CIO OFFICE | MARKET OUTLOOK 4Q25

Trump 2.0

Doubling down on growth and income

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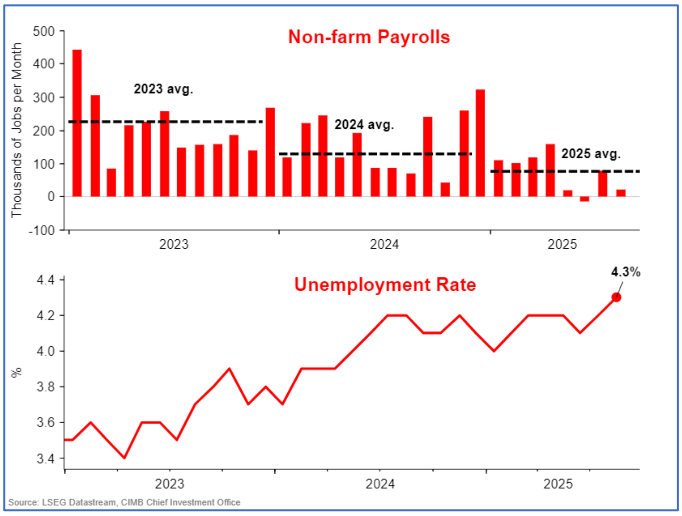
Rate cuts are back!

As we enter the final quarter of 2025, the Federal Reserve ("Fed") has lowered its benchmark rate for the first time this year. This move comes while the Fed tries to balance between slower jobs growth and inflation that has not fully settled. The Fed reduced rates to a range between 4.0% and 4.25% at its September policy meeting, while leaving possibilities for further rate cuts before the year ends. Furthermore, it appears that concerns over tariffs which triggered significant volatility back in April have faded into the background.

With markets now anticipating 1 rate cut for each of this year's remaining FOMC meetings, it's important to consider what lower rates mean for financial assets. We discuss the potential impact on investments and consider strategies to both protect your asset values while exploring potential opportunities as market conditions evolve.

Labour market is clearly softening with weaker job growth and a rising unemployment rate



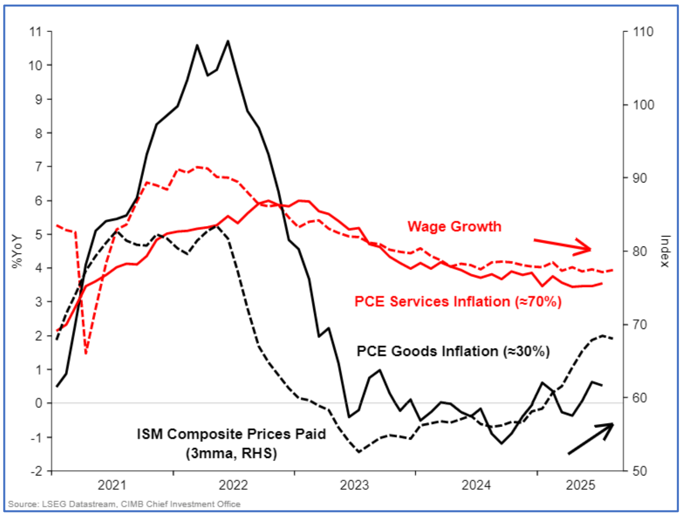
Jobs vs Inflation: A tug-of-war

The Fed operates what is commonly known to be a dual mandate of maximum employment, and of stable prices (inflation). The data that has been reported so far points to a softening labour market with a decreasing number of new job openings, and a gradually increasing unemployment rate.

On the other hand, inflation remains persistent closer to 3%, higher than the Fed's target of 2%. While the impact from tariffs is starting to flow through to end consumers, we think these may affect short-term prices more, and stabilise as markets gradually adapt to the price changes.

Also, the slowing job market also means slower wage growth which should help to keep inflation in check. The Fed has deemed the risks to a slowing job market to be greater than inflationary pressures, thus leading to the recent decision to reduce rates in September to help support employment.

