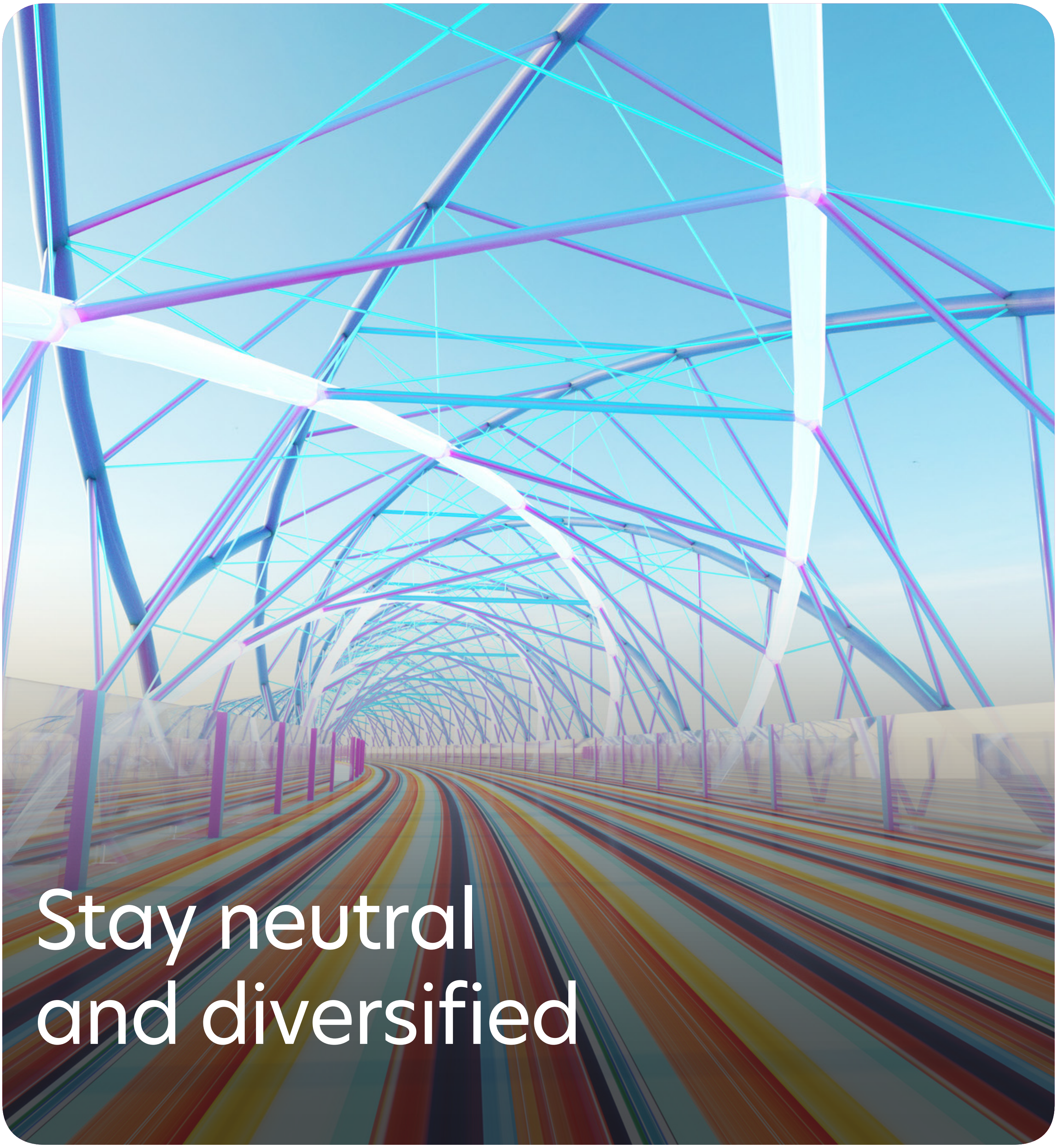
Quarterly Investment Strategy
Third Quarter 2025

UOB Asset Management



# Stay neutral and diversified

Right By You

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# CIO Viewpoint

## Chong Jiun Yeh, Chief Investment Officer

### Global markets are at a crossroads

**As we enter the third quarter of 2025, uncertainty remains elevated, and global markets appear to be at a pivotal juncture. During such times, diversification becomes a crucial strategy.**

Despite ongoing economic risks, such as those stemming from the trade war and fresh outbreak of military conflict in the Middle East, we are continuing to see a broad recovery in global equities and good investor confidence.

This may seem counterintuitive but market participants price uncertainty in different ways depending on prevailing conditions. Typically, assets with clear outlooks are valued at or near their full potential, while those with uncertain prospects are discounted. However, during periods of ample liquidity or heightened investor optimism - often driven by a fear of missing out - markets may assign near-full valuations even to uncertain assets, effectively pricing in hope rather than risk.

