<b>50.0%</b>	<b>50.0%</b>	
US	25.0%	25.0%	
Europe	10.0%	10.0%	
Japan	3.0%	5.0%	-2.0%
Asia ex-Japan	12.0%	10.0%	2.0%
<b>Fixed Income</b>	<b>36.0%</b>	<b>35.0%</b>	<b>1.0%</b>
Developed Markets - Government	10.0%	10.0%	
Developed Markets - Corporate	17.0%	15.0%	2.0%
Emerging Markets	9.0%	10.0%	-1.0%
<b>Alternatives</b>	<b>14.0%</b>	<b>10.0%</b>	<b>4.0%</b>
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%
<b>Cash</b>	<b>0.0%</b>	<b>5.0%</b>	<b>-5.0%</b>

\*Only P4 risk rated UCITs Alternatives

## High Risk



Source: DBS

## High Risk

	CIO AA	SAA	Active
<b>Equities</b>	<b>65.0%</b>	<b>65.0%</b>	
US	30.0%	30.0%	
Europe	15.0%	15.0%	
Japan	2.0%	5.0%	-3.0%
Asia ex-Japan	18.0%	15.0%	3.0%
<b>Fixed Income</b>	<b>16.0%</b>	<b>15.0%</b>	<b>1.0%</b>
Developed Markets - Government	4.0%	4.0%	
Developed Markets - Corporate	9.0%	7.0%	2.0%
Emerging Markets	3.0%	4.0%	-1.0%
<b>Alternatives</b>	<b>19.0%</b>	<b>15.0%</b>	<b>4.0%</b>
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%
<b>Cash</b>	<b>0.0%</b>	<b>5.0%</b>	<b>-5.0%</b>

\*Only P4 risk rated UCITs Alternatives

# Global Gridlock

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## Macroeconomics 4Q25

Policy uncertainty from shifting tariffs, political gridlock, and evolving central bank strategies clouds consumer demand and investor sentiment. While the impact of US tariffs on the oil market remains uncertain, major downside risks such as a global recession or negative oil price demand appear to have subsided for now.

# Macroeconomics

Taimur Baig, PhD  
Chief Economist

Radhika Rao  
Economist

Ma Tieying  
Economist

Suvro Sarkar  
Analyst

## US

Regardless of Donald Trump's attempts to oust Fed governor Lisa Cook, it is clear that between political pressure and signs of a weakening labour market, the FOMC is heading towards policy cutting. Near-term communication is expected to emphasise data-dependence and the transitory nature of pipeline tariff-induced inflation, with the end outcome being a series of rate cuts over the next 12 months. These cuts may happen mostly under Fed Chair Powell's tenure, which ends in May 2026, though that timing is no longer central to our view. The bottom line is that short-term US rates will be much lower a year from now.

But what if this path is challenged by the markets? Since the Fed's impending shift towards cutting rates follows relentless attacks by the US president, questions about the US central bank's independence and policy credibility are valid. The markets' scepticism was illustrated last year, when the Sep 2024 surprise 50 bps rate cut was followed by a 70 bps rise in US 10Y bond yields over the next two months. The market's reaction was clear; data on prices, wages, jobs, economic activity, and fiscal policy did not warrant such a move.

Similar concerns abound at this moment. Consider the following three key gauges:

First, economic activity is strong, with the Atlanta Fed Nowcast tracking 2-3% GDP growth over the past few months. Retail sales, depending on the measure one uses (headline or core, year-on-year or monthly, annualised), are tracking 3-4% growth. Mortgage rates have eased, household debt is stable, and home affordability metrics have improved marginally. Sentiment, however, remains poor, particularly regarding both the economic outlook and prices, driven by tariff and immigration measures.

Second, the labour market. Job creation has softened slightly, controversy around payrolls data notwithstanding. Fed officials have noted that the incipient weakness in private-sector hiring is beginning to worry them. Still, unemployment (4.2%) remains low, and wage growth is solid (3.9%).

Third, inflation. The Fed's focus is on the transience of likely pick up in tariff-induced inflation, but there are other areas of concern in our view. From producer prices to services, inflation is showing up in areas beyond tariffs and goods. Services costs picked up in July, with the personal consumption expenditure-based inflation data showing upward momentum in prices for recreation, housing, and financial services.

The fiscal situation, despite all the headlines about spending cuts, is not getting any better, with the Federal Spending Tracker showing government expenditures up 7.4% y/y through end-August. Although tariff revenues were up by USD71bn y/y from January to July, federal outlays were up by USD358bn, underscoring the worsening of fiscal dynamics.

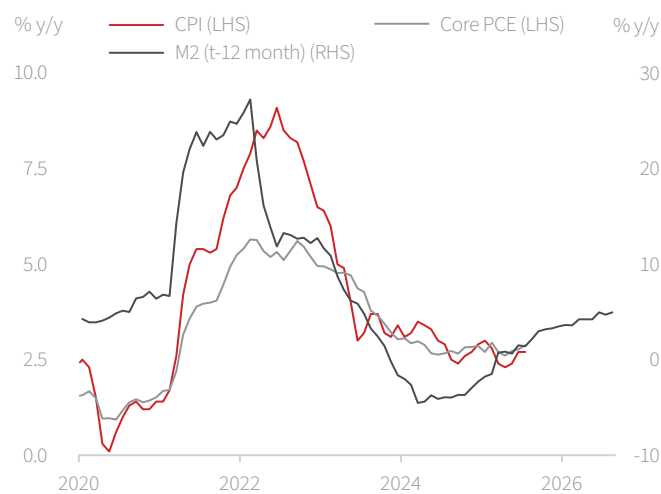
Given all this, a Fed serious about targeting inflation in the 2% range ought to be reticent about cutting rates, but it is guiding markets towards that very scenario. Just like in late 2024, the market's reaction has been to worry about inflation down the road, tempering demand for long-term bonds. The yield curve has begun to steepen, which does not bode well for the financial market outlook.

### US Treasury curve



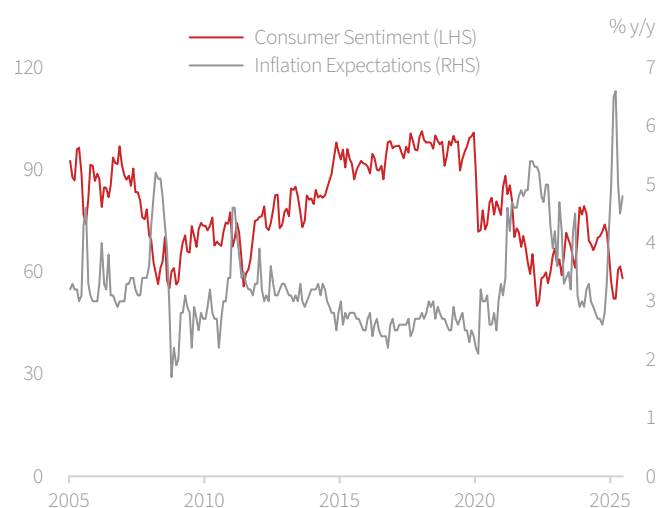
Source: Bloomberg, DBS

## US inflation markers



Source: Bloomberg, DBS

## US consumer sentiment



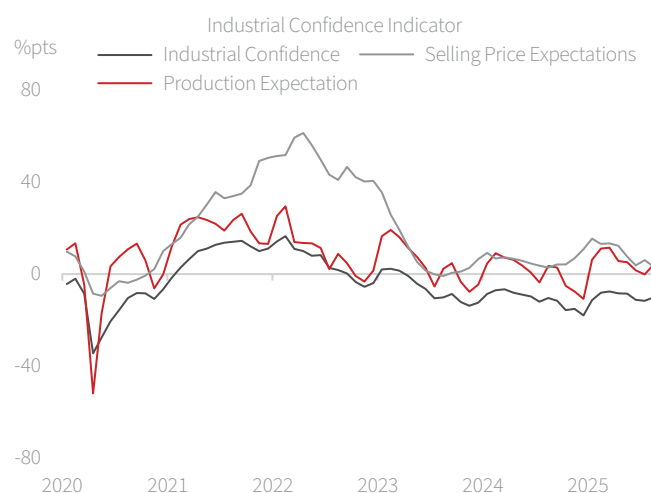
Source: University of Michigan, CEIC, DBS

## Eurozone

We revise the Eurozone's 2025 growth to 1.2% y/y, up from 0.8% previously, while dialling down the 2026 projection to 1.0% from 1.2% earlier. This adjustment takes into account the upside surprise in the first half of the year, when growth averaged a firm 1.5% y/y. After a strong first half, 2H25 is likely to weaken (assuming zero sequential growth) owing to the fading impact of export frontloading, broader caution over tariff developments, and a slower pace of domestic fiscal spending. Uncertainty is likely to prevail next year.

Domestic demand, led by household consumption, is expected to remain in the driver's seat, even if pick-up is weaker than previously anticipated, benefitting from a lower unemployment rate, stable inflation, and scope for savings to be drawn down. Investments are likely to improve, driven by higher defence spending in response to the long-running Ukraine-Russia war and risks of reduced strategic support from the US. Bank lending growth – for households and non-financial corporates – has bottomed out and is improving, partly due to the central bank's easing policy bias. Industrial confidence indicators continue to tread water, as firms are buffeted by geopolitical risks and tariff-led uncertainty during this period.

## Industrial confidence treads water

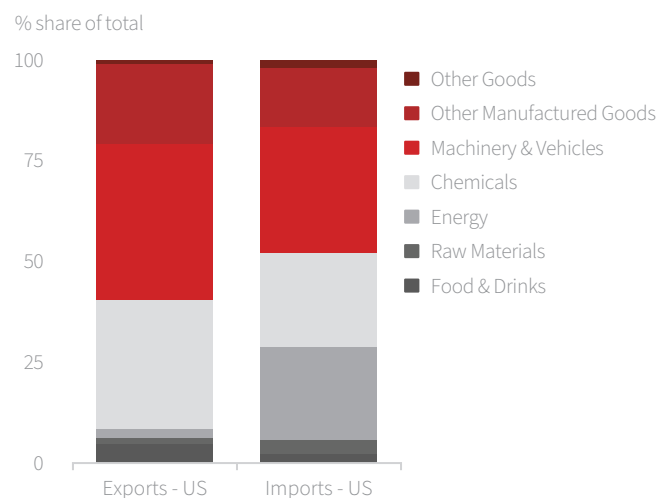


Source: CEIC, DBS

The ReArm Europe Plan 2030 aims to mobilise EUR800bn to raise military spending in Europe to 3.5% of GDP by the end of the decade. With this likely to impact national budgets, allowances like the National Escape Clauses (NEC) and the SAFE initiative could provide leeway to increase spending. Given the gradual ramp-up in infrastructure and defence expenditure, we expect the impact to be evident from next year. Nonetheless, part of the correction in public debt levels from Covid-era highs is set to reverse in the coming years. In addition, a moderation in inflation will also lower nominal GDP growth, thereby lifting debt ratios.

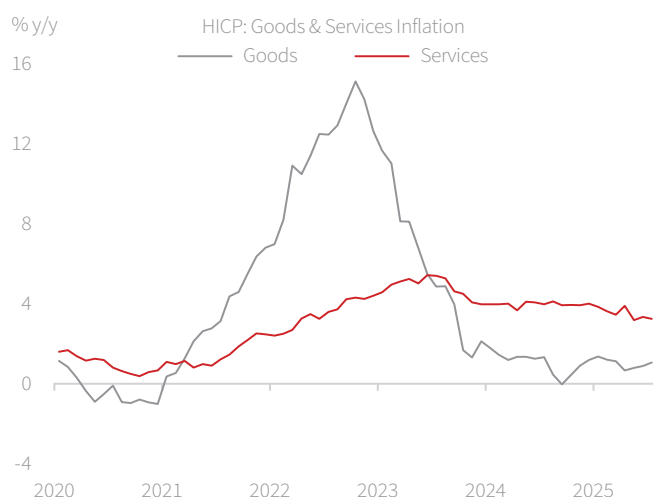
On the tariff front, the EU is in the midst of fast-tracking legislation to remove all tariffs on US industrial goods. This was a precondition set by the US administration to lower the tariff rate on imports of autos and components from Europe to 15% (down from the 27.5% levied earlier), levelling the playing field with other sectors. In return, the US will commit to zero or near-zero tariffs on certain product categories – in which only the most-favoured nation (MFN)

## Trade in the US (2024)



Source: Eurostat, DBS

## Services inflation proves sticky



Source: CEIC, DBS

tariffs will apply – from 1 Sep. These categories include unavailable natural resources (such as cork), all aircraft and aircraft parts, generic pharmaceuticals, among others, with expectations that the list will expand further. The US is the EU's largest trading partner, accounting for a fifth of extra-EU exports, with Germany being the most exposed among the core four economies. Outside of this group, Ireland and the Netherlands are also significantly exposed.

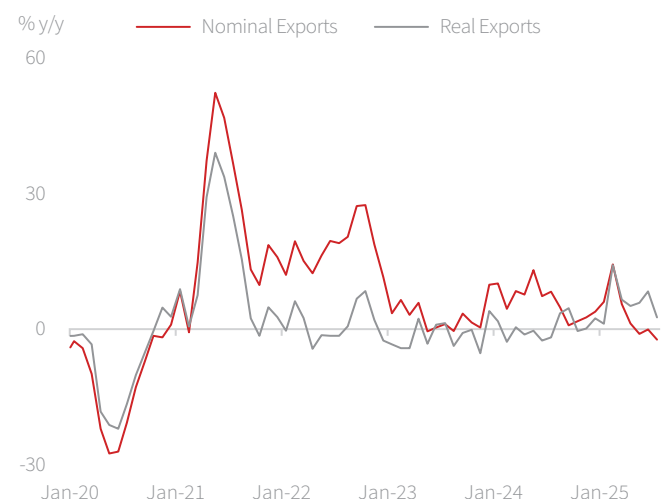
Goods inflation has stabilised in the past year with the Jan-Jul 2025 average at 1.0% y/y. However, service price pressures have proved stickier, averaging 3.5% y/y over the same period, driven by wage growth and higher demand for contact-intensive sectors. Combining these dynamics – aggregate inflation slightly above target at 2.2% y/y

in 7M25 and the neutral policy guidance at the recent rate review – there are indications that the ECB's rate-cutting cycle has run its course. We remove our forecast for one additional cut this quarter and expect the deposit facility rate to stay at 2% for the rest of this year and the next. Renewed signs of a sharp slowdown, a EUR rally, and slower government expenditure are likely to be pre-conditions for the ECB to return to an easing bias.

## Japan

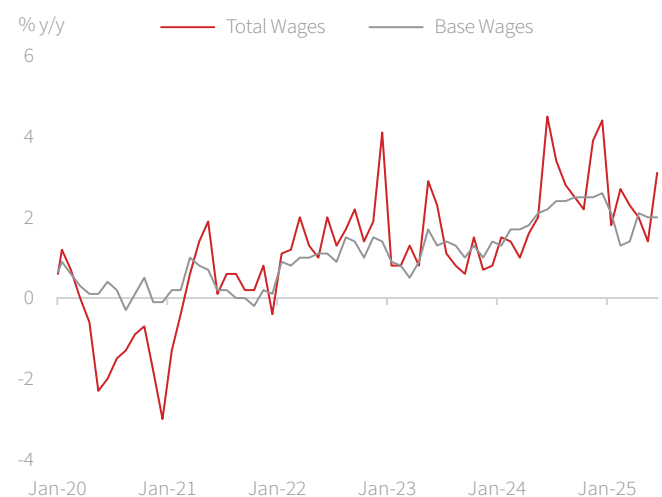
Japan's economy is expected to face external headwinds through the remainder of 2025, while domestic demand remains relatively resilient. Export conditions are likely to soften in the second half of 2025 and into 2026, as US tariff hikes take effect and the temporary boost from frontloaded US imports wanes. The impact on Japan's

## Exports losing momentum



Source: CEIC, DBS

## Wage growth remains resilient



Source: CEIC, DBS



labour market may emerge with a lag. Wage growth is projected to remain solid for the rest of this year, continuing to support private consumption and cushioning the domestic economy.

The recently concluded Japan-US trade agreement reduced reciprocal tariffs – including those on automobiles – to 15%, helping Japanese exporters maintain a level playing field with global competitors in the US market. Separately, Japan will expand rice imports from the US under its existing total minimum access framework. This shift is expected to displace imports from other countries rather than compete directly with domestic rice producers.

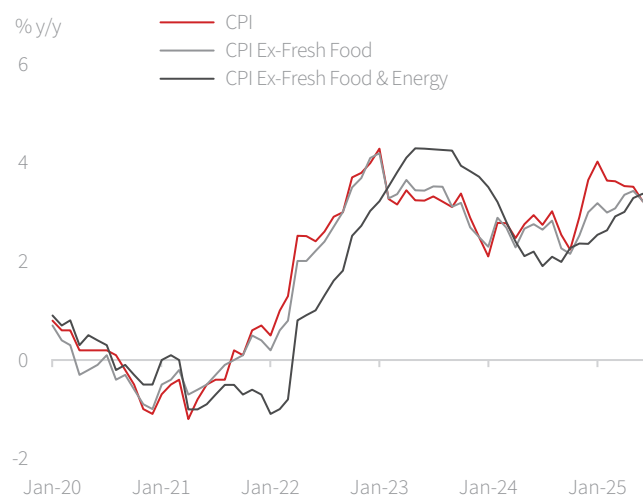
In the automobile sector, Japan's import tariff was already 0% prior to the trade deal. The limited competitiveness of US vehicles in Japan continues to stem primarily from product-related factors – such as design, vehicle size, and consumer preferences – rather than tariff barriers.

Japan has also committed to a USD550bn investment initiative in the US, comprising of direct investments, loans, and loan guarantees. This initiative will be facilitated mainly through government-affiliated financial institutions. Given the multi-year scope and use of various financial instruments, the target appears achievable, with limited risk of crowding out domestic investment.

On the policy front, moderate fiscal stimulus and a gradual normalisation of monetary policy are anticipated. Fiscal stimulus measures may include a supplementary budget of JPY15–20tn. The BOJ is expected to retain its monetary policy independence while cautiously raising rates – targeting an overnight call rate of 0.75% by 4Q25 and 1.00% by 4Q26.

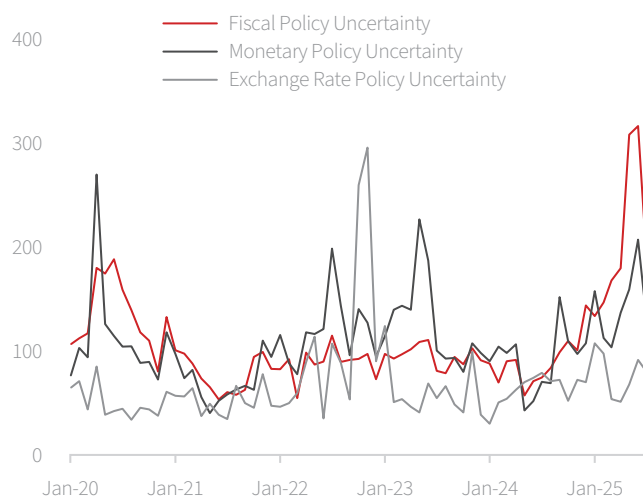
However, political uncertainty could complicate policy implementation. Following the July upper house election, the ruling Liberal Democratic Party lost control of both chambers of the National Diet, resulting in legislative gridlock. This impasse may delay key legislation and increase pressure to adopt populist policies. The opposition Constitutional Democratic Party supports a temporary 0% consumption tax on food and essential items, while the Democratic Party for the People advocates a permanent cut in the consumption tax from 10% to 5%. Although such measures could temporarily boost GDP growth and ease inflation, they may also reduce tax revenues and raise concerns over long-term fiscal sustainability.

### Sticky inflation necessitates monetary policy normalisation



Source: CEIC, DBS

### Elevated uncertainty around fiscal policy direction



Source: CEIC, DBS

### Asia

Global growth momentum is waning, which is typically accompanied by a lower return on capital and, by extension, lower interest rates. One part of this dynamic is visible in recent data. Having fought inflation hard in 2022-2023, global central banks began lowering short-term interest rates from 2024 onwards – not in reaction, but in anticipation of slowing economic growth. A partial easing of inflation concerns also contributed to this rationale.

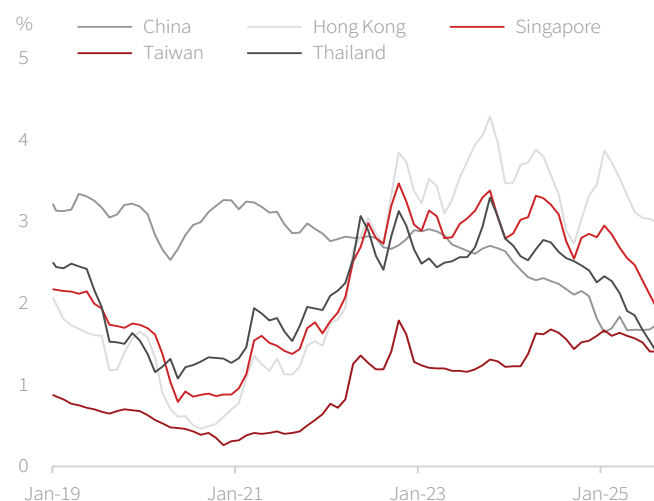
But another part of the dynamic is not playing out among large, industrialised economies. Through the rate hike and subsequent rate cut cycle, long-term interest rates have continued climbing higher. Most tellingly, the US 10Y bond yield has risen by more than 50 bps since the rate cut cycle began in Sep 2024.

We see similar pictures in Germany, Japan, and the UK. Japan's situation is somewhat different, where the BOJ is on an on-again, off-again path of interest rate normalisation, after decades of unconventionally easy monetary policy. Germany and the UK, meanwhile, reflect factors similar to those in the US — waning economic growth momentum, rising fiscal burden, and increasing concerns about the policy resolve and cohesion needed to deal with prevailing macroeconomic imbalances.

Curve steepening, as opposed to flattening, during a rate cut cycle is problematic. They reflect the market's scepticism about policy efficacy. Is inflation about to return? Will fiscal metrics continue to deteriorate? Will there be sufficient demand for the large-scale debt issuance in the pipeline? Is the debt issuing nation showing signs of institutional erosion? These questions appear to be weighing, albeit with some variance, on several DM bond markets.

In contrast, key debt markets in Asia are devoid of such headwinds presently. Long-term rates are on a declining path, with no major concerns regarding central bank credibility in fighting inflation or public sector debt sustainability. The exchange rate outlook is supported by geopolitical factors and favourable external flows. From China to India and Singapore to South Korea, local debt market

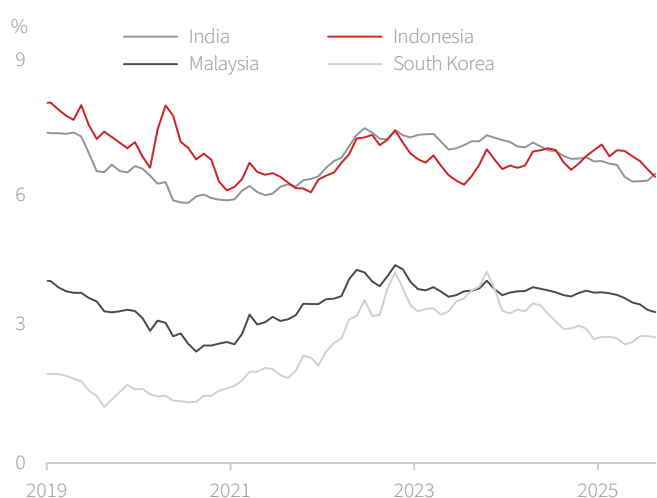
#### Asia's bond yields (Select countries)



Source: Bloomberg, DBS

dynamics look favourable. On the demand side, there is the weak dollar narrative, with total returns on US investments being subject to increasingly unfavourable cross-currency basis differentials. On the supply side, key variables associated with debt sustainability, especially real GDP growth, real interest rates, and the path of fiscal balances, all appear attractive from the perspective of a portfolio manager or retail investor. While fully recognising the risks related to political noise in some countries, geopolitical shifts, and trade tensions, the overall outlook and relative value propositions remain compelling. For global bond investors seeking superior absolute returns, Asia has been rewarding. We expect this trend to persist.

#### Asia's bond yields (Select countries)



Source: Bloomberg, DBS

#### Oil price outlook muted amid supply glut fears

##### Oil price volatility dims as geopolitical risks remain contained.

Over the last few months, the oil price outlook has remained on edge on many an occasion, driven by an uncertain geopolitical environment. But spikes have been short-lived, if any, as fears of supply glut have intensified owing to continued OPEC+ unwinding. The geopolitical uncertainties have however, kept Brent crude oil prices hovering around the USD65-70/bbl levels in 3Q25, despite the OPEC+ supply strategy which aims to unwind more than 2.2mn barrels per day of voluntary supply cuts by September. Support for oil prices could diminish hereon though as we enter a seasonally weaker period of the year, and the supply-demand gap could widen, putting pressure on inventories. Our estimates for Brent crude oil price average are thus reduced slightly to USD67-72/bbl for 2025 (down from USD70-75/bbl earlier) and USD62-67/bbl for 2026 (down from USD65-70/bbl earlier) given that geopolitical risks and

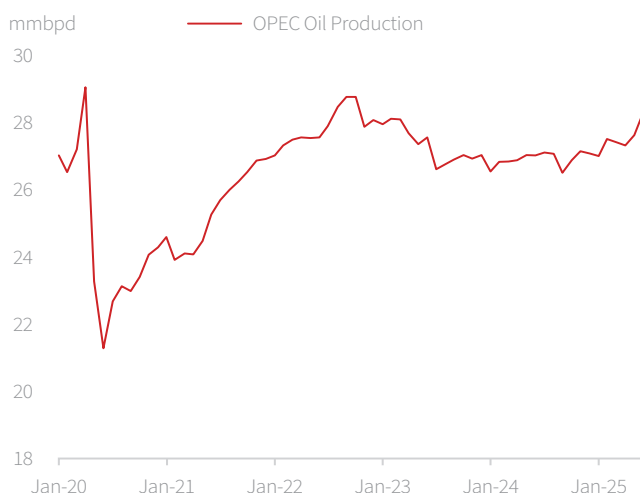


Brent crude oil prices saw some spikes before stabilising in USD65-70/bbl range



Source: Bloomberg, DBS

OPEC supplies show sharp increase for the first time since 2022



Source: Bloomberg, DBS

sanctions remain relatively contained so far, though we cannot fully rule out escalation risks.

**OPEC+ output hike the key limiting factor for oil prices.** The OPEC+ group of eight producers – known as the Voluntary 8 or V8 comprising Saudi Arabia, Russia, Iraq, UAE, Kuwait, Kazakhstan, Algeria, and Oman – have met monthly this year to decide on upcoming production plans and have consistently surprised the market by announcing accelerated production increases, with the entire 2.2mn barrels per day of output cut reversals done and dusted by Sep 2025 instead of the originally planned timeline of Oct 2026, at least on paper. The fact that the market is absorbing this supply increase while oil prices remain relatively stable at around USD65/bbl Brent continues to encourage Saudi and its allies to push through more additions and regain market share at the expense of non-OPEC producers like the US amid peak demand season dynamics in 3Q.

The group's latest meeting in early September concluded in a similar vein, signalling the rollback of another earlier round of voluntary production cuts totalling 1.65mn barrels per day. Once this rollback is done, all the voluntary cuts undertaken by the V8 sub-group would be taken away and OPEC+ can then restart on a clean slate and go back to instituting group-wide cuts if needed, instead of just a few countries taking the load. While the OPEC+ supply response continues to remain flexible depending on market conditions, the current course of action appears to be driven by a desire to gain market share rather than to support oil prices at a specific level. Hence, this mini oil price war could limit any upside in oil prices stemming from improved demand sentiment from the resolution of trade wars.

