UOB House View 3Q 2025

Thursday, 03 July 2025

The Team
Global Economics & Markets Research
Private Bank

Global Macro

At the half year mark, the USD has weakened at a pace not seen in over three decades. Trump administration's erratic trade policy, rising US fiscal risks, the de-dollarization narrative as well as the expected upcoming Fed cuts in 2H25 are key drivers weighing down on the USD.

Asset Allocation

We remain Neutral on Equities following a strong rebound given tariff-related policy uncertainties and seasonality effects. We stay Neutral on Fixed Income with an eye for buy-on-dip opportunities and recommend an average duration of 4-5 years. We remain Overweight on Alternatives as less correlated assets offer diversification benefits. We maintain Neutral on Money Market; we expect global equity markets to end higher by the end of 2025 relative to levels seen at the start of 2025.

Equities

We upgrade the US to Overweight from Neutral; this is funded out of Japan's downgrade to Neutral from Overweight. We expect US corporate tax cuts and deregulation to provide a boost to the US equities in 2H 2025. We remain Neutral on Europe with an eye for selected thematic stocks; the deployment of EU fiscal packages presents upside risks. For Japan, we expect a stronger yen and weakening business sentiments to pose as a drag. We stay Overweight on EM Asia, favouring resilient dividend and consumer stocks as well as growth plays like China tech/AI.

Fixed Income

For Developed Markets (DM), we stay Overweight on DM IG, favouring quality bonds from defensive sectors amid tariff uncertainty. We stay Underweight on DM USD HY as risk-reward is asymmetric; credit spread widening is a key risk to watch out for. We stay Overweight on Emerging Markets (EM) IG as we view it as a relative haven, preferring Asian financials, select Asia-focused insurers and defensive consumer names. We remain Neutral on EM HY; selectivity is key in avoiding credit pitfalls.

Commodities

Existing key positive drivers for gold remain intact, including a weaker USD, on-going strong appetite for gold from China and firm net long positioning in gold in the futures market. We forecast gold price to reach USD 3,500 / oz by 4Q25. The underlying drivers for Brent crude oil have indeed changed yet again with the latest Israel-Iran ceasefire and the reversion to underlying crude oil oversupply worries. We lower Brent crude oil forecast to USD 65 / bbl for 4Q25, USD 60 / bbl for 1H26.

FX & Interest Rates

With the Fed rate cuts getting into view, the USD's interest rate differentials with its Major FX peers are likely to narrow anew, exerting downward pressure on the USD. Overall, we maintain a downward trajectory in the DXY. In terms of front-end rates, we forecast the 3M compounded in arrears Sofr and Sora to decline to 3.89% and 1.80% by 4Q25 respectively. In the back end, we now see 10Y UST yield ending 2025 at 4.20% while 10Y SGS yield will ease further to 2.25% by end 2025 (from 2.35% previously).

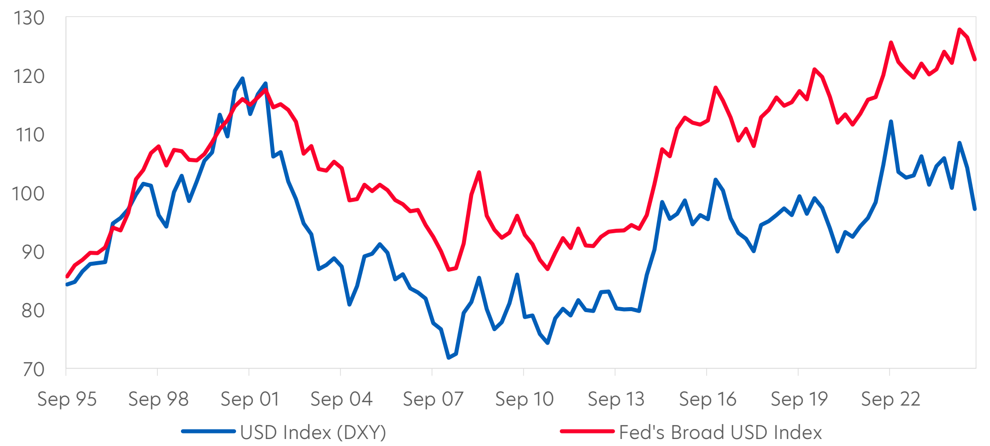
Right By You

Global Macro & Markets Strategy
The US Dollar finds no friends

The intense sell-off in the US Dollar (USD) continued and at the mid-year mark, the USD Index (DXY) has now fallen by about 10% from 108.50 at the start of the year to 96.90 (30 Jun). Even the Fed's more comprehensive Broad Dollar Index has also retreated by about 6%, falling from 129.50 to 121.10 across the same time frame. By now it is apparent why the US Dollar is weak. There are three key drivers for the US Dollar's weakness.

Chart 1: Is the USD in the process of topping out?

Source: Bloomberg, UOB Global Economics & Markets Research



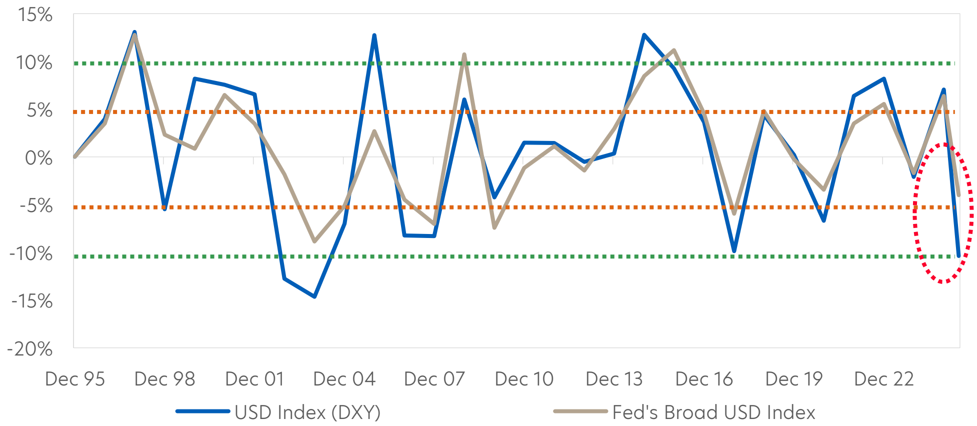
First is the on-going confusion over the Trump Administration's erratic global trade policy which has started to weigh on global trade and consequently the US Dollar's outlook. The latest comment from President Trump that he is not thinking about extending the 9 Jul trade negotiation dateline and unilaterally impose a final reciprocal tariff adds to the on-going confusion in global trade outlook.

