Finishing Strong

4Q 2025 Investment Outlook

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CIO Thoughts

Finishing strong: Upgrading equities to Overweight

Since April, the S&P 500 has hit >20 new highs – the most frequent since 2021 – reflecting strong market momentum. Analysis by Goldman Sachs shows that when the Fed cuts rates after a long pause (i.e., more than six months), and recession is avoided, equity fund flows rise by a median of 6% over the following year. In such non-recessionary scenarios, the S&P 500 typically delivers +8% in six months and +15% in twelve months.

Seasonality is another tailwind. Over the past 30 years, ~70% of annual market returns occur between October and March. This period is historically optimal for building positions – akin to planting before the rainy season. With the Fed shifting from tightening to easing, yield-sensitive assets like growth stocks and dividend equities stand to benefit. Having said that, most dividend payouts are done. Fixed income spreads are tight, limiting upside in traditional bond strategies.

Seasonal weakness has passed with August and September showing resilience. Our back-testing of similar 5-month positive streaks suggest continued gains, albeit with short-term volatility. Recent rallies have been driven by Fed policy, echoing post-2008 and post-2020 cycles.

What about the risks?

The US dollar has held steady despite the easing cycle, reducing the need for currency hedging for USD-based investors. Inflation remains above the 2% target, but the Fed may tolerate 3% as the new normal, provided that future inflation expectations stay anchored.

There are also concerns of a cooling labour market, but we see it supporting corporate margins which will in turn bolster equities. The Fed's willingness to tolerate sticky inflation suggests a "run it hotter" stance which is generally bullish for risk assets. The seasonal August/September volatility could be delayed and occur in 4Q, but we would use the opportunity to accumulate. Finally, with headline valuations near recent peaks, fewer-than-expected rate cuts would be a key market risk.

S&P 500 seasonality chart

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
30 Yr High	7.87	7.04	9.67	12.68	5.86	6.89	9.11	7.01	8.76	10.77	10.75	6.53
30 Yr Avg	0.41	-0.09	1.38	1.86	0.62	0.33	1.33	-0.56	-0.65	1.52	2.62	0.93
30 Yr Low	-8.57	-10.99	-12.51	-8.80	-8.20	-8.60	-7.90	-14.58	-11.00	-16.94	-8.01	-9.18
2025	2.70	-1.42	-5.75	-0.76	6.15	4.96	2.17	1.91	3.53			

Source: Bloomberg, UOB Private Bank

In summary, with no major negative planned event (like a Liberation Day) in the horizon, the Fed in an easing cycle, and historical precedence for the best returns slated for the next 6 months, we upgrade equities to Overweight. We recommend looking into other large caps (Next 20 largest stocks) and global equities like China.

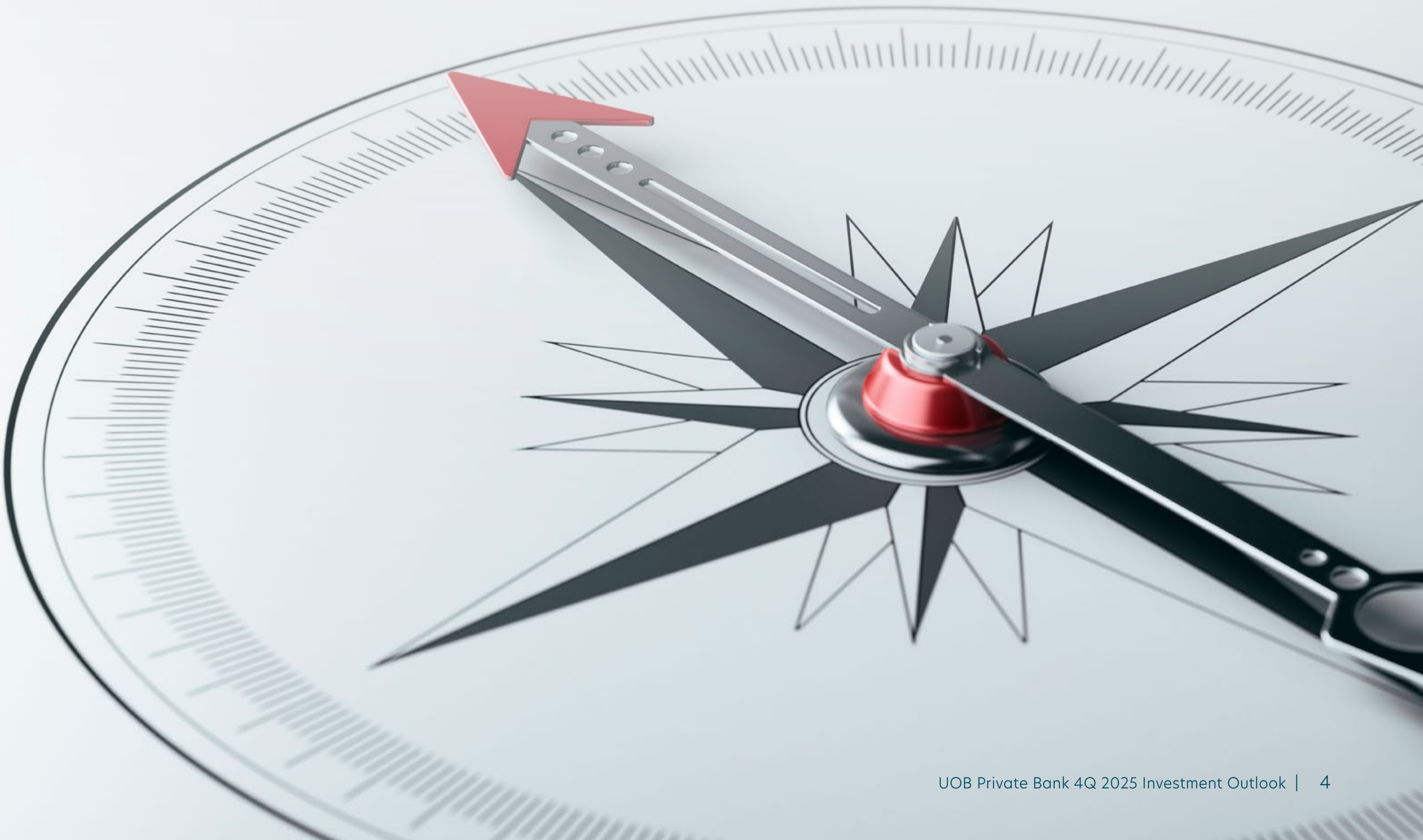
Existing positions in US megacaps remain justified, but initiating new exposure offers a less compelling risk-reward profile at current levels. Structured products tied to the megacaps remain viable on pullbacks. Fixed income still offers portfolio stability, but investors should be mindful of low spreads. Alternatives like private assets confer diversification benefits. Gold remains essential, though its near-term reward to risk may be less favourable with higher speculative behaviour.

Stay positioned in quality growth and resilient dividend stocks. Accumulating on dips should deliver good returns over the next 6-12 months. The best season is here – those who prepare now should reap the rewards ahead.

S&P 500 performance after 5 months of gains

Streak end date	Streak Gain	3m Return	6m Return	12m Return
Ongoing	18.7%			
Aug-2024	7.5%	6.8%	5.4%	14.4%
Aug-2021	13.8%	1.0%	-3.3%	-12.6%
Aug-2020	35.4%	3.5%	8.9%	29.2%
Jan-2018	14.3%	-6.2%	-0.3%	-4.2%
May-2013	8.9%	0.1%	10.7%	15.5%
Mar-2012	13.0%	-3.3%	2.3%	11.4%
Feb-2011	16.3%	1.4%	-8.2%	2.9%
Aug-2009	27.9%	7.4%	8.2%	2.8%
Average	17.3%	1.3%	2.9%	7.4%

Source: Bloomberg, UOB Private Bank



The unfolding AI arms race

The global race to dominate Artificial Intelligence (AI) is increasingly shaped by supply chain vulnerabilities and geopolitical tensions although the current focus is on technological breakthroughs. The AI ecosystem is built on a highly specialised, multi-layered infrastructure where a few firms control critical stages such as chip design, memory, and lithography. These chokepoints offer near-term pricing power and investment upside but also expose the ecosystem to disruption.

As the US and China pursue individual strategies for domination, the AI landscape is fragmenting into two parallel ecosystems. The US focuses on leading edge design and efficiency, while China leverages scale, energy cost advantages, and relaxed data regulations. Export controls have slowed China's progress but also accelerated its push for self-reliance. Despite being behind in key areas like lithography, Chinese firms are rapidly closing the gap, especially in chip design and packaging.

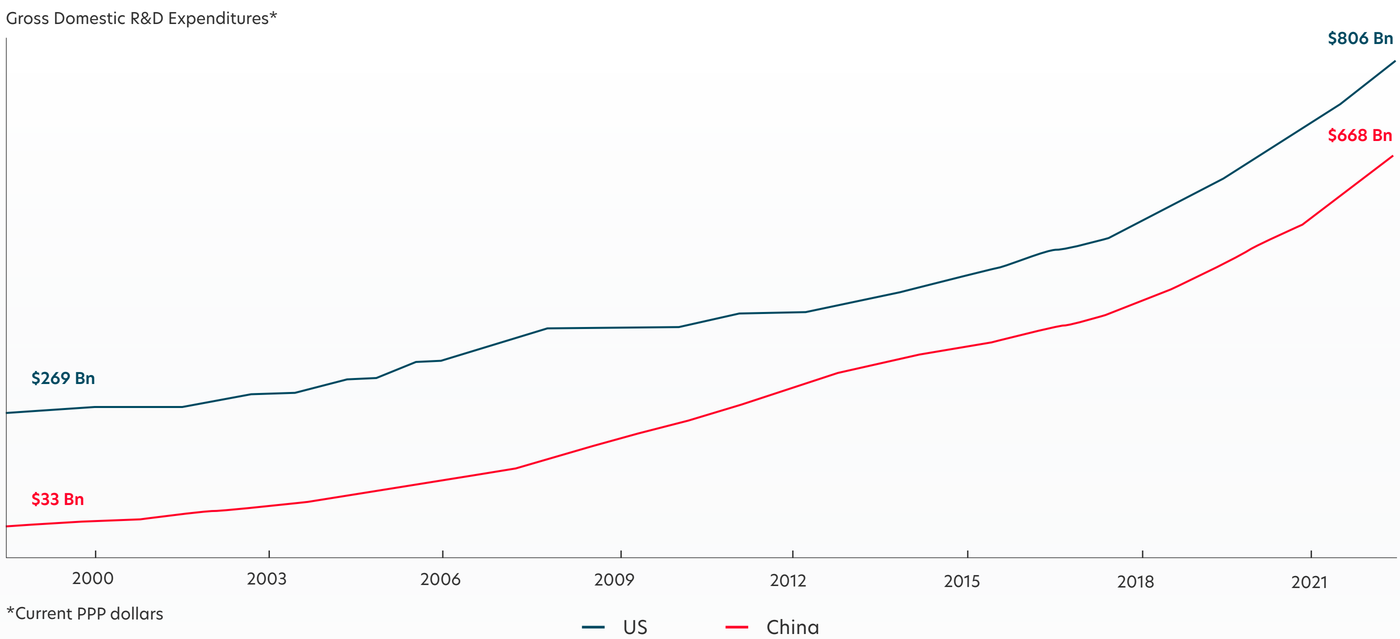
Meanwhile, policy responses keep evolving. The US is shifting from restrictive measures to strategic engagement, allowing limited exports to maintain influence. China, in turn, is consolidating its efforts around national champions to build a vertically integrated tech stack.

Historical precedents learnt from Japan (Very Large Scale Integration project, 1976) and the US (SEMATECH, 1987) suggest that coordinated nationally driven policies can accelerate progress.

For investors, there are opportunities in bottleneck segments such as advanced memory, chip design and fabrication, and lithography. However, these areas are cyclical and potentially sensitive to cycles. We expect profits to be concentrated upstream, while downstream applications that use AI flourish but with potentially lower, commoditised margins. Firms that straddle selling to both the US and China may face long-term pressure as decoupling erodes their scale advantages.

We think that there is no need to choose exclusively as there are opportunities in both US and China. This strategy also hedges against geopolitical shocks. While short-term correlations may diverge, long-term trends should remain upward. Ultimately, the AI race resembles the Internet era: uncertain in payoff, but strategically vital, with winners concentrated around companies with scale and hard-to-replicate products and services.

Both the US and China are spending a lot on R&D



*Current PPP dollars

Source: Alpine Macro, National Science Board Indicatores, OECD, MSTI

Where does the Federal Reserve go from here?

The Federal Reserve (Fed)'s rarely discussed third mandate, moderate long-term interest rates, is back in the spotlight. Stephen Miran, a newly appointed Fed governor by Donald Trump, raised it during the recent September FOMC meeting and his Senate confirmation. This is seen as a challenge to the long-standing view that this goal is a byproduct of price stability and full employment. Of course, we know this is topical with high federal debt (~USD 37.5 trillion), making lower long-term rates politically attractive. Powell strongly pushed back on this and stressed that the Fed will not treat it as an independent policy goal.

However, Chair Powell's term ends in May 2026 and if the Fed actively targets long-term rates, markets could see a de facto yield curve control (YCC) or renewed large-scale asset purchases. This would:

- **Compress long-term yields:** This lowers mortgage and corporate borrowing costs.
- **Support risk assets** (equities, real estate) by reducing discount rates.
- **Weaken the dollar:** This can boost exports competitiveness but potentially stokes inflation.
- **Distort bond market pricing:** This raises concerns about Fed independence.
- **Favour long-duration assets** (long bonds, growth stocks) while hurting short-volatility strategies.