**US shale oil supplies expected to slow heading into end-2025 and 2026.** US shale oil production has shown strong growth over the last few years, but that trend could be reversing. The lower prevailing

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

(USD PER BARREL)	1Q25A	2Q25A	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Average Brent crude oil price	75.0	66.5	68.5	64.5	61.0	64.5	65.0	64.0
Average WTI crude oil price	71.5	64.0	65.5	61.5	58.0	61.5	62.0	61.0

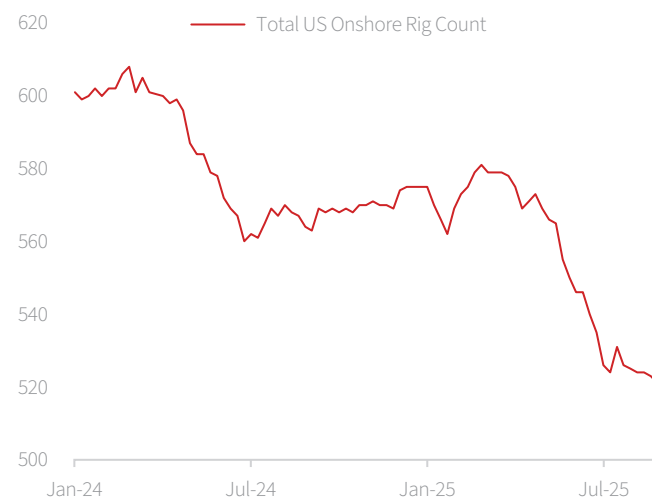
Source: DBS

crude oil prices YTD in 2025 have led to a fall in US onshore rig counts and frac activity, which is likely to result in a lagged decline in US shale oil production in the coming months. Although average 2025 production levels will see a slight y/y increase, US shale oil production is expected to decline on average in 2026, marking the first annual decline since 2021, as producers cut capex. This will offer some respite to the global supply situation, and help OPEC regain some of the market share lost in recent years. However, other sources of strong non-OPEC growth, such as Brazil and Guyana, are expected to ramp up production despite the softer oil price environment. This is due to the long-term offshore project dynamics in those regions, in contrast to the short-duration shale wells in the US.

#### **Impact of US policies on the oil market remains a wild card.**

Brent crude oil prices have seen quite a few swings since the start of Trump's tariff wars in April. Given the progress of trade deals so far, major downside risks of a global recession or negative oil price demand seem well out of the way now. However, significant areas of uncertainty remain, such as the finalisation of US-China trade talks and the outcome of recently imposed penal tariffs on India. Downside risks to global growth from these developments cannot be ruled out entirely. On the other hand, US involvement in global conflict hotspots is another area to watch out for. The Iran-Israel war recently added a new dimension, and even though hostilities have since subsided, stricter US sanctions on importers of Iranian oil could take some supplies off the market if Chinese teapot refineries respond. Similarly, threats of secondary sanctions on importers of Russian oil, especially India, pose further supply disruption risks. These factors create upside risks for oil prices, though we would assign a low probability to any US decision that would upend global oil trade, given the US president's stated preference for a moderate energy price environment amid sticky inflation in the US.

US shale oil production likely to see declines setting in as lower oil prices bite



Source: Bloomberg, DBS

# Navigating Cross-currents

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## US Equities 4Q25

The S&P 500 is set to navigate cross-currents of stable macro conditions and yet, rising policy uncertainties in 4Q25. Valuation for S&P 500 looking rich at a time when tariff-related headwinds remain. Downgrade US energy to underweight as oil prices are expected to stay subdued given OPEC+ plan to unwind supply cuts. Maintain conviction view on technology.

# US Equities

Dylan Cheang  
Strategist

**Cross-currents: Macro resilience vs policy concerns.** The S&P 500 has staged a remarkable rebound since the trough of the “Liberation Day” sell-down, fuelled no less by Trump’s volte-face on tariffs threats and subsequent extension of timelines. More importantly, broad-based macro resilience and a “Goldilocks” trading environment also gave risk sentiments another boost. As we head into the final quarter of 2025, we expect the S&P 500 to navigate the cross-currents of stable macro conditions and rising policy concerns – especially those pertaining to Fed independence.

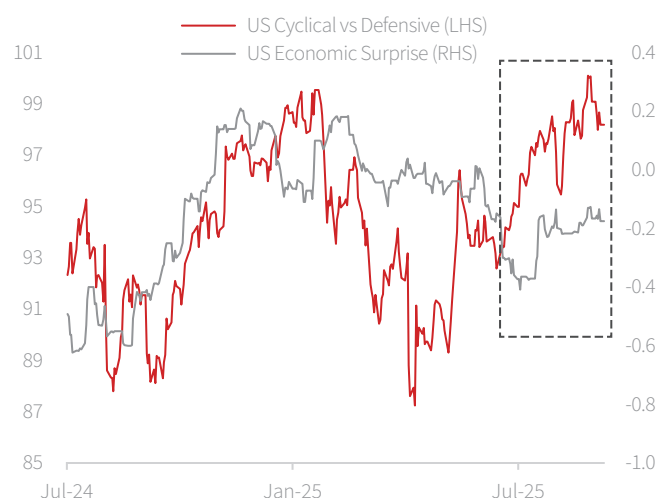
- **Macro resilience:** Macro momentum remains upbeat, as evidenced by the US economic surprise indicator, which has been trending north since end-June. ISM and retail sales numbers show no signs of an extreme slowdown in economic activity, while the Atlanta Fed GDPNow is forecasting growth of c.3% – in-line with growth trend since 2022.

These stable macro conditions are, in turn, translating into an optimistic earnings outlook, with analysts forecasting 12% growth for 2026, supported by a mixture of top-line revenue growth and EBITDA margin expansion. The US cyclicals vs defensive ratio suggests that investors are pricing in further rebound in economic surprises.

- **Policy concerns:** While tariff-related policy concerns have dialled down significantly, a new headwind has emerged on the horizon – the potential erosion of the Fed’s independence. Trump’s attempt to remove Fed Governor Lisa Cook and bend monetary policy to his will is unprecedented. If left unchecked, it will undermine the central bank’s hard-won credibility and threaten the dollar’s status as the world’s reserve currency.

The widening divergence between US Treasury 30Y and 2Y yields reflects rising investor concern over policy risks in the US, including budget deficits and de-dollarisation. Further erosion of the Fed’s independence will only deepen this divergence, pushing long-term yields higher while plummeting the dollar.

Investors pricing in further rebound in US economic surprises

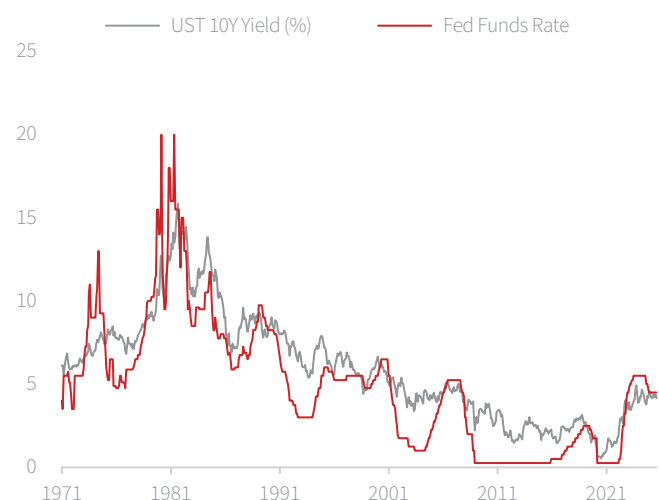


Source: Bloomberg, DBS

**The start of a new Fed easing cycle: What to expect?** It is common knowledge that Fed monetary easing will be positive for US equities as valuations get boosted by a lower discount rate (using the UST 10Y as a proxy). Based on the futures market, the central bank is expected to cut rates five to six times by end 2026. But while the Fed can control the short end of the curve, the long end is dictated by markets – and today, we are in a very different cycle compared to yesteryears.

Rising concerns over US fiscal largesse and policy chaos have kept long-term yields elevated despite talks of impending rate cuts. Given limited success in cutting back on government spending, we expect these headwinds to linger for the foreseeable future. This, in turn, will keep longer-term bond yields elevated and dampen the effectiveness of Fed monetary easing, both on the economy and financial markets.

## Longer-term yields may stay elevated in the current Fed easing cycle



Source: Bloomberg, DBS

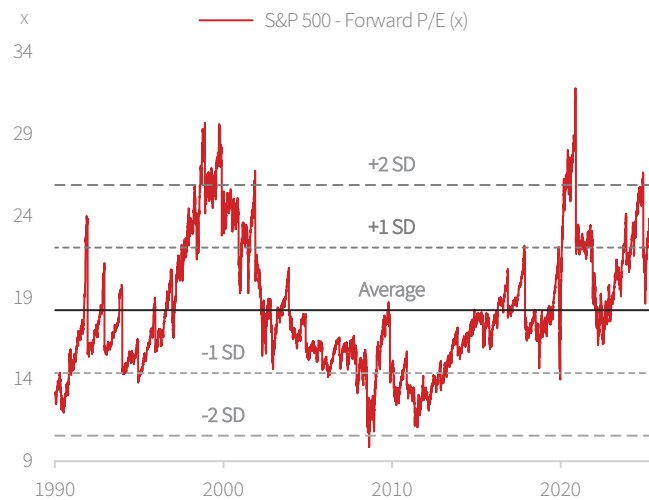
**Watch your blind spots: Valuation and earnings risk.** Since the trough of “Liberation Day”, the S&P 500 has rallied sharply as the market priced in falling policy risks and impending monetary easing. But the optimism is unfortunately not matched by fundamentals as the earnings forecast remains flat, contributing to the spike in valuations. At 24.3x forward P/E, valuation for the S&P 500 is edging close to the +2 SD expensive mark. Meanwhile, earnings momentum is showing signs of tapering off, particularly in the S&P 500 ex-technology space. Even within the technology space, unprofitable companies are expected to remain in the red through 2026.

Separately, we are closely watching how tariffs will impact earnings in the coming quarters. We have long maintained that the tariff income which the US government currently enjoys must be funded somewhere. Should importers absorb some of the pain, it will translate to earnings downgrades – a trend already evident among US retailers. For instance, Walmart has said that US tariffs are driving up costs and squeezing profit margins this year.

## 4Q25 US Sector Strategy – Position for Fed easing

**Ride the Fed easing cycle with technology plays.** Performance for our sectoral allocation calls was a mixed bag in 3Q25 (as of 5 Sep). While our overweight basket (+4.1% on average) outperformed the neutral basket by 1.7 %pts, it nonetheless underperformed the underweight basket by 0.8 %pts. Within the overweight calls, communication services and technology performed well at +11.5% and +5.8% respectively. However, consumer staples and healthcare were a significant drag on performance.

## Equity valuation hovering near +2 SD expensive mark



Source: Bloomberg, DBS

The robust performance for the underweight basket is attributed to the consumer discretionary sector. Our original assumption of a consumption slowdown due to new immigration policies, weak affordability, and DOGE-related job cuts did not materialise as US consumers proved to be more resilient than expected. As we head into 4Q25, we advise investors to position their sector allocation for the Fed easing cycle. We are making the following portfolio switches:

- Upgrading consumer discretionary to neutral: US consumption is expected to receive a substantive boost from Fed rate cuts as consumers borrow more cheaply to fund purchases. More importantly, high growth, technology-related companies within the sector (such as Amazon) tend to perform well during periods of policy accommodation. This, coupled with positive impact from the extension of tax cuts under Trump’s “One Big Beautiful Bill” Act, suggests that a more neutral portfolio stance is warranted.
- Downgrading energy to underweight: Oil prices are expected to stay subdued in the current range amid: (1) OPEC+’s plan to unwind more than 2.2mn barrels per day of supply cuts by September and (2) a muted geopolitical risk and sanctions environment. Given a widening demand-supply gap, we have lowered our forecast for average WTI crude oil price for 4Q26 to USD61/bbl (from USD65/bbl), which does not auger well for the outlook of energy stocks in the S&P 500.
- Downgrading consumer staples to neutral: With growth stocks being the geared beneficiaries of a Fed rate-cutting cycle, we see limited opportunities for consumer staples companies to outperform in 4Q25. Hence, a neutral call is more appropriate at this juncture.

**Ride the bifurcation wave: Increase exposure to US technology and bring overall US equities exposure to neutral.** The robust 2Q25 US earnings season saw 80% of companies reporting positive earnings surprise, while 70% registered earnings growth. But despite the robust headline number, huge bifurcation exists. Case in point: earnings growth for technology-related sectors (technology and communications services) averaged 18% in 2Q25. However, sectors outside of this group registered an average growth of only 0.8%. We believe that this bifurcation trend will persist as tariff headwinds will have a bigger impact on traditional industries with thin margins and low bargaining power. Technology companies are better positioned to ride the new normal of heightened geopolitical and policy tensions. From a portfolio construction standpoint, we advocate investors to increase exposure to US technology and bring overall US equities exposure to neutral.

#### US Sector Allocation – 4Q25

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

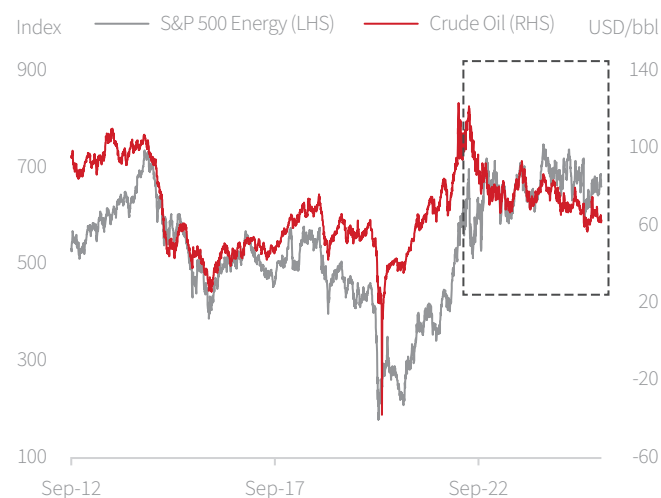
Source: Bloomberg, DBS

#### US Valuation Table

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

Source: Bloomberg  
Data as at 22 Sep 2025

#### Lacklustre crude oil price to weigh on US energy stocks



Source: Bloomberg, DBS



# Pause and Refresh

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## Europe Equities 4Q25

Despite 1H25 strong rally, European equities offer further gains, driven by improving growth outlook, robust shareholder returns, and German fiscal stimulus. While 4Q25 may see margin compression from tariffs and a strong euro, attractive valuations and under-ownership position them as prime beneficiaries of diversification away from US assets.

# Europe Equities

Joanne Goh  
Strategist

European equities have largely traded sideways since March after a strong start to the year, reflecting weaker earnings momentum and elevated valuations after the strong price moves. Looking ahead, we see scope for further gains, supported by an improving growth backdrop, robust cash returns to shareholders, and selective pockets of strength in capex and fiscal infrastructure. Meanwhile, high US valuations and concentration, along with an uncertain US economy under the Trump administration, continue to drive diversification away from US assets. Investors' positioning surveys show that Europe equities are generally under-owned and should therefore be a beneficiary of capital flows diversion from the US.

We expect German fiscal policy to expand significantly, paving the way for growth to be lifted from 4Q25 onwards. In line with this, German confidence surveys have been trending higher, particularly in stimulus-sensitive sectors such as manufacturing and construction. This underpins our conviction for European equities, especially Germany, to outperform.

**Earnings impacted by tariffs and strong euro.** Projected EPS growth for 2025 has been revised down to flattish growth from 8% since the start of this year. In the latest 2Q earnings results, European equities under STOXX 600 reported aggregate earnings growth of 4% and 2% sales decline. The prospect of additional margin compression in 4Q25 is a growing concern as i) more tangible impact of the US 15% tariffs on most European goods will gradually become more visible and ii) a strengthening euro, further spurred by the Fed's easing cycle, will exacerbate the negative impact on export-reliant sectors.

Among the domestic sectors, the aerospace and defense (A&D) industry was a standout performer, registering an exceptional 68% earnings growth. Financials and utilities also contributed significantly, showing robust earnings expansion that exceeded market expectations by over 10%. The resilience of these sectors were underpinned by underlying structural growth drivers and defensive attributes.

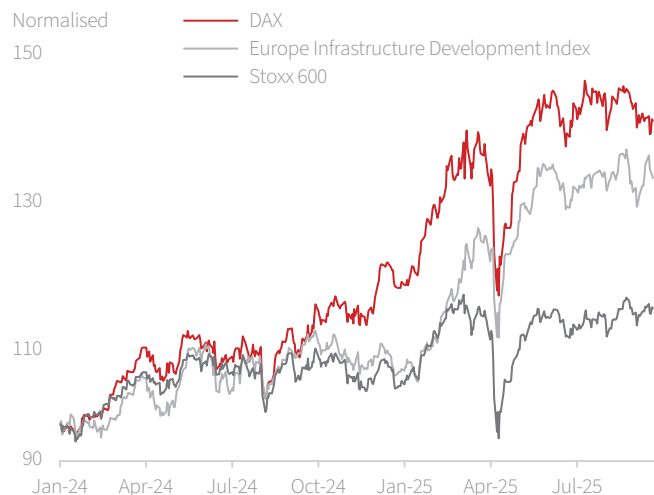
## Europe's 2Q25 sales and earnings by sector

2Q25	Growth (% y/y)		Surprise (%)	
	Sales	Earnings	Sales	Earnings
Technology	4%	56%	-1%	6%
Healthcare	5%	20%	0%	5%
Financials	-3%	12%	-6%	11%
Materials	-5%	6%	-3%	-19%
Industrials	3%	6%	0%	2%
Utilities	-2%	6%	-7%	11%
Real Estate	3%	5%	2%	1%
Comm. Services	-1%	5%	0%	-4%
<b>STOXX 600 Europe</b>	<b>-2%</b>	<b>4%</b>	<b>-1%</b>	<b>5%</b>
Cons. Staples	1%	0%	-2%	3%
Energy	-9%	-24%	4%	3%
Cons. Discretionary	-5%	-35%	-2%	-1%

Source: Bloomberg, DBS  
Data as of 1 Sep 2025

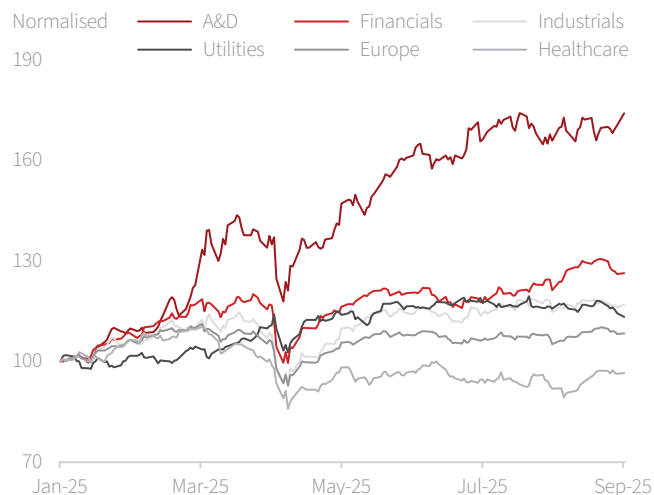


### Outperformance of German and infrastructure & defence equities



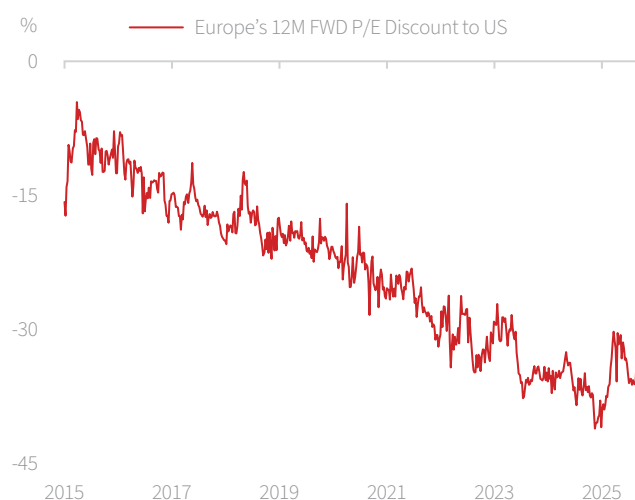
Source: Bloomberg, DBS

### Strong performance of Europe's financials, defence, and utilities sectors

Source: Bloomberg, DBS  
Based on MSCI; Data as of 1 Sep 2025

**Valuations not expensive on a relative basis.** Following strong early-year gains, European equity valuations have moved up by 40% from its lows and traded above its 10-year average. Moreover, with ECB bond yields moving higher, equity valuations appear less attractive relative to bonds when assessed on an Earnings-Bond yield gap basis. That said, at 14.6x forward PE, Europe still appears attractive relative to the US at 22.8x. Additionally, Europe offers an average dividend yield of 3.2% - comfortably above Eurozone's bond yields. Whether seeking income or diversification, investors will find that Europe remains well positioned on these metrics.

### Valuation discount to US near historical high



Source: LSEG, DBS

**Changing French politics not a concern.** France's political uncertainty lingers after ex-PM Bayou failed to secure parliamentary support for his budget measures at the confidence vote on 8 Sep. President Macron has announced new PM Lecornu where the market will wait for meaningful fiscal resolution. Despite this turmoil, we expect limited impact as Europe equities' outperformance was largely driven by Germany's expansionary fiscal policies.

### 4Q25 Sector Strategy

European sectors would continuously be affected by a blend of cyclical and structural forces, including:

1. Euro appreciation pressuring export-heavy sectors
2. Potential ceasefire of Russian-Ukraine war would benefit all sectors while near term volatility for defense sector remains
3. German fiscal spending boosting domestic demand and infrastructure activity
4. AI-led demand shifts reshaping tech, industrial, and utilities sectors
5. Tariff escalation/de-escalation, particularly affecting autos and materials sectors

Given these, we prefer sectors which are defensive, less-export oriented, and beneficiaries of long-term structural tailwinds.

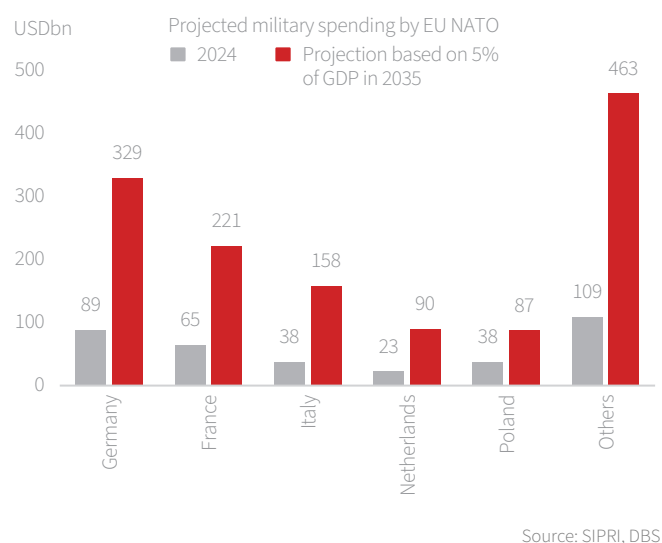
## Defence: A new era of investment and technology modernisation

Despite recent consolidation of the defence sector from market expectations of a potential Russia-Ukraine war ceasefire, we maintain our constructive view as long-term tailwinds for the sector remain.

Europe is unequivocally embarking on a multi-year rearmament cycle, with defence budgets rising sharply and fiscal rules easing to support sustained investment—highlighted by the EU's EUR800bn "ReArm Europe" initiative and increase in NATO's defence spending target to 5% of GDP by 2035 from 2%. In alignment with these strategic objectives, the total EU NATO military spending is projected to register 13% CAGR growth during 2024-2035, according to SIPRI.

Furthermore, the sector is evolving beyond legacy contractors towards an accelerated adoption of AI, autonomy, and cyber technologies. This presents significant upside potential for Europe's defence tech contractors (including SMEs), given the urgent need for technology modernisation and integration. Consequently, Europe's defence industry is primed for superior earnings growth globally.

### EU NATO defence spending to register 13% CAGR during 2024-2035



## Utilities: Enduring resilience and strategic growth

Following a robust 2Q25, marked by resilient earnings and strategic positioning for energy transition, our constructive stance on the utilities sector remains firm given i) the sectors' strong dividend policies, ii) secured cash flows, and iii) regulatory tailwinds and high investment visibility from decarbonisation and energy security agendas across the region. Europe's electricity demand is projected to grow c.2% CAGR through 2030, driven by AI data centres, EV charging, and heat pumps.

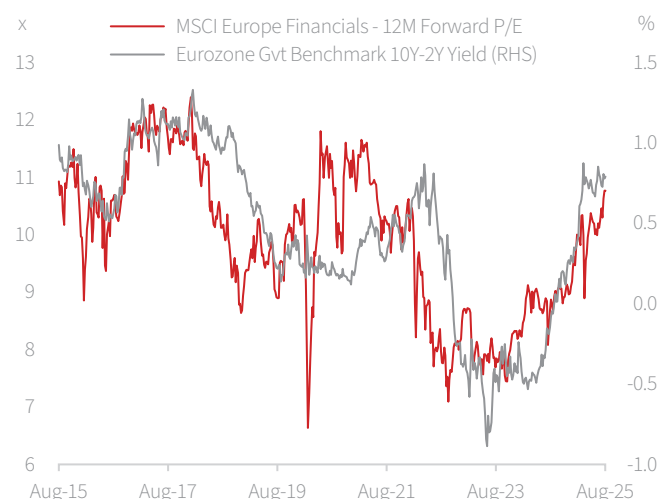
## Financials: Beneficiaries of a steepening yield curve

The sector's forward PE has rerated sharply over the past 30 months, supported by the widening of the 10-2Y EU yield spread. Banks benefit from the classic model of borrowing short and lending long, while high yields enable insurers to invest premiums more profitably and enhance the appeal of long-term savings products such as annuities. Looking ahead, a substantial fiscal stimulus could drive the 10Y yield above 3% while easing inflation may steady the short end around current levels (we expect ECB to stay put on rates), further widening the spread and reinforcing profitability.

Meanwhile, credit growth has shown resilience, especially to households, where unemployment in Germany had fallen against expectations of a rise. Credit costs should largely remain benign despite a stronger growth environment.

While the banks' absolute valuations based on PB now stand above its post-GFC high, the sector's PE is still trading at a 26% discount to its post-GFC high, 38% discount to the broader European index, and 29% to US banks. We believe that the combination of sustainable profitability and discounted valuations continues to justify the sector's upside.

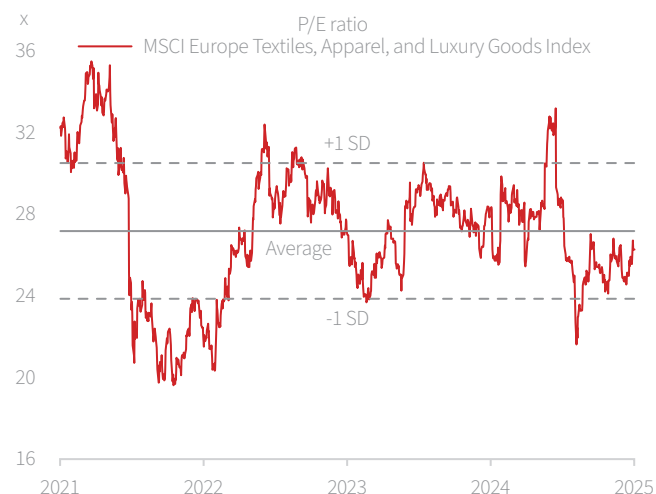
### Financials PE vs yield spread



### Luxury: Navigating headwinds with selective opportunities

We maintain our cautious stance on luxury largely due to i) anticipated slowdown in consumer spending across key global markets, including the US and China, and ii) ongoing margin pressure from US tariffs. Given the challenging environment, our preference remains with companies with less US exposure, strong pricing power and brand desirability, and robust underlying fundamentals. We also see opportunities from luxury's attractive valuation, which is trading in-line with 4-years historical average, potentially providing cushion for further earnings downgrade.

Luxury sector's attractive valuation provides cushion for further earning downgrades



Source: Bloomberg, DBS

### Europe Sector Allocation – 4Q25

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

Source: DBS

### Europe Valuation Table

	Forward P/E (x)	P/Book (x)	EV/EBITDA (x)	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  
Data as at 22 Sep 2025

# Moderated Highs

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## Japan Equities 4Q25

Japan equities are poised for continued growth, driven by Fed easing and foreign inflows. While valuation seems elevated, corporate governance reforms - evidenced by record buyback and M&As - should support re-rating. Favour resilient domestic demand sectors and reform-driven companies.

# Japan Equities

Joanne Goh  
Strategist

Japan equity prices have stabilised following the easing of concerns around tariffs and political developments. Expectations are building for a BOJ rate hike within the next six months, which, when combined with anticipated Fed rate cuts, could enhance the appeal of risk assets outside the US. A weaker dollar would further support international portfolio diversification into Japan, which has so far benefitted from five months of consecutive foreign inflows, with TOPIX hitting an all-time high in September.

With CPI sticky at 3%, rising labour costs, and 10Y JGB yields holding around 1.5%, inflation appears more entrenched. The BOJ thus has room to continue normalising. Importantly, Japanese corporates are better positioned to absorb higher rates, supported by multi-decade highs in ROE and profitability. A shift away from the BOJ's earlier dovish stance could be particularly beneficial for financials, especially banks.

