

CIO'S NEWSLETTER

Wong Kwek Yong | Sep 2025

A Review of August 2025: The Fed's Tightrope Walk

August proved to be a pivotal month where the market narrative shifted from a simple "inflation is falling" story to a more complex analysis of the global economic endgame. We witnessed a delicate balancing act. On one side, moderating inflation and a resilient labor market fueled hopes for a "soft landing." On the other, the lagged effects of the most aggressive hiking cycle in decades still pose a real threat of a broader economic slowdown.



The central question for investors is no longer if central banks will win the war on inflation, but what the cost of that victory will be. This environment of "peak uncertainty" about the policy path forward requires a nuanced approach, focusing on quality and selective risk-taking.

This was significantly bolstered by a favorable court ruling for Alphabet, which eased regulatory fears across the sector. In Asia, focus has shifted towards Chinese policy support and its ripple effects on regional growth. This complex environment, characterized by moderating inflation but diverging growth signals, suggests we are moving into a "normalization" phase where careful navigation is key.

Macro View: A Divergent Picture

Our analysis of the key macroeconomic indicators reveals a landscape of regional divergences and cautious optimism.

GDP Growth

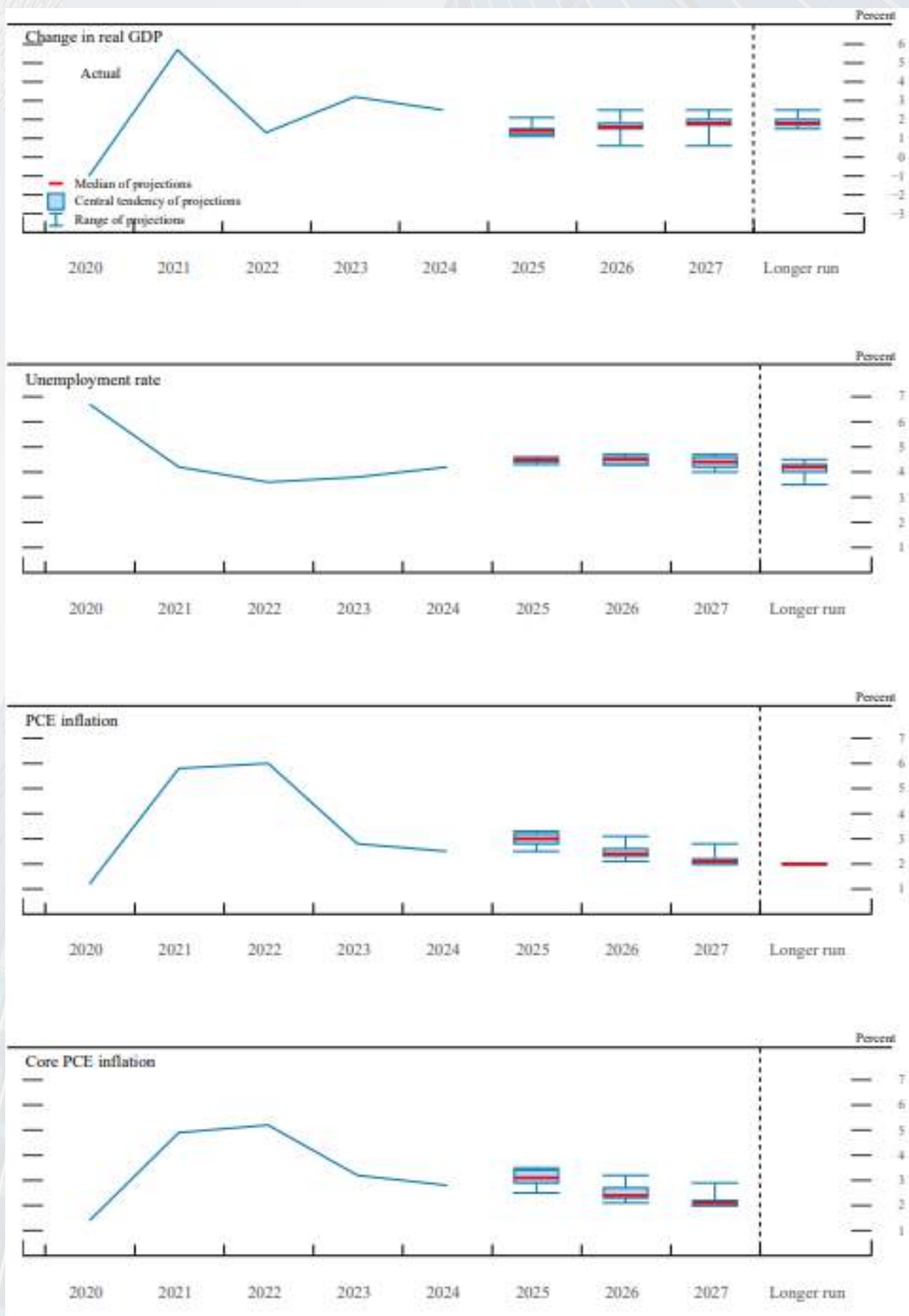
The divergence in global growth became more pronounced in August. Singapore's upgraded 2025 forecast of 1.5%-2.5% and strong Q2 growth of 4.4%¹ highlight the resilience of economies geared towards high-value services and key global trade routes. Conversely, the downward revision of the U.S. growth forecast to 0.8%² suggests that prior monetary tightening is now taking a more significant toll on domestic demand. This two-speed world creates opportunities for geographic diversification.

