

Trimming The Sails

Global Economic Resilience



Monthly Outlook

by OCBC Wealth Panel

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For **now**,
and **beyond**

IN THIS ISSUE

- P 03-06 **Global Outlook**
Global Economic Resilience
- P 07-09 **Equities**
Downgrading Europe
- P 10 **Hong Kong / China Market Outlook**
Riding On the AI Investment Spree
- P 11-13 **Bonds**
Resilient But Vulnerable
- P 14-17 **FX & Commodities**
Gold's Bullish Outlook Remains Intact

ABOUT THE OCBC WEALTH PANEL



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Trimming The Sails

September marked a pivotal month in the macro investment environment. The Federal Reserve [Fed] lowered interest rates for the first time this year, signalling its pivot towards the “maximum employment” side of the Fed’s mandate as the job market in the US continued to moderate. Other major central banks mostly remained on hold, while select Emerging Markets [EM] continued to trim rates as lower US rates and a weaker USD provided the necessary headroom to ease. The easing in financial conditions continued to buoy risk-on sentiments, leading to gains across fixed income and equities. US equities extended their rally to reach another all-time high, as the surge of capital into companies building the infrastructure of artificial intelligence [AI] raised market expectations across semiconductors, cloud services and data centres. This positive momentum extended to South Korea, China and Hong Kong equities with AI and tech exposures. Gold prices advanced to all-time highs this month against the outlook for weaker USD with the Fed easing.

Expectations of further rate cuts by the Fed coupled with the moderate impact from US tariffs on growth year-to-date underpin the current favourable risk sentiment; however, the market may be underpricing some of the relevant downside risks. The combination of resilient yet late-cycle fundamentals, high valuations, and elevated political and policy uncertainty points to a narrowing margin for error against an investment backdrop that should continue to see positive momentum.

As a result, we are calibrating our overall exposure by trimming some risk and taking healthy profits at this juncture. We downgrade our Overweight position in European equities to Neutral, while maintaining an overall Overweight stance in equities via an Overweight position in Asia ex-Japan. In fixed income, we hold an Underweight position on DM High Yield [HY] and EM Sovereign bonds, and remain cautious of duration risk as we continue to expect long-end US Treasury [UST] yields to remain elevated given the risks of sticky inflation and continued concerns over the US fiscal position. We continue to favour gold as a hedge against fiscal sustainability concerns globally, and a beneficiary of safe haven flows.



GLOBAL OUTLOOK

ELI LEE

Chief Investment Strategist, Bank of Singapore

Global Economic Resilience

“The global economy has proven to be surprisingly resilient despite the shocks of US trade wars and the wars in Ukraine and the Middle East.”

- The US economy is suffering mild stagflation as the supply shock from its steep tariff hikes slows growth from almost 3% in 2024 to around 1.6% in 2025 while also pushing core inflation back towards 3%. But activity in the Eurozone, UK, China, Japan and India has held up better than expected this year.
- The US Federal Reserve (Fed) has begun to reduce interest rates again, easing rates by 25 basis points (bps) in September. The Fed thus joins the European Central Bank (ECB), the People's Bank of China (PBOC), the Bank of England (BOE) and the Swiss National Bank (SNB) that have lowered interest rates to 2%, 1.4%, 4% and 0% respectively.
- Resilient activity and falling interest rates have been important tailwinds for financial markets. We expect the Fed to still reduce interest rates twice this year. But investors need to be aware of longer-term risks. Higher tariffs may keep global growth subdued

around 3% in 2025 and 2026. Inflation is proving sticky, making it unlikely that major central banks will cut interest rates much more now and the Trump administration's efforts to curb Fed independence could lead to higher inflation, steeper yields and a much weaker US Dollar.

- Investors should therefore continue to maintain diversified and resilient portfolios given the longer-term threats to the outlook.

US – The Fed is making limited “insurance” rate cuts

- The Fed's September policy meeting was important on two counts. First, for the Federal Open Market Committee's (FOMC's) decision on interest rates and, second, whether officials would continue to act independently of the White House's desire for aggressive rate cuts.
- On the first point, the FOMC as widely expected reduced its fed funds rate for the first time this year by 25bps to 4-4.25% as

officials acted to cushion the slowing US labour market rather than keep curbing inflation. The Fed's statement said: “downside risks to employment have risen.”

