OCT 2025

THINK DIFFERENTLY

TO GET DIFFERENTIATED RESULTS

Quarterly Investment Update

Executive Summary

The third quarter of 2025 proved broadly positive for financial markets, supported by a softer-than-feared tariff outcome and the Federal Reserve's long-awaited shift toward monetary easing. After months of uncertainty, the U.S. struck new trade deals with the EU and Japan, setting tariff rates at a manageable 15% - well below the punitive levels first proposed in April. Meanwhile, signs of a cooling labour market prompted the Fed to deliver its first rate cut of the year, reinforcing confidence that policy is once again turning supportive.

Global risk assets rallied in response. The S&P 500 gained 8.1% for the quarter, while gold surged 16.8% to record highs and U.S. Treasuries advanced 1.7% as yields edged lower. The U.S. dollar, which had been under heavy pressure in the first half of the year, finally stabilized with a modest 0.9% rebound.

As we enter the final quarter, the macro backdrop resembles a "Goldilocks" environment - growth is slowing but not collapsing, inflation is easing, and central banks are beginning to cut rates. Corporate earnings remain resilient, helped by a broadening AI-investment cycle. However, risks persist: an unexpected growth shock, renewed policy volatility from the Trump administration, or stickier inflation could quickly challenge today's optimism.

We remain constructive but vigilant: taking a positive stance on equities complemented by effective diversifiers via our defensive or alternative positions, such as Gold. In fixed income, we favour short-to-medium-duration, higher-quality credits that provide attractive income with less sensitivity to rate swings. In short, the "just-right" balance of easing policy and steady growth still supports risk assets into year-end - but it is a balance that must be watched carefully. Maintaining a nimble and prudent approach will be key to navigating the final stretch of 2025.

AscendAsia
Asset Management

MARKET REVIEW

The third quarter of 2025 was broadly constructive for financial markets, underpinned by a less-than-feared tariff escalation and the Federal Reserve's pivot to monetary easing.

Firstly, while tariffs remained a dominant theme, the actual implementation proved more measured than markets had braced for at the end of Q2. Following multiple delays and negotiations, the US finalized trade deals with the EU and Japan in July, setting new tariff rates at 15% - higher than the 10% baseline but well below the punitive levels initially floated on Liberation Day in April.

Additionally, signs of softening in the US labour market catalyzed a dovish tilt in the Fed. The July jobs report was dramatically weaker than expected, accompanied by historic downward revisions of –258k for May and June. The August payroll print also added only +22k jobs. This pushed the Federal Reserve to deliver its first rate cut of 2025 while signaling further easing ahead.

Q3 2025 saw positive returns across most major asset classes, with precious metals and equities leading the gains.

The S&P 500 advanced +8.1%, continuing its strong performance for the year. The rally was supported by resilient economic data and the Fed's shift to an easing cycle, which particularly benefited growth-oriented sectors.

Gold surged +16.8% in Q3 on the back of strong demand, hitting a record high of $3,859/oz. This was its strongest quarterly performance in over a decade, leaving it up +47.0% year-to-date.

US Treasuries also posted positive returns, gaining +1.7% as the 10-year yield fell -8bps, benefiting from the Fed's dovish pivot.

The US dollar stabilized after its historic 1H 2025 decline, gaining +0.9% in Q3, marking its first quarterly advance of the year (the bulk of the dollar's recovery occurred in July).

Performance %	Q1	Q2	Q3
S&P 500	-4.3%	10.9%	**8.1%**
Gold	19.0%	5.8%	**16.6%**
Magnificent 7	-16.0%	21.0%	**17.6%**
US Treasury bond	3.8%	1.4%	**1.7%**
Dollar Index	-3.8%	-7.1%	**0.9%**

Source: Bloomberg

Outlook: Expect risk assets to do well in Q4

As of October 3, 2025, the US government shutdown is in its third day. This has paused key official releases such as payroll reports and left markets in a data void. This forces the market to rely on private indicators like the ADP report, which showed a drop of 32,000 private jobs last month – this 'soft' print has cemented a near-certain 0.25% Fed rate cut in October, providing a supportive tailwind for equities. However, if the US government impasse stretches another 10-15 more days, the October 15th CPI report could also be delayed, potentially raising volatility as investors navigate incomplete inflation signals. That said, we also see that markets have historically emerged unscathed from prior shutdowns, posting positive returns in the weeks and months after.

