APR 2025

THINK DIFFERENTLY
TO GET DIFFERENTIATED RESULTS

Quarterly Investment Update

Executive Summary

Global markets entered 2025 with cautious optimism, but the tone has shifted markedly in recent weeks. The sharp escalation of US tariffs on April 2nd – 'Liberation Day' as declared by President Trump - sent shockwaves through financial markets, dragging the S&P 500 into correction territory. This episode capped off a volatile first quarter marked by geopolitical uncertainty, diverging global growth trends, and investors rotating away from the once-dominant US tech sector.

Against this backdrop, our portfolios have held up better – the result of earlier strategic adjustments made. Since the start of the year, we've made deliberate adjustments to reduce fragility and improve resilience:

Exposure to economically sensitive emerging markets was trimmed, particularly in regions vulnerable to trade friction such as Vietnam. We also moderated allocations to 'Magnificent 7' names on the back of their rich valuations and the potential broadening from previous narrow markets.

Fixed income exposures have been carefully managed. While equity markets faltered, bond markets have offered a measure of stability. In particular, the decision to bias to higher quality credit positions worked in our favour; and have provided steady and attractive income for our investors this year.

While the latest tariff escalation has unsettled markets, it is worth remembering that markets have shown remarkable resilience throughout history. While recent developments have meaningfully increased the risk of a negative scenario playing out (we're not ruling out a deep recession in the worst case!), there is also a chance of a better outcome if tariff negotiations progress and economic growth hold up.

During uncertain and unpredictable periods, a disciplined focus on diversification, income, and overall quality becomes important to tide us through various scenarios and to reap the long-term rewards.

Finexis Asset Management

MARKET REVIEW

Global Shifts in US Policy

The global macroeconomic landscape has transformed dramatically since the start of 2025, driven largely by US tariff announcements and a more aggressive stance toward historical allies. This has indirectly led to Germany's fiscal package reforms that fuel European economic optimism. On the other hand, tariff uncertainties and DOGE-related layoffs have eroded confidence in the US. Consequently, global investor sentiment is pivoting away from the "MAGA" (Make America Great Again) narrative to "MEGA" (Make Europe Great Again).

Q1 Volatility and Divergence

The first quarter of 2025 saw extreme volatility across financial markets. Concerns over a US economic slowdown, coupled with trade policy ambiguities and geopolitical risks, triggered a sharp selloff in US equities, a softer dollar, and rallies in traditional safe havens such as Treasuries. Notably, the "Magnificent 7" US tech giants underperformed the broader market, lagging significantly with a decline of -16%.

In contrast, European equities and bond yields surged, bolstered by proactive fiscal stimulus and defense spending initiatives. That said, with the strong repricing in European assets lately, we are cautious not to chase the rally before more clarity on tariff executions. We have reservations that despite the material improvement in Europe's growth outlook, near-term risks to growth remain to the downside given trade tensions with the US are being underpriced by the market at present.

Gold's relentless climb continues on the back of geopolitical tensions and strong safe-haven demand, and year to date return is ~20%. Some forecasters believed that their $3,200 projection this year may have been ambitious, but now, just three months in, they are reconsidering whether they need to raise that target even higher.

Finally, credit has also started to reprice growth risks clearly in late March. In aggregate, fixed income has outperformed other risk asset classes but could play catchup to the downside if growth concerns linger – stay high quality.

2025 Q1 PERFORMANCE	
Global Equities	**-1.7%**
Emerging Market Equities	**3.0%**
S&P 500	**-4.3%**
Gold	**19.0%**
Magnificent 7	**-16.0%**
Global IG Credit	**2.6%**
Global Corporate High Yield	**1.8%**

Source: Bloomberg

China's Resurgence and Broadening?

China has emerged as a focal point for investors, driven by DeepSeek's game-changing innovations and early signs of economic stabilization through targeted policy support. Chinese equities have caught many investors by surprise, with gains outpacing Developed and Emerging Market peers.

The emergence of DeepSeek has lifted the narrative of China technology and the outlook of offshore Chinese 'H' stocks that are tech-heavy. Some analysts believe the widespread AI adoption could boost Chinese EPS by ~2% per year over the next decade via lower costs, higher efficiency, and new revenue opportunities.

On the other hand, onshore China 'A' stocks have lagged relatively as investors are not yet convinced that the property downturn and the deflationary cycle are over. Given the extent of the performance divergence and "green shoots" in the economy, there is a case for broadening of the rally from H shares to A shares.

Looking ahead, we believe risk management will be front and centre to manage through volatility in Q2, especially with potential tariff escalations and geopolitical developments still lingering on the horizon.

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LIBERATION DAY

April 2, 2025, is Liberation Day in the US, according to US President Donald Trump.