However, such a move risks financial repression, where savers earn below-inflation returns, and inflation expectations are anchored higher if market participants perceive it as debt monetisation.

If Miran's view gains traction, we can expect a bullish flattener trade (long 30Y, short 2Y), continued inflows into growth equities, and gold strength as real yields compress. However, there are risks for this approach:

- **Credibility risk:** If investors think the Fed is prioritising low long-term rates over inflation control, they may doubt the Fed's commitment to price stability. Inflation expectations could be unanchored, which ultimately feeds through into an inflation spike.
- **TIPS volatility:** "Breakevens" are the difference between nominal Treasury yields and TIPS yields, a proxy for expected inflation rate. If credibility erodes, breakevens can swing sharply as markets reprice inflation risk. For TIPS holders, there is potential near-term upside if inflation expectations rise on credibility concerns regarding the Fed. However, this could reverse violently if the Fed confirms that it will ignore its third mandate as a standalone policy.
- **Term premium:** This is the extra yield investors demand for holding long-term bonds instead of rolling short-term ones. If the Fed intervenes heavily in long-term rates, term premiums can become volatile—either collapsing (due to Fed buying) or spiking (if markets fear inflation or fiscal dominance). Long-duration bond holders could experience a less stable portfolio.

In summary, we do not believe the Fed will be targeting long-term interest rates as a separate policy tool. Our analysis of the current front runners for Fed Chairman shows that Christopher Waller, Kevin Warsh and Kevin Hassett do not construe their views for targeting long-term interest rates as an independent policy.

Powell vs. Miran: The policy divide

Issue	Powell	Miran
Third Mandate Role	Passive outcome of dual mandate	Active policy goal
Policy Tools	Short-term rates, QT	Possible YCC, QE to cap long yields
Risk View	Inflation control paramount	Growth and debt sustainability priority
Market Signal	No change in framework	Openness to structural shift

Source: UOB Private Bank

Portfolio Strategy

Asset class summary for 4Q 2025

Asset Classes	U/W	N	O/W	Comments
Equities		○ →	●	**Upgrade to Overweight from Neutral. Position for favourable seasonality effects in the next six months. Use dips to accumulate quality stocks.**
United States			●	Stay Overweight. Diversify from Mag7 to "Next 20" in market cap. within the S&P 500 and other regions to mitigate concentration risks.
Europe		●		Remain Neutral with an eye for selected thematic stocks. Stick to winners riding on government policy tailwinds.
Japan		●		Stay Neutral. Prefer companies with strong IP/brands. Rotate into exporters near term amid a weaker yen. Buy banks as prices stabilise.
EM Asia			●	Remain Overweight. Prefer resilient dividend stocks coupled with secular growth plays like China tech/AI.
Fixed Income		●		**Remain Neutral given asymmetric risk-reward with immensely tight credit spreads. Stick to an average duration of 4-5 years.**
DM IG			●	Remain Overweight. Prefer quality bonds from defensive sectors amid tariff uncertainty.
DM HY	●			Remain Underweight. Risk-reward is asymmetric; credit spread widening is a key risk to watch out for.
EM IG			●	Remain Overweight. Prefer Asian financials, select Asia-focused insurers, quasi-sovereigns/strategic SOEs, and consumer names.
EM HY		●		Remain Neutral. Selectivity is key in avoiding credit pitfalls.
Alternatives			●	**Remain Overweight as less correlated alternatives offer diversification benefits.**
Hedge Funds			●	Remain Overweight. Selected hedge funds can outperform the public markets.
Private Markets		●		Remain Neutral. Selected private-market funds have well-established track records.
Crude Oil		●		Remain Neutral. Crude oil prices are expected to settle in a range between USD 60-80/bbl with risks skewed to the downside.
Base Metals	●			Remain Underweight. Copper price strength is inconsistent with weak US and Chinese manufacturing PMIs.
Precious Metals			●	Remain Overweight. Gold can thrive on safe-haven demand, weak USD amid Fed rate-cut expectations, and China's strong buying momentum.
Money Market		●		**Remain Neutral with an eye for fresh capital deployment on technical pullbacks.**

Underweight | Neutral | Overweight | ● Current quarter's position | ○ Previous quarter's position

Notes:

- The asset class summary above is based on a "Balanced" risk profile (See next page).
- In the headers, "U/W" represents "Underweight", "N" represents "Neutral", and "O/W" represents "Overweight".
- Each black dot indicates current quarter's position. If any, each clear dot indicates previous quarter's position.

Asset allocation for 4Q 2025

Upgrade equities to Overweight from Neutral; Position for favourable seasonality effects in the next six months

Asset Classes	Very Conservative (%)		Conservative (%)		Balanced (%)		Growth (%)		Aggressive (%)		Comments
	Now	Chg.	Now	Chg.	Now	Chg.	Now	Chg.	Now	Chg.	
Equities			**30.3**	▲ 5.0	**50.0**	▲ 5.0	**65.0**	▲ 5.0	**75.0**	▲ 5.0	
United States			19.2	▲ 3.2	32.0	▲ 3.2	41.6	▲ 3.2	48.0	▲ 3.2	
Europe			4.5	▲ 0.8	7.5	▲ 0.8	9.8	▲ 0.8	11.3	▲ 0.8	
Japan			1.8	▲ 0.3	3.0	▲ 0.3	3.9	▲ 0.3	4.5	▲ 0.3	
EM Asia			4.5	▲ 0.8	7.5	▲ 0.8	9.0	▲ 0.8	11.3	▲ 0.8	
Fixed Income	**90.0**		**65.0**	▲ 5.0	**30.0**	▼ -5.0	**10.0**				
DM IG	45.0		27.6	▲ 2.1	12.8	▼ -2.1	4.3				
DM HY			4.9	▲ 0.4	2.3	▼ -0.4	0.8				Avg. duration: 4 to 5 years
EM IG	45.0		26.0	▲ 2.0	12.0	▼ -2.0	4.0				
EM HY			6.5	▲ 0.5	3.0	▼ -0.5	1.0				
Alternatives				▼ -10.0*	**15.0**		**20.0**		**20.0**		
Money Market	**10.0**		**5.0**		**5.0**		**5.0**	▼ -5.0	**5.0**	▼ -5.0	

Notes:

- "Chg." means changes in asset allocation relative to last quarter. If any, these changes will be reflected accordingly (plus weighting in green, minus weighting in red).
- Figures might not add up due to rounding off to 1 decimal place.
- For portfolios under the "Conservative" risk profile, a one-time allocation of -10.0%* from Alternatives has been implemented, in alignment with our bank-wide risk budget framework.

Our View of the World

Economy

- Despite the sharp rise in US tariffs, global GDP growth in 1H 2025 - particularly in the US and Asia - surpassed expectations, driven by a temporary tariff pause that boosted exports and manufacturing, alongside resilient domestic business activity.
- We have raised our US GDP growth forecast for 2025 to 1.7% (up from 1.0%), reflecting improved tariff conditions and a more optimistic investment outlook, while maintaining a cautious stance on the labour market.
- We reiterate our forecast for China's GDP growth at 4.9% in 2025 with the trade truce providing some near-term support for growth.

Monetary Policies

- The Federal Reserve has begun its rate-cutting cycle, exhibiting a dovish bias relative to other G-10 central banks that are nearing the end of their easing paths. We continue to expect two more rate cuts (October and December) in 2025.
- Although we expect the BOJ to remain on its tightening path, we see no immediate risk of a rate hike at the October Monetary Policy Meeting (MPM) and continue to anticipate a 25bps raise to 0.75% at the December meeting.
- For most Asian economies, there remains meaningful scope to cut rates, given still-elevated real policy rates as well as the need to stimulate demand.

Prices

- Global disinflation is on track, except in the US, on the back of softer demand, stronger local currencies and declining commodity prices.
- For the US, we continue to assume the tariff-driven inflation to be a one-time spike in prices before coming off sometime next year.
- In Asia, slowing growth will continue to exert downward pressure on inflation. In China, deflation remains a key threat.

Asset Allocation

- Upgrade equities to Overweight (from Neutral) to position for favourable seasonality effects in the next six months. Stay Overweight on US and recommend to diversify from Mag7 to "Next 20" in market cap. Remain Overweight on EM Asia and prefer resilient dividend stocks coupled with secular growth plays.
- Remain Neutral on Fixed Income given asymmetric risk-reward with immensely tight spreads. Investment-grade credits continue to act as effective portfolio stabilisers.
- Stay Overweight on the less correlated alternatives given their respectable risk-reward as well as diversification benefits. Continue to advocate an allocation to Gold on the back of safe-haven demand, weak USD and China's strong buying momentum.

Macro Trends

China’s Anti-Involution: A turning point for profits?

A significant policy shift to combat “profitless growth”

China has initiated a major policy move, termed "Anti-Involution", to fight the "profitless growth" that has plagued its private sector. "Involution" refers to a cycle of overcapacity, intense price wars, and disinflation that has eroded margins and suppressed corporate earnings for years.

So far, the Chinese government has launched a series of measures aimed at curbing excessive competition, rationalising supply, and fostering healthier, more sustainable growth.

While the near-term policy impact may be gradual and uneven, this campaign represents a potentially significant long-term catalyst for corporate profit. For investors, this signals a pivotal moment, as Chinese companies shift their focus from sheer production volume to growing profitably.

The problem of “Involution”

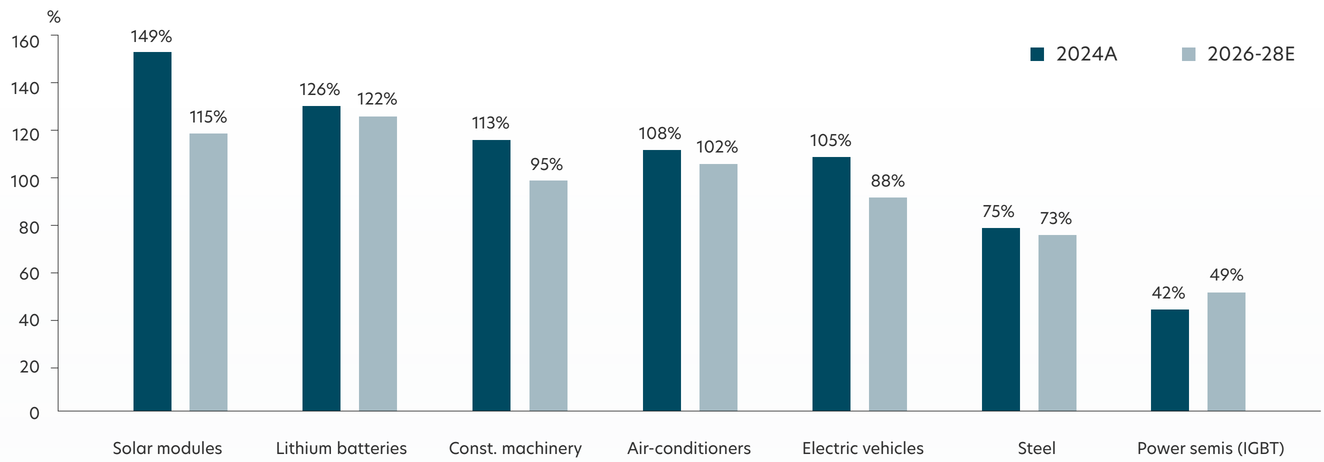
For the past decade, the earnings of Chinese listed firms have trailed both nominal GDP and revenue growth, a clear sign of "profitless growth“ due to stiff competition, overcapacity, vicious price wars and margin erosion.

Sectors most affected by this phenomenon include Solar, Batteries, Chemicals, and Cement, which now represent the core targets of the new policy direction. These sectors appear attractively priced and could benefit from policy tailwinds.

A decisive "Anti-Involution" policy response

The term "Anti-Involution" was officially introduced at the July 2024 Politburo meeting, signalling a top-down commitment to resolving this structural issue. The implicit government policy objective is to ensure that companies do not go bankrupt from the vicious price wars, which have huge complications for the broader local employment situation and social stability.

China’s industry capacity as % of global demand



Source: Company data, Goldman Sachs Global Investment Research

Over 50 supply-focused, competition-oriented actions have already been taken across 16 industries. These measures include encouraging industry self-discipline, promoting consolidation and curbing predatory pricing. Overall, this marks a clear pivot from the previous focus on growth at all costs towards a more balanced and profitable economic model.

