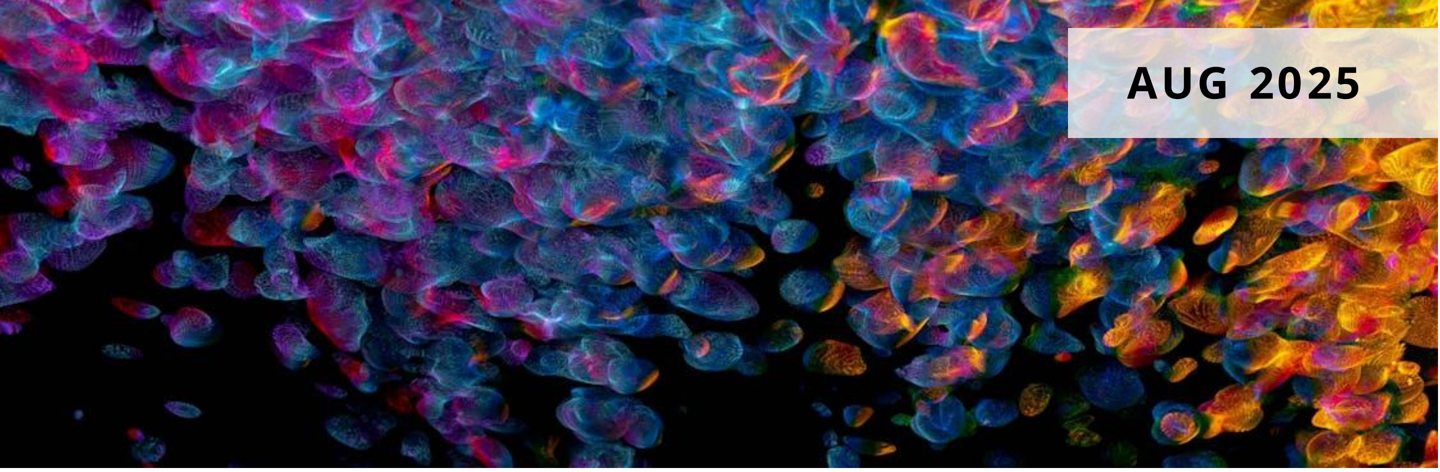

AUG 2025

THINK DIFFERENTLY
TO GET DIFFERENTIATED RESULTS

Monthly Investment Update

Executive Summary

Markets extended their rally in July, supported by resilient US economic data and a series of ‘favourable’ trade deals with key partners, including Japan, the EU, and South Korea. Global equities advanced, led by the S&P 500’s 2.2% gain, fuelled by supportive Q2 corporate earnings and renewed optimism around the “Magnificent 7” tech giants. Sentiment was further lifted as President Trump postponed the July 9 tariff deadline to August 1, allowing risk appetite to build through the month.

Not all assets fared well in the rally. The passage of the “One Big Beautiful Bill Act” (OBBBA) revived concerns about the US fiscal outlook, and a more hawkish tone from the Fed pushed long-end Treasury yields higher. This weighed on traditional safe havens like US Treasuries and gold, both of which struggled in July.

We view the current backdrop as potentially shifting gears going forward. Much of the “bad news” priced in earlier this year has been unwound, but with markets now leaning toward optimism, the risk-reward profile has turned less compelling in the near term. While we remain positive on risk assets in the long-term, we’ve turned tactically more cautious in the near-term out of prudence - trimming risks while adding exposures to defensive alternative assets such as gold in our more flexible strategies.

For income-focused portfolios, our emphasis remains on quality and resilience. We continue to favour shorter-duration, better quality credits that allow investors to harvest steady income without the distractions of chasing rates or currency bets. July was a good example – while broad bond indices declined amid USD strength, income strategies focused on the high income on offer today continued to deliver positive returns.

With the next phase of trade policy and growth expectations taking shape for the second half of 2025, we remain vigilant. Volatility may return, but we remain confident that an active and flexible approach can help investors navigate the road ahead.

MARKET REVIEW

A Robust July for Global Markets

July 2025 ushered in renewed optimism across financial markets. Alongside robust US economic data, sentiment was also driven by favourable US trade deals with key partners like Japan, the EU, and South Korea.

Tariffs were once again the biggest driver of the month, with President Trump postponing the initial 90-day reciprocal tariff deadline (originally set to expire on July 9) to August 1. Against this backdrop, risk assets rallied while safe havens like Treasury bonds struggled in July.

Which Assets Gained the Most?

Global equities advanced in July, with the US S&P 500 gaining 2.2% on the back of a resurgent "Magnificent 7 exceptionalism" narrative. The key pillar of support came from Q2 earnings, with an earnings growth rate of more than 8% versus the expected 4%, led by tech and bank names.