**Here at UOBAM, we think navigating this environment requires balancing market fundamentals with technical signals.**

From a fundamental perspective, we emphasise a disciplined valuation framework that appropriately discounts for uncertainty. At the same time, technical and quantitative indicators suggest that the current widespread underweight in investor positioning could fuel further market rallies. As such, our approach for 3Q25 is to strike a careful balance: acknowledging downside risks that may not yet be fully priced in, while remaining open to the potential for continued market strength.

Accordingly, we recommend a neutral stance between growth and defensive assets. Equities may continue to perform well if downside growth scenarios are avoided and investor confidence persists. Meanwhile, safe-haven assets such as fixed income and gold remain attractive—supported by high yields, lower volatility, and ongoing demand for stability.

## Here's a summary of our views

- In broad terms, we see the macroeconomic outlook as equally weighted across three scenarios, with a one third chance of recession, one third chance of rebounding to the sustained growth levels we were expecting at the start of the year, and one third chance of something in the middle ie slower but sustained growth and higher inflation. We expect a broadening of economic growth to more regions and a broadening of market performance to more regions and sectors.

- We expect inflation to rise to 3 – 4 percent by the end of 2025. The question is whether this can be contained as a one-off, tariff-induced increase, or more worryingly, lead to a wage price spiral. We expect one or two more rate cuts in 2025, thereby bringing the US Fed Funds rate down to about 4.0 percent.

- The US Fed is likely to wait most of the year to see how these inflation risks play out. Given this, we expect no more than 1 - 2 cuts by the end of the year.

- We expect UST 10yr bond yields to range between 4.25 - 4.75 percent in 2H 2025.

- Our base case is that the trade war will deescalate as more "deals" are done, but the risk of re-escalation remains significant.

- We see the USD as structurally weak for the coming years, but may have devalued enough for this year. As such, we expect a rangebound to slightly weaker trend in 2H 2025.

# Global Asset Allocation

## The best strategy for a complex macro outlook?
## Stay neutral and diversify

Anthony Raza
Head
Multi-Asset Strategy

### An expanded range of economic scenarios

At the beginning of the year, the global economic outlook appeared relatively straightforward. We anticipated a high probability of continued expansion, moderating inflation and interest rates, and sustained market performance - reminiscent of the bullish environment of the 1990s.

However, the emergence of the trade war has significantly complicated this outlook, introducing a broader range of potential macroeconomic scenarios with more evenly distributed probabilities.

We now see three primary scenarios, each with roughly equal probability:

**1. Continued growth**
In this scenario, the global economy remains on track and in line with the expectations set at the start of the year, supported by resilient consumer demand and stable corporate earnings.

**2. US-led recession**
Defined as a downturn in the U.S. economy, potentially triggered by declining consumption and business confidence, with the potential to drag down global growth.

**3. Stagflation-like conditions**
Marked by slowing growth combined with rising inflation, driven in part by tariff-related cost pressures and posing a challenging environment for both equity and fixed income markets.

### Scenario 1: Global resilience prevails

Despite these risks, it is important to recognise the resilience that the global economy has demonstrated in recent years. It has weathered the COVID-19 pandemic and one of the most aggressive interest rate hiking cycles in history, defying many pessimistic forecasts.

Furthermore, while consumer sentiment has weakened, employment remains strong. If consumers regain confidence in the stability of their incomes, this could reinforce spending and support continued growth. Therefore, a scenario of sustained expansion with healthy corporate earnings remains a distinct possibility.

## Scenario 2: Existing vulnerabilities to the fore

The rationale for reducing the probability of a sustained expansion lies primarily in the trade war's impact. It has amplified existing vulnerabilities in the economy that previously appeared manageable due to the strong momentum.

Earlier in the year, we noted that the U.S. economy was heavily reliant on consumer spending, with manufacturing and housing sectors showing signs of weakness. At that time, high consumer confidence, robust employment, and rising wages supported the view that consumption would offset sectoral weaknesses.

However, the trade war has introduced significant uncertainty for both businesses and consumers, leading to a sharp decline in consumer confidence. This raises the risk that falling consumption could weaken employment and wages, with few other sectors strong enough to compensate—thus increasing the likelihood of a recession.

## Scenario 3: Storm clouds on the horizon

The third scenario presents a more ambiguous outlook. In this case, the economy avoids a full recession, but consumption softens, corporate profits decline, and inflation rises due to tariff-related costs. Persistent employment alongside rising inflation could trigger wage pressures, potentially making inflation more entrenched.

