THINK DIFFERENTLY

TO GET DIFFERENTIATED RESULTS

Monthly Investment Update

Executive Summary

January provided a strong start to the year, with equities and gold leading the gains after a challenging December. The "January barometer" suggests that a strong January often signals a positive year for stocks, particularly in a US Presidential cycle, where historical data hint at strong subsequent gains for the remainder of the year.

President Trump's inauguration initially set a positive market tone as no immediate tariffs were announced. However, the introduction of China's DeepSeek AI model triggered a shift in market leadership from big tech to other sectors. DeepSeek's disruptive innovation, delivering competitive AI performance at a fraction of the cost, raised concerns about AI capital expenditure and its impact on the "Magnificent 7" stocks. While the long-term implications remain uncertain, the event reaffirms the importance of diversification beyond mega-cap tech stocks. The month concluded with the launch of Trump Tariffs 2.0, this time targeting Canada, Mexico, and China. Markets initially declined but partially recovered as negotiations evolved. The unpredictability of Trump's trade policies remains a challenge, reinforcing the importance of an adaptive and agile approach rather than reactionary decisions.

Tariff uncertainties also present risks for income investors. Higher costs and disrupted supply chains could impact traditionally stable dividend-paying sectors. Credit markets may also feel the strain as earnings forecasts become less predictable, raising concerns about bond downgrades. Meanwhile, interest rate expectations remain volatile due to Trump's unpredictable policies, complicating the fixed-income landscape. Despite these challenges, attractive opportunities remain: Emerging market credit has proven resilient, benefiting from proactive central bank policies, while developed market credit continues to offer select opportunities. Given the uncertain rate environment, we maintain a preference for short-duration assets to mitigate interest rate risks while capturing higher income.

Markets are likely to remain volatile as policy uncertainty unfolds. Given the wide distribution of outcomes, we choose to adapt and stay agile rather than make outsized bets on Trump's next move. Investors should remain patient, avoid emotional decision-making, and stay committed to a well-structured investment process.

MARKET REVIEW

Following a challenging December 2024, January was kind to most major asset classes with gold and equities leading the gains.

A solid equity performance in January is supportive of sentiment as implied by the January barometer. For those who believe in statistics, the January barometer (“as goes January, so goes the year”) predicts that if stock markets rise in January, it is likely to continue to rise higher through the year. When this signal was positive in the first year of a US Presidential cycle, the S&P 500 was up c.90% of the time for the year with an average return of c.18%.

President Trump’s inauguration set a positive tone for the market as tariffs were not part of the executive orders signed on day 1.

Trump's decision to adopt a low profile stance on tariffs during his inauguration day had a positive impact on market sentiment. By refraining from immediately implementing the expected tariffs on China, he eased investor concerns about a sudden increase in trade tensions. Market interpreted this as a more negotiable trade policy, which helped calm volatility and supports a more optimistic outlook. Against this backdrop, US equities rallied to an all-time high during the inauguration week.

Subsequently, the release of a new AI large language model by Chinese company DeepSeek triggered a shift in leadership from big Tech to the other sectors, indicating a further broadening of breadth.

DeepSeek stunned US AI market leaders by launching 2 Large Language Models (LLM) that match their performance but at a fraction of the cost with less powerful chips. This feat has challenged many of the assumptions on AI Capex and the associated return that drives the Magnificent 7 (M7) bull market over the past few years. After a brief selloff, the market has stabilized as most investors believe DeepSeek's higher efficiency will eventually boost AI adoption and demand. Having said that, the long-term impact of DeepSeek is still uncertain, and will likely increase scrutiny on M7's valuation premium. Therefore, we advocate diversifying from the M7 to enhance the portfolio's risk-adjusted return.

Finally, Trump concluded the month by threatening tariffs on Canada, Mexico, and China.

It's likely only a matter of time before Europe also faces similar threats. The global equities market has been choppy since the announcement and is expected to remain so depending on the outcomes of the ongoing negotiations. This again highlights the difficulty in predicting the policy direction under Trump 2.0. Given the wide distribution of outcomes, we choose to adapt and stay agile as opposed to making huge bets on what Trump will do next.

China has largely anticipated the possibility of the US imposing more market access restrictions. To counter this, China is working to diversify its trade flows to non-US markets (e.g. ASEAN) and to rebalance its economy by promoting greater domestic demand. We should hear more on this from Beijing over the next few months.

Major asset classes delivered strong returns despite 3 major risk events in January ...