Near-term goods prices may rise due to tariffs, but slower wage growth to keep services inflation in check



What's next?

Despite all that, the S&P500 continues to reach new all-time highs while long end bond yields have risen, and gold has… struck gold. These taken together lead us to believe there are concerns beyond just a buoyant US stock market that investors should consider when planning where and how to deploy assets.

A stronger DXY? Don't bet on it

The US Dollar Index ("DXY") has dropped by approximately 10% YTD. In the first half of 2025, sellers of the USD placed emphasis on policy uncertainty and on a mounting fiscal position.

As the weakening DXY resulted in returns impacted by currency translation, investors are seeking alternatives and we believe that Emerging Markets will stand to benefit as capital flows seek to hedge themselves against a weaker USD.

This USD weakness is unlikely to be temporary as the Fed is expected to cut rates by a larger magnitude relative to other central banks over the next months. As a result, downward pressure on the DXY is not expected to abate in the near term, and that investors will continue to seek opportunities in addition to USD denominated assets.

It is important for investors to recognise that while the DXY may see additional weakness, the extent of future declines is likely to be smaller and less dramatic than those experienced earlier this year.

Fixed Income – Focusing on predictable income

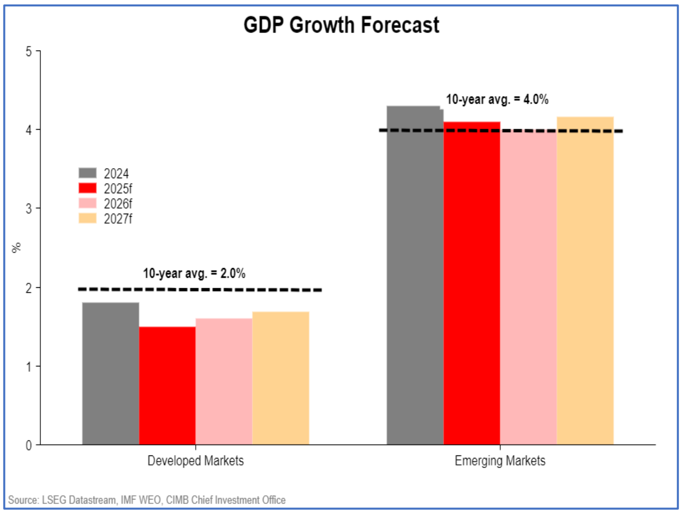
Throughout this year, our investment strategies have been geared more towards Fixed Income thanks to its ability to offer stability in uncertain markets.

We continue to view Fixed Income as an important asset class for investors to invest into and think that focusing on mid-duration, or the "belly" of the curve presents risk-reward opportunities that are more balanced when compared to long-term bonds, which can be more volatile given the higher duration risk.

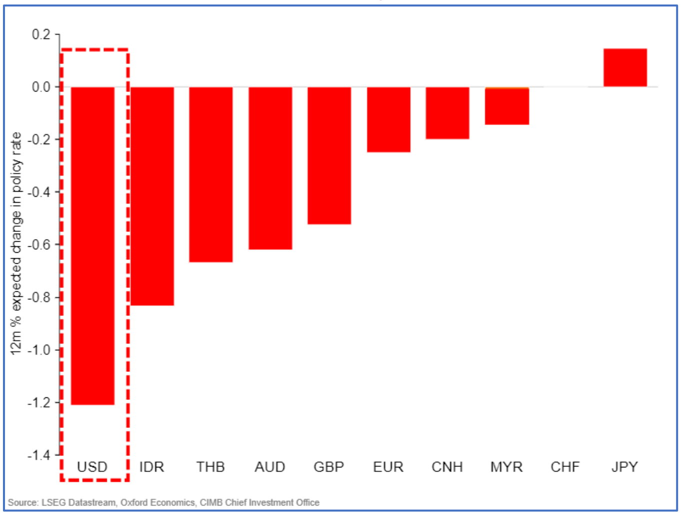
With more rate cuts expected from the Fed, investors might be tempted to invest into ultra-long duration bonds (30Y) in anticipation of large capital gains when the rate cuts do occur. However, data shows that these ultra-long treasuries tend to be less responsive to monetary policy changes especially when considering an expectation of a weaker USD and on the fiscal position of the US government.