Inflation

The continued decline in U.S. CPI to 3.1% (headline) and 2.7% (core) for July was a key data point digested by markets in August. This confirmed the disinflationary trend is intact. However, the market's focus is now shifting to the "last mile" of this journey. The debate is no longer about more rate hikes, but about how long the Federal Reserve will hold rates at current levels. We believe a "prolonged pause" is more likely than an immediate pivot to rate cuts, as sticky components of services inflation will need more time to moderate.

Unemployment

The U.S. unemployment rate of 4.10% presents a double-edged sword for the Fed. While a strong labor market is excellent for supporting consumer spending and corporate earnings, it also contributes to wage pressures that can keep services inflation elevated. We are monitoring leading indicators like jobless claims and quit rates for any early signs of cracking, as a sharp deterioration in the labor market would be the fastest way to force the Fed's hand into cutting rates.



Source: Fed Summary of Economic Projection Jun 18 2025

Additional Overlays: Deeper Insights

Yield Curve (10-2 Year)

Now that the 10-2 Year Treasury yield curve is no longer inverted, the focus shifts to the path of its steepening—a critical phase that has historically preceded recessions. We are specifically watching for a 'bull steepening,' where short-term yields fall faster than long-term yields. This reshaping is a powerful signal that the market is pricing in Federal Reserve rate cuts to combat an economic slowdown and engineer a recovery.



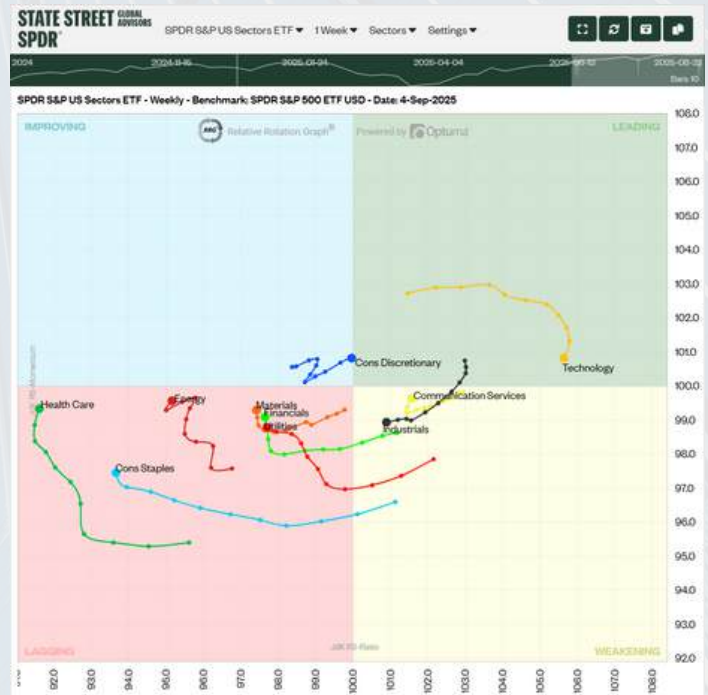
Fed Dot Plot vs. Market Pricing

A key tension in the market is the growing divergence between the Federal Reserve's projections and market expectations. The Fed's latest dot plot shows a cautious stance, with the median member projecting only one 25-basis-point cut by year-end. In contrast, Fed Funds Futures are pricing in a more aggressive easing cycle, with a high probability of at least two rate cuts before 2026. The market is essentially betting that the economic slowdown will force the Fed to act sooner than they are signaling. This tug-of-war is a major source of potential volatility.

