UOB PRIVATE BANK

90 Years and Beyond

2H 2025 Investment Outlook

From Depths to Dawn

Contents

CIO Thoughts

King Dollar: Moving from a "one-way bet" to slow erosion

There is a gradual erosion of the US dollar's (USD) dominance amid rising geopolitical and domestic pressures under Trump 2.0. The weaponisation of the USD—through sanctions and tariffs—has triggered global backlash, prompting many countries to diversify their reserves, notably into gold. Concurrently, institutional guardrails including the Federal Reserve independence are being challenged, undermining investor confidence.

Despite the prevailing conundrums, the USD remains deeply embedded in global finance, with no viable alternative matching its liquidity and trust yet. Having said that, fiscal imbalances and political volatility could raise the risk premiums, impacting US equities, bonds, and private assets.

While the USD supremacy is intact for now, its unassailable status is no longer guaranteed. Investors should focus on diversification and resilience as the global financial landscape evolves. The dollar index has been a "one-way bet", rising 40% since the depths of the Global Financial Crisis. Hereafter, investors may need to wrap their minds around a slow erosion.

What makes for a global reserve currency?

Robust financial markets: A global currency needs deep, liquid markets. The US excels here, while the Eurozone, Japan, and China face structural limitations.

Global leadership role: A global currency issuer supports international norms. The US has led but is declining gradually. Meanwhile, the EU is slowly gaining influence.

Unrestricted convertibility: A global currency must be freely exchangeable. The USD, euro, and yen qualify; the Chinese yuan has restricted convertibility due to capital controls.

External deficit: The issuer should run current account deficits to spread its currency globally. The US is a prime example, but not the Eurozone, Japan, and China.

Efficient settlement infrastructure: Dominant currencies require strong payment systems. The USD benefits from SWIFT and CHIPS, unmatched in scale.

Strong domestic institutions: Trust in a currency depends on institutional strength. The US has led historically, but recent instability raises concerns; the EU is more rule-based.

Economic resilience and growth: A strong currency is backed by a resilient economy. The US maintains growth and productivity; others face structural issues.

Still no immediate alternate to the US Dollar; Euro comes a distant second

Attributes of key currencies and alternatives		USD	EUR	CNY	JPY	GBP	INR	BTC	GOLD
Currency Attributes	Store of Value	High	High	High	High	High	High	Low	High
	Medium of Exchange	High	High	High	High	High	High	High	Medium
	Unit of Account	High	High	High	High	High	High	Medium	Medium
Economic Factors	Open Capital Account	High	High	Low	High	High	Low		
	Can Politically Sustain Current Account Deficits	High	High	Medium	High	High	High		
	Sizable Economy	High	High	High	Medium	Medium	Medium		
	Share of Global Trade	High	High	High	Medium	Medium	Medium		
	Financial Markets: Size, Depth And Openness	High	High	Medium	High	High	Medium	Low	Low
	Currency Use As Peg/Anchor	High	High	Low	Medium	Medium	Low		
	Stable Economy	High	High	High	High	High	Medium		
Geopolitics	Strong Geopolitical Alliance System	High	High	Medium	High	High	Low		
	Dominant Naval, Air And Cyber Power	High	Medium	Medium	Low	Low	Low		

High | Medium | Low

Source: Atlantic Council's Dollar Dominance Monitor, Alpine Macro, UOB Private Bank

Who wins with a weaker Dollar?

A gradually depreciating US dollar presents a strategic opportunity for investors, particularly in emerging markets (EM), China, as well as US companies with sizeable overseas exposure—especially the "Magnificent 7" (Mag7) tech giants. As the dollar weakens, EM economies benefit from reduced debt servicing costs given that much of their external debt is denominated in US dollar. This improves EM fiscal stability and encourages capital inflows as global investors seek higher returns in faster-growing regions. For China, a softer dollar supports the yuan's internationalisation, especially with Beijing promoting alternatives to dollar-based trade.

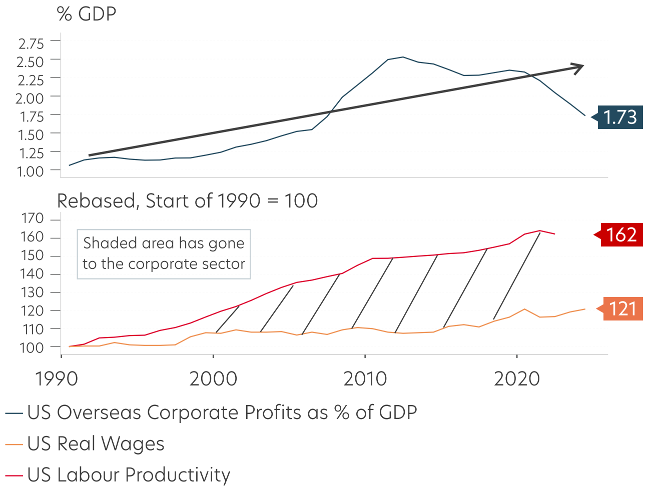
In the US, companies with large international revenue streams—such as Apple, Microsoft, Nvidia, and Alphabet—stand to gain. A weaker dollar boosts the value of foreign earnings when converted back into US dollar, lifting profit margins and earnings per share. This currency tailwind is particularly impactful for sectors like technology and branded consumer goods, where global demand is strong and pricing power is high.

Moreover, a declining dollar often coincides with looser global financial conditions (i.e., lower interest rates and strong capital flows), supporting risk assets and commodity prices; this favours EM exporters and resource-rich economies.

Investors should consider building more diversified portfolios in this environment. This entails increasing allocation to EM equities and bonds (as yields become more attractive), Chinese assets, and US multinationals with global reach. Having said that, the trajectory of the dollar will hinge on US fiscal policy, interest rate differentials, and geopolitical developments. Strategic positioning and active currency risk management will be key to capturing upside while mitigating overall portfolio volatility.

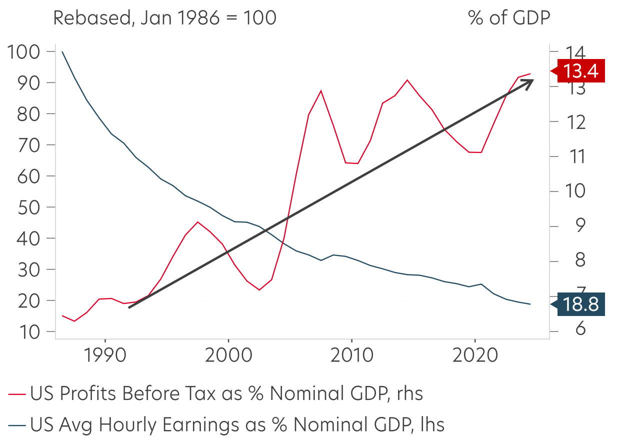
On the contrary, the US import-dependent companies (higher input costs), US outbound tourism (more expensive to travel out) and US consumers (less purchasing power) could be on the losing end of a weaker dollar.

The US corporate profits have in fact benefited much from globalisation



Source: UOB Private Bank, U.S. Bureau of Economic Analysis (BEA), Long Term Productivity Database, U.S. Bureau of Labour Statistics (BLS)

Note: US overseas corporate profits as % GDP is shown as 5-year moving average.

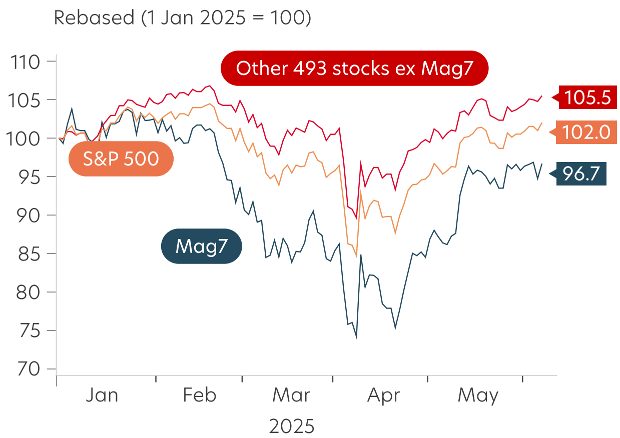


Source: Bloomberg, UOB Private Bank, U.S. Bureau of Economic Analysis (BEA)

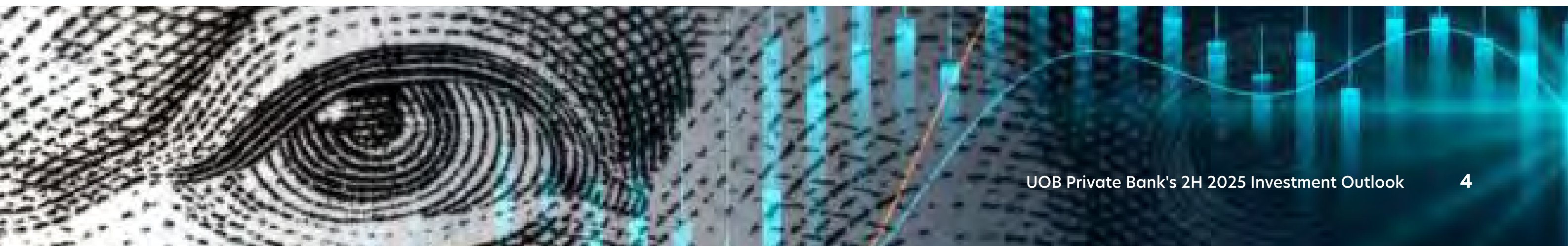
Note: Average hourly earnings as % GDP is shown as 12-month moving average, rebased to Jan 1986 = 100.

Note: US corporate profits before tax as % GDP is shown as a 3-year moving average.

Mag7 stand to gain from weaker USD



Source: Macrobond, UOB Private Bank



The way forward for investors

Markets have re-rated sharply, eyeing a return to all-time highs. While "peak panic" of Liberation Day has passed, volatility persists.

Accordingly, our asset allocation remains largely intact. We hold Equities at neutral. Within Equities, we upgrade the US to overweight, funded out of Japan's downgrade Japan to neutral. The US upgrade reflects a pivot back to Magnificent 7 (Mag7) stocks, which comprise close to 30% of the S&P 500 index. Japan's downgrade mainly stems from a stronger yen, which typically weighs on its export-heavy equity index. Emerging Asia remains an overweight with a focus on China's emerging AI force rather than traditional stimulus-based beneficiaries.

Tariffs

Though seemingly yesterday's news, the way tariffs were imposed has deepened global distrust in the US and its currency. Backlash from the public—and more critically, the global bond market—led to sharp policy reversals from the US. This two steps-forward, one step-back dynamic warrants close attention. We expect continued tariff-induced volatility, but not at "Liberation Day" levels.

Seasonality

3Q has historically been volatile; we see this as a buy-on-dip opportunity. 4Q should be stronger—not just seasonally but also given Trump 2.0 policies like deregulation and tax cuts, which could lift sentiment.

Old and new

Defence and Financials remain "old-but-gold" sectors that will benefit from the proactive fiscal policies. The play on AI is maturing with emphasis on energy security and the transition into embodied AI like autonomous driving and humanoids.

Quality growth

Early this year, we shifted from Mag7 to the Other 493 (O493) names in the S&P 500. The call paid off, with O493 outperforming Mag7 by 18ppt at its peak, now narrowed to 8ppt. At this juncture, we are rotating back to quality growth within Mag7—firms with irreplaceable products and multi-billion-dollar cash flows to fuel future growth.