Potential for significant earnings uplift

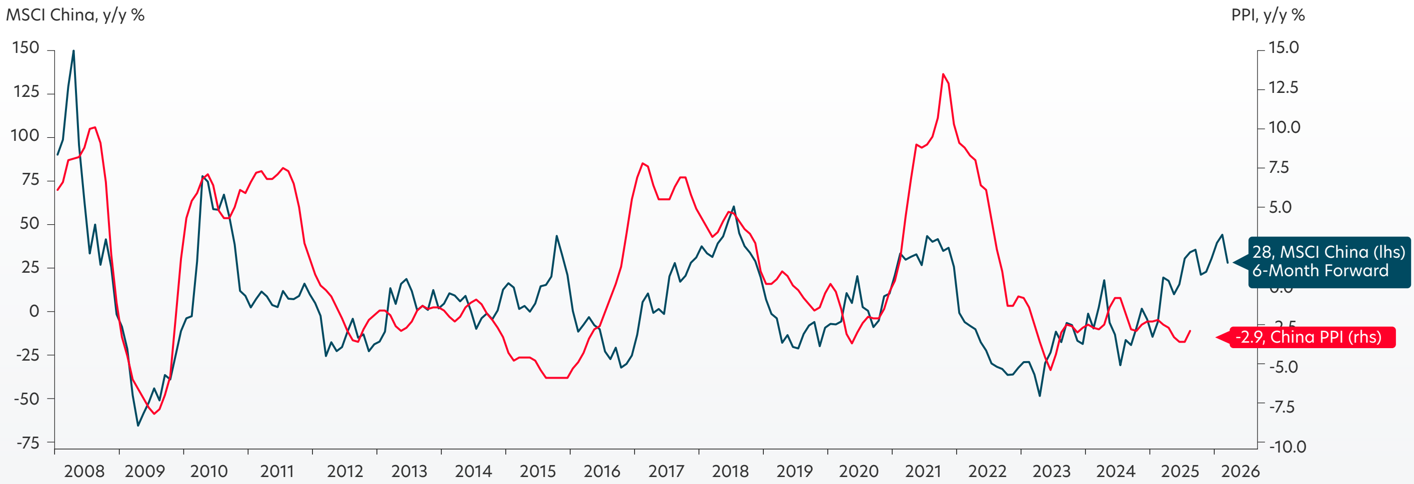
The main goal of the "Anti-Involution" campaign is to reflate producer prices (PPI). Based on Goldman Sachs Research, a 1% increase in PPI could drive a 2% rise in profit growth. If done right, these policies could lead to a strong earnings recovery in the hardest-hit sectors.

Investment implications

The "Anti-Involution" campaign is a structural reform that could materially improve the long-term investment case for Chinese equities. While we remain watchful of execution risks and the cautious pace of demand-side stimulus, the direction of travel is clear and positive.

Investors should look for companies which are strategically well-positioned to benefit from industry consolidation and improved pricing power. Large, dominant players with higher-quality, profitable growth are likely to be the primary beneficiaries.

China's PPI growth is highly and positively correlated with MSCI China returns



Source: Bloomberg, UOB Private Bank

Quantum computing: Momentum is intensifying

The next big leap in technology

Imagine a computer so powerful it could design new medicines in days, revolutionise financial modelling, and even help tackle climate change. This is the promise of quantum computing — a new way of processing information using the principles of quantum physics.

It is particularly suited for highly complex, multi-variable problems beyond the reach of today's supercomputers.

Why it matters

First, quantum computing has transformative potential. Quantum computers could handle problems today's most powerful machines cannot solve — from simulating molecules for drug discovery to optimising global supply chains.

Second, it is a trillion-dollar opportunity. By 2035, quantum technologies could generate USD 1-2 trillion in annual business value, especially in finance, chemicals, life sciences, and mobility.

Third, there is strong government and private-sector push behind quantum computing's momentum.
The US, Europe, China, and others have pledged over USD 40 billion to advance the field. Tech leaders like Alphabet, Microsoft, and IBM are also racing to develop commercially viable systems.

Examples of early applications

- **Healthcare & Pharma:** Faster drug development and discovery of new treatments.
- **Finance:** Sharper risk analysis, fraud detection, and portfolio optimisation.
- **Mobility & Logistics:** Optimising traffic flows, delivery routes, and fleet management.
- **Cybersecurity:** New forms of encryption will be needed as quantum advances could eventually break today's codes.

The road ahead

Quantum computing is still in its early innings. Fully reliable, large-scale machines may not arrive until the 2030s, but smaller-scale applications and cloud-based quantum services are already emerging. Like Artificial Intelligence (AI) a decade ago, the field is moving from research labs into real-world use cases.

Investment implications

Venture-capital stage funding volatility reflects uncertainty about commercialisation timelines and chronic talent shortage limits near-term development capacity. However, quantum is a long-term opportunity that could potentially redefine entire industries, akin to investing in semiconductors or AI at an early stage.

For investors, exposure today is like a strategic, very long-dated call option on the next computing revolution. A small, satellite allocation in this theme could offer asymmetric upside if breakthroughs come faster than expected. Investors could consider gaining exposure via large tech firms integrating quantum with AI and cloud services, venture-capital funds focusing on start-ups which develop hardware and software platforms, as well as related areas such as cybersecurity, semiconductors, and advanced materials.

90% Early adopters could capture as much as 90% of the value that quantum creates for industries.

Industries preparing for quantum applications

Finance
Portfolio optimisation, risk analysis and fraud detection

Healthcare
Drug discovery, molecule simulation, data analysis

Industrials
Material science, supply chain optimisation

Energy
Efficiency of exploration and power systems

Communication
Quantum networks and bandwidth utilisation

Data centre
Accelerate machine learning and data analysis

Cryptography
Disrupt and protect encryption standards

Source: McKinsey & Company (2024), Quantum Technology Monitor. IBM Quantum Solutions, Accessed May 2025. BCG, Quantum Computing Is Becoming Business Ready, 2023.

Equities

United States

Stay invested but diversify to lower concentration risks

While history suggests seasonal market volatility in the third quarter, the S&P 500 continued to rally more than 5% from the start of July to end-September. This strong performance was led primarily by selected tech names, US homebuilders and utilities stocks on the back of positive idiosyncratic developments, expectations for lower borrowing costs and surging electricity demand from AI and data centres.

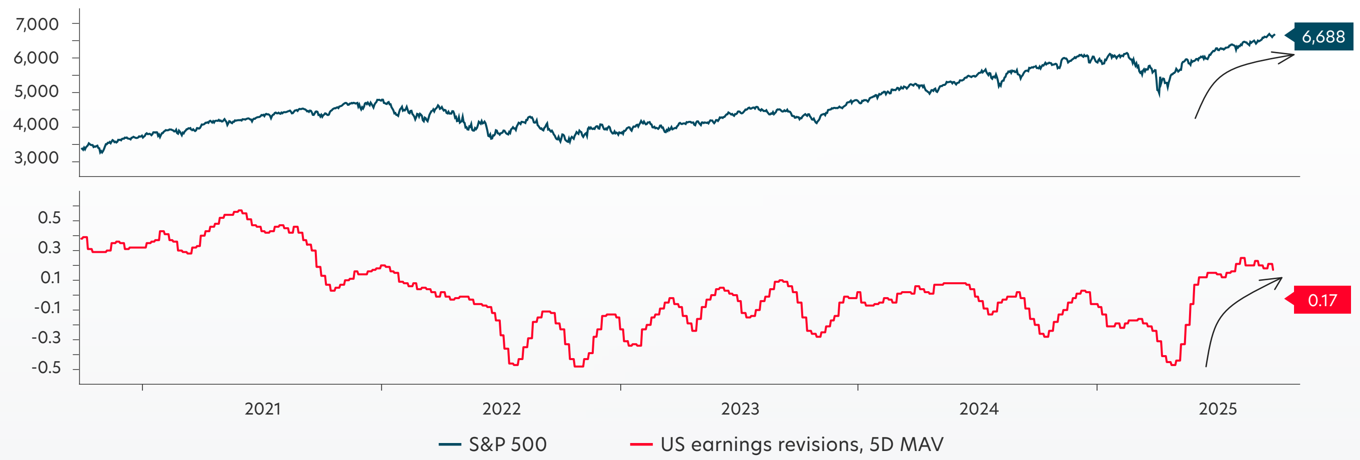
Looking ahead, we expect lower US interest rates to support the equity valuations. The outlook for corporate earnings growth remains cautiously optimistic, with strong fundamentals tempered by macroeconomic and policy uncertainties as well as labour market challenges.

With markets having front-loaded the pricing of Fed rate cuts (i.e., four 25bps cuts priced in till end-October 2026 as at writing) relative to a conservative median Fed Dot plot, market pullbacks can be expected if GDP growth surprises on the upside or if the Fed rate-cut expectations are pared aggressively. Investors should diversify accordingly.

Steady growth with underlying inflation in check

We upgrade US real GDP growth to 1.7% y/y in 2025 (from 1% previously). Our base case for no US recession remains. While there are nascent signs of labour market weakness, the August jobs report showed that net hiring picked up in leisure and hospitality and personal services. These sectors do not flourish in a recession. Unemployment rate is expected to edge higher to 4.5% by end-2025, but this could be attributed to a higher number of people joining the labour force. Finally, we expect the US tariff impact to manifest as a one-off spike in prices before easing sometime next year.

Figure 1: Earnings revisions have helped drive S&P500 to a record



Source: Bloomberg, UOB Private Bank

Reaffirming two 25bps Fed rate cuts for rest of 2025

We reiterate our view of two 25bps rate cuts for the rest of 2025, each in the October and December FOMC meetings respectively. This is mainly driven by downside risks to growth and employment. This will bring the Fed Funds Target rate (FFTR) to 3.75% (upper bound) by end-2025.

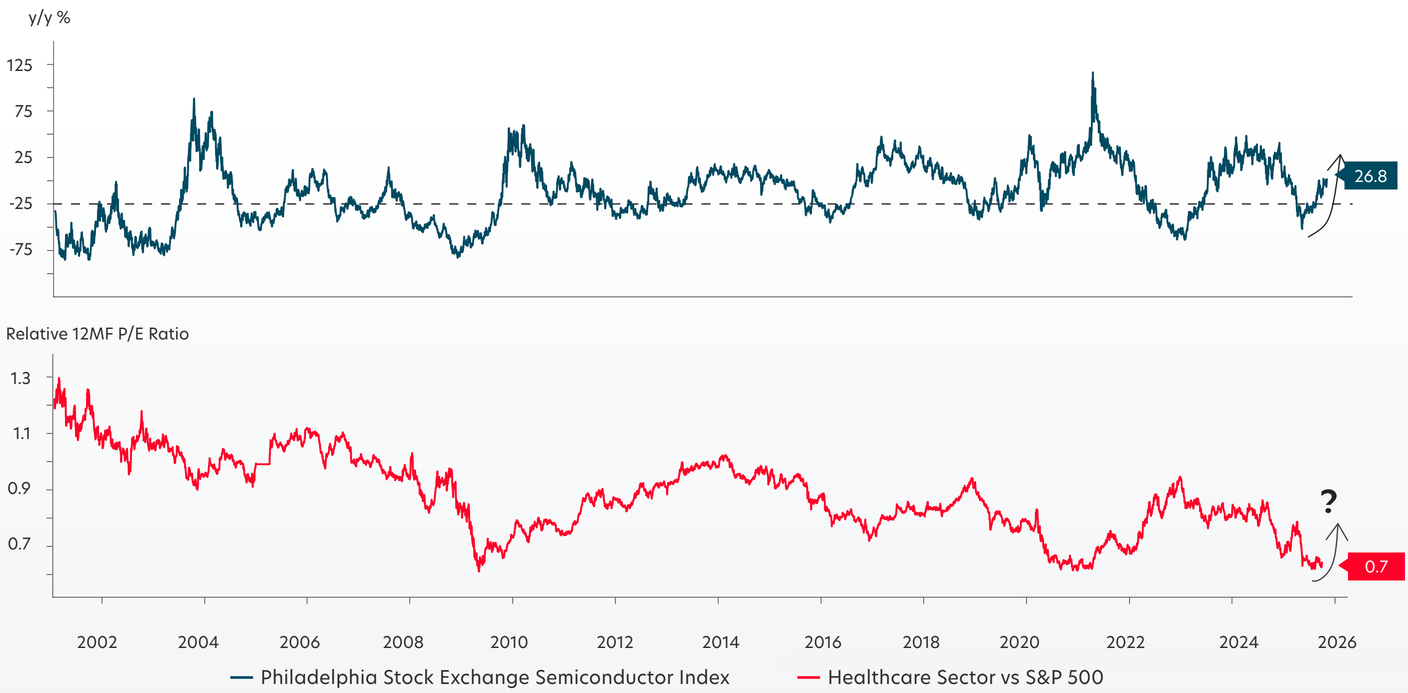
Diversification and security selection is key

Previously, we noted that downside risks to earnings are limited and that premium equity valuations (i.e., 12MF P/E of ~23x) are justifiable given strong earnings visibility and AI-led productivity gains. This holds true and is consistent with an improvement in S&P 500's blended 12MF EPS growth to 10+% y/y (from high-single digit) as at writing. With Mag7 having led the charge as anticipated, we emphasise diversification and security selection especially as earnings breadth broadens and as analyst sentiments largely improve.

Investment takeaways and recommendations

While we continue to favour quality AI/growth stocks, investors should be mindful of elevated valuations and/or a loss in momentum in selected names. Investors could consider diversifying some exposure from Mag7 into the "Next20" in market cap within the S&P 500. For semiconductors, investors should look to buy the dips on technical pullbacks against the broader backdrop of an up-cycle. Finally, the Healthcare sector looks to be consolidating before a cyclical bottom is established. Overall, investors who are concerned about overextended positioning could consider defensive exposure via structured products.

Figure 2: Semis still in an up-cycle, Healthcare awaiting a catalyst



Source: Bloomberg, UOB Private Bank

CIO's recommendation

We remain Overweight on the US equities. While we continue to favour quality AI/growth stocks, investors should be mindful of elevated valuations and/or a loss in momentum in selected names. Investors should diversify some exposure into the "Next20" after Mag7 within S&P 500. For semiconductors, investors should look to buy on technical pullbacks. Overall, investors could consider gaining defensive exposure via structured products.

Europe

Stick to winners riding on government policy tailwinds

European banks continued to lead the way in 3Q 2025, driven by a winning combination of net interest income, trading profits, cost discipline, capital returns and credit quality. With themes of stability and income generation featuring prominently among investors, Financials with high high-dividend have benefitted from the fund inflows. Meanwhile, defence names took a breather following robust gains through 1H 2025.