Relative Rotation Graph (RRG)

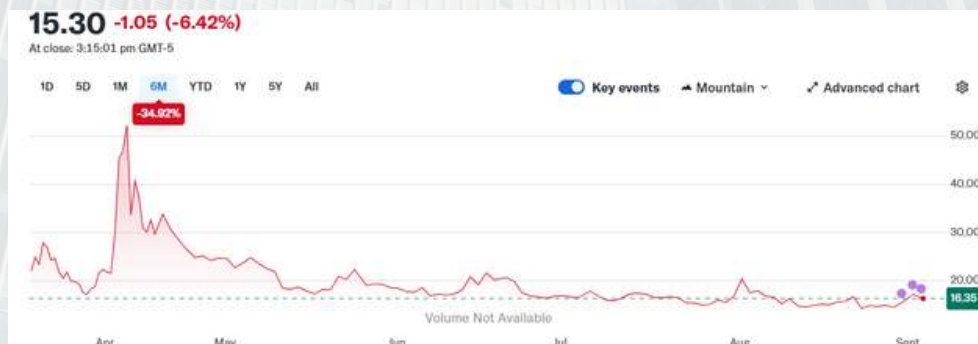
The current RRG confirms the market's "soft landing" bias. The persistent leadership of the Technology sector is a direct reflection of investor appetite for secular growth, fueled by both easing inflation and tangible excitement around AI-driven productivity gains. Should the macro data worsen and recession fears resurface, we would anticipate a defensive rotation, likely seeing sectors like Healthcare and Consumer Staples move

from the "Lagging" to the "Improving" quadrant.



Volatility Index (VIX)

The CBOE Volatility Index (VIX), often called the market's "fear gauge," trended lower through August and is currently trading in the low teens. On the surface, this suggests a high degree of calm and low demand for portfolio insurance. However, we view this as a potential sign of investor complacency. This apparent lack of fear contrasts sharply with the underlying macroeconomic uncertainties. A low VIX environment can be fragile, as any unexpected shock could trigger a rapid repricing of risk. We therefore see it as a reason to be aggressive, but as a reason to ensure portfolio protections are in place.



Debt/GDP Ratio

The high U.S. Debt-to-GDP ratio remains a crucial long-term consideration. In the near term, it limits the government's ability to respond to an economic downturn with large-scale fiscal stimulus, placing an even greater burden on monetary policy. This structural headwind reinforces our focus on companies with strong balance sheets that are not reliant on government support.

Reference returns

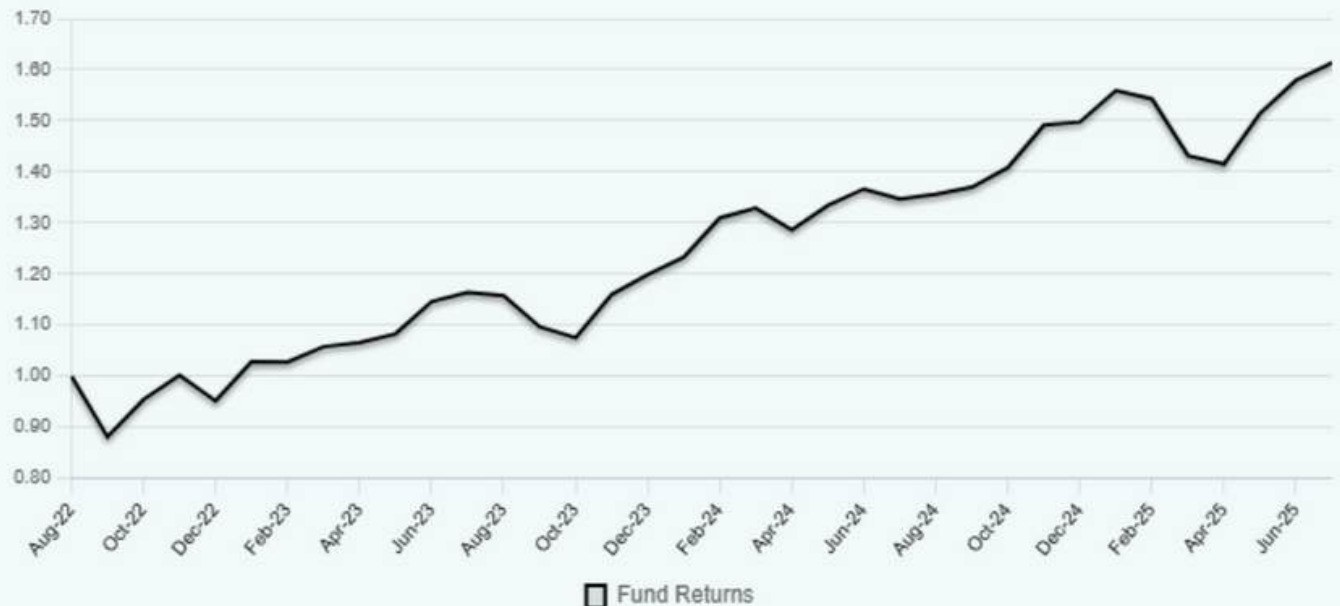
 Ticker	Index	1M	6M	YTD	12M	24M	36M	48M	60M
SGREIT Index	S-REITs	2.71	10.87	6.93	(1.03)	(1.68)	(14.48)	(21.62)	(18.39)
STI Index	Singapore	2.30	9.60	12.73	23.29	32.05	32.53	39.76	68.60
SPX Index	US Big	1.91	8.49	9.84	16.84	43.32	63.34	42.84	84.56
NDQ Index	US Tech	0.85	12.12	11.44	23.51	51.06	90.80	50.27	93.34
HSI Index	Hong Kong	1.23	9.31	25.01	41.75	36.42	25.67	(3.10)	(0.39)
SHCOMP Index	Shanghai	7.97	16.17	15.10	37.24	23.66	20.48	8.86	13.61
NKY Index	Japan	4.01	14.97	8.68	10.38	30.96	52.07	52.08	84.61
KOSPI Index	Skorea	(1.83)	25.79	32.81	18.84	24.64	28.88	(0.41)	36.96
TWSE Index	Taiwan	2.93	6.49	5.20	8.99	45.68	60.53	38.55	92.46
AS51 Index	Australia	2.63	9.80	9.98	10.64	22.83	28.43	19.09	48.06
JCI Index	Indonesia	4.63	24.88	9.32	1.77	12.62	9.08	27.32	49.48
FBMKLCI Index	Malaysia	4.09	0.03	(4.09)	(6.14)	7.63	5.57	(0.74)	3.53
SET Index	Thailand	(0.46)	2.73	(10.38)	(8.65)	(21.03)	(24.55)	(24.54)	(5.65)
VT US Equity	Global Stock	2.96	10.95	13.87	16.09	36.88	52.71	25.48	60.22
BNDW US Equity	Global Bond	0.34	(0.12)	1.61	(0.89)	2.04	(0.39)	(14.18)	(15.08)
GDX US Equity	Gold Miners	22.33	59.04	86.29	69.49	115.89	165.42	93.77	49.44
XLB US Equity	Materials	5.19	3.97	9.67	0.15	11.33	22.37	7.79	46.50
VDE US Equity	Energy	3.63	0.23	4.60	2.37	1.81	11.81	86.58	164.96