The US dollar index (DXY) also rallied 3.2%, bolstered by a stronger-than-expected Q2 GDP print (3.0% vs. 2.6% expected). This was the first month of positive DXY performance in 2025, driven by an unwinding of crowded short positioning on USD.

Elsewhere, Brent crude surged 7.3% amid Russian supply concerns, while Bitcoin climbed 8.3% to $116,491 (having peaked at a record high of $123k on July 14), boosted by the US GENIUS Act, which formalized stablecoins.

Which Assets Struggled the Most?

Safe-havens such as gold and US Treasuries were both under pressure on the back of higher US Treasury yields. Fiscal concerns re-emerged with the passage of the "One Big Beautiful Bill Act (OBBBA)," pushing US deficits to 6.5-7% of GDP. Alongside that, more hawkish comments from the Fed, together with a resilient macro-outlook, drove yields meaningfully higher.

Finally, tariff-impacted EM equities like India's Nifty 50 (-2.8%) lost ground after tariff negotiations failed to see a breakthrough.

Cross Asset Performance	Jul-25
S&P 500	2.2%
MAGNIFICENT 7	5.8%
GOLD	-0.6%
Bitcoin	8.3%
7-10 US Treaury Bond	-0.6%
Dollar Index	3.2%

Source: Bloomberg

Outlook: Neutral to Cautious on Risk in the Near-Term

Our baseline view is that the short-term risk-reward has become less favourable after the strong market rally since the April bottom - a brief consolidation appears imminent. While tariff-driven inflation pressures have been minimal so far, cost increases from higher-priced inventory could emerge in the coming quarters, potentially squeezing margins and/or boosting inflation.

Considering the near-term risks, we've made some tactical adjustments within our more flexible strategies: reducing equity exposures from moderately overweight to slightly underweight around the end of July. We've also added to defensive Alternative positions, such as gold.

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

Looking ahead, recent adjustments are expected to keep our overall risk-taking measured while capitalizing on earlier strong gains.

A BUMPIER RIDE AHEAD?

President Trump's August 1 tariff deadline came and went with less drama than 'Liberation Day' on April 1. For one, we already saw a few 'good' trade deals being made in July, i.e. Japan, the EU, and South Korea, which hinted that peak tariff uncertainty is behind us. When August 1 came, many countries eventually saw deals that were less aggressive than originally threatened.

Nevertheless, the latest announcements were a reminder that tariffs are here to stay, and markets reacted: the S&P 500 fell -2.3% on the day, while the Small-Cap Russell 2000 took a harder -4.2% hit.

As highlighted earlier, we had taken a more positive view on equity markets in the past quarter, but have turned neutral recently out of prudence. With the strong gains seen since the April 2025 bottom, markets have increasingly priced in a good outcome for corporate earnings and tariff deals, and are now more vulnerable to disappointments.

"In the short run, the market is a voting machine, but in the long run, it is a weighing machine."

From Extreme *Fear* in April 2025…

The peak of tariff concerns. Astronomical tariffs of up to 145%(!) were floated by the Trump administration, and markets were expecting the worst in terms of economic growth and corporate earnings.

To Extreme *Greed* in July 2025…

Fast forward 3 months, and the scales have tipped to the other end. Markets were quick to realized that outsized tariff threats were part of Trump's negotiating tactic, and the reality was likely to end up less damaging to growth than previously thought.

Indeed, we have managed to avoid the worst-case scenario so far. With about 2/3 of the way through the Q2 earnings season, 82% of companies have reported better earnings than expected[1], though this is perhaps unsurprising due to the lower expectations going into the quarter.

We also got insights on how businesses have navigated higher tariff costs. Here, there was a general improvement in sentiment due to the decline in tariff rates compared to before. That said, many businesses are looking to increase prices to combat tariff impacts – we are on the lookout for signs of inflationary pressures.

A Bumpier Road Ahead?

With markets moving from fear to greed, could we be entering a choppier environment ahead? We had previously highlighted a few risks that could derail the market rally:

Escalation of tariffs: While markets have moved past the 'worst-case scenario' in terms of tariffs, we are not yet out of the woods. Trump has made fresh threats in recent days against India, citing high tariff barriers and its purchases of Russian oil.

Corporate earnings: Q2 earnings were generally supportive, but the 2H 2025 may be more challenging. The latest jobs data is evidence of a slowing economy (though not one that is plunging into recession just yet).

Rising bond yields, which could be triggered by inflationary pressures, could act as renewed headwinds for risk assets.

We are now on high alert for such signs of deterioration and will update our views accordingly.

[1]S&P 500 Earnings Season Update: August 1, 2025

April 2025

July 2025

CNN Fear & Greed Index 4 April 2025 (left), 10 July 2025 (right).

FOCUS ON INCOME!

July was a good demonstration of the challenges facing income investors today. The Bloomberg Global Aggregate index, a widely referenced benchmark for bond investors, was down 1.49%. Which meant that **a typical income investor most likely took losses in July**.