Second is related to the worsening US fiscal position. The likely passage of the "One Big Beautiful Bill" will add USD 3.3 trn to US debt load in the coming decade (according to nonpartisan US Congressional Budget Office) and the consequent widening of US fiscal debt is also seen as a growing negative for the USD. As such, these developments have the effect of feeding the de-dollarization narrative whereby impacted nations like China and across the Emerging Market (EM) space in particular are seen diversifying away from the USD by lowering the allocation of their central bank reserves into US Treasuries as well as reducing their use of USD for trade payments. In particular across Asia, there appears to remain a substantial amount of USD trade proceeds that are yet to be repatriated into local currencies.

Third is the latest development whereby various Federal Reserve (Fed) officials, including Governor Chris Waller and San Francisco Fed President Mary Daly have of late started to reiterate the need for around 2 rate cuts by the end of this year, in line with the prevailing median dot plot guidance. This reinforces the prevailing expectation of the resumption of rate cuts in the second half of the year and has started to weigh down on both US Treasuries yield as well as the USD.

Chart 2: Year-to-date, the DXY has weakened 10% while the Broad USD index has dropped 6%

Source: Bloomberg, UOB Global Economics & Markets Research



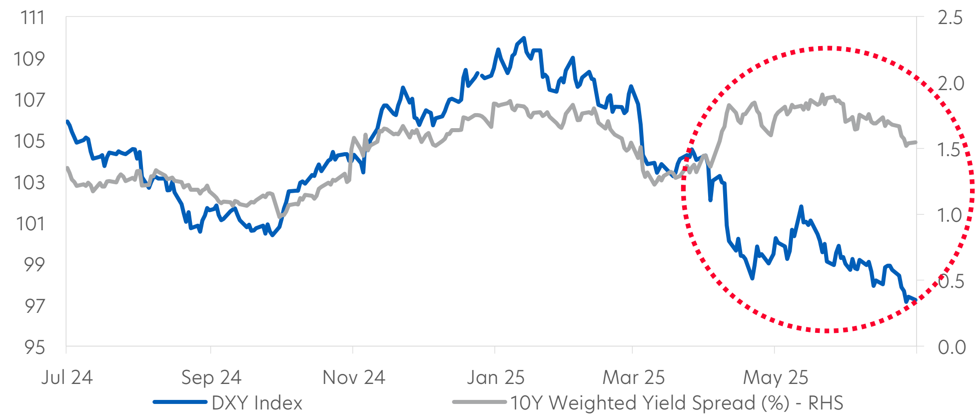
The current pace of the sell-off is indeed substantial and intense. At 10.8% sell-off for the DXY and 6% sell-off for the Broad USD Index, magnitudes of both retreats are now at or beyond the average 10% and 5% annual extremes of drawdowns for the respective DXY and Broad USD indices seen across the past 3 decades. As such, questions are being asked as to whether this sell-off in the USD is now a longer-term structural shift.

One key question many investors now ask is whether there is a structural change in what drives the USD or whether the USD will revert back to its more traditional relationship with yield differential. It is noted that since "Liberation Day" in early Apr, when the Trump Administration announced worldwide reciprocal tariffs, the USD has encountered heavy selling, despite yield differential staying relatively stable and supportive of the USD.

Hence, given that the global trade outlook is now past the point of maximum uncertainty and investors are now gradually coming to terms with the new global trade landscape of some form of higher trade tariffs, perhaps the USD will now revert back to its more traditional drivers of yield differential and key macroeconomic indicators?

Chart 3: DXY has dislocated from its 10Y weighted yield spread

Source: Bloomberg, UOB Global Economics & Markets Research



Right By You

FX Strategy

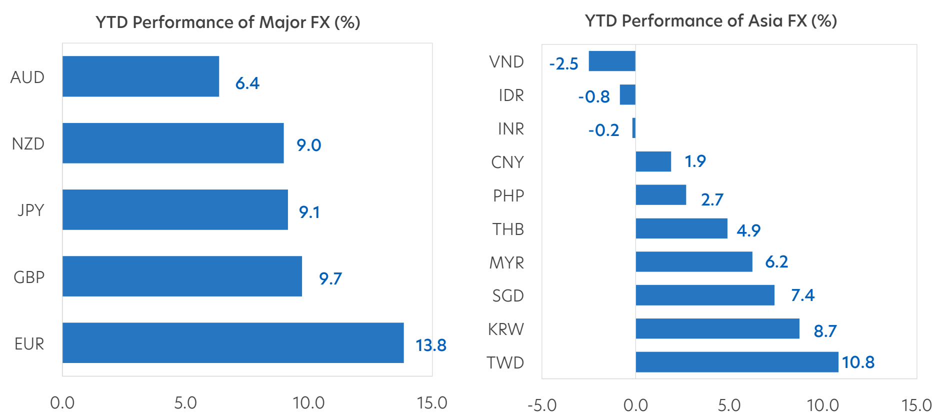
What's next after the sharp selloff in USD in 1H25?

The US Dollar Index (DXY) fell to the lowest in over three years as markets increased expectations of Fed rate cut in 2H25. The interest rate swaps market is now pricing about 70 bps of Fed easing by end-2025, up from 50 bps at the start of Jun. The Israel-Iran conflict triggered a brief bout of safe haven USD buying which quickly faded when a cease-fire was reached. Overall, the DXY has fallen over 10.8% in the first six months of 2025, the worst first half since 1973. The outsized drop is likely attributed to growing doubts of USD's pre-eminent position in world finance, prompting USD hedging activities which exerted further pressure on the USD. Is there any respite in the second half of the year after the sharp drop in the first? Or are we due for further USD losses?