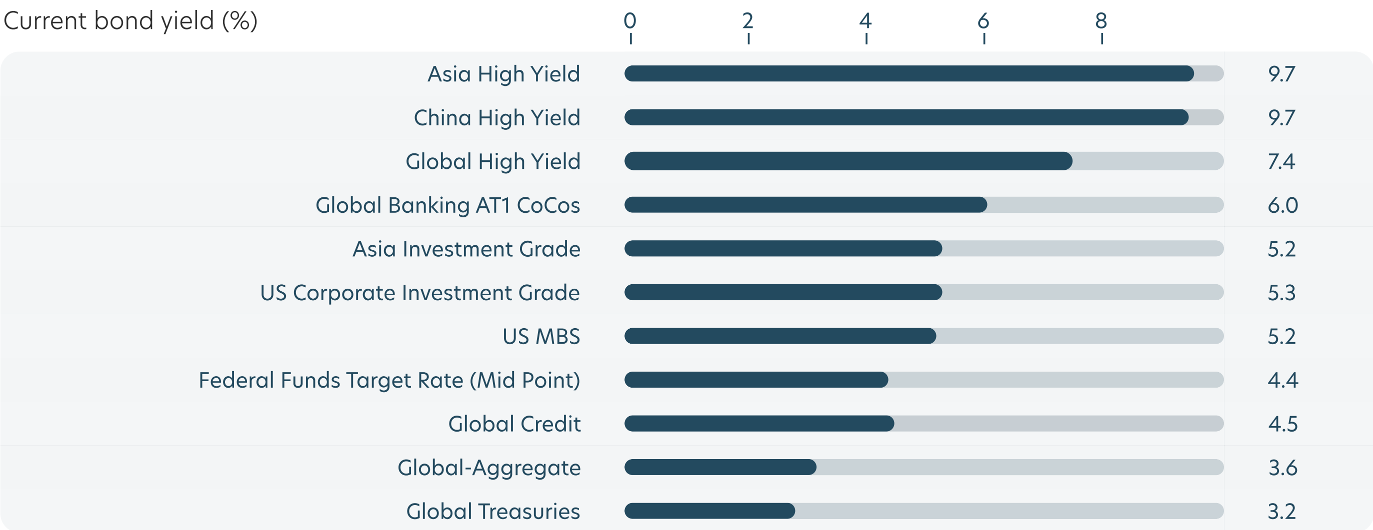
Quality yield

A sizeable portion of portfolios should remain in investment-grade bonds and large-cap equities with stable, growing dividends. For bonds, duration risks should be managed (i.e., average duration of 4-5 years). High-yield credits in both DM and EM remain complex—best navigated with professional advice. Given the US dollar's vulnerability, local-currency bonds aligned with funding needs are worth exploring.

Private-market yield

This remains key for uncorrelated returns. Leveraged loans, private credit, and infrastructure offer steady income. While not a private asset, gold's uncorrelated nature renders it essential for portfolio resilience and geopolitical hedge.

IG bonds remain a portfolio anchor while selected opportunities in EM Asia HY bonds remain



Source: Bloomberg, UOB Private Bank

Portfolio Strategy

Asset Class Summary for 3Q 2025

Asset Classes	U/W	N	O/W	Comments
Equities		●		**Remain Neutral following a strong rebound given trade-related policy uncertainties and seasonality effects.**
United States		○ →	●	Upgrade to Overweight from Neutral. US corporate tax cuts and deregulation can provide a boost in 2H 2025.
Europe		●		Remain Neutral with an eye for selected thematic stocks. The deployment of EU fiscal packages presents upside risks.
Japan		● ←	○	Downgrade to Neutral from Overweight. Yen strengthening and weakening business sentiments may pose as a drag.
EM Asia			●	Stay Overweight. Stick to resilient dividend and consumer stocks as well as secular growth plays like China tech/AI.
Fixed Income		●		**Remain Neutral with an eye for buy-on-dip opportunities. Recommend 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 could settle in a range between USD 60-65/bbl. with risks skewed to the downside in 2026.
Base Metals	●			Remain Underweight until signs of a fundamental global industrial rebound reappear.
Precious Metals			●	Remain Overweight. Gold can thrive on haven demand, weak USD, central bank purchases, and well-contained real yields.
Money Market		●		**Remain Neutral. Expect equity markets to end higher by end of 2025 vs. start of 2025.**

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

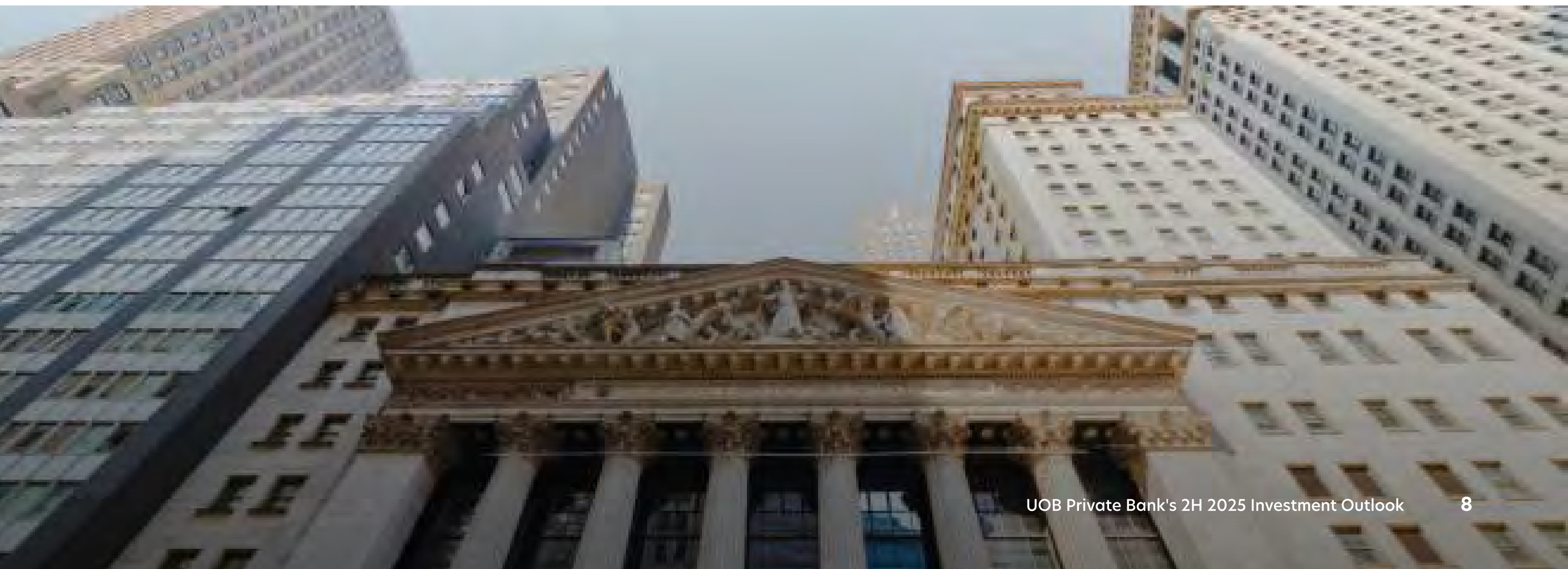
Notes:
- The asset class summary above is based on a "Balanced" risk profile (See next page).
- In the headers, "U/W" represents "Underweight", "N" represents "Neutral", and "O/W" represents "Overweight".
- Each black dot indicates current quarter's position. If any, each empty dot indicates previous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

Asset Allocation for 3Q 2025

Upgrade US equities, funded out of JP equities

Asset Classes	Very Conservative (%)			Conservative (%)			Balanced (%)			Growth (%)			Aggressive (%)			Comments
	Now	VS	Chg.	Now	VS	Chg.	Now	VS	Chg.	Now	VS	Chg.	Now	VS	Chg.	
Equities				**25.0**			**45.0**			**60.0**			**70.0**			
United States				16.0	1.0		28.8	1.8		38.4	2.4		44.8	2.8		
Europe				3.8			6.8			9.0			10.5			
Japan				2.5	-1.0		2.7	-1.8		3.6	-2.4		4.2	-2.8		
EM (Asia)				3.8			6.8			9.0			10.5			
Fixed Income	**90.0**			**60.0**			**35.0**			**10.0**						
DM IG	45.0			25.5			14.9			4.3						
DM HY				4.5			2.6			0.8						Avg. duration 4 to 5 years
EM IG	45.0			24.0			14.0			4.0						
EM HY				6.0			3.5			1.0						
Alternatives				**10.0**			**15.0**			**20.0**			**20.0**			
Money Market	**10.0**			**5.0**			**5.0**			**10.0**			**10.0**			

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.



Macro Trends

Our View of the World

Economy

- While policy uncertainty remains elevated, global economy continues to grow albeit at a slower pace.
- We expect 1.0% GDP growth for the US in 2025 (from 2.8% in 2024), with upside risk to our numbers given the recent de-escalation in trade tensions. We have lowered our recession probability to 35% (from 40%).
- We reiterate our forecast for China's GDP growth at 4.6% in 2025 with the trade truce providing some near-term support for growth.

Monetary Policies

- Global monetary policies continue to diverge. We maintain our view of three 25 bp cuts from the Fed this year, one each in September, October and December FOMC. Similarly, the ECB and BOE are also easing.
- While we still expect the BOJ to stay on the rate tightening path, we have delayed our expectation of a hike in policy rate by 25 bp to later in September.
- 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

- Stay Neutral on Global Equities. Upgrade US to Overweight as US fiscal expansion plans including tax cuts and deregulation can provide a boost. Downgrade Japan to Neutral on stronger yen and weakening business sentiments.
- Fixed Income, specifically investment-grade credits, continue to act as effective portfolio stabilisers.
- Stay Overweight on the less correlated alternative assets given their respectable risk-reward as well as diversification benefits. Continue to advocate an allocation to Gold as a hedge

AI: Rising Diffusion

Embodied AI reaching a tipping point as AI cycle matures

The investment in AI technologies today can yield robust returns, especially as costs decrease, and applications expand from digital realms into physical spaces. The integration of nuclear power for AI infrastructure further solidifies the potential for growth and innovation across various sectors. As the AI cycle matures, the transition to embodied AI, which refers to the integration of AI into physical bodies and systems, creates an exciting frontier that could transform how we live and work.

ROI of investing in AI

Investing heavily in AI now offers the potential for significant and possibly accelerated returns. As technology rapidly evolves, AI deployment becomes more affordable amid its growing capabilities. AI is also creating new business models and revenue streams in industries like healthcare, finance, and manufacturing; start-up unicorns can lead to robust ROI especially for early investors.

Nuclear power's role in AI

Nuclear energy presents a promising power source for AI due to its sustainability and high energy density. It can support the energy demands of AI systems with a stable, low-carbon supply. Additionally, integrating AI with nuclear tech may drive innovation in energy management, reactor maintenance, and safety, opening new market opportunities.

Maturing AI cycle and lower LLM costs

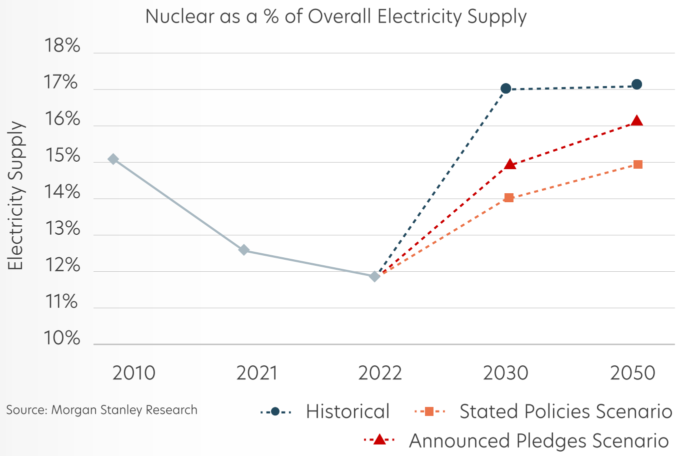
As AI matures, the cost of large-language models (LLMs) is falling due to open-source development and optimisation, making AI more accessible to smaller businesses. China's DeepSeek has shown that nothing is impossible, even with resource constraints. Companies are also effectively integrating AI into workflows and products, boosting efficiency and customer experiences—especially in sectors like retail. Lower costs also encourage startup innovation, disrupting traditional markets and creating new ones.