- The FOMC also updated its forecasts, projecting GDP growth to fall from 2.8% in 2024 to 1.6% in 2025 as US tariffs hurt activity while core inflation is expected to stay high at 3.0% this year and 2.6% next year. The stagflation outlook resulted in FOMC members being split on the need for further rate cuts. Seven members forecasted none or only one more 25bps rate cut this year while 10 officials projected two more cuts in 2025 to 3.50-3.75%. Similarly, the average forecast was for only one further 25bps cut each in 2026 and 2027.
- On the second point regarding the Fed still setting monetary policy independently of the White House, the FOMC meeting was encouraging. Chairman Powell suggested further rate cuts would be limited, observing:

"I think you could think of this in a way as a risk management cut."

- The FOMC was also almost unanimous in voting 11-1 for just a 25bps rate cut. Only new Governor Miran voted for 50bps. In contrast, Governors Waller and Bowman - who had already favoured reducing interest rates when the Fed previously met in July, perhaps to signal to President Trump their ambitions to succeed Powell as Chairman from May 2026 - sided with the majority.
- We thus keep our view of only a limited Fed rate cutting cycle as inflation remains above its 2% target. We see two further 25bps cuts in the fed funds rate this year to 3.50-3.75% but no more next year until Powell leaves as Chairman. "Insurance cuts" should support stocks and gold, weaken the US Dollar further while keeping 10Y US Treasury (UST) yields in an elevated 4-5% range.

China – Strong stock markets but subdued economic data

- China and Hong Kong stocks have outperformed over the last 12 months, rallying 40-50% in US Dollar terms. Three economic drivers - improving liquidity as the

PBOC has reduced its short-term 7-day reverse repo interest rate from 2.00% in 2023 to 1.40% in 2025, the rebound of the Chinese onshore renminbi (CNY) from 7.35 against the US Dollar in April (when President Trump announced major US tariffs) to 7.12 now; and hopes that the Chinese government is likely to provide further fiscal stimulus, have all supported China's stock markets.

- In 1H2025, economic activity was boosted by firms front-loading exports to beat the imposition of US tariffs. China's 1Q2025 and 2Q2025 GDP expanded by 5.4% year-on-year (YoY) and 5.2% YoY respectively, exceeding Beijing's target of "around 5% growth". But in 2H2025, activity has stepped down as higher US tariffs, prolonged consumer caution after the pandemic and weak property markets have resulted in subdued growth since the summer. For example, August's retail sales only expanded 3.4% YoY. Fixed asset investment barely rose 0.5% YoY and industrial production growth slipped towards 5% YoY from almost 8% YoY in the spring.
- Despite the slowdown, we think China's equity markets will stay supported. If growth falters, the

government is likely to respond with new subsidies for consumption and infrastructure spending to cushion economic activity this year.

Europe – Less chance of further rate cuts now

- This year, European growth has been surprisingly resilient despite much higher US tariffs as the ECB has reduced interest rates from 4.00% last year to 2.00% in June and the BOE has cut its Bank Rate from 5.25% in 2024 to 4% now, helping support activity.
- But with inflation back at the ECB's 2% target, the ECB kept its deposit rate at 2% for the second meeting in a row in September. We think its interest rate cutting cycle is over now. The ECB's new forecasts project inflation staying close to its 2% target for the next three years and President Lagarde said, with the US and European Union signing a new trade deal, "risks to economic growth have become more balanced."
- Similarly, the BOE kept its Bank Rate unchanged at 4% in September - as inflation has rebounded to 3.8% - and officials were hawkish, warning: "upside risks around

medium-term inflationary pressures remain prominent.”

- We thus have pushed back our view of one last 25bps cut to 3.75% from November 2025 to February 2026. The BOE still seems ready to ease as the UK labour market slows, but inflation will limit further rate cuts - to the benefit of the GBP.

Japan – BOJ may still hike rates gradually

- The Bank of Japan (BOJ) kept its overnight call rate at 0.50% in September. BOJ Governor Kazuo Ueda gave no signal when the BOJ will resume rate rises after last hiking 25bps to 0.50% in January, saying he wanted to see

more data on the impact of US tariffs. But we think the BOJ will restart its gradual cycle of rate hikes.

- First, two BOJ officials voted to raise rates at September’s meeting. Second, the BOJ surprised by deciding to start selling its stock of ETFs, a form of monetary tightening. Last, core inflation at 3.3% has been above its 2% target for three years now.
- There are concerns that Sanae Takaichi’s recent election as President of the ruling LDP party may impact BOJ policy. Takaichi is a protege of former Prime Minister Abe whose “three arrows” of fiscal stimulus, monetary easing and structural reforms

revived Japan’s financial markets from 2012. She will have to negotiate with other LDP factions and gain parliamentary approval before becoming Prime Minister, but Takaichi favours tax cuts to support consumers despite government debt exceeding 200% of GDP.

