In collaboration with:

Monthly Investment Insights

OCTOBER 2025

TOPIC 1:

The Fed has cut interest rates. What's next?

The Federal Reserve (Fed) has lowered interest rates in September, citing a softening labour market. More rate cuts are expected this year to support economic growth.

What you can do

The prospect of more rate cuts and resilient corporate earnings supports the stock markets, and any short-term pullbacks present buying opportunities ahead of a typically strong year-end rally. Diversification remains important, but opportunities can be found in the artificial intelligence (AI) structural trend and investment grade bonds.

→ At the September Federal Open Market Committee (FOMC) meeting, the Fed cut the policy rate by 25 basis points (bps). Fed Chair Powell highlighted signs of a softer labour market, with slower job creation that could push the unemployment rate higher. The Summary of Economic Projections (SEP) indicated a median forecast of two more 25bps rate cuts in October and December this year. While inflation remains a focus, the Fed is likely to prioritise its employment mandate.

→ Highlighting the Fed's view of a softening labour market, the July Job Openings and Labour Turnover Survey (JOLTS) showed hiring rates remained at the lower end of the range for the past 12 months. However, layoffs also remains low at 1.1% (Figure 1). This suggests the weakening labour market has been driven by slower hiring rather than increasing retrenchment.

→ Looking beyond the labour market, the US economy remains in good shape. Second-quarter real GDP growth was revised higher, and corporate profit margins remain resilient despite tariffs. Historically, a rate cut cycle combined with the economy avoiding a recession has supported strong performance in risk assets over the next 12 months.

→ That said, valuations are slightly above long-term averages, and tariffs could pressure corporate profits over time. Investors should be mindful of a potential short-term pullback in stock markets, but this would represent a buying opportunity.

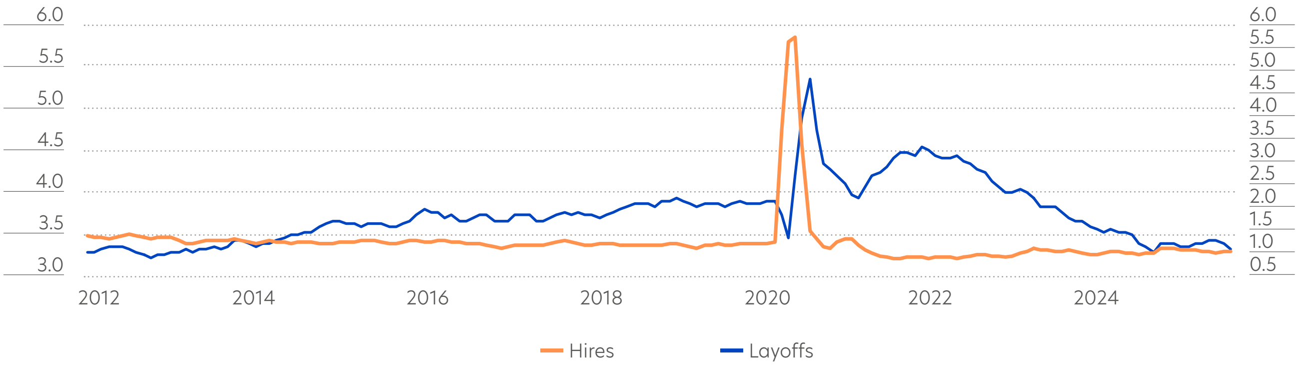
→ Long-term investors should focus on structural trends such as AI, supported by the positive earnings outlook for the industry. At the same time, diversification across global equity markets remains important.

→ Investors can also find opportunities in investment grade bonds as yields remain attractive amid expected further Fed cuts, slowing economic momentum, and strong corporate fundamentals.

Figure 1:

Total US non-farm hires and layoff rates

%, 3-month moving average



Source: FactSet, J.P. Morgan Asset Management.

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TOPIC 2:

Asian central banks reacted early to counter external headwinds

Asian central banks have responded to external headwinds by front-loading interest rate cuts.

What you can do

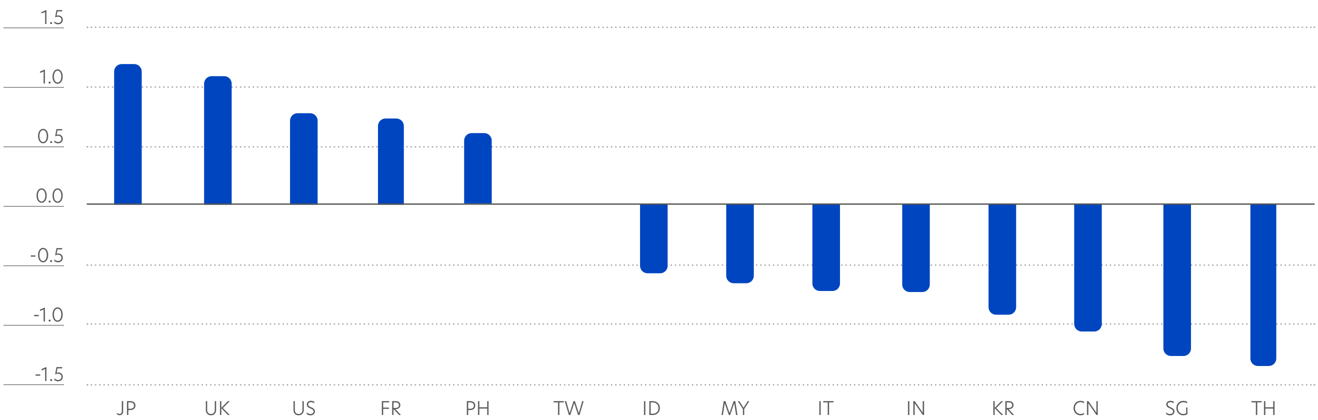
Asia's strong fiscal position and a potentially weaker US dollar makes Asian investment grade bonds an attractive option for investors seeking diversification beyond US markets.