Markets were already anxious ahead of the widely anticipated day when Trump has threatened sweeping tariffs. When Liberation Day finally arrived, markets were spooked – the S&P 500 (-4.8%) and NASDAQ (-5.8%) led global markets down in the initial knee-jerk reaction to the new tariff announcements.

We published an earlier flash report on the details of this announcement ***here***.

Can we recover from the latest tariffs?

Naturally, some investors are feeling uneasy after experiencing the sharp downturn. The 4.8% drop in the S&P 500 on April 3 has extended the peak-to-trough decline to 12.2%, pushing it into correction territory.

At this time, some may also be extrapolating the latest escalation in tariff tensions and are assuming the worst case. Not to trivialize the current situation (which we will cover shortly), but markets have shown remarkable resilience to recover in the face of volatility – a study by JP Morgan shows that despite an average intra-year drop of 14%, markets usually find themselves positive at the end of the year. But how may that happen this time around?

Trump Open to Tariff Cuts in Return for 'Phenomenal' Offers

Tariffs are being used by Trump to extract concessions through negotiations. In the continuation of this playbook: on the day after Liberation Day, President Trump discussed the possibility of reducing tariffs if other nations offer something 'phenomenal' in negotiations. Presumably, with progress in negotiations, markets will move past the negative sentiment seen in recent days.

Of course, this is dependent on the economy holding up. Some good news: the world's economies are currently still growing (though at a slower pace), and corporate earnings have remained broadly supportive. If (a big if) they can remain resilient, this will provide support for markets if we get an orderly negotiation process and tariffs end up lower than what was initially proposed.

That's the positive scenario where markets resume their bull run. On the other hand, the latest escalation also meaningfully increases the risk of a negative scenario playing out:

- Tariffs will result in higher prices. This will lead to inflationary pressures and slower growth as consumers and businesses cut back on spending. In the worst case, we get a recession.
- Rising inflation means that the US Fed will find it difficult to cut interest rates to support the economy (and markets) as they would not want to add wood to the growing inflation fire.

We've made strategic adjustments since the start of the year to ensure that our portfolios are better prepared for such unexpected shocks in Trump's second presidency:

1. Reduced exposures to economically-sensitive Emerging Markets that would be at risk from Trump's policies, such as Vietnam – positions reduced by half.
2. Preferring market segments with more supportive earnings, and reducing concentration from the richly-valued Magnificent 7 stocks which led declines (peak-to-trough decline of 24%).
3. Bond markets have held up well amid volatile equity markets (see next section). We invest in higher quality bonds such as select Investment Grade Credits which have gained more than 3% year-to-date.
4. In our flexible solutions: We have utilized protective strategies such as put-options to reduce our equity exposure without letting go of potential upside. We have also been maintaining Gold as a strategic hedge.

By having good diversification and avoiding fragile market segments, our portfolios have been more resilient amid volatility. We look to maintain a portfolio that can tide our investors through this period and reap the long-term rewards,

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INCOME AMID TRUMP 2.0

Income markets resilient amid equity declines

Equities declined sharply last month driven by concerns over economic slowdown, escalating geopolitical tensions, and new tariff policies introduced by the U.S. administration - a toxic mix that can lead to rising inflation and slowing growth. Income investors who dislike volatility will be happy to see that income markets were resilient as equities tanked.

Asia bond markets a surprising standout

The performance of Asia bond markets would have surprised many investors. While global fixed-income markets generally held up well, Asian bonds outperformed even the Global Aggregate Index, traditionally viewed as a safe haven.

Even more impressive was the performance of Asian high-yield bonds, which outpaced both global investment grade and developed market high-yield bonds. This marks a significant turnaround for the asset class, which was tarnished by the excesses of China's property market in previous years. Improved fundamentals and lower default rates have helped rehabilitate Asian high yield as an attractive income-generating opportunity.

This rebound can be attributed to several factors. First, China's property exposure has reduced as more issuers from India and Indonesia entered the market, offering higher yields with improved credit profiles. Fundamentally, proactive central bank policies across the region have supported credit conditions and stabilized local economies. The Reserve Bank of India and the Bank of Korea both cut interest rates earlier this year, bolstering demand for fixed-income assets. And this demand came from local investors. Asian institutional investors, including pension funds and insurers, have also increased allocations and more providing stability.

Interest rate forecasting is tricky

In our previous commentary, we discussed how trying to call interest rates is very tricky. March came along to demonstrate that: economic data such as better-than-expected PMI readings and strong employment figures fueled speculation about potential rate hikes by central banks. However, the Fed opted to keep rates unchanged at its March meeting, leaving markets confused.

Despite significant intra-month volatility in interest rates, by month-end, the 10-year yield settled at 4.2%, almost unchanged from February's close. This unpredictability highlights the importance of focusing on income rather than attempting to time interest rate movements.