Against a weak USD backdrop, most Asia FX rose in Jun and the Asia Dollar Index rose to the highest since last Oct. Risk sentiment recovered strongly after a cease fire is reached between Israel and Iran, prompting flows into Asia FX. Given that some Asia FX are now at multi-year highs against the USD, it appears that markets are underpricing tariff-related risks. Overall, we keep to our cautious outlook in Asia FX in 3Q25 and update our USD/Asia forecasts accordingly.

Most Major and Asia FX rose strongly against the USD year-to-date

Source: Bloomberg, UOB Global Economics & Markets Research



Major FX Strategy

Fed rate cuts in 2H25 to drive further USD downside

The pace of DXY's drop in Jun surpassed our expectations and extended below our end-2025 forecast of 98.4. The de-dollarization rhetoric – which was triggered by Trump's on-again, off-again tariff threats – is likely responsible for a large part of the outsized DXY drop year-to-date as Fed rate cut expectations in 2025 were largely stable, averaging about 60 bps since the start of the year. Recent trade tariff developments, while still highly uncertain, pointed to a potential de-escalation of the global trade war in the second half of 2025. As trade uncertainties recede, USD hedging activities may well decelerate, reducing a major source of downward pressure on the USD.

As tariff-related risks abate, monetary policy considerations may return to the forefront again. US economic data which is now starting to soften and inflation cooling alongside the trade war support the case for the Fed to resume easing. We reiterate the view of 3 x 25 bps Fed rate cuts in the second half of the year, in the Sep, Oct and Dec FOMC meetings. As Fed rate cuts near, the USD's interest rate differentials with its Major FX peers are likely to narrow anew, exerting downward pressure on the USD. While we maintain a downward trajectory in the DXY going forward, the pace of declines is likely to moderate if it is only driven by monetary policy considerations alone. A very consensus short-USD view may also inject some volatility to currency markets should there be any positive surprises in US economic data. Overall, our updated implied DXY forecasts are at 96.0 by end-2025 and 94.3 by end-2Q26, relative to end-Jun level of 96.9. Specifically, we see EUR/USD, GBP/USD and AUD/USD strengthening further to 1.21, 1.40 and 0.67 by 2Q26. Similarly, USD/JPY is expected to ease as well to 138 by 2Q26.

Asia FX Strategy
Staying cautious as tariff truce deadline looms in 3Q25

Asia FX's gains in Jun were modest compared to its DM peers, reflecting some caution ahead of the tariff truce expiry on 9 Jul. Gains were led by KRW (2.1%) and SGD (1.5%) while TWD, MYR and THB each rose about 1% against the USD. Guided by its daily fix, the CNY edged up 0.5% to 7.1638 at end-Jun. Laggards in the region include INR (-0.2%) and PHP (-1.0%). Tariff-related risks continue to underscore our cautious near-term outlook for Asia FX. Particularly, Asian economies may be prescribed a higher-than-current (10%) universal tariff rate after the 90-day tariff pause expires on 9 Jul. A permanently higher tariff baseline would have a material impact on Asian economies as most are heavily reliant on exports for economic growth.

Overall, we continue to project most USD/Asia currency pairs to strengthen through 3Q25, before reversing lower from 4Q25 onward as resumption of Fed cutting cycle exert pressure on the USD again. Overall, after near term USD/Asia strength in 3Q25, we see lower USD/CNY, USD/SGD, USD/MYR, USD/IDR, USD/THB and USD/VND at 7.05, 1.27, 4.13, 16,000, 32.00 and 25,800 by 2Q26.

Rates Strategy
Focus reverts to tariff deadline on 9th Jul and upcoming Fed cuts

US Rates - Still taking guidance from a supposed wait-and-see Fed

The overnight Sofr rate was little changed across Jun, trading in a tight range around 4.30% as the Federal Reserve (Fed) kept the Fed Funds Target Rate (FFTR) at a range of 4.25%-4.50% for a fourth consecutive meeting this year. Fed chair Powell also reiterated a wait-and-see view as officials ascertain whether the tariffs have a one-time or longer-lasting impact on prices.

Our view remains that the Fed will make 3 x 25 bps cuts this year, in Sep, Oct and Dec, premised on US growth slowdown in 2H25 and limited spillover to inflation from tariffs. Beyond this year, we continue to pencil in 2 cuts in 2026, thus our easing cycle bottom for Fed funds at 3.25% in 3Q26 – in line with survey of analysts' consensus (as at 23-Jun).

In line with our 3 x 25-bps Fed cuts expectation, we see 3M compounded Sofr lower at 3.89% in 4Q25 and 3.50% by 2Q26. Similarly, anticipated monetary policy easing is back as a dominant drag on 10Y US Treasuries yield. With term premium also softer, we see 10Y UST yield easing to 4.20% in 4Q25 and 4.00% by 2Q26.

SG Rates - How much further below 2% can Sora drop?

Global trade uncertainties and geopolitical tensions continued to underpin safe haven flows into Singapore. Domestic liquidity stays flushed, prompting Sora to break and sustain below the key 2% level in Jun. Notably, the overnight Sora fixed at 1.46% on 5 Jun, the lowest since Aug 2022. The 1M and 3M Sora OIS also grinded lower to about 1.7% at the end of Jun. On a relative basis, the current SG – US yield spread is getting overly extended, considering there were no Fed rate cuts in 1H25. The 3M compounded Sora is now trading at a 220 bps discount to the Sofr equivalent, the widest gap on record dating back 2018.

But with anticipated upcoming MAS easing of the S$NEER appreciation path to zero, we expect the pace in the on-going fall in SG rates to moderate. In addition, the 3M compounded Sora is now trading at a 220 bps discount to the Sofr equivalent, the widest gap dating back to 2018. Overall, our updated 3M compounded Sora forecast is 1.80% by 4Q25 and 1.63% by 2Q26. In the back end, 10Y SGS yield is seen at 2.25% in 4Q25 and 2.15% in 2Q26.

For more details on our FX and rates view, kindly refer to: "Monthly FX & Rates Strategy: The US Dollar finds no friends" dated 02 Jul 25

Commodities Strategy

On-going global trade tariff uncertainty continues to favor Gold

Gold: Further USD weakness and strong China demand are key long-term positives

After brief consolidation in early May, gold resumed its strong rally with all key medium- to long-term positive drivers remaining intact. These positive drivers include a weaker USD, on-going strong appetite for gold from China and firm net long positioning in gold in the futures market. All the above reinforce the ongoing strong safe haven demand, consistent strong central bank allocation and reaffirm our positive long-term outlook for gold. We reiterate our positive forecast of USD 3,400 / oz for 3Q25 and USD 3,500 / oz for 4Q25. For 2026, we see further strength to USD 3,600 / oz for 1Q26 and USD 3,700 / oz for 2Q26.

