JUN 2025

THINK DIFFERENTLY
TO GET DIFFERENTIATED RESULTS

Monthly Investment Update

Executive Summary

Markets staged a strong rebound in May, driven by the 90-day tariff truce between the U.S. and China, which temporarily eased fears of an escalating trade war. This helped restore investor confidence and propelled the S&P 500 to a 6.3% gain - its best monthly performance in 18 months—while Emerging Markets and Bitcoin also rallied. Despite the bounce, U.S. equities remain behind other regions year-to-date in USD terms, weighed down by a weakening dollar.

However, momentum faded later in the month as attention turned to the U.S. fiscal outlook. Trump's proposed "One Big Beautiful Bill", with its expansionary stance, raised concerns over long-term debt sustainability. More broadly, sentiment has been shifting - from a narrative of U.S. exceptionalism to a more cautious view of America's role in global markets. While segments of the U.S. market still offer good opportunities, we've increasingly been focused on regions with stronger fundamentals or better value, such as Europe and select Emerging Markets.

U.S. Treasuries, once seen as the ultimate safe haven, also came under pressure in May. Moody's downgrade of the U.S. credit rating and growing fiscal concerns pushed the 30-year Treasury yield toward multi-year highs, driving meaningful volatility in long-duration bonds. In contrast, credit markets remained relatively stable. Investment Grade and High Yield bonds posted modest gains of 0.3% to 1.7%, supported by steady coupon income. For income investors, this highlights the need to strike a balance: Treasuries still play a role in cushioning growth shocks, but select credit segments may offer more attractive risk-adjusted income in today's environment.

For now, the road ahead appears less bumpy than April's turbulence - but volatility is far from over. May's rally restored confidence, yet risks remain as the tariff truce nears expiry and fiscal concerns persist. We remain moderately positive on equities, with hedges and defensive assets in place across our more flexible solutions. In fixed income, we continue to favour selective Investment Grade credit for its balance of income and resilience.

Finexis Asset Management

JUN 2025 INVESTMENT UPDATE

MARKET REVIEW

A Resurgent Month for Equity Markets

May 2025 brought a wave of optimism to financial markets as US and China agreed to a temporary 90-day trade truce, easing fears of an escalating tariff war. This fueled investor confidence alongside the *TACO* ('Trump Always Chickens Out') trade, which also gained traction and drove equities higher. The S&P 500 surged 6.3%, marking its best monthly gain in 18 months. However, year-to-date, US equities are still lagging other regions in USD terms, weighed down by a weakening dollar.

From Easing Trade Tensions to Fiscal Concerns

However, the strong momentum faded in the second half of the month as fiscal fears, as well as a court ruling challenging the legality of Trump's tariffs, injected fresh uncertainty. Specifically, the market focus shifted to the US fiscal outlook as the Trump administration unveiled its first budget bill: the '*One Big Beautiful Bill Act*'. While the bill is expected to undergo revisions, its expansionary stance (slightly increasing deficits) raised concerns about the long-term debt sustainability of the US. These worries were compounded by Moody's downgrade of the US credit rating from Aaa to Aa1, sending Treasury yields soaring. The 30-year yield briefly hit 5.15%, the highest since late 2023.

Which Assets Gained the Most?

Global equities rallied, with the US posting the strongest gain among major markets at 6.3%. Emerging Markets (EM) also joined the rally with a 4.3% gain. Elsewhere, Bitcoin surged 10.8%, hitting an all-time high of $111,092 before paring gains.

Which Assets Struggled?