Focus on income

The object of income investors is to get a steady and attractive income. Yet there are so many distractions that can swing them away from this focus. What's worse, these distractions tend to be masked under what looks like good performance not driven by income assets but from swings in equities and interest rates. Good income investing comes from staying the course on this objective and not be swayed.

Where are the areas that offer income in the current environment? High-yield markets globally continue to offer compelling total return potential while mitigating volatility compared to equities. Having said that, high-yield bonds are still more volatile than investment-grade bonds. This is where income investors have to be clear on what they want: higher income that comes with volatility, or lower income?

Perhaps they do not need to choose between the two extremes. Our portfolios are designed to strike a thoughtful balance by blending high-yield and investment-grade bonds with stronger fundamentals, offering both resilience and meaningful income potential.

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HOW ARE WE POSITIONED?

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

Key Themes	Allocation
Balanced Approach Amid Heightened Uncertainty Adopting a prudent balanced approach as current market conditions present a tug-of-war between lingering tailwinds and mounting risks. Tailwinds come in the form of still supportive corporate earnings, AI-driven productivity optimism, and a resilient U.S. labour market. However, heightened uncertainty stems from the recent imposition of tariffs, retaliatory threats from major economies, and increasing signals pointing towards a potential recession.	**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)
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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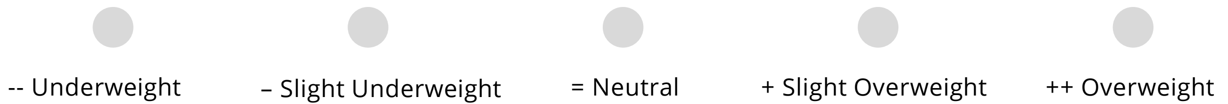
APR 2025 INVESTMENT UPDATE

ASSET ALLOCATION STRATEGY



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

Equity: Regions

United States

Continued earnings growth remains supportive but moderated by stretched valuations and policy uncertainty.

Europe

Cheaper valuations and ECB rate cuts are tailwinds but sluggish growth and political risks warrant a balanced approach.

Japan

With global market volatility and potential retaliation against US trade policies, a neutral allocation to Japan mitigates uncertain outcomes.

Asia Pacific ex Japan

More pro-active stimulus measures embarked by the Chinese government provides better tailwinds for Asia equities on the back of their better valuations.

Emerging Markets

Maintain preference for high-growth markets at attractive valuations e.g. China

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.

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MARKET INDEX RETURNS

Equity Regional	MTD	YTD	10Y	20Y
Global	-3.90	-1.22	9.41	8.22
United States	-5.63	-4.28	12.49	10.23
Europe	0.12	10.68	6.59	6.38
Japan	0.50	1.19	5.68	4.55
Asia Pacific ex Japan	-0.45	1.12	4.33	6.74
Emerging Markets	0.64	2.97	4.09	6.43

Equity Markets	MTD	YTD	10Y	20Y
Australia	-2.65	-1.57	6.43	8.03
Brazil	9.09	16.91	3.61	4.23
China “A”	0.19	-0.41	0.23	10.22
China “H”	1.16	17.39	-0.02	6.41
Hong Kong	1.10	15.90	2.83	6.35
India	8.09	-0.66	8.64	10.97
Indonesia	3.76	-10.01	1.90	9.11
Korea	-2.51	4.29	1.13	4.73
Malaysia	-1.60	-5.34	-0.05	5.87
Singapore	2.81	7.28	5.83	7.72
Taiwan	-11.05	-11.00	11.35	10.06
Thailand	-2.30	-15.59	0.09	7.15
Vietnam	0.10	2.90	9.49	8.80

Equity Sectors	MTD	YTD	10Y	20Y
Gold	15.40	35.28	11.06	4.54
Energy	3.85	10.21	6.20	6.83
Technology	-8.88	-11.89	18.47	13.53
Healthcare	-2.20	5.29	7.55	9.29
Financials	-4.20	3.48	12.00	6.12

Fixed Income	MTD	YTD	10Y	20Y
Global Aggregate	0.62	2.64	0.61	2.10
Global Aggregate (H)	-0.42	1.17	1.94	3.38
High Yield	-1.16	0.86	4.52	6.38
Asia	-0.14	2.49	2.89	3.31
Emerging Markets	-0.36	2.34	3.21	5.65

Note: (H) Currency Hedged

Currencies	MTD	YTD	10Y	20Y
SGD/USD	0.65	1.72	0.22	1.04
EUR/USD	4.25	4.46	0.08	-0.90
JPY/USD	0.44	4.83	-2.19	-1.67

Commodities	MTD	YTD	10Y	20Y
Gold	9.30	19.02	10.19	10.44
Oil	2.47	-0.33	4.15	1.28

As of 31 Mar 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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