- A Takaichi-led government may put pressure on the BOJ to refrain from resuming its gradual cycle of twice-a-year 25bps interest rate hikes. However, we expect the BOJ could still increase its overnight call rate from 0.50% to 0.75% at its next meeting on October 30 to curb inflation.

Global growth outlook

%	2022	2023	2024	2025	2026
Developed Markets	2.9	1.7	1.8	1.5	1.5
US	2.5	2.9	2.8	1.6	1.6
Eurozone	3.6	0.7	0.9	1.2	1.2
UK	4.8	0.4	1.1	1.4	1.4
Japan	0.9	1.2	0.1	1.2	1.2
Asia-4	2.4	1.8	3.3	2.5	2.2
Emerging Markets	4.0	4.6	4.3	4.0	3.9
China	3.1	5.4	5.0	4.6	4.0
India	7.0	8.8	6.7	6.7	6.3
ASEAN-4	4.4	4.3	4.7	4.4	4.4
World	3.5	3.4	3.3	3.0	2.9

Asia-4 covers Hong Kong, Singapore, South Korea and Taiwan.

ASEAN-4 includes Indonesia, Malaysia, Philippines and Thailand.

Source: Bank of Singapore

EQUITIES

ELI LEE

Chief Investment Strategist, Bank of Singapore

Downgrading Europe

“We are downgrading our Overweight position in European equities to Neutral, given relatively less attractive earnings and valuation fundamentals, tariff-related risks, as well as macro and geopolitical uncertainties.”

- Global equities continued to power on in September. Boosted by the weaker US Dollar (USD), the MSCI Asia ex-Japan Index and the MSCI Europe Index have outperformed indices of other major regions significantly in US Dollar (USD) terms on a year-to-date (YTD) basis, as of 26 September's closing prices. Considering that the MSCI Europe Index is up about 23% in USD terms and more European-centric risks are coming to the fore such that the risk-reward profile is now less compelling, we are downgrading European equities to Neutral.
- Globally, however, the backdrop for equities remains relatively benign with a broad-based easing cycle by central banks. This reflects a broader shift towards supporting growth and should contribute to improved sentiment. On the other hand, the Bank of Japan (BOJ) is raising interest rates and selling its ETF holdings as well.
- We maintain our Overweight

position in Asia ex-Japan equities given the region's more favourable risk-reward profile, but caution that downside risks remain amid ongoing geopolitical tensions and uncertainties relating to earnings growth due to the impact of tariffs. Rate cuts by the US Federal Reserve (Fed) would result in easing of financial and liquidity conditions. This along with a weakening USD benefits Asia ex-Japan equities.

US – Resumption of rate cuts buoy sentiment

- The S&P 500 Index notched another new high in September as the Fed resumed its “risk management” rate cutting cycle which is typically supportive of equities amid continued economic growth. The weaker USD and the implementation of the pro-growth “One Big Beautiful Bill Act” (OBBA) would also provide some tailwinds, especially to companies' free cash flows. Although valuations are elevated, we think there could be room in

the near term for further expansion due to looser financial conditions from rate cuts.

- However, we maintain an overall Neutral positioning on US equities as we think that unlike most of the past rate cut episodes, long-end yields are likely to stay elevated due to fiscal and Fed independence concerns. As such, equities are likely to receive a more limited valuation boost. On the other hand, further upside from earnings revision has a high bar to clear given the more than 13% consensus EPS growth forecast for 2026. Finally, markets are pricing in more aggressive Fed rate cuts into 2026 than the official projection – there is a risk of expectations being dialled back.
- Despite our reservations, we acknowledge that valuations could overshoot further on buoyant sentiment and supportive liquidity conditions.

Europe – Downgrade to Neutral as more risks come to the fore

- European equities have performed

well YTD, with the MSCI Europe Index up close to 10% in local currency terms and 24% in USD terms. At the same time, more risks are coming to the fore. Given the less compelling risk-reward profile, we downgrade European equities to Neutral. Whether it is uncertainty over the French government or budget concerns in other key economies, or the rise of populist issues such as immigration, Europe's attention is drawn away from what otherwise would be focused efforts to become more globally competitive.

