

# CIO NEWSLETTER



**Daryl Liew, CFA**  
Chief Investment Officer  
Investment Solutions



## THIS MONTH AT A GLANCE



- Higher rates are changing the investment landscape.
- AI remains attractive — but the story is shifting from spending to monetisation.
- Singapore is a high-conviction market.
- Fixed income and dividends are back as meaningful sources of return.
- Stay slightly defensive, but be ready to use volatility as an opportunity.

## 01 | HIGHER RATES, HIGHER VOLATILITY, BETTER OPPORTUNITIES

September marked an important turning point for financial markets as the Federal Reserve resumed its tightening cycle and US Treasury yields moved decisively above 5%. The Fed's 25-basis-point rate hike reaffirmed its focus on inflation despite signs of moderating economic activity. Higher risk-free rates are now creating genuine competition for equities, forcing investors to reassess valuations and risk premiums across asset classes.

Most major equity markets declined during the month, while fixed income also came under pressure as bond yields rose. Technology shares continued to outperform broader markets, supported by AI-related investment and earnings momentum, despite concerns that the pace of development could be poised to slow.

We remain fundamentally constructive but expect returns to become more selective. In this more demanding environment, earnings growth, recurring cash flow, dividend income and valuation discipline will matter more than multiple expansion. Looking ahead to the fourth quarter and 2027, our investment strategy remains centred on three themes: the transition of AI from infrastructure investment to monetisation, the improving outlook for Singapore equities, and the re-emergence of fixed income and dividends as meaningful sources of portfolio returns.

## 02 | UNITED STATES: AI LEADERSHIP MEETS VALUATION DISCIPLINE

US equities delivered mixed returns in September. The S&P 500 declined 0.5%, while the Nasdaq Composite gained 1.9%, supported by continued strength in AI-related companies. The Dow Jones Industrial Average fell 4.3% and the Russell 2000 declined 5.4%, as higher interest rates placed greater pressure on cyclical, smaller and more rate-sensitive companies. Returns are shown in each market's base currency.

Performance within the largest technology companies diverged significantly. Meta gained 26.7%, Apple rose 5.1%, Nvidia advanced 3.4%, Alphabet gained 1.4%, and Microsoft added 1.1%. In contrast, Amazon declined 4.1% and Tesla fell 3.6%. This dispersion indicates that investors are increasingly distinguishing between companies demonstrating AI monetisation and those continuing to invest heavily without a corresponding acceleration in revenue or cash flow.

Valuation remains an important consideration. The S&P 500 trades at approximately 21.3 times forward earnings, well above other major regional markets and at a level that assumes continued earnings delivery from its largest technology constituents. We remain constructive on the long-term prospects of AI beneficiaries, but higher Treasury yields are making investors more discerning about the price they are willing to pay for future growth.

## 03 | EUROPE: ATTRACTIVE VALUATIONS, LIMITED GROWTH

European equities experienced a weaker month. The STOXX Europe 600 declined 2.5%, the FTSE 100 fell 2.0%, the FTSE MIB lost 2.4%, the DAX declined 4.0%, the CAC 40 fell 4.4%, and the Swiss Market Index lost 3.2%.

European markets also underperformed because the region is more exposed to the economic effects of higher energy prices arising from the ongoing Middle East conflict. As a significant net energy importer, Europe's economic growth, corporate margins and consumer spending are more sensitive to sustained increases in oil and natural gas prices. With Brent crude rising 14.4% in September, investors became increasingly cautious about the region's growth outlook.

The STOXX Europe 600 trades at approximately 15.2 times forward earnings, a substantial discount to the S&P 500. However, this discount reflects Europe's slower structural growth, greater exposure to cyclical industries and continued sensitivity to energy costs. Valuations provide some support, but stronger earnings growth will be needed for European equities to outperform sustainably.

## 04 | ASIA: EARNINGS MOMENTUM MEETS REASONABLE VALUATIONS

Asian equity performance was mixed. Taiwan gained 3.9%, Japan rose 0.7%, and South Korea advanced 0.3%, supported by continued demand for semiconductors and AI-related infrastructure. Conversely, China declined 5.8%, Hong Kong fell 3.7%, India dropped 6.1%, and Indonesia declined 7.0%. The MSCI Asia Pacific ex Japan Index fell 1.2%. Singapore's Straits Times Index declined 1.4%, while S-REITs fell 5.5% as rising interest rates continued to weigh on the sector.