PERFORMANCE UPDATES

Global Growth Leaders (GGL)

19.8% (1Y)

COMPOSITE PERFORMANCE (%) as of 31 July 2025^{2,3}



	YTD	1 Mth	3 Mths	6 Mths	1 Yr	Annualised 3 Yrs	Since Incep.
Composite (%)	7.2	-0.5	6.0	4.1	18.4	17.1	17.1

The Global Growth Leaders (GGL) portfolio returned -0.47% in August, underperforming the S&P 500 (+1.92%) and the SGD-adjusted S&P 500 (+0.81%). Year-to-date, GGL is up +7.20%, versus +9.85% for the S&P 500 and +3.17% in SGD-adjusted terms. Performance reflected both sector rotation and currency headwinds, with the continued weakness of the U.S. dollar dampening gains in the SGD-adjusted S&P500 relative to GGL's returns for the year. U.S. equities advanced on expectations following Powell's dovish Jackson Hole speech as a whole, but the S&P500 outpaced the tech-heavy Nasdaq as investors rotated into cyclicals, energy, and materials. GGL's higher technology exposure, following portfolio drift since April's Liberation Day rebound, weighed on relative returns.

Top Performers:

- Alphabet (+10.72%) – strong digital ad revenues and positive momentum from AI integration.
- LVMH (+6.72%) – resilient luxury demand in Asia offsetting softer European spending.
- T-Mobile (+5.70%) – robust subscriber additions and upbeat free cash flow guidance.