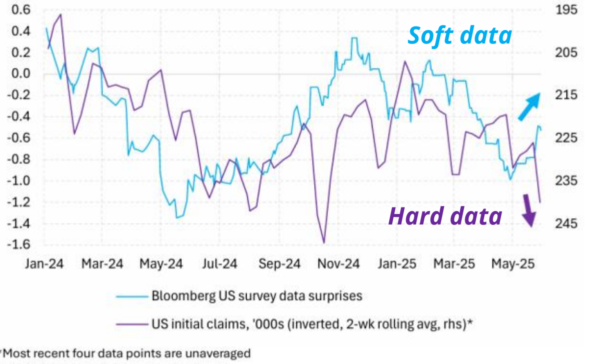
The combination of risk assets rallying and mounting fiscal concerns led to a spike in the US Treasury yield. As a result, the US 10-Year Treasury bonds saw a -1.2% loss, their worst performance in 2025 (recall as yields go up, bond prices go down). The safe-haven Japanese Yen also weakened -0.7% against the USD, snapping a four-month winning streak.

Performance	May 25
S&P 500	6.3%
Gold	-0.1%
Magnificent 7	13.4%
US Treasury Bonds	-1.2%
Global Bonds	-0.4%
USD Dollar Index	-0.6%

Source: Bloomberg

Soft Data Rebounds, Hard Data Weakens

While US soft data (e.g. surveys) rebounded amid shifting tariff expectations, the hard data (e.g. jobless claims) is showing signs of early stress. Over the next 3-6 months, soft data may hold up unless tariffs escalate, but hard data is likely to weaken as inflation erodes incomes and uncertainty drags on growth. The result? The soft and hard data should eventually converge at a level consistent with subdued US GDP growth.



*Most recent four data points are unaveraged
Source: Bloomberg, Dept of Labor, Vanda

Outlook: Cautious Optimism After Strong Rally

While May's rally has restored animal spirits, risks remain as we approach the end of the reciprocal tariff pause between the US and the rest of the world. Furthermore, the US fiscal trajectory and elevated bond yields could also weigh on markets in the months ahead. The road ahead may be smoother than April's turbulence, but volatility is far from over.

Looking ahead, we keep our moderately risk-on stance by overweighting equity, while hedging with downside protection option strategies and defensive alternative positioning (such as gold) within our more flexible strategies. Within fixed income, we maintain a preference for select Investment Grade credits that can provide good income while being more resilient.

THE END OF US EXCEPTIONALISM?

From US exceptionalism…

Investors entered 2025 with the consensus overwhelmingly favouring US assets. Apart from continued earnings growth from the usual Magnificent 7 suspects, Wall Street strategists highlight other positive factors such as expectations of a more pro-growth, regulation-light era under the Trump administration that would drive US assets to new heights. Interest rates, which were another concern before, were also set to decline with the Fed cutting rates, further supporting equity and bond markets.

> **Goldman Sachs**
>
> Our baseline forecast remains essentially benign for the US: solid growth, cooling inflation and further non-recessionary rate cuts, alongside a range of policies that could be friendly to corporate earnings. While the US is a clear outperformer, non-US economies still see stable growth, falling inflation and monetary easing in our central scenario.

Source: Bloomberg, Jan 1 2025

…to end of US exceptionalism in a few months

Fast forward a few months, and the narrative has shifted towards one where US exceptionalism has seemingly unravelled. Indeed, over the past few months, we've seen King Dollar weakening, S&P 500 lagging, and the US treasury bond market selling off. It is quite unusual to have all three major US assets underperforming together, which caused many to pay attention.

One can quickly point towards the Trump administration as the cause…so much for Making America Great Again! Indeed, Trump's unpredictable policies have led many to question the influence and role of the US as the leader of the free world, and their safe-haven status along with it. But Trump's policies are likely not the sole reason, and merely the accelerant.

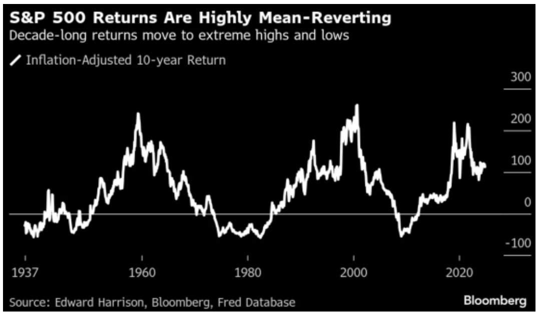
Exceptionalism in Growth and Earnings?