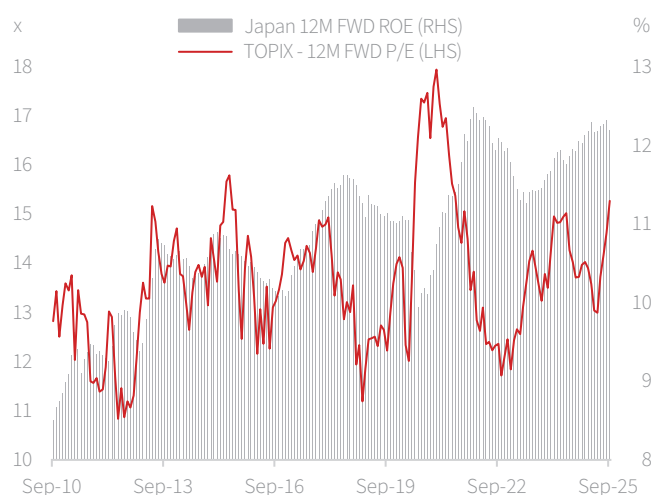
**Yen and earnings assumptions.** Should the Fed proceed with rate cuts while the BOJ hikes later this year—as currently expected—the USD/JPY could revisit its 2025 low of 140. However, FX should not be a near-term earnings headwind as current average yen levels remain consistent with corporate assumptions (Tankan survey: 147.94 for 2025 and 145.72 for 2026). Barring a sharp yen appreciation—potentially triggered by deeper-than-expected Fed cuts alongside rising risks of a US slowdown—earnings forecasts already incorporate tariff impacts, limiting downside risks.

**Valuation and governance.** At 15.3x forward earnings, Japanese equities are trading near Abenomics-era highs, yet today's stronger ROE reflects more sustained profitability gains. At the same time, governance reform is reshaping corporate behaviour, driving structural changes in business organisation and shareholder returns. Record levels of share buybacks and M&A underscore this shift, while 37% of companies still trade below 1.0x P/B, leaving ample room for further re-rating. Governance reform thus acts as both a catalyst for performance and an anchor of support for valuations.

**Vibrant M&As.** Deal activity in Japan has risen steadily since 2020, with a notable increase in large cross-border transactions

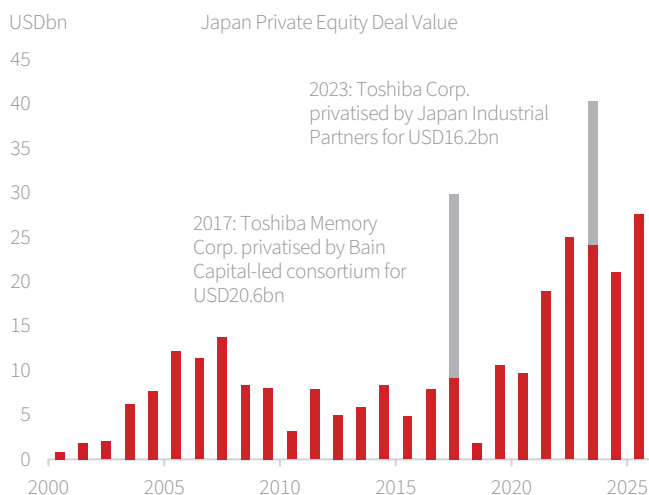
involving US entities. This trend reflects the combined effects of yen depreciation, accommodative domestic interest rates that support leveraged transactions, and the impact of improving governance, reinforcing Japan's structural shift toward more efficient capital allocation and higher corporate value.

## PE justified by higher ROE



Source: LSEG, DBS

## Unlocking value through privatisation



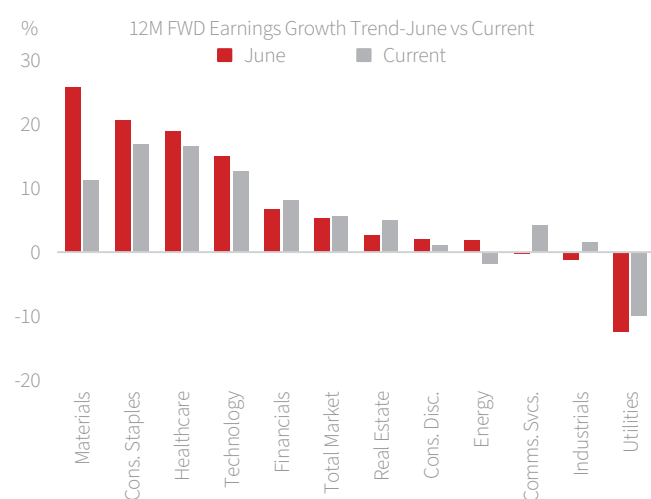
Source: Preqin, DBS  
Note: 2025 data as of 20 August

**Earnings and tariff impact.** Consensus earnings forecasts already incorporate tariff risks, limiting further downside. Earnings revisions vary by sector:

- i) Upgrades in financials, real estate, and communication services: These domestic sectors are less affected by tariffs and continue to be supported by BOJ rate hike expectations, reflation, and stable domestic demand outlook;
- ii) Stable/minor earnings growth in healthcare and IT: Steady double-digit earnings growth supported by structural drivers including ageing population and digitalisation;
- iii) Downgrades in materials and autos: Impacted by tariffs on steel and autos. Auto companies are generally price-takers, and will take a hit to their earnings to stay competitive.

Under these conditions, we maintain conviction in names with robust earnings (domestic demand-related sectors such as IT services, defense, information and communication, and healthcare), as well as beneficiaries of corporate reform initiatives.

#### Resilience in structural sectors

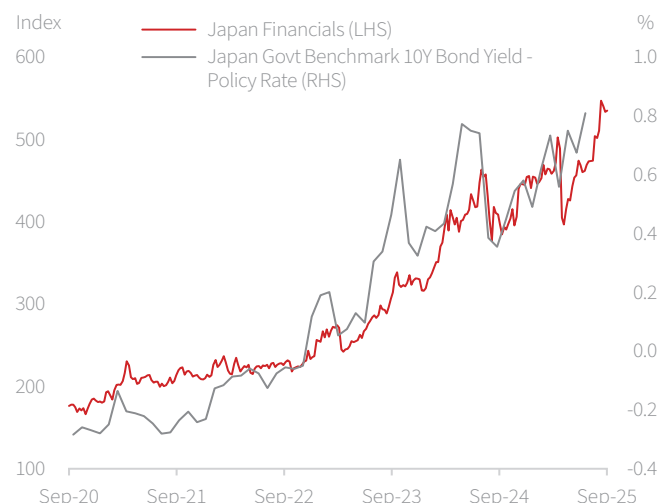


Source: LSEG, DBS

**Attractive financials.** We remain bullish on Japanese banks as we believe they still look undervalued from many angles. The BOJ's exit from YCC and shift toward policy normalisation should continue to act as a structural re-rating catalyst for the sector. The market is still underestimating the earnings leverage banks enjoy from a steeper front end of the yield curve, improved net interest margins, and stronger loan growth. Moreover, bank valuations remain compelling, with many still trading below book value despite balance sheet improvements, rising shareholder returns, and more efficient capital

allocation under governance reform. This combination of policy tailwinds and attractive valuation provides upside for the sector.

#### Japan financials vs yield curve



Source: LSEG, DBS

**Gaming, innovation, and digitalisation.** We see opportunities in Japan's gaming industry, with top contenders breaking sales records within days of product launches, bolstering the ecosystem and software sales outlook, echoing historical hardware-software cycles seen with other gaming consoles.

Such companies have implemented price increases globally in response to market conditions and new tariffs, underscoring their strong pricing power and stickiness of its ecosystem, providing them with greater flexibility to pass on costs without materially eroding demand.

Unique to Japan is the also the anime industry, which has evolved into a global growth engine at the intersection of entertainment, technology, and consumer demand. The sector benefits from:

- **Global Streaming Demand** – Platforms like Netflix, Crunchyroll, and Disney+ are competing aggressively for anime content, driving licensing revenue and global reach.
- **Gaming Synergies** – Many top franchises (Pokémon, Dragon Ball, One Piece) seamlessly extend into video games, mobile apps, and merchandising, amplifying revenue streams.
- **IP Monetisation** – Strong character-driven IP supports long-term cash flows through merchandise, films, and theme parks.



- **Cross-Border Partnerships** – International co-productions and investments (e.g., Sony's Crunchyroll, collaborations with US studios) broaden access and scale.
- **Cultural Soft Power** – Anime strengthens Japan's global cultural influence, attracting inbound tourism and reinforcing the Japan brand.

From an equity perspective, these support earnings growth in media, gaming, streaming, and consumer sectors. We are interested to see whether companies like Nintendo, Bandai Namco, Toei Animation, and Sony announce their pipelines at events including the Tokyo Game Show in September and The Game Awards in December.

#### Software & IT services: AI as a productivity and growth catalyst.

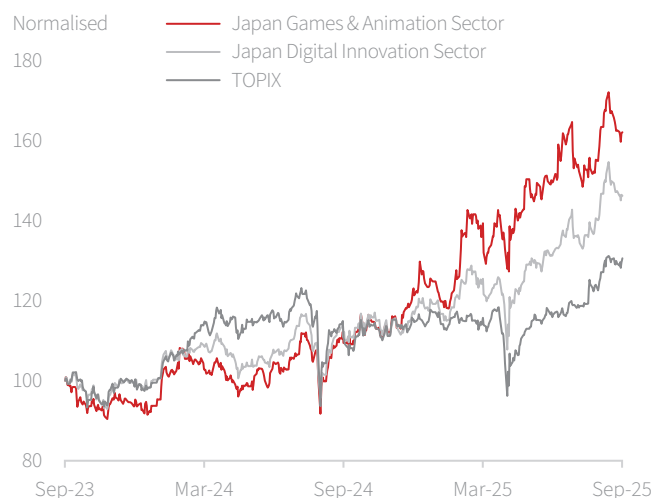
IT investment aimed at improving productivity and competitiveness remains a strategic priority in Japan, and the integration of AI is accelerating this trend. Beyond efficiency, AI adoption is enabling business model shifts. In enterprise IT services, companies are moving from traditional outsourcing toward tailored, AI-driven solutions that enhance client operations and decision-making. In financial IT solutions, AI is being used to improve risk management, fraud detection, and customer engagement platforms. In infrastructure and platform services, AI supports cloud optimisation, cybersecurity, and data analytics, helping clients scale efficiently. Finally, in public and defense-related IT, AI applications in cybersecurity, surveillance, and systems integration are creating new avenues of demand.

Government initiatives have been instrumental in accelerating the digital transformation in Japan's software & IT services sector. Programs such as "Society 5.0" (now in its execution stage) and the Digital Agency's reforms aim to modernise public infrastructure, promote smart cities, and integrate advanced technologies like AI into industry and government services.

Despite these efforts, Japan has historically lagged global peers in digital investment, constrained by legacy IT systems, conservative corporate cultures, and underinvestment in innovation. However, this gap is now turning into an opportunity, positioning the sector as a key long-term beneficiary of Japan's digital transformation and governance-driven corporate reform.

Rising wage pressures and labour shortages are forcing companies to increase IT capex, while governance reform is improving capital allocation toward growth projects, M&A, and shareholder returns. As corporates restructure and adopt AI-enabled solutions at scale, Japan's digital investment cycle is set to catch up with global peers, laying the foundation for sustained productivity gains and sector outperformance.

#### AI enabled beneficiaries



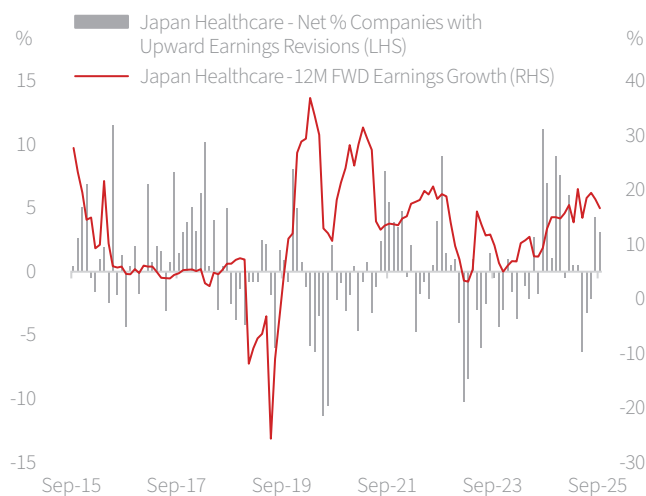
Source: LSEG, DBS

**Healthcare: Defensive demand.** Japan's healthcare sector is anchored by the world's fastest-aging population, with nearly 30% over 65. This ensures steady, defensive demand for pharmaceuticals, medical devices, and long-term-care (LTC) services. Universal coverage and the LTC insurance system further institutionalise spending, creating visibility even during economic downturns.

Japan has relative strength in medical devices, imaging, robotics, diagnostics, and rehabilitation technologies—areas less exposed to pricing compression than pharmaceuticals. Meanwhile, policy support for regenerative medicine and cell therapies provides a differentiated innovation pathway compared to US or Europe. Partnerships with global biopharma further enhance pipeline opportunities without heavy pricing risk.

Japanese healthcare and pharmaceutical equities still trade at a discount to global peers, offering defensive earnings stability, structural growth from digital transformation, and M&A-driven upside. For investors, the sweet spot lies in companies with exposure to medical devices, healthcare IT, and elder-care platforms, supplemented by selective biopharma with innovation-driven pipelines.

## Resilient earnings growth and revisions



Source: LSEG, DBS

## Japan Sector Allocation – 4Q25

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

Source: DBS

## Japan Valuation Table

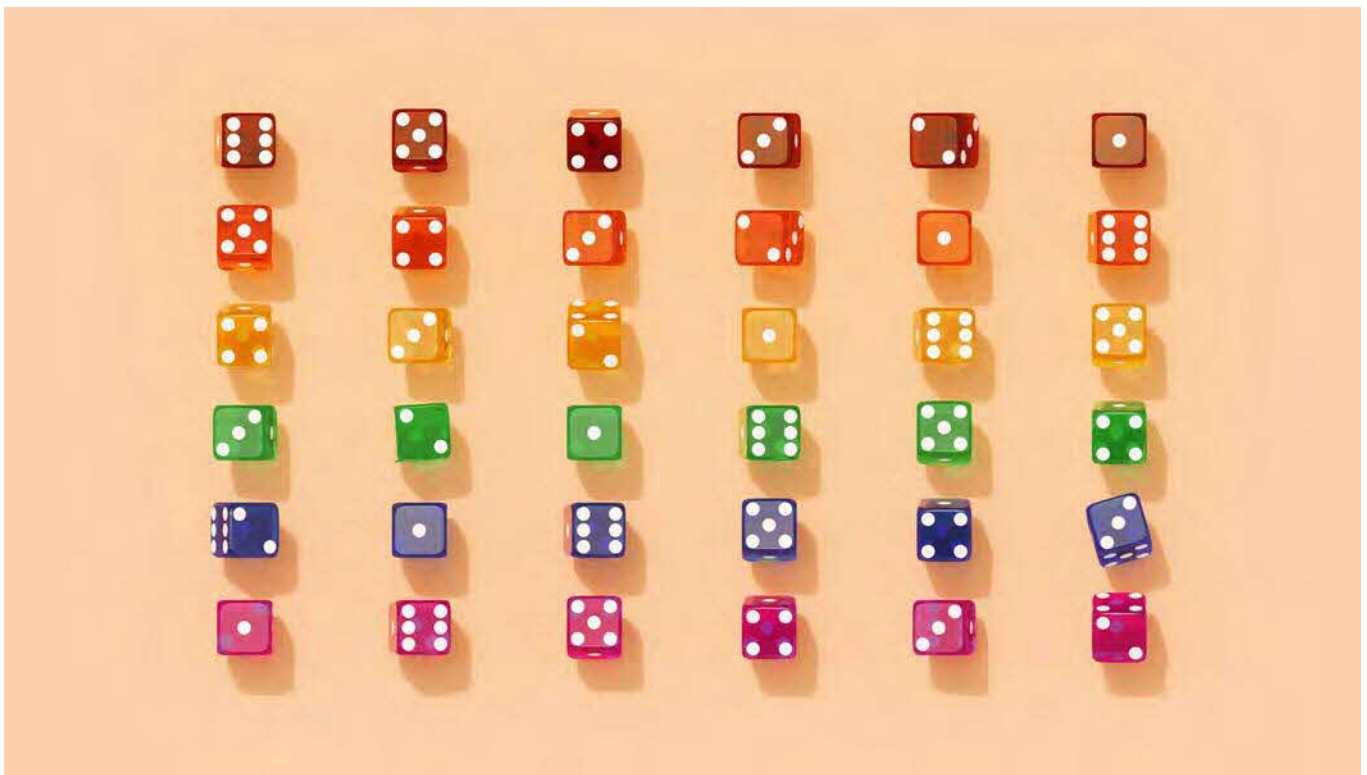
	Forward P/E (x)	P/Book (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	OPM (%)
Japan	16.4	1.5	6.3	8.5	1.4	9.9
Financials	12.1	1.0	-	7.9	0.5	14.6
Energy	17.5	0.6	4.7	4.4	3.6	5.2
Technology	23.4	2.8	13.3	10.6	6.1	12.2
Materials	14.1	1.0	7.1	6.0	3.5	7.3
Industrial	16.4	1.7	11.5	9.8	5.1	7.2
Cons. Staples	22.0	2.0	11.2	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  
Data as at 22 Sep 2025



# Good Auspices

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## Asia ex-Japan Equities 4Q25

Compelling upside driven by steep valuation discounts, resilient earnings, favourable capital shifts, and structural themes. China's policy pivot to ignite sustainable growth momentum while ASEAN's 4Q25 slowdown would be buffered by fiscal and monetary support.

# Asia ex-Japan Equities

Yeang Cheng Ling  
CIO, North Asia

Joanne Goh  
Strategist

Asia ex-Japan (AxJ) markets faced multiple global disruptions in 2025; after the much-anticipated China stimulus blitz at the end of 2024, the region started 2025 with the re-election of Donald Trump, the launch of DeepSeek, the rollout of reciprocal tariffs between the US and its trade partners, and the conflict between Israel and Iran, to name a few. Yet, the region's markets have delivered stellar YTD growth of over 15%.

While China's stimulus blitz in late 2024 – which investors welcomed with caution – was weighed down by the Trump administration's exorbitant tariffs, the policy initiatives have helped anchor the return of risk appetite for North Asia.

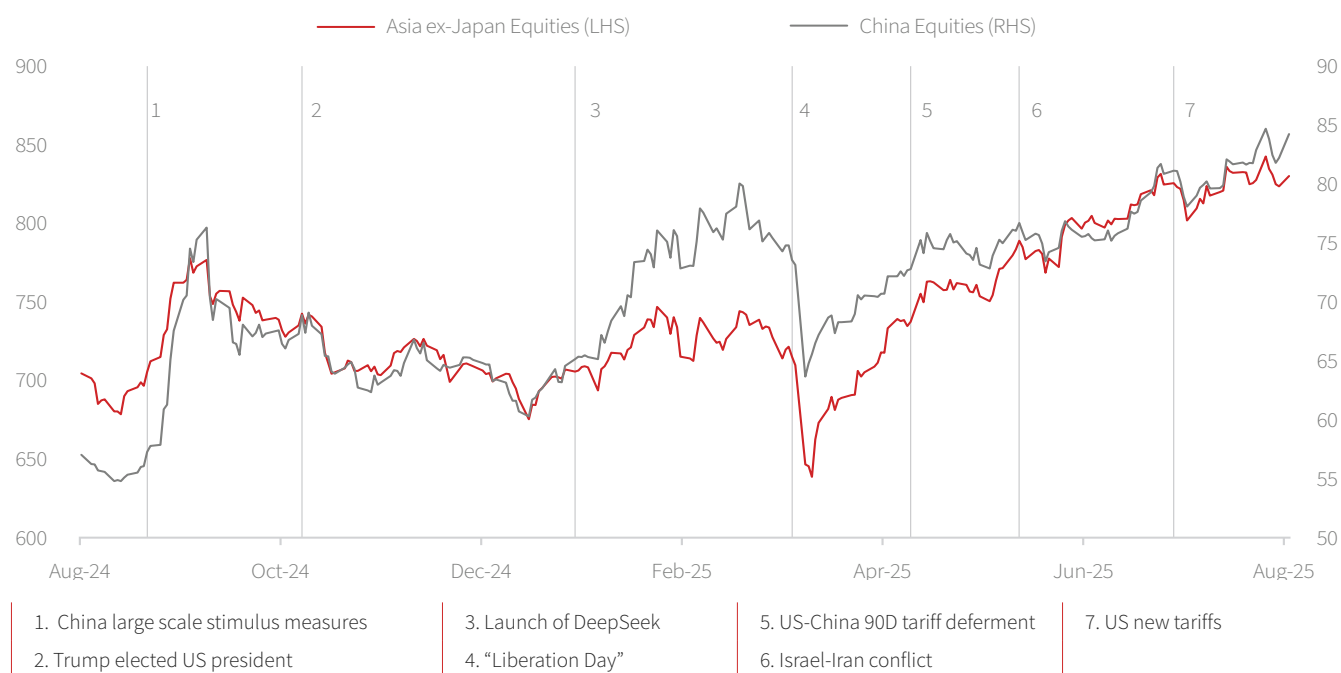
In a year marked by global dissonance, AxJ markets have quietly composed a symphony of resilience, as shown in the chart. While risks remain around US-China trade dynamics and Middle East tensions, the region's fundamentals, policy agility, and valuation appeal suggest that the music may play on.

Crucially, US and Chinese officials appear to be working towards extending the tariff détente with discussions on how to further defuse trade tensions. A trade framework has ostensibly emerged between the world's two largest economies, with China lifting the export ban of critical minerals like rare earths, and the US rescinding export controls on supplies related to cutting-edge technology, i.e. AI chips and semiconductor design software. This sets a precedent for further truces between the US and other regional trade partners, paving the way for more benign markets.

In particular, the reversal of the H20 chip ban signifies a crucial de-escalation in the US-China impasse, underscoring a mutual interest in avoiding disruptive trade conflicts. Looking ahead, while new tariffs may emerge between trade partners, recent history suggests that anything beyond mere posturing is usually open to negotiation.

Year-to-date, markets across Asia have largely delivered positive returns, with South Korea, Hong Kong, and China taking the lead.

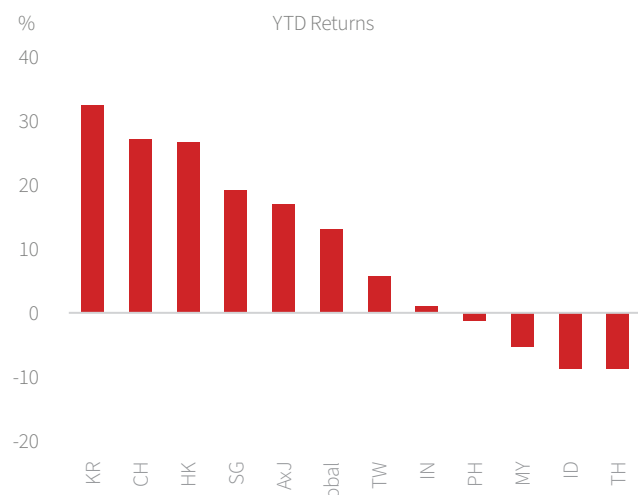
## Navigating market-moving events



Source: Bloomberg, DBS

Singapore, known for its stability and sustained dividend yields from REITs and the financial sector, similarly recorded gains on the back of its status as a safe haven.

#### Asia ex Japan largely delivered positive returns YTD

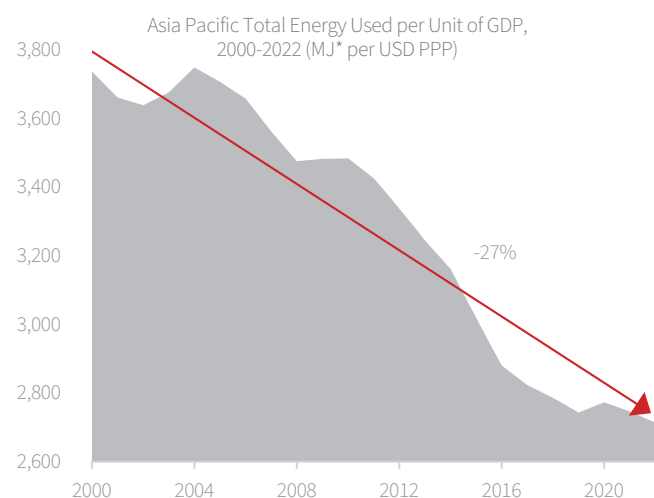


Source: Bloomberg, DBS

Concurrently, escalating conflicts in the Middle East have put AxJ's growth outlook into question, given the latter's heavy reliance on the former for oil.

That said, oil price volatility and disruptions to energy supply are unlikely to significantly impact AxJ's freight, trade, production costs, and supply chain as the region has substantially reduced its dependence on oil as its primary source of energy.

#### Significant decline in energy intensity



Source: IEA, DBS  
\* Megajoules

APAC's total energy consumption per unit of GDP – a measure of energy efficiency – has markedly declined, thanks to the adoption of cheaper renewable energy sources, a strategic pivot towards service-oriented industries, and the increased proliferation of technology. This transformation has significantly reduced the region's vulnerability to fluctuations in oil prices and disruptions to supply. Consequently, shifts in oil supply will not singlehandedly derail growth or trigger runaway inflation. In fact, inflation levels across the region have largely been muted, providing central banks with ample room for monetary easing to stimulate growth.

#### Governments take the lead to boost market sentiment, more to come

The Singaporean government's recent SGD5bn Equity Market Development Program (EQDP) has injected a renewed sense of optimism into the region's capital markets.

The policy strongly signals an unprecedented commitment to revitalise Singapore's equity markets, and is likely to reverberate throughout the region. Financial market regulators in neighbouring markets are likely to respond in kind with a series of parallel policy responses, setting the tone for continued momentum.

#### China – Policy-led stabilisation gaining traction

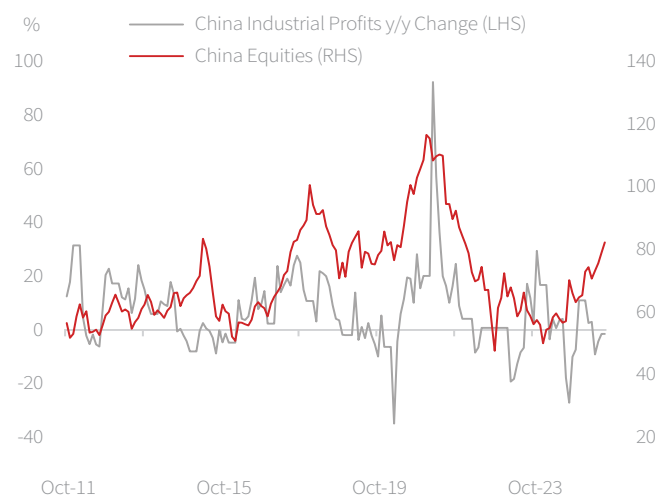
China continues to gain traction with policy support, improving consumer spending and capital investment for technological innovation. Fiscal stimulus that was introduced in 3Q24, as well as ongoing monetary easing, are beginning to take effect and stabilise domestic conditions.

A prolonged streak of deflation, contractions in producer prices extending beyond the 33rd straight month, and near-zero CPI numbers reflect ongoing weakness. On the other hand, this provides a strategic edge in maintaining export competitiveness and softening the impact of US tariffs. This is akin to the situation in 2018, when Chinese firms demonstrated their agility to sustain profitability.

While headline growth metrics have been subdued in 2025 thus far, the path forward is gradually shifting away from a high reliance on real estate investments.

Aware of the close linkages between industrial profits and equity market performance, policy makers are becoming more inclined to support the shoring up of manufacturing activities, which will in turn be reflected in equity returns.

### The importance of industrial profits on equity prices



China's consumption-led rebalancing has emerged as a strategic imperative, not merely for economic stability but as a geopolitical hedge against escalating trade tensions. The solution lies in services consumption and structural reforms: wealth redistribution, SOE modernisation, and the *hukou* reform to revitalise household spending. While goods prices remain under pressure reflecting supply-demand mismatches, services demand exhibits elastic growth potential once basic needs are met, thus boosting the domestic momentum.

Essentially, this is not a zero-sum trade-off with investment. A sustained consumption backdrop will drive ROI-focused capital allocation, creating a virtuous cycle: enterprise investment in R&D and capacity upgrades, while fiscal rebalancing toward social welfare (vs inefficient public investment) will drive disposable income growth. The consumption weight in GDP between China and the US (57% vs 81%, World Bank 2024) underscores the long runway ahead for China to narrow the gap. For investors, this transition presents a compelling opportunity to reposition into high-beta domestic demand themes that remain structurally undervalued relative to their long-term potential.