This dynamic echoes the post-COVID supply chain shocks, which were initially deemed transitory but proved more lasting. A similar inflation shock could prompt a more hawkish stance from central banks. This scenario would resemble the investment environment of 2022 ie marked by volatility, weaker-than-expected growth, and higher-than-expected inflation.

## Market reactions are not always straightforward

In principle, rising uncertainty should lead markets to discount asset prices. For equities, this would typically mean slightly lower valuations to reflect the increased downside risk. For fixed income, investors generally demand higher yields to offset the potential for elevated inflation. In principle, investors tend to seek compensation for taking higher risk by requiring enhanced potential returns.

As such, a more cautious stance would seem warranted, but markets are influenced by more than just fundamentals - they are also shaped by liquidity, investor sentiment, and technical factors. Illustrating this complexity is the fact that reciprocal tariffs triggered a sharp correction in US equities, but this was followed by a swift rebound, particularly within the retail segment.

Despite heightened risks, these investors' willingness to "buy the dip" demonstrates strong confidence and ample liquidity.  Fundamentally-driven investors and fund managers who might have preferred to wait for better risk-adjusted valuations often feel compelled to participate. This is a dynamic not unlike the experience of homebuyers in a hot real estate market - waiting for a better deal may mean missing out altogether.

Market behavior in the second quarter of 2025 suggests that investors are not yet demanding a discount for uncertainty for fear of being left behind. The burden of risk is held by the buyer rather than the seller. However, if downside scenarios materialise, the lack of a risk discount in current valuations could result in more severe losses for today's optimistic buyers. Awareness of this risk asymmetry is essential in navigating today's market environment

## Neutrality + diversification: a multi-scenario strategy

We are taking a neutral positioning across most asset classes. This neutrality is intentional and strategic, rather than reflecting a lack of conviction. Given the equal probabilities of the three primary economic scenarios described above, we believe a diversified approach is the most resilient and offers the best chance of achieving positive returns across a range of outcomes.

**In the event that recessionary pressures take hold,** a well-balanced allocation to safe-haven assets can help cushion equity market declines. Bond yields are currently attractive, and potential interest rate cuts to restore growth will help generate capital gains.

Historically, we have leaned heavily on long-dated US Treasuries in such environments. However, given today's broader range of risks, we recommend a more diversified safe-haven strategy that includes a mix of long and short-dated US Treasuries, gold, German Bunds, and Treasury Inflation-Protected Securities (TIPS).

**In the event of a sustained expansion scenario,** equities are expected to deliver solid returns. While fixed income returns may face some headwinds from rising yields, current yield levels offer sufficient carry to absorb moderate rate increases.

Meanwhile, we are shifting from our historical preference for US equity markets towards a more globally-diversified allocation. We see stronger relative performance potential in European and Asian equities, making international diversification a key component of our strategy.

**Finally, in the event of slowing growth and rising inflation,** diversification remains essential, not just across, but within asset classes. While overall asset returns tend to be more muted, a diversified mix of safe-haven assets and carefully selected equities still has a reasonable chance of preserving capital and generating modest gains.

**The end result of more diversification is a tactically neutral portfolio.** We are neutral-weighted between equities and fixed income, and neutral between credits and rates within fixed income. Within equities we lean more into Europe and Asia and underweight the US. We are neutral commodities as well but within commodities we continue to overweight gold.

## Global Asset Allocation Strategy

| Sector | View | Notes |
|---|---|---|
| Equities | N | **Rationale:** Uncertainty is high and the economic outlook is cloudy, but the global economy has proved surprisingly resilient to challenges from COVID and high interest rates and it may prove wrong to bet against the global economy again. We stay neutral until there is greater clarity.<br><br>**Risks:** Recession risks are elevated and global equities are priced for perfection; there will be downside if growth slows to recessionary levels. A trade war is bad for both inflation and growth. |
| Fixed Income | N | **Rationale:** Yields are attractive and in the case of a recession fixed income should offset equity risks.<br><br>**Risks:** Trump policies are potentially inflationary and could negatively surprise fixed income markets. |
| Commodities | N | **Rationale:** China growth has improved in 2025 even as the US growth has turned more questionable. China growth creates a stable outlook most commodities.<br><br>**Risks:** Higher-than-expected interest rates could be a drag on both growth-related commodities and the gold outlook. |
| Alternatives | N | **Rationale:** We think alpha opportunities should provide opportunities in a complex world that requires nimbleness.<br><br>**Risks:** In recent years, the core asset classes of equities, fixed income, gold and cash have been giving solid returns and reduces some of the demand for alternatives. |
| Cash | N | **Rationale:** Cash rates are still attractive and rising global uncertainties are making cash a safe place to be in the coming quarter.<br><br>**Risks:** Faster than expected rate cuts could undermine cash rates. |



++ : Strong Overweight + : Overweight N : Neutral - : Underweight -- : Strong Underweight

# Global Equities

## We remain positive but risks have jumped

Anthony Raza
Head
Multi-Asset Strategy

### Resilience could be a sign of sustained growth

Despite increased uncertainties in the global macro outlook, there is a positive case to be made for equities. Many exciting innovations and investment themes are emerging around the world and if the global economy can prove resilient to current macro complications, investors should have all the more confidence of a sustained multi-year equity performance similar to that achieved in the 1990's.