From a valuation perspective, Asia remains one of the more attractive regions globally. The MSCI Asia Pacific ex Japan Index trades at approximately 12.4 times forward earnings, well below both US and European equities. The region offers exposure to structural growth drivers, particularly semiconductors and AI infrastructure, without the valuation premiums embedded in many US technology companies.

## 05 | COMMODITIES AND FIXED INCOME

Commodity markets delivered mixed returns in September. Brent crude oil gained 14.4%, supported by geopolitical uncertainty and supply concerns, while gold declined 6.3% as rising real yields reduced the relative appeal of non-income-producing assets. Bitcoin gained 6.0%, reflecting continued risk appetite despite tighter financial conditions.

The sharp rise in oil prices reinforced concerns about the Middle East conflict and its inflationary consequences. We expect the conflict to continue for the foreseeable future, with no clear catalyst for a near-term resolution. Oil prices are consequently likely to remain volatile and trade within a broad range of approximately US\$70 to US\$110 per barrel.

Energy markets will remain an important driver of inflation expectations, monetary policy and investor sentiment over the coming quarters.

Fixed income remained under pressure as yields moved higher across developed markets. Singapore Government Bonds declined 0.8%, Singapore Corporate Bonds fell 1.3%, and SGD non-sovereign investment-grade bonds lost 1.5%. Higher-risk credit also weakened, with Asia USD High Yield Bonds declining 1.2% and US Corporate High Yield Bonds falling 2.5%.

The US 10-year Treasury yield ended September at approximately 5.3%, while the 30-year yield reached approximately 5.6%. These yields now provide a credible alternative to equities and represent a significant change in the global opportunity set.

## 06 | THE RETURN OF YIELD COMPETITION

With Treasury yields around 5%, some institutional and retail investors are likely to rebalance from equities into fixed income. As the risk-free rate increases, equity valuations become more sensitive to higher discount rates and earnings disappointments.

This does not imply a bearish outlook for equities. It does, however, raise the threshold that companies must meet to justify their valuations. Businesses capable of delivering earnings growth, recurring cash flows and attractive shareholder returns should prove more resilient, while highly valued companies with uncertain monetisation prospects will face greater scrutiny.

Higher yields also create opportunities within fixed income. We favour high-quality bonds where investors can earn meaningful income without assuming excessive credit risk. Duration should be managed carefully while inflation remains above target and monetary policy continues to tighten.

## 07 | Q4 2026 OUTLOOK: VOLATILITY BEFORE OPPORTUNITY

Our base case is for elevated volatility heading into the US midterm elections in early November. Political uncertainty, portfolio rebalancing and higher bond yields could produce intermittent periods of equity weakness.

Nevertheless, historical midterm-election seasonality remains supportive. Equity markets have generally performed more strongly after midterm elections as political uncertainty diminishes and investors refocus on corporate earnings and economic fundamentals.

We remain mindful of market concentration. Major US indices are close to record levels, but their performance remains dependent on a relatively narrow group of large technology companies. A broadening of earnings growth and market participation would provide a healthier foundation for the next phase of the rally.

We therefore expect increased volatility, but not necessarily a sustained downturn. Any meaningful correction could provide an opportunity to add selectively to equities, particularly where structural earnings growth remains intact.

## 08 | **THEME ONE: AI ENTERS THE MONETISATION PHASE**

Artificial intelligence remains the dominant structural growth theme, but the investment cycle is evolving. Building infrastructure is no longer sufficient. Investors increasingly want evidence that AI-related spending can generate sustainable revenue, earnings and free cash flow.

The forthcoming earnings season will therefore focus heavily on the relationship between capital expenditure and monetisation. We expect wider performance dispersion as markets reward companies capable of translating AI investment into commercial returns.

## 09 | **SLOWER DEVELOPMENT, FASTER MONETISATION**

An important debate is emerging over whether the pace of AI development and infrastructure spending can continue indefinitely. This was highlighted by Dario Amodei, Chief Executive Officer of Anthropic, who has called for AI development to slow in order to address safety and governance concerns.

For investors, the central question is not whether AI will remain transformational. It is whether future returns can justify the extraordinary levels of capital being deployed. The world's largest technology companies have committed substantial resources to data centres, advanced semiconductors and computing infrastructure, but investors are increasingly focused on when those investments will produce commensurate revenue and profitability.

The AI industry may consequently be moving from a “build-first” phase towards a “monetise-first” phase. If developers place greater emphasis on commercial applications, enterprise deployment and safety considerations, the pace of frontier-model development could moderate. This could slow the growth of training-related infrastructure spending, even as enterprise adoption and inference demand continue to expand.