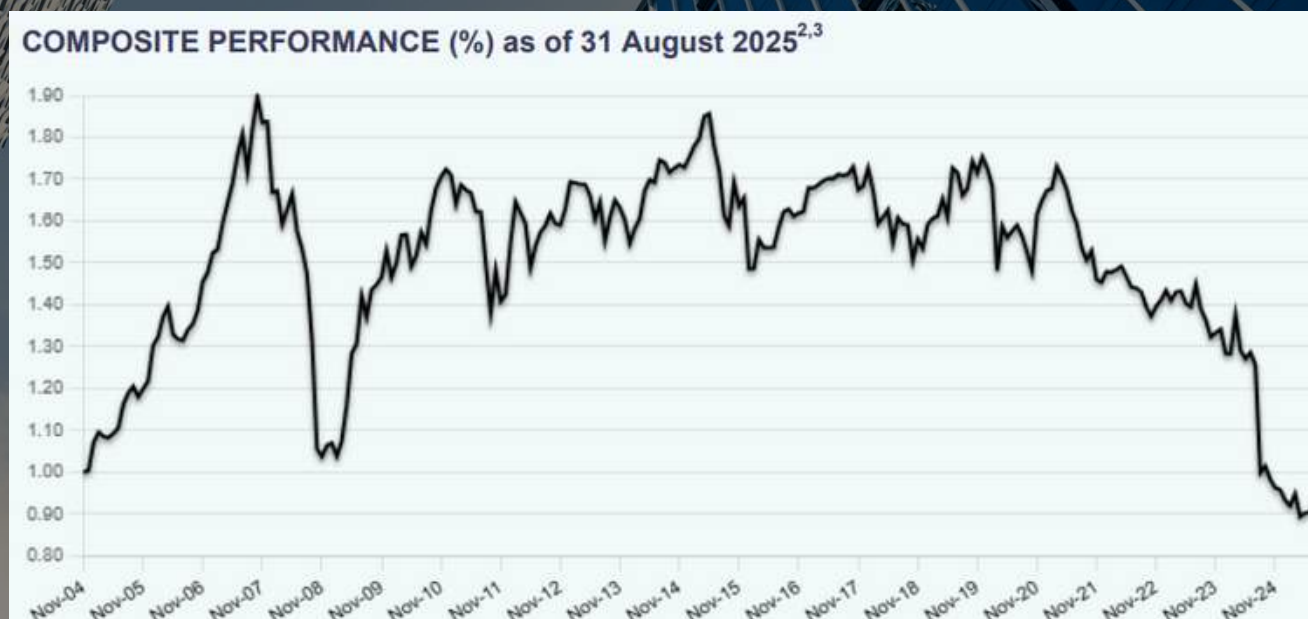
Top Detractors

- Microsoft (-5.03%) – profit-taking after a strong AI-driven run earlier this year.
- KKR (-4.84%) – weaker sentiment in private equity amid tighter funding conditions.
- BYD (-4.69%) – softer EV delivery data and heightened price competition in China.

Volatility and instability remains in the current macroeconomic environment, despite lowered recessionary fears. We remain cautiously optimistic, but have trimmed U.S. exposure to guard against market uncertainty and FX weakness. Looking forward, we believe that the portfolio is well-diversified and is positioned to capture long-term growth opportunities, and we are prepared to shift our existing allocation if necessary.



Asian Opportunities Equity (AOM) **-4.9% (1Y)**



	YTD	1 Mth	3 Mths	6 Mths	1 Yr	Annualised 3 Yrs	Annualised 5 Yrs	Annualised 10 Yrs	Since Incep.
Composite (%)	-0.9	1.4	5.2	3.2	-4.9	-12.8	-9.5	-5.2	-0.2

August was a month of mixed fortunes across Asian markets, with investor sentiment swayed by a combination of geopolitical developments and key economic data releases. While the MSCI Far East Ex. Japan index posted gains, driven by strong performances in some of the region's larger markets, there was notable divergence in country-specific returns.

In North Asia, Japan's Nikkei 225 index captured headlines by surging to a new all-time high mid-month, fueled by a weaker yen and strong earnings from technology and automotive exporters. However, this rally was followed by a period of profit-taking in the latter half of August. South Korea's KOSPI, after a stellar first half of the year, entered a consolidation phase, trading within a narrow range as investors awaited clearer signals on the future direction of the domestic economy.

Greater China markets showed resilience, with Hong Kong's Hang Seng Index and the mainland's A-shares both posting positive returns. This was largely driven by a rebound in technology stocks and supportive government policies aimed at stimulating economic growth.

In the ASEAN region, performance was more varied. While some markets benefited from a recovery in tourism and increased foreign investment, others faced headwinds from rising inflation and currency fluctuations against the US dollar.

Overall, the key themes for the month were the continued global demand for technology and AI-related products, which benefited many Asian exporters, and the ongoing uncertainty surrounding US trade policies and the Federal Reserve's interest rate trajectory.

Portfolio Performance

The Phillip Asian Opportunities Equity portfolio registered a monthly return of -0.59%. While the portfolio's exposure to the technology sector was a positive contributor, this was offset by underperformance in some of our industrial and healthcare holdings. We remain confident in our long-term investment strategy and continue to focus on companies with strong fundamentals and attractive growth prospects.

Top 3 Performers:

- Total Soft Bank, a Korean software company, was the top contributor with a monthly gain of 21.38%. The company's stock rallied after it announced a new partnership with a major US technology firm, which is expected to significantly boost its revenue growth in the coming year.
- Tencent HK SDR, a Singapore-listed depository receipt for the Chinese technology giant, was another strong performer, gaining 17.81%. The gain reflects the broader rebound in Chinese technology stocks during the month.
- RS Technologies, a Japanese semiconductor equipment manufacturer, also performed strongly, adding 15.18%. The company benefited from the ongoing global demand for semiconductors, and its share price was further supported by a positive earnings surprise and an upgraded full-year profit forecast.