AI transitioning from digital to physical

AI is increasingly moving into the physical world through technologies like autonomous vehicles and humanoid robots.

Morgan Stanley projects significant Total Addressable Market (TAM) for autonomous vehicles with 3.2 trillion miles driven in the US in 2023, and a disruptive opportunity in the USD 30 trillion global labour market for humanoid robots. These include applications in transport, healthcare, and education. These paradigm shifts enable smarter cities, better logistics, and richer consumer experiences, reinforcing AI's role in tech advancement.

Nuclear: An important power source in driving AI



Source: Morgan Stanley Research

Potential for widespread adoption of humanoids

Tier	Industry	US T	#A	A
	Adoption begins 2028			
1	Construction and Extraction	6.2	4.4	70%
1	Production	8.8	6.0	68%
1	Farming, Fishing, and Forestry	0.4	0.3	67%
1	Building and Grounds Cleaning and Maintenance	4.4	3.0	67%
1	Installation, Maintenance, and Repair	6.0	4.0	66%
1	HealthcareSupport	7.1	4.6	66%
1	Food Preparation and Serving Related	13.2	8.4	64%
1	Personal Care and Service	3.0	1.9	61%
	Adoption begins 2036			
2	Protective Service	3.5	2.0	58%
2	Transportation and Material Moving	13.8	7.6	55%
2	Sales and Related	13.4	5.8	43%
2	Healthcare Practitioners and Technical	9.3	3.8	41%
2	Life,Physical, andSocialScience	1.4	0.5	39%
2	Architecture and Engineering	2.5	0.8	33%
3	Educational Instruction and Libraries	8.7	2.9	33%
	Adoption begins 2040			
3	Office and Administrative Support	18.5	4.4	24%
3	Management	10.5	1.3	12%
3	Arts, Design, Entertainment, Sports, and Media	2.1	0.2	11%
3	Community and Social Service	2.4	0.0	1%
3	Business and Financial Operations	10.1	0.6	6%
3	Legal	1.2	0.0	2%
NA	Computer and Mathematical	5.2	0.0	0%
	Total	151.9	62.7	41%

US T = US Total Employment (mn) #A = #Adoptable (mn) A = Adoptable

Asia Consumption: Gen Z Spending

Value-driven, experience-first consumption

Investors have been conditioned to investing in consumer discretionary stocks when times are good or when a stimulus cheque/subsidy comes along. However, we are highlighting a segment of companies that are able to capture Gen-Z's constantly evolving consumption patterns.

Representing nearly 25% of the global population, Gen Z's preferences are reshaping markets. Specifically, Asia's Gen Z—tech-native, hyper-connected, and increasingly price-conscious—are redefining consumption trends across the region.

Amid economic uncertainty, inflationary pressures and stagnating wages in some markets, this cohort is shifting away from status-driven spending toward value, personalisation and emotional connection. Asia Gen Z's tilt toward experience over possessions is driving growth in affordable luxury and "dopamine consumerism."

The "consumption downgrade"

The term "consumption downgrade" here refers to trading down in price, but not in desire or experience. For example, Pop Mart's Labubu character—cheaper than luxury figures but emotionally resonant, collectible, and viral on social media. Another example would be a consumable item close to the hearts of many—bubble tea. The bubble tea culture continues to be strong, but with a pivot to value-tier chains or promotions—affordable indulgence with lifestyle cachet.

Japanese gaming & anime - emotional capital over material

In Japan, Gen Z spending is rising on anime, mobile gaming, cosplay, and fandom-based content, often digitally or in micro-transactions.

Games like Genshin Impact or franchises like Demon Slayer build emotional ecosystems, replacing traditional goods with experience-driven, identity-building spending. Digital merchandise (even within games) also appeal more than luxury handbags to many.

It is also noteworthy that overseas sales weightings for Japanese games and anime are projected to reach ~80% over the next 15 years, according to Goldman Sachs. This can be exemplified in Nintendo's latest Switch-2 launch, which set a historic high in console sales—more than 3 million units sold globally within 24 hours.

Key themes in Asia Gen Z spending

1. **Affordability & Community:**

Small-ticket items (e.g., figurines and cosmetics) with social or fandom appeal are in.

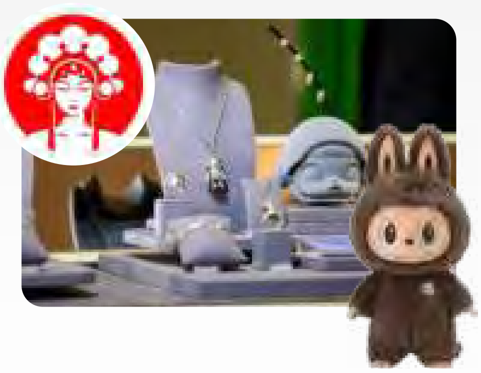
2. **Experience > Ownership:**

Eating out, attending events, and co-creating content with brands outrank luxury consumption.

3. **Authenticity matters:**

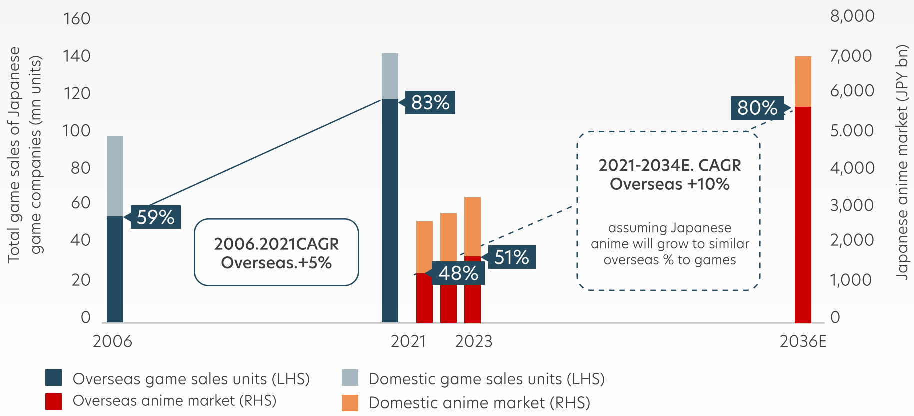
Gen Z supports niche, culturally relevant brands over polished multinational branding.

What is China's Gen Z spending on?



Source: Chagee, Popmart, Laopu Gold, Google

Strong overseas sales growth for Japan's games and anime



"Total game sales: Capcom, Konaml, Bandal Namco, Square Entk, Sega Sammy and Koel Tecmo

Source: The Assoctation of Japanese Antmations, compaty data, Goldman Sachs Global Investment Research

Equities

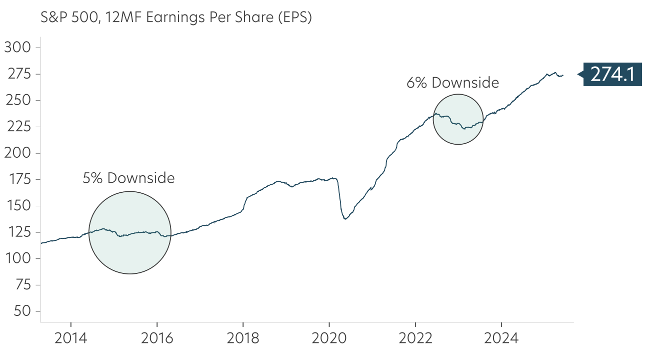
United States

Stocks can scale new heights after a consolidation

2Q 2025 was marked by significant volatility in US equities, mainly driven by the tariff policies under Trump 2.0 administration.

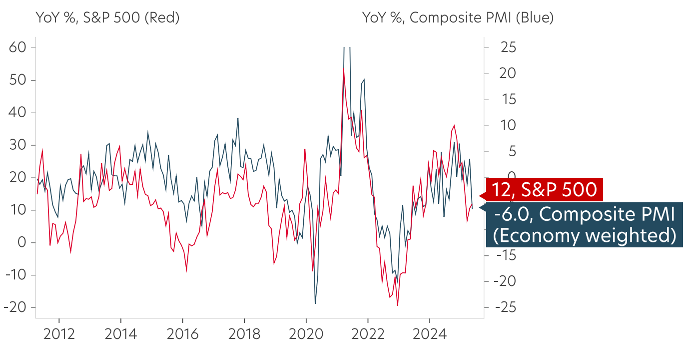
In early April, President Trump announced sweeping tariff increases, leading to a historic market sell-off. S&P 500 plunged by about 10% over two trading days, wiping out USD 5 trillion in market value. Faced with intense market pressure and political backlash, Trump's administration reversed course on 9 April, announcing a 90-day pause on new tariffs for most countries. While the situation remains fluid, the latest US court ruling to block most of Trump's tariffs bodes well for global risk sentiment. In fact, markets have seen a spectacular rebound from April lows. We expect markets to consolidate within a "fat and flat range" in the near term but end higher by end-2025 vs. the start of 2025.

Figure 1: Limited EPS downside (without a recession)



Source: Bloomberg, UOB Private Bank

Figure 2: S&P 500 priced in a huge PMI contraction



Slowing but resilient economic growth

Real GDP growth is expected to moderate to 1% YoY for 2025 as business intentions are hit by lingering trade policy uncertainties; any improvement in the US-China trade talks will present upside risks. US consumer spending remained resilient, but tighter credit are dampening investment. Labour market is showing early signs of slack amid declining job openings and easing wage pressures. Beyond transitory spikes, core PCE inflation is set to ease towards the Fed's 2% target.

Dovish Fed policy tilt with patience

Market pricing has shifted toward 2 cuts by year-end; UOB Economics Research team expects 3 25 bp Fed rate cuts by the end of 2025 (as of 6 June), taking the Fed Funds Target Rate to 3.75%. The Fed is likely to focus more on real growth slowdown, less on inflation.

Downside risks to earnings likely limited; valuation is premium but justifiable

S&P 500's blended 12MF EPS growth is projected at 9% YoY (as of 6 June), with strength in AI and industrial automation. Importantly, downside risks to earnings may be limited amid growth slowdown without a recession **(Fig. 1)**. At 21.9x 12MF P/E (as of 6 June), S&P 500 valuations look rich but are buoyed by solid earnings visibility and stable real yields.

Upside catalysts

Markets could be pricing in lower corporate tax rates and regulatory costs on Trump's fiscal expansion plans; this could lift 2026-2027 EPS forecasts by 5-8%. Meanwhile, AI-led capex cycle should continue to drive productivity and earnings momentum, especially in the cloud infrastructure and semiconductors space.

Market positioning

The S&P 500 has already priced in a huge composite PMI contraction **(Fig. 2)**. We remain constructive, favouring select high-quality growth stocks as well as diversification into value-oriented names.

CIO's recommendation:

We upgrade US equities to Overweight from Neutral. Investors should stay diversified, favouring high-quality growth stocks like the Magnificent 7 and value-oriented names. Trade tensions have peaked but seasonal weakness in July/August will give investors opportunity to build positions to benefit from tax cuts, deregulations and a historically strong 4Q performance.