Considering this, we maintain an overweight equity positioning with downside hedges and a combination of defensive/alternative positions, such as Gold in flexible strategies.

Within fixed income, we continue to maintain a preference for better quality Investment Grade credits that can provide good income while being more resilient in periods of higher volatility.

In the currency space, we've kept a longer-term underweight stance on USD. The greenback faces structural challenges from the funding of its "twin deficits". Mounting concerns over the sustainability of US finances are also eroding confidence in the greenback, limiting its ability to attract capital flows with higher interest rates alone.

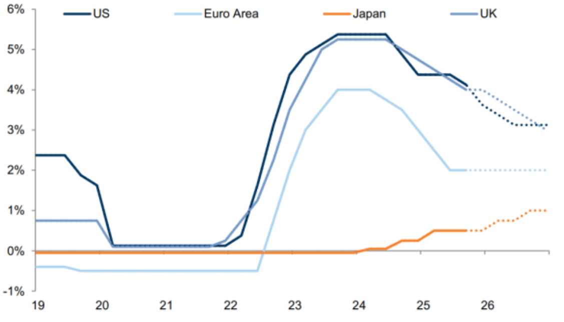
GOLDILOCKS & THE THREE BEARS

Goldilocks and…

In the children's story 'Goldilocks and the Three Bears', Goldilocks chooses the porridge that is 'not too hot, not too cold, but *just right'.*

Likewise, many have described today's backdrop as Goldilocks: economic activity has cooled without tipping into recession, while inflation has eased enough for (most) central banks to cut interest rates - albeit cautiously.

<u>Interest rate forecasts</u>



Source: Goldman Sachs

Recent data releases reinforce this picture. In the US, initial jobless claims fell by 14,000 to 218,000 in the week ended September 20 - back near July lows - signaling a labour market that's cooling but without mass layoffs that could tilt the economy into recession. Europe's economy is also showing tentative signs of recovery, with PMI data rebounding over the past few months despite the uncertain global backdrop.

A strong AI Capex (Capital Expenditure) cycle has also continued to bolster spending and earnings. Importantly, this momentum has shown increasing signs of broadening outside of the US mega-caps. On 10 September, Oracle surprised markets with a blistering one-day gain of 36% on strong AI-driven cloud demand and on the signing of a $300 billion deal with OpenAI. Perhaps more interestingly, Chinese tech stocks – long under pressure from regulatory crackdowns in prior years – have not just participated in the AI momentum, but have even outperformed. Alibaba, the poster child of China's AI prowess, has surged alongside new product rollouts and AI model launches.

Bottom line: we see a 'just right' backdrop for risk assets into year-end as the Fed begins a (cautious) rate cut cycle, provided recession is avoided and inflation is contained.

…the Three Bears

Just as Goldilocks eventually confronted the three bears, there are potential risks that could upset the delicate environment. Let us highlight three bears to watch out for ahead:

<u>Bear #1: Growth shock!</u>
In particular, the risk that the earnings engine will stall, or the job market cracks. AI-linked investment has powered profits, but if demand disappoints or if the labour market deteriorates more sharply, confidence and earnings could fade quickly. That could be a catalyst for an outsized sell-off given the rich valuations in segments of the market today.

<u>Bear #2: Policy Uncertainties</u>
Even as trade uncertainty has moderated since April's 'Liberation Day' episode, policies from the Trump administration continue to be a wildcard and could impact segments of the market. President Trump has not quietened down despite the market calm, recently announcing new tariffs on drugs, trucks, and kitchen cabinets.

<u>Bear #3: Interest Rate Uncertainties</u>
Markets have been buoyed by expectations of Fed rate cuts. The risk: if inflation proves stickier as tariff impact feeds through, rate cuts may be slower or smaller than markets are expecting. Fed Chair Powell has said that the Fed won't let 'the one-time increase in prices [from tariffs]… become an ongoing inflation problem'; a reminder that rate cuts are not set in stone. We are also watching long-end yields, which could go much higher on worries about fiscal deficits or central bank independence – markets will likely react negatively if long-rates go up too far, too quickly.