Top 3 Detractors:

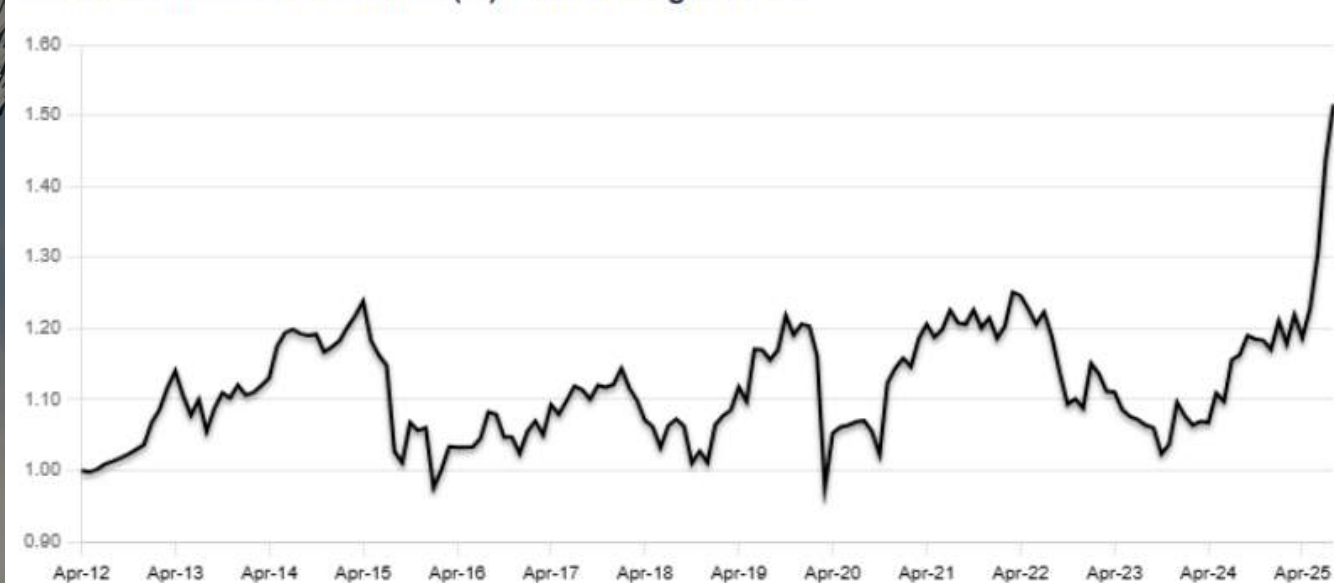
- Charm Care Corp, a Japanese provider of elderly care services, was the biggest detractor from the portfolio's performance, with a loss of 22.79%. The company's latest earnings report missed market expectations, and concerns about rising labor costs in Japan have also weighed on the stock.
- Hiyes International, a Taiwanese real estate developer, was the second-largest detractor with a loss of 5.95%. The stock faced headwinds from profit-taking and concerns about the potential impact of rising interest rates on the property market.
- Peptidream Inc, a Japanese biopharmaceutical company, was the third-largest detractor, declining by 5.59%. The stock pulled back after a strong run-up in the previous quarter, with some investors taking profits amidst a lack of major company-specific news.

Looking ahead, we maintain a cautiously optimistic outlook for Asian equities. While global macroeconomic uncertainties are likely to persist, we believe that the region's long-term growth story remains intact. We will continue to actively manage the portfolio, seeking out attractively valued companies with sustainable competitive advantages.

Singapore Equity Yield

30.3% (1Y)