This time, it was not due to bonds declining due to adverse interest rate moves. Instead, declines in the bond index were driven by strength in the USD; something that would come as a surprise to many, especially when the consensus of late is dollar depreciation.

Yet a few income portfolios, such as ours, continued to deliver gains. This is a result of our focus on natural income, rather than on outsized currency bets.

For the longest time, income investors did not want to deal with currency risk, as currency calls can introduce a lot of volatility into bond investments. But increasingly, more income investors are drawn into taking currency bets as the dollar depreciation thesis has become more popular.

The recent consensus on dollar weakness has gained steam in the face of Fed interest rate cuts, outflows to gold (or Bitcoin), and concerns over rising fiscal deficits. In the long run, the dollar could end up lower, but the journey will not be a one-way street. As indicated by the former CIO of a Sovereign Wealth Fund (SWF) recently, in the past 50 years, when the USD was the world's reserve currency, it has seen down cycles of over 40% and upruns of over 40%.

That is not to say that currency views should be avoided entirely. This is one lever for an investor to boost returns, but they require proper research and processes to manage the risks properly.

Apart from currency, there are other risks that income investors should watch out for. Such 'risks' also come with 'opportunities', and investors should not allow such risks to derail their income generation.

Looming rate cuts (or not)

The Fed is expected to start cutting rates in the upcoming months, as seen from recent disappointing jobs data. This resulted in the head of the US Bureau of Labour Statistics being fired (talk about being accountable!). This also lends support to the dollar depreciation thesis.

The flip side is if inflation is sticky. There is increasing evidence that consumers, not exporters, are bearing the brunt of tariffs, leading to higher prices as mentioned earlier. This may cause the Fed to delay its cuts, which will provide support for the greenback.

Amid this uncertainty on interest rate direction, investors should continue to focus on harvesting income rather than betting on every Fed move. **We see opportunities in going up in quality, getting income from issuers with lower default risk.**

The 'Duration Trap'

We are also mindful not to invest in 'duration traps'. While many income investors have the patience to invest for the long haul, there is a difference between having a long horizon and investing in long-dated bonds.

Investors piling into long-dated 20+ year bonds risk suffering large mark-to-market losses, which may be unbearable even if they can hold the bond to maturity. Markets remain sensitive to evolving trade and fiscal deficits, e.g. large U.S. issuance, or Germany's new infrastructure and defense budget. As such, bond vigilantes are putting upward pressure on long-term yields.

We continue to position our income portfolios into better quality, high-income bonds that are of shorter-duration (and less interest rate sensitivity) so that investors can enjoy the high income on offer today.

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**

AUG 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 ECB rate cuts are tailwinds but sluggish 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 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	1.38	11.86	10.62	8.65
United States	2.24	8.58	13.65	10.64
Europe	-1.93	21.97	7.20	6.72
Japan	-1.25	11.71	6.30	5.21
Asia Pacific ex Japan	2.19	16.58	6.48	7.02
Emerging Markets	2.01	17.86	6.18	6.56

Equity Markets	MTD	YTD	10Y	20Y
Australia	0.16	13.87	8.67	8.51
Brazil	-6.81	22.28	4.82	3.97
China “A”	3.75	7.16	1.45	10.72
China “H”	2.71	23.66	1.26	6.04
Hong Kong	3.11	25.34	3.56	6.17
India	-4.77	2.56	9.11	10.16
Indonesia	5.91	7.16	5.35	9.63
Korea	2.75	45.12	5.06	5.78
Malaysia	-2.59	-1.30	1.21	5.56
Singapore	3.40	19.19	7.52	7.75
Taiwan	4.60	14.76	15.22	11.10
Thailand	13.07	-4.60	2.41	8.13
Vietnam	8.93	16.44	9.49	9.34

Equity Sectors	MTD	YTD	10Y	20Y
Gold	-0.58	52.65	15.65	5.30
Energy	2.92	3.72	6.60	6.10
Technology	4.08	13.03	21.23	14.64
Healthcare	-2.93	-1.84	6.18	8.54
Financials	-0.05	9.14	12.06	6.10

Fixed Income	MTD	YTD	10Y	20Y
Global Aggregate	-1.49	5.67	1.00	2.31
Global Aggregate (H)	-0.08	2.72	2.22	3.33
High Yield	0.38	5.04	5.05	6.31
Asia	0.37	4.60	3.15	3.41
Emerging Markets	0.92	5.90	3.50	5.52

Note: (H) Currency Hedged

Currencies	MTD	YTD	10Y	20Y
SGD/USD	-2.05	5.20	0.56	1.25
EUR/USD	-3.16	10.25	0.39	-0.30
JPY/USD	-4.45	4.29	-1.94	-1.45

Commodities	MTD	YTD	10Y	20Y
Gold	-0.40	25.35	11.62	10.71
Oil	6.37	-3.43	3.93	0.67

As of 31 July 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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