Overall, fixed income provides regular coupon payments that can stabilize a portfolio. With yields at current levels, capital gains may be limited, and holders of ultra long-dated bonds should look for opportunities to switch into bonds that have shorter durations.

Positive growth differential in EM compared to DM economies to support inflows into the region



Larger expected rate cuts by the Fed compared to other central banks to fundamentally drive the USD lower



5-year & 10-year USTs offer more balanced risk-reward than the 30-year over next 12 months

Tenor	3Y	5Y	10Y	30Y
Maturity	2028	2030	2035	2055
Coupon (%)	3.375%	3.625%	4.25%	4.75%
Current Market Yield (%)	3.56%	3.68%	4.12%	4.74%
Potential Exit Yield (%)	3.06%	3.18%	3.72%	4.44%
Potential Yield Compression	50bps	50bps	40bps	30bps
Potential Capital Gain	1.13%	1.89%	2.91%	4.85%
1-year Accrued Interest	3.375%	3.625%	4.25%	4.75%
Potential Total Return in 1 year	**4.50%**	**5.51%**	**7.16%**	**9.60%**
Duration Risk*	**2.81%**	**4.47%**	**7.99%**	**15.81%**

*Note: Percentage change in price per 1% change in market yield
Source: Bloomberg, CIMB Chief Investment Office (22 Sept 2025)

US Equities – Is the market strength sustainable?

Artificial Intelligence ("AI"), the theme that has driven the markets for much of the year, continues to be the backbone as use cases broaden. Furthermore, the recent as well as increased number of expected rate cuts will lower costs fuelling opportunities for growth.

Nevertheless, caution should be exercised especially on earnings announcements as market consensus for 2H25 earnings are expected to moderate from a year ago. At the same time, outflows from the US into Emerging Markets/Asia is picking up pace which could result in higher volatility.

Although US equity valuations remain high, they seem well supported and could continue to expand especially if corporate earnings are robust. Thus, the strategy advocated is to take a selective approach to the US market focusing on companies that have sustainable businesses and strong balance sheets, and to consider buying on market dips.

Avoid a portfolio too heavily tilted in technology and diversify into other sectors.

Asian Equities – The Asian Renaissance

In our 3Q25 outlook, we proposed that Asia looks primed to be a beneficiary from investor inflows because of a weakening USD and global rebalancing. We've certainly seen that hypothesis play out and continue to maintain that Asia offers compelling opportunities.

Currently, the MSCI AC World Index currently trades at 19.3x PER, while the MSCI Asia ex-Japan Index trades at 14.8x PER. With tailwinds from capital seeking opportunities ex-USD, this could be the catalyst the region needs for a re-rating.

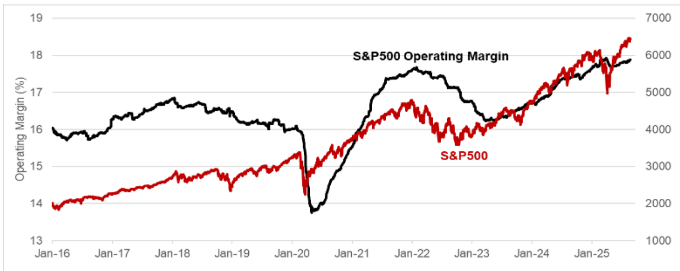
We are overweight in China and Singapore, while staying neutral on Malaysia, Indonesia, and India, and are underweight Thailand.

China looks to gain as it broadens its trade partnerships. Supportive factors include AI structural tailwinds and strong IPO pipeline, as well as southbound fund flows; all of which should strengthen market performance.

Singapore's Straits Times Index has delivered strong returns YTD Aug 25 (+12.7%). The country's reputation as a safe haven has attracted flows into Singapore assets, which have also benefitted as market reforms are underway with initiatives to promote greater activity on the Singapore Exchange.