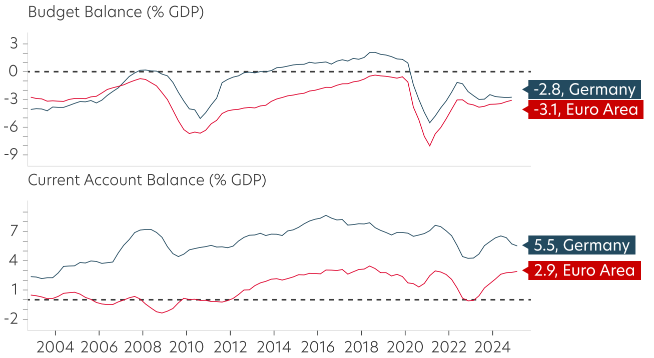
Europe

Buoyed by fiscal and monetary policy loosening

2Q 2025 saw the Euro Stoxx 600 total returns rise by more than 5% in EUR terms (as of 6 June), continuing a moderate recovery trend. The gains were mainly driven by European Central Bank (ECB) rate-cut expectations, resilient corporate earnings, and improving macro sentiment.

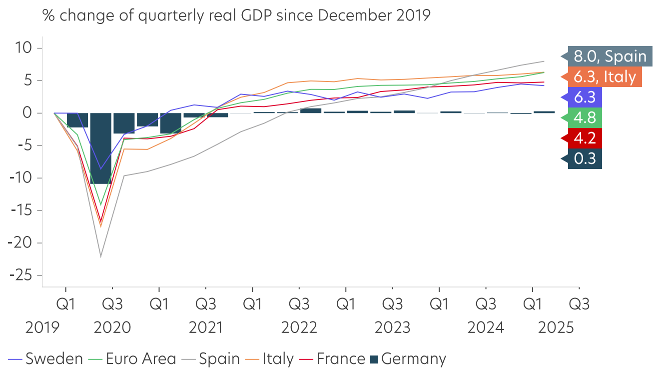
Strong order backlogs and hopes of capex-heavy programs lifted defense, capital goods and select infrastructure names. Meanwhile, continued leadership in European banks, coupled with resilient earnings in tech and industrials, supported the overall performance of European risk assets. Looking ahead, 2H 2025 outlook will rest on continued ECB monetary easing and the deployment of EU fiscal stimulus.

Figure 1: Fiscal spending is needed to offset CA surplus



Source: Macrobond, Bloomberg,UOB Private Bank

Figure 2: Spain & Italy are leading the GDP growth in EU



Stabilising growth across the bloc

Eurozone GDP is expected to register 0.5% growth in 2025, stabilising after a shallow technical recession in late 2024. Notably, Germany is rebounding modestly on fiscal support and industrial restocking. Germany's fiscal stimulus (~1.5-2.0% of GDP) is starting to filter through, supporting domestic demand and industrial sentiment. Led by goods disinflation, inflation is easing across the bloc, allowing ECB easing. While labour markets are still tight, the wage pressures have moderated. Unemployment rate's (6.3% as of 6 June) broad declining trend persisted, providing support to consumption.

Monetary and fiscal policy loosening

The ECB is expected to deliver rate cuts through the rest of 2025, bringing the EUR refinancing rate to 1.65% (as of 6 June), against a disinflationary backdrop. Meanwhile, Germany's massive EUR 900 billion fiscal package entails stimulus in energy transition, semiconductors and AI, as well as defence modernisation. This shift from austerity to industrial policy support is much welcomed to offset the chronic over-savings from current account surplus **(Fig. 1).**

Resilient earnings growth while valuations are still reasonable

Euro Stoxx 600's blended 12MF EPS growth is forecast at ~5% YoY (as of 6 June), recovering from near-flat growth in 2024. The earnings breadth is improving, with cyclicals such as industrials and banks seeing some upside momentum. Valuations were still undemanding relative to global peers at 14.7x 12MF P/E (as of 6 June), presenting some upside risks from fiscal and monetary policy easing.

Market positioning

The German industrials and defence names should continue to benefit from the fiscal package and re-shoring demand, while banks in peripheral regions like Spain and Italy may outperform on dividend/ buyback upside, improved asset quality and rising return on equity (~12-14%) **(Fig. 2)**. Select AI/tech names remain in play. We advocate buying into weakness or gaining equity exposure via sell-put strategies.

CIO's recommendation:

We stay Neutral on European equities and focus on opportunities in select industrials, banks, and AI/tech stocks. We advocate buying into weakness or gaining European equity exposure via sell-put strategies.

Japan

Dragged by stronger yen and weakening business sentiments

As with the global peers, Japan's equity markets navigated a complex landscape shaped by global trade tensions, domestic monetary policy decisions, and evolving economic indicators in 2Q 2025.

Investor sentiments were impacted due to the imposition of the US tariffs, leading to periods of Japan's equity volatility. Key export-driven sectors like automotive and steel faced US tariff-related headwinds, affecting their stock performance and contributing to broader market jitters. On the back of global sentiment recovery from oversold conditions, Japan's equities have also rebounded. Yet, business sentiments are weakening **(Fig. 1)** given prolonged economic uncertainties amid Japan's ongoing trade negotiations with the US. Coupled with the potential for equity volatility amid a stronger yen, we downgrade Japan's equities to Neutral from Overweight.

Downside risks to growth

Despite firm inbound tourism, Japan's real GDP growth is forecast at 1.0% YoY in 2025, given downside risks from the US tariffs on Japan's top export sectors and patchy domestic consumption amid negative real wage growth. Exports growth is also set to slow as the US tariff-led policy uncertainties linger. Meanwhile, core inflation has been surprising on the upside, driven by rising rents and price adjustments to reflect higher labour costs.

Historic BOJ policy normalisation underway

The Bank of Japan (BOJ) is expected to conduct one 25 bp rate hike, bringing the policy rate to 0.75% by the end of 2025. The yield curve control (YCC) has effectively been abandoned, with the BOJ tolerating 10-year JGB yields above 1.0%. While this reflects improving confidence on Japan's inflation durability, shrinking interest rate differentials (as the Fed cuts) suggests continued yen strength, which may mean forthcoming equity volatility **(Fig. 2).**

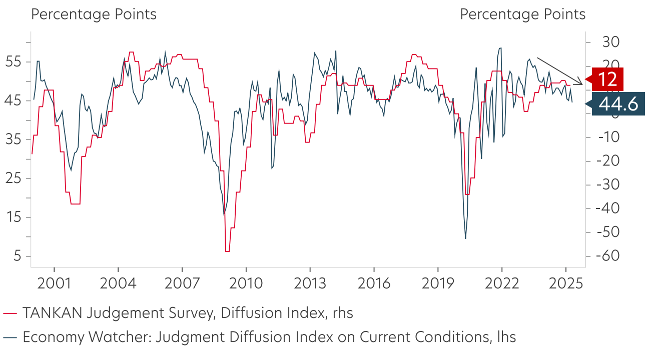
Weak earnings growth but sector-dependent; valuations remained undemanding

TOPIX's blended 12MF EPS growth is forecast at ~3% YoY (as of 6 June) amid expectations for currency drag and global trade softness. The silver lining is that TOPIX trades at 14.5x 12MF P/E (as of 6 June), which is still below global peers and its own 20-year average.

Market positioning

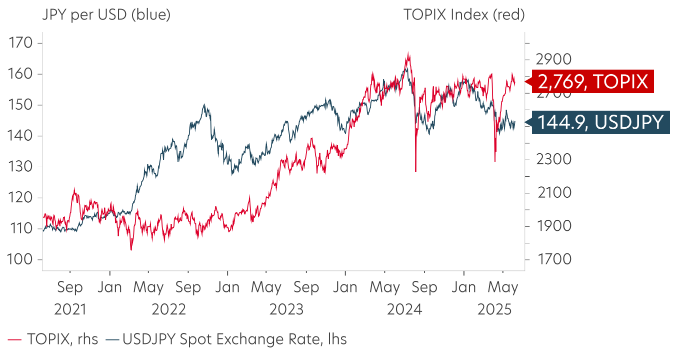
It is noteworthy the returns on equity (ROE) for many Japanese firms are structurally rising due to governance reforms and capital discipline. We prefer domestic-oriented firms like financials and corporate-reform beneficiaries with rising capital returns (i.e., dividends & buybacks). Quality consumer and growth names remain in play. Exporters (e.g., auto and electronics) may be dragged by trade policy uncertainties and FX translation headwinds. Overall, the portfolio should be positioned for currency resilience.

Figure 1: Japan's business sentiments are weakening



Source: Bloomberg, UOB Private Bank

Figure 2: Higher equity volatility amid a stronger JPY



CIO's recommendation:

We downgrade Japan's equities to Neutral from Overweight. Japan's equities may see some volatility amid a strengthening yen. We prefer domestic-oriented sectors like financials, beneficiaries of the country's corporate reforms as well as quality consumer and growth stocks with strong pricing power.

Emerging Asia

At an inflection point as risks are better understood

China remained at the heart of EM Asia's market volatility in 2Q 2025 amid the tariff overhang, deflationary undercurrents and targeted stimulus. The expiration of the 90-day US-China trade truce could inject uncertainty, with the threat of up to 60% tariffs on Chinese goods looming large. Meanwhile, producer prices slump to -2.0% YoY, underlining weak producer margins and demand-side caution. Chinese officials responded with targeted stimulus–a 50 bp reserve requirement ratio (RRR) cut, SME lending support, and new infrastructure commitments to stabilise the markets.

Looking into 3Q 2025, EM Asia equities are at a strategic inflection point. While the region grappled with external headwinds, mainly rising trade tensions and persistent volatility in global bond markets, many of these risks are better understood, priced in, or actively addressed by the policymakers. We adopt a selectively constructive stance, favouring a barbell strategy in dividend stocks and quality China tech/AI names.

Divergent growth across region

While India's growth outperformance may persist on firm domestic demand, China's real GDP growth is forecast at 4.6% in 2025 amid fragile confidence. Growth is also set to moderate in ASEAN, reflecting slower global trade, lower exports and China spillover effects.

Stabilising CN growth with incremental stimulus

China's GDP growth is set to stabilise, with industrial output, retail sales and fixed asset investment showing signs of bottoming out. Yet, the private sector remains cautious with frail consumer sentiments and investment. Property sector is still a key drag amid low homebuyer confidence. Local government finances remain under pressure.

On this note, the Chinese government has committed to a proactive fiscal stance, with a 2025 special local government bond quota (~CNY 4 trillion) to fund infrastructure, green projects and technology. Monetary policy is also increasingly accommodative amid LPR and RRR cuts albeit transmission is weak. Given the rising odds of a US-China trade deal, a "fiscal bazooka" is unlikely.

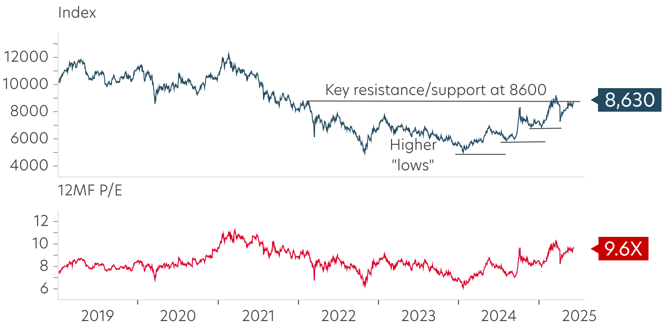
Decent Chinese earnings growth with attractive valuations

HSCEI blended 12MF EPS growth is forecast at ~8% YoY (as of 6 June), driven by AI and tech optimism. At 9.6x 12MF P/E, there is much room for valuation expansion relative to the global peers, against an improving macro backdrop **(Fig. 1).**

Market positioning

US Fed easing could drive foreign inflows into EM Asia, supporting Asia FX. Overall, we reiterate our preference for resilient Chinese dividend and consumer stocks as well as AI-related names **(Fig. 2).**

Figure 1: China HSCEI – A positive technical picture



Source: Bloomberg, UOB Private Bank

Figure 2: Stay with China's secular growth plays like AI

CIO's recommendation:

We remain Overweight on Emerging Asia equities, particularly China. A weaker US dollar and Fed easing may drive more foreign inflows into EM Asia against a backdrop of undemanding valuations. We reiterate preference for Chinese dividend and consumer stocks as well as AI-related names.