For equity investors, it is always helpful to be guided by economic activity and corporate earnings as important fundamental signposts. Indeed, one could have justified US exceptionalism by its resilient economy in the past years, while economies such as Europe faced sluggish and uneven growth. We can perhaps paint a different picture today: with Europe investing heavily in defence and infrastructure (to reduce dependency on the US), while the US is instead looking to rein in overall spending.

What about expectations of continued 'exceptional' earnings from the US, led by the dominance of mega-cap tech firms that had created an invincible moat around their businesses by massively outspending their competitors? Thanks to DeepSeek's breakthrough earlier this year, this notion has also been challenged.

Good old mean reversion at play

Mean reversion in financial markets is the observation that returns (good or bad) will *eventually* converge back to their long-term average. For the S&P 500, that long-term average is about 9% p.a. In the past 5 years of US exceptionalism, the S&P 500 delivered returns close to 16% p.a.! Unsurprisingly, valuations have gotten particularly stretched after the above-trend returns, with conditions in place for the pendulum to swing the other way.



Source: Bloomberg

This does not mean one should avoid US assets altogether. There continue to be good opportunities in the US for active investors to benefit from. Ironically, the key takeaway from Trump 2.0 is for investors to look beyond just passively investing in the US S&P 500 (the winning strategy in the past decade!) to invest in this new era.

CHANGING FACE OF INCOME

Roller Coaster For Rate Speculators

US Treasuries, long seen as safe-haven assets, started May with price declines as bond yields threatened to hit highs not seen since the 2008 Global Financial Crisis. This arose from a combination of better-than-expected economic data and concerns on the US fiscal deficit, which culminated in the downgrade of the US credit rating by Moody's. This meant that investors who sought to get income from long-term government bonds were subjected to price declines for most of the month.

US 30-year treasury yields hit multi-year highs as markets became less confident in US debt

Source: Bloomberg

Within the same month, US Treasury bonds made back some of the initial price declines (but still closed the month down) as subsequent inflation data cooled, renewing hopes that the Fed would be less hawkish. On balance, the Treasury bonds provided a basic level of income but with a considerable amount of price volatility. In this era of Trump 2.0, investors need to rethink their existing assumptions of US government bonds being able to provide the same risk-adjusted income as they used to.

Tangible income

There were segments of the market that were more well-behaved amid the volatility. Major credit markets returned between 0.3% to 1.7%, depending on whether it was Investment Grade or High Yield - these segments provided tangible income for investors from the underlying coupons. More importantly, they continue to provide risk-adjusted income on a going-forward basis.

Changing Face of Emerging Market Debt

Lately, there have been more comments that US Treasuries are behaving more like Emerging Market Debt (EMD). Conversely, EMD has shaken off some of its 'risky' label.

Shifting volatility: It used to be that volatility was a hallmark of EMD. This was because of unpredictable central banks and political risks. In the current environment where the US is the 'leader' when it comes to unpredictable central banks and political risks, it is no surprise that the source of bond market volatility has shifted.

Shifting fundamentals: Investors are naturally nervous when they lend to someone with shaky fundamentals. In the case of a country, shaky fundamentals can come in the form of hard-to-control inflation or high debt. This used to define EM countries, but fiscal erosion means that the US debt is now roughly 121% of GDP. Indebtedness itself is not a risk; after all, Japan has had high levels of debt-to-GDP and held off the bond vigilantes. But with the additional risk to inflation and growth, more investors are now shifting their attention to Emerging Markets, which may offer better fundamentals.

End of US exceptionalism trade?