Echoing Goldman Sachs: Goldilocks continues to escape the bears…for now. We remain conducive but not complacent – staying diversified and positioning in segments of the market with good risk/reward as highlighted earlier.

SHIFTING INCOME DYNAMICS

Central bank moves
The Fed delivered its first 25bps cut on September 17th. Anyone waiting to trade around this much-anticipated policy action would have ended up disappointed, as bond yields instead went up in the days after, having already priced in the cut after a soft inflation print and dovish signals from Jackson Hole.

How much of this bond market whipsaw is due to concerns about Fed independence and expectations of its future actions? The answer to this might be worth some coffeeshop banter, but the real question facing income investors is how they can still achieve their income objectives in this environment.

Finding the duration sweet spot
As the consensus is for yields to trend down, the usual textbook solution is to invest in longer-dated bonds to lock in yields and reduce reinvestment risk. But many are wary of the far end of the curve, given worries about U.S. deficits, growth and inflation. Talk about a catch-22! Our solution is to position around the 'belly of the curve' i.e. short-middle maturity bonds, which can help harvest steady income for longer, without large price swings.

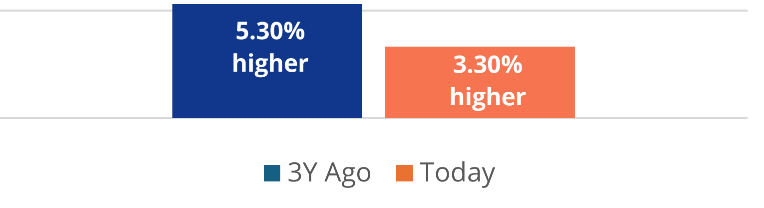
Higher valuations: Be selective
An important source of return for income comes from investing in corporate credit, which tends to pay higher coupons. The past few years have indeed been conducive, as investors have benefitted from the high yields on offer. This was on the back of continued economic growth, which kept recession at bay. The strong performance of credit markets and continued inflows meant that investors are getting lower 'extra compensation' for taking more credit risk today, as shown in the graph below.

The good news: all-in yields continue to be historically attractive to support the needs of income investors. However, active credit selection is crucial in the environment going forward. We are finding opportunities within securitized credit, such as asset-backed or mortgage-backed securities, as well as selective higher-quality names within the high yield complex; also known as 'crossovers'.

Global uncertainties require resilience
Let's not forget that we are living in a world of heightened global uncertainties. The world is transitioning from one global superpower to the next, and the incumbent US will not go down without a fight. Erratic policies, geopolitical flare-ups in Europe and the Middle East will have implications on markets and economies.

Investors need to have resilience in their portfolios (and within themselves) to help prepare for sudden bouts of volatility. When they happen, the first thing is to hold the course so as not to sell at lower prices. And if they are comfortable with that, they can start thinking about taking advantage of the volatility.

High Yield vs Investment Grade: The 'extra income compensation' has come down



Source: Bloomberg. Yield to worst. Global investment grade: Bloomberg Global Agg Index, Global high yield: Bloomberg Global High Yield Index,

HOW ARE WE POSITIONED?

Equity (Blue) **Bonds (Orange)**

Key Themes	Allocation
Balanced Approach Amid Heightened Uncertainty Adopting a prudent balanced approach as current market conditions present a tug-of-war between lingering tailwinds and mounting risks. Tailwinds come in the form of still supportive corporate earnings, AI-driven productivity optimism, and a resilient US labour market. However, heightened uncertainty stems from tariffs and retaliatory threats from major economies.	**US equities** **Global equities** (e.g. Europe, Japan)
Diversification Into Emerging Opportunities Financial markets operate in cycles. The end of the easy money era means looking beyond popular markets that did well during the previous broad-based growth to find tomorrow's winners. Focus on high-growth markets driven by their own distinctive economic trajectories and coupled with attractive valuations.	**Emerging Market equities** (e.g. China, India)
Shifting Gears On Income Having benefitted from the strong performance of high-yield bonds, we transition to higher-quality fixed-income positions while still maintaining attractive yields. Investors can still achieve solid income in today's environment but this requires a more careful balance between generating returns and managing volatility.	**Developed-Market Credit** **Asian High-Yield Credit** **Emerging Market Credit**

OCT 2025 INVESTMENT UPDATE

ASSET ALLOCATION STRATEGY

-- Underweight | – Slight Underweight | = Neutral | + Slight Overweight | ++ Overweight

Equity: Regions

United States

Continued earnings growth remains supportive but moderated by stretched valuations and policy uncertainty.