After all, despite the uncertainties of recent years, global corporates have continued to grow their earnings and drive their business values higher every year. Technological breakthroughs in recent years are not only benefitting tech companies but driving productivity gains in businesses across almost all industries. Over the longer term this has the potential to rival historic bull market periods.

### Continuing to overweight to Europe and Asia

The US economy has performed well in recent years, just as Europe and China have struggled. We see this growth differential narrowing and expect non-US equity markets to catch up. Already, we are seeing signs of a Europe and China rebound in 2025 to more normal growth levels. Additionally, we are seeing policy support in both those regions.

In Europe a combination of interest rate cuts and fiscal stimulus (especially around defence spending) is providing confidence that the economic rebound and inflation improvements can be sustained. In China stabilisation policies have improved the growth outlook and China appears to be de-escalating its trade war with the US. A stronger China is good for the rest of Asia which also benefits from healthy domestic consumption trends and strengthening currencies.

### Growing US risks and global geo-political instabilities

On the other hand, US policies have turned chaotic and risk undermining its growth potential in the near term and even over the long term. US equity valuations and market concentration in a few large and mega-cap stocks remains an unhealthy sign of US equity market dynamics. Furthermore, US fiscal deficits are too high and look set to get worse with more tax cuts potentially creating debt financing problems.

Within a global content, tensions in the Middle East continue to be highly elevated and pose the risk of spiralling into a broader regional war. The war in Ukraine continues to be a problem for Europe, while the US now appears to be attacking its old allies in Europe and supporting Russia. The global trade war continues to risk escalation as regions around the world strategise to deal with US provocations.

## Equities Regional Strategy

| Region | View | Notes |
|---|---|---|
| US | - | **Rationale:** US policy unpredictability is undermining the long term trend of "US exceptionalism". For decades, the US benefited from a strong currency, cheap imports and strong investment inflows. Today, investors around the world are starting to question whether the US's advantages in terms of stability and dynamic growth can last for much longer.<br><br>**Risks:** Most economists do not expect a recession in the US but if this starts to become more accepted as a view then US equities will continue to suffer. |
| Europe | + | **Rationale:** Earnings growth is Europe is rising where most regions are seeing earnings revised down. We expect more interest rate cuts in Europe than in other regions and more fiscal policy support than any other region.<br><br>**Risks:** Uncertainties around the European geopolitical risks are elevated, and its alliances are breaking down leading to an uncertain world order. |
| Japan | N | **Rationale:** While other regions are cutting interest rates, we expect Japan to be raising interest rates. Rate normalisation is ultimately a healthy trend, but we would expect some near-term headwinds.<br><br>**Risks:** Economic trends have been mixed and the reaction to tighter monetary policy might be underestimated by the market. |
| Asia | + | **Rationale:** Asia performs well when the USD is weak, and China is strong and we expect both these trends to continue in 2H25.<br><br>**Risks:** US recession risks have increased and Asia does not usually perform well if there are recessions in the major regions. |



++ : Very Positive + : Positive N : Neutral - : Negative -- : Very Negative

# Asia Equity

## Constructive on Asia but upside may be capped

Colin Ng
Head
Asian Equities

### US trade tensions have eased

We believe that the worst outcome of the US-China tariff war has been averted after Trump announced a 90-day truce and the resumption of trade negotiations with China.  Reduced US-China tariff tension has led to upgrades in China's growth outlook and an Asian market rebound in the second half of May.

That said, the economic backdrop remains challenging. Lingering uncertainties over the final outcome of trade negotiations, residual tariffs on China and the possibility of additional sector-based tariffs (Semis, Pharma, Steel etc) cannot be ruled out completely at this stage. This could cap any market returns upside in the near term.

Even if tariffs were to result in a step-down in Asian growth rates, we believe there are some potential offsets:

- The broadening decline in USD versus Asian currencies tends to be broadly supportive of Asian market outperformance

- Monetary policy in this region is firmly on an easing cycle amid benign inflationary pressures

### Overweight on China, neutral Hong Kong

Due to the heightened market uncertainties, our strategy is to limit our individual country bets, with the exception of China where we continue to maintain a more meaningful overweight position.

Despite being in the eye of the global economic storm, China has come out surprisingly well as recent microdata significantly surprised to the upside. Also, contrary to what many would expect, China has been one of the best performing market in Asia YTD.