Brent: Oversupply fears return to weigh down on Brent crude oil after Israel-Iran ceasefire

It has been an exceptionally volatile month for Brent crude oil, amidst the series of extra-ordinary events.

Previously after the US bombing of key nuclear sites across Iran across the weekend of 21/22 Jun, there was widespread concern of further disruption in crude oil supply amidst fears of a worst-case scenario of a blockade of the Straits of Hormuz by Iran. Brent crude oil popped to almost USD 80 / bbl. As such, we raised our forecast for Brent crude oil to USD 80 / bbl for 2H25 and USD 70 / bbl for 1H26.

Thereafter, events quickly de-escalated within the following few days after President Trump imposed a ceasefire between Israel and Iran. By the end of that week on 27th Jun, Brent crude oil has collapsed back to USD 67 / bbl, i.e. where it started prior to this latest round of conflict between Israel and Iran. Front month futures have since been trading at a very tight range around USD 67 / bbl.

With the de-escalation and risk of crude oil supply and shipping disruption in the Middle East now contained, focus shifted quickly to the underlying oversupply worries. A potential global growth slowdown in the second half of 2025, coupled with Saudi Arabia and OPEC+'s desires to accelerate their supply resumption now return to weigh on Brent crude oil price. Once again, since Apr, OPEC+ has returned about 2/3 or 1.4 mio bpd of their 2022 supply cut of 2.2 mio bpd. The key concern going forward is that OPEC+ may well accelerate the return of the remaining supply cut across the second half of this year. The next OPEC+ joint ministerial meeting is scheduled for 6th Jul with OPEC+ expected to further resume more production.

While we refrain from making changes to our forecasts too often, the underlying drivers for Brent crude oil have indeed changed yet again with the latest ceasefire and the reversion to underlying crude oil oversupply worries. After careful consideration, we lower our Brent crude oil forecast going forward to USD 70 / bbl for 3Q25, USD 65 / bbl for 4Q25 and USD 60 / bbl for 1H26. Prevailing front month Brent futures is USD 67 / bbl.

LME Copper: Strong COMEX stockpiling amidst tariff uncertainty is unsustainable

The strong influx of copper inventory into COMEX from Q1 continues unabated across Q2 leading to a further rise in copper stock. This is mainly motivated by ongoing uncertainties that President Trump may well impose trade tariffs on copper imports into the US. Consequently, COMEX copper continued to maintain its price premium over LME Copper. Strictly speaking, after accounting for shipping costs, there should be little to no arbitrage between COMEX and LME Copper price. But this was not the case since the start of the year amidst such elevated trade tariff uncertainty. Overall, we remain concerned that this short-term tightness in the copper market, particularly the inventory build-up on COMEX is unsustainable. As such, we maintain our modest negative outlook for LME Copper. Our updated forecasts are USD 9,500 / MT for 3Q25, USD 9,000 / MT for 4Q25 and thereafter USD 8,500 / MT for 1Q and 2Q26.

Asset Allocation
Asset Class Summary 3Q 2025

The asset class summary below is based on a "Balanced" risk profile.

CIO Thoughts | **Portfolio Strategy** | Macro Trends | Equities | Fixed Income | Commodities | Currencies

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.

Notes:
The asset class summary above is based on a "Balanced" risk profile.
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 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						Avg. duration 4 to 5 years
DM HY				4.5			2.6			0.8						
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.

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.

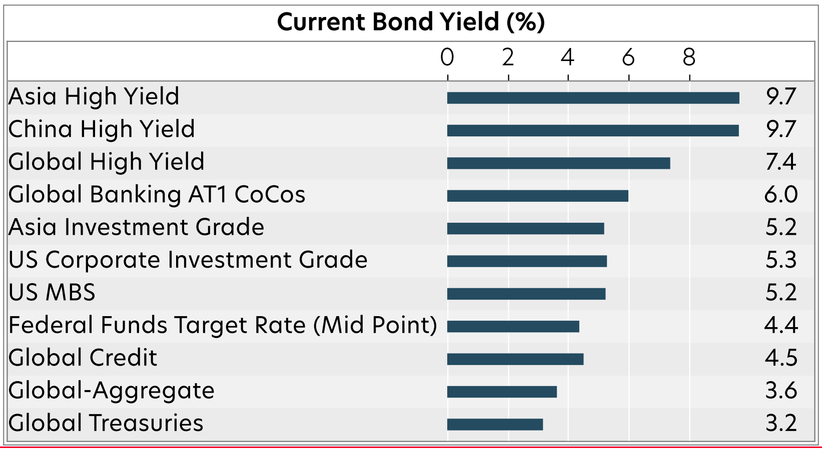
Defence and Financials remain "old-but-gold" sectors that will benefit from the proactive fiscal policies. The play on AI is maturing with emphasis on energy security and the transition into embodied AI like autonomous driving and humanoids. Early this year, we shifted from Magnificent 7 to the Other 493 (O493) names in the S&P 500. The call paid off, with O493 outperforming Magnificent 7 by 18ppt at its peak, now narrowed to 8ppt. At this juncture, we are rotating back to quality growth within Magnificent 7—firms with irreplaceable products and multi-billion-dollar cash flows to fuel future growth.

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.

We continue to advocate an allocation to private-market assets. This asset class 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 as a geopolitical hedge.

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

Source: Macrobond, Bloomberg, UOB Private Bank. As at 6 Jun 2025.



Right By You

Equities

US Equities: 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 5trn in market value. Faced with intense market pressure and political backlash, Trump's administration reversed course on 9 Apr, 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.

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 has remained resilient, but tighter credit is 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 three 25-bps Fed rate cuts by the end of 2025 (as of 6 Jun), taking the Fed Funds Target Rate to 3.75%. The Fed is likely to focus more on slowing real growth, 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 Jun), with strength in AI and industrial automation. Importantly, downside risks to earnings may be limited amidst growth slowdown without a recession. At 21.9x 12MF P/E (as of 6 Jun), S&P 500 valuations look rich but are buoyed by solid earnings visibility and stable real yields.