We do not view this as the end of the AI investment cycle. Rather, it marks the beginning of a more selective phase in which revenue growth, profitability and return on invested capital will matter more than headline spending or model announcements.

We continue to favour companies with clear exposure to AI infrastructure, semiconductors, cloud computing and enterprise adoption. However, stock selection will become increasingly important as investors distinguish between businesses demonstrating tangible AI-related earnings growth and those dependent primarily on future technological promises.

## 10 | **THEME TWO: SINGAPORE REMAINS A PREFERRED MARKET**

Singapore remains one of our highest-conviction regional allocations. Resilient economic growth, attractive dividend yields, strong corporate balance sheets and supportive policy initiatives continue to underpin the investment case.

An additional catalyst is the expansion of the Monetary Authority of Singapore’s Equity Market Development Programme (EQDP). On 29 September, MAS appointed a third batch of five asset managers under the S\$6.5 billion EQDP and allocated a further S\$1.45 billion, bringing total programme allocations to S\$5.4 billion across 14 asset managers. The newly appointed managers are Amundi, Franklin Templeton, HSBC Asset Management, M&G Investments and Natixis Investment Managers. MAS expects their global distribution networks to attract new sources of international capital and broaden participation in Singapore equities.

MAS also committed S\$20 million to a new GEMS Market Making Grant. The grant will support market-making activity in an initial group of approximately 80 eligible small- and mid-cap SGX-listed stocks, as well as newly listed companies, with the objective of improving liquidity, narrowing bid-ask spreads and strengthening price discovery. These measures should support greater investor interest and could contribute to a gradual re-rating of selected Singapore equities over time.

The Singapore banking sector remains one of our preferred income-generating areas of the market. Strong capital positions, resilient balance sheets, healthy loan growth and attractive dividend yields make the sector an important source of portfolio income in a higher-for-longer rate environment. We also remain constructive on selected Singapore technology and semiconductor companies. AI infrastructure demand should support earnings growth, while EQDP-related institutional flows could provide an additional catalyst for quality small- and mid-cap businesses.

By contrast, S-REITs continue to face higher refinancing costs and increased competition from government bond yields. Valuations have become more compelling, but leverage, debt maturity profiles and the sustainability of distributions remain critical considerations.

## 11 | **THEME THREE: DIVIDEND AND INCOME OPPORTUNITIES**

Income has re-emerged as a meaningful contributor to total returns. With government bond yields around 5%, dividend-paying equities must now compete not only with other equities but also with more attractive fixed-income alternatives.

This environment favours companies with sustainable payout ratios, strong free cash flow and resilient balance sheets. We continue to favour high-quality financial institutions, infrastructure and utility companies with predictable cash flows, and healthcare businesses with defensive earnings characteristics.

Selective dividend and structure product strategies can also enhance portfolio income, particularly for investors who prioritise cash flow. However, higher headline yields should always be assessed against the sustainability of distributions and the potential sacrifice of capital appreciation.

In a higher-rate environment, sustainable dividend growth is preferable to simply chasing headline yield.

## 12 | PORTFOLIO POSITIONING

We enter the fourth quarter with a slightly defensive bias while retaining strategic exposure to long-term growth themes.

Our preferred positioning is to:

1. Maintain exposure to AI infrastructure and semiconductor beneficiaries, while focusing increasingly on monetisation and cash-flow delivery.
2. Overweight high-quality dividend-paying equities and income-generating assets.
3. Increase allocations to high-quality fixed income where yields provide attractive risk-adjusted income.
4. Retain exposure to gold and selected commodities as portfolio diversifiers and geopolitical hedges.
5. Preserve sufficient liquidity to take advantage of election-related volatility and market dislocations.

Higher interest rates, geopolitical uncertainty and elevated equity valuations suggest that future returns will be harder won than during the liquidity-driven rallies of recent years. However, volatility often creates the most attractive opportunities for disciplined long-term investors.

While we remain cautious heading into the US midterm elections, we continue to see opportunities in quality dividend equities, selected AI beneficiaries and high-quality fixed income. The era of abundant liquidity and indiscriminate multiple expansion is giving way to one where earnings, cash flow and income matter more. In a world where investors can earn around 5% from government bonds, markets are becoming increasingly discerning. We believe the winners will be businesses capable of combining growth, profitability and shareholder returns.

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**Email us here:**

**[MAenquiries@phillip.com.sg](mailto:MAenquiries@phillip.com.sg)**

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