Europe

Cheaper valuations and a shift towards fiscal expansion are tailwinds, but uneven growth and political risks warrant a balanced approach.

Japan

Given elevated policy uncertainty and currency volatility, a neutral stance on Japan helps manage uncertain outcomes.

Asia Pacific ex Japan

More pro-active stimulus measures embarked by the Chinese government provides better tailwinds for Asia equities on the back of their better valuations.

Emerging Markets

Maintain preference for high-growth EM markets that are expected to benefit from steady global growth and a weaker US dollar backdrop.

Fixed Income

Global

Focus on government bonds' flight to quality characteristic to buffer portfolio volatility during periods of stress.

Investment Grade Corporate

Maintain a diversified exposure and taking advantage of mispricing opportunities in developed-market investment grade bonds.

US High Yield

Maintaining minimal exposure due to as IG bonds offer relatively better risk-reward to obtain income while mitigating default risk.

Asia

While Asia credit continues to offer attractive all-in-yields and supportive fundamentals, we maintain a lower allocation after realizing strong income and capital appreciation.

Emerging Markets Debt

Hard currency bias to focus on return from credit while limiting exposure to emerging market currencies. Short-duration bonds to mitigate volatility from more uncertain interest rate path.

MARKET INDEX RETURNS

Equity Regional	MTD	YTD	10Y	20Y
Global	3.66	18.88	12.52	8.80
United States	3.64	14.81	15.29	10.96
Europe	2.02	28.69	8.98	6.80
Japan	2.37	22.60	8.57	4.90
Asia Pacific ex Japan	5.78	25.11	8.64	7.18
Emerging Markets	7.17	28.17	8.44	6.51

Equity Markets	MTD	YTD	10Y	20Y
Australia	0.53	20.31	10.89	8.38
Brazil	5.56	41.26	9.22	3.34
China “A”	3.47	23.73	4.97	11.33
China “H”	7.51	34.89	3.87	5.55
Hong Kong	7.83	37.95	6.22	5.19
India	-0.15	0.09	9.95	9.43
Indonesia	1.30	14.06	8.24	10.73
Korea	6.41	52.04	6.12	5.60
Malaysia	4.34	8.31	4.13	5.21
Singapore	0.23	25.56	9.91	8.27
Taiwan	7.16	24.01	17.13	11.86
Thailand	2.85	-0.28	2.50	5.08
Vietnam	-1.31	28.12	11.85	9.14

Equity Sectors	MTD	YTD	10Y	20Y
Gold	20.99	124.82	20.25	6.26
Energy	-0.43	7.04	8.14	5.68
Technology	7.46	22.00	23.07	14.99
Healthcare	1.00	4.29	8.32	8.81
Financials	0.14	12.70	13.55	6.31

Fixed Income	MTD	YTD	10Y	20Y
Global Aggregate	0.65	7.91	1.15	2.42
Global Aggregate (H)	0.74	4.05	2.32	3.37
High Yield	0.79	7.25	5.78	6.48
Asia	0.89	6.94	3.42	3.53
Emerging Markets	1.11	8.51	4.02	5.44

Note: (H) Currency Hedged

Currencies	MTD	YTD	10Y	20Y
SGD/USD	-0.48	5.86	0.98	1.37
EUR/USD	0.41	13.33	0.49	-0.12
JPY/USD	-0.57	6.29	-2.08	-1.32

Commodities	MTD	YTD	10Y	20Y
Gold	11.92	47.04	13.22	11.11
Oil	-2.56	-13.04	3.30	-0.30

*As of 30 Sep 2025. Source: Bloomberg. **Total return in USD**.*
10 and 20 year returns are annualized.

"In investing, what is comfortable is rarely profitable.“

Rob Arnott

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