From a bottom up perspective, a small number of companies have been able to show big jumps in their profits, despite the on-going economic turmoil. Many of these are exceptionally innovative consumer companies in niche areas where the companies have a very strong competitive edge.

Meanwhile, we have upgraded Hong Kong from an underweight to neutral.  The valuation of H-shares remain below mean, and we are anticipating a large pipeline of IPO listings by A-share companies with 46 listings planned as of 5 May 2025. This could promote an influx of funds, thereby driving a sustained momentum in H-shares.

## Underweight Korea, Taiwan and India

Korea and Taiwan are among the most open economies in Asia and have been most impacted by the recent tariff war. Both markets have also seen the worst downward revisions in Asia over the last month. We see opportunities in very specific industries where earnings are still holding up and would advise investors to remain vigilant in their stock picking within these markets.

Although India's economy is more domestically driven, valuations are at historical highs and many companies have disappointed due to very high expectations.

## Selective overweight on ASEAN markets

We prefer **Malaysia**, for its low valuations and defensive nature. Current foreign holdings of Malaysia stocks are also at historically low levels which means more potential upside in future should investors turn more positive.

We are also overweight the **Philippines.** This market should do well given that it is a less export reliant economy. There are good stocks to be found here, thereby providing meaningful alpha opportunities in the mid to long term.

We are underweight **Singapore** which has been the best performing market in ASEAN YTD. Going forward, we see more limited upside in the near term relative to some of the other Asian markets.

We are underweight **Indonesia** as we see spillovers from weak capex spending amid already subdued domestic consumption.

Finally we are underweight **Thailand** where private consumption remains lacklustre against a worsening corporate earnings outlook.

## Balanced across sectors with a more defensive tilt

We favour the consumer sector - both discretionary and staples - and communications services, particularly eCommerce plays.

We also like the Asian utilities sector which we think is relatively stable and defensive. We are less positive on the tech, industrials, healthcare, energy and real estate sectors.

Key risks to our outlook include the stagflationary risks in the US, a stronger US dollar, weakening Chinese economy and weaker-than-expected China policy support momentum, as well as unexpected negative developments on the tariff negotiation front, especially with China.

# Asia ex-Japan Country Strategy

| Country | View | Notes |
|---|---|---|
| China | + | **Rationale:** Tailwinds from easing government regulatory and policy pivot towards local private enterprises likely to bolster domestic growth. Further good news from easing of tariff tensions.<br><br>**Risks:** Policy support momentum wanes, local consumption falters, geopolitical/ tariff risks |
| Hong Kong | N | **Rationale:** Pick up in IPO pipeline and inflow of investment funds<br><br>**Risks:** Sharp increase in interest rates causing property market to slump further. Negative spillover effects from slowdown in China |
| India | - | **Rationale:** Valuation unattractive against a slower GDP growth outlook<br><br>**Risks:** Stronger than expected consumption recovery |
| Indonesia | - | **Rationale:** Lack of a pick-up in private investments to offset lower capital spending<br><br>**Risks:** Strong rupiah, private investment accelerates |
| South Korea | - | **Rationale:** Most impacted from current tariff war. Weak consumption persists.<br><br>**Risks:** Unexpected turnaround in key export sectors |
| Malaysia | + | **Rationale:** Rising FDI inflows into data centres and manufacturing could aid construction boom, whilst minimum wage rise is supportive of continued consumption<br><br>**Risks:** Delays in implementation of fiscal policies, aggressive subsidy cuts fuelling inflation, weak MYR |
| Philippines | + | **Rationale:** Less impacted by global trade developments.<br><br>**Risks:** Government policy risks, weak consumer confidence, inflation overshoots |



++ : Very Positive + : Positive N : Neutral - : Negative -- : Very Negative

# Asia ex-Japan Country Strategy

| Country | View | Notes |
|---|---|---|
| Singapore | - | **Rationale:** Upside likely capped as the domestic market's focus on high dividend paying stocks looks priced in<br><br>**Risks:** US dollar weakens, Inbound tourism surprises. Pronounced pick-up in growth with major trading partners (US, EU, China). |
| Taiwan market | - | **Rationale:** Continued corporate earnings downgrades and possible weakening earnings momentum in 3Q following demand pull in in 2Q<br><br>**Risks:** Unexpected pick up in tech demand and continued strong performance of US tech stocks |
| Thailand | - | **Rationale:** Corporate earnings downgrades worsened whilst private consumption remains lacklustre<br><br>**Risks:** Oil price surge, private consumption rebounds, further stimulus measures |



++ : Very Positive + : Positive N : Neutral - : Negative -- : Very Negative

# Global Fixed Income

## Yield volatility set to continue

Goh Wee Liam
Head
Global Fixed Income

### US Treasuries at fair value

So far this year, US 10-year Treasury yields have taken a round trip from as high as 4.8 percent, down to 4.0 percent and is now back up to closer to 4.5 percent. Such large swings in yields are likely to be the norm until we get a hard reset, potentially via a recession.

