THINK DIFFERENTLY
TO GET DIFFERENTIATED RESULTS

Monthly Investment Update

Executive Summary

After a calm start to the year, February brought renewed volatility to global equity markets. Trade tensions and concerns over slowing U.S. growth weighed on investor sentiment. Interestingly, while U.S. equities faced headwinds, European and Chinese markets outperformed in the past month – reflecting a temporary (?) pause in the narrative of US exceptionalism.

Undeniably, the uncertainties surrounding Trump's economic policies have created a challenging landscape for investors. While pro-growth initiatives such as tax cuts are expected, sentiment has been dented by the frontloading of less market-friendly policies such as tariffs and federal job cuts. That said, the supportive fundamental backdrop of corporate earnings and the anticipated progressive rollout of pro-growth policies suggest that the US bull market is likely still intact for now. As the uncertain environment plays out, investors should not take diversification for granted. While last year's performance was concentrated in a handful of richly valued U.S. mega-cap stocks, a broadening of returns – both globally and within the U.S. - may offer better upside potential and resilience during volatile times.

Despite equity market swings, income-focused investments demonstrated resilience in February. Bond yields declined, reflecting demand for fixed-income assets. Notably, Emerging Market and Asia corporate bonds outperformed their Developed Market counterparts, reflecting their steadier fundamentals today. The landscape across income markets remains dynamic, with opportunities shifting from last year, requiring investors to take a more selective and adaptive approach.

As we move forward, market volatility is likely to persist as investors navigate shifting economic policies and global uncertainties. Staying agile while still maintaining good diversification will be key to managing risk and capturing opportunities amid fluid developments today.

Finexis Asset Management

MARKET REVIEW

February proved to be a turbulent month.

Weakening US consumer confidence and tariff threats on Canada, Mexico and China are the key headwinds to investor sentiment. Against this backdrop, global equities declined towards the latter half of the month, dragged down by weak US performance. The momentum behind "Trump trades", such as the US dollar and Bitcoin, also lost steam. In contrast, fixed income markets posted modest gains as bond yield declined, reflecting investors' move toward safer assets in response to weaker economic data and a broader retreat from riskier assets. Gold outperformed and remained a good downside hedge amidst structural tailwind from central bank buying.

The narrative of US exceptionalism has (temporarily?) faded to the benefit of China and Europe.

The outperformance of Europe and China caught many investors by surprise, including us. To be fair, US growth is still good but less exceptional, with real GDP growth starting to moderate from 3% towards 2%. So, what has been driving the divergence in equity performance?

China equities saw gains after the release of DeepSeek's AI model, and President Xi's open support for China's biggest technology firms injected confidence into the private sector. In particular, DeepSeek's AI model has and could continue to catalyze further narrowing of the valuation gap between China and US tech. We have also observed more signs of green shoots of better Chinese corporate earnings and guidance, especially amongst the leading tech firms.

In the west, Europe is enjoying tailwinds from potential policy changes that support both growth and security.

The combination of a dovish European Central Bank (ECB), rising odds of a ceasefire in Ukraine, and a potential coalition in Germany hints at more positive economic surprises going forward. That said, we temper this optimism with the fact that a lot is already in the price, given the extent of the rally so far. The market could also be underestimating Trump's threat of a 25% tariff on autos and other products.

The sequencing of Trump 2.0 policies' stick and carrot starts to dent sentiment.

It appears that the market unfriendly policies on tariffs and the Department of Government Efficiency's (DOGE) job cuts have been frontloaded as compared to pro-growth policies such as tax cuts. This setup is not easy for investors to digest, and near-term policy uncertainty has raised the fear of a more severe slowdown. The US equity market not surprisingly experienced a consolidation while bond yields declined markedly as the expectation of a Fed rate cut rose.

Amid volatile markets, we are comforted that we are positioned in segments with higher quality at better valuations, which would offer better risk/reward for investors. In our flexible multi-asset solutions, we have also been active in implementing protective strategies ahead of the sell-off in mid-February – helping to cushion the portfolio in the event of further market selloffs just like an insurance plan on a rainy day.

Despite recent weakness, we believe that the US equity bull market is likely intact for now – the fundamental earnings backdrop remains supportive, with Trump's pro-growth policies likely to be progressively delivered.

February: The Narrative of US exceptionalism faded to the benefit of China and Europe.