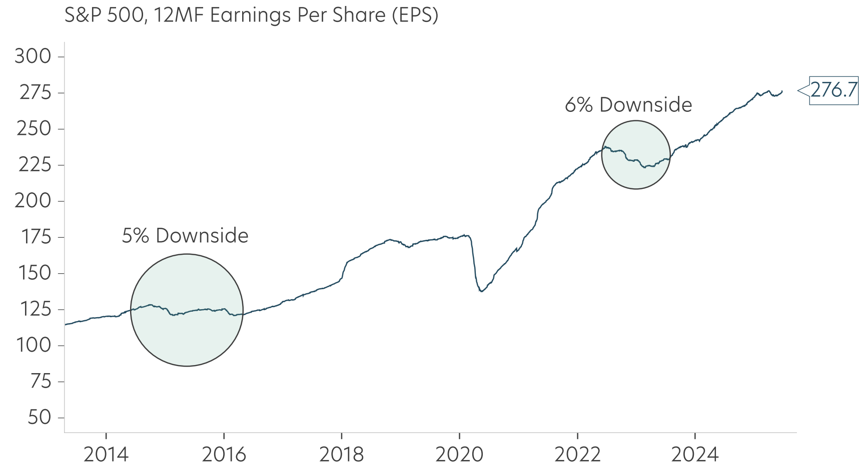
Upside Catalysts: Markets could be pricing in lower corporate tax rates and regulatory costs on Trump's fiscal expansion plans; this could lift 2026-2027 EPS forecasts by 5-8%. Meanwhile, AI-led capex cycle should continue to drive productivity and earnings momentum, especially in the cloud infrastructure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

Market Positioning: The S&P 500 has already priced in a huge composite PMI contraction. 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 an opportunity to build positions to benefit from tax cuts, deregulations and a historically strong 4Q performance.

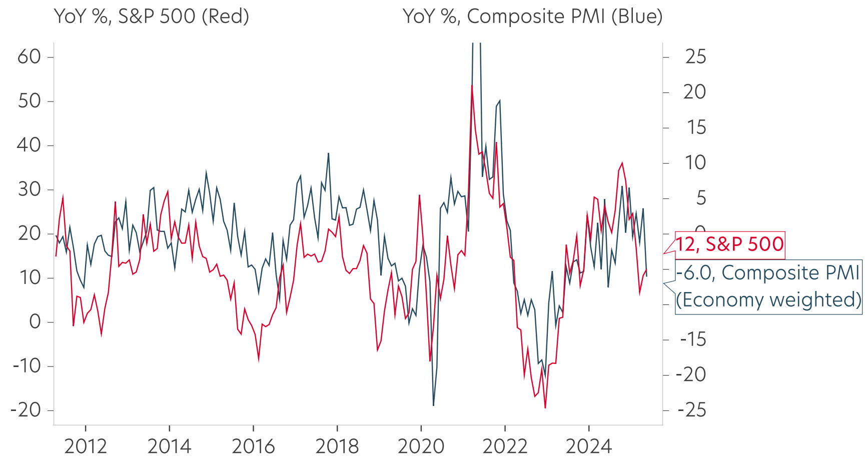
Limited EPS downside (without a recession)

Source: Macrobond, Bloomberg, UOB Private Bank. As at 6 Jun 2025.



S&P 500 priced in a huge PMI contraction

Source: Macrobond, Bloomberg, UOB Private Bank. As at 6 Jun 2025.



Europe Equities: 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 Jun), 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, 3Q 2025 outlook will rest on continued ECB monetary easing and the deployment of EU fiscal stimulus.

Stabilising Growth Across the Bloc: Eurozone GDP is expected to register 0.5% growth in 2025, stabilizing 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 labor markets are still tight, wage pressures have moderated. Unemployment rate's (6.3% as of 6 Jun) 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 Jun), against a disinflationary backdrop. Meanwhile, Germany's massive EUR 900 bn 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.

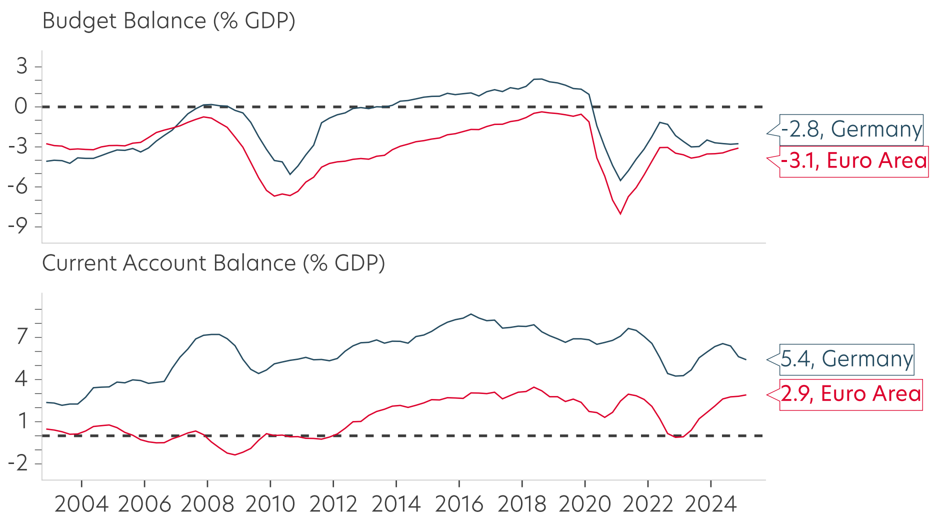
Resilient Earnings Growth While Valuations Are Still Reasonable: Euro Stoxx 600's blended 12MF EPS growth is forecast at ~5% YoY (as of 6 Jun), recovering from near-flat growth in 2024. The earnings breadth is improving, with cyclicals such as industrials and banks seeing some upside momentum. Valuations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

Market Positioning: The German industrials and defense 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%). 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.