The market is now pricing in two rate cuts through 2025, with the first cut expected in September. We think both short-end and long-end bonds appear fairly priced currently, but would hesitate to take large active bets until pricing turns more attractive.

### Neutral on DM credit and duration

On an asset allocation basis, we are neutral credit and duration as we continue to believe that developed market economies will remain resilient, though we note rising risks from the potential scenarios of recession and stagflation. The bond market will remain very focused on tariff developments, fiscal deficit sustainability and de-regulatory effects. Our view is on a net basis, these factors should offset each other, and hence we remain neutral on bonds.

Outside of the US, the focus for most developed market central banks is to remain accommodative. They will be keen to stimulate growth while combating against potentially disinflationary or even deflationary forces arising from tariff implementation. The only exception is Japan, where the BOJ is tackling inflation that could remain sustainably above its 2.0 percent target. Elevated long-end yields globally could be a permanent feature as fiscal policies turn more supportive to protect against growth declines from slower global trade. Taken together, we expect heightened volatility across the global bond markets.

### Within EM ex-Asia, we favour investment grade credits

High-yield credits continue to perform well within the merging market ex-Asia fixed income space fixed income space, primarily driven by their higher coupon income. Overall, emerging market credit remains resilient, with a swift rebound observed following the shock from Trump's 'Liberation Day' tariffs.

That said, slower global growth and heightened geopolitical tensions are compounding challenges for weaker emerging market economies, many of which are already grappling with structural vulnerabilities. As a result, we maintain a preference for investment-grade emerging market bonds in the coming quarters.

Additionally, external deficits have widened in several high yield emerging market countries, whereas many investment-grade nations have managed to keep their external balances relatively stable. We are becoming increasingly cautious toward countries where Purchasing Managers' Index (PMI) readings have slipped into contraction territory, such as South Africa, Mexico and Turkey. From a valuation perspective, we see attractive opportunities in single-A credits and select single-B credits.

## Fixed Income Sector Strategy

| Sector | View | Notes |
|---|---|---|
| Developed Market (DM) | N | **Rationale:** Developed market fixed income is expected to deliver solid returns, supported by attractive yields, though some yield volatility may persist<br><br>**Risks:** Renewed tariff threats from Trump combined with persistent US fiscal deficits could fuel inflationary pressures, and potentially drive bond yields higher |
| DM Government | N | **Rationale:** We anticipate 1 to 2 Fed rate cuts in 2025 and expect UST 10yr yields to range between 4.25 - 4.75 percent<br><br>**Risks:** A sharper-than-expected slowdown in growth could drive yields lower while renewed tariff threats from Trump and persistent U.S. fiscal deficits could drive bond yields higher |
| DM Credit | + | **Rationale:** Strong underlying fundamentals support a shift into credit markets to capture additional spread carry<br><br>**Risks:** In a weaker-than-expected growth environment, credit spreads may widen, eroding returns |
| Emerging Market (EM) | N | **Rationale:** EM economies remain broadly resilient. We favour investment-grade EM credits over high-yield sovereign and quasi-sovereign issuances<br><br>**Risks:** Further slower economic growth in regions like Central and Eastern Europe and Africa could lead to a rise in default rates |



++ : Very Positive + : Positive N : Neutral - : Negative -- : Very Negative

## Fixed Income Sector Strategy

| Sector | View | Notes |
|---|---|---|
| EM Government | + | **Rationale:** The growth trajectory across most EM economies remains positive, reinforcing our overweight stance on investment-grade EM credits<br><br>**Risks:** A major external shock, such as a reversal in the disinflation trend driven by commodity prices or a surprise downturn in global growth, could derail this outlook |
| EM Corporate | N | **Rationale:** EM corporates have largely tracked sovereign performance. However, we are increasingly concerned about rising global high-yield corporate default rates and slowing growth in regions like Central and Eastern Europe and Africa<br><br>**Risks:** Prolonged periods of elevated interest rates could pressure corporate profitability, particularly among highly leveraged firms |
| EM Local Currency | N | **Rationale:** We have shifted from a negative to a neutral stance on EM local currency fixed income, as a weaker U.S. dollar is expected to support fund inflows<br><br>**Risks:** A reversal in the dollar's downward trend could undermine this positioning |
| Duration | N | **Rationale:** We are neutral on duration as upside risks to yields are similar to the downside risks. We think the ceiling to bond yields is likely closer than the floor<br><br>**Risks:** Either from growth disappointment or from expansionary fiscal policies. |
| Yield Curve | - | **Rationale:** We expect the yield curve to steepen from here as we expect short-end yields to decline due to interest rate cuts<br><br>**Risks:** Growth data starts to surprise on the downside, resulting in an inverted curve |