Fixed Income

Developed Markets Investment-Grade

Building in defensive premia

DM Investment Grade (IG), proxied by the Bloomberg US Corporate Bond Index, delivered a total USD return of +2.0% year-to-date (as of 6 June). Credit spreads have seen some recovery post the 'Liberation Day' shock, on the back of calmer market sentiment. However, US treasury yields have crept up amid ongoing uncertainties on the tariff front and worsening US fiscal position.

US exceptionalism has also taken a breather with Trump's tariffs and the US long-term fiscal health taking the spotlight. Specifically, concerns over trade protectionism & tariff-induced inflation have led to general risk aversion with traders paring back on long-end positions. Markets have repriced some bear steepening into the treasury yield curve YTD with 10-2yr/ 30-10yr differential widening by 16 bp/ 31 bp, respectively.

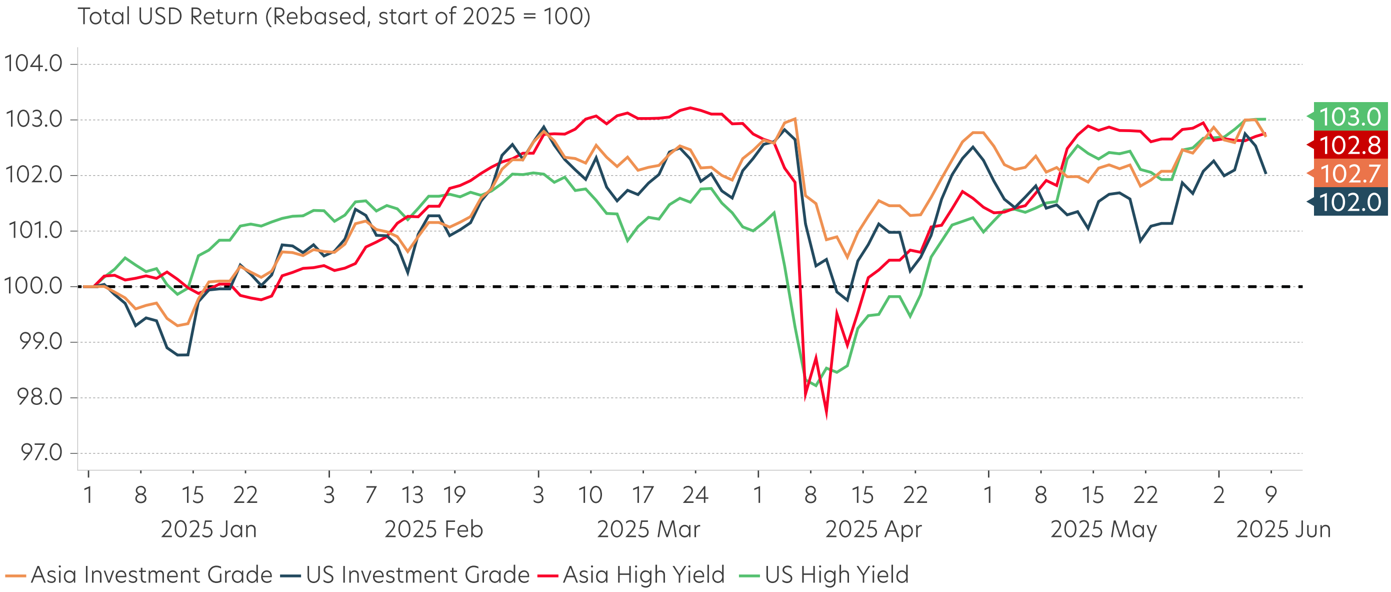
Looking ahead, we expect the Fed to address labour market concerns through policy easing in a gradual manner. The UOB Global Economics & Markets Research team is projecting one 25 bp rate cut in 3Q 2025, followed by two 25 bp cuts in 4Q 2025.

While credit spreads have narrowed, they stayed wide relative to early-2025 levels. Juxtaposed with higher treasury yields, the all-in investment grade (IG) bond yields remained at compelling levels for income investors. With tariff uncertainty remaining a certainty, our preference for quality bonds from defensive sectors can provide hedge against broad risk aversion with the added benefit of coupon carry. We stay Overweight on DM USD IG bonds.

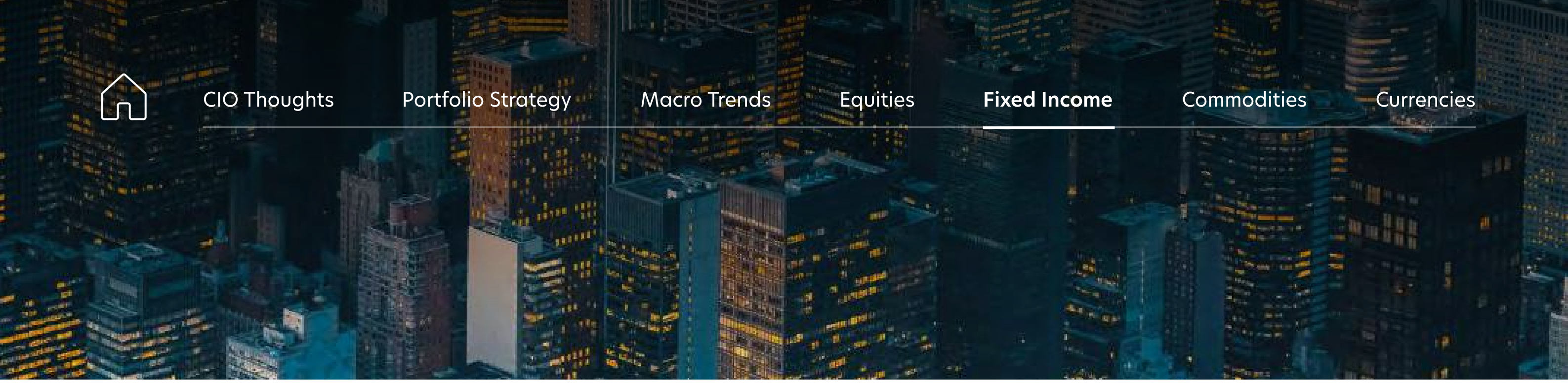
CIO's recommendation:

Overall, we remain Overweight on DM USD IG. We prefer quality bonds with attractive coupon carry from defensive sectors.

Fixed Income year-to-date performances



Source: Bloomberg, UOB Private Bank



Developed Markets High Yield

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

It has been a roller coaster ride for Developed Markets High Yield (HY) year-to-date as risk assets witnessed broad selloff in the wake of President Trump's tariff policy shock. Following a recovery in broad risk sentiment, DM HY credit spreads (proxied by Bloomberg US Corporate High Yield Index) tightened ~150 bp from its peak in April. A light supply issuance calendar and benign default rates also provided supportive technicals for DM HY. Overall, coupon carry and spread compression helped drive DM HY total USD returns by +3.0% YTD (as of 6 June).

Having said that, slowing growth, delayed rate cuts and a more compressed credit spread differential between rating spectrums pose as headwinds for DM HY through the rest of 2025. We expect the Fed's wait-and-see stance to eventually culminate in softer US labor markets and a drag on US GDP growth.

The UOB Global Economics & Markets Research's GDP growth forecast of +1.0% YoY for 2025 (from +2.8% YoY in 2024) corroborates this view.

This could skew credit risk to the downside, with cyclically exposed sectors being most prone to spread widening.

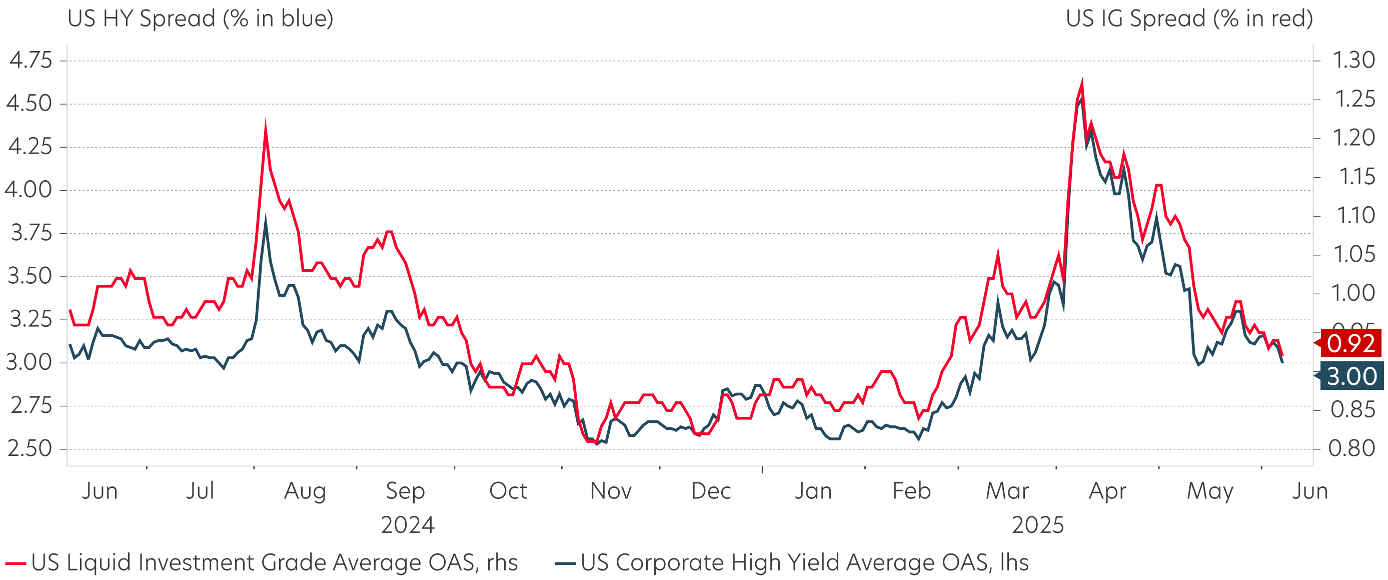
In terms of valuations, the current DM HY credit spread of ~300 bp is tighter than trailing 10-year average of 410 bp. Investors should put credit risk considerations first at the current juncture, focusing on credits that are sufficiently insulated from macroeconomic shocks and adjustments. The preferred sectors include utilities, telecommunications and large financials.

Overall, we stay Underweight on DM USD HY.

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.

Spreads have narrowed significantly following US tariff policy shock



Source: Bloomberg, UOB Private Bank

Emerging Markets Asia Investment-Grade

Relative haven amid a tough macro backdrop

Emerging Market Asia Investment Grade (EM Asia IG) recovered from the initial "Liberation Day" shock and logged a respectable year-to-date total return of +2.7% (as of 6 June). Rates and coupon income were key return drivers as credit spreads whipsawed in 1H 2025 and are now back to neutral ground.

Looking ahead, tariff headlines and impact of price pass-through to the end consumers will be closely watched for its impact on global demand. Export-driven markets in Asia may be more susceptible to a slowdown in global growth. At the same time, fundamentals of EM Asia IG issuers are still in a good place and should partly offset some of the macro uncertainties. We also believe any upward credit spread pressures can be cushioned by lower US Treasury yields under such a scenario.

We expect EM Asia IG to be a relative haven that caters to the portfolio-stabilising and diversification needs of investors.