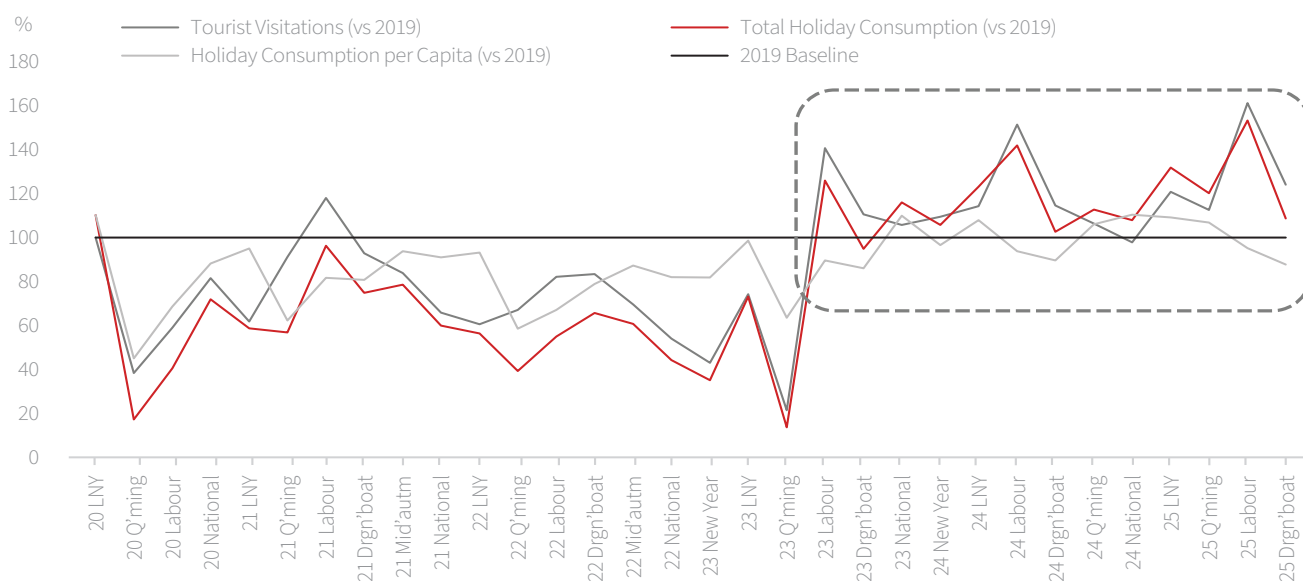
### Addressing 'involution'

Cognisant of the excessive and heavily disruptive competition among local firms, the Chinese government has rolled out 'anti-involution' initiatives: structural shifts to address deflationary pressures and tackle overcapacity.

While the initial measures of verbal guidance, industry self-discipline, and targeted capacity cuts may temporarily stabilise prices in sectors such as materials, manufacturing, EV supply chains, and online commerce, it is imperative to have more concrete measures for lasting impact.

The ultimate outcome will hinge on broader structural reforms – specifically, enforcing capacity rationalisation beyond administrative controls, rebalancing growth toward consumption,

### Consumption back on track



and improving revenue streams of local governments. We view this as a multi-quarter process requiring patience, while any sustained improvement in corporate profitability will depend on the sustainability of the policy. Additionally, of equal importance is the ability of policy makers to engineer a gradual and broad-based soft-landing of the embattled real estate sector, which has weighed on confidence.

Having endured a volatile 2025 and the preceding headwinds-plagued years characterised by earnings drag and real estate overhang, China appears to be at an inflection point. Beijing's decisive policy pivot, marked by sweeping, coordinated measures to restore confidence and reignite domestic demand, is beginning to yield its intended results in 2025. These efforts are also laying the crucial groundwork for sustained momentum into 2026 and beyond.

#### ASEAN – Bracing for a 4Q25 Slowdown, Policy to Cushion Impact

The ASEAN 2025 EPS growth forecast has been revised down from 7% in April to 4%, yet we believe the earnings trough — particularly on trade-related pressures — has likely passed. Two factors underpin this view: (i) the US tariffs imposed on 1 Aug proved less punitive than initially feared, and (ii) further fiscal and monetary support in 4Q25 should provide a near-term buffer.

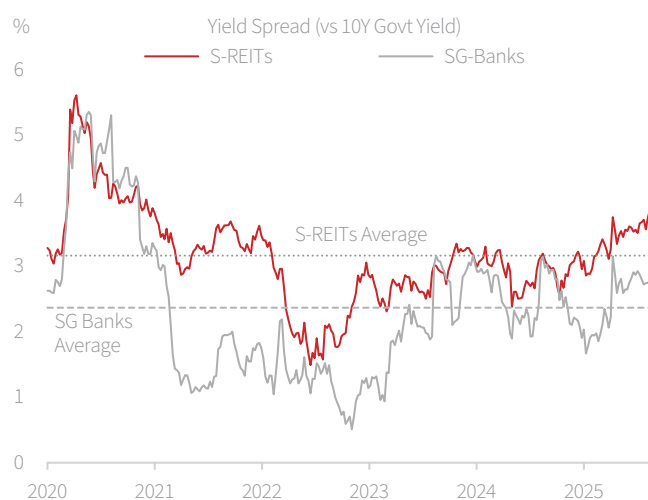
Economic growth is set to slow in 4Q25 as front-loaded exports in 1H fade and tariff-driven demand weakness emerges. In response, central banks — having successfully managed inflation — are expected to cut policy rates by c.50 bps, even as governments are preparing stronger fiscal stimulus. This coordinated easing should help cushion domestic demand, while lower borrowing costs are set to ease pressures on households and corporates, benefiting sectors such as real estate and technology.

Despite strong YTD performance, ASEAN equities remain attractively valued and under-owned by foreign investors, leaving room for further reallocation into the region.

Our preferred ASEAN sectors include S-REITs and banks in Singapore. We remain constructive on S-REITs as stronger distribution per unit (DPU) growth in 4Q25 is expected, supported by positive rental reversions and lower interest rates. Distributable income should outpace net property income (NPI), reflecting the increasing tailwind from falling funding costs. Despite the sector's rally alongside lower SORA rates, valuations remain undemanding with dividend yields still attractive. Although lower interest rates are beginning to weigh on banks' net interest margins (NIM), dividend yields around 5% — well above local bond yields — are both attractive and sustainable, providing a strong anchor for share prices. Additional support comes from rising fee income in the wealth

management and treasury businesses. Importantly, dividend yield spreads for both banks and REITs remain above their historical averages, reinforcing relative value. Elsewhere, special situations in unlocking value and beneficiaries of EQDP provide ample stock selection opportunities in both large and mid-cap names.

#### S-REITs and banks' dividend yield spread remains above historical average



Source: LSEG, DBS

We foresee a broader rotation into higher-quality, more liquid names in Indonesia in 4Q25, supported by undemanding valuations and the resilient macro environment. We are positive on the country's consumption, which is driving earnings in the banking, staples, retail, and autos sectors.

The burgeoning AI integration and rapid expansion of digital infrastructure across ASEAN are poised to uplift the communication service sector through improved cost efficiency and the monetisation of data centre assets. Notably, telecommunication firms that have proactively invested in technology superiority are exceptionally well-positioned to capitalise the digital pivot. These include those in Singapore and Indonesia.

#### Improving macro dynamics in India

S&P Global Ratings has upgraded India's sovereign credit rating to 'BBB' from 'BBB-' citing improved fiscal management, robust growth, and stable monetary policy as key reasons behind the upgrade.

Meanwhile, the 50% US tariffs on Indian exports should have limited macro impact. Exports to the US represent only 2.3% of India's GDP; even then, almost a quarter, representing 0.6% of GDP, is exempt (electronics, pharmaceuticals). The remaining 1.7% is concentrated

within the jewellery, textile and apparel sectors, where margin pressure may emerge. While India's tariffs are now higher than ASEAN's, we do not expect this to derail FDI flows. Multinationals are increasingly investing in India, establishing local production to cater to the large and expanding domestic market. Examples of which include Chinese smartphone makers, and EV manufacturing facilities built by China, Japan, and Korea auto companies, as well as global consumer brands in personal care, household items and F&B. Special economic zones and policy incentives are also driving investment into semiconductors, electronics, data centers and renewable energy. At the same time, trade diversification with the UK and EU, and improving China ties reduce external risk. Coupled with supportive fiscal and monetary policies, this should support growth.

We see a recovery in corporate earnings from 1QFY26, led by consumption and GST reform tailwinds. We maintain Overweight in India and see India as a beneficiary of EM flows amid the US asset-diversification trend. Banks and consumers are our preferred sectors.

**Sector recommendations: Overweight technology, consumer discretionary, financials, and communication services**

We upgrade the healthcare sector to neutral, shifting from a prior cautious stance, reflecting stabilising fundamentals, earning visibility and improving fund flows. Conversely, we downgrade the energy sector to underweight in response to persistent headwinds including muted demand, and supply imbalance.

**Country recommendations: Overweight China, India, Singapore, Indonesia**

We reaffirm our positive stance on China, India, Singapore, and Indonesia, driven by a combination of structural tailwinds, supportive policy frameworks, and relative insulation from external shocks.

China stands to benefit from a rebound in sentiment, led by advances in artificial intelligence and digital infrastructure. While macro headwinds persist, targeted policy support and improving earnings visibility in select sectors provide an anchor for equity markets.

India continues to demonstrate robust growth momentum, underpinned by strong domestic consumption, manufacturing diversification, and a reform-oriented policy environment. Its demographic dividend and expanding role in global supply chains offer long-term upside potential.

**AxJ Sector Allocation - 4Q25**

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

Source: DBS

\* 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

**AxJ Country Allocation - 4Q25**

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

Source: DBS

<sup>#</sup> - Including China stocks listed in Hong Kong

Singapore serves as a defensive play in the region, supported by resilient financials, high governance standards, and its role as a regional capital hub. Sector rotation and fund flow have remained constructive in areas like industrials and REITs.

Indonesia, the largest economy in ASEAN, offers attractive macro fundamentals like fiscal prudence, a vast population, and a resource-rich economy, making it a strong candidate to weather global volatility. Despite short-term policy uncertainty due to a cabinet reshuffling, we believe a pro-growth agenda including fiscal expansion and rate cuts should follow, thereby sustaining long term growth prospects.

**Asia ex-Japan – Tailwinds supporting a constructive outlook**

**Valuation discount:** Asia ex-Japan equities trade at deep valuation discounts to global peers – 35% discount on forward P/E and nearly half in price-to-book. This offers a meaningful margin of safety in a world fraught with geopolitical uncertainty.

**Earnings Resilience:** Corporate earnings in populous markets such as China, India, Indonesia, as well as technology-oriented exporting countries like South Korea, are positioned for positive surprises, driven by domestic competence, digital transition, and supply chain diversification

**Capital Rotation:** As global investors rotate into under-owned and attractively priced markets, Asia ex-Japan appears in the sweet spot to attract renewed attention. This will be particularly profound as investors recalibrate their investment alignment in an uncertain world

**Currency rebalance:** The accelerating de-dollarisation trend is reshaping capital allocation dynamics, as regional central banks diversify reserves and corporates shift toward local currency financing, creating a compelling case to reassess underweight positions. This structural shift, reinforced by deepening regional trade corridors, enhances the appeal of Asia's local-currency assets

**Structural themes:** The region continues to embrace and invest in AI development, green energy, and digital infrastructure. The emergence of open-source AI platforms, expansion in semiconductor chips manufacturing, and population advantage underscores the ability to innovate, disrupt, enable, and adapt

### Asia ex-Japan: Positioned for a turning point

Despite 2025 headwinds from the web of intertwined trade tariffs and geopolitical tensions to earnings pressures in select sectors, 2026 is shaping up to be a transitional year marked by not just disruption, but also opportunity. Asia ex-Japan offers a compelling investment proposition where strategic investment positioning involves focusing on beneficiaries of structural tailwinds and domestic policy buoyancy, while mitigating exposure to near-term macro and geopolitical risks.

China, India and Indonesia are already delivering reform-driven measures, while ASEAN is set to benefit from local policy agility and demographic advantages. We advocate a focus on the next phase of growth by positioning for winners of structural reform, policy tailwinds, and the revival of domestic demand.

We favour a barbell approach in pairing structural growth with quality income. On the growth side, anchor in secular themes to leverage on domestic services, platform firms, AI innovations, technology developments, and policy-supported growth beneficiaries like EV leaders, industrial automation and upstream semiconductors. On the income side, stay invested with stable income providers and large cap financials that distribute compelling dividends.

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  
Data as at 22 Sep 2025



# Two Pivots to Watch

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## Global Rates 4Q25

The Fed's policy pivot remains the dominant theme, with growth concerns outweighing inflation risks amid tariff tensions. The ECB approaches neutral following substantial rate cuts, while fiscal vulnerabilities pressure European yields. Persistent inflation supports further BOJ tightening despite long-end yield constraints. US intermediate tenors are expected to outperform globally.

# Global Rates

Eugene Leow  
Strategist

Samuel Tse  
Strategist

## The Fed pivot will be the largest shift within the DM rates space.

Through the first eight months of the year, the Fed has kept policy-setting on hold amidst broadly resilient US data. This comes against a backdrop where much of the G10 space (excluding Japan) has lowered interest rates. However, with the recent downward revision in NFP, labour market concerns now outweigh inflation concerns even as tariffs get ratcheted up, with Fed Chair Powell now more attentive towards growth risks. Moreover, Trump's shadow and the prospect of the Fed losing independence means that investors have to consider the possibility of much lower interest rates, higher inflation expectations and all-else equal, a steeper curve as overheating risks get revisited. All these are probably just the first order impact if Trump manages to push the Fed to deliver much lower rates than warranted. Separately, we think that investors will set US fiscal woes aside for now, giving the benefit of doubt to tariff revenues that could come in at around USD400-600bn per year. A steeper 2Y/10Y curve on Fed easing, followed by some compression in the 10Y/30Y on the back of delayed fiscal worries could be in the offing.

**Meanwhile, the ECB may also be on the cusp of a pivot.** The ECB has already cut rates by 200 bps this cycle and the real deposit policy rate is already close to zero. With monetary policy already neutral (if not accommodative) and economic activity generally stable, the case for further easing seems weak. Notably, ECB President Lagarde has been sounding more hawkish, with several key officials setting the hurdle high for further cuts. Moreover, investors are still trying to find an appropriate yield for EGBs. Fiscal policy risks for France and the UK loom large and may well pressure the whole EGB yield complex higher, shorter-term volatility notwithstanding. Upward pressures should start to materialise in the belly of EUR curves.

**Inflation worries are arguably the most acute in Japan.** CPI has been sticky around 3% and Governor Ueda has flagged concerns about rising labour costs. 10Y Japan breakevens have been hovering around 1.5% suggesting that inflation may have become more entrenched. This should provide more confidence for the BOJ to continue hiking rates. That said, we wonder if 40Y yields may be

topping out amidst a heavier issuance tilt to the front end and as the BOJ focuses more on price stability.

**The Fed and ECB pivots will be the two key features to watch for as we head towards the end of the year.** Belly tenor USTs might outperform their EGBs and JGB counterparts as the ECB's policy turns neutral and the BOJ stays hawkish.

## Asia Rates

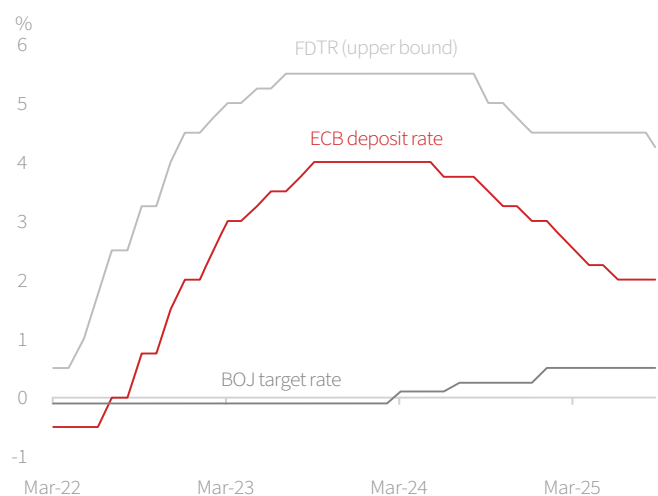
### CNY rates: Steepening CGB curve and weakening fundamentals

China's CGB yields will remain steady in the near-term with a steepening curve. While recent data prints were weak, there are a couple of reasons driving higher long-end yields. First, the market is pricing in accelerating bond issuance to support the economy. New infrastructure investments are underway. This includes the Tibetan Plateau hydropower project which costs USD170bn. Second, investors are expecting the anti-involution campaign to moderate some disinflationary pressure. Third, investors' interest in the China bond market has eased after months of sustained inflow.

Short-end rates will likely bias on the downside. The weak fundamentals require further PBOC easing. This includes external uncertainty, weak domestic demand, and disinflationary pressure. We expect another 10 bps 1-year LPR cut and 50 bps of RRR cuts this year. The PBOC will also inject liquidity through open market operations. The R007 and DR007 rates have already fallen to 1.5% levels from 2% in 1Q25. Meanwhile, the incremental liquidity is being transmitted to the bond market due to weak credit demand. The share of bond investment among financial institutions' portfolios stays with its march.

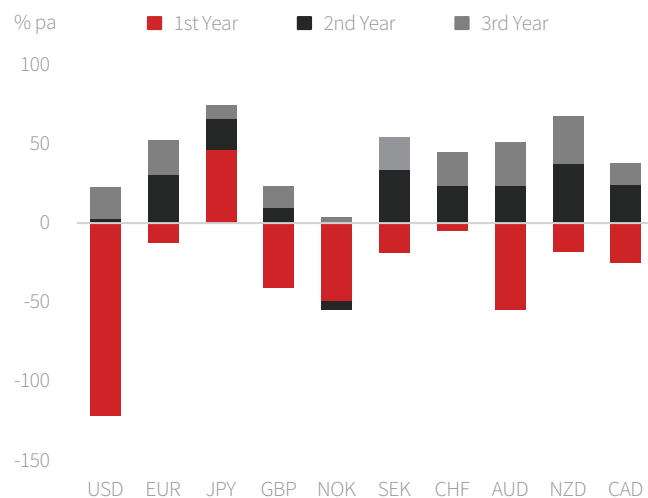
At the same time, the offshore spread against onshore rates should remain steady. The PBOC is expected to refrain from issuing offshore bills to defend the currency. Structurally, the expansion of the Southbound Bond Connect should help contain CNH rates. The regulator recently included securities firms, fund companies, insurance companies, and wealth management companies as

## Fed to finally pivot



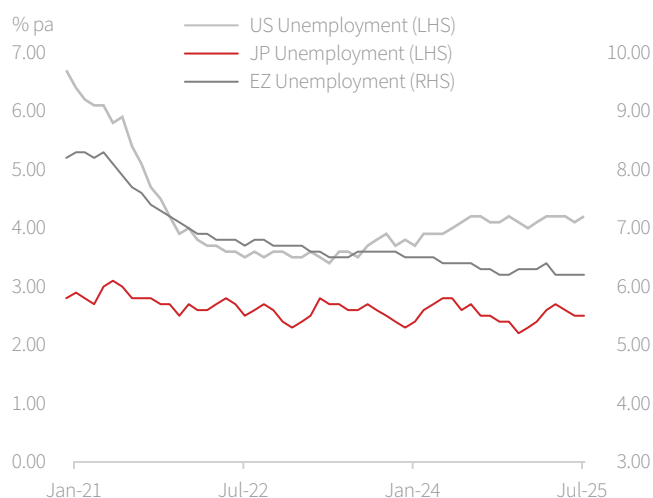
Source: Bloomberg, DBS

## The Fed priced to be the most dovish by far



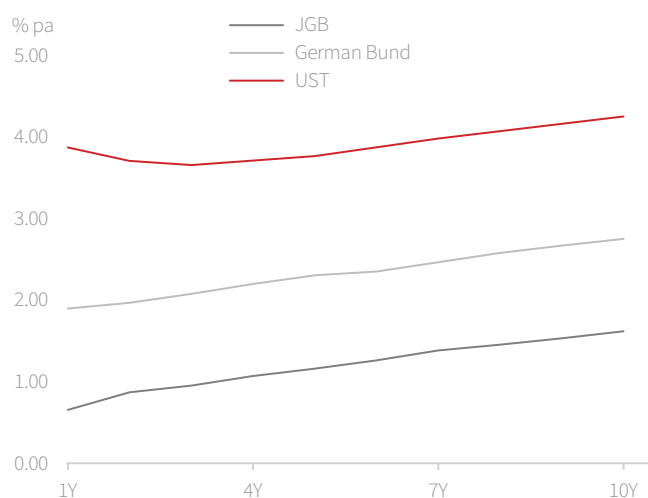
Source: Bloomberg, DBS

## Broadly stable labour markets with hints of US weakness



Source: Bloomberg, DBS

## Keeping to modest slope steepness



Source: Bloomberg, DBS

eligible investors. This should generate demand for long-duration CNH bonds.

**IDR rates: Political uncertainties and easing growth momentum**

Indonesian Government Bond (GB) yields have corrected markedly in the second half of the year as positives were priced in. Protests have entered an “uneasy calm” and we expect political uncertainty

to ease. After 125 bps of cuts in 1-3Q25, Bank Indonesia is expected to maintain an easing bias, contingent on growth and currency performance. At the same time, BI also announced plans to participate in “burden sharing” with the government, implying stepped up bond purchases in rest of the year; the central bank already owns a quarter of the outstanding issuance. First, growth momentum is easing. We expect growth to average 4.8% y/y in 2025, the softest since the pandemic years. Net exports should ease as

front-loading fades in the second half of 2025, which could weigh on the labour-intensive economy. Public investment could continue to outpace that of the private sector in view of external headwinds. Consumption remains below past run-rates due to subdued income growth and a shrinking middle class. Youth unemployment is elevated, and social unrest may also temporarily affect retail sales performance. BI will likely implement at least another 50 bps rate cut, bringing the benchmark rate to 4.25% in 6 months' time. More cuts are on the table if data in second half of the year turns south. This could exert downward pressure on short-end yields. On the contrary, long-end yields may fall at a slower pace due to changing fiscal dynamics. Should policymakers scale back revenue-generating measures in response to the unrest, the overall fiscal health will hinge on expenditure discipline. The 2025 budget deficit has been officially raised to 2.78% of GDP – the highest since 2021, with the 2026 deficit revised upwards by the new finance minister to -2.7% in order to accommodate higher funding for regional governments, compared to -2.5% earlier. The upshot is that the 2/10Y Indonesian GB spread can only narrow to a small extent.

#### INR rates: Receive opportunities emerge

IGB yields, especially the long end, bounced off lows in the second half of the year due to an absence of dovish cues from the central bank, domestic buyers facing regulatory hurdles in stepping up purchases as well as tariff fallout. Further rally in yields is expected to attract the authorities' hand, probably through open market operations. Further rise in yields provides opportunities to go long, hinging on upcoming borrowing schedule (for 2HFY) witnessing an overhaul and shift materially from long-end papers. Meanwhile, the 50% tariff from the US has been weighing on the INR. The central bank is expected to stay on course with a prolonged pause, helped by a firm growth report at the start of 1QFY. On the fiscal front, the authorities may raise support to counter the impact of the tariff. Against this backdrop, demand for IGBs has retreated, as reflected by the lower bid-to-cover ratios. Reportedly, insurers and pension funds have slowed their purchases of long-term bonds. The National Pension System is also allocating more funds to equities instead of bonds. Nonetheless, foreign investors have bought USD4.2bn of Indian debt this year thus far.

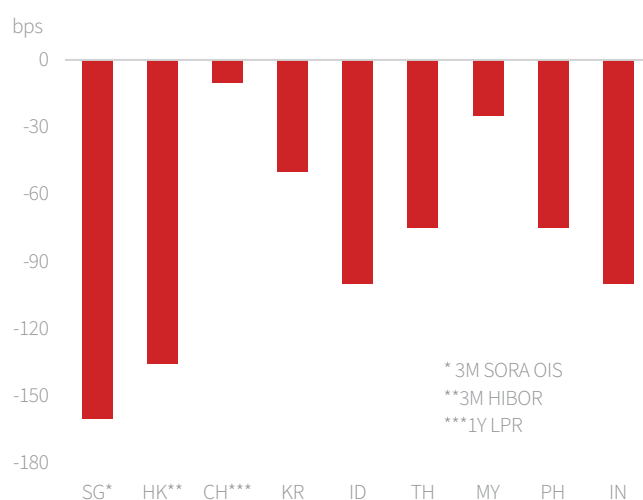
We expect market stress to stabilise soon. The spread between overnight MIBOR and the policy repo has been largely neutralised. The upward march of the 1Y/5Y INR IRS spread is also soothing. The actual impact from the tariff could also be manageable. While gems and jewellery, and textiles remain vulnerable, the exemptions on pharma and semiconductors/electronics could provide some relief to the external sector. The impact of the tariff on the growth rate could range from 25 to 60 bps. Strategy-wise, flattening could return.

First, long-end yields have larger room for retreat when stress fades. Second, the market will continue to price in an extended pause.

#### KRW rates: Rate cuts and fiscal spending

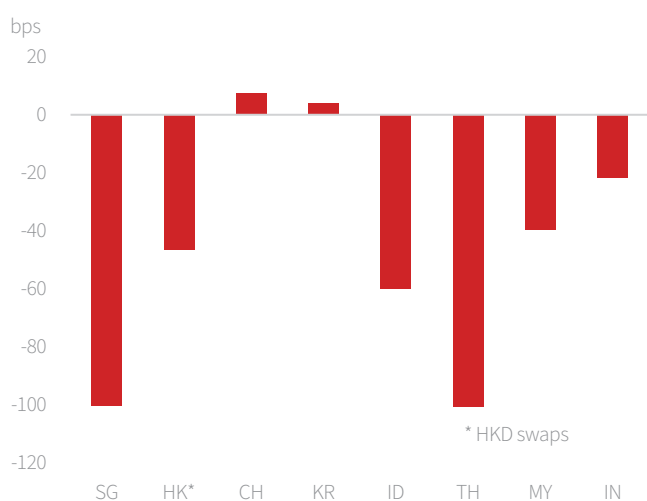
We continue to see a steepening KTB curve on the back of both monetary easing and fiscal expansion. Growth momentum could slow upon entering the second half of 2025. External performance remains cloudy. Despite lower US reciprocal and automobile tariffs, exports could ease as front-loading fades. Note that the

#### Change in Policy Rates YTD



Source: Bloomberg, DBS

#### Change in 10Y Government Bond Yields YTD



Source: Bloomberg, DBS

US accounted for 18.7% of Korea's total exports in 2024. Such uncertainty may cloud the job market and consumption sentiment down the road. Modest CPI and core-CPI also leave room for rate cuts. Rising real rates point to higher funding costs. On the fiscal front, the new government has shifted from a prudent to an expansionary stance, and bond supply is set to increase. In addition to a supplementary budget for 2025, the government approved a record-high general budget for 2026 on 29 August. Total government spending is set to outpace the initial budget by 8.1% at KRW728tn in 2026. The fiscal deficit is projected to widen to 4.0% of GDP from 2.8%. Reflecting the demand-supply dynamics, bid-to-cover ratios for KTBs have continued to fall across tenors since June.

#### **MYR rates: Steady MGS yields amid BNM's neutral pause**

MYR rates will likely remain steady in the near term, aligned with BNM's neutral monetary policy tone during its September meeting. This rhetoric was pared back from its dovish tone in July when it cut its OPR pre-emptively by 25 bps to 2.75%. Already, 3Y MGS yields have rebounded from a trough of 2.95% in mid-August. Still-high US tariffs and threats of semiconductors import levies will pose challenges to Malaysia's export-oriented growth outlook, with 13% of Malaysian shipments destined for the US as of 2024. Meanwhile, headline export growth has eased. The lower bound of BNM's 2025 growth forecast (4.0-4.8%) has factored in a possible deceleration to below 4.0% y/y in 2H25 from the resilient 4.4% expansion in 1H due to weaker global trade, but this is cushioned by resilient domestic demand stemming from sustained household spending and investments. BNM therefore presented a balanced assessment of both the global and Malaysian economies in September. At the same time, MYR strength also allows authorities to maintain interest rate stability. All considered, we have pushed back our forecast for another 25 bps OPR reduction to 2.50% to 1H26, keeping in mind the lingering external uncertainties. Strategy-wise, with the Fed soon embarking on its easing cycle, the negative 3Y MGS-UST spread could be reduced.

#### **PHP rates: Heading to the end of rate cut cycle**

PHP rates should remain steady relative to their Asian peers. The BSP is on course with its last rate cuts in 4Q this year, bringing the benchmark overnight repo rate to a terminal level of 4.75%. In fact, the BSP has already unwound about a third of the 450 bps of rate hikes undertaken in 2022-2023, and the growth outlook is relatively stable. On the external front, half of the country's exports are not subject to the US tariff; our economist expects a marginal 0.1 percentage point impact on GDP growth. However, modest domestic demand

still justifies a 25 bps cut as consumption sentiment is moderating. Inflation also decelerated from 8.7% in early 2023 to 0.9% in July 2025. At this juncture, the real interest rate remains less restrictive at 4.1%. Short-end Philippine government bond yields could fall further modestly. Meanwhile, the spread against US Treasury yields could widen as the Fed will enter its rate cut cycle soon.