Trump inauguration

DeepSeek

Tariff threat

TRUMP

TARIFF 2.0

The brief period of calm following President Trump's inauguration on January 21 was abruptly disrupted by a wave of tariff actions over 72 hours:

FEB 1 | US Announces New Tariffs

U.S. announces new tariffs of 25% on imports from Canada and Mexico, and a 10% additional tariff on imports from China starting February 4. Officially, the move is aimed at addressing illegal immigration and the influx of the fentanyl drug into the US[1].

FEB 2 | Initial Response

Canada and Mexico respond with retaliatory tariffs against US, while China vowed to file a lawsuit against the US at the World Trade Organization (WTO).

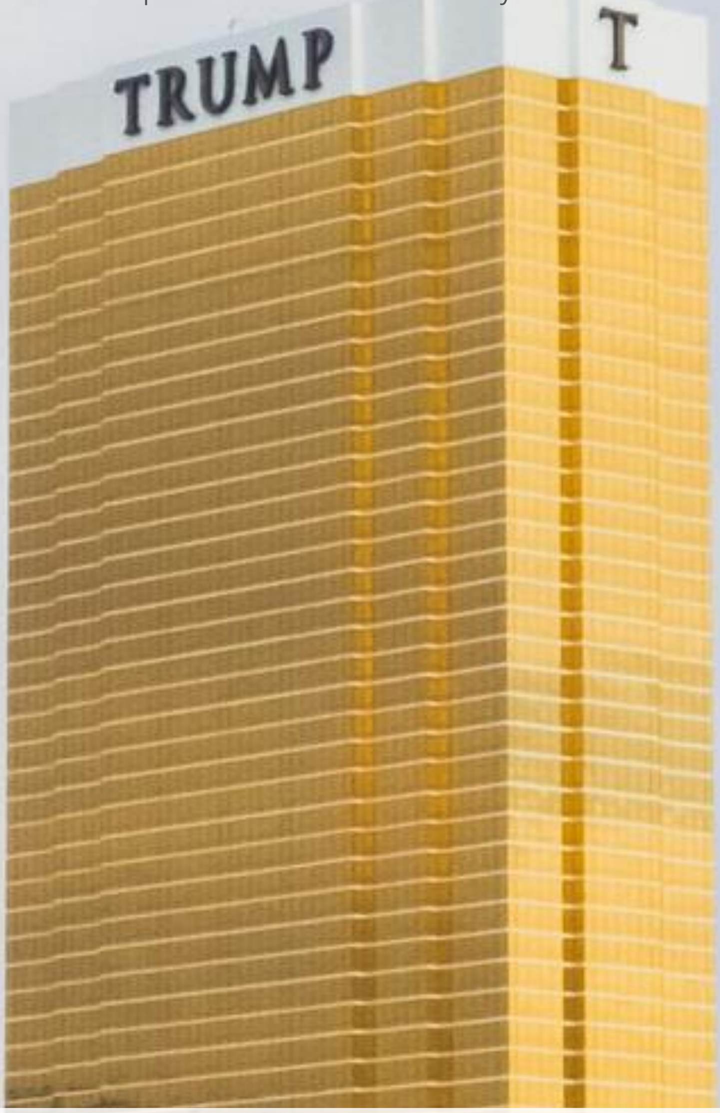
FEB 3 | Pause on Canada and Mexico Tariffs

President Trump agreed to pause tariffs on Canada and Mexico for 30 days after both countries committed to enhancing border security measures.

FEB 4 | Tariffs on China Takes Effect

10% tariff on Chinese imports implemented as scheduled. China announced retaliatory tariffs on U.S. goods, including crude oil and agricultural products, effective February 10. China's response is seen as being measured and suggest the possibility of negotiation.

The start of Trump Tariff 2.0 is now upon us. Unsurprisingly, global equities reacted in a volatile fashion when they re-opened after the weekend; selling off as much as 1.9% but then recovering as the delay on Canada and Mexico tariffs was announced. Under Trump, markets are more prone to quick reversals with every news headline, and more than ever it is important not to invest emotionally.



TARIFFS AS LEVERAGE IN HIGH STAKE NEGOTIATIONS

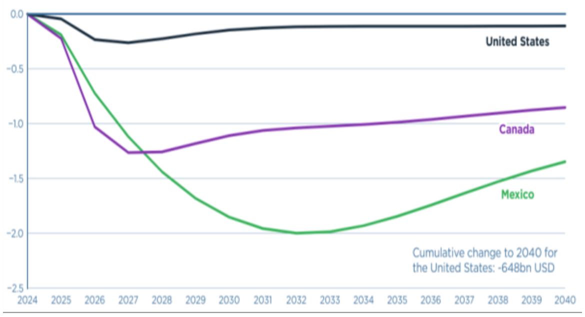
WHAT CAN WE GATHER FROM RECENT ACTIONS?