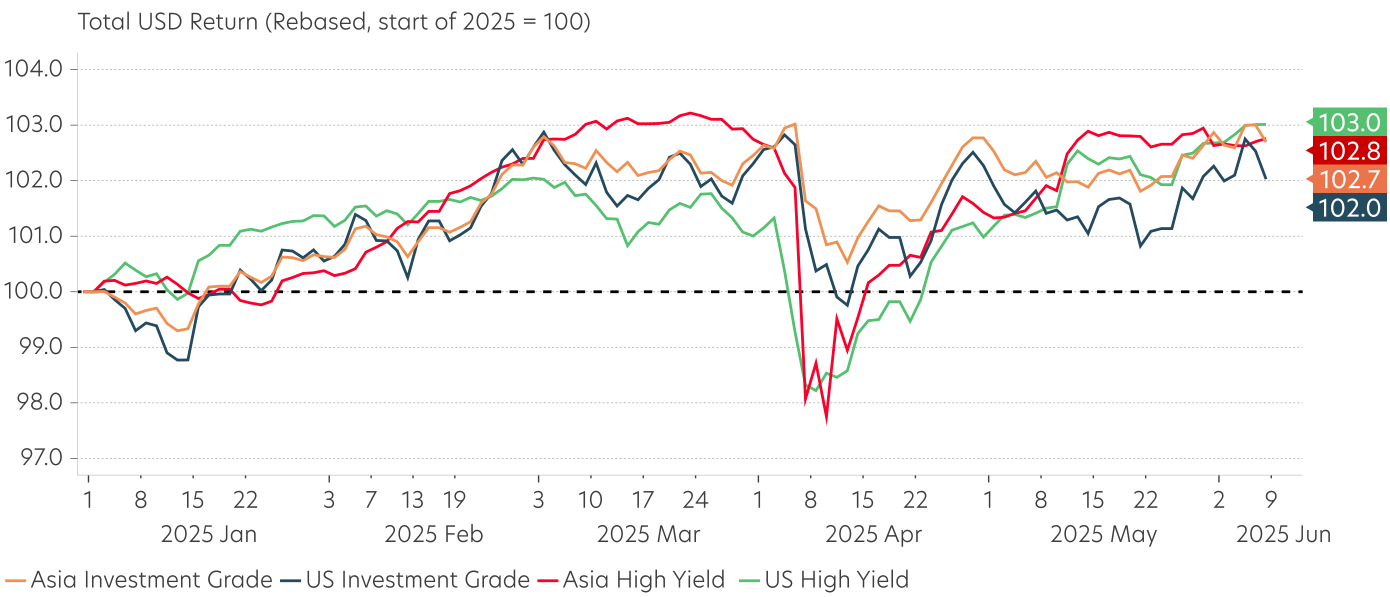
Within the space, we maintain our preference for Asian (including Japan) financials, select Asia-focused life insurers, quasi-sovereign/ strategic state-owned enterprises, and defensive consumer names.

We are constructive on select China TMT names and issuers that target domestic consumption. Tariff tensions will likely incentivise policies to reinvigorate the local economy and boost household demand consumption. Regional ASEAN champions and quasi-sovereigns also present attractive yield pick-up opportunities. Overall, we remain Overweight on EM Asia IG.

CIO's recommendation:

We remain overweight on EM Asia IG. We like Asian financials, select Asia-focused life insurers, quasi-sovereign/strategic state-owned enterprises and defensive consumer names.

Fixed Income year-to-date performances



Source: Bloomberg, UOB Private Bank

Emerging Markets Asia High Yield

Selectivity is key in avoiding pitfalls

EM Asia High Yield (HY), proxied by Bloomberg Asia USD High Yield Bond Index, continued to hold up well in 2025, delivering a total USD return of +2.8% year-to-date (as of 6 June). Credit spreads have tightened significantly to 487 bp (as of 6 June) from April's peak, with volatility falling sharply on easing trade tensions.

Macroeconomic uncertainties had impacted sentiments, and elevated US treasury yield could pose demanding refinancing costs for HY issuers. While EM Asia could benefit from rerouting of trades, the second-order impact of slower growth within G7 economies could still lead to wider credit spreads in EM Asia.

Having said that, robust demand for attractive all-in yields and favourable supply technicals should keep EM Asia HY bonds well-supported.

In terms of positioning, caution and high selectivity remains our modus operandi within EM Asia HY. We advocate applying stringent bottom-up analysis to reduce credit risk within the HY space.

Overall, we favour higher-rated and more established BB credits over lower-rated ones for better defensiveness against potential credit pitfalls and idiosyncratic risk. We stay Neutral on EM Asia HY.

CIO's recommendation:

We remain Neutral on EM Asia HY. We favour select ASEAN infrastructure, Indonesian utility and Indonesian property credits.

Spreads have narrowed for EM Asia Bonds but are at higher levels than pre-US tariff shock for HY

Source: Bloomberg, UOB Private Bank

Commodities

Precious Metals

Gold prices backed by haven demand and robust central bank allocation

Gold remains our most constructive call within commodities, with a bullish trajectory into 3Q 2025 supported by macroeconomic tailwinds as well as robust central bank demand.

Several long-term positive drivers reinforced this ongoing rally in gold. Firstly, after a brief hiatus, the USD resumed its sell-off with the USD Index (DXY) falling back below 100 yet again. Renewed threats from President Trump on imposing higher trade tariffs, this time against the European Union, triggered the latest sell-off in the USD. So far this year, the sell-off in the USD has fuelled the rally in gold.

Secondly, China's strong appetite for gold remains unabated. After the hike in import quotas from the PBOC, China's monthly import of non-monetary gold jumped 73% for the month of April to a one year high of 127 MT.

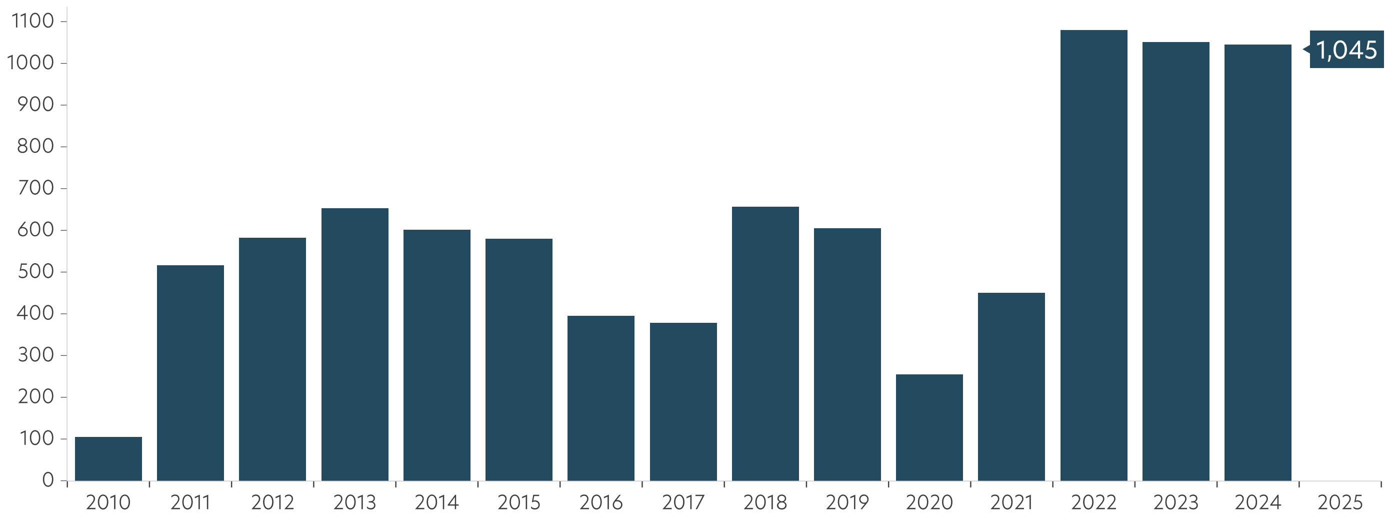
Thirdly, key futures positioning for gold remains firmly in net long position for both COMEX and SHFE. In fact, SHFE net long positioning in gold continues to pick up, alongside evidence of increasing domestic retail interest for gold ETFs in China.

These factors reinforce the ongoing strong haven demand and robust central bank allocation, reaffirming our positive long-term outlook for gold.

We reiterate our positive forecast:

Commodity	3Q25F	4Q25F	1Q26F	2Q26F
Gold (USD/oz)	3,400	3,500	3,600	3,700

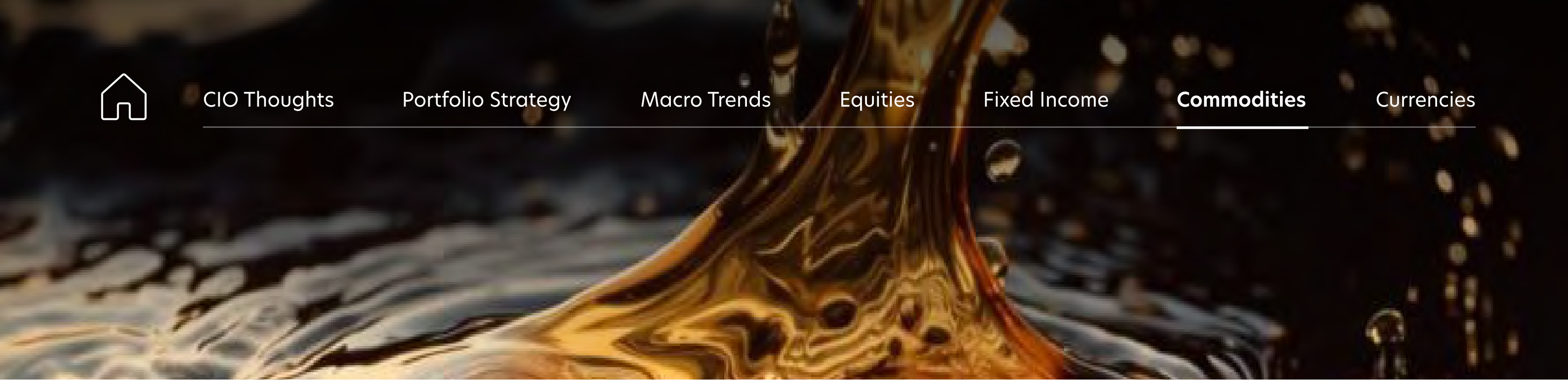
Strong global Gold demand stemming from central bank annual net purchases (Metric Tonne)



Source: Bloomberg, UOB Private Bank

CIO's recommendation:

We remain Overweight on Gold as haven demand and consistent central bank allocation will continue to support the upward price trajectory. Persistent USD weakness presents further tailwinds to Gold prices.