#### **SGD rates: Already frontloaded Fed cuts**

SGD interest rates have already moved meaningfully lower in the first eight months of the year despite the Fed holding steady and long-term UST yields broadly rangebound. Much of this can be attributed to investor interest in diversifying away from USD assets. That said, we wonder if there is a limit to how wide USD-SGD interest rates spreads can go. The basis between 3M SORA and 3M SOFR is already close to 300 bps. Typically, this would be plausible if the MAS has a steep 3% SGDNEER slope that allows for a large interest rates discount for SGD. However, our estimate for the SGDNEER slope is only at 0.5%. This means that there is an additional 2.5% that we think could be explained by investors factoring in a period of USD weakness. If there is a shift in expectations, we suspect that this gap between USD and SGD interest rates could narrow. For now, we are factoring in narrowing in spreads in the front end, with limited passthrough from Fed cuts to SORA.

#### **THB rates: Still-dovish BOT**

We see further downside risks to THB rates. The BOT has the potential to cut its policy rate by another 50 bps over the next six months, following a cumulative 75 bps reduction in 2025 YTD. There is room for further easing amid both external and domestic headwinds, and the potential for negative growth shocks. Goods exports are expected to moderate in 2H25 as front-loading eases. While Thailand experienced the second-biggest drop in its US reciprocal tariffs, the US is its top goods exports market, and therefore still-high tariffs will pose challenges alongside threats of US sectoral tariffs on semiconductors. Inbound tourism is weakening due to changing travel preferences of Chinese tourists, rising regional competition, and lingering safety concerns. Private consumption has also softened amid dropping consumer confidence. Meanwhile, domestic political uncertainty is clouding the outlook. Negative headline inflation that is well below the BOT's 1-3% target and an elevated real policy rate suggests room for further monetary policy easing to cushion a slower economy. Strategy-wise, Thai government bond yields will likely fall further, with a steepening yield curve as the core theme.

## Rates forecasts

		2025				2026			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
US	3M SOFR OIS	4.29	4.30	4.13	3.63	3.38	3.38	3.38	3.38
	2Y	3.89	3.72	3.70	3.60	3.55	3.45	3.45	3.45
	10Y	4.21	4.23	4.20	4.00	4.10	4.20	4.30	4.40
	10Y-2Y	33	51	50	40	55	75	85	95
Japan	3M TIBOR	0.82	0.77	0.65	0.90	0.90	0.90	1.05	1.15
	2Y	0.86	0.76	0.90	0.95	1.00	1.05	1.10	1.20
	10Y	1.51	1.44	1.60	1.70	1.80	1.90	2.00	2.00
	10Y-2Y	65	68	70	75	80	85	90	80
Eurozone	3M EURIBOR	2.33	1.94	2.20	2.20	2.20	2.20	2.20	2.20
	2Y	2.05	1.86	1.90	1.95	2.00	2.10	2.20	2.25
	10Y	2.74	2.61	2.60	2.70	2.80	2.90	3.00	3.00
	10Y-2Y	69	75	70	75	80	80	80	75
Indonesia	3M JIBOR	6.68	6.44	5.60	5.35	5.10	5.10	5.10	5.10
	2Y	6.69	6.02	5.00	4.90	4.80	4.80	4.80	4.80
	10Y	7.00	6.63	6.25	6.10	6.00	6.00	6.00	6.00
	10Y-2Y	31	61	125	120	120	120	120	120
Malaysia	3M KLIBOR	3.66	3.50	3.25	3.25	3.00	3.00	3.00	3.00
	3Y	3.38	3.15	3.00	2.90	2.70	2.70	2.70	2.70
	10Y	3.77	3.52	3.40	3.40	3.30	3.30	3.30	3.30
	10Y-3Y	39	37	40	50	60	60	60	60
Philippines	3M NDF implied yield	4.99	5.08	5.20	4.75	4.75	4.75	4.75	4.75
	2Y	5.71	5.68	5.25	5.25	5.25	5.25	5.25	5.25
	10Y	6.21	6.30	6.00	5.85	5.85	5.85	5.85	5.85
	10Y-2Y	50	61	75	60	60	60	60	60
Singapore	3M SORA OIS	2.36	1.64	1.40	1.33	1.30	1.30	1.30	1.30
	2Y	2.50	1.78	1.45	1.40	1.38	1.38	1.38	1.38
	10Y	2.69	2.20	1.80	1.90	2.00	2.00	2.00	2.00
	10Y-2Y	19	42	35	50	62	62	62	62

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	1.89	1.65	1.40	1.15	1.15	1.15	1.15
	2Y	1.76	1.40	1.20	1.00	0.80	0.80	0.80	0.80
	10Y	2.05	1.60	1.30	1.20	1.10	1.10	1.10	1.10
	10Y-2Y	29	20	10	20	30	30	30	30
Mainland China	1Y LPR	3.10	3.00	3.00	2.90	2.80	2.65	2.65	2.65
	2Y	1.51	1.37	1.45	1.30	1.25	1.20	1.15	1.15
	10Y	1.81	1.65	1.70	1.60	1.55	1.50	1.50	1.50
	10Y-2Y	30	29	25	30	30	30	35	35
Hong Kong, SAR	3M HIBOR	3.88	1.68	3.05	2.55	2.40	2.40	2.40	2.40
	2Y*	3.42	2.58	2.80	2.70	2.65	2.55	2.55	2.55
	10Y*	3.42	2.94	3.30	3.10	3.20	3.30	3.40	3.50
	10Y-2Y	0	36	50	40	55	75	85	95
Korea	3M CD	2.84	2.56	2.60	2.35	2.35	2.35	2.35	2.35
	3Y	2.56	2.46	2.45	2.20	2.20	2.20	2.20	2.20
	10Y	2.77	2.81	2.80	2.80	2.80	2.80	2.80	2.80
	10Y-3Y	21	35	35	60	60	60	60	60
India	3M MIBOR	7.29	6.18	6.00	6.00	6.00	6.00	6.00	6.00
	2Y	6.42	5.79	5.60	5.60	5.60	5.60	5.60	5.60
	10Y	6.58	6.32	6.65	6.50	6.30	6.30	6.30	6.30
	10Y-2Y	16	53	105	90	70	70	70	70

Interest rates: %, eop

Interest rates spreads (10Y-2Y / 10Y-3Y): bps, eop

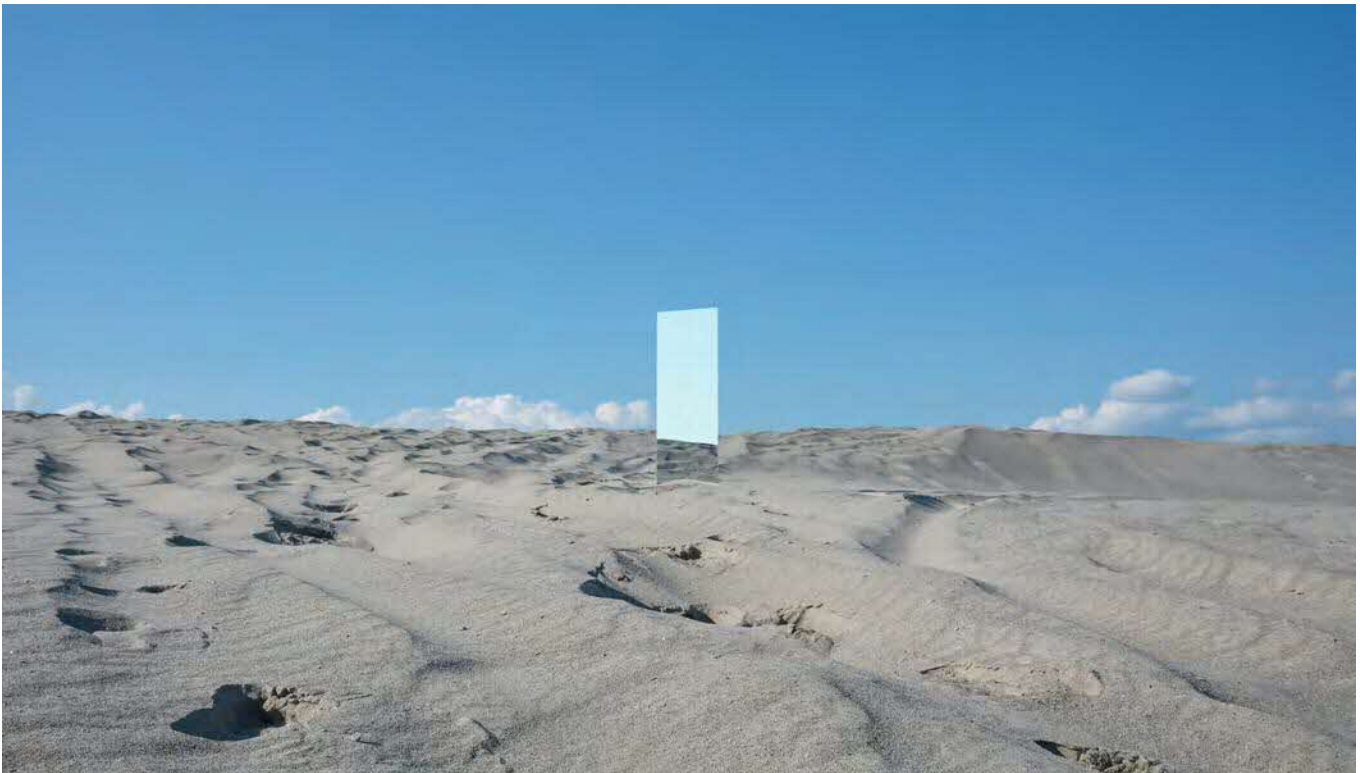
\*swap rates

Source: CEIC, Bloomberg, DBS



# Rate Cut Redux

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## Global Credit 4Q25

Bond investors are caught between rate cuts, mounting deficits, and a resultant steeper curve. This means that neither cash nor ultra-long bonds are suitable in a defensive fixed income portfolio. Favour high-quality (A/BBB), short-duration credit (2-3Y), and selectively extend duration (7-10Y) when 10Y UST exceeds 4.5%, using partial FX hedges to navigate dollar risks.

# Global Credit

Daryl Ho, CFA  
Strategist

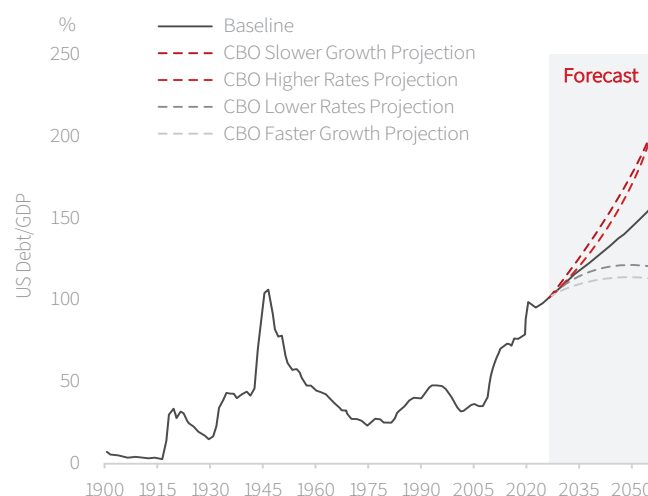
Elijah Tan, PhD  
Analyst

**Plans come, plans go.** The Trump administration came into 2025 with a plan. After inheriting a fiscally pumped and overheated economy from the Biden era (high interest rates included), they decided that the policy mix was antithetical to their view of good government, and opted for the reverse mix of tight fiscal/easy monetary policy instead. In addressing fiscal extravagance, they (a) set up DOGE to weed out all “unnecessary” spending and (b) raised tariffs to levels not seen in a century since the Smoot–Hawley Tariff Act of 1930. For monetary policy, while it was not as easy to override due to this annoying little practice called “Fed independence”, it did not prevent either President or Treasury secretary from making their impassioned preference for lower rates heard. As with all plans, it all seemed good at first – on paper.

But as the great philosopher Mike Tyson once quipped: *“Everyone has a plan until they get punched in the face.”* In this case, the Trump administration got “punched in the face” by the great currency and bond markets – unexpectedly punishing them for every perceived misstep in undermining the great American-led global order. Outsized tariffs threatening a collapse in global growth? Bond volatility spiked and the yield curve steepened with a speed and magnitude that made everyone “queasy” in April. Overt threats to fire Fed chair Jerome Powell? The dollar dropped in a manner indistinguishable from a mismanaged EM currency. One could clearly see 9 April 2025 as the day Trump abandoned his hardline position; the markets literally bottomed at that point and bounced in a sharp V-shaped recovery since.

**Too big to even fracture, let alone fail.** The lesson here is clearly that the treasury markets have grown so large that calling it “too big to fail” is an understatement. According to the US Congressional Budget Office, it would require some balance of high growth and low rates for US debt/GDP to retreat from the point of no return and salvage any chance of returning to a more palatable double-digit figure once again. This is perhaps why fiscal cutbacks were more temporary than Trump’s foray into the casino business in the 1990s – DOGE has since seen little action and tariffs were given a series of delays and extensions – cutbacks cannot be done meaningfully if it comes at a cost to growth. Recognising which, Trump signed his

The only solution to the debt problem – fast growth, low rates

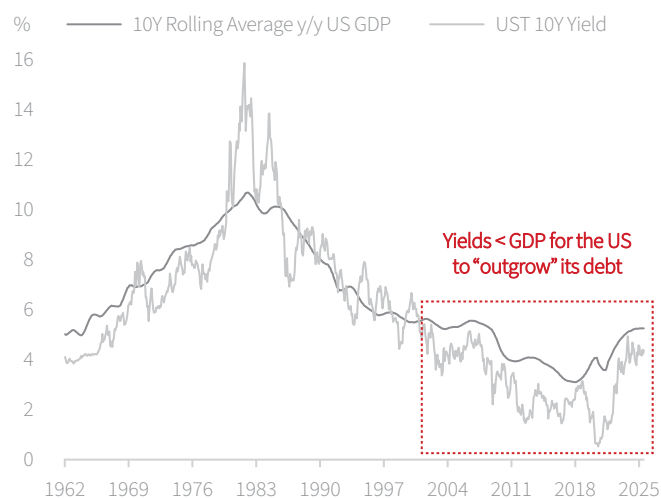


Source: Congressional Budget Office, DBS

One Big Beautiful Bill Act into law in July, which is projected to add another USD3.4tn to the deficit over the next decade while spurring growth. With that, the convictions for fiscal conservatism dissolved ignominiously in less than six months.

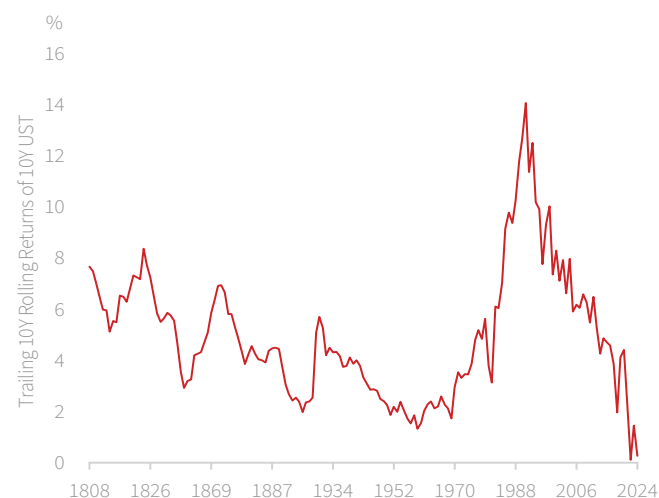
**Relapse into retaking fiscal injections.** What was initially the tight fiscal/easy monetary policy plan has now seemingly evolved into an easy fiscal/easy monetary policy plan – pump priming was always the preferred opiate-of-choice to a debt-addicted economy, compared to the bitter pill of austerity. Ratings agencies, however, would like to remind the world that the US is no longer default-free since May 2025, with all three agencies aligning the rating of US debt at AA+; implying that even opiates can turn lethal in high enough doses. Nevertheless, the US is not skirting the issue entirely; rather than cutting the numerator in debt/GDP through austerity, it appears that they are pivoting to expanding the denominator – nominal GDP – via stimulus to achieve the same result. For this plan to work, yields must remain below nominal GDP, which explains why Trump has maintained his pressure on the Fed to cut rates despite sticky inflation and low unemployment numbers.

### Keeping to modest slope steepness



Source: Bloomberg, DBS

### The worst bond market performance in centuries



Source: Historical Statistics of the United States (Cambridge University Press), Bloomberg, DBS.

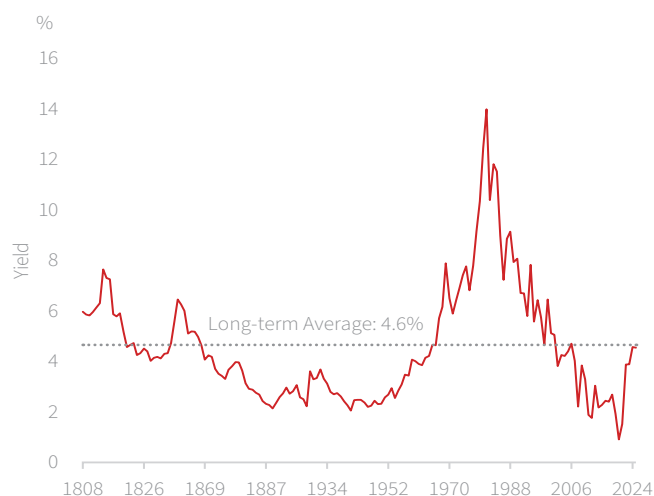
**Governments testing the limits of “risk free”.** The above suggests that the US is willing to temporarily sacrifice the balance sheet and creditworthiness of the country to bet that private sector innovation, reshoring, consumption (and dare we say, inflation) will eventually allow them to nominally outgrow their unrepayable debt. This continues to bring a lot of investment uncertainty into “riskless” government bonds. We had already lived through the worst period of treasury bond performance, with the trailing decade seeing zero returns for benchmark 10Y treasury bonds on a rolling basis for the

first time in centuries since the year 1800. This was the result of (a) the aggressive rate hiking cycle of 2022, and (b) rising term premiums from fiscal largesse, credit deterioration and “de-dollarisation”.

**Yields are back to historically “fair”.** On the flipside, an optimist would quip that lightning should not strike twice in the same spot. Peculiar to bond mechanics, while price losses in bonds can be a drag on current performance, the resultant higher yields would eventually bring sufficient compensation over the longer-term. In other words, if the last 10 years in bonds were bad, the next 10 years should not be worse. As things stand, the rise in yields has already brought the 10Y UST yield up to its (very) long-term average level of 4.6%. Knowing that the US plans to outgrow its debt, yields should be lower than present over the longer term, either through rate cuts or even yield-curve control, to prevent an unsustainable debt spiral.

**Corporate credit – the less risky bet?** This is not to say that investors should just blindly buy treasuries – we expect the yield curve to remain steep due to deficit spending, which means that investors are not well compensated in ultra-long bonds (above 10-year duration). We continue to opine that investors are better off with corporate credit risk, seeing as the policy of choice is to shift the burden of risk from the private sector to the public sector. Case in point, a tax cut for corporates adds to their bottom lines and balance sheets (lowers risk), while governments would need to finance the deficit with more debt (heightens risk). This public-to-private burden shift is perhaps why credit spreads have largely remained on a multi-year tightening trend since 2022, and why unlike equities, there appears to be little sectoral performance dispersion in IG bonds.

### Current 10Y UST yield is close to its very long-term average



Source: Historical Statistics of the United States (Cambridge University Press), Bloomberg, DBS.

Moreover, with speculations like the “Mar-a-lago Accord” – forcing US treasury investors into zero-coupon century bonds – corporate credit prospectuses without such draconian provisions may ironically appear like the less risky bet.

**Good does not come cheap.** The corollary of good performance means that spread products today are far from a bargain. Looking across the spectrum of credit markets, spreads are at the 0th percentile across many markets – meaning that there was no instance in the last 10 years when spreads were tighter than they are today, especially in EM credit and capital securities. For credit investors today, any semblance of value needs to be looked at in absolute yield terms. Due to the high-rate environment, certain markets look decently attractive, including the US, Europe, GCC and Asia IG markets where all-in yields were only higher than they are today in less than 30% of the time over the last decade. The only markets that seem to have value in both spread and yield terms are the securitised debt and Mortgage-backed Securities (MBS) segments. We continue to think that these segments can add alpha to a fixed income portfolio; in fact, such “government+” expressions such as MBS (with added mortgage risk premiums) and Treasury Inflation-Protected Securities (or TIPS, which provide added inflation protection) would be a good substitute to traditional nominal treasuries in the portfolio.

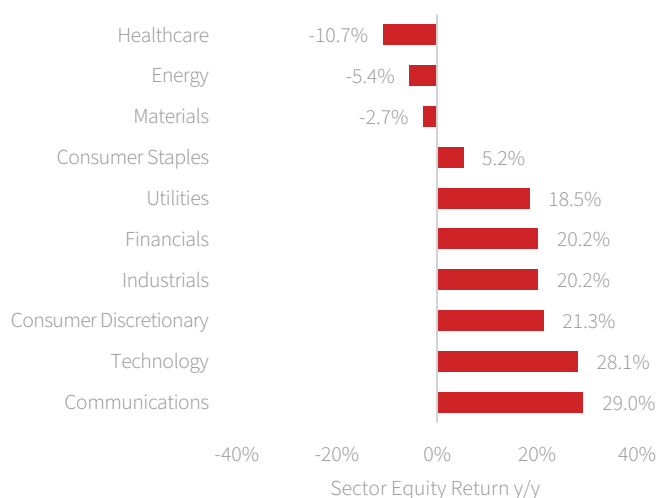
**It could get more expensive before it gets cheaper.** There are several other technical reasons for such a tight spread environment. Firstly, the high-rate environment means that corporates withhold issuance in the hope for cheaper financing in future; as such the pace of corporate credit supply growth has declined relative to demand.

Secondly, such high rates since 2022 implies that higher coupons have been paid out to bondholders with a tendency to reinvest the proceeds into the bond markets, creating passive demand for credit. Thirdly, the fact that the Fed had intervened in the IG and HY markets during the pandemic crisis signals the presence of a “Fed put” that has compressed premiums. Lastly, today’s environment of >2% real growth and Fed policy on hold is reminiscent of the roaring nineties – where credit spreads held tighter levels than today’s for several years. We would caution, however, against a bet on further tightening on spreads given that most forecasts have growth dipping below 2% henceforth due to tariff uncertainty. Base case for a credit investor is to see returns from income, and not capital appreciation in the near term.

**What about currency risk?** We do not typically opine on currencies but given that concerns today primarily revolve around USD weakness and its detraction to bond total returns in local currency terms, we would give a perspective on how to manage FX risk in a fixed income portfolio.

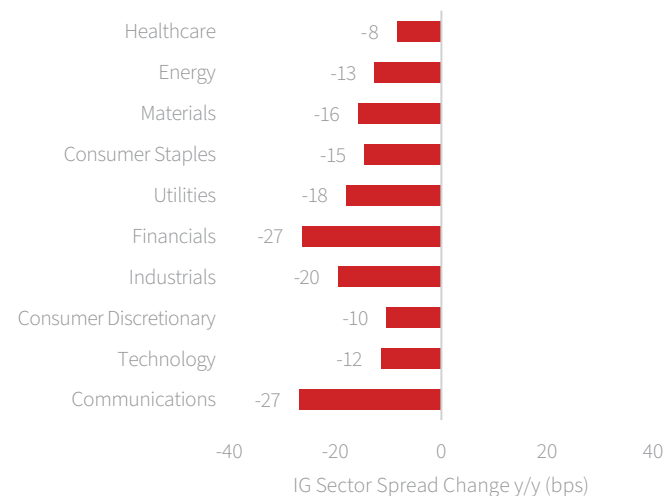
**There is no free lunch.** Before “Liberation Day”, bond investors were more than happy to leave their dollar exposure unhedged given the predominance of the dollar in financial markets. Trump has since forced everyone from retail investors to large sovereign wealth fund managers to rethink the risk of currencies in a portfolio – perhaps considering greater allocations to non-USD bonds. However, there is no such thing as a free lunch. Due to the theory of interest rate parity, interest rate differentials should be equal to the difference in the forward and spot FX rates. Put simply, if the dollar weakens relative to other currencies, then bonds denominated in those currencies

Sectoral performance dispersion remains high in equities...



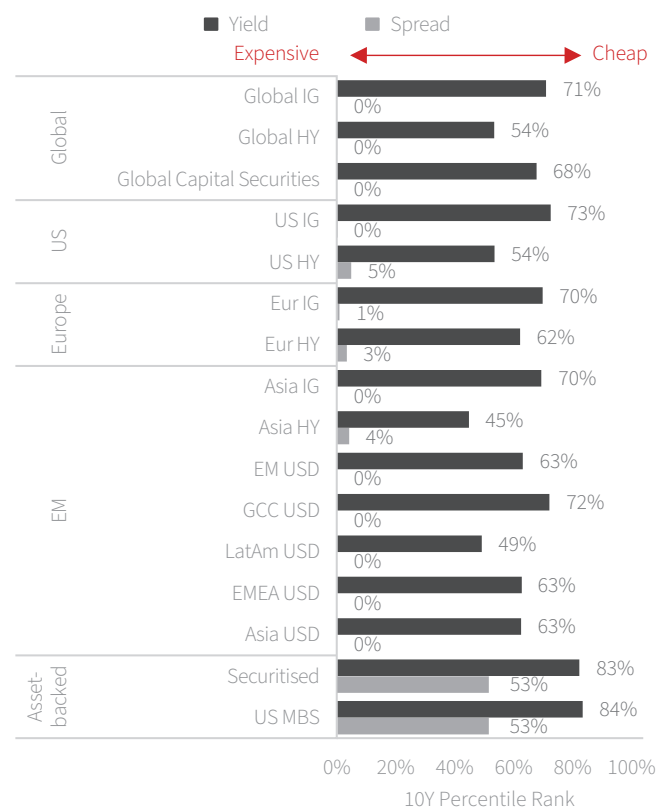
Source: Bloomberg, DBS

...but not in credit



Source: Bloomberg, DBS

Bonds are cheap in yield terms, expensive in spread terms

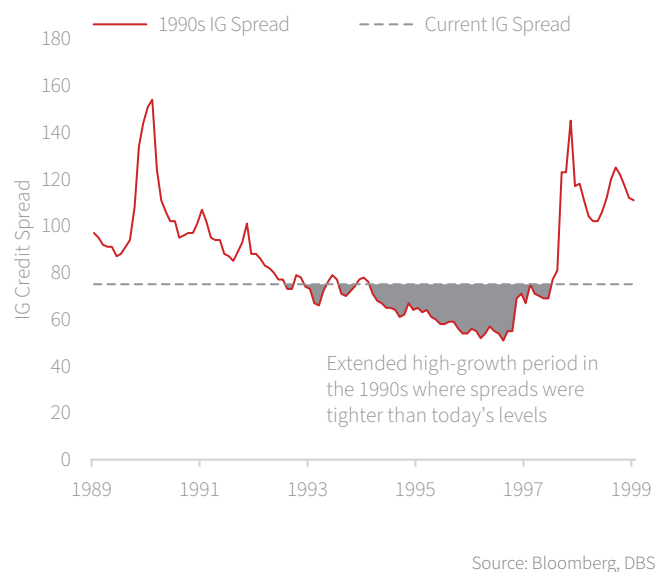


would offer lower yields than equivalent dollar bonds. Markets are already reflecting this reality, with everything from JGBs, CGBs, bunds, Singapore government securities etc. yielding below US Treasuries. Buying local currency bonds means investors sacrifice yield, while hedging dollar bond exposure into local currency also requires a payment of a steep hedging cost.

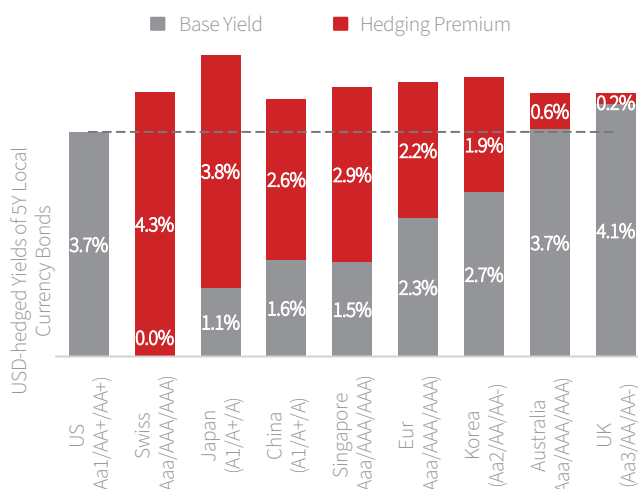
**King dollar.** While the dollar has underperformed in 2025, one should not forget that it had still performed well against most other currencies in the last 30 years. Therefore, investors should not overreact and dump all dollar bond positions for local currency alternatives; those with currency concerns can consider partial hedges; this balances the risks between currency depreciation and lower yields to give the best of both worlds.