++ : Very Positive + : Positive N : Neutral - : Negative -- : Very Negative

# Asia Fixed Income

## Asian bonds still offering good carry

Joyce Tan
Head
Asia Fixed Income

### Asia HYs are better valued

For the coming quarter, we continue to stay focused on carry plays for both Asia Investment Grade (IG) and Asia High Yield (HY) bonds for its relatively high absolute yields. These are well supported by positive technicals as well as an improvement in fundamentals.

However, we continue to prefer Asia HY compared to Asia IG bonds due to better valuations. Both IG and HY credit spreads have completely retraced the wider spread movement from post "Liberation Day". They are trading back at extremely tight levels with IG credit spreads well below the historical average.

On the other hand, excluding real estate, HY spreads still provide decent pick up over IG from a valuation perspective, supporting our preference for high yield. We expect further tightening for HY as investors focus on absolute yield and this has been driving tighter spreads.

### Direct tariff impact likely to be limited

On a yield basis, both HY and IG credits are trading above their historical mean which should provide decent carry although IG yields are likely to be more volatile on the back of rates volatility. We think that tariffs will likely have more of a macro rather than micro impact. The actual direct impact on specific Asian bond securities is likely to be limited, concentrated and well mitigated.

Within Asia IG, spreads continue to be very tight across Asia with JACI Investment Grade trading well below its average since 2010. Given US policy uncertainties as well as the low spread buffer, we see risks to the downside and volatility coming from rates. Nevertheless, all-in yields are still at attractive levels.

Within Asia HY, we remain underweight in the China HY Real Estate sector, but we favor names with strong shareholder support and good access to funding channels. We also see value in the frontier markets such as Pakistan and Sri Lanka on continued IMF support.

## Asia Fixed Income Strategy

| Sector | View | Notes |
|---|---|---|
| Sovereigns / Quasi-Sovereigns | + | **Rationale:** Positive on some high yield frontier sovereigns such as Sri Lanka and Pakistan. Valuation looks attractive post correction, and we still see room for credit tightening potential from improving macro conditions and IMF funding. Selectively positive on certain LGFVs (China quasi) with strategic importance and diversified funding channels on the back of strong support from central government<br><br>**Risks:** Renewed conflict between Pakistan and India or inability to fufill IMF's criteria. |
| Financials | + | **Rationale:** Positive on certain Non-Banking Financial Companies (NBFCs) on the back of decent spread pick up over banks senior. This is supported by healthy funding conditions and stable operating performance. Some names also lagged in spread recovery post the 'Liberation Day' sell off, making them look attractive in valuations<br><br>**Risks:** Increasing macro volatility and prolong tariff uncertainties to weigh on economic growth |
| Real Estate | N | **Rationale:** We are selective on China Developers but see a postive carry play for non- China names. Prefer Hong Kong developers with higher non-HK exposure and good access to capital markets<br><br>**Risks:** For China, any defaults can erode investor confidence and threaten the physical market recovery. For non-China, further leakage of retail consumption to China and upcoming refinancing needs for HK issuers |
| Utilities | N | **Rationale:** Continuation of government policies and regulations within India and Indonesia provides a supportive backdrop for infrastructure projects. While larger Indian renewables are trading tight, the space provides stable carry.<br><br>**Risks:** Delays in constructions and tariff uncertainties on India may result in disruptions in the pace of government spend |



++ : Very Positive + : Positive N : Neutral - : Negative -- : Very Negative

| Sector | View | Notes |
| --- | --- | --- |
| Industrials | N | **Rationale:** For Oil & Gas, weaker oil prices would be manageable for most credits, although it does not justify current tight credit spreads given the tough macro environment. For metals & mining, we see low refinancing risks to remain supportive of this carry play at fair valuations.<br><br>**Risks:** Shaper downturn in oil and base metal prices |



++ : Very Positive + : Positive N : Neutral - : Negative -- : Very Negative

# Global Currencies

## USD decline may abate, but softness to persist

Wayne Lau
Multi Asset Research & Strategist

### Near term consolidation

The USD has been in free-fall mode since the start of 2025. This is despite real rate differentials against the DXY basket moving sideways. Unsurprisingly, this suggests that the year-to-date decline has largely been due to an unwinding of the US exceptionalism narrative, as haphazard US policies, especially on the trade front, has resulted in lower foreign demand for USD-denominated assets.