- There is also risk of higher taxes which would impact sentiment. Although tariff uncertainty has decreased, it will take time to see the effects on margins, pricing or volumes (or all three) for various European exporters to the US, as well as the implications of these new costs on US consumers. Finally, Europe needs to deliver on its investment promises of re-militarisation and re-industrialisation in which much of the government support embeds a "local sourcing" requirement. Such constraints may lead to timing issues and capacity constraints as the domestic supply chain grows.

Japan – Maintain neutral stance

- In the near term, we believe Japan's equity markets may be supported by recent political developments.
- Sanae Takaichi is on track to become Japan's first female prime minister, after the ruling LDP party elected her as its leader recently. Takaichi is known to be fiscally expansionist, and her pro-stimulus stance may have an impact on the economy and Japanese markets. She has said that she will ensure her active fiscal policy is "responsible" as she looks to boost growth. She has also called for monetary policy to stay easy, saying the BOJ shouldn't raise interest rates.
- While Takaichi's "responsible proactive fiscal policy" augurs well for Japanese equities, there is uncertainty regarding the potential scale of the her fiscal policy. We believe the inter-party negotiations on the size of the supplementary budget that commences this month is worth monitoring.
- Markets will also look for further details regarding the collaboration with opposition parties, which supports more expansionary fiscal policy. We view the appointments of party officials would be the next milestone to watch out for as

it will shed light on the Takaichi administration's stance on fiscal policy and the course of future discussions on expanding the coalition and passing a budget.

- While we expect Japan's equities market is likely to be supported in the near-term, the valuation of the MSCI Japan Index is at the high-end of its historical range. At 15.7x, the forward price-to-earnings (P/E) is nearly one standard deviation above the historical average.
- In the near term, we expect defence, nuclear power, AI and semiconductors to outperform while banks may see near-term headwinds. With the interim result season approaching, we will monitor data to confirm if the impact of tariffs has been factored in and earnings forecasts have bottomed out.

Asia ex-Japan – Backed by positive tailwinds

- Although MSCI Asia ex-Japan equities have outperformed other key regions by a significant degree YTD, we continue to maintain our Overweight position on the region, with a favourable backdrop backed by several tailwinds.
- The likely series of Fed rate cuts would result in easing financial

and liquidity conditions as well as a weakening of the USD. These have historically benefitted Asia ex-Japan equities and it come at a time when several Asian and major Developed Markets central banks (with the exception of the BOJ) are poised to ease further. A more aggressive fiscal policy stance across Asia is also likely to support growth. That said, there are idiosyncratic factors that we need to be mindful of which could result in near-term volatility, such as the recent political uncertainties and social unrests that we have seen in certain key markets of Indonesia and Thailand.

- Within Asia ex-Japan, we maintain our preference for China, Hong Kong, Singapore and the Philippines, while keeping to our Underweight stance for Thai equities. Notwithstanding recent uncertainties in Indonesia, we see these pressures broadly balanced out against attractive valuations, pro-growth measures and Bank of Indonesia's (BI) role in supporting growth.

Global Sectors – Technology stocks powering ahead

- The AI theme has garnered widespread attention for some time, but it is the memory-related stocks that have been on a tear

recently. Over the course of the last few months, memory suppliers' capacity allocation has been shifting from commodity memory to HBM, given the AI boom. Despite that, we have recently seen hyperscalers increasing their capital allocation towards general servers (versus AI servers), which could compound the ongoing commodity memory supply shortage and drive prices upwards.

AI is not just about Tech

- The IT and Communication Services sectors are obvious beneficiaries of the AI wave, but there are names in other sectors poised to gain significantly as well. These include the Industrials sector which consists of electrical equipment suppliers and firms involved in improving energy efficiency, as well as heating, ventilation and air-conditioning original equipment manufacturers (OEM) which are required for data centres. AI will also drive the need for more power and requires clean, reliable power urgently. This could mean an inflection point in power demand and a power price tailwind for utility companies, especially better pricing power for renewable developers in power purchase agreements. Nuclear is well suited

for providing a clean baseload power and innovation, especially in small modular reactors as they unlock a new growth phase after years of underinvestment.

Factor performances in key regions driven by idiosyncratic factors

- Following a nine-month pause in rate cuts, the Fed resumed monetary easing with the recent 25bps rate cut. According to historical data, large cap growth stocks tend to be the biggest beneficiaries of Fed easing. In the US, large caps are increasingly dominated by Big Tech firms, and the strong influence of the AI theme is likely to support the large cap segment to a greater extent. Growth stocks in Asia ex-Japan have also been outperforming YTD, compared to value stocks, driven by region-specific expectations for politically led industrial policies.
- In terms of sector preferences, in addition to Technology (names in Communication Services and IT), we continue to like Utilities and Consumer Staples. We note that Utilities, Consumer Staples and Communication Services tend to be the first sectors positively impacted post the first Fed rate cut.