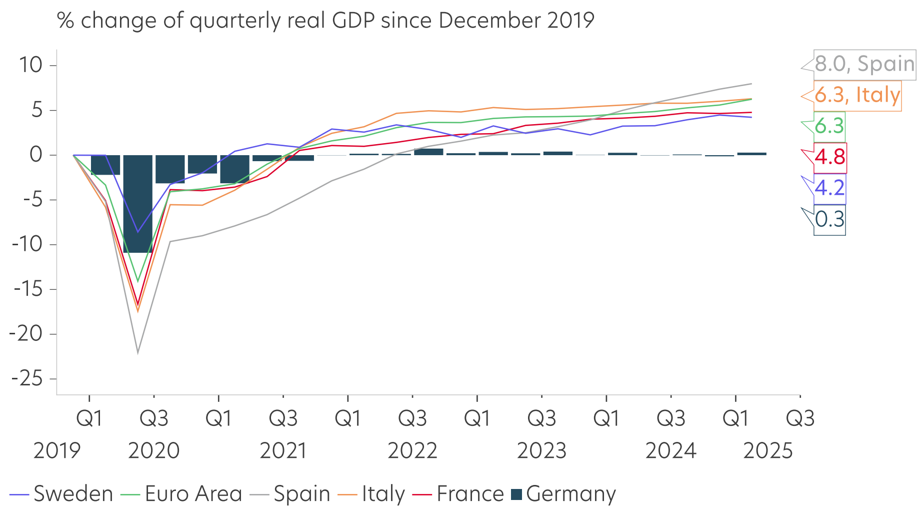
Fiscal spending is needed to offset CA surplus

Source: Macrobond, Bloomberg, UOB Private Bank. As at 6 Jun 2025.



Spain & Italy are leading the GDP growth in EU

Source: Macrobond, Bloomberg, UOB Private Bank. As at 6 Jun 2025.



Right By You

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 slumped to -2.0% YoY, underlining weak producer margins and demand-side caution. Chinese officials responded with targeted stimulus – a 50bp 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 Chinese 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 sentiment and investment. The 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 (~CNY4 trn) 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.

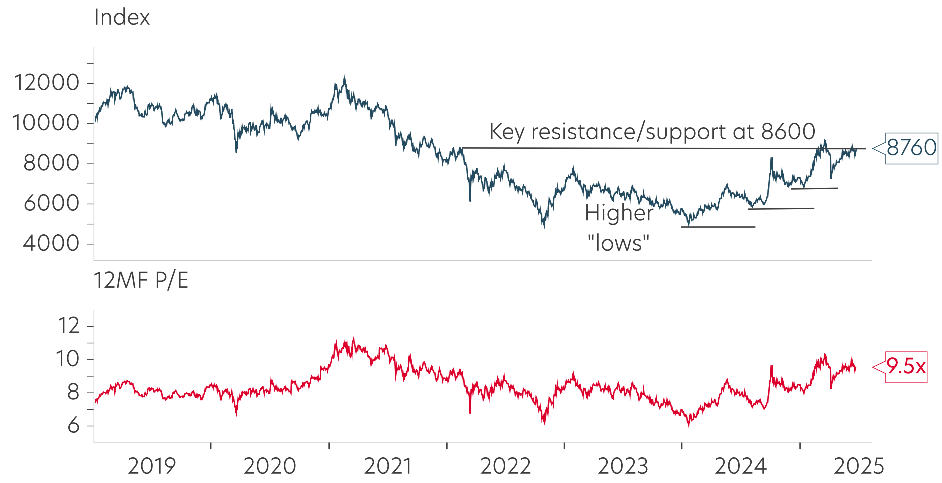
Decent Chinese Earnings Growth with Attractive Valuations: HSCEI blended 12MF EPS growth is forecast at ~8% YoY (as of 6 Jun), driven by AI and tech optimism. At 9.6x 12MF P/E, there is much room for valuation expansion relative to the global peers, against an improving macro backdrop.

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.

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 our preference for Chinese dividend and consumer stocks as well as AI-related names.

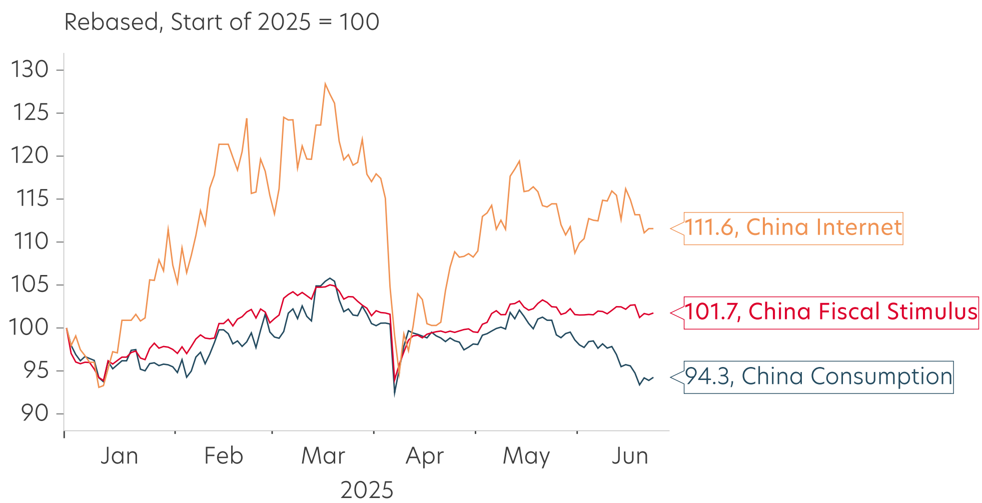
China HSCEI - Positive technical picture

Source: Macrobond, Bloomberg, UOB Private Bank. As at 6 Jun 2025.



Stay with China's secular growth plays like AI

Source: Macrobond, Bloomberg, UOB Private Bank. As at 6 Jun 2025.



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 sentiment was 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 sentiment is weakening 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% 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 labor costs.

Historic BOJ Policy Normalization Underway: The Bank of Japan (BOJ) is expected to conduct one 25bps 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.