Interestingly, Trump's opening salvo targeted Canada and Mexico, two of its closest trading partners and allies. The decision to target Canada and Mexico alongside China could be a signal to the world that no one is untouchable in Trump's 'America first' approach, adding a layer of unpredictability to markets going forward.

The wave of tariff actions also marked the return of a familiar playbook: **tariffs as leverage in high-stakes negotiations.**

During President Trump's first term, tariffs were frequently employed as a strategic tool to gain leverage in negotiations. In 2019, Trump announced a plan to impose escalating tariffs on Mexican imports, starting at 5% and potentially reaching 25%. This was in a bid to compel Mexico to take stronger action to curb illegal immigration to the US – which they eventually did, and the proposed tariffs were called off.

Tariff impact on GDP: US, Canada, Mexico

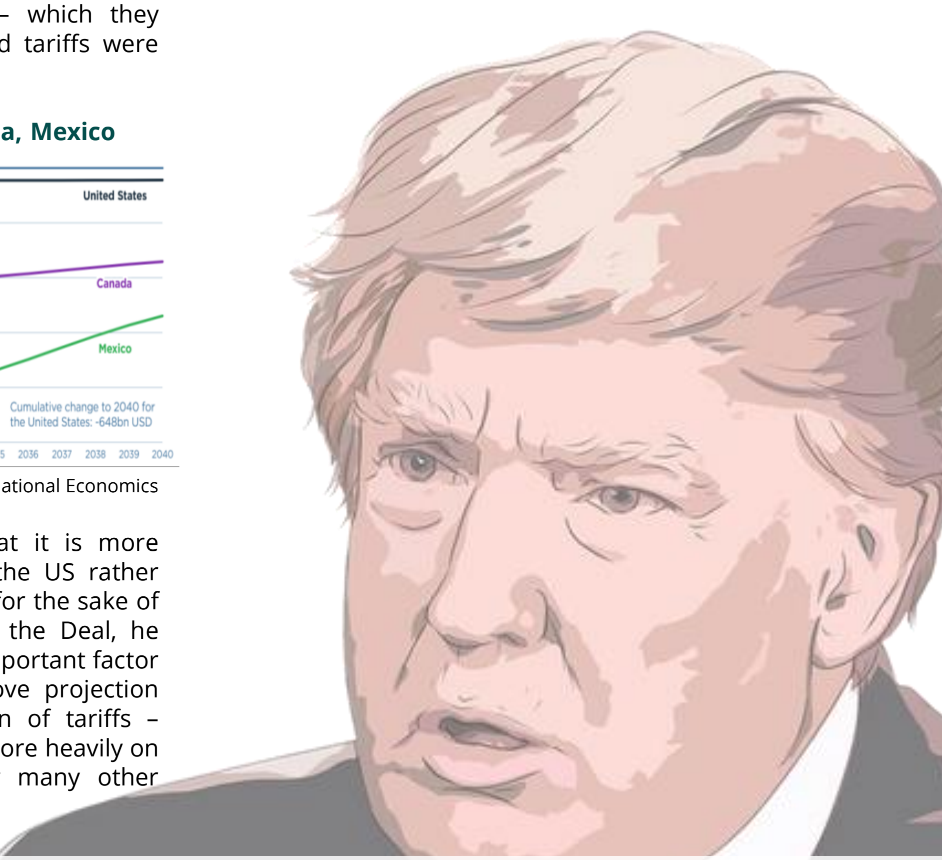


Source: Peterson Institute For International Economics

Recent actions also indicate that it is more about getting a good deal for the US rather than just pushing through tariffs for the sake of it. In Trump's book, The Art of the Deal, he mentions leverage as the most important factor in negotiations. Indeed, the above projection show that the economic burden of tariffs – while also hurting the US – falls more heavily on Canada and Mexico (and likely many other countries as well).

With the US in a stronger economic position, tariffs can be an effective bargaining tool. This is evident from the swift response from Canada and Mexico following Trump's tariff threats – both countries offered border security commitments which led to the 30-day pause on tariffs.