HONG KONG / CHINA MARKET OUTLOOK

ELI LEE

Chief Investment Strategist, Bank of Singapore

Riding On the AI Investment Spree

“Hong Kong and offshore China equities had another strong month in September. Within China equities, Communication Services, Consumer Discrepancies and IT sectors led the performance riding on the artificial intelligence [AI] theme.”

- China's financial regulators emphasised balancing financial stability and growth support, and signalled no short-term policy change at a recent press conference. Hence, the upcoming Forth Plenum could shed more light on the 15th Five-Year Plan which generally focuses on structural reforms.
- Hong Kong and offshore China equities had another strong month in September. Within China equities, Communication Services,

Consumer Discrepancies and IT sectors led the performance riding on the artificial intelligence [AI] theme. Alibaba announced it will increase its global data centers capacity by 10x by 2032 to support the evolving artificial superintelligence [ASI] era and hence, its commitment to AI investment, lifting sentiment across the China AI space.

- The recent sharp run up of the Hang Seng Index [HSI] has pushed valuation to the higher-end of the

trading range of 11.5x forward P/E, which is at +1.25 s.d. to historical average. While we believe the market could consolidate in the near term, we remain constructive over the medium term in light of earnings stabilisation and supportive external factors, such as the Fed rate cut cycle and a less imminent US-China trade tension escalation. We update our Hang Seng Index base/bull/bear index targets to 28,400/29,500/23,000.



BONDS

VASU MENON

Managing Director, Global Wealth Management, OCBC Bank

Resilient But Vulnerable

“We remain Neutral on duration and maintain a quality bias in fixed income. In Developed Markets, we prefer Investment Grade over High Yield bonds.”

- Credit markets remained resilient despite a host of macro uncertainties, including renewed trade tensions, political uncertainty and a weaker US labour market.
- Continued inflows into fixed income products remained strong, reflecting optimism in the face of the Fed's pivot to rate cuts. Credit spreads continued to compress as rate volatility eased. Returns were positive across the asset class. As risk premia have mostly been priced out, we continue to retain a defensive posture across Developed Markets [DM] and Emerging Markets [EM], given little buffer against downside surprises. We continue to be Neutral on duration.
- We maintain a quality bias in Fixed Income. In DM we prefer Investment Grade [IG] over High Yield [HY].
- Within EM, we are Underweight on EM Sovereigns, preferring EM Corporates on better fundamentals and valuation.

Rates and US Treasuries

- Over the past month, yields on US Treasuries (USTs) first dipped in anticipation of the Fed's first rate cut for 2025, only to rebound in the second half as resilient economic data tempered easing expectations. This pattern was observable across the entire yield curve, reflecting a mix of monetary policy shifts and strong indicators like low jobless claims and upward GDP revisions.
- The Fed delivered a 25 basis points (bps) rate cut at the September Federal Open Market Committee (FOMC) meeting, lowering the fed funds rate to 4%–4.25%. This was framed as a precautionary step given concerns about the jobs market. Chairman Powell's post-meeting remarks emphasised data dependency, with projections indicating an additional 75bps of easing through 2025, alongside a 2025 forecast for a GDP growth rate of 1.6% and an unemployment rate of

4.5%. August's consumer price index [CPI] showed headline inflation at 2.9% year-on-year (YoY), tempering aggressive rate cut expectations while highlighting persistent price pressures in sectors like housing and auto.

- We expect long-end UST yields will continue to face upward pressures, driven by rising term premia as investors demand higher compensation for duration risk amid fiscal and policy uncertainties. Structural concerns, such as fiscal deficits and the inflationary implications of tariffs, keep longer maturities under pressure. Political noise also influences market sentiments. Although questioning the Fed's independence may fuel dovish bets on near-term policy, it simultaneously reinforces concerns about longer-term inflation expectations and the credibility of policy frameworks.
- We continue to recommend positioning for lower yields and a

steeper UST curve. We remain Neutral on duration. We are cautious on long-end (30Y) nominal USTs but would keep a close watch on the Treasury's funding strategies and supplementary leverage ratio (SLR) reform in reducing term premium.