Brent Crude

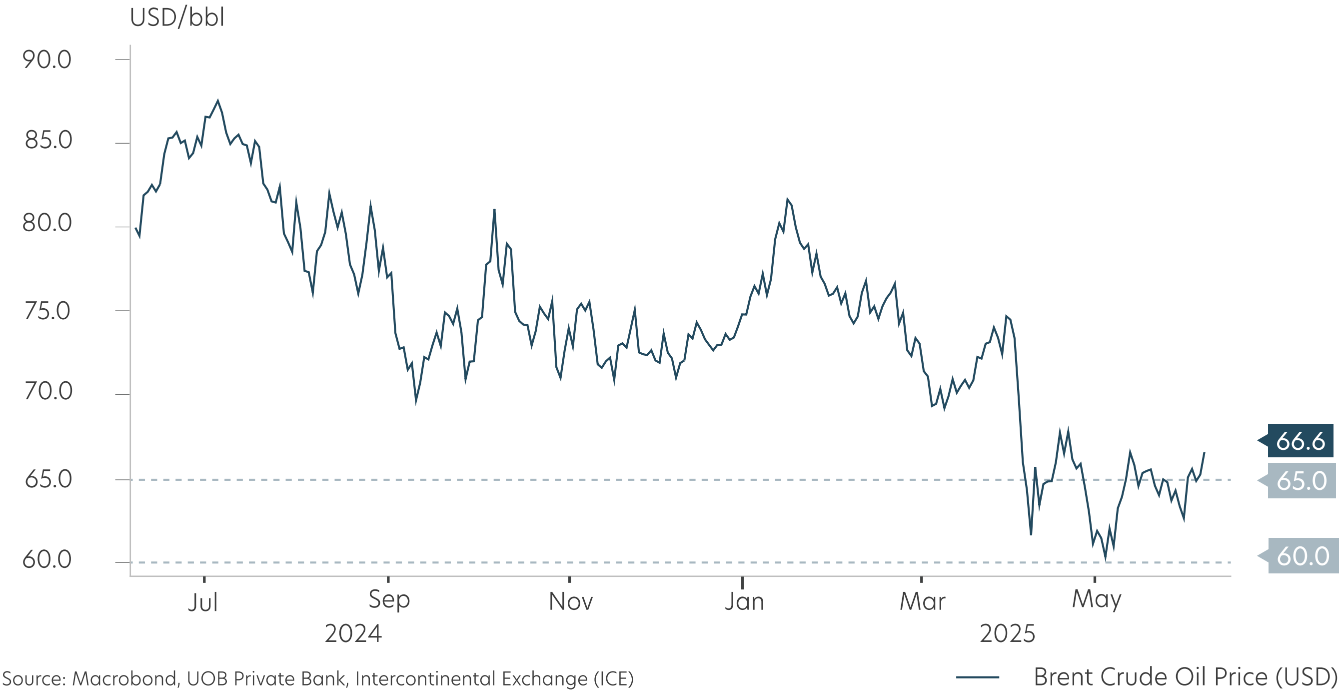
Accelerated pace of OPEC+ supply resumption a big negative

As 2025 unfolds, Saudi Arabia has grown increasingly impatient with OPEC+'s gradual approach to restoring oil production, shifting the group's strategy from price stability to regaining market share. Saudi Arabia now aims to complete this by year-end, prompting a third consecutive 411,000 bpd production hike for July, bringing the total restored output to 1.4 million bpd. In addition, the US is now the world's largest crude oil producer.

While incremental supply pressures weigh on market sentiment, Brent crude prices have spiked above USD 70 per barrel with some signs of stabilisation of late. This likely reflects the setting in of geopolitical risk premium amid escalating tensions in the Middle East upon news that Israel launched an attack on Iran's nuclear facilities. However, previous conflicts between Israel and Iran in 2024 had limited impact on crude oil prices. As such, we refrain from making any knee-jerk adjustments to Brent forecasts.

Commodity	3Q25F	4Q25F	1Q26F	2Q26F
Brent Crude Oil (USD/bbl)	65	60	55	55

Brent crude to settle around USD 60-65/bbl.



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

CIO's recommendation:

CIO's recommendation: We stay Neutral on Brent Crude. Prices are expected to settle into a lower range of USD 60-65/ bbl. through the rest of 2025 despite upside risks from geopolitical developments.

Base Metal (LME Copper)

COMEX stockpiling amid tariff uncertainty is unsustainable

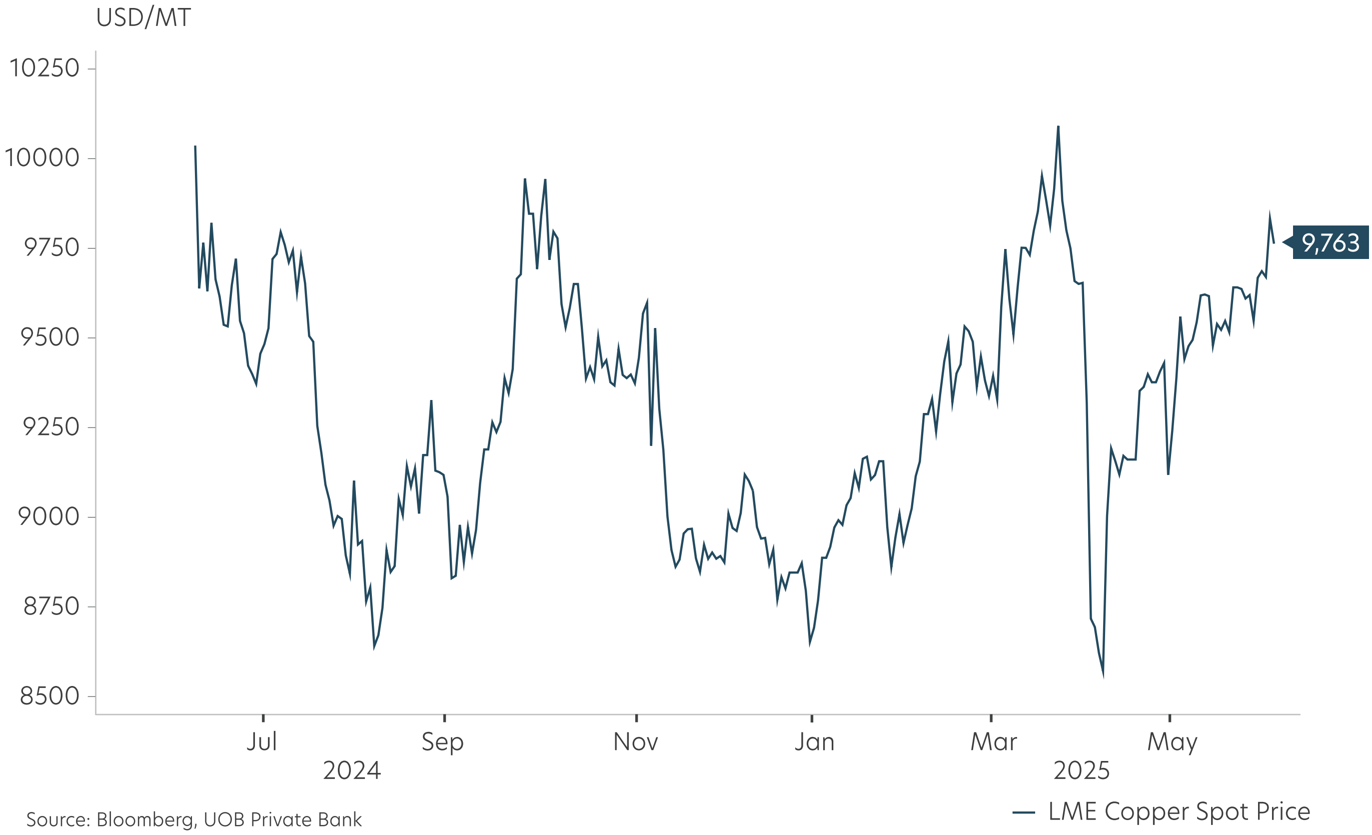
Copper inventories on COMEX have continued to rise sharply due to investor concerns that President Trump may extend trade tariffs to copper imports, despite no official indication. This precautionary stockpiling has sustained a price premium for COMEX copper over LME copper, defying typical arbitrage expectations after accounting for shipping costs. The resulting market dislocation has tightened short-term copper liquidity, driving up the LME cash spread and Yangshan premium in China.

China, amid ongoing trade tensions with the US, is also stockpiling copper, further straining near-term supply.

Having said that, this inventory build-up on COMEX is seen as unsustainable, prompting a modestly negative outlook for LME copper, with updated forecasts:

Commodity	3Q25F	4Q25F	1Q26F	2Q26F
Copper (USD/mt)	9,500	9,000	8,500	8,500

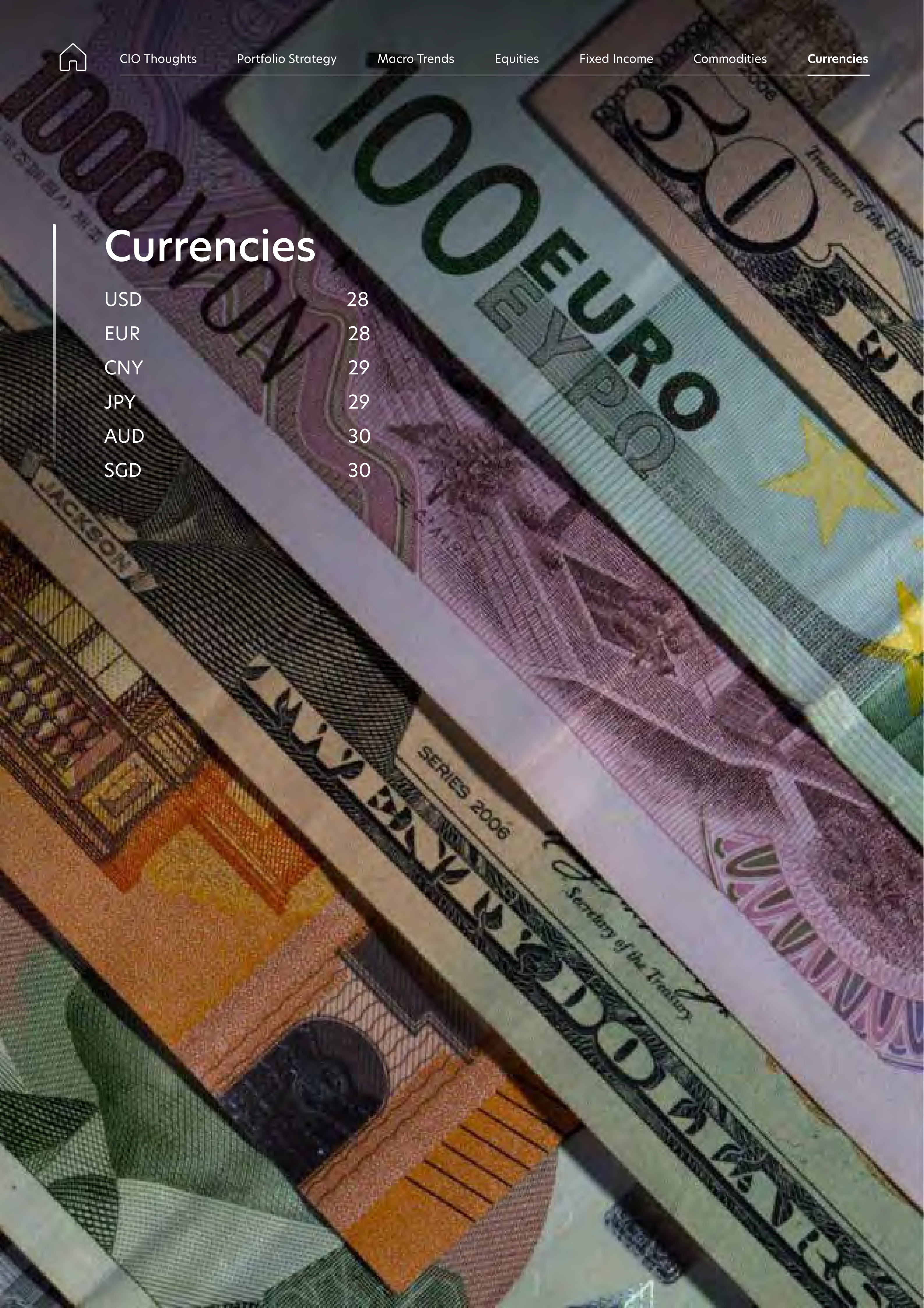
Fade the price increases from Copper inventory build



Source: Bloomberg, UOB Private Bank

CIO's recommendation:

We remain Underweight on Base Metal (LME Copper) on expectations that the precautionary stockpiling ahead of any potential US trade tariffs will fade. The Copper inventory build-up on COMEX is seen as unsustainable, prompting our modestly negative outlook for LME Copper.