**Lastly, we think that fixed income will benefit from the tailwind of rate cuts.** The Fed has already resumed cutting rates due to weaknesses in the US labour markets – and is anticipated to do more – which implies that cash and bill rates are facing inordinate reinvestment risk. Cash-heavy investors should shift towards cash alternative strategies such as short-duration (2-3 year) high quality

We have not reached all-time tights in spreads... yet



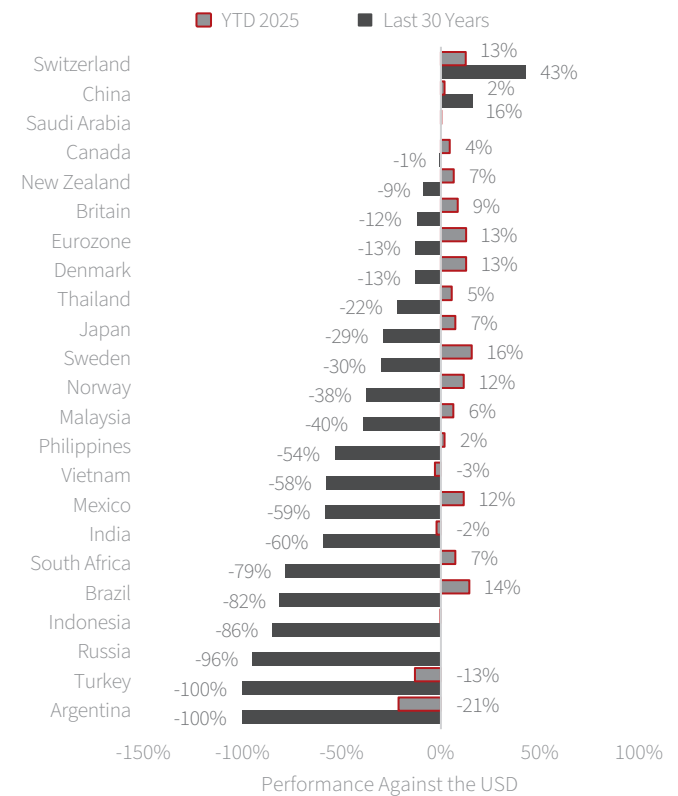
US is now the high-yield market



credit (Liquid+ strategy) to mitigate the effect of lower yields. Trump's expansionary fiscal bill likely portends steeper yield curves – opportunities to extend duration with 7-10 year credit remains when 10Y UST goes beyond 4.5%. For a fixed income portfolio, investors should stay up in quality with A/BBB credit, given better relative value in IG absolute yields versus HY. Portfolios with government bond allocation should consider “government+” securities such as TIPS and MBS to add alpha. Investors should also consider partial currency hedges to mitigate dollar depreciation risks, although

keeping in mind that such hedges would require a sacrifice of the portfolio yield. Suffice to say, bonds have not had stellar performances for several years now, but with the building economic uncertainty around Trump's on-again, off-again plans, we believe that such assets would increasingly offer the respite of stability in a progressively volatile world.

### The dollar still has a decent 30-year record

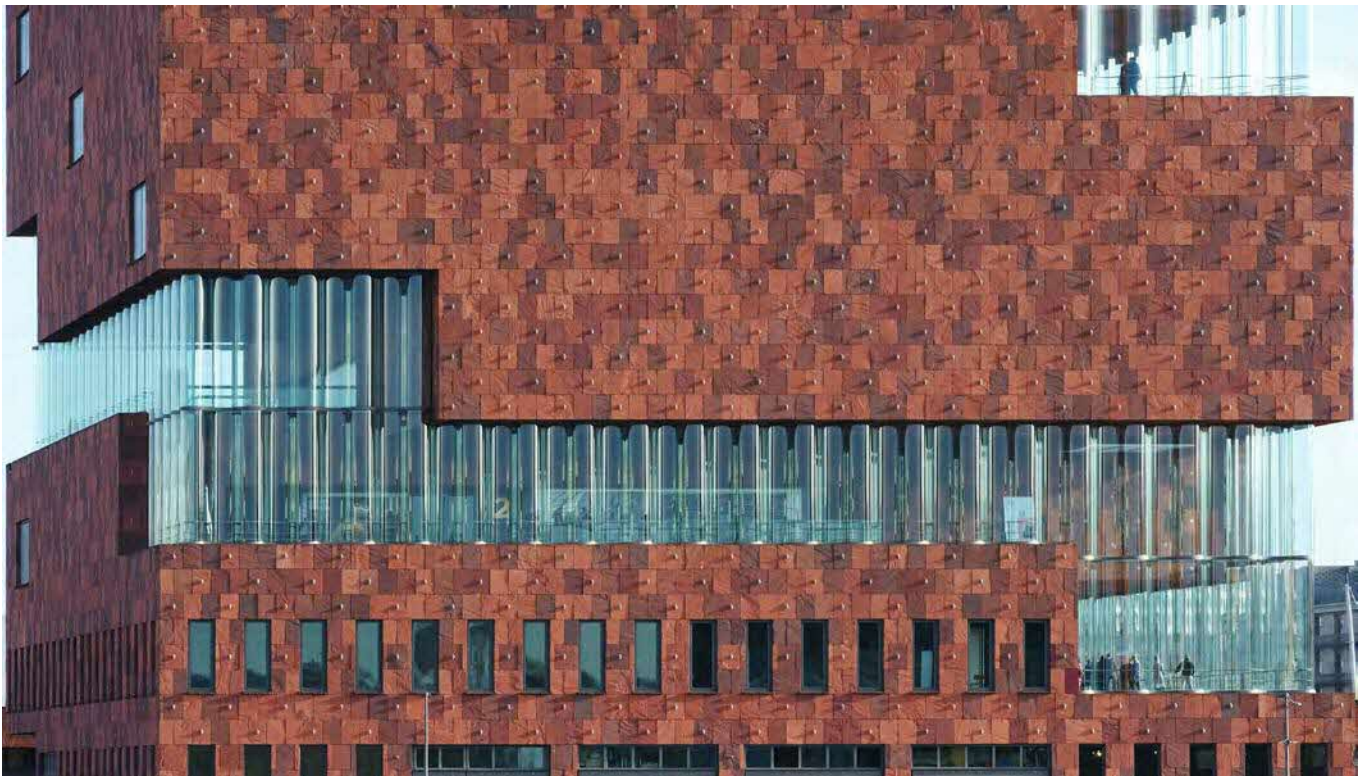


Source: Bloomberg, DBS



# Slowdown in USD Decline

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## Global Currencies 4Q25

USD bears looking for a sharper, more extended USD downside may be disappointed. The current US-centric policy concerns may not worsen to levels that may trigger such dislocations. A dovish Fed may only contribute to a gradual USD decline.



# Global Currencies

Terence Wu  
Strategist

Carie Li  
Strategist

**FX in review.** After a steep 1H25 slide, the broad USD saw a technical- and valuation-driven rebound in July. The broad USD posture then settled down into a slow, gradual decline from August. The USD-negative drivers have shifted slightly in 2H25, the sharp dislocations seen in March and April 2025 is no longer the baseline.

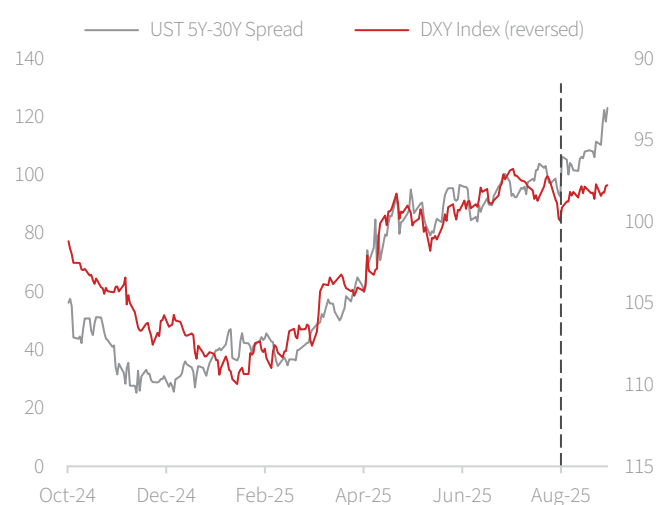
**Gradual, orderly USD decline.** We stay mildly USD-negative into the year-end. The DXY Index is now expected to grind lower at a much slower pace compared to 1H25. The increasingly dovish Fed rate cut trajectory and the potential for US-centric, fiscal- and policy-driven shocks are the dominant USD-negative drivers, but this is offset by still-elevated US real yields and resilient US equities. The burden of proof is on USD bears to find a stronger catalyst for a stronger USD decline.

**Examining the two USD-negative pillars.** There is a longstanding negative relationship between the UST yield curve (proxied with the 5Y – 30Y spread) and the DXY Index – the steeper the UST yield curve, the weaker the USD. We can use the yield curve to explain the two main USD-negative pillars. First, the yield curve can steepen if front-end yields go lower – this can manifest via an increasingly dovish Fed and a lower Fed terminal rate. Second, the yield curve can steepen if back-end yields rise – which can be triggered by a higher UST term premium from US-centric, fiscal- and policy-driven shocks.

An increasingly dovish Fed and a lower Fed terminal rate are being delivered by a weakening US labour market. Softer nonfarm payrolls have reinforced rate-cut expectations, with market pricing now ascribing odds for a steeper rate cut trajectory through 2026. Fed rhetoric also suggests that more FOMC members are now open to multiple rate cuts. This should compress policy-rate differentials over time and chip away at USD carry.

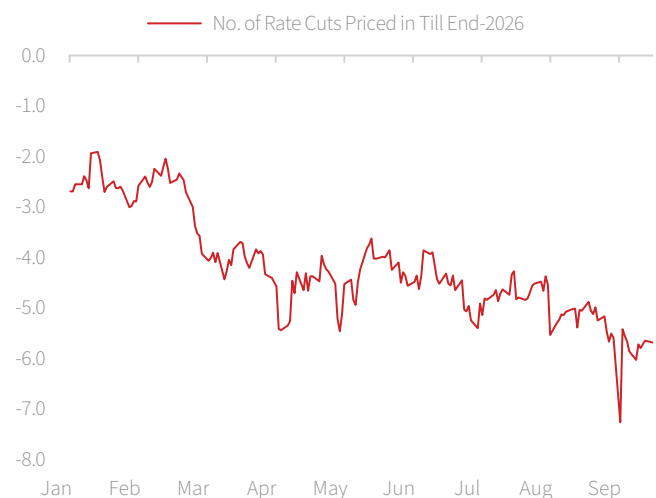
In terms of US-centric shocks, US reciprocal tariffs dominated the headlines in March – April this year, but the market have since moved on. For 2H25, the clear and present risk is the undermining of Fed independence by the Trump administration, with concerns over US fiscal sustainability lingering in the background. Should these risks materialise, they could trigger a broad-based loss of confidence in both the US economy and the USD.

Since Aug 2025, the DXY Index downside has lagged UST curve steepening



Source: Bloomberg, DBS

Even without Fed rate cuts prior to September, the market has consistently priced in more cuts in the upcoming quarters



Source: Bloomberg, DBS

**The USD softened, but hasn't capitulated on the dovish Fed.** A key observation in 3Q is that the DXY Index has been showing limited sensitivity to Fed policy pricing. The spectre of tariff-driven, higher inflation may have compelled investors to discount the rate cut trajectory, no matter how steep it gets due to recent data releases. Thus, even if Fed rate cut expectations were to increase further, the FX flowthrough should be contained, and translate only to a slow USD decline.

**US-centric shocks that raise the UST term premium are not coming through.** Another reason why the USD downside has been slow is that the back-end of the UST curve has remained anchored. After the market grew accustomed to US tariffs, there were no further US-centric shocks that pushed the UST term premium up to trigger a loss of confidence in the US, and a sharper USD sell-off. At present, Fed independence and US fiscal concerns remain the key issues on this front, but the market has not assigned them the same level of fear as it did to reciprocal tariffs in the first half of 2025. Moreover, US equities have again moved towards record highs, reducing the impetus for US portfolio de-risking flows last seen in March – April this year. Thus, the USD's decline is likely a grind, not a capitulation.

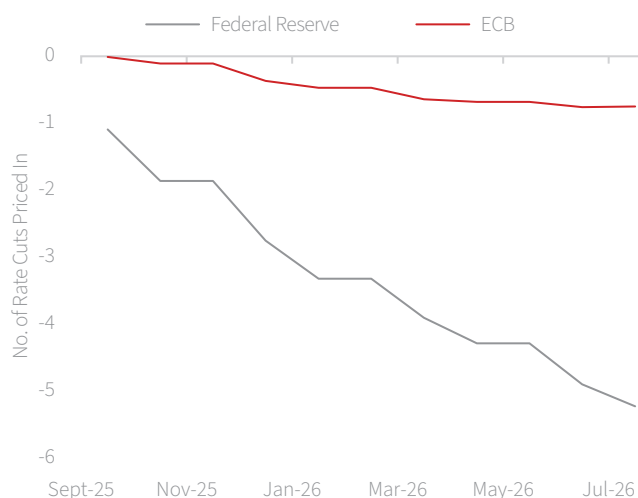
#### Comparing the USD experience in 1H and in August – September.

Compare the drivers of the curve steepening between 1H (March – April) and August – September – the recent curve steepening is driven more by the Fed terminal rate (front-end), with the term premium (back-end) not significantly higher. Contrast this to the March – April period, where both a lower Fed terminal rate and higher term premium contributed to a steeper curve, and the USD weakened sharply. This suggests that the USD bears will need broader-based risk events that trigger higher term premiums for a sharper, more extended USD downside. Barring this, the USD is likely to only ease lower.

**Do not rule out a 1.2000 EUR-USD.** The EUR is one of our favoured currencies to express USD weakness. The primary driver is the Fed-ECB divergence. The ECB has not cut since Jun 2025, and Lagarde appeared to rule out any cuts in the upcoming months. In terms of market pricing, the ECB is not expected to cut through 1H26, in contrast to the five-six cuts priced in through end-2026 for the Fed. The EUR also took the French political uncertainties in its stride, underscoring the market's confidence in the EUR. The EUR-USD should revisit its cycle highs and may even push to 1.2000 on a multi-month basis.

**Fiscal risks offset BOE-driven positives for the GBP.** Our reservation over the GBP stems from the Labour government's fiscal position. The spike in the 30Y gilt yield to the highest levels since 1998 in early-September also reflects these fiscal concerns. There

#### Fed rate cuts to outpace ECB in the upcoming months



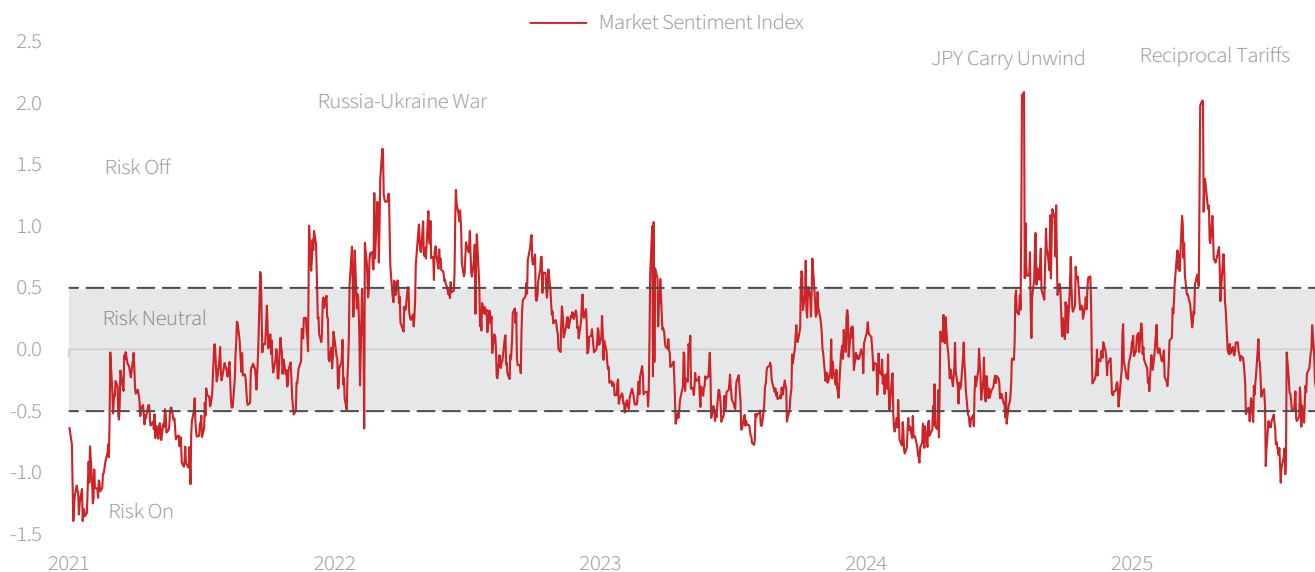
Source: Bloomberg, DBS

may be a round of fiscal tightening in the Autumn Budget. Chancellor Reeves will need to find GBP20 – 50bn of fiscal savings to achieve the government's fiscal rules. This would engineer a growth slowdown that negates the stronger-than-expected growth impetus that had supported the GBP in 1H25. Going forward, the main concern is the negative fiscal feedback loop. The first round of fiscal tightening (at the Autumn Budget, for example) weakens growth further, resulting in poorer government revenue, creating the need for further fiscal tightening down the road.

**Positive risk reduces CHF outperformance.** The CHF saw its strongest gains this year during the March – April period, where reciprocal tariffs triggered a sharp USD capitulation that was accompanied by strong safe haven demand for the CHF. Since then, risk sentiment has been relatively sanguine, reducing the haven demand for the CHF. This implies that there will be no explicit reason for the CHF to outperform for now. Expect the USD-CHF to track the broad USD trajectory going forward.

**Many distractions complicate matters for JPY bulls.** A rate-hiking BOJ should have been a clear JPY-positive. However, the JPY-positive narrative has been complicated by politics and the instability in long-dated JGB yields. Following PM Ishiba's resignation, the new Japanese Prime Minister may only be named in October. The resultant political shift is such that the new government's fiscal stance may be looser. Given that Japan already has the highest government debt to GDP ratio among the DM economies, any fiscal loosening will further trigger debt sustainability concerns and drive up long-dated JGB yields. The resultant financial instability in the

Our Risk Sentiment Index suggests market sentiment has been sanguine since the reciprocal tariff shock



Source: Bloomberg, DBS

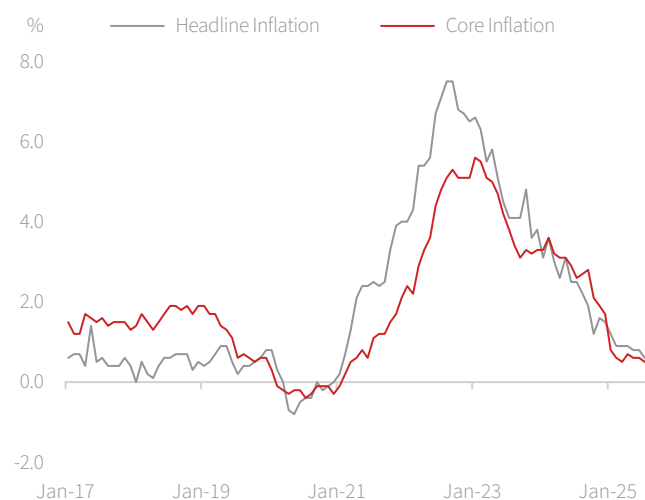
JGB market will make it harder for the BOJ to hike and for the JPY to strengthen. Thus, we do not see the JPY as the best expression of USD weakness.

**Long AUD remains our conviction call.** AUD-USD has traded mainly above the 100-DMA of 0.6489 since the April dip was reversed. As a China-proxy, the AUD draws support from the stabilisation of the US-China trade relationship. Australia's strong 2Q GDP, jobs data, and CPI led to lower expectations of RBA rate cuts, at a time when the Fed is expected to quicken the rate cut pace. This RBA-Fed policy divergence further drives AUD-positive momentum. Unwinding of crowded AUD shorts will help as well. Taken together, we see positive fundamental drivers coming together to push the AUD-USD higher. A firm hold above 0.6600/20 could open up a test of the 0.6700 – 0.6800 range in 4Q.

**No strong argument for SGD strength.** The recent rebound of the RMB did not provide significant support for the other Asian currencies, the SGD included. For the SGD, there is some negative pressure stemming from potential easing actions by the MAS in its October 2025 and/or Jan 2026 decisions. The strong domestic growth outcomes in the first half of 2025 may be skewed by front-loading of exports ahead of the US reciprocal tariffs, and thus, may not be sustained into the second half. Instead, there may be more focus on the undershooting inflation numbers, which are near the lowest levels since the pandemic. We note that the SGD is softening against our estimated S\$NEER basket of currencies, a move that

typically implies that the market is also pricing in some policy easing. Overall, there is a sense that USD- and SGD-weakness will offset each other, leaving the USD-SGD downside largely contained at the 1.2700 locus.

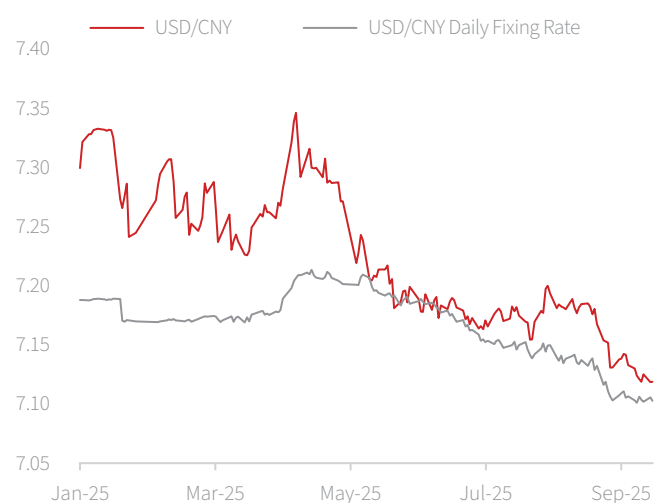
Singapore headline and core inflation have dipped back to pandemic levels



Source: Bloomberg, DBS

**Moderate upside looks likely for the RMB.** USD-CNH's downtrend has been sustained due to the extension of the US-China trade truce, narrower US-China yield differential and the PBOC's strong signal to allow further RMB strength. Taking cues from the USD, a breakout of the DXY Index could drive USD-CNH to the next target of 7.1000 and 7.0800. A brief overshoot below 7.0800 cannot be ruled out either if a further strengthening of RMB triggers panic selling of foreign currencies holdings by exporters. Nonetheless, a sustainable downward move below 7.0000 is not warranted by China's still-weak economic fundamentals. With the latest Chinese data showing weakening external demand (the main driver of Chinese growth), tepid domestic demand, and persistent deflationary pressure, the PBOC is expected to ease monetary policy, which could cap the RMB's upside as well.

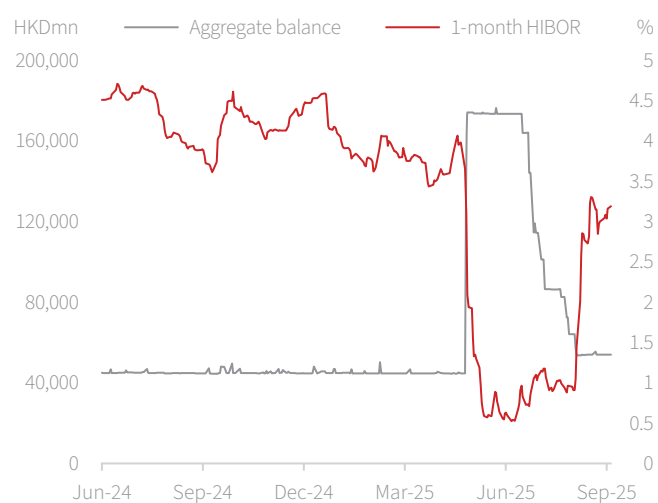
USD/CNY has fallen gradually as the PBOC set a lower daily fixing rate



Source: Bloomberg, DBS

**The volatile HKD market.** As USD-HKD continued to hit 7.8500 during June to mid-August due to lucrative carry trade, it triggered several rounds of HKMA intervention, reducing the aggregate balance (interbank liquidity) to the second lowest since late 2008. As a result, the 1-month HIBOR rose from 0.5% to over 3%. This led to a narrowed USD-HKD interest rate gap, triggering an unwinding of crowded carry trade. Coupled with continuous equity inflows to Hong Kong, it pushed USD-HKD down to around 7.8000. Catalysts like persistently strong equity inflows, a clear USD downtrend, faster Fed cuts, or recovering HKD loan demand could potentially accelerate the USD-HKD's move to 7.7500. If the pair revisits 7.75 and triggers HKMA's injection of liquidity, HKD rates are set to retrace lower and increase the appeal of HKD as a funder.

Once the HKMA intervenes at 7.7500, aggregate balance will grow and HIBOR will come off



Source: Bloomberg, DBS

# No Reprieve

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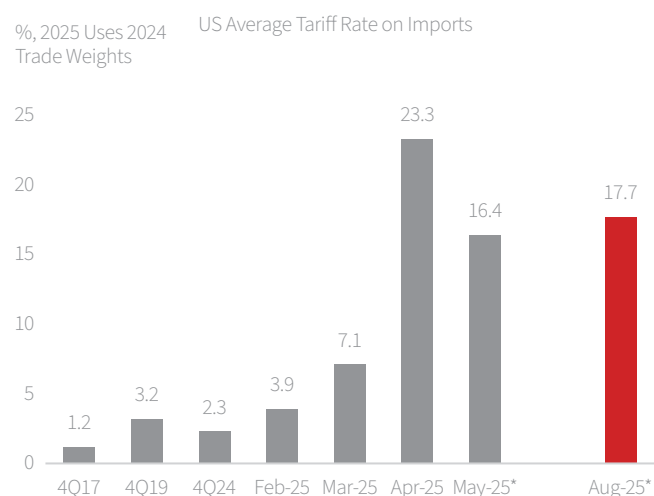
## Commodities 4Q25

Growth is expected to remain subdued due to tariffs, with selective commodity outperformance driven by strategic importance or supply constraints, particularly in precious metals, rare earth elements, and certain agricultural products like coffee.

# Commodities

Goh Jun Yong  
Strategist

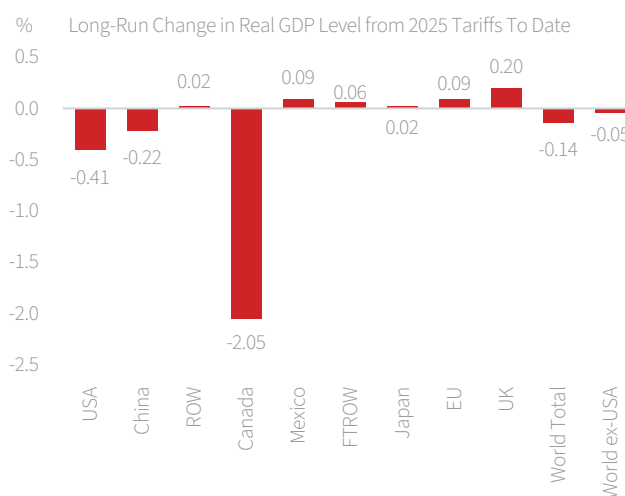
## US average effective tariff rate has crept up since May



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  
\*Calculated on a post-substitution basis  
Data as at 7 Aug 2025

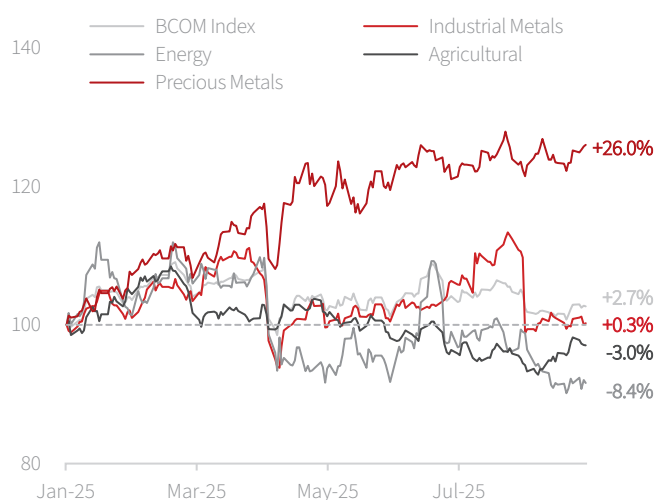
**Tariffs keep on rising.** While equity and bond markets have had relatively positive reactions to tariff developments in 3Q25, the reality is that the outlook for the real economy has not been as sanguine and effective tariff rates have only risen. Of note, the US slapped a punitive 50% tariff on Indian imports, as well as a 50% Section 232 tariff on copper (though this was later clarified to exclude refined copper and copper ore). Based on estimates by the Yale Budget Lab, the effective US tariff rate in August sits at a post substitution rate of 17.7% — higher than the 16.4% rate in May during our last quarterly check-in. This effective tax rate translates into a 1.8% increase in US consumer prices or a short-term income loss of about USD2,400 per household in 2025 dollars. From a long-run real GDP perspective, tariffs are expected to shrink the US economy by -0.4%, China's economy by -0.2%, and Canada's economy by -2.1%. All this to say, the worst is not over on the tariff front. Global growth will be adversely impacted and so will the outlook for commodities in the coming quarter.