Developed Markets

- The global economy faced a complex landscape in September, including renewed trade tensions, political uncertainties and weaker US labour data. However, the credit market remained resilient. Credit spreads continue to grind tighter in September, reflecting strong investor appetite amidst rate cut pivots by the Fed. Credit spreads are now near all-time highs across IG and HY, affording little cushion against unexpected downturns.
- While the latest economic data do not point to an imminent recession, we remain mindful of the risk that growth concerns could re-emerge and exert a widening pressure on credit spreads. Recent economic releases point to a mixed picture of the US economy. Labour market and consumer spending indicators showed some cooling, yet

progress has been uneven in inflation prints. Taken together, the data signals a deceleration of growth but leaves markets sensitive to negative surprises.

- Against this backdrop, we see scope for periodic growth scares to unsettle risk sentiment and widen credit spreads. We recommend a Neutral positioning on DM IG bonds and an Underweight on DM HY bonds. We prefer going up for quality, for example preferring "A"-rated bonds to "BBB" -ratings in DM IG, and "BB" more than "B" in HY given the little spread compensation for going down the rating spectrum.

Emerging Markets Corporates

- With a wide range of variables and uncertainties in 2025, we remain Neutral on EM credits. The weaker global growth outlook and currency volatility could translate into wider EM spreads over the next 12 months, but supportive technical factors could be important mitigating considerations.

Asia

- Asia credits posted a total return of 0.93% in September 2025, supported by both spread

compression and lower UST yields. Compared to the US, Asia IG (+0.8%) underperformed US IG (+1.3%), but Asia HY (+1.8%) outperformed US HY (+0.7%). Long duration bonds were generally well supported by the rally in the long-end USTs in September.

- Within Asia, Hong Kong and Taiwan outperformed in September, driven by idiosyncratic credit stories for the former and a longer spread duration profile for the latter. Lower beta segments such as South Korea and Singapore lagged during the month. On a year-to-date (YTD) basis, India, Macau, Indonesia and Thailand stood out in total returns performance amongst its Asian peers.
- Fitch revised Thailand's sovereign rating outlook in September to negative from stable on rising risks to public finances from prolonged political uncertainty and weakening growth prospects. This came after a similar adjustment from Moody's in April 2025. We continue to expect Thailand's soft economic recovery momentum to remain a drag on Thai banks' fundamentals and remain selective in the space.
- For China, consumption trends

and patterns during the Golden Week holiday as well as the upcoming Fourth Plenum to be held on 20-23 October 2025 are key points of focus. We look towards an outline of the 15th Five-Year Plan after the Fourth Plenum, although a comprehensive plan with detailed targets may only be available in March 2026.

Emerging Markets Sovereigns

- Hard currency EM sovereign bonds returned a respectable 1.8% in September, bringing its year to-date (YTD) performance to 10.7%. IG sovereigns led total returns, in contrast to the previous month, returning 1.9%, compared

to 1.7% for their HY peers. HY sovereigns have now returned 12.1% YTD, compared to 9.1% for IG. Local currency sovereign bonds posted a more modest 1.3% gain, lifting their YTD return to 15.3%, supported by broad domestic central bank rate easing, following a period of peak policy rates and elevated real interest rate differentials versus the US.

- September's performance was driven by continued inflows into EM debt funds, improving fiscal metrics across key issuers, and growing market conviction around another Fed rate cut in 4Q. The US Dollar weakened

modestly again, supporting EM currencies, while commodity exporters benefited from firmer oil and metals prices. EM sovereign spreads tightened by 14bps on average.

- Looking ahead, EM sovereigns remain well-positioned amid a supportive global backdrop. Real yields remain attractive, especially in parts of Asia, while improving external balances and currency reserve accumulation offer buffers against external shocks. However, geopolitical risks – particularly in the Middle East and Eastern Europe – could re-emerge, necessitating more selective positioning.

FX & COMMODITIES

VASU MENON

Managing Director, Global Wealth Management, OCBC Bank

Gold's Bullish Outlook Remains Intact

"The macro environment remains conducive to further upside for gold. We revise the 12-month target to US\$4,100/ounce. Gold can easily surpass US\$4,000/ounce if concerns over the Fed's independence intensify."

Oil

- The contrasting performance of commodities - bullish gold versus lacklustre oil - has been a defining feature so far this year. Despite concerns about a growing surplus in the oil market, oil prices have defied earlier fears of falling below US\$60/barrel. Brent crude has been trading within a US\$65-70/barrel range, supported by a stronger-than-expected drawdown in US inventories, worries over potential disruptions to Russian oil supply, and China's stockpiling of its Strategic Petroleum Reserves. The recent rally in oil was influenced by geopolitical developments, as market participants increasingly factor in a higher likelihood of US or EU sanctions on Russia. This shift followed President Trump's expressed support for Ukraine and his reduced willingness to make territorial concessions to Russia. Oil prices have also been

bolstered by the sharper-than-expected decline in US inventories, with crude stockpiles having fallen to their lowest levels since January.