Currencies

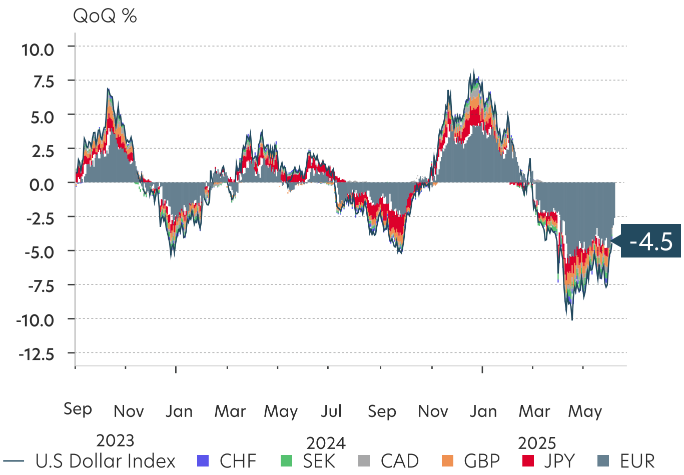
USD

DXY is likely to trade below 100 in the coming quarters

There is a strong likelihood that the global trade war will begin to ease in the second half of 2025. As a result, the shift away from US assets may decelerate, reducing a major source of downward pressure on the USD. That said, as tariff-related risks abate, monetary policy considerations may return to the forefront again. Our expectations of the Fed resuming its easing cycle after a nine-month pause—while other G10 central banks are gradually concluding theirs —could once again narrow the USD's interest rate differentials, exerting downward pressure on the USD. Overall, the former is likely to dominate the narrative. We also noted that net-short USD futures positioning within the G-10 space may have peaked in the short-term. We maintain a downward trajectory in the DXY, with updated implied forecasts.

FX	3Q25F	4Q25F	1Q26F	2Q26F
DXY	99.4	98.4	97.4	96.5

Contributions to the US Dollar Index (DXY)



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

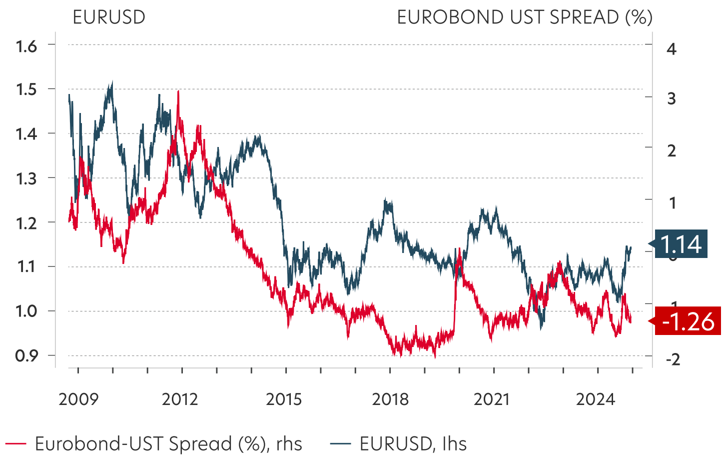
EUR

An expected recovery of the EUR-USD rate differentials may keep the uptrend intact but pace is likely to moderate

EUR was the direct beneficiary when de-dollarisation speculation talks gained traction in the last couple of months and touched a high of 1.1573 in April, the highest since November 2021. The euphoria over the EUR was also captured by the option markets which priced the highest premium of EUR/USD calls relative to puts since the height of the pandemic in March 2020. For the same reason, if the de-dollarisation theme fades alongside tariff risks, the euphoria over the EUR may cool somewhat. While an expected recovery of the EUR-USD rate differentials may keep the EUR/USD uptrend intact, its pace is likely to moderate. Overall, our updated forecasts EUR/USD are positioning the EUR as one of top-performing major FX this year.

FX	3Q25F	4Q25F	1Q26F	2Q26F
EUR/USD	1.14	1.15	1.16	1.17

EUR-USD rate differentials may keep EURUSD uptrend intact though pace is likely to moderate



Source: Macrobond, UOB Private Bank, Macrobond Financial AB

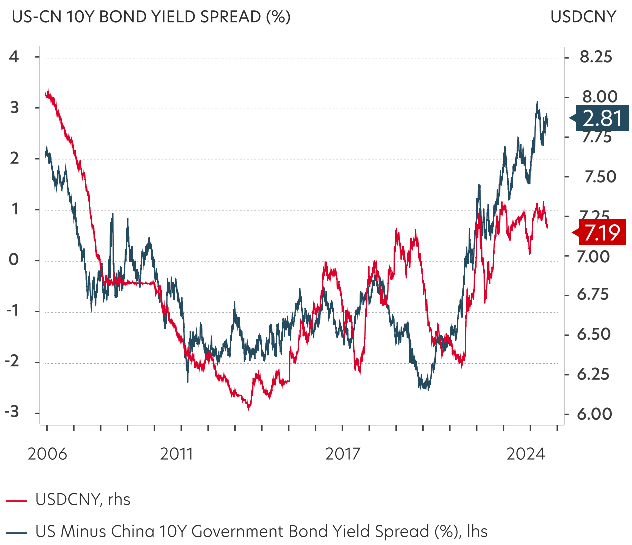
CNY

Trade uncertainties, ongoing domestic growth slowdown and "moderately loose" policy stance are likely to tether the CNY on the weak end of daily fixing

In 2Q 2025, USD/CNY pulled back from its psychological 7.35 level to as low as 7.17, a level last seen in November 2024. At current levels of about 7.20 (as of 30 May), markets have unwound a large part of the Trump 2.0 tariff risk premium. USD/CNY has normalised back to the daily fixing rate from its +2% upper limit (from fixing) in early April when trade tensions erupted. From here, uncertainties about reaching a trade deal before the tariff truce expires on 13 August, the ongoing domestic growth slowdown and People's Bank of China's (PBOC) "moderately loose" policy stance are likely to tether the CNY on the weak end of the daily fixing. Market expectations of higher end-state US tariffs on China relative to peers pave the way for sustained weakness in the CFETS RMB index and underperformance within the Asia FX space. In the near term, we stay cautious on the CNY and forecast a higher USD/CNY in 3Q 2025.

FX	3Q25F	4Q25F	1Q26F	2Q26F
USD/CNY	7.26	7.22	7.18	7.12

CNY under depreciation pressures amid expectations of higher end-state US tariffs relative to peers



Source: Bloomberg, UOB Private Bank

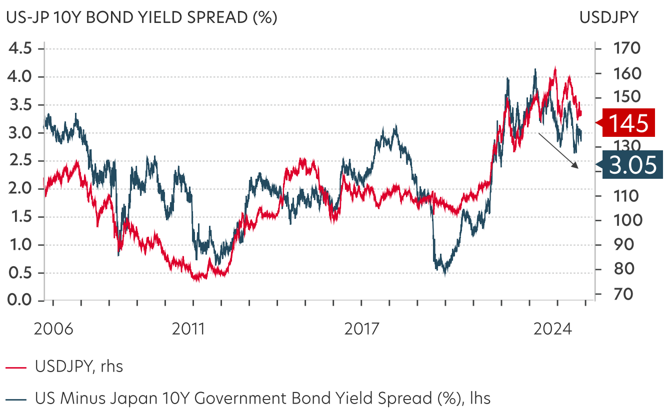
JPY

Monetary policy divergence between the Fed and BOJ to keep USD/JPY biased to the downside

USD/JPY has traded down to 145 as of 29 May from about 150 at the start of the 2Q 2025, tracing lower USD-JPY rate differentials. While 10-year US Treasuries yield has risen to 4.5% to reflect increased US fiscal worries, the 10-year Japan Government Bond (JGB) also rebounded strongly from Liberation Day's lows near 1.1% to 1.5% (as of late May) after a series of poor investor demand at longer-dated JGB auctions. We still expect monetary policy divergence between Fed (easing bias) and Bank of Japan (BOJ, tightening bias) to keep USD/JPY biased to the downside. That said, a one-quarter delayed BOJ rate hikes to September 2025 and 1Q 2026 is likely to translate to more measured JPY strength going forth.

FX	3Q25F	4Q25F	1Q26F	2Q26F
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

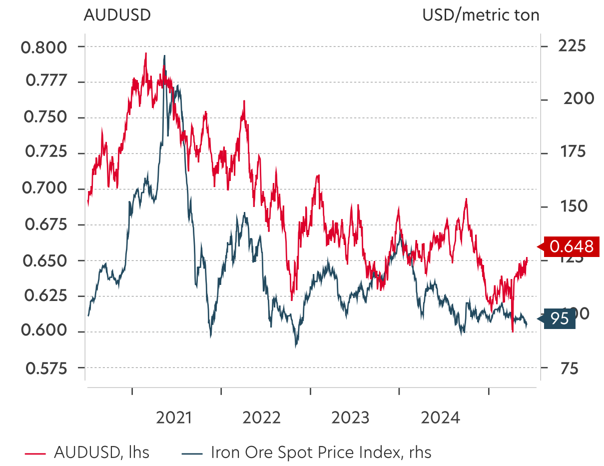
Cautious optimism on the back of broad USD weakness and gradual progress in trade talks

After staging a v-shaped recovery in response to the 90-day Liberation Day tariffs pause, AUD/USD has largely consolidated between 0.6350 and 0.6500 since mid-April. The US-China deal in May to reduce tariffs for 90 days also failed to inspire an upside breakout in AUD/USD even amid broad USD weakness. This reflected investors' caution about further progress in US-China trade negotiations. A dovish Reserve Bank of Australia (RBA) rate cut weighed on the AUD as well as the central bank's consideration for a larger half-point reduction.

Overall, we reiterate our cautiously positive view on AUD/USD premised on broad USD weakness and gradual progress in trade talks, though a global trade slowdown will likely cause AUD to lag its G-10 peers this year.

FX	3Q25F	4Q25F	1Q26F	2Q26F
AUD/USD	0.64	0.65	0.66	0.67

Cautious optimism on the back of broad USD weakness and gradual progress in trade talks



Source: Macrobond, UOB Private Bank, Macrobond Financial AB

SGD

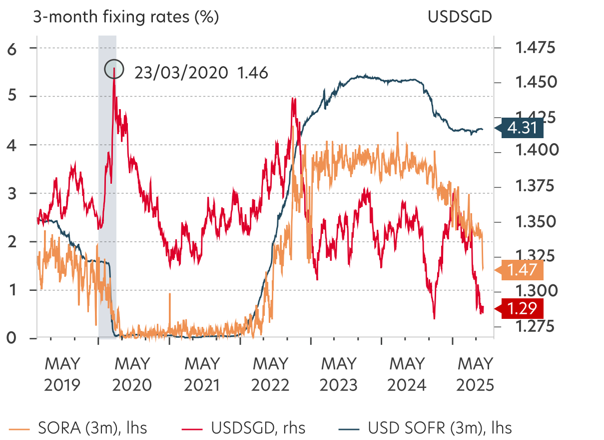
Further policy easing could prompt the S$NEER to begin normalising lower

Amid broad USD weakness and safe-haven flows into Singapore, USD/SGD dipped below the psychological 1.30 level and touched an 8-month low of 1.2802 late May. Year-to-date, the SGD has gained close to 6% against the USD, making it the best-performing ASEAN currency. The S$NEER is currently trading about 1.8% above the policy midpoint (as of 30 May), near to its 2.0% limit which limits further appreciation potential both against the USD and other currencies in the S$NEER basket, according to our estimates.

We expect the Monetary Authority of Singapore (MAS) to ease policy further by flattening the slope in Jul, which could prompt the S$NEER to begin normalising lower. As a result, we anticipate USD/SGD to consolidate near the 1.30 level in the coming quarters.

FX	3Q25F	4Q25F	1Q26F	2Q26F
USD/SGD	1.30	1.29	1.29	1.28

Consolidation in the near-term is expected after a period of outperformance



Source: Macrobond, UOB Private Bank, Macrobond Financial AB, Monetary Authority of Singapore

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