After the current decline, the dollar is fairly valued based on our real rate differential model. Positioning also suggests a near-term rebound or consolidation is likely. That said, for the rest of 2025, we believe the dollar could trade in a similar fashion to that of 2017, where the dollar was weak in a period of an uncertain political environment, and hence would urge against catching a falling knife.

### Potential rate cuts in Asia likely to limit currency strength

The USD now appears to be cheaply valued against EUR, but could depreciate relative to the JPY. Asian currencies are unlikely to be as strong given that Asian economies remain on an accommodative monetary policy stance. Given our view on the dollar, we continue to advise Asian investors to hedge against the dollar even though hedging costs have been rising.

The key risk to our view would be a sharp rebound in growth prospects of the US economy relative to the other economies.

## Currency Strategy

| Currency | View | Notes |
|---|---|---|
| US Dollar<br>USD | - | **Rationale:** The USD remains in a declining trend and could continue to do so, if policy uncertainty is high. Positioning however, appears to be supportive of a near-term rebound or consolidation.<br><br>**Risks:** A strengthening in growth prospects of the US relative to other economies or a resolution of current trade policies should see the USD strengthening. |
| Euro<br>EUR | N | **Rationale:** Continued positive momentum in growth or fiscal policies should support the EUR, though we note upside risk is limited as EUR is now richly valued against USD<br><br>**Risks:** Political gridlocks in France, slower China consumption and slower global trade could hurt growth prospects of the Eurozone |
| Japanese Yen<br>JPY | + | **Rationale:** The BoJ should continue to normalise rates as wage growth data remains strong, and inflation appears to be sustainably above the targets 2 percent rate<br><br>**Risks:** Slower domestic consumption or wage growth data could result in more accommodative monetary policies |
| Singapore Dollar<br>SGD | + | **Rationale:** MAS policy stance on appreciating the SGD should allow SGD to remain relatively strong, even though we think Asian currencies are unlikely to appreciate as much as DM currencies<br><br>**Risks:** Asian currencies depreciating significantly once the dollar rebounds |
| China Yuan<br>CNY | + | **Rationale:** Fiscal support and ongoing reforms in China is supportive of a stronger Chinese Yuan but we think any appreciation in currency is likely limited<br><br>**Risks:** Tariff overhang resulting in weaker than expected consumption and trade |



++ : Very Positive + : Positive N : Neutral - : Negative -- : Very Negative

# Global Commodities

## A Complicated Set of Positive and Negative Drivers

Anthony Raza
Head
Multi-Asset Strategy

Improved economic growth in China, global EV growth and geo-political wars all put positive upward pressure on a broad range of commodity prices. Copper and other industrial metals should find stable support in such an environment assuming global economic growth does not turn down.

Gold continues to be an important addition to portfolios as it remains an important component to diversified safe haven baskets and is structurally attractive in a world that is trying to diversify away from USD reserves.

We are neutral commodities overall, but think the coming quarters could see opportunities in individual categories. While the US is backing away from energy transition targets that was improving the long term attractiveness of many metals, China's success in energy transition is beating expectations. As such, we think commodities will remain an important sector.

### Commodity Sector Strategy

| Sector | View | Notes |
|---|---|---|
| Commodities | N | **Rationale:** China remains the most important economy for commodities and a modest recovery in China growth appears on track. EV trends and defence spending provide continued demand for commodities.<br><br>**Risks:** US recession risks have increased slightly and any rising anxiety about a global recession would be negative for commodities. |
| Gold | + | **Rationale:** We think supply and demand issues will continue to support the price of gold in 2025. Central banks are diversifying their reserves away from the USD and into gold. Meanwhile, gold mining has been underinvested for years.<br><br>**Risks:** If central banks turn more hawkish and interest rates are hiked again, this would hurt the outlook for gold |
| Base Metals | N | **Rationale:** Copper and other industrial metal are expected to see continued growth in demand. We think the multi-year outlook will be strong as new green technologies are creating high demand for many of the metal commodities.<br><br>**Risks:** Recession risks would weigh negatively on the outlook for base metals. |

++ : Very Positive + : Positive N : Neutral - : Negative -- : Very Negative

## Commodity Sector Strategy

| Sector | View | Notes |
|---|---|---|
| Energy | - | **Rationale:** US policies to expand oil production and to pressure OPEC to increase supplies are good for global growth but is likely to put downward pressure on oil prices.<br><br>**Risks:** Middle East tensions could create disruptions in supply while growth risks could create disruptions in demand which would create upward price risks in energy. |
| Others | - | **Rationale:** The demand for other broad commodities such as agriculture has been particularly disrupted due to tariffs and trade tensions.<br><br>**Risks:** Weather and tariffs create rising uncertainties. |



++ : Very Positive + : Positive N : Neutral - : Negative -- : Very Negative

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