- While the Fed kept interest rates unchanged in the first eight months of 2025, Asian central banks acted earlier to support economic growth. For example, India and Indonesia have reduced their policy rates by 100bps year-to-date, while Philippines and Thailand have cut by 75bps.
- We expect the pace of monetary easing in Asia to slow as earlier cuts continue to work through the economy. Overall, Asian economies remain resilient. Unlike some developed countries facing fiscal sustainability concerns, Asia has shown stronger fiscal discipline compared to a decade ago. In addition, several Asian economies have attracted higher foreign direct investment (FDI), partly due to the restructuring of global supply chains.
- Although higher US tariffs still pose headwinds for Asian economies, targeted product exemptions have helped reduce vulnerability.
- Structural reforms are emerging across the region, including China's anti-involution campaign, which is intended to address overcapacity among Chinese manufacturers.
- Given stronger fiscal positions and a weaker US dollar, Asian investment grade bonds offer attractive diversification opportunities. Although government bond yields have already fallen across much of Asia, the potential for further monetary easing could drive bond yields even lower (Figure 2).

Figure 2:

Changes in 10-year government bond yields

Latest less end-2022



Source: FactSet, J.P. Morgan Asset Management.

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TOPIC 3:

Lower interest rates boost appeal of dividend-paying stocks

As interest rates decline, dividend income becomes an attractive source of stable returns within an environment of uncertainty around policy, inflation, and tariffs.

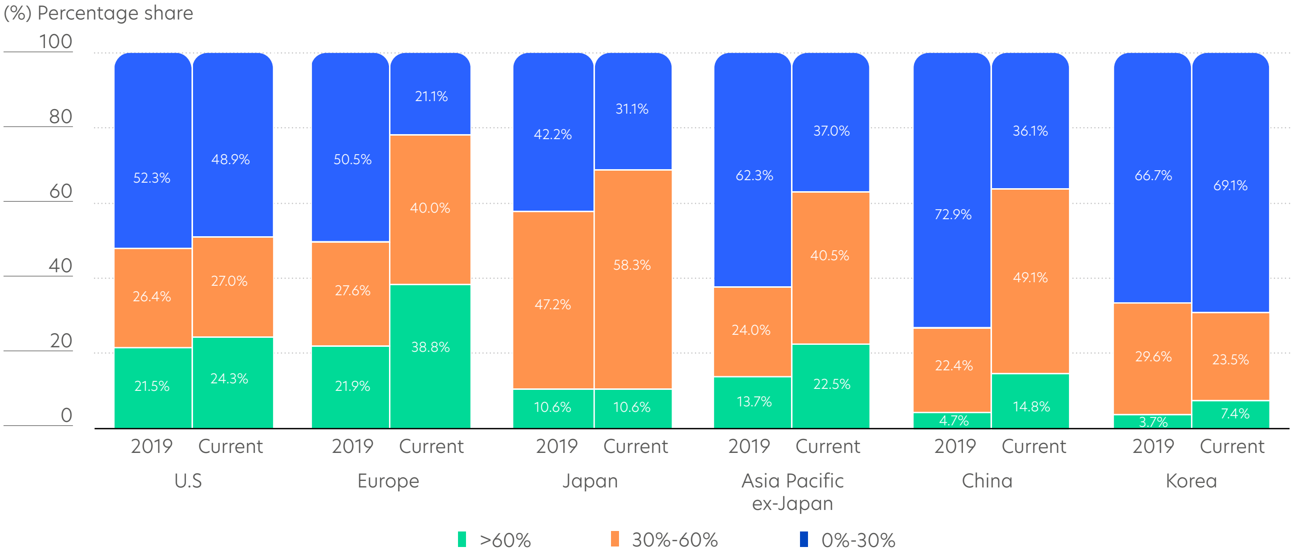
What you can do

Investors seeking income can consider quality Asian dividend stocks, which offer a stable income stream along with long-term capital growth potential.

- With the Fed expected to continue cutting rates later in 2025, the investment landscape is shifting. Lower interest rates reduce returns from cash savings and bonds, making them less appealing for income-seeking investors. Historically, dividend stocks have performed well in periods of falling rates when economic conditions remain stable.
- Companies that pays out steady dividends become more valuable when traditional saving accounts and bond yields fall. Sectors such as consumer staples and healthcare stand out for their strong pricing power and stable profit margins, helping them withstand challenges like inflation, trade tariffs, and slower growth.
- There are also quality dividend-paying companies in industries where demand remains steady regardless of economic cycles, such as utilities or essential services. Their business is less susceptible to economic fluctuations, offering an added level of stability to your portfolio.
- In Asia, corporate governance reforms have driven companies to return more value to shareholders through higher dividend payouts. Payout ratios are trending higher, particularly in Japan and China, creating opportunities for investors seeking both income and growth (Figure 3).
- Given today's economic uncertainty and evolving monetary policy, Asian dividend stocks offer a compelling combination of income stability, resilience, and long-term growth potential.

Figure 3:

Distribution of companies by dividend payout ratio



Source: FactSet, MSCI J.P. Morgan Asset Management.

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