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CIO NEWSLETTER



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THIS MONTH AT A GLANCE

- Market volatility returns, led by weakness in technology and Asian equities.
- AI focus shifts from spending to profitability.
- Singapore remains attractive for long-term opportunities.
- Quality bonds and dividend stocks offer income and stability.
- Selectively deploy cash as valuations become more attractive.

01 | VOLATILITY RETURNS AS MARKETS REASSESS GROWTH, RATES AND AI

October was a difficult month for global markets as investors confronted a less supportive combination of elevated energy prices, persistent inflation and uncertainty over the durability of AI-related capital expenditure. Performance diverged sharply across regions and sectors. Traditional US blue chips and selected European markets advanced, but technology shares and Asian equities came under considerable pressure.

The adjustment was most severe in markets that had previously benefited from strong momentum. The Nasdaq Composite fell sharply, while North Asian technology markets reversed part of their earlier gains. Within the Magnificent Seven, investors increasingly differentiated between companies with visible earnings delivery and those whose valuations remained dependent on sustained AI spending.

Fixed income provided greater portfolio stability. Singapore government and investment-grade bonds generated positive returns as US Treasury yields declined during the month. This reinforced the role of high-quality bonds as both an income source and a portfolio diversifier.

We remain constructive over the medium term. Importantly, following October's correction and with the US midterm elections now behind us, we believe the risk-reward has improved sufficiently to begin selectively deploying some of the cash accumulated ahead of the election. Our strategy continues to favour quality dividend equities, high-grade fixed income and companies capable of converting structural growth opportunities into sustainable cash flow.

02 | UNITED STATES: A ROTATION AWAY FROM TECHNOLOGY

US equity performance diverged significantly in October. The S&P 500 declined 0.9% and the Nasdaq Composite fell 5.3%, as investors reduced exposure to highly valued technology and AI-related companies. By contrast, the Dow Jones Industrial Average gained 1.7%, while the Russell 2000 rose 0.5%. The relative strength of blue chips and smaller companies indicated a rotation away from the concentrated technology leadership that had driven markets for much of the year.

Performance among the largest US technology companies was equally dispersed. Tesla gained 12.7%, Apple rose 3.5%, and Microsoft advanced 1.8%. Conversely, Alphabet declined 18.7%, Meta fell 15.2%, Nvidia lost 10.4%, and Amazon declined 3.5%. The weakness in several AI leaders reflected growing investor scrutiny of capital expenditure, monetisation and the sustainability of earnings expectations.

The valuation backdrop remains on the high side. The S&P 500 ended October at approximately 20.9 times forward earnings, compared with a five-year average price-to-earnings ratio of about 19.9 times. However, the Nasdaq Composite trades at approximately 28.2 times forward earnings, leaving technology shares particularly sensitive to changes in earnings expectations and discount rates.

US economic activity nevertheless remained resilient. The S&P Global US Manufacturing PMI rose to 56.0 in October from 55.9 in September, indicating continued expansion. However, inflation remained an important constraint. September headline CPI was 3.7%, while core CPI stood at 2.6%, limiting the scope for an aggressive shift towards monetary easing.

The October correction does not invalidate the long-term investment case for US equities or AI. It does, however, reinforce the need to distinguish between structural growth and valuation risk. Future outperformance will increasingly depend on earnings delivery, free-cash-flow generation and credible returns on invested capital.

03 | EUROPE: RESILIENCE DESPITE ENERGY RISKS

European equities were mixed but generally more resilient than US technology and Asian markets. The STOXX Europe 600 gained 1.9%, the DAX rose 2.5%, the Swiss Market Index advanced 7.1% (driven by a rotation into heavyweight defensive names such as Novartis, Roche & Nestle), and the CAC 40 was broadly unchanged. In contrast, the FTSE 100 declined 0.9%, the FTSE MIB fell 3.6%, and Spain's IBEX 35 lost 4.0%.

Europe remains vulnerable to the economic effects of higher energy prices arising from the ongoing Middle East conflict. As a major net energy importer, the region is more sensitive than the United States to sustained increases in oil and natural gas prices. Higher energy costs can weaken consumer purchasing power, raise industrial input costs and place additional pressure on corporate margins.

Nevertheless, economic indicators remained in expansionary territory. The Eurozone Manufacturing PMI registered 52.4 in October, although it eased from 52.9 in September. Headline inflation was estimated at 4.0%, while core inflation remained at 2.5%, leaving the European Central Bank with the difficult task of balancing modest growth against persistent price pressures.

The STOXX Europe 600 traded at approximately 15.2 times forward earnings, maintaining a substantial valuation discount to the S&P 500. That discount provides some downside support, but Europe's slower structural growth and greater energy sensitivity justify a selective approach.