Xi meets Jack Ma

EU sentiment reset

Tariff threat lingers

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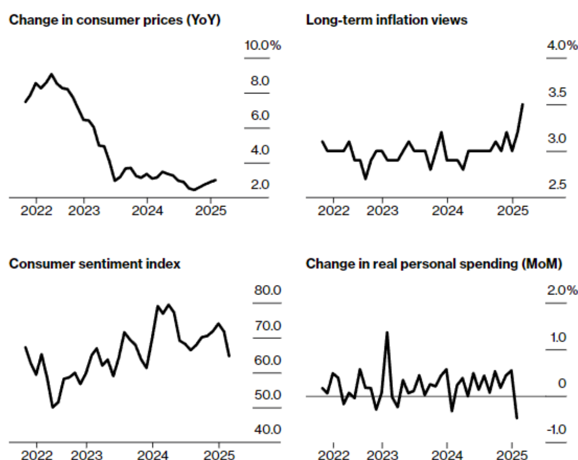
TARIFF TO GROWTH SCARE?

After a calm January, global markets have been on edge, with volatility picking up once more over the past month. Unsurprisingly, trade tensions remain the main culprit, with every Trump tweet and tariff headline sending markets swinging and creating a choppy environment for investors to navigate.

Tariff-scare to Growth-scare?

Last month, we highlighted tariffs being used as leverage in high-stakes negotiations – which is what's playing out today: the US first announced tariffs on Canada and Mexico on February 1st, then paused them on February 3rd after securing commitments on border security, only to reimpose said tariffs on March 4th citing lack of progress. Trump's 'stick and carrot' approach to tariffs risks creating a murky economic environment, which can lead to bouts of market volatility.

There are increasing concerns that Trump's policies may trigger an economic slowdown alongside the current backdrop of stickier inflation, i.e. a stagflation scenario. While this scenario has yet to firmly take hold, such an outcome would be troublesome for the Fed as they would need to decide between fighting inflation (keeping rates high) and supporting the economy (keeping rates low)…two contrasting policy functions!



Source: Bloomberg

Nonetheless, we have observed some recent signs of weakness in US economic data that are worth monitoring closely. Surveys on consumer confidence indicate worries about the outlook of the economy. More businesses are also reportedly adopting a 'wait-and-see' approach amid the uncertain environment. The labour market is also showing some signs of stress, with DOGE, the government's entity tasked to cut federal spending, embarking on mass layoffs.

With all that said, one or two data points do not make a trend, and the current soft patch of data may very well end up being no more than a growth-scare that would eventually make way for the resumption of the bull market. Indeed, growth has not plunged but merely slowed, with pockets of strength still present, e.g. continued expansion in service PMI, supportive corporate earnings backdrop. That said, we continue to pay close attention to each data point, such as the non-farm-payrolls (NFP) number for February, to guide our outlook and positioning going forward.

Navigating the volatility

What can investors do amid the uncertain backdrop? A simple way would be to pay more attention to diversification going forward. While the narrow group of US mega-cap growth stocks, i.e. Magnificent 7 led performance last year, 6 out of the 7 stocks are firmly in negative territory so far this year (Tesla is down close to 30% as of writing!). Tilting towards the remaining 493 stocks in the US S&P 500 may offer better risk/reward for investors in this environment.

Investors should also not ignore international diversification. While the US bull market is likely still intact, there are select opportunities outside of the US for investors to capture, especially with global policymakers scrambling to offset the impact of tariff uncertainties. Being selective and nimble amid the ongoing trade tensions is key. We are also on the lookout for opportunities that could present themselves amid periods of volatility. For one, the outsized sell-off in India may finally present us with an attractive entry point should fundamentals stabilize.

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MAR 2025 INVESTMENT UPDATE

INCOME AMID TRUMP 2.0

Income markets resilient amid Trump 2.0

Trump 2.0 is creating a lot more volatility and uncertainty than what investors had to deal with before. February was marked by heightened uncertainty, driven by policy announcements from Trump's administration, which reignited trade tensions, plus poorer than expected jobs data, which sparked concerns that economic growth would not be sustained.

The good news is that income investors saw resilience during last month's volatility, with income markets holding up while equities retraced. Fixed income markets saw demand as bond yields tightened in general, as reflected by US treasury yields going down by 0.33%.

What stood out was that the conventional wisdom of Emerging Markets (EM) being riskier than Developed Markets (DM) did not apply this time. **EM corporate bonds outperformed DM, which added a boost to our income strategies**. Certainly, trade tensions affect all regions, including EM, but perhaps steadier EM fundamentals have supported the outperformance this time.

Looking ahead, income investors should expect more volatility as the Trump administration's policies take shape, reiterating the importance of positioning in segments with better risk/reward rather than just investing in what has done well before.

Adaptive market positioning crucial

Indeed, the landscape across income markets remains dynamic, with opportunities shifting from last year.

For example, U.S. high-yield bonds, which offered attractive yields in 2024, have seen spreads tighten further (valuations have gone up!) in early 2025, reducing the potential for outsized returns.