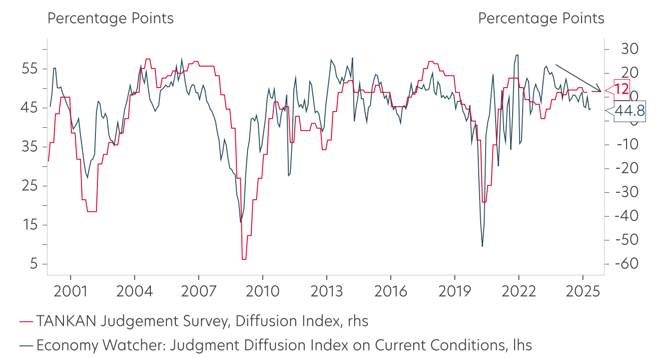
Weak Earnings Growth but Sector-dependent; Valuations Remained Undemanding: TOPIX's blended 12MF EPS growth is forecast at ~3% YoY (as of 6 Jun) amid expectations for currency drag and global trade softness. The silver lining is that TOPIX trades at 14.5x 12MF P/E (as of 6 Jun), which is still below global peers and its own 20-year average.

Market Positioning: It is noteworthy that 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.

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.

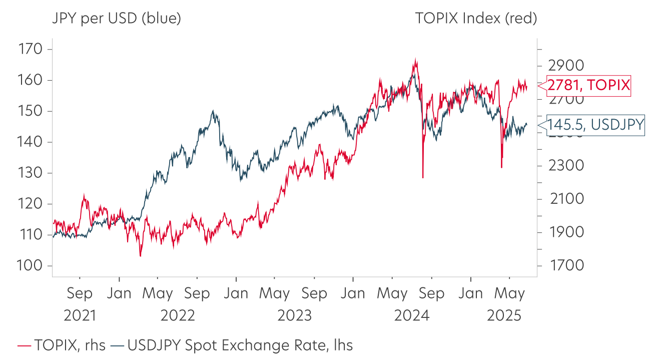
Japan's business sentiments are weakening

Source: Macrobond, Bloomberg, UOB Private Bank. As at 6 Jun 2025.



Higher equity volatility amid a stronger JPY

Source: Macrobond, Bloomberg, UOB Private Bank. As at 6 Jun 2025.



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 Jun). 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 +16bps/31bps, respectively.

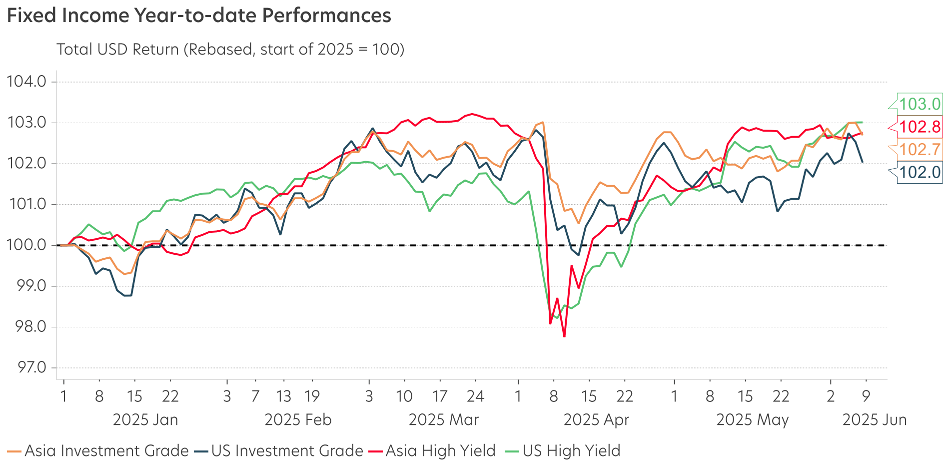
Looking ahead, we expect the Fed to address labour market concerns through policy easing in a gradual manner. The UOB Global Economics & Markets Research team is projecting one 25bps rate cut in 3Q 2025, followed by two 25bps cuts in 4Q 2025.

While credit spreads have narrowed, they remain wide relative to early-2025 levels. Juxtaposed with higher Treasury yields, the all-in investment grade (IG) bond yields remain at compelling levels for income investors. With tariff uncertainty remaining a certainty, our preference for quality bonds from defensive sectors can provide a 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: Macrobond, Bloomberg, UOB Private Bank. As at 6 Jun 2025.



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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 ~150bps 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 Jun).

Having said that, slowing growth, delayed rate cuts and a more compressed credit spread differential between rating spectrums pose 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 team'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.

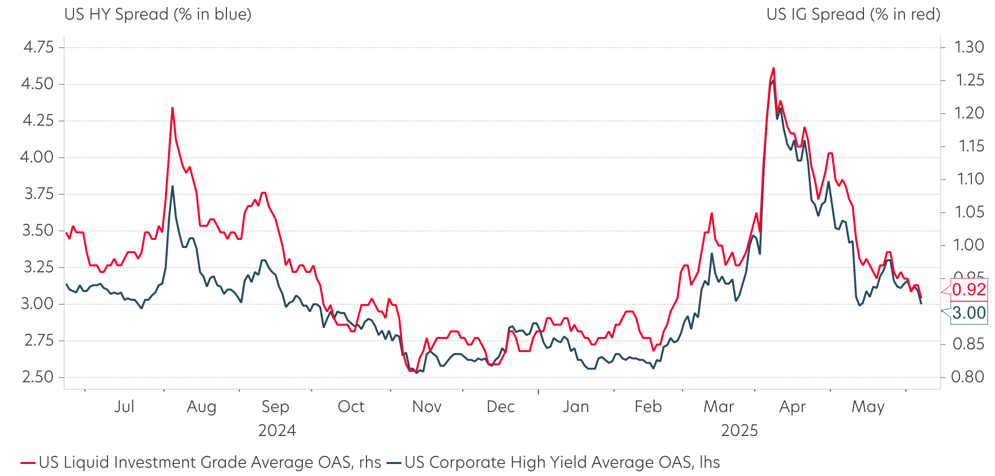
In terms of valuations, the current DM HY credit spread of ~300bps is tighter than the trailing 10-year average of 410bps. Investors should put credit risk considerations first at the current juncture, focusing on credits that are sufficiently insulated from macroeconomic shocks and adjustments. The 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 a huge downside risk.