COMPOSITE PERFORMANCE (%) as of 31 August 2025^{3,4}



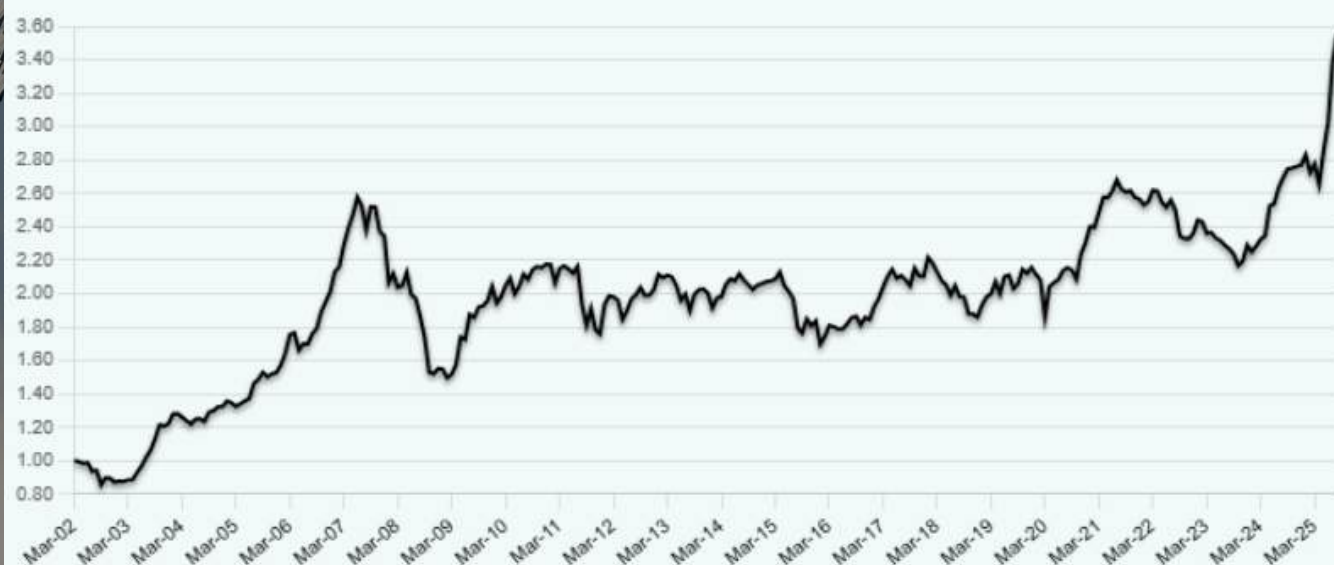
	YTD	1 Mth	3 Mths	6 Mths	1 Yr	Annualised 3 Yrs	Annualised 5 Yrs	Annualised 10 Yrs	Since Incep.
Composite (%)	29.5	5.3	23.4	28.7	30.3	8.5	7.2	4.0	3.2

The yield and income portfolio slow in August compared to July, yet still marked a solid positive 5.3% return as of end August. Local consumer sector provided steady growth, while agricultural holdings benefited from firm commodity demand, including plantation farms with exposure in Indonesia. Our REITs pick continue to deliver attractive yield support. Despite market volatility around uncertain interest rate cuts, many positions sit on strong profits, and partial profit taking may be considered in the next one to three months.

Singapore Equity Growth

30.3% (1Y)

COMPOSITE PERFORMANCE (%) as of 31 August 2025^{2,3}



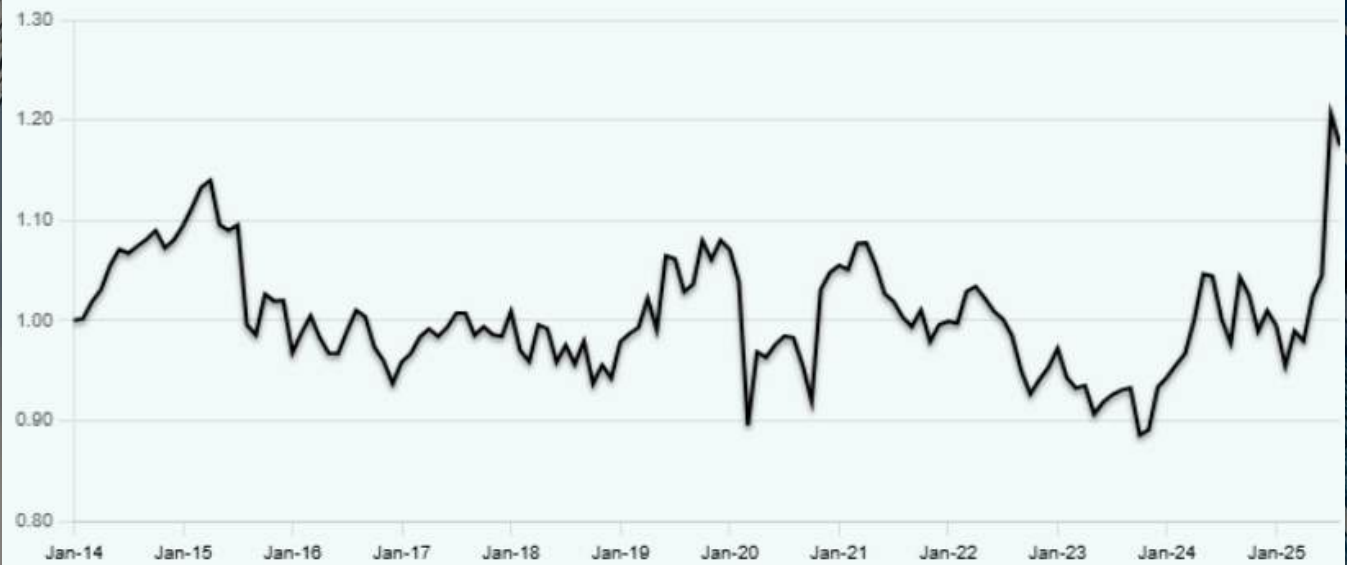
	YTD	1 Mth	3 Mths	6 Mths	1 Yr	Annualised 3 Yrs	Annualised 5 Yrs	Annualised 10 Yrs	Since Incep.
Composite (%)	28.5	5.3	24.7	30.6	32.1	12.5	10.6	7.1	5.6