## Tariffs have a negative impact on long-run real GDP



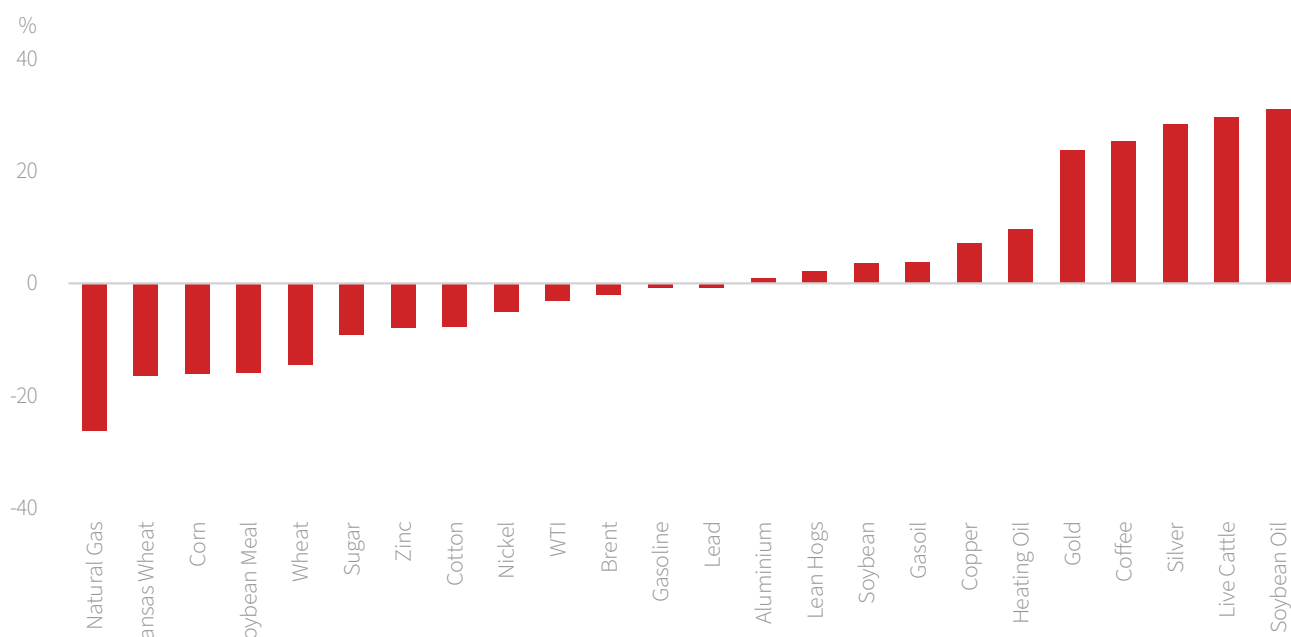
Source: GTAP v7 Corong et al (2017), The Budget Lab analysis  
FTROW = countries with a comprehensive free trade agreement with the US  
ROW = all other countries  
Data as at 7 Aug 2025

## Commodity performance continues to be lacklustre in 2025



Source: Bloomberg, DBS  
Data as at 28 Aug

## YTD individual commodity performance

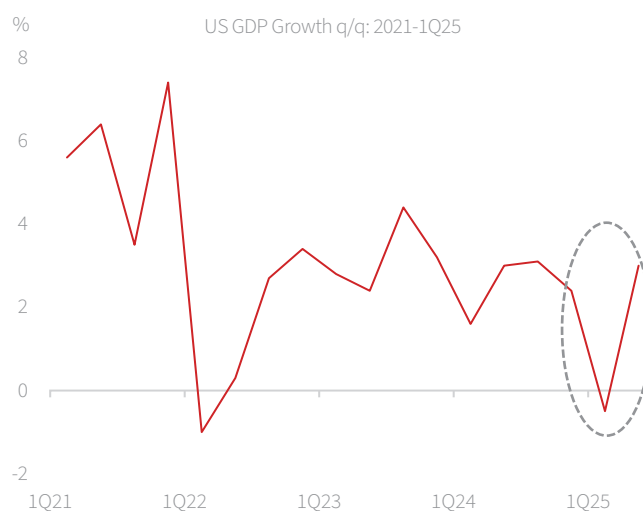


Source: Bloomberg, DBS  
Data as at 26 Aug 2025

**Commodity prices have been muted in 3Q25.** Against this backdrop of rising tariffs and dampened growth, commodities have underperformed. The BCOM Index fell 0.6% for the quarter ending 28 Aug, mainly due to declines of over 5% in energy and industrial metals amid concerns about oversupply and weak demand. Only precious metals saw a decent uptick with a +3.8% quarterly gain. On a YTD basis (as at 28 Aug), broad commodities trail other major asset classes with a +2.7% performance; global bonds and equities returned +6.8% and +12.9% respectively. Individual commodities that emerged as strong performers (>20% YTD) were mainly precious metals (gold and silver) as well as select agricultural commodities. Majority of these outperformances were driven by idiosyncratic factors; soybean oil rallied due to the US government's decision to increase biofuel mandates, coffee prices rose on the back of the US announcing a 50% tariff on Brazil, and gold/silver, with their safe haven characteristics, were beneficiaries of heightened policy uncertainty this year (trade or otherwise).

**The end of stockpiling/front-loaded demand?** We previously mentioned that the sharp slowdown in 1Q25 US GDP growth (-0.5% q/q) was possibly the result of tariff front-running and a spike in imports (classified as a subtraction in the calculation of GDP). This was confirmed by the 2Q25 GDP growth figure which rebounded

## US GDP growth rebounded in 2Q25



Source: Bloomberg, DBS



back to +3.0% q/q, the same level that it was a year ago (2Q24). This could be an indicator that tariff front-running and stockpiling is moderating and perhaps even coming to an end now that the US has made deals with a majority of its trading partners. This will likely lead to a demand overhang for commodities for the rest of the year.

#### US imports moderate as tariff front-running subsides

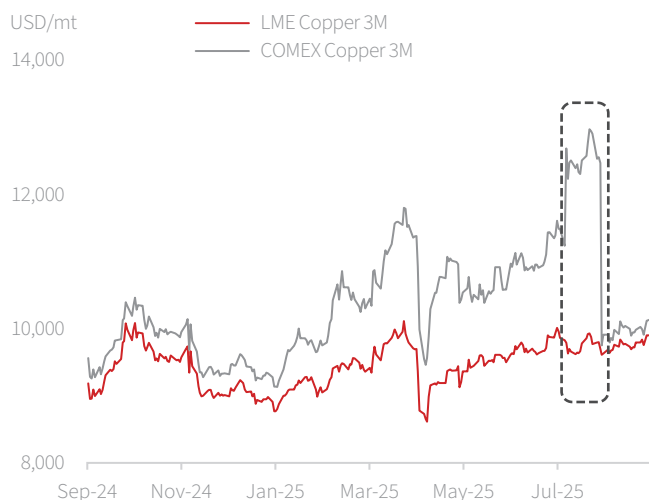


Source: Bloomberg, DBS  
Data as at 26 Aug 2025

### Industrial metals

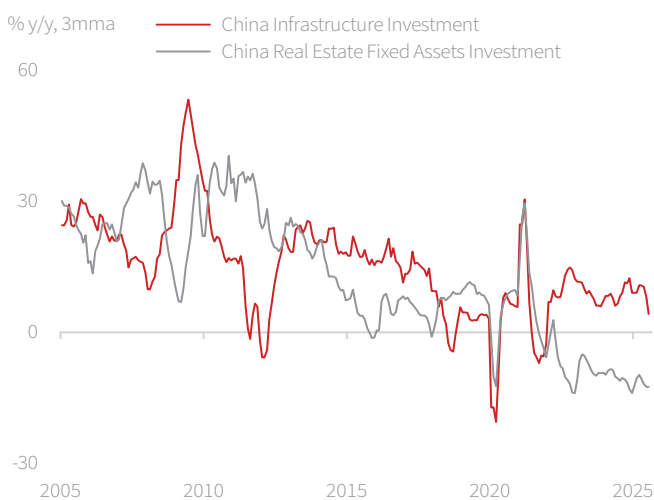
**Copper – COMEX prices seesaw amid tariff confusion.** COMEX copper prices spiked by more than 10% at the start of July, following announcements that Trump plans to levy a 50% tariff on copper imports. However, in a surprising turn of events, it was later clarified that the tariff would apply only to semi-finished copper products and not copper cathode, leading copper prices to plunge 22% in a single day on 31 Jul and ending -14.1% down for the month. Incidentally, LME copper prices stayed relatively stable throughout the same period, shedding just -2.6%. This highlights how tariffs can greatly impact the short-term prices of commodities in the country that is implementing them even if there are no immediate changes in supply-demand fundamentals. In the medium term, the demand outlook for copper continues to look constrained; the Trump administration continues to wage its war against electrification and renewable energy while real estate and fixed asset investments in China continue to seek catalysts.

#### Whirlwind for COMEX copper prices amid tariff confusion



Source: Bloomberg, DBS  
Data as at 1 Sep 2025

#### China real estate and fixed asset investments continue its downtrend

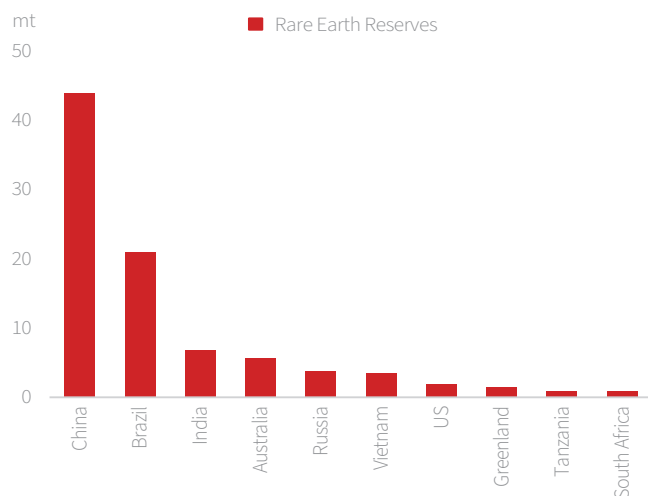


Source: Bloomberg, DBS

**Strategic rare earth elements.** Rare earth elements (REE) have made headlines this year when China, which controls more than 70% of REE mining and 90% of processing capacity, used its dominant position as a bargaining chip in trade discussions with the US. Beijing's threat to restrict REE exports secured key concessions from the US, including the reversal of its 145% tariff hike and permitting tech-related shipments (including certain AI-related chipsets) to China.

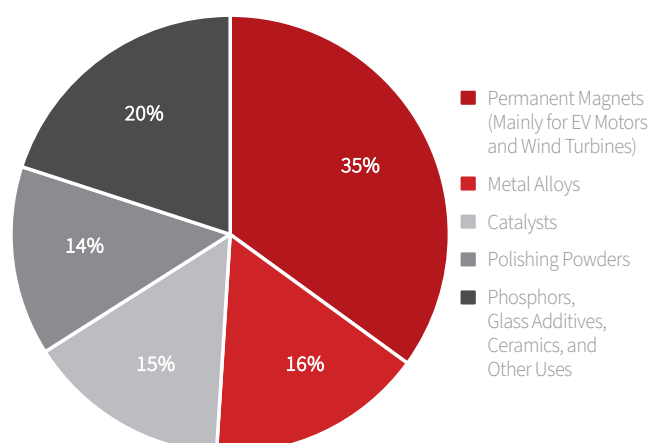
So, what are rare earths and why are they so important? Rare earths refer to a group of 17 elements on the periodic table that have special chemical, magnetic, and luminescent properties. They

### China controls majority of the world's REE reserves



Source: US Geological Survey, 2024

### Rare earth demand by sectors in 2023



Source: CRU Group

are used in a wide variety of modern technology applications from electric vehicles (EVs) and renewable energy infrastructure to defence equipment, data centres, and consumer electronics. Due to this pivotal role, REEs are expected to be an area of focus moving forward. For investors, this represents an opportunity, especially in the context of various countries' efforts to diversify related supply chains and wrest some of China's dominance in REE production. While REEs are not exchange-traded due to the lack of standardisation and opaque pricing, investors can gain indirect exposure through publicly listed miners/producers, thematic ETFs, and private market opportunities.

### Agricultural and soft commodities

**US tariffs on Brazil prompt increase in Arabica coffee prices.** The benchmark price for Arabica coffee has rallied by almost 40% in August on the back of the US announcing a 50% tariff on Brazilian imports. This came as no surprise as Brazil is the largest producer of Arabica coffee globally. Levying a 50% tariff will render much of its coffee exports to the US unprofitable which would in turn alter the dynamics of the global coffee market. US importers, for example, will now be shifting their purchases to other more expensive coffee producing regions such as Colombia, Peru, and Honduras. To make matters worse, Brazil coffee yields for the 2025 harvest have come in at 40.9mn 60-kg bags, 6.4% down compared to the previous season's harvest of 43.7mn bags, further reducing supply. Recent frost conditions in Brazil may also negatively impact next year's production. These supply factors, coupled with robust and stable demand for coffee, will likely keep prices supported in the near future.

### Brazil tariff sparked Arabica coffee rally

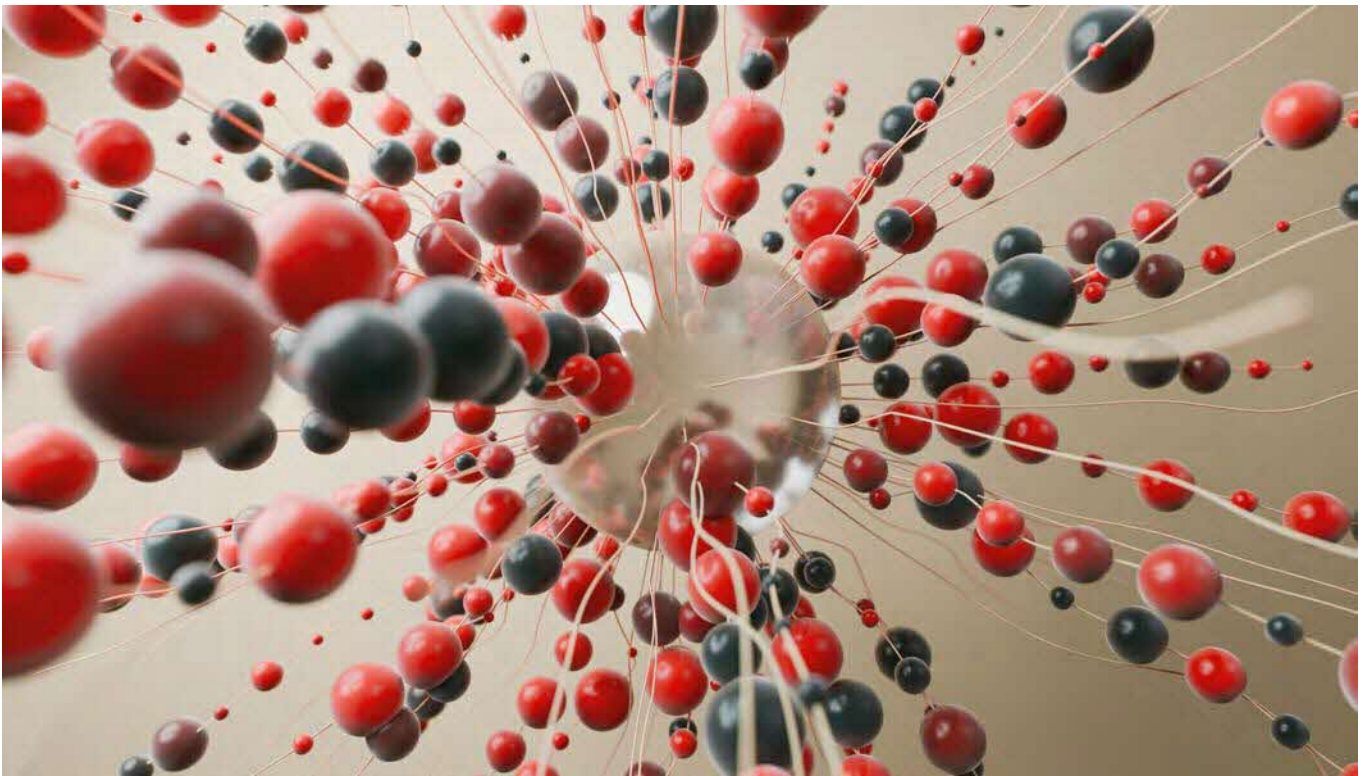


Source: Bloomberg, DBS  
Data as at 1 Sep 2025

**No reprieve.** While the tariff landscape seems to have stabilised for now, the economic impact of the markedly raised levies has yet to be realised. Our base case assumption is that there will not be a deep recession, but at the same time, we believe growth will be negatively impacted in some way. For commodities, this means that overall demand will stay subdued, and outperformance will be selective (rather than broad based), driven by idiosyncratic risk and market-specific factors. Commodities that hold strategic importance, such as precious metals (safe haven demand) and rare earth elements (defence, EVs, and electronics demand), will likely continue to see their prices well supported. For agricultural commodities, those with price inelastic demand and supply that is actively constrained by global warming, such as coffee, are likely to perform well in the medium to long term.

# A Portfolio Linchpin

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## Alternatives: Gold, Private Assets & Hedge Funds 4Q25

Healthy central bank buying, robust gold ETF flows, and expectations of rate cuts and weaker dollar underscore a supportive backdrop for gold. Common misconceptions overstate the risks of private markets. In reality, evolving liquidity, strategy shifts, and broader access are redefining their role in long-term portfolio resilience.

# Gold: Momentum sustained

Goh Jun Yong  
Strategist

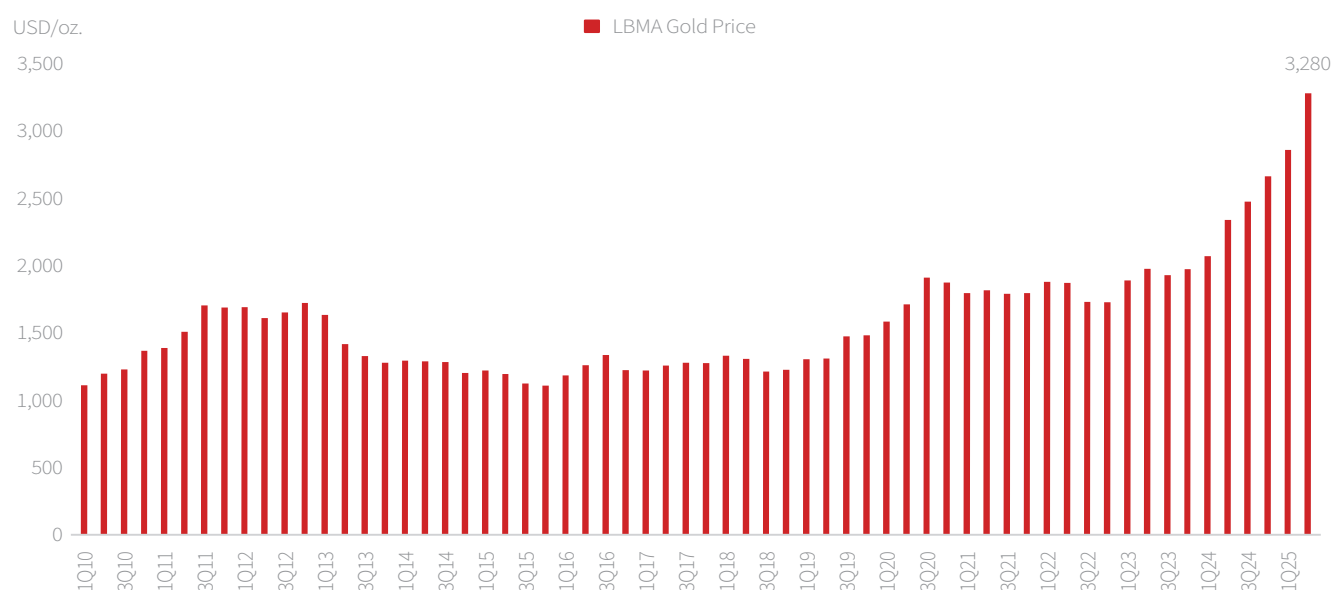
**Another break-out.** Gold surprised investors by staging an impressive rally from the beginning of the year to late April, gaining c.30% during that period. More recently however, it made another key move, breaching the USD3,500/oz. and taking its YTD performance north of +35%. The move came on the back of Trump's move to sack Fed governor Lisa Cook and growing concerns around the Fed's independence. In addition to notching new spot highs, gold has also seen average prices rise substantially. The average quarterly price for 2Q25 was USD3,280/oz., up by 15% q/q and up 41% y/y. This higher average price is reflective of a phenomenon that we have covered in previous quarters – gold's asymmetric return profile. Specifically, the presence of substantial upside potential from structural tailwinds (e.g. monetary debasement, de-dollarisation), potential rate cuts and dollar weakness, and limited downside thanks to dip-buying in an environment of elevated policy and macroeconomic uncertainty.

Gold breached the USD3,500/oz. mark in September



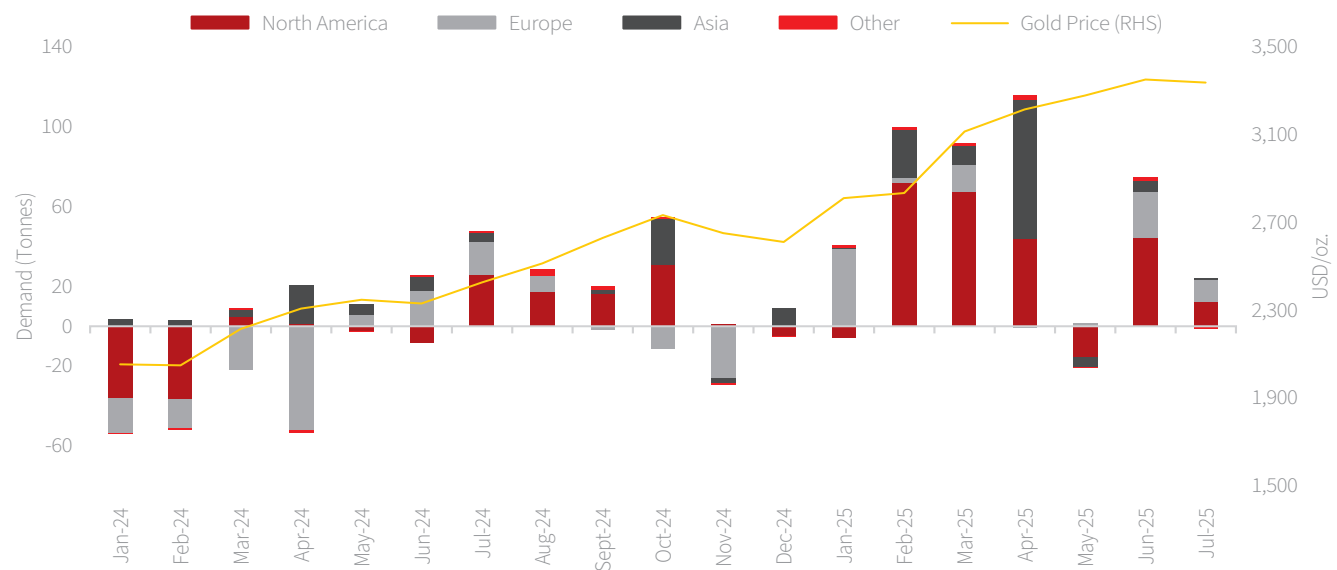
Source: Bloomberg, DBS  
Data as at 5 Sep 2025

New record high quarterly average price in 2Q25



Source: London Bullion Market Association, World Gold Council, DBS

## Cumulative YTD flows remain robust despite moderation in July



Source: Metal Focus, Refinitiv GFMS, World Gold Council, DBS  
Data as at 30 Jun 2025

**Uncertainty continues to power investment demand.** Total investment demand for gold rose 78% y/y in 2Q25 thanks to a combination of positive ETF flows and robust bar and coin demand. Uncertainty around trade policy, geopolitics, and inflation continues to be the key driver, and these factors are expected to maintain strong investment interest in the precious metal, especially with a weaker dollar and potential Fed rate cuts on the horizon.

**Further headroom for gold ETFs.** Notwithstanding a slowdown in July, cumulative flows this year have remained relatively robust with total inflows into gold ETFs for 2025 (as at end July) amounting to 420 tonnes compared to the net outflow of 72 tonnes during the same seven-month period last year. With rate cuts pencilled in for September and December, and a structurally weaker dollar expected for the rest of 2H25, we expect flows into gold ETFs to rebound

## Gold ETF holdings remain well below their Covid-19 peak



Source: Bloomberg, DBS  
Data as at 22 Aug 2025

moving forward. The headroom for it is certainly there as total gold ETF holdings remain c.17% below their peak levels in Nov 2020. With structural tailwinds such as de-dollarisation and monetary debasement firing on all cylinders in the Trump 2.0 era, the ceiling for gold ETFs is arguably higher today than in 2020.

**Physical gold continues to shine.** In addition to gold ETFs, gold bar and coin have also been contributing positive to the overall investment demand for gold; 1H25 was the strongest first half for gold bar and coin demand since 2013. While jewellery demand in China and India has wilted in the face of higher prices, bar and coin demand has done the opposite; 2Q25 saw a 44% and 7% y/y increase for bar and coin demand in China and India respectively. For China, this strong interest in physical gold was likely due to: i) strong price momentum; ii) positive signals from PBOC's continued gold purchases; iii) general uncertainty in the macro environment.

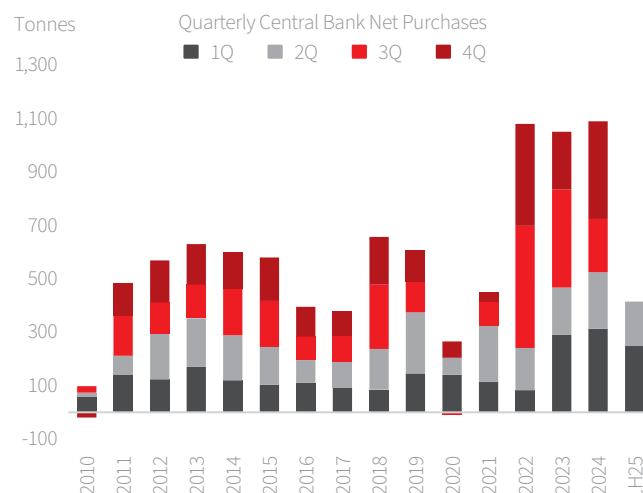
#### Central bank demand moderates but intention to buy remains.

2Q25 saw central bank gold demand fall 33% q/q. However, buying for the quarter remains positive at 166 tonnes of net demand. This level of demand is largely in line with second quarter buying for the past three years (2024: 212 tonnes; 2023: 176 tonnes; 2022: 159 tonnes), and roughly 41% above the quarterly average during the 10-year period from 2010 to 2021. The likely cause of this moderation is price; while central banks are strategic buyers and often have target allocations to hit, they are also not completely price-insensitive, choosing to slow their buying in response to record prices. Slowdown aside, the longer-term trend of central bank gold buying to diversify away from the dollar and introduce more resilience to its reserve holdings remains well intact. The 2025 central bank survey done by the World Gold Council supports this notion, with a record 95% of respondents believing that official gold reserves will increase over the next 12 months, and 43% believing that their own gold reserves will also increase during the same period.

**1H26 target: USD4,000/oz.** We had mentioned last quarter that we anticipate a combined central banks and investment demand for gold of approximately 600 tonnes a quarter, and that underpinned our year-end target price. Notwithstanding the slight moderation in central bank buying in 2Q25, we believe that our conservative estimate of 600 tonnes remains feasible and within reach. Accordingly, our target price for 4Q25 remains at USD3,765/oz. On this same basis (combined central bank and investment quarterly demand of 600 tonnes), we forecast gold to climb further to USD4,000/oz. by 1H26.