04 | ASIA: A SHARP REVERSAL IN TECHNOLOGY MARKETS

Asian equities experienced broad weakness in October. The MSCI Asia Pacific ex Japan Index declined 6.9%, reversing part of its earlier gains. South Korea fell 16.2%, China declined 8.5%, Taiwan lost 5.7%, Hong Kong fell 5.4%, and Japan declined 5.2%. Singapore's Straits Times Index fell 5.3%, while S-REITs declined 1.7%.

Elsewhere, Indonesia declined 16.7% and Brazil fell 9.9% both due to idiosyncratic factors. India and Australia were relative outperformers, with the Nifty 50 gaining 1.9% and the S&P/ASX 200 rising 1.4%.

The steep declines in South Korea and Taiwan reflected the global reassessment of AI-related capital expenditure and semiconductor demand. Both markets had previously benefited from strong momentum and high expectations for advanced chips, memory and data-centre infrastructure. October demonstrated that even attractive structural themes can experience severe corrections when positioning becomes crowded or earnings expectations are revised.

The MSCI Asia Pacific ex Japan Index ended the month at approximately 11.6 times forward earnings, substantially below both the US and Europe. Asia therefore continues to offer attractive long-term value. Following the October correction, valuations in selected markets now offer increasingly attractive entry points, particularly where earnings fundamentals remain intact.

05 | COMMODITIES AND FIXED INCOME

Commodity markets remained volatile. Brent crude oil gained 13.6% in October, ending the month at approximately US$111 per barrel, as geopolitical tensions and supply concerns sustained a sizeable risk premium. Gold declined 6.8%, while Bitcoin fell 8.2%.

We continue to expect the Middle East conflict to persist for the foreseeable future, with no clear catalyst for a durable near-term resolution. Oil is consequently likely to remain highly volatile and trade within a broad US$70 to US$110 per barrel range, although temporary moves outside this band remain possible during periods of acute supply disruption. Energy prices will remain an important influence on inflation expectations, monetary policy and market sentiment.

Fixed income performed better in October. Singapore Government Bonds gained 2.1%, Singapore Corporate Bonds rose 0.4%, and SGD non-sovereign investment-grade bonds advanced 0.9%. Emerging-market US-dollar sovereign bonds gained 1.5%, while US corporate high-yield bonds returned 0.3%. Conversely, Asia US-dollar high-yield bonds declined 0.5%, European high-yield bonds fell 0.9%, and US convertible bonds lost 6.3%.

US Treasury yields declined across the curve during October as the Fed chose to stand pat on interest rates. The 2-year yield ended the month at approximately 4.60%, the 5-year at 4.73%, the 10-year at 4.93%, and the 30-year at 5.31%. Absolute yield levels for USD bonds are less attractive than they were a month ago when competing with equities for investor capital.

We continue to favour short- to intermediate-duration high-quality bonds, where investors can earn meaningful income without taking excessive duration or credit risk.

06 | OUTLOOK: FROM MOMENTUM TO FUNDAMENTALS

The October correction represents an important test for a market that had become increasingly dependent on a narrow group of technology and AI-related companies. The rotation towards traditional blue chips, selected European markets and high-quality fixed income suggests that investors are broadening their focus beyond momentum.

The US economy remains sufficiently resilient to support corporate earnings, but persistent inflation reduces the likelihood of rapid monetary easing. This creates a more balanced but demanding investment landscape. With US government bonds offering yields close to 5%, companies must provide either superior earnings growth or attractive shareholder distributions to justify taking additional equity risk.

07 | US MIDTERM ELECTIONS: DIVIDED GOVERNMENT RETURNS

The US midterm elections produced a significant shift in Washington, with Democrats winning control of both the House of Representatives and the Senate, ending Republican control. The outcome creates divided government, with President Donald Trump facing a Democratic-controlled Congress for the remaining two years of his term. The result should constrain the ability of either side to enact major legislative changes without bipartisan support.

From an investment perspective, we believe the return of divided government could ultimately be supportive for markets. Legislative gridlock reduces the probability of major shifts in tax, spending and regulatory policy, potentially providing businesses and investors with greater policy visibility. The counterweight is a higher risk of political confrontations over budgets, fiscal policy and possible investigations into alleged corruption.

More importantly for portfolio positioning, the election removes a significant source of near-term political uncertainty at a time when markets have already experienced a meaningful correction. This combination improves the tactical risk-reward. Rather than remaining on the sidelines, we would now begin selectively deploying liquidity into areas where valuations have reset but earnings fundamentals remain sound.

With the midterms behind us, investor attention should return to the variables that ultimately matter more for asset prices: corporate earnings, inflation, Fed policy and bond yields.

08 | THEME ONE: AI FACES ITS MONETISATION TEST

Artificial intelligence remains a powerful structural growth theme, but October's market performance demonstrated that investor expectations had moved ahead of near-term fundamentals in parts of the sector.