More voices are echoing the 'end of US exceptionalism'. While the shift in sentiment is real, any structural adjustment will take time – the USD is still the reserve currency and the backbone of global trade. That said, long-term foreign investors have begun to trim US exposures by the margin, and this gradual rebalancing will create opportunities for income investors to capture. Likewise, we have been proactively tilting our income portfolios towards markets with stronger fundamentals and better value – and the benefits of these moves have already begun to show.

HOW ARE WE POSITIONED?

Equity (Green) **Bonds (Blue)**

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 U.S. 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 are gradually transitioning to higher quality fixed income positions while maintaining attractive yields. Investors can still achieve solid income in today's environment but requires a more careful balance between generating returns and managing volatility.	**Developed-Market Credit** **Asian High-Yield Credit** **Emerging Market Credit**

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.

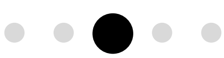
Europe

Cheaper valuations and ECB rate cuts are tailwinds but sluggish growth and political risks warrant a balanced approach.

Japan

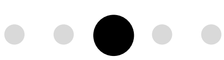
With global market volatility and potential retaliation against US trade policies, a neutral allocation to Japan mitigates uncertain outcomes.

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.

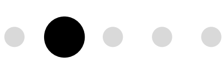
Emerging Markets



Maintain preference for high-growth markets at attractive valuations e.g. China

Fixed Income

Global

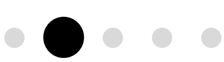


Focus on government bonds' flight to quality characteristic to buffer portfolio volatility during periods of stress.

Investment Grade Corporate

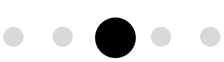
Maintain a diversified exposure and taking advantage of mispricing opportunities in developed-market investment grade bonds.

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 neutral 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	5.81	5.55	9.83	8.59
United States	6.29	1.06	12.85	10.46
Europe	5.01	21.46	7.12	6.97
Japan	4.15	11.21	6.18	5.26
Asia Pacific ex Japan	5.10	7.97	4.70	7.07
Emerging Markets	4.30	8.86	4.32	6.68

Equity Markets	MTD	YTD	10Y	20Y
Australia	4.83	9.57	7.64	8.71
Brazil	0.94	23.24	3.76	4.24
China "A"	3.04	-0.51	-1.59	10.70
China "H"	3.57	16.24	-1.46	6.44
Hong Kong	4.76	16.91	1.89	6.18
India	0.63	4.77	9.49	11.05
Indonesia	8.35	3.01	3.87	9.82
Korea	8.89	21.32	2.35	5.46
Malaysia	-0.53	-1.49	0.62	6.09
Singapore	3.57	11.61	6.10	7.91
Taiwan	13.54	2.63	12.65	10.81
Thailand	-1.94	-12.02	0.83	7.62
Vietnam	9.08	3.66	9.28	8.90

Equity Sectors	MTD	YTD	10Y	20Y
Gold	3.02	49.03	11.37	5.48
Energy	0.99	-3.88	4.59	6.30
Technology	10.51	-0.60	19.44	14.07
Healthcare	-3.57	-0.35	6.66	8.71
Financials	4.42	5.81	12.02	6.09

Fixed Income	MTD	YTD	10Y	20Y
Global Aggregate	-0.36	5.28	0.94	2.23
Global Aggregate (H)	-0.33	1.83	2.11	3.30
High Yield	1.76	2.63	4.55	6.37
Asia	0.08	2.86	2.92	3.32
Emerging Markets	0.67	2.97	3.08	5.47

Note: (H) Currency Hedged

Currencies	MTD	YTD	10Y	20Y
SGD/USD	1.19	5.79	0.43	1.28
EUR/USD	0.17	9.59	0.32	-0.40
JPY/USD	-0.67	9.15	-1.47	-1.40

Commodities	MTD	YTD	10Y	20Y
Gold	0.02	25.33	10.70	10.88
Oil	4.43	-15.24	0.08	0.79

As of 30 May 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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