Emerging market high-yield credit also performed well in 2024 due to proactive central bank policies. While it means that they are more fairly priced, it is also a reflection of the robust fundamentals of EM economies today. We do expect increased volatility this year, with geopolitical risks looming in the background, requiring us to be more nimble going forward.

What is the same as last year is that duration management will continue to be tricky. Market participants were caught on consensus views that interest rates would go down; instead, interest rates were volatile and ended up higher. While the interest rate declines last month were talk of the markets, once one zooms out, they will see that the move was just a fraction of the swings in the past year.

Furthermore, the Trump administration seems to be taking credit for the recent fall in interest rates, even if it was not for the reasons they wanted.

A Key Interest Rate Falls, but Not for the Reasons Trump Wanted

Investors' increasingly gloomy sentiment about economic growth appears to be driving down the 10-year Treasury yield.

https://www.nytimes.com/2025/03/03/business/treasury-bond-yields-trump-economy.html

Treasury Secretary Scott Bessent has said they are targeting a lower US 10-year Treasury yield so that the US government pays less interest on its debt. The problem is that the rate decline last month was attributable more to a poorer outlook on the US economy, which will be a bigger problem for the Trump administration if the outlook continues to deteriorate.

While income investors face a complex and evolving market environment, the past month highlighted the resilience of income-focused strategies amid equity market turbulence. This year, staying attuned to shifting credit spreads (valuations) and market technicals will be crucial for identifying new opportunities and maintaining good income.

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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'. 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 amidst the rhetoric. 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**

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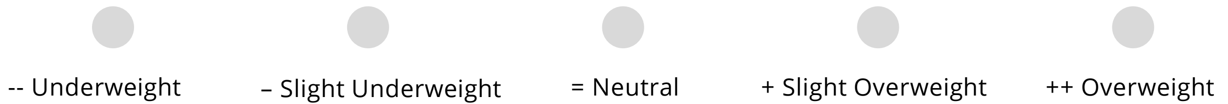
ASSET ALLOCATION STRATEGY



Equity: Regions

United States (+ Slight Overweight)

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 (– Slight Underweight)

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

Japan (– Slight Underweight)

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 (= Neutral)

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 (= Neutral)

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

Fixed Income

Global (– Slight Underweight)

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

Investment Grade Corporate (+ Slight Overweight)

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

US High Yield (– Slight Underweight)

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

Asia (= Neutral)

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 (+ Slight Overweight)

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.

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MARKET INDEX RETURNS

Equity Regional	MTD	YTD	10Y	20Y
Global	-0.57	2.79	9.68	8.32
United States	-1.30	1.44	12.96	10.45
Europe	3.20	10.54	6.32	6.24
Japan	-0.99	0.69	5.83	4.45
Asia Pacific ex Japan	0.20	1.58	4.34	6.52
Emerging Markets	0.50	2.31	3.88	6.03

Equity Markets	MTD	YTD	10Y	20Y
Australia	-4.41	1.11	6.46	8.00
Brazil	-3.46	7.16	1.44	3.32
China "A"	1.47	-0.60	1.59	9.66
China "H"	14.19	16.04	0.00	5.96
Hong Kong	13.60	14.64	2.80	6.08
India	-6.42	-8.09	7.18	10.34
Indonesia	-13.13	-13.27	1.64	8.83
Korea	0.46	6.99	1.59	4.55
Malaysia	1.08	-3.80	-0.05	5.77
Singapore	1.50	4.35	5.61	7.54
Taiwan	-2.14	0.06	12.69	10.46
Thailand	-9.70	-13.60	-0.18	6.79
Vietnam	1.32	2.80	8.62	9.04

Equity Sectors	MTD	YTD	10Y	20Y
Gold	2.01	17.22	7.86	3.51
Energy	3.97	6.13	5.59	6.43
Technology	-1.84	-3.30	19.29	13.91
Healthcare	1.15	7.66	7.94	9.39
Financials	1.41	8.02	12.41	6.15

Fixed Income	MTD	YTD	10Y	20Y
Global Aggregate	1.43	2.01	0.45	2.00
Global Aggregate (H)	1.20	1.60	2.04	3.41
High Yield	0.63	2.04	4.56	6.25
Asia	1.99	2.63	2.98	3.31
Emerging Markets	1.62	2.70	3.30	5.53

Note: (H) Currency Hedged

Currencies	MTD	YTD	10Y	20Y
SGD/USD	0.39	1.07	0.09	0.92
EUR/USD	0.13	0.20	-0.76	-1.21
JPY/USD	3.03	4.37	-2.28	-1.81

Commodities	MTD	YTD	10Y	20Y
Gold	2.12	8.89	8.95	9.86
Oil	-3.82	-2.73	3.44	1.50

As of 28 Feb 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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