This Equity growth mandate portfolio slow in August compared to July, yet still delivered a positive 5.3% return as of end August. Exposure across consumer technology, construction and engineering, industrial services, and financial sectors provided resilience, while our selective REITs continue to offer yield diversification. Singapore Growth stocks could face near term volatility if interest rates are cut, as valuations may adjust. We stay optimistic as this impact is expected to be compensated by stronger balance sheets and improved financing conditions that would emerge in a lower rate environment.

Blue Chip Equity Yield

20.2% (1Y)

COMPOSITE PERFORMANCE (%) as of 31 August 2025^{2,3}



	YTD	1 Mth	3 Mths	6 Mths	1 Yr	Annualised 3 Yrs	Annualised 5 Yrs	Annualised 10 Yrs	Since Incep.
Composite (%)	16.3	-2.6	14.7	23.0	20.2	6.1	3.6	1.7	1.4

The Bluechip Equity Yield portfolio recorded a return of -2.6% for August, bringing the year-to-date performance to +16.3%. August's performance reflected a challenging month for our specific holdings, which lagged the broader regional indices. The portfolio's significant allocation to Hong Kong (51.0%) meant that while the general market was positive, our stock selection within that market did not capture the upside, particularly as our focus is on stable, dividend-yielding companies rather than high-growth technology stocks that led the rally.

Our defensive positioning, including a 23.5% allocation to cash equivalents, helped to mitigate further downside during periods of volatility. This cautious stance aligns with our core strategy of preserving capital while generating income. The underperformance this month was primarily driven by stock-specific movements within the healthcare and industrial sectors, which together constitute over a third of the portfolio.

Phillip Smart Portfolio

	3 Months	12 Months	3 Years	5 Years
SMART Portfolio Income	3.7%	5.7%	4.8%	2.6%
SMART Portfolio Income & Growth	4.9%	8.3%	4.6%	2.4%
SMART Portfolio Growth	6.0%	10.4%	5.6%	3.1%
SMART Portfolio US Equity	8.2%	25.4%	-1.4%	N.A.

SMART 123 posted positive results in August, driven by both equity and fixed income outperformance. US performed well as companies generally beat expectations in the latest earnings season and markets anticipated potential rate cuts. However, US tech underperformed as some of the tech firms slumped after weak results. Taiwan gained on reduced tariffs with the US and TSMC's exemption from semiconductor tariffs, while Hong Kong benefited from stronger mainland inflows and trading activity. In fixed income, US investment grade bonds advanced on robust demand for high-quality debt amid a cooling economy. Singapore government bonds also performed well, supported by strong investor demand, high domestic cash levels, and a firm currency that enhanced their safe-haven appeal. Asia high yield remained attractive as default rates continued to decline and yields stayed significantly higher than those in US or global markets.

The Smart US aggressive mandate declined 2.2% in August compared to end July, though year-to-date performance remains a solid return of 9.5%. The portfolio is focused on future oriented sectors such as advanced air mobility, space-based communications, and biotechnology, where volatility is higher but structural growth opportunities remain strong. In particular, as we have been covering since couple months ago about the quantum computing.

We initiated exposure to \$IONQ in the previous quarter and are now riding on meaningful profits from that position. This quarter, we expand into \$QBTS to broaden our exposure, and while its share price has corrected recently, we have no intention to trim. Instead, we remain confident that both names are well positioned to benefit from the eventual commercialisation of quantum computing, with potential applications spanning logistics, cyber security, and researches. Despite short term fluctuations, the portfolio remains on track to deliver strong performance by year end, supported by secular innovation drivers.

Customised Portfolios

All our customised portfolios delivered positive return in August 2025. Most of the portfolios was sold off to take profit in view of the high valuations.

Ending Note

We thank all our clients for your continued support. I would also like to take this opportunity to thank Mr Chan Wai Chee who retired in August for his continued mentoring and support to the team and myself.

Let's end 2025 on a positive note. Looking forward to seeing you in the webinar in November before we enter the festive seasons.