Looking ahead, European equities will continue to face a low-growth, low innovation backdrop. Yet, the Eurozone economy should stay resilient on expansionary fiscal policy and signs of growth in domestic demand. Notably, Germany appears to be emerging from its recession. In a similar vein, Euro Stoxx 600's earnings growth has likely found a bottom in 3Q 2025 with valuations staying reasonable at ~15x 12MF P/E. Investors should stay focused on the winners — defence, banks and fiscal capex beneficiaries.

Resilient growth but downside risks persist

The Euro area real GDP is expected to register 1.1% y/y growth in 2025, with resilience helped by increased fiscal stimulus, aggressive interest rate cuts as well as improving business and consumer confidence amid the rising prospect of a truce in the Russia-Ukraine war. While a deeper trade conflict with the US has been averted, lingering policy uncertainty, rising costs for European exporters and weakening external demand suggest growth may remain subdued. Meanwhile, Eurozone's core inflation reading was unchanged from the previous month at 2.3%, confirming a stable inflation climate. Yet, services inflation stickiness is still a concern for the European Central Bank (ECB) because it most directly reflects domestic cost pressures.

Figure 1: Stick to the winning themes

Source: Bloomberg, UOB Private Bank

Incremental monetary and fiscal policy loosening

Unsurprisingly, the ECB has been reiterating its data-dependent approach. While the ECB sees a resilient Eurozone economy, the risks to growth outlook are skewed to the downside. We expect the ECB to cut its policy rate in 4Q 2025, taking it to 1.65% as it approaches the end of its ongoing rate-cut cycle. Meanwhile, Germany's near-term spending boost in infrastructure, security and defence in 2025 and 2026 bodes well for the industrial and defence sectors.

Continued EURUSD appreciation to aid performance

The Euro Stoxx 600 (+13.3%) trailed slightly behind the S&P 500 (+14.8%) in local-currency total returns YTD, as of 30 September. However, European equities have beaten the US market by more than 13% due to dollar weakness.

Set against a backdrop of softening US labour market, widening EURUSD interest rate differential and de-dollarisation concerns, we expect EURUSD to edge higher over the next few quarters. This suggests that European equities could be supported by currency tailwinds amid undemanding valuations.

Investment takeaways and recommendations

We reiterate our preference for European banks, including those in peripheral regions like Spain and Italy. We expect Financials' outperformance to persist on the back of a steepening yield curve, dividend/share buyback upside and rising return on equity. Meanwhile, selected industrial and defence names should continue to benefit from Europe's fiscal reforms, especially in Germany, following the consolidation phase in 3Q 2025.

Figure 2: Earnings are gradually recovering alongside a PMI rebound

Source: Bloomberg, UOB Private Bank

CIO's recommendation

We stay Neutral on European equities against a backdrop of tepid growth outlook. Investors should remain focused on selected opportunities in banks, industrials and defence stocks amid expectations for incremental monetary and fiscal policy loosening. Continued EURUSD appreciation could provide currency tailwinds.

Japan

Favour exporters near term amid a weakening yen

3Q 2025 saw the Japanese equities outperform the S&P 500 in both local-currency and US dollar terms. Both the Nikkei 225 and TOPIX indices climbed more than 14% in local-currency terms from the start of July to end-September, driven by optimism around Japan's real wage growth and corporate reforms. A stabilising/ slightly weaker yen also helped boost the investor sentiment against a backdrop of improving global risk appetite.

Looking ahead, Japanese equities will face a mixed growth backdrop. Sluggish external demand from China and Europe as well as soft domestic spending pose as downside risks to growth. Having said that, Japan's trade agreement with President Trump on 22 July saw reciprocal tariffs lowered to 15% from 25% previously. Strong tourist arrivals and tourism-related services have supported the domestic growth outlook. Accelerated investments in semiconductor technology should translate to higher investment spending in 2H 2025 and into 2026. Finally, higher government aid to households and smaller firms, as well as higher defence spending, should help to cushion against external headwinds and any domestic consumption slowdown.

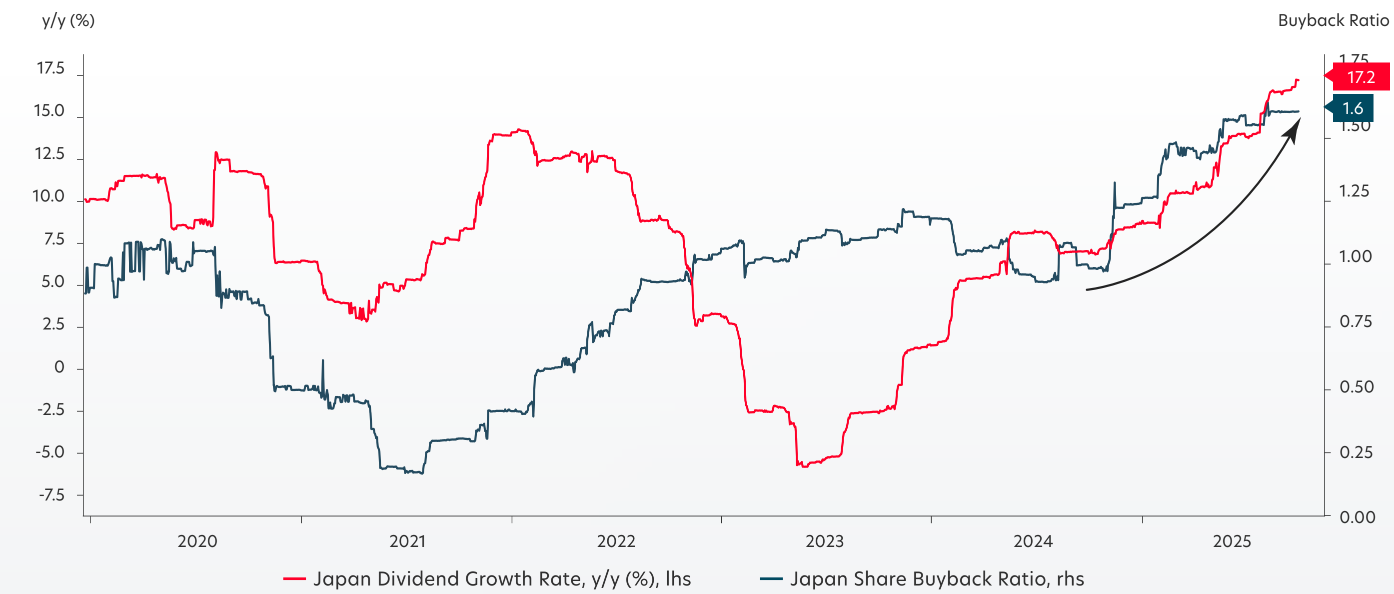
Lower downside risks to growth with female PM's win

Japan is expected to register 1.2% y/y in real GDP growth for 2025 amid stronger growth outturn in 1H 2025. While there are some downside risks to growth given BOJ tightening and potential US tariff impact, these risks look to be mitigated by expansionary fiscal and more accommodative monetary policies which Japan's incoming female PM, Sanae Takaichi, leans toward.

Near-term JPY weakness with BOJ's rate hike delayed

Despite the US-Japan trade deal, uncertainties over US tariff policies still loom large. BOJ Governor Ueda signalled the tariff impact still needs to be assessed in 2H 2025 this year given the risks to BOJ's outlook for both growth and inflation. While the BOJ is expected to stay on the rate-tightening path, the BOJ could delay its policy rate hikes. Japan's incoming female PM Takaichi supports continued monetary accommodation and aims to achieve demand-led inflation backed by real wage growth. Looking ahead, JPY could see renewed weakness in the near term (i.e., over the next 3 months). Further out, USDJPY is still likely to depreciate towards 140 by 2Q 2026 amid a falling USD-JPY rate spread.

Figure 1: Dividends and buybacks have grown over last two years



Source: Bloomberg, UOB Private Bank

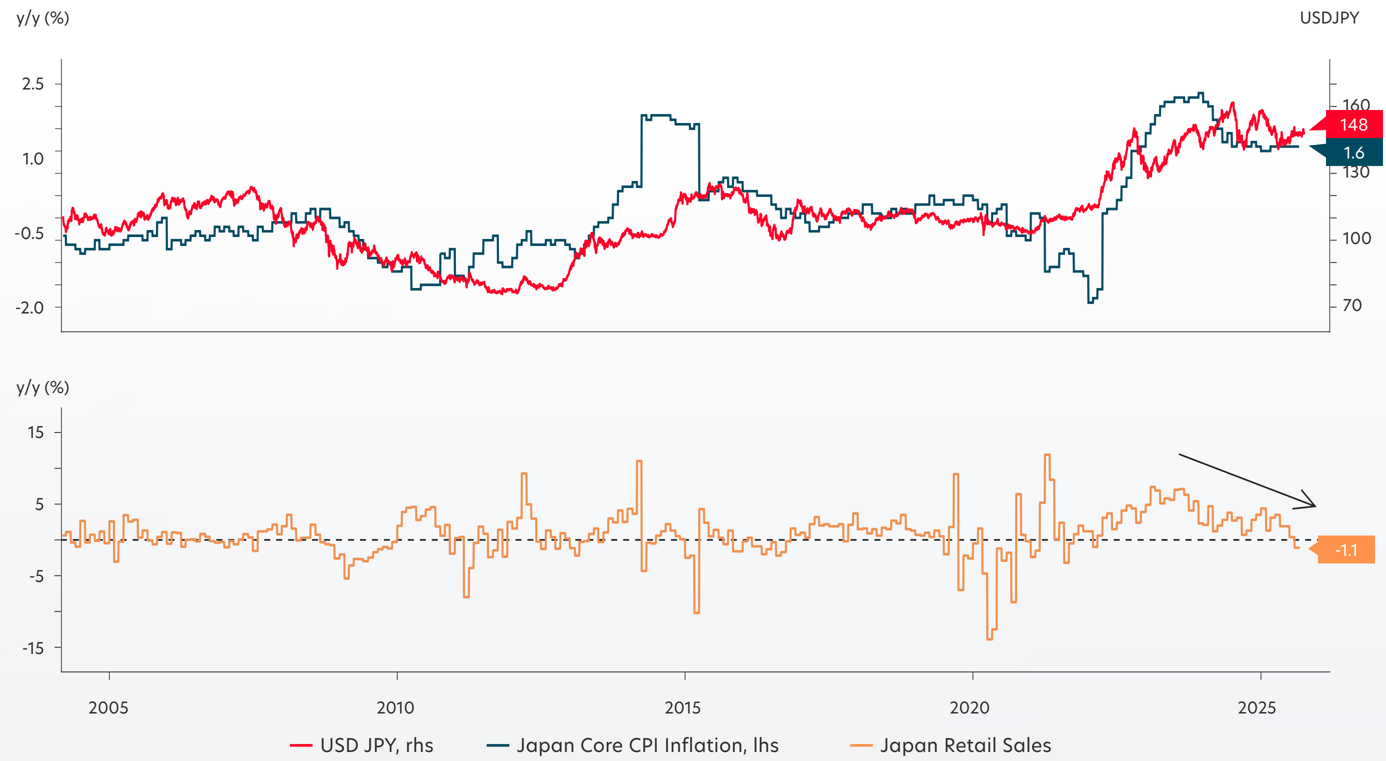
Earnings growth to do heavy lifting after solid rerating

TOPIX's earnings (EPS) growth has likely bottomed in 3Q 2025. Following a strong re-rating to ~16x 12MF P/E, positive earnings revisions will have to do the heavy lifting from here. We expect earnings momentum to be led by nuclear and defence industrials, firms with strong IP/brands, tech stocks and exporters (in the near term).

Investment takeaways and recommendations

We continue to like quality companies with strong IP/brands, selected tech stocks as well as corporate-reform beneficiaries. Against a backdrop of renewed yen weakness in the near term, exports-oriented stocks will benefit from the currency tailwinds. Given the new female PM's fiscal policy inclinations and structural growth trends, investors should also consider gaining exposure into nuclear and defence industrials. Finally, on Japanese banks, investors could consider buying on the dip after share prices have stabilised and as the 10Y-2Y Japan government bond (JGB) yield curve re-steepens. Overall, security selection remains key.

Figure 2: Japan's inflation is kept in check amid softening retail sales



Source: Bloomberg, UOB Private Bank

CIO's recommendation

We remain Neutral on Japan's equities. We reiterate our preference for quality companies with strong IP/brands, selected tech stocks as well as corporate-reform beneficiaries. Exports-oriented stocks could benefit from currency tailwinds amid a weaker yen in the near term. Given the new PM's fiscal policy inclinations, investors should also consider gaining exposure into nuclear and defence industrials. For banks, investors could consider buying on the dip after share prices have stabilised and as the 10Y-2Y JGB yield curve re-steepens.

Emerging Asia

Earnings need to play catch-up amid strong liquidity

Emerging Asia enters 4Q 2025 from a position of mixed momentum, with China showing modest growth resilience but persistent weaknesses in property and consumption. Equities in Taiwan and South Korea ran hotter with AI/tech exports in focus. Parts of ASEAN (i.e., Vietnam, Philippines and Malaysia) are seeing strong FDI or stable growth, while some economies (i.e., Indonesia and Thailand) are navigating currency weakness from monetary policy easing or tourism headwinds. Broadly, external demand is softening for the exports-oriented economies including Singapore, and foreign flows into Asian equities have been volatile.