Spreads have narrowed significantly following US tariff policy shock

Source: Macrobond, Bloomberg, UOB Private Bank. As at 6 Jun 2025.



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Emerging Markets 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 Jun). 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 the impact of price pass-through to the end consumers will be closely watched for their 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.

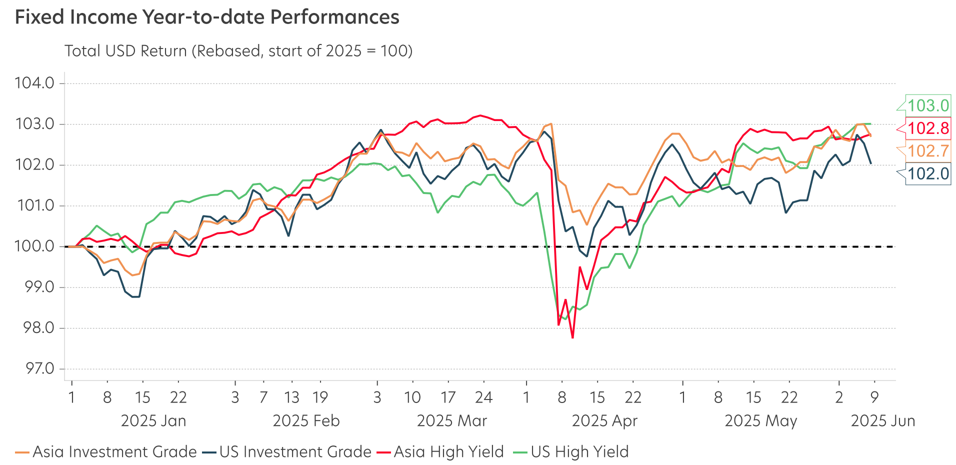
Within the space, we maintain our preference for Asian (including Japan) financials, select Asia-focused life insurers, quasi-sovereign/strategic state-owned enterprises, and defensive consumer names.

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. 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: Macrobond, Bloomberg, UOB Private Bank. As at 6 Jun 2025.



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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 Jun). Credit spreads have tightened significantly to 487bps (as of 6 Jun) from April's peak, with volatility falling sharply on easing trade tensions.

Macroeconomic uncertainties had impacted sentiment, 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 remain 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 Asian bonds but are at higher levels than pre-US tariff shock for HY

Source: Macrobond, Bloomberg, UOB Private Bank. As at 6 Jun 2025.

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FX, Interest Rate & Commodities Forecasts

FX	02 Jul	3Q25F	4Q25F	1Q26F	2Q26F
USD/JPY	144	144	142	140	138
EUR/USD*	1.18	1.18	1.19	1.20	1.21
GBP/USD*	1.37	1.37	1.38	1.39	1.40
AUD/USD*	0.66	0.65	0.66	0.67	0.67
NZD/USD*	0.61	0.61	0.62	0.63	0.63
DXY*	96.6	96.9	96.0	95.2	94.3
USD/CNY*	7.17	7.20	7.15	7.10	7.05
USD/HKD	7.85	7.84	7.82	7.80	7.80
USD/TWD*	29.2	29.5	29.2	29.0	28.8
USD/KRW*	1,362	1,380	1,360	1,340	1,330
USD/PHP*	56.3	57.0	56.5	56.0	55.5
USD/MYR*	4.21	4.24	4.20	4.15	4.13
USD/IDR*	16,198	16,500	16,300	16,200	16,000
USD/THB*	32.5	33.0	32.6	32.3	32.0
USD/VND*	26,138	26,400	26,200	26,000	25,800
USD/INR*	85.5	87.0	86.0	85.0	84.5
USD/SGD*	1.27	1.29	1.28	1.27	1.27
EUR/SGD*	1.50	1.52	1.52	1.52	1.54
GBP/SGD*	1.75	1.77	1.77	1.77	1.78
AUD/SGD*	0.84	0.84	0.84	0.85	0.85
SGD/MYR*	3.31	3.29	3.28	3.27	3.25
SGD/CNY*	5.63	5.58	5.59	5.59	5.55
JPY/SGDx100*	0.89	0.90	0.90	0.91	0.92

POLICY RATES	02 Jul	3Q25F	4Q25F	1Q26F	2Q26F
US Fed Funds Rate	4.50	4.25	3.75	3.75	3.50
JPY Policy Rate	0.50	0.75	0.75	1.00	1.00
EUR Refinancing Rate	2.15	1.90	1.65	1.65	1.65
GBP Repo Rate	4.25	4.00	3.75	3.50	3.25
AUD Official Cash Rate	3.85	3.60	3.35	3.10	2.85
NZD Official Cash Rate	3.25	3.00	3.00	3.00	3.00
CNY 1Y Loan Prime Rate	3.00	3.00	2.90	2.90	2.90
HKD Base Rate	4.75	4.50	4.00	4.00	3.75
TWD Official Discount Rate	2.00	2.00	1.88	1.88	1.88
KRW Base Rate	2.50	2.50	2.25	2.00	2.00
PHP O/N Reverse Repo	5.25	5.00	4.75	4.75	4.75
MYR O/N Policy Rate	3.00	2.75	2.50	2.50	2.50
IDR 7D Reverse Repo	5.50	5.25	5.25	5.25	5.00
THB 1D Repo	1.75	1.75	1.25	1.00	1.00
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	5.50	5.50	5.50	5.50	5.50

INTEREST RATES	02 Jul	3Q25F	4Q25F	1Q26F	2Q26F
USD 3M SOFR (compounded)*	4.34	4.25	3.89	3.72	3.50
SGD 3M SORA (compounded)*	2.05	1.91	1.80	1.72	1.63
10Y US Treasuries Yield*	4.25	4.30	4.20	4.10	4.00
SGD 10Y SGS*	2.15	2.30	2.25	2.20	2.15

COMMODITIES	02 Jul	3Q25F	4Q25F	1Q26F	2Q26F
Gold (USD/oz)	3,332	3,400	3,500	3,600	3,700
Brent Crude Oil (USD/bbl)*	67	70	65	60	60
Copper (USD/mt)	9,934	9,500	9,000	8,500	8,500

Updated on 02 Jul 2025 (* forecast updated)
Source: UOB Global Economics & Markets Research

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