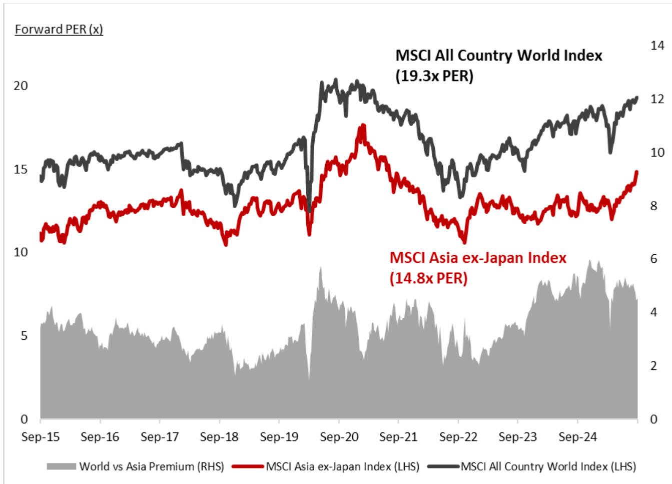
USDSGD has declined by approximately 6% YTD Aug 25 given its strong correlation to the DXY. While pressure on DXY is expected, the impact to USDSGD from this point forth is expected to be more gradual and possibly rangebound.

S&P500 operating margins holding up for now

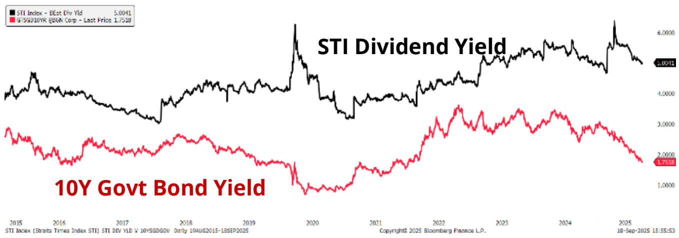


S&P500 PER has expanded, is this sustainable?

More compelling valuations in Asia



Yield differential remains attractive for equities



Finally, equity dividend yields at 5% are attractive especially as government bond yields have dropped to 1.75%

Key Takeaways For 4Q25

1. We have increased our position on China given the tailwinds and reduced our cash position respectively to reflect our views.
2. Fixed income remains an important portfolio stabilizer with a focus on durations between 3 to 7 years. Take profit where possible on ultra-long duration bond holdings.
3. Asia has emerged as a key beneficiary as investors seek opportunities beyond the US market. Remain invested in a globally diversified portfolio even as asset weights shift.

Risks And Asset Allocation

We are watching the fiscal position of the US closely as further deterioration could lead to greater instability in the bond market - one of the reasons we advocate a cautious approach when it comes to the longer duration USTs.

We are also keeping an eye out for any adverse reaction to consumer prices that could be driven higher due to the impact of rate cuts from the Fed. Also, while we expect the impact of tariffs to be one-off and transient as markets quickly adjust to price changes, we remain cognisant that a price impact which is greater than estimated could lead to higher inflation and lower aggregate demand.

Our call on income and dividend paying strategies in a globally diversified portfolio have performed well thus far, and we continue to reiterate the call for the remainder of the year. We've reduced our cash position and reallocated that to China equities to capture growth opportunities.

Our Asset Allocation at a Glance

	UnderWt		Neutral	OverWt	
EQUITIES (47.5%)	○	○	□	●	○
U.S.	○	○	■	○	○
Other DMs	○	○	■	○	○
Asia Ex-Japan	○	○	□	○	●
Hong Kong/China	○	○	□	○	●
ASEAN	○	○	■	○	○
India	○	○	■	○	○
FIXED INCOME (47.5%)	○	○	□	●	○
Sovereigns	○	○	■	○	○
Corporate Inv. Grade	○	○	□	●	○
Corporate High Yield	○	○	■	○	○
ALTERNATIVES (5%) Gold	○	○	■	○	○
CASH (0%)	●	○	□	○	○

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