Chinese stocks are no longer deeply depressed, and weak data raise red flags on growth. Yet, China's lacklustre labour market is a key trigger for further policy easing. While odds of a technical pullback have risen, the Chinese equity rally is far from over given favourable liquidity conditions. Having said that, fundamentals would need to catch up for a sustained upward share price trajectory. Meanwhile, investors should consider gaining exposure on the tech exports-oriented South Korea and Taiwan given their leadership in electronics and semiconductors. India also offers high-growth potential driven by domestic consumption, demographic dividends as well as foreign investment flows.

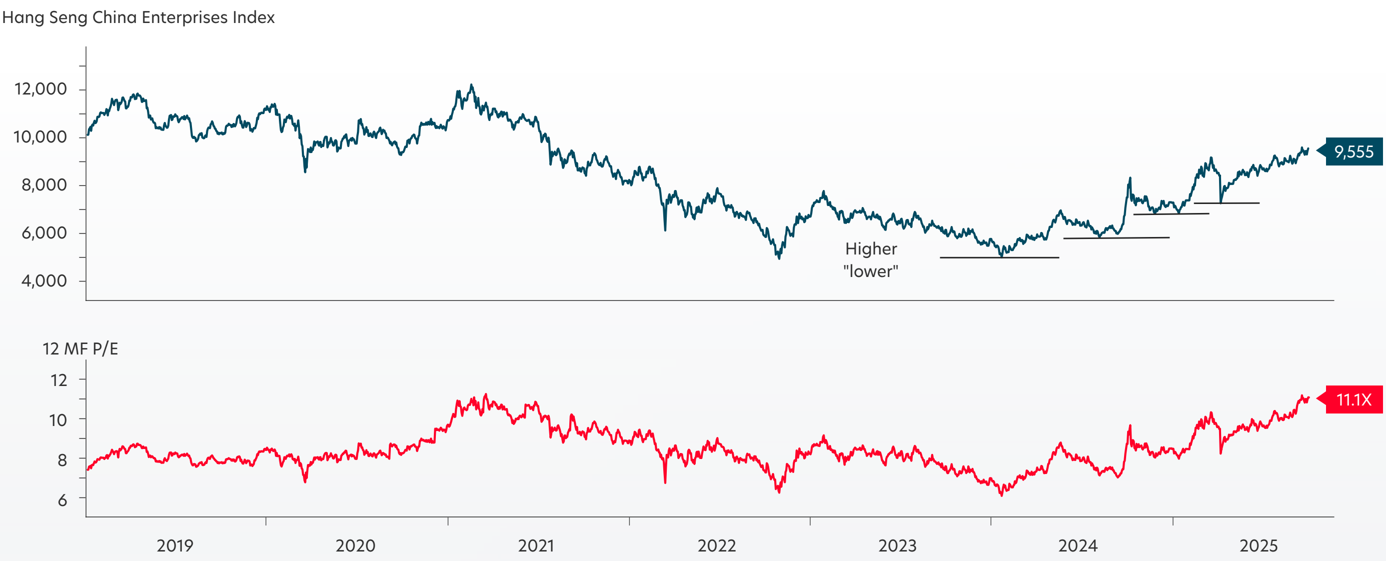
China's growth to slow as export frontloading wanes

China's real GDP growth is expected to moderate to 4.7% y/y and 4.4% y/y in 3Q 2025 and 4Q 2025 respectively. 2025 growth is projected to come in at 4.9%. Global demand may start to ease noticeably with stiffer US tariffs as production and export frontloading wanes.

Broad-based slowdown calls for more policy support

Recent Chinese data point to a more pronounced downturn in domestic demand. New loans collapsed, amid a sharper decline in property sales and real estate investment. Meanwhile, unemployment rate has been rising across the board. On this note, the government's subsidies and trade-in policy for consumer goods remain critical to supporting retail sales. There are growing expectations of stronger policy support, including the involvement of state-owned enterprises and bad debt managers to help clear the housing glut. The "Anti-Involution" policy push is expected to help stabilise industrial profits and ease deflationary pressure in the longer term. Finally, a potential meeting between President Trump and Xi in coming weeks could help stabilise bilateral relations.

Figure 1: A positive technical picture for China H-shares



Source: Bloomberg, UOB Private Bank

Beyond the rerating, fundamentals need to improve

Led by AI and tech optimism, HSCEI's valuation has climbed to ~11x 12MF P/E. Despite the strong rerating in recent months, Chinese equity valuations have remained undemanding relative to regional peers, especially the US. This suggests further scope for HSCEI's multiple to expand. Having said that, 12MF earnings growth for HSCEI constituents has declined, reflecting negative earnings revisions. For a sustained upward share price trajectory, the earnings growth or fundamentals would have to play catch-up.

Investment takeaways and recommendations

We reiterate our preference for resilient Chinese dividend stocks as well as quality AI-related names. Given the recent rally, investors should consider gaining defensive exposure via structured products. Investors should also consider exposure regional equities in South Korea, Taiwan and India given the AI/tech and secular growth tailwinds.

Figure 2: Stick to China Internet; Consider entry via derivatives

Source: Bloomberg, Goldman Sachs, UOB Private Bank

CIO's recommendation

We remain Overweight on Emerging Asia equities. A weaker US dollar and Fed easing may drive more foreign inflows into EM Asia against a backdrop of relatively undemanding valuations. We continue to prefer resilient Chinese dividend stocks as well as quality AI-related names. Investors should also consider broadening exposure to South Korea, Taiwan and India given the AI/tech and secular growth tailwinds.

Fixed Income

Developed Markets Investment-Grade

Sticking with defensive premia

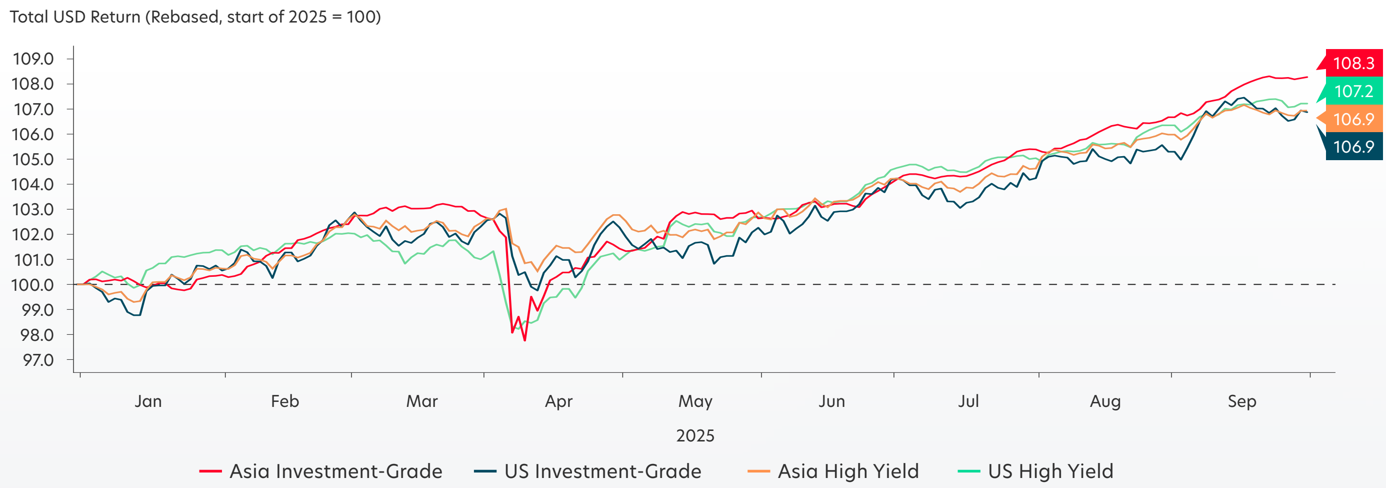
Developed Markets Investment-Grade (DM IG), proxied by the Bloomberg US Corporate Bond Index, delivered a total USD return of +6.9% YTD (as of 29 September 2025). A supportive monetary policy environment driven by the resumption of a Fed rate cut in September as well as credit spread recovery have buttressed total returns this year.

Trump's tariff-as-you-go style of policymaking coupled with concerns over a slowing jobs market and threat of a looming US government shutdown should support diversification demand into quality beta. We think DM IG is well positioned to benefit as a portfolio stabiliser as we are cautious of market bumps ahead over the next 3-6 months. Markets have maintained steepness of the 10-2yr treasury curve at around a ~52bps differential.

We think the Fed will continue to address labour market concerns through policy easing in a gradual manner. The UOB Global Economics & Markets Research team expects rate cuts in October and December of 2025, followed by two cuts in 2026 to reach a 3.25% terminal rate this cycle.

Credit spreads have recovered strongly and are now trading tighter than early-2025 levels. Coupled with still decent treasury yields, this has kept overall IG bond yields at still compelling levels for income investors. We remain overweight DM USG IG for its defensive hedge and added benefit of coupon carry.

Fixed Income year-to-date performances



Source: Bloomberg, UOB Private Bank

CIO's recommendation

Overall, we remain Overweight on DM USD IG. They act as a defensive hedge which comes with still attractive coupon carry.

Developed Markets High Yield

Asymmetric risk-reward; credit spread widening remains a big risk

Developed Markets High Yield (DM HY) experienced a relatively low volatility in the third quarter and compressed ~28bps since quarter-to-date. However, lower quality continue issuers face challenging environment market by high refinancing costs, tariff-related headwinds, and macro uncertainty. As central banks pivot towards easing monetary policy, shorter-term yields still have some room to drop, offering some cushion if spreads widen due to growth shocks.

Although DM GDP Growth in 1H 2025 was stronger than expected, driven by export frontloading ahead of tariffs, growth momentum will likely wean off in 2H 2025 as cost pressures could return. UOB Global Economic and Markets Research expect US GDP growth to be 1.7% for 2025 and ease to 1.5% for 2026. Eurozone is expected to grow 1.1% in 2025 and slow down to 0.9% in 2026.

Valuations remain rich, with DM HY spreads (~262bps) well below the 10-year average (~403bps), leaving limited room for error. Signs of a US labour market slowdown and geopolitical tensions in Europe and the Middle East add to downside risks add to the vulnerability of DM HY. We remain underweight DM HY and prefer DM IG for its better risk-to-reward ratio.

In this environment, investors should prioritise resilient credits and position towards sectors that are counter cyclical and with resilient cash flow generation. These sectors include utility, telco, and large-cap financials.

Spreads have narrowed significantly following US tariff policy shock

Source: Bloomberg, UOB Private Bank

CIO's recommendation

We remain Underweight on DM USD HY. The risk-reward remains asymmetric, with credit spread widening posing as a huge downside risk.

Emerging Markets Asia Investment-Grade

Offers stability and diversification against a tough macro backdrop

Emerging Market Asia Investment-Grade (EM Asia IG) has rebounded strongly from the initial volatility following Liberation Day, delivering a solid YTD total return of +8.4%, outperformed the +6.9% return of US IG. Key performance drivers include favourable rate movements and spread compression. Additionally, diversification away from US-centric risks have likely contributed to EM Asia IG's relative resilience.

Despite ongoing uncertainty surrounding tariffs, EM Asia IG corporate fundamentals are holding up. EBITDA has continued to grow since 2022, while gross leverage has improved to 2.9x in end-2024, down from 3.1x in 2022. On a net leverage basis, ratio has declined from 1.6x in 2022 to 1.4x in 2024, reflecting stronger balance sheet discipline and improved financial health.

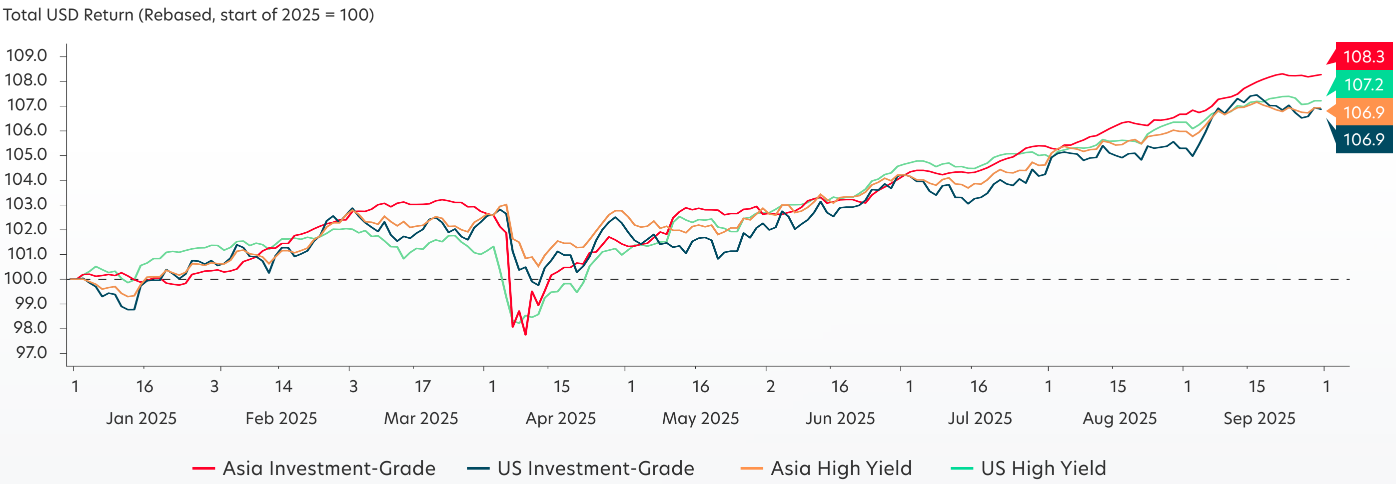
Spreads have tightened to historical low to 66bps for bonds with ~5 years duration. We expect this to continue to be supported by the strengthened fundamentals that should help offset the macro uncertainties. YTD supply in value is supply remains healthy and below the 5-year average in value terms.