Looking ahead, current indications suggest that while some tariffs may be imposed, they may not be as severe as initially floated on the campaign trail – where sweeping tariffs on all imports and a staggering 60% tariff on China were proposed. While there remains a chance that high-stake negotiations could veer off course, it is not the current base case scenario. In the meantime, financial markets can continue to grind higher if tariffs remain measured and global growth stays resilient. For investors, this reinforces the importance of being active, agile, and prudent in navigating today's fluid landscape.



INCOME INVESTING AMID TRADE WARS

Challenges facing income investors
Income investors today face a unique set of challenges as global economic dynamics shift. The latest is courtesy of the 'Tariff Man' as it relates to Trump's tariffs and their ripple effects across the global economy.

Economic Impact on Traditional Income
Regardless of which specific tariffs end up being implemented, one outcome is clear: higher costs. Tariffs disrupt global supply chains, impact ability to service debt obligations and overall corporate profitability. For income investors, it may mean uncertainty in traditionally stable dividend equity sectors, such as consumer staples and industrials.

Impact on Credit and Interest Rate Markets
Expect the uncertainty to percolate to credit markets. As companies adjust to changing trade dynamics, their earnings forecasts become less predictable, which can lead to increased credit risk and potential downgrades in bond ratings. Fixed income investors will need to navigate shifting credit fundamentals and valuations carefully.

In a non-Trump administration, trying to telegraph Fed policy was already challenging. In the Trump era, even when it is apparent where the direction of interest rates should go (current consensus is down), investors cannot take that for granted as rate policy can turn on a dime due to Trump's unpredictable policies.

The inflationary pressures from tariffs could prompt central banks to raise interest rates, and negatively impact bond prices. Income investors may still remember the rate hikes and bond losses over 2022 but that was a low-to-normal rate regime. In an adverse scenario; the prospect of a normal-to-high rate regime brings back echoes of the 1970s – an entirely different challenge and one that generations of investors are ill-prepared for.

Will the prospect of losing ground at the mid-term elections make the President pull back on inflationary tariffs? At this point, probably Trump himself would not bet on it. Perhaps more pragmatically, the midterms are not close enough for him to care.

Opportunities for income investors
Some investors may view this landscape as too unpredictable and retreat to cash. But in an inflationary scenario, holding cash is a sure-lose game - its purchasing power erodes over time. Instead, we remain firmly focused on delivering inflation-beating income for our investors through identifying selective income opportunities with good risk-reward.

One area that has shown resilience is Emerging Market Credit. This segment has been performing well, offering attractive yields while benefiting from proactive policy measures taken by central banks in these regions, which have helped stabilize growth and control inflation effectively.

There also continue to be opportunities in Developed Market credit. Spreads have tightened across the credit spectrum (valuations have gotten less attractive); on one hand making the risk-reward less attractive, but on the other indicating strong investor confidence. We are also confident in select segments supported by strong credit fundamentals. Within investment grade, segments such as asset-backed securities provide a combination of incremental income while being secured.

Given the uncertainty and potential volatility around interest rates, **we remain tilted towards short-duration assets to mitigate interest rate risk, while still being able to extract higher income.**

Depending on where they have invested, some of our investors may also have exposures to alternative income sources such as those linked to natural disasters - January created quite a bit of a scare with California wildfires (the fires have since been contained). While the fires caused significant damage, our portfolios remained largely unscathed, reinforcing our risk-managed approach and careful diversification across income sources.

As we continue to capture high-income in select opportunities, we remain cognizant that no market stays resilient forever. Should the risks we've outlined begin to materialize into meaningful capital loss events, we won't hesitate to shift gears.

HOW ARE WE POSITIONED?

Equity (Green) **Bonds (Blue)**

Key Themes	Allocation
US Exceptionalism + Growth Broadening Economic resilience in the US (vs rest of world) supports the continuation of 'US exceptionalism' at least in the near-term. President Trump's second term also comes with the prospect of tax cuts and de-regulation which would support risk-assets – we await more policy clarity as Trump takes office. There is also a case for returns broadening out beyond the narrow group of tech-related stocks - globally and also within the US -, supported by steadier economic growth going forward.	**US equities** **Global equities** (e.g. Europe, Japan)
Diversification Into Emerging Opportunities Financial markets operate in cycles. The end of the easy money era means looking beyond popular markets that did well during the previous broad-based growth to find tomorrow's winners. Focus on high-growth markets driven by their own distinctive economic trajectories and coupled with attractive valuations.	**Emerging Market equities** (e.g. China, India, Vietnam)
Shifting Gears On Income Having benefitted from the strong performance of high-yield bonds, we are gradually transitioning to higher quality fixed income positions while maintaining attractive yields. Investors can still achieve solid income in today's environment but requires a more careful balance between generating returns and managing volatility.	**Developed-Market Credit** **Asian High-Yield Credit** **Emerging Market Credit**