- We maintain our 12-month Brent forecast at US\$65/barrel. OPEC+ is likely to increase oil production again in November, which should help cap further upside in prices. After fully rolling back the voluntary production cuts of 2.2 million barrels per day (mb/d), OPEC began unwinding the next tranche of 1.65mb/d in October and is expected to continue doing so in November. Major members, such as Saudi Arabia and the UAE, are seeking to increase their market share, even if it means accepting lower prices.

Precious metals

- The macro environment remains conducive to further upside for gold. We revise the 12-month target to US\$4,100/ounce, backed

by rising ETF holdings and sustained central bank demand. The recent gold price rise has been driven by different buyers over time: since 2022, Emerging Markets central banks have increased gold purchases to diversify away from the US Dollar amid geopolitical tensions following Western sanctions on Russia. Chinese gold ETFs saw strong inflows earlier this year during tariff escalations but have been quiet recently as investors shift to Chinese equities. Currently, institutional and retail investors outside China dominate gold demand, with ex-China gold ETF holdings having seen a sharp increase.

- Gold prices typically move inversely to the US Dollar (USD). However, despite the Fed's resumption of rate cuts in September, the USD remained stable against G10 currencies, yet gold prices still rallied. This

suggests that gold's appeal extends beyond just being a hedge against the USD. Instead, it may be viewed as a safe haven from fiat currencies more broadly, as investors seek refuge amid high debt levels and challenging fiscal outlooks in Developed Markets [DM]. The structural case for owning gold remains strong, with gold potentially surpassing US\$4,000/oz if concerns over the Fed's independence intensify. We have become more concerned about the risk of a more politicised Fed following the attempted dismissal of Fed Governor Lisa Cook. But the US Supreme Court's decision to allow her to remain in office until her case is heard in January is encouraging as it reduces the likelihood of politically motivated dismissals.

Currency

- The US Dollar [USD] Index traded a month of two halves for September – with weakness seen heading into the US central bank's Federal Open Market Committee policy meeting [FOMC] and subsequently rebounding post-FOMC on cautious comments from Federal Reserve [Fed] officials. The Fed's Austan Dean

Goolsbee who is the president of the Federal Reserve Bank of Chicago, indicated that he could be less willing to support “overly frontloading a lot of rate cuts” on the presumption that inflation will just be transitory and go away, as many Midwest businesses are still concerned that inflation is not under control. Fed Chairman Jerome Powell also said that market expectations for another two rate cuts this year were far from a done deal. Elsewhere, Lorie Logan, president and CEO of the Federal Reserve Bank of Dallas, indicated that the Fed should proceed cautiously on further rate cuts and there may be little room for more cuts. Looking into 2026, we continue to expect the USD to trade moderately softer as the Fed resumes easing while US exceptionalism fades. We expect two more Fed rate cuts for 2025, following the 25 basis points [bp] rate cut at the September FOMC. The USD has room to fall as long as broader risk-on sentiment stays intact, growth conditions outside the US remains supported and the Fed stays on an easing path. In the near term, the Fed's “risk management cut” at the September FOMC and cautious comments

from Fed officials, may not be sufficiently dovish to see the USD decline in a big way. But if US data turns out to be softer-than-expected and the Fed cuts rates more decisively, then USD bears may return with more conviction.

- The Euro [EUR] traded modestly firmer for the month of September despite French political risks, and it appears somewhat immune to recent headlines on geopolitics. There was a report on Russia violating the airspaces of Poland and Estonia, while Trump's speech at the UN General Assembly indicated that any prospects for a Russia-Ukraine ceasefire remains distant. He even went so far as to say that NATO nations should shoot down any Russian aircraft that violates their airspace. It is unclear whether these remarks reflect a genuine policy shift or a negotiation tactic, but they represent some of the strongest rhetoric from Trump since his meeting with President Putin in Alaska. In France, its new Prime Minister [PM] Sebastien Lecornu has ruled out a wealth tax and aims to cut the budget deficit to 4.7% of GDP in an attempt to get the 2026 budget approved by

October. It remains early to tell if he can turn things around, but early polls show he only has a 16% positive opinion rating. Elsewhere, the Netherlands will hold General Elections on October 29. These political developments may potentially pose some sporadic downside risk to the EUR in the near term. However, the broader fundamental outlook remains supportive of the currency, suggesting a buy-on-dips approach.