Looking ahead, any upward credit spread pressures may be cushioned by the lower UST yields as the Fed continues its rate-cutting cycle.

We believe quality EM Asia IG offers both stability and diversification, supported by a broad investor base, a stable credit environment and favourable EM trends (i.e. diminishing US exceptionalism). Within the space, we continue to favour Asia (incl. JP) financials, select Asia-focused life insurers, quasi-sovereign/ strategic state-owned enterprises, and defensive consumer names.

We remain constructive on select China TMT names and issuers focused on domestic consumption. Tariff-related tensions are likely to prompt policy measures aimed at revitalising the local economy and stimulating household demand. In addition, regional ASEAN champions and quasi-sovereign entities present attractive opportunities for yield enhancement, supported by their strategic importance and relative stability.

Fixed Income year-to-date performances



Source: Bloomberg, UOB Private Bank

CIO's recommendation

We remain Overweight on EM Asia IG. They offer both stability and diversification, supported by a broad investor base, a stable credit environment and favourable EM trends.

Emerging Markets Asia High Yield

Selectivity is key in avoiding credit events

Emerging Markets Asia High Yield (EM Asia HY) has delivered a robust performance this year, posting a total return of +8.3% YTD (as of 30 September) as measured by the Bloomberg EM Asia USD Credit High Yield index. This rally has been primarily driven by strong credit spread compression (of 72bps) and complemented by the high carry from elevated interest rates.

At the current juncture, we are facing a clear valuation problem. As it stands, EM Asia HY credit spreads (OAS: 318bps) sits at a mere 18bps wider from the tightest level since 2009. While a valuation calibration is warranted, strong technical tailwinds have thus far made it elusive.

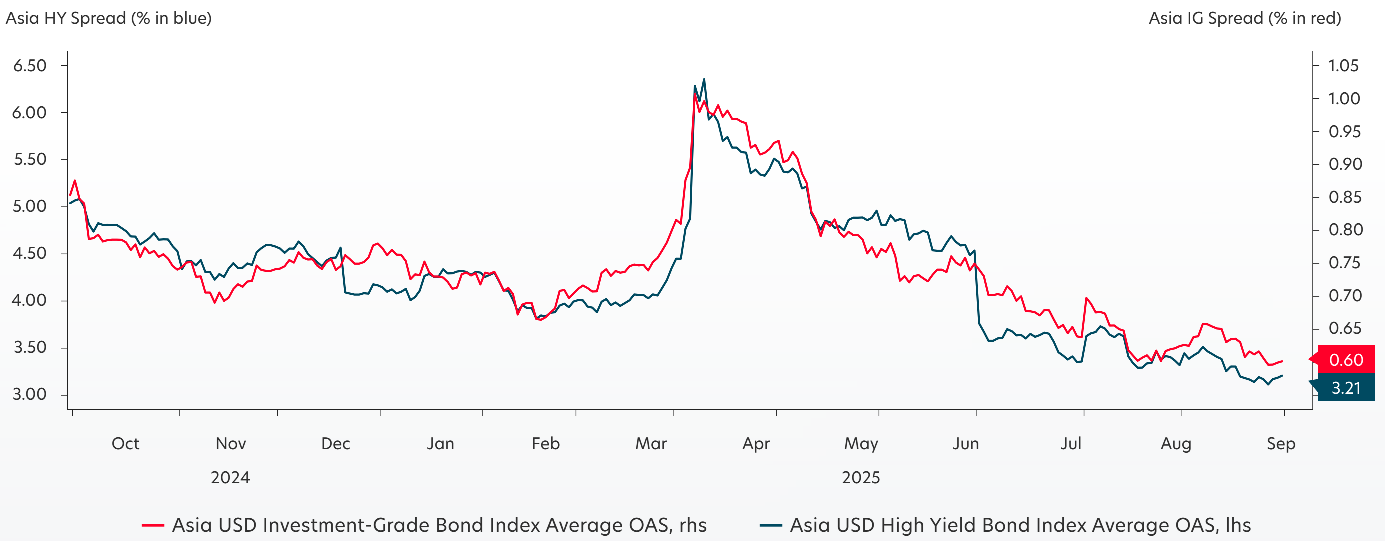
Corporate earnings have proven resilient following the bottoming of the default cycle that originated from China's HY property sector. Muted new issuance has also created scarcity, fuelling an allocation-bid demand. The Fed's pivot towards an easing cycle against a backdrop of a benign US economy also provides a bullish setup for risk assets.

We expect these tailwinds to abate gradually. Hence, we see the balance of risks tilted towards spread widening in EM Asia HY. A potential triggering of EM-DM geographical rotation is also on the cards as EM Asia HY spreads converges towards US Corporate HY spreads (OAS: 269bps).

Effects of US protectionist policies, while contained for now, continue to linger and could impair business sentiment and growth. We also anticipate a build-up of refinancing risk as EM Asia HY issuers with USD funding needs progressively re-access the USD issuance market to address impending maturities.

Given these crosscurrents, we maintain a cautious stance over the next 3 to 6 months and advocate for a stringent bottom-up investment approach to avoid idiosyncratic credit events. Within the universe, we see better value in 'BB' rising star credits (IG upgrade potential) and advise against getting involved in distressed and special situations play.

Asian credit spreads have also narrowed significantly, culminating in asymmetric risk-reward



Source: Bloomberg, UOB Private Bank

CIO's recommendation

We see better value in 'BB' rising star credits and advise against getting involved in distressed special situations plays.

Commodities

Precious Metals

USD 4,000/oz and above beckons as retail investment interest intensifies

Over the past month, gold has continued its powerful and unprecedented rally, jumping to above USD 3,800/oz, effectively surpassing our earlier forecast for 1Q 2026. One of the key driver for the ongoing strength of gold is the further extended weakness in the USD, which has acted as a strong tailwind.

In addition, what has been remarkable about the rally over the past month is the surge in global retail investment demand in gold. This should come as no surprise amid increasing safe-haven demand following intensifying budget and fiscal crisis across France, UK and now the US. There is also increasing global investor worries over de-dollarisation or debasement of the USD, leading to a need to diversify and allocate into USD alternatives, of which gold is one key candidate.

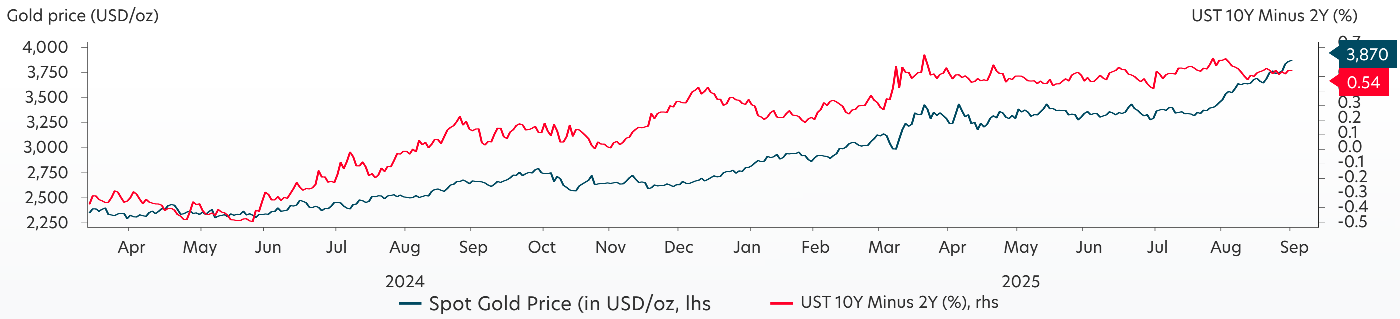
All the above-mentioned developments reinforced the long-term positive drivers for gold.

Notably, US investors are clearly back embracing gold-backed ETFS, leading to a jump in total related AUM of about 100 million troy oz. Across other geographies, such as Japan, we have also witnessed a jump in retail interest in gold-backed ETFs and other investment products. In China, the sharp jump in gold interest on the Shanghai Futures Exchange (SHFE) has got the market's attention. Across 3Q alone, the amount of on-warrant gold inventory on the SHFE has skyrocketed from about 20 tons in June to current level of above 70 tons.

Given further USD weakness and the persistently strong allocation into gold from central banks, we raise our forecast for gold further beyond USD 4,000/oz across 2026.

Commodity	4Q25F	1Q26F	2Q26F	3Q26F
Gold (USD/oz)	3,900	4,000	4,100	4,200

Gold advances alongside the steepening of US 10s-2s yield curve



Source: Macrobond, UOB Private Bank

CIO's recommendation

We remain Overweight on Gold as safe-haven demand and imminent Fed rate cuts will continue to support Gold's upward price trajectory. Persistent US dollar weakness presents further tailwinds to Gold prices.

Brent Crude Oil

To trade in a range albeit with a downward bias

The volatile events of the two quarters have now given way to a trading range for Brent crude oil. In early April, Brent crude oil collapsed from USD 75 to USD 65/bbl after President Trump announced reciprocal tariffs on Liberation Day. Then in late June, Brent crude oil shot up from USD 65 to almost USD 80/bbl as US bombed the nuclear sites in Iran and risk escalating the Israel-Iran conflict further.

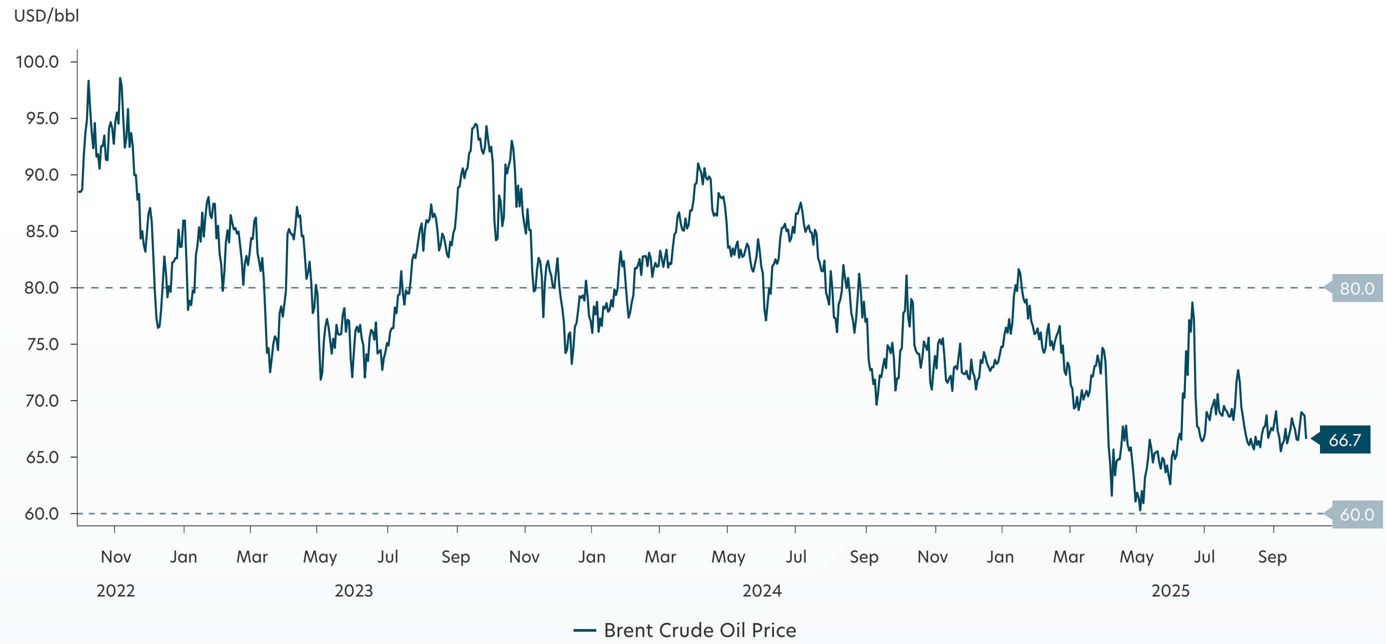
Both event risks have since dissipated and calmed down. Brent crude oil has managed to stay within its medium-term broad trading range from USD 60 to 80/bbl. The technical chart also suggests that there is no clear trend right now. With the passage of acute geopolitical risks, the focus for Brent crude oil reverts back to the fundamental demand and supply drivers.

On the supply side, Saudi Arabia and OPEC+ have returned about 2 million bpd of production and is expected to continue their eager unwinding of production cuts. This will cap any strong upside in crude oil price. On the other hand, the US is replenishing its much-depleted Strategic Petroleum Reserve (SPR) and mindful not to inject any more unintended volatility. This may add some support to the floor in crude oil price.

Barring a renewed surge in acute political risk, Brent crude oil is poised to in its medium-term trading range.

Commodity	4Q25F	1Q26F	2Q26F	3Q26F
Brent Crude Oil (USD/bbl)	70	65	60	60

Brent crude to trade in medium-term range of USD 60 to 80/bbl



Source: Macrobond, UOB Private Bank, Intercontinental Exchange (ICE)

CIO's recommendation

We remain Neutral on Brent crude oil. Barring a renewed surge in acute political risk, oil prices are expected to trade in a medium-term range of USD 60 to 80/bbl with a downward bias.