The weakness in several leading AI-related companies reflected growing concern over the scale of capital expenditure and the timing of commercial returns. Investors are increasingly unwilling to reward spending alone. They want clearer evidence that investment in data centres, advanced chips and foundation models can produce sustainable revenue, margins and free cash flow.

This issue is reinforced by the debate over whether the pace of frontier-model development should moderate. Calls from industry leaders to slow AI development for safety and governance reasons could encourage companies to focus more heavily on commercial deployment, inference and enterprise applications rather than simply training increasingly large models.

A slower development cycle would not necessarily end the AI investment theme. It could instead shift demand from an indiscriminate infrastructure build-out towards more commercially productive areas. Companies providing inference capacity, energy-efficient computing, enterprise implementation and industry-specific AI applications may become increasingly important beneficiaries.

We therefore retain strategic exposure to AI infrastructure and semiconductors, but with greater emphasis on valuation, cash-flow visibility and monetisation. Following the recent correction, some of these businesses offer more attractive entry points, but we would rebuild exposure selectively rather than return immediately to previous concentration levels.

09 | THEME TWO: SINGAPORE'S STRUCTURAL CASE REMAINS INTACT

Singapore equities experienced a difficult October, with the Straits Times Index declining 5.3%. Nevertheless, the medium-term investment case remains supported by resilient economic activity, strong corporate balance sheets, attractive dividends and policy measures designed to broaden market participation.

The Monetary Authority of Singapore's Equity Market Development Programme remains an important structural catalyst. The Singapore banking sector remains one of our preferred income-generating areas. Strong capital positions, resilient balance sheets and attractive dividends provide a compelling combination of income and quality. We also remain constructive on selected technology and semiconductor companies. Following October's correction, we see opportunities to selectively add to high-quality Singapore equities where valuations have become more attractive.

S-REITs declined by a more modest 1.7% in October, outperforming the broader Singapore equity market as government-bond yields eased. Lower yields would improve the sector's relative appeal, but refinancing costs, leverage and distribution sustainability remain critical considerations.

10 | THEME THREE: QUALITY INCOME REGAINS ITS ROLE

October demonstrated the value of income-producing assets. Singapore government and investment-grade bonds generated positive returns while most regional equity markets declined. Dividend-paying companies with stable cash flows also became relatively more attractive as investors moved away from highly valued growth shares.

We continue to favour businesses with sustainable payout ratios, recurring free cash flow and conservative balance sheets. Singapore financials, global infrastructure companies, regulated utilities and defensive healthcare businesses remain important components of this approach.

Headline yield alone is not sufficient. In both equities and credit, the sustainability of income depends on balance-sheet strength, earnings visibility and refinancing capacity.

10 | PORTFOLIO POSITIONING: SELECTIVELY PUTTING CASH BACK TO WORK

Rather than maintaining an overtly defensive posture, we would now use recent market weakness to gradually increase risk exposure, while retaining sufficient liquidity should volatility persist. The emphasis remains on quality rather than simply buying the market indiscriminately.

Our preferred positioning is to:

1. Selectively deploy cash following the correction, focusing on quality companies and markets where valuations have reset but underlying earnings fundamentals remain intact.

2. Add selectively to AI and semiconductor exposure, particularly companies with visible monetisation, strong free cash flow and sustainable competitive advantages. The correction has improved entry points, although we would avoid rebuilding excessive concentration.

3. Increase exposure to attractively valued Asian equities, where October's correction has been particularly severe. The MSCI Asia Pacific ex Japan Index trades at around 11.6 times forward earnings, offering a substantial valuation discount to the US market.

4. Maintain an overweight to quality dividend equities, particularly Singapore financials and other companies where distributions are supported by resilient earnings, strong balance sheets and sustainable cash flows.

5. Retain high-quality fixed income, particularly short- to intermediate-duration government and investment-grade bonds. Yields remain attractive enough to provide meaningful portfolio income and diversification.

6. Maintain portfolio hedges and some liquidity. Persistent Middle East risks and uncertainty surrounding the AI capital-expenditure cycle argue against deploying cash all at once.

Ahead of the midterms, elevated political uncertainty and stretched valuations argued for maintaining higher cash levels. Following the October correction and with the elections now behind us, we believe the risk-reward has improved sufficiently to begin putting some of that cash back to work.

We remain disciplined rather than aggressively bullish. However, market weakness accompanied by improving valuations can provide attractive entry points for long-term investors. We would therefore use the recent correction to selectively accumulate high-quality growth and dividend-paying companies, while maintaining fixed-income exposure and sufficient liquidity to capitalise on further volatility.

Our investment message for November consequently evolves from preserving liquidity ahead of uncertainty to deploying liquidity selectively after the correction. Quality growth, sustainable income and balance