- The exchange rate between the US Dollar and Japanese Yen (USDJPY) closed modestly firmer after trading between a wide range of 145.50 – 149.96 in September. Political uncertainties with regards to PM Ishiba's resignation, the LDP election to select a new leader and the USD's rebound post-FOMC were some of the factors attributed to the uptick. Looking ahead, recent political developments in Japan may have an impact on the JPY in the short term. There are concerns that Sanae Takaichi's recent election as President of the ruling LDP party may impact BOJ policy. Takaichi is a protege of former Prime Minister Abe whose "three arrows" of fiscal stimulus,

monetary easing and structural reforms revived Japan's financial markets from 2012. She will have to negotiate with other LDP factions and gain parliamentary approval before becoming prime minister. A Takaichi-led government may put pressure on the BOJ to refrain from resuming its gradual cycle of rate hikes.

- She was vocal against the BOJ hiking rates last year, and on winning the recent race to become LDP President. She made it clear that the government will take the lead in setting fiscal and monetary policy, and that her priority is to reflate demand and the broader economy. There are concerns that her appointment could delay BOJ policy normalisation, and the BOJ may again hold rates steady at its October meeting. The concern may be valid but at the same time, the macro-economic conditions today versus the macro conditions during former Prime Minister Abe's era are different. During those days, Japan was fighting deflation but today, we have already seen inflation above 2% target for more than several months. As such, a gradual pace of BOJ normalisation is still plausible

given that the central bank's rate remains relatively low. But going forward, we need to monitor how Takaichi's proposed policies can be executed and if they will be toned down or if BOJ policy bias may be affected. Given the uncertainties, USDJPY may drift higher in the interim unless the USD is down in a significant way. However, JPY weakness could reverse when political uncertainty fades and once the BOJ proceeds with policy normalisation. Fed-BOJ policy divergence should eventually underpin the JPY.

- The exchange rate between the US Dollar and Singapore Dollar (USDSGD) traded firmer for the month of September. US data and speeches by Fed officials could influence the USD's direction and there could be a spillover effect on the USDSGD, while expectations about the MAS's policy stance is another factor that could shape how the USDSGD plays in the coming weeks. The MAS's Monetary Policy Committee (MPC) meeting is expected to be held no later than 14 Oct. The last MAS survey of professional forecasters noted that 42% of respondents expect the MAS to ease policy in October. This is an

increase from about 17% in the June survey. Our Singapore Dollar Nominal Effective Exchange Rate [S\$NEER] model shows that the SGD's strength against its basket of peers has continued to ease. Softer core inflation data for August likely added to expectations that the MAS may ease policy at its upcoming October MPC, after the pause in July. Downward pressure on core inflation was largely due to moderation in services inflation and external factors [like energy prices, etc.] and the moderation in price pressure is within the MAS's expectations. Core inflation in 2025 is likely to be still within the lower bound of the MAS's projection of a 0.5% to 1.5% range. We see inflation heading higher to 1.5% in 2026 due to base effects. Nevertheless, the door for

the MAS to ease remains open should the growth-inflation dynamics worsen more-than-expected. But at this point, we believe the MAS can afford to keep its current policy stance on hold at the October MPC i.e. still maintain a slight appreciating bias, given that the inflation outlook is biased to the upside. For the remainder of the year, we continue to project a mild degree of USDSGD downside.

- The Malaysian ringgit [MYR] has been far more resilient compared to its Asean peers. Post FOMC to 1st October, the MYR fell about 0.55% versus the USD – one of the least affected amongst Asian currencies. This is in line with our favourable outlook for the MYR. Our projection for a more resilient MYR takes into consideration both domestic and external factors. On

the domestic front, supportive drivers include robust Foreign Direct Investment inflows, prospects of continued foreign fund inflows, a current account surplus and the commitment to follow through with fiscal consolidation – these have provided reassurance to foreign investors. In terms of external factors, a more resilient Renminbi [RMB] is helping to anchor relative stability of the MYR. More sustained economic stabilisation for the Chinese economy, and the recovery in sentiment and confidence towards Chinese assets, including the RMB can have positive spillover effects on the MYR. Overall, we see room for the MYR to gain if foreign fund inflows into Malaysia pick-up pace, and when USD softness resumes.

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