Base Metal (LME Copper)

Testing key USD 10,000/mt resistance amid contrasting drivers

While Gold's long-term positive trend is reinforced and Brent crude oil has fallen back into a clearly defined trading range, the outlook for LME Copper in contrast appears decidedly mixed.

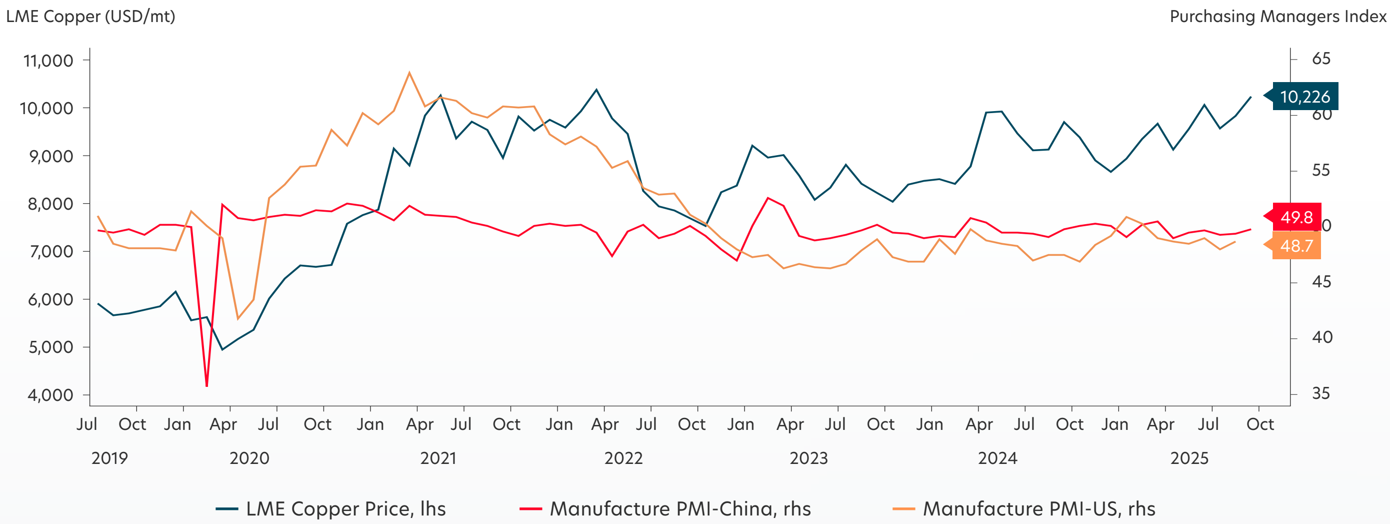
On one hand, both US investors and global manufacturers remained concerned and unconvinced despite President Trump in late July ruling out the imposing import tariffs on refined Copper. While the COMEX Copper premium over LME Copper has since been largely unwound, there is evidence of renewed exports of refined Copper and various downstream products into the US. This has supported LME Copper price which has gradually grinded higher from USD 9,700/mt in July to the high of USD 9,975/mt in end-August. UOB Global Economics & Markets Research team's technical analysis notes that there is a chance for copper to break above $10,021/mt, potentially revisiting the year-to-date high of $10,165/mt.

On the other hand, further strength in LME Copper price is not in line with the weakening global economic backdrop. While most economies have done much better than expected in 2Q 2025, this pre-tariff export rush is set to taper off in 4Q 2025. There is increasing concern that global manufacturing and exports may weaken anew in 4Q 2025. Adding to this is increasing signs of job market weakness in the US as well. So far, the strength in LME Copper price is not supported by soft global manufacturing PMIs, particularly those of China and US. Key demand indicators like LME's cash spread have also pulled back.

We are sceptical of a premature sustained breakout in LME Copper prices above USD 10,000/mt.

Commodity	4Q25F	1Q26F	2Q26F	3Q26F
Copper (USD/mt)	10,000	9,500	9,000	9,000

Ongoing price strength is not consistent with weak US and Chinese manufacturing PMIs



Source: Bloomberg, UOB Private Bank

CIO's recommendation

We remain Underweight on Base Metal (LME Copper) amid concerns that global manufacturing and exports may weaken anew in 4Q 2025. The price strength is inconsistent with weak US and Chinese manufacturing PMIs.

Currencies

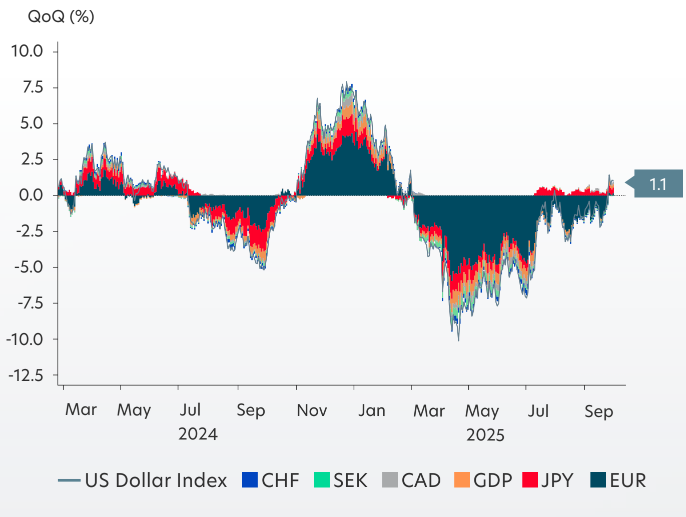
USD

DXY expected to weaken anew, albeit at a more moderate pace

As the Fed embarks on its next phase of monetary accommodation, it is likely to appear more dovish relative to its G-10 counterparts, many of whom are nearing the end of their respective easing cycles. This divergence should lead to a further narrowing of USD interest rate differentials against major FX peers, reinforcing downward pressure on the USD. Overall, our revised negative DXY forecasts are lowered further to 96.3 by 4Q 2025 and 93.9 by 3Q 2026.

FX	4Q25F	1Q26F	2Q26F	3Q26F
DXY	96.3	95.3	94.6	93.9

Contributions to the US Dollar Index (DXY)



EUR

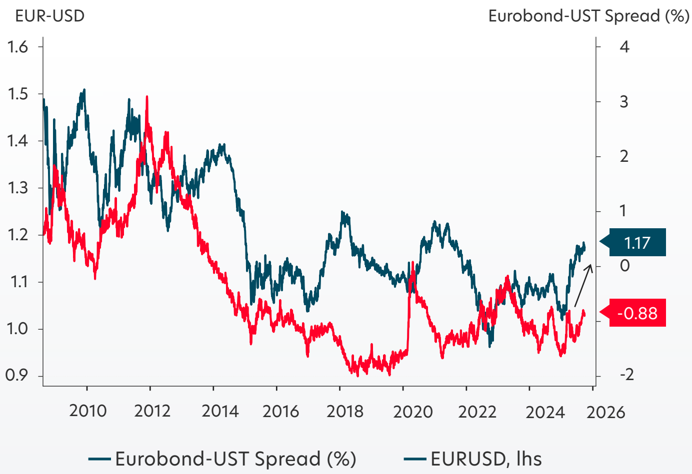
EUR to capitalise on USD weakness

EUR/USD's recent rally has lost momentum, as political uncertainty in France — stemming from a deadlock over proposed budget cuts — raised concerns about a potential government collapse. We view the current French political turmoil as likely contained — a "storm in a teacup" — rather than a broader systemic risk. This is supported by the muted 1-month EUR/USD volatility, as well as low and benign credit default swap (CDS) spreads in general for Eurozone countries, suggesting limited market contagion for now.

Looking ahead, we expect USD weakness to resume dominance, particularly as the Fed begins its rate-cutting cycle in September. Over the longer term, the EU's expansive fiscal initiatives may bolster the EUR's yield advantage, potentially fuelling expectations of stronger regional growth and higher interest rates. We reiterate our bullish stance on EUR/USD, with updated forecasts at 1.19 in 4Q 2025, 1.20 in 1Q 2026, 1.21 in 2Q 2026 and 1.22 in 3Q 2026.

FX	4Q25F	1Q26F	2Q26F	3Q26F
EUR/USD	1.19	1.20	1.21	1.22

EUR-USD rate differentials likely to keep EURUSD uptrend intact



CNY

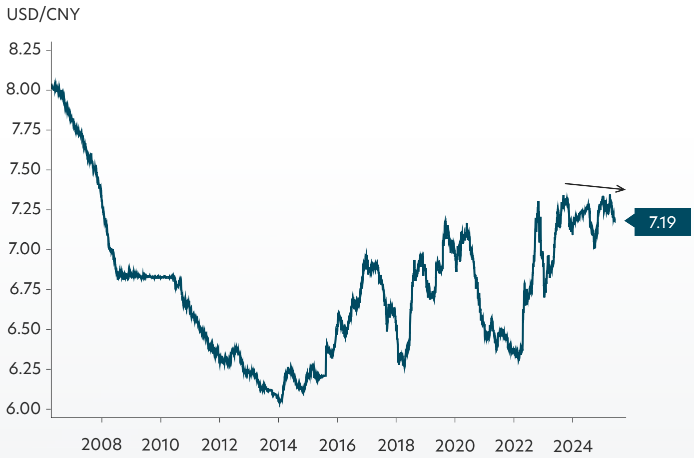
CNY to stabilise further

The CNY has demonstrated resilience over the past two months, defying the broader regional pullback in Asian currencies. This strength was supported by recent robust export growth despite trade headwinds, which improved China's GDP outlook. Additionally, the PBOC's move to set the daily fixing at 7.1030/USD on 29 August – the strongest since last November – signalled a subtle shift in policy, suggesting a willingness to allow modest CNY appreciation to help stabilise sentiment and support the recovery in local equity markets. A firmer yuan may also play a constructive role in US-China trade negotiations, countering past accusations from the US that China was deliberately weakening its currency to boost exports.

Looking ahead, we see further downside potential for USD/CNY, driven by expectations of a US-China trade agreement by end-2025 and continued USD weakness as the Fed cuts rates. However, the pace of decline may be limited by the PBOC's daily fixing rate, especially if concerns over China's growth persist and PBOC maintains its "moderately loose" policy stance. Overall, our updated USD/CNY forecasts are at 7.11 in 4Q 2025, 7.08 in 1Q 2026, 7.05 in 2Q 2026 and 7.02 in 3Q 2026.

FX	4Q25F	1Q26F	2Q26F	3Q26F
USD/CNY	7.11	7.08	7.05	7.02

Expectations of a US-China trade deal and continued Fed rate cuts should help stabilise the CNY



Source: Bloomberg, UOB Private Bank

JPY

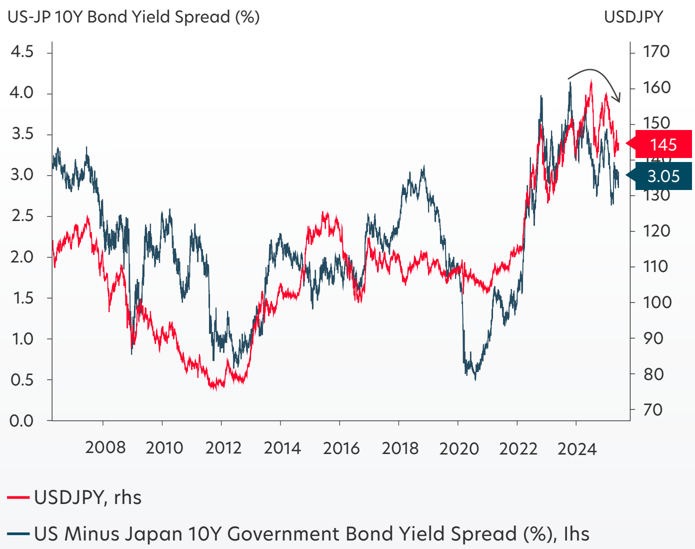
USD/JPY to converge to falling rate spread

USD/JPY has shown a notable divergence from the 10-year USD-JPY yield differential through July and August. The rate spread dropped to its lowest level in three years, driven by a 20bps rise in Japan's 10-year government bond yield, which climbed to 1.6% – its highest level since 2008 – amid growing concerns over Japan's fiscal expansion. USD/JPY rose from 144 to 147 in the same period, taking guidance from the broad USD rebound in the quarter and the disappointing BOJ meeting in July which offered no clear guidance on the timing of the next rate hike.

Going forward, we expect USD/JPY to converge to the falling rate spread as Fed rate cut expectations drive another leg lower in US yields together with renewed USD weakness. At the same time, our forecast for a 25bps BOJ rate hike in 4Q 2025 could ignite demand for the JPY. We maintain our view of a gradual decline in USD/JPY, with forecasts at 144 in 4Q 2025, 142 in 1Q 2026, 140 in 2Q 2026 and 138 in 3Q 2026.