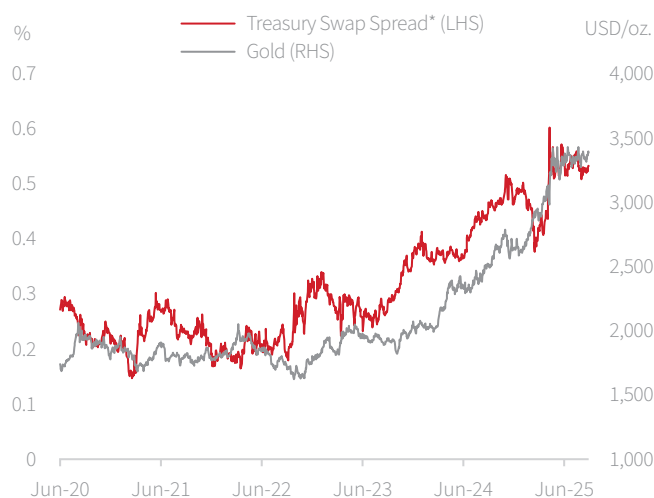
**Rising interest in gold adjacents.** The gold rally has ignited strong performances in other precious metals such as silver (up 41% as at 5 Sep) and platinum (up 53% as at 5 Sep) and accordingly rekindled

#### Central banks show price sensitivity in 2Q25 but buying continues



Source: Metal Focus, Refinitiv GFMS, World Gold Council, DBS

#### Gold continues to be well bid amid US fiscal concerns



Source: Bloomberg, DBS  
 \*Calculated as the difference between the US 10Y Treasury yield and US 10Y SOFR OIS fixed rate  
 Data as at 28 Aug 2025

much interest in them. While these precious metals represent opportunities for price appreciation, we still prefer gold as a portfolio risk diversifier as it is the least exposed to industrial demand; only c.10% of gold demand comes from industrial application whereas c.50% and two thirds of demand for silver and platinum respectively is industrial. Furthermore, gold, unlike other precious metals, benefits from stable central bank demand, which makes its overall demand profile more fundamental and less speculative in nature.

**Miners back in the spotlight.** Another expression that has taken off in 1H25 is gold mining stocks. Using the NYSE Arca Gold Miners Index as a proxy, the industry has rallied a whopping c.90% YTD (as at 5 Sep), driven by historic margins thanks to elevated gold prices. On a fundamental level, many gold miners have also improved their fundamentals, actively deleveraging over the past decade, reducing risk exposure to geopolitically unstable regions and growing their free cash flow. Again, while noteworthy as a growth play – especially in the context of current prices – miners do not take the place of gold in the overall portfolio construct as a risk diversifier for the aforementioned reasons.



# Private Assets & Hedge Funds: Cutting through smoke and mirrors

Daryl Ho, CFA  
Strategist

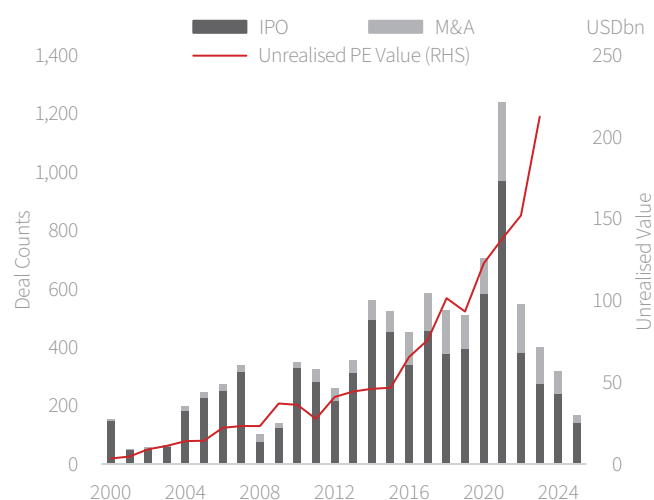
Elijah Tan, PhD  
Analyst

When it comes to retirement savings, few topics stir the pot like change. Recent headlines have set the cat among the pigeons, with fears that private assets in 401(k)s could nest eggs into ticking time bombs. August witnessed President Trump signing an executive order that throws open the gates for defined-contribution plans to invest in alternative assets—private equity, private credit, real assets, and even digital asset funds. The directive calls on regulators to cut through the red tape, clarify fiduciary duties under ERISA, and build safe harbours to keep litigation wolves at bay, with proposals due in 180 days. Across the pond, the UK's Mansion House Accord struck a similar chord just months earlier, pledging to double pension allocations to private markets by 2030. Together, these signal a sea change in how long-term capital will flow, inevitably sparking discussions that could give rise to misconceptions. As the saying goes, “a little knowledge is a dangerous thing.” Now is the time to cut through the noise and separate fact from hearsay.

Amid this backdrop of sweeping reforms and heightened scrutiny, one narrative that pertains to the slowdown in IPOs and M&As leaving investors stranded has gained particular traction. The reality, however, is far more nuanced. While traditional exit channels such as IPOs and M&As have moderated to pre GFC levels, and unrealised values have climbed, liquidity has not evaporated but has in fact diversified. LP and GP led secondaries, continuation vehicles, and sponsor to sponsor transactions have scaled to meet the moment, providing credible pathways to manage duration and crystallise value. In short, far from being stranded, capital is being repositioned through a broader, purpose built set of channels.

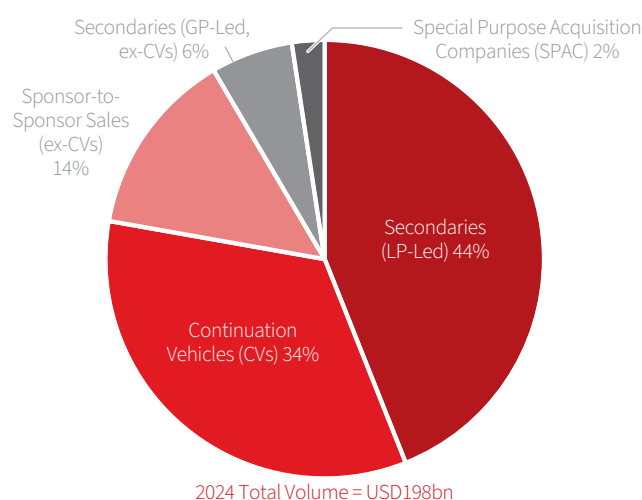
Liquidity myths are not the only misconceptions shaping the narrative. Another persistent belief is that private equity remains a one-trick pony that is heavily reliant on leverage and can be vulnerable in a high-rate regime. In reality, the private equity playbook has evolved in substance. Value creation now is less about balance sheet alchemy and more about operational optimisation to expand margins and build business streams to accelerate revenue growth. This shift away from multiple expansion is especially pronounced in the middle market, effectively lowering the segment's sensitivity to high policy rates.

Exit opportunities have fallen to pre-GFC levels while unrealised value is at an all-time high



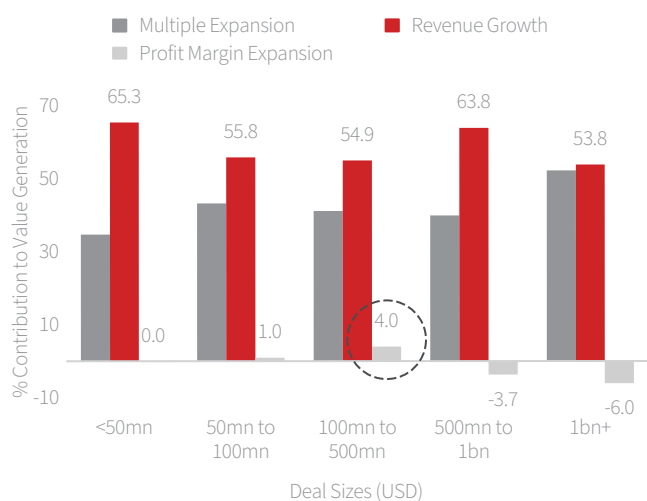
Source: Preqin, DBS  
Data as at Aug 2025

Deal volumes in secondaries and other exit channels have grown to match unrealised PE value



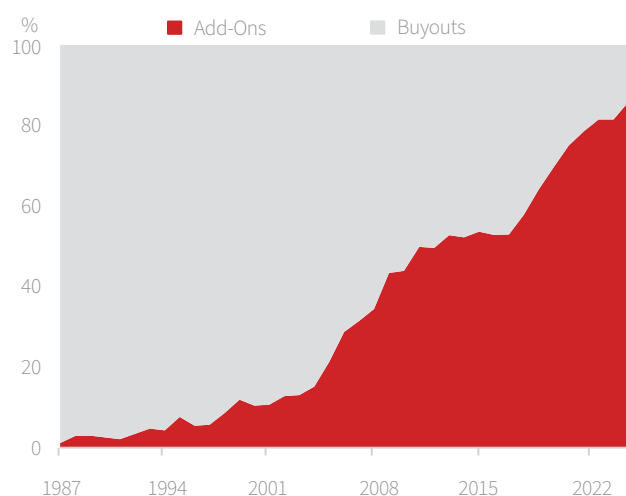
Source: Jefferies, DBS

### Greater focus on profit margin expansion in middle markets



Source: DealEdge, Pitchbook, DBS  
Data as at Oct 2024

### “Buy-and-build” growth strategies are rising against leveraged buyouts

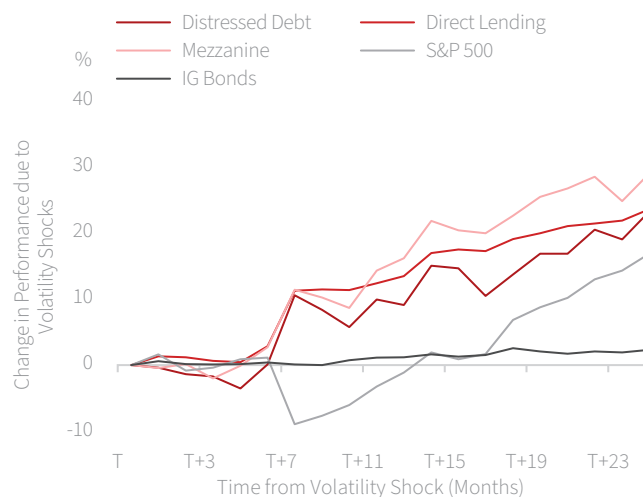


Source: Preqin, DBS  
Data as at Aug 2025

Private credit has, likewise, proved more robust than its critics concede. Across episodes of elevated policy uncertainty and volatility, key strategies have historically recovered more quickly than public counterparts. Importantly, private credit yields are not just a function of base rates. By virtue of the high illiquidity premium, spreads have consistently remained wide, and have buoyed yields in the high teens across rate cycles, even when policy rates decline.

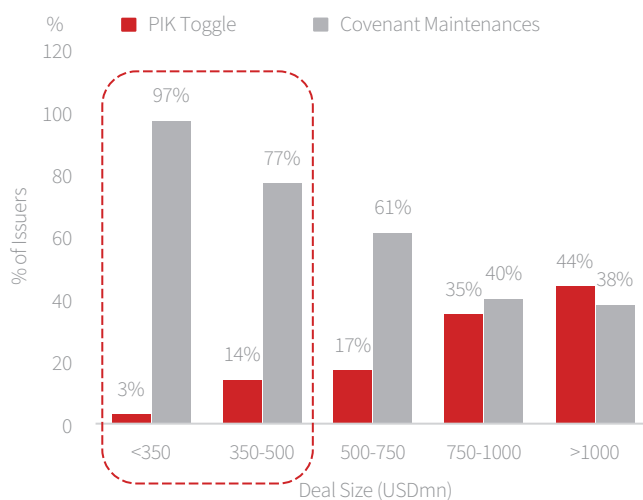
Peripheral concerns that private credit default rates understate risks are best addressed by hard data. Through cycles, default rates have tended to print below high yield bonds, and smaller deals have exhibited tighter maintenance covenants and lower reliance on Payment-in-Kind (PIK) toggles. Even as historical data underscore the strengths of private credit, astute investors know that no single strategy is immune to shocks. A diversified approach can unlock complementary return drivers and cushion against volatility. Our quantitative studies argue for diversification across private credit sub-strategies amid volatility. A combination of strategies can increase the probability of capturing excess returns across different volatility regimes, while reducing the likelihood of loss making.

### Private credit strategies rebound sharper and faster from volatility shock than public assets



Source: Bloomberg, Pitchbook, FRED, DBS  
Note: Volatility shock refers to periods where the Economic Policy Uncertainty (EPU) Index exceeds the 75th percentile for longer than 3 months. Index returns are desmoothed using public proxies and adjusted for leverage

### Lower PIK and more covenants in smaller markets



Source: S&P Global Ratings, DBS  
Data as at Apr 2025

Diversify into private credit sub-strategies to secure excess returns across volatility scenarios



Source: Bloomberg, Pitchbook, FRED, DBS

Note: Rate shock refers to periods where the MOVE Index exceeds the 75th percentile for longer than 3 months. Vintage years include 2010, 2011, 2013, 2020, 2022, 2024.

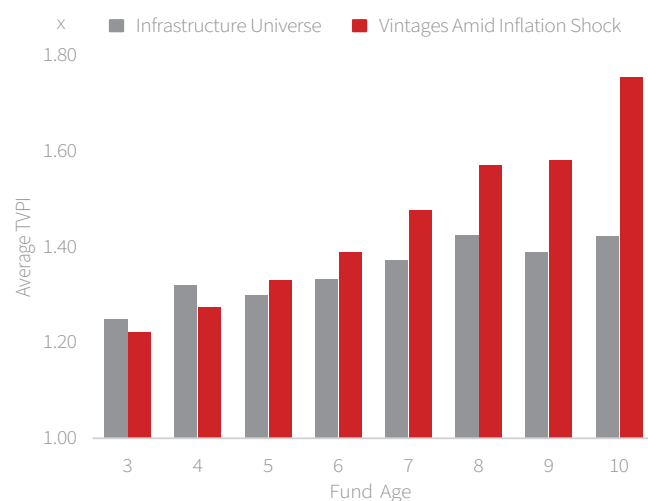
Policy shock refers to periods where the Economic Policy Uncertainty (EPU) Index exceeds the 75th percentile for longer than 3 months. Vintage years include 2011, 2012, 2016, 2018, 2020, 2022, 2024. Inflation shock refers to periods where y/y PCE exceeds the 65th percentile. Vintage years include 2012, 2018, 2021, 2024. Oil shock refers to periods where the O VX index exceeds the 75th percentile for longer than 3 months. Vintage years include 2011, 2014, 2015, 2018, 2020, 2021, 2022. 5000 Monte Carlo simulations of net TVPI and DPI were generated by taking the average of net TVPI and DPI of 4 randomly selected funds data from Pitchbook. Probabilities are areas under the probability distribution curves. Outperformance refers to net TVPI between 1.5 to 2.0, while lossmaking refers to net TVPI below 1.0

Infrastructure and real estate, often misunderstood in volatile markets, possess long-term appeal. For infrastructure, inflation-linked cash flows and valuation resets amid volatility create attractive entry points, with empirical data showing “inflation shock” vintages delivering stronger TVPI trajectories than other vintages. Private real estate has historically rewarded patient capital, as staying invested over the long term is often more effective than trying to time market dislocations, particularly during periods of uncertainty.

Private asset vehicles have evolved significantly, with semiliquid structures becoming mainstream in recent years. These structures, which are typically rich in secondaries and co-investments, help shorten the J-curve, accelerate deployment into underlying assets, and bring forward distributions without materially compromising terminal return potential.

That said, traditional closed-end drawdown funds remain the most effective route to specialised opportunities such as take-privates, carve-outs, complex restructurings, and selected private investments in private equity (PIPEs), which reached approximately USD76bn in value in 2024. The practical solution therefore is not an ‘either/or’ choice but a blended approach. Our research shows

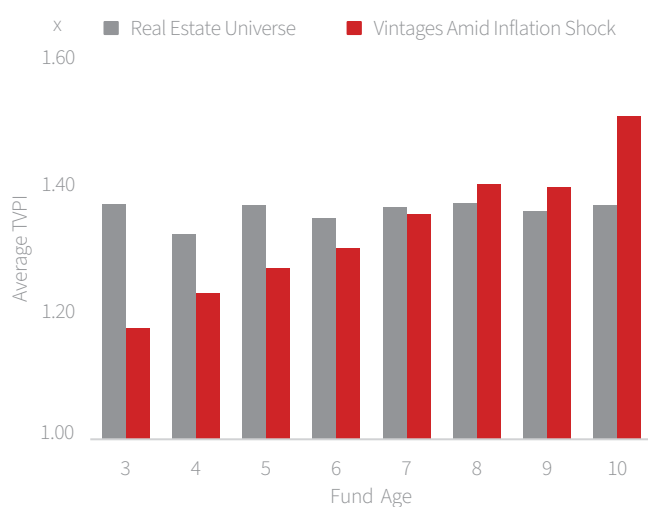
Inflation-linked cash flows amid valuation dip creates upside potential for infrastructure



Source: Pitchbook, DBS

Note: 5,000 TVPI scenarios were derived from Monte Carlo studies on data of c.900 funds. Fees and carry were not accounted for in the studies. Inflation shock refers to periods where y/y PCE exceeds 65th percentile. Vintages which saw inflation shocks were 2012, 2018, 2021, 2024

Stay invested over long horizons to capture upside potential in private real estate

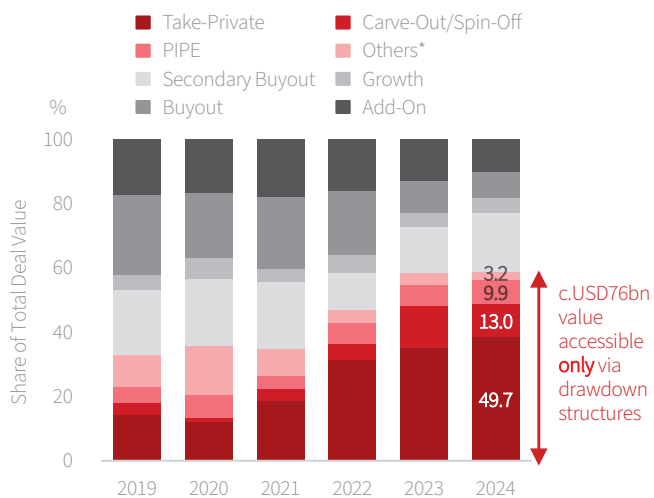


Source: Pitchbook, DBS

Note: 5,000 TVPI scenarios were derived from Monte Carlo studies on data of c.900 funds. Fees and carry were not accounted for in the studies. Inflation shock refers to periods where y/y PCE exceeds 65th percentile. Vintages which saw inflation shocks were 2012, 2018, 2021, 2024

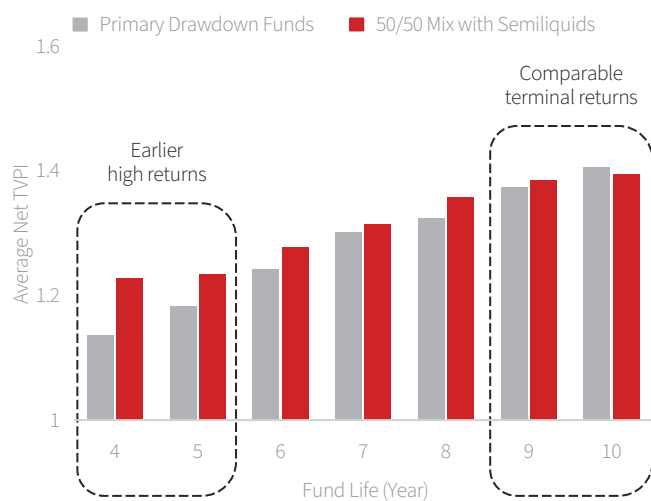
that combining drawdown structures with semiliquids can deliver higher returns earlier while preserving terminal returns comparable to those of pure drawdown strategies.

### Rising value in strategies accessible only via drawdown structures



Source: Preqin, DBS  
\*Others include company formation, joint ventures, merger, recapitalisation, and restructuring

### Taking a combinatorial vehicle approach captures the best of both worlds

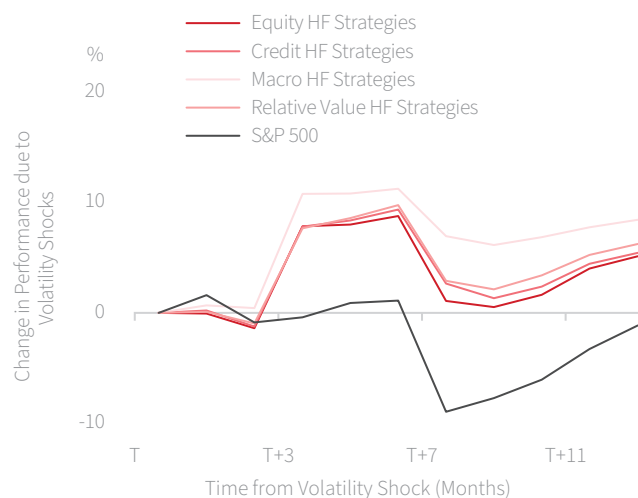


Source: Pitchbook, DBS  
Note: 5000 Monte Carlo simulations on TVPI of reported primary, secondary and co-investment funds. Semi-liquid funds assume 60% secondaries, 20% co-investments and 20% primary funds

Hedge funds play an important, though often misunderstood, role in the alternatives space. Comparing them solely to long-only equity benchmarks misses the point. During periods of policy uncertainty and sharp interest rate repricing, select hedge fund strategies have historically outperformed broad equity markets, preserved capital,

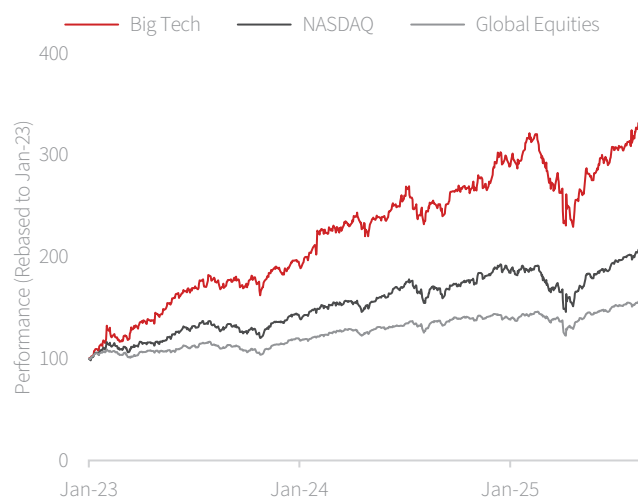
and cushioned drawdowns. Today's bifurcation across sectors and geographies creates fertile ground for alpha generation. Importantly, hedge fund returns are designed to be largely orthogonal to equities and bonds, enhancing portfolio diversification.

### Hedge funds rise to the occasion during policy uncertainty



Source: Bloomberg, Preqin, FRED, DBS  
Note: Volatility shock and rate shock refers to periods where the Economic Policy Uncertainty (EPU) Index and MOVE Index exceeds the 75th percentile for longer than 3 months, respectively. Index returns are desmoothed using public proxies and adjusted for leverage

### Bifurcation across sectors and geographies creates alpha opportunities in hedge funds

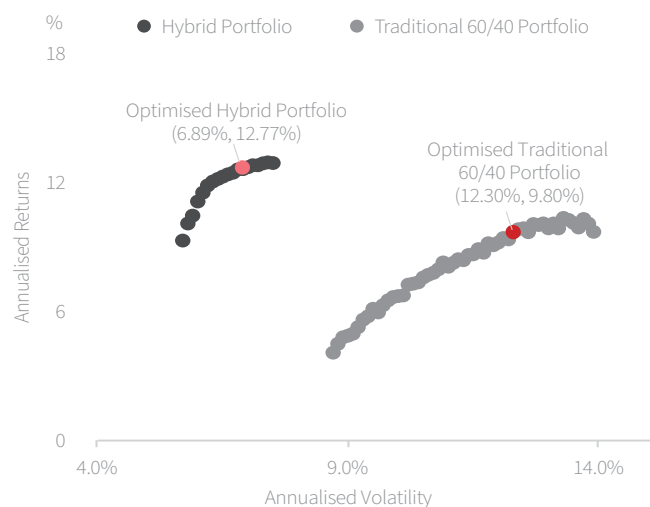


Source: Bloomberg, DBS

At the portfolio level, quantitative evidence favours a hybrid construct over a traditional 60/40. Blending public assets with a diversified sleeve of private equity, private credit, real assets and hedge funds has lifted the efficient frontier. However, capturing this advantage in practice requires institutional-grade risk and liquidity management, along with active management and diversification to generate excess returns across market regimes.

Taken together, the picture is more balanced than the headlines suggest. Liquidity in private equity has shifted rather than vanished, while value creation now relies more on operational discipline and margin expansion than on financial leverage. Private credit yields are supported not only by base rates but also by a high and stable spread premium. Infrastructure and real estate offer upside potential amid volatility, though investors need a long-term horizon to capture it. Drawdown vehicles should be seen as complementary to semiliquid strategies, as combining the two can deliver earlier distributions and strong terminal returns. Hedge funds continue to justify their role through superior diversification, critical for cushioning drawdowns and outperforming during volatility. None of this eliminates risk — nor should it. But thoughtful, intentional diversification can transform complexity into resilience and volatility into a source of long-term advantage.

### Hybrid portfolios offer unparalleled portfolio efficiency



Source: Pitchbook, Bloomberg, DBS

Note: Return and volatility figures were computed from 24 years (Mar 2000 – Mar 2024) of quarterly index returns. Traditional 60/40 Portfolio refers to a model portfolio comprising of 60% Publicly-Traded Equities and 40% Publicly-Traded Fixed Income. UHNW Hybrid Private-Public Portfolio refers to a model portfolio comprising of 60% Publicly-Traded Assets (incl. Equities and Fixed Income) and 40% Alternative Assets (incl. Private Assets, Gold, Hedge Funds). The Optimal portfolio refers to the model portfolio that achieves the highest Sharpe Ratio, i.e. provides the highest possible return for a given level of 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



**3Q25 CIO INSIGHTS**  
The Global Pivot  
June 2025



**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



**3Q24 CIO INSIGHTS**  
Risk Assets In Play  
June 2024



**2Q24 CIO INSIGHTS**  
A Broadening Rally  
March 2024



**1Q24 CIO INSIGHTS**  
Shifting Currents  
December 2023



**4Q23 CIO INSIGHTS**  
The Next Yield Play  
September 2023



**3Q23 CIO INSIGHTS**  
King, Queen & Castle  
June 2023



**2Q23 CIO INSIGHTS**  
Break in the Clouds  
March 2023



**1Q23 CIO INSIGHTS**  
The Return of 60/40  
December 2022



**4Q22 CIO INSIGHTS**  
Fed in Focus  
September 2022

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**3Q22 CIO INSIGHTS**  
Rising Above Inflation  
June 2022



**2Q22 CIO INSIGHTS**  
Anchor in the Storm  
March 2022



**1Q22 CIO INSIGHTS**  
A Divergent World  
December 2021



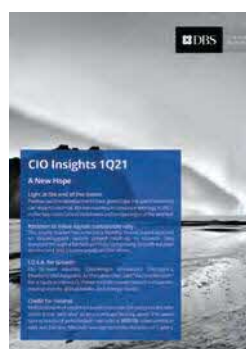
**4Q21 CIO INSIGHTS**  
Stay the Course  
September 2021



**3Q21 CIO INSIGHTS**  
Hope Into Reality  
June 2021



**2Q21 CIO INSIGHTS**  
Back on Track  
March 2021



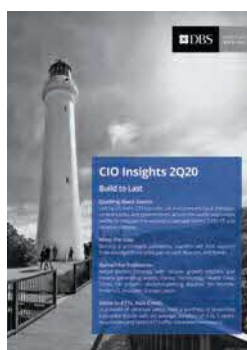
**1Q21 CIO INSIGHTS**  
A New Hope  
December 2020



**4Q20 CIO INSIGHTS**  
On the Mend  
September 2020



**3Q20 CIO INSIGHTS**  
Resilient in the Storm  
June 2020



**2Q20 CIO INSIGHTS**  
Build to Last  
March 2020



**1Q20 CIO INSIGHTS**  
New Wine, New Skin  
December 2019



**4Q19 CIO INSIGHTS**  
Ride the Wave  
September 2019

# CIO Collection



**3Q19 CIO INSIGHTS**  
A Changing World  
June 2019



**2Q19 CIO INSIGHTS**  
Lift to Win  
March 2019



**1Q19 CIO INSIGHTS**  
Tug of War  
December 2018



**4Q18 CIO INSIGHTS**  
Window of Opportunity  
September 2018



**3Q18 CIO INSIGHTS**  
Steer Through Rough Seas  
June 2018



**2Q18 CIO INSIGHTS**  
Mind the Bends  
March 2018



**1Q18 CIO INSIGHTS**  
The Bull Ain't Done  
December 2017



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Dylan Cheang

Senior Investment Strategist &  
Head, CIO Content Management

Alyssa De Souza

CIO Content Management

Denise Kok

CIO Content Management

Goh Wee Tseng

CIO Content Management

Jasmine Foo

CIO Content Management

Nerissa Loe

CIO Content Management

Rachel Tan

CIO Content Management

Victoria Ang

CIO Content Management