ASSET ALLOCATION STRATEGY

-- Underweight | – Slight Underweight | = Neutral | + Slight Overweight | ++ Overweight

Equity: Regions

United States

Economic resilience coupled with the prospects of favourable policy i.e. tax cuts supports the continuation of good performance in the US. Maintaining an overall higher quality positioning as valuations remain stretched.

Europe

Europe's pro-cyclical industrial base to benefit from steadier economic growth so long as severe recession is not on the cards.

Japan

Current lower exposure reflects concerns of potential yen reversal hurting equities. That said, we are on the lookout for attractive entry points to take advantage of continued corporate reforms in Japan.

Asia Pacific ex Japan

More pro-active stimulus measures embarked by the Chinese government provides better tailwinds for Asia equities. Currently participating in Asia and China via broader exposure to Emerging Markets.

Emerging Markets

Maintain preference for high-growth markets at attractive valuations i.e. China and Vietnam.

Fixed Income

Global

Focus on government bonds' flight to quality characteristic to buffer portfolio volatility during periods of stress.

Investment Grade Corporate

Maintain a diversified exposure and taking advantage of mispricing opportunities in developed-market investment grade bonds.

US High Yield

Maintaining minimal exposure due to as IG bonds offer relatively better risk-reward to obtain income while mitigating default risk.

Asia

While Asia credit continues to offer attractive all-in-yields and supportive fundamentals, we maintain a neutral allocation after realizing strong income and capital appreciation.

Emerging Markets Debt

Hard currency bias to focus on return from credit while limiting exposure to emerging market currencies. Short-duration bonds to mitigate volatility from more uncertain interest rate path.

MARKET INDEX RETURNS

Equity Regional	MTD	YTD	10Y	20Y
Global	3.38	3.38	10.35	8.54
United States	2.78	2.78	13.74	10.63
Europe	7.11	7.11	6.62	6.32
Japan	1.69	1.69	6.52	4.60
Asia Pacific ex Japan	1.38	1.38	4.65	6.79
Emerging Markets	1.81	1.81	4.14	6.44

Equity Markets	MTD	YTD	10Y	20Y
Australia	5.77	5.77	7.75	8.49
Brazil	11.00	11.00	2.15	4.29
China "A"	-2.05	-2.05	1.82	10.05
China "H"	1.62	1.62	-0.94	5.72
Hong Kong	0.92	0.92	1.62	5.58
India	-1.79	-1.79	8.03	10.85
Indonesia	-0.16	-0.16	3.17	9.69
Korea	6.50	6.50	1.74	5.07
Malaysia	-4.83	-4.83	0.16	5.66
Singapore	2.81	2.81	5.44	7.55
Taiwan	2.24	2.24	13.35	10.88
Thailand	-4.32	-4.32	1.01	7.67
Vietnam	1.47	1.47	8.77	9.01

Equity Sectors	MTD	YTD	10Y	20Y
Gold	14.91	14.91	7.19	3.80
Energy	2.07	2.07	5.60	7.14
Technology	-1.49	-1.49	20.42	14.07
Healthcare	6.43	6.43	8.30	9.51
Financials	6.52	6.52	12.89	6.04

Fixed Income	MTD	YTD	10Y	20Y
Global Aggregate	0.57	0.57	0.22	1.94
Global Aggregate (H)	0.39	0.39	1.86	3.32
High Yield	1.40	1.40	4.78	6.32
Asia	0.63	0.63	2.74	3.21
Emerging Markets	1.06	1.06	3.26	5.51

Note: (H) Currency Hedged

Currencies	MTD	YTD	10Y	20Y
SGD/USD	0.67	0.67	-0.02	0.95
EUR/USD	0.08	0.08	-0.85	-1.14
JPY/USD	1.30	1.30	-2.74	-2.00

Commodities	MTD	YTD	10Y	20Y
Gold	6.63	6.63	8.10	9.91
Oil	1.13	1.13	4.16	2.06

As of 31 Jan 2025. Source: Bloomberg. ***Total return in USD****.*
10 and 20 year returns are annualized.

"In investing, what is comfortable is rarely profitable."

Rob Arnott

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