FX	4Q25F	1Q26F	2Q26F	3Q26F
USD/JPY	144	142	140	138

Monetary policy divergence between the Fed and BOJ to keep USDJPY biased to the downside



Source: Bloomberg, UOB Private Bank

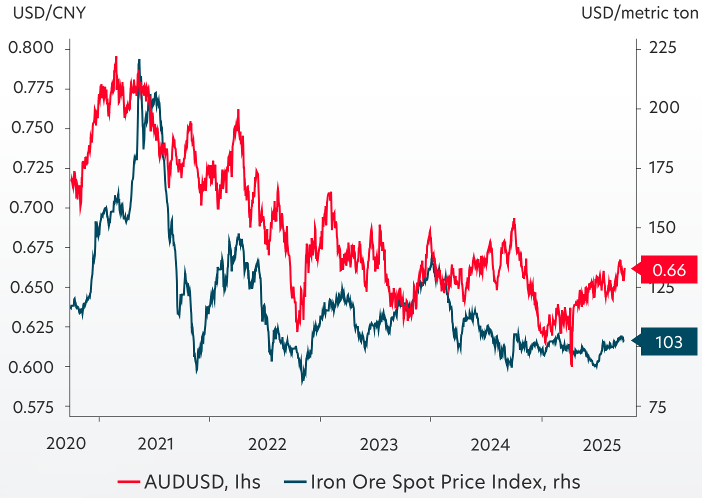
AUD

AUD draws support from less dovish RBA

Among G-10 currencies, the AUD posted one of the smallest declines against the USD, slipping just 0.6% over July and August. This resilience was partly supported by stronger-than-expected monthly inflation in July, which rose 2.8% y/y, approaching the upper bound of the RBA 2%-3% target range. The data reinforces the RBA's cautious stance on rate cuts, and we now only expect two more 25bps rate cuts – instead of three previously. A less dovish RBA translates to more support for the AUD amid a backdrop of broader USD weakness. Our updated AUD/USD forecasts are 0.66 in 4Q 2025, 0.67 in 1Q 2026, 0.68 in 2Q 2026 and 0.69 in 3Q 2026.

FX	4Q25F	1Q26F	2Q26F	3Q26F
AUD/USD	0.66	0.67	0.68	0.69

AUD to trade indecisive range, consolidating alongside iron ore prices



Source: Bloomberg, UOB Private Bank

SGD

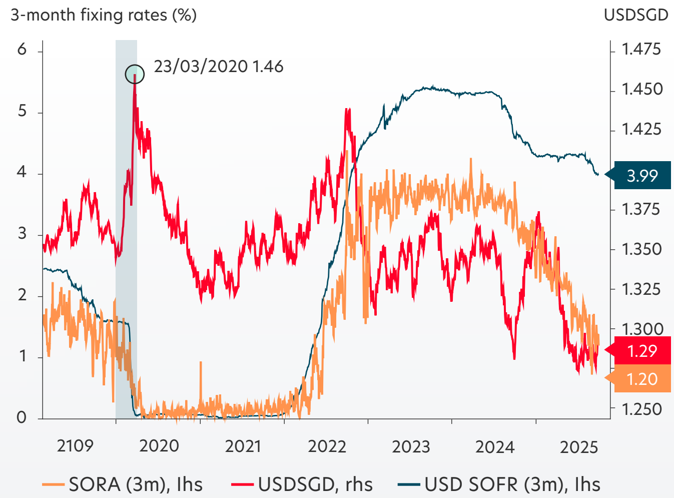
Downside in USD/SGD to be limited from here

USD/SGD has stabilised over the past two months, following a year-long decline from 1.36 at the start of the year. After rebounding from a decade-low of around 1.27 in early July, the pair has been consolidating above 1.28 throughout August. This price action reinforces our view that the S$NEER likely peaked in June and has been gradually trending lower since.

MAS' potential shift to a zero-appreciation stance for the S$NEER in the October 2025 MPS (or January 2026 MPS) could serve as a catalyst for further S$NEER depreciation. Consequently, even though the USD is projected to weaken from 4Q 2025 due to anticipated Fed rate cuts, the SGD may underperform relative to regional peers. Accordingly, our revised USD/SGD forecasts are 1.29 in 4Q 2025, 1.28 in 1Q 2026, and 1.27 in both 2Q 2026 and 3Q 2026.

FX	4Q25F	1Q26F	2Q26F	3Q26F
USD/SGD	1.29	1.28	1.27	1.27

SGD appears to be consolidating, reinforcing our view that S$NEER has likely peaked



Source: Bloomberg, UOB Private Bank

Alternatives

Private Equity: Adapting to fragmented markets

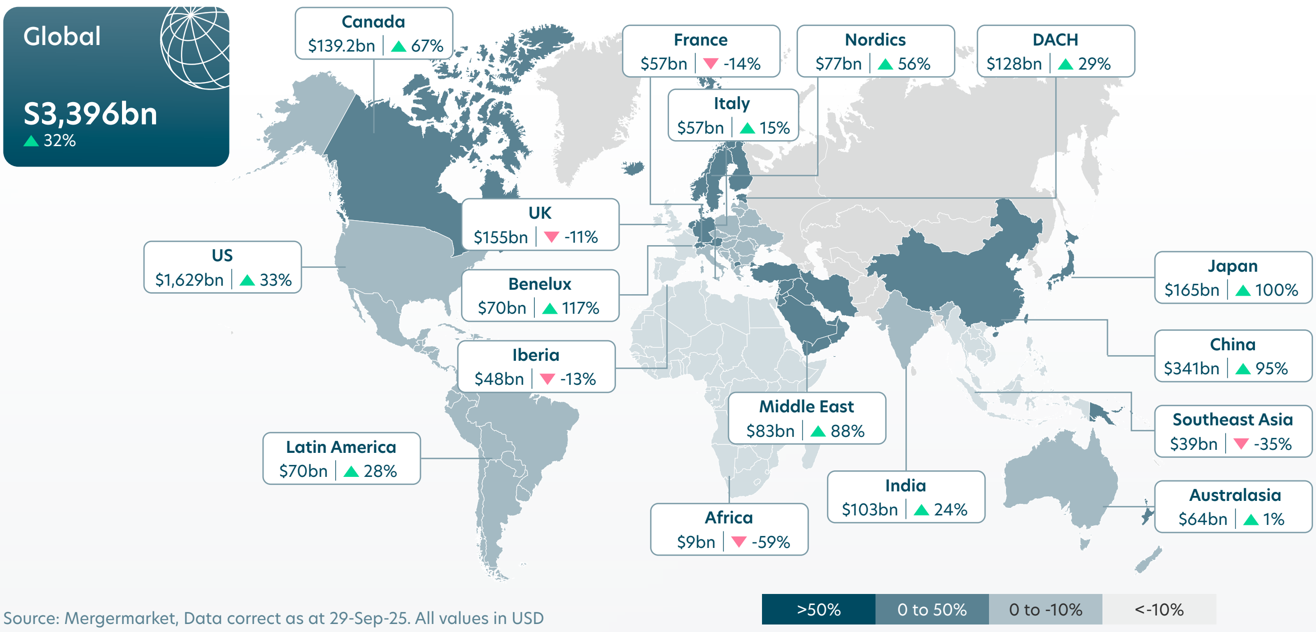
Private equity started the year strong, driven by favourable credit conditions and easing rates, which boosted dealmaking and exits. However, momentum slowed in 2Q due to Liberation Day events, introducing volatility and delaying transactions. This created a fragmented market — some GPs achieved exits, while others faced liquidity constraints and longer holding periods.

To adapt, firms are embracing flexible capital strategies. Co-investments[1] are gaining traction for control and cost efficiency. The secondary market is being used to rebalance exposures and unlock liquidity.

Continuation funds[2], NAV-based financing[3], and semi-liquid structures are helping bridge capital gaps. Operational value creation remains a key driver of earnings improvements, supported by growth in technology, bolt-on acquisitions, and efficiency gains.

As public markets stabilise and denominator effects[4] ease, deal flow is recovering. Opportunities persist in sectors like digital infrastructure, healthcare analytics, and financial services. However, elevated entry valuations and uneven exit conditions underscore the need for disciplined underwriting and careful manager selection.

Percentage change in deal volume year-over-year



Source: Mergermarket, Data correct as at 29-Sep-25. All values in USD

Notes:

1. Co-investments: Direct investments made alongside GPs, often offering lower fees and greater control.
2. Continuation funds: Investment vehicles that allow GPs to retain and manage assets beyond the original fund's life, often used to provide liquidity to existing investors.
3. NAV-based financing: Loans or credit facilities secured against the Net Asset Value of a fund's portfolio, used to enhance liquidity or bridge capital needs.
4. Denominator effects: Portfolio rebalancing challenges that arise when public market declines inflate the relative weight of private assets, potentially limiting new allocations.

Private Credit: Yield with rising risks

Private credit continues to attract investors with compelling yields. Direct lending remains core, alongside growing interest in asset-based lending, opportunistic credit, and European private debt. Floating-rate structures have preserved returns, and the reopening of syndicated loan markets has supported refinancing and deal flow.

Yet, spread compression in the upper middle market has reduced excess return potential, prompting closer scrutiny of borrower quality.

Non-accrual rates[5] are rising, especially among older vintages and weaker borrowers. Structural features like PIK interest[6] and covenant-lite terms warrant caution, as they may mask credit deterioration. Falling base rates are also eroding the income advantage of floating-rate structures.

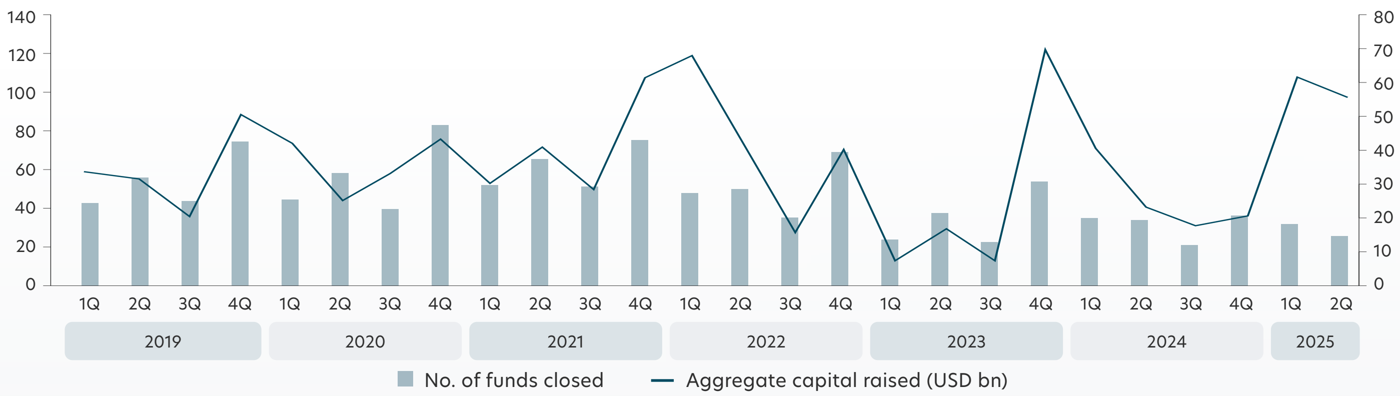
In this environment, underwriting rigour and manager expertise are critical. Navigating complex capital structures and identifying resilient borrowers will be key to sustaining performance.

Infrastructure: Resilience and thematic growth

Infrastructure has shown resilience despite a volatile start to the year. Investor interest remains steady, with capital flowing into essential services and growth-oriented themes. Greenfield development in data centres and renewable energy reflects strong demand for assets supporting digital transformation and the energy transition. AI-driven data centres and clean energy projects offer inflation-linked cash flows and diversification.

Policy uncertainty and trade disruptions add complexity, but investors are responding with regional expertise and operational focus. Mid-market infrastructure is particularly attractive due to less competition and better valuations. Sectors like electrification, sustainable transport, and circular economy models benefit from strong thematic tailwinds. Financing constraints and geopolitical risks reinforce the importance of manager selection and due diligence.

Figure 1: Unlisted infrastructure fundraising by quarter



Source: Pregin Pro. Data sourced 10 July 2025
Source: https://www.ubs.com/sg/en/assetmanagement/insights/asset-class-perspectives/infrastructure/articles/infrastructure-inflows.html

Notes:

[5] Non-accrual rates: The proportion of loans that have stopped generating interest income due to borrower distress or default.
[6] PIK interest: Payment-in-kind interest, where borrowers pay interest in additional debt or equity rather than cash, often used to preserve liquidity but may signal credit risk.

Real Estate: Stabilising with sector-specific strength

Private real estate is stabilising after a period of repricing and dislocation. Fund flows are recovering, supported by improving sentiment and a more constructive outlook on valuations and deal activity. Supply constraints from reduced construction are supporting rental growth and strengthening cash flow fundamentals.

Managers continue to favour rental housing, logistics, and data centres. Residential assets benefit from affordability challenges and limited supply. Industrial properties are supported by e-commerce logistics and reshoring.

Data centres linked to AI infrastructure are seeing strong leasing and long-term commitments. The office sector remains challenged. While some gateway cities show signs of stabilisation, North America still faces elevated vacancies and weak fundamentals due to hybrid work trends. In contrast, European prime offices have held up better, supported by limited new supply.

As valuations stabilise and transactions recover, investors should focus on managers who can identify resilient assets and execute effectively.

Hedge Funds: Tactical agility in a fragmented market

Hedge funds have delivered mixed but generally resilient performance in 2025, navigating a complex macro backdrop shaped by shifting rate expectations, trade tensions, and sector dispersion.

Performance has varied across sub-strategies. Equity long/short managers with tech and consumer exposures have benefited from market momentum, while market-neutral approaches have struggled. Macro and multi-strategy funds have capitalised on volatility across rates, currencies, and commodities.

Event-driven strategies have seen selective success, though limited deal flow has constrained broader opportunities. Quantitative strategies have produced uneven results, with short-term models underperforming and longer-horizon approaches showing more stability.

Investor sentiment has improved, with hedge funds increasingly viewed as essential for diversification and downside protection. As traditional assets face valuation and duration risks, hedge funds are being repositioned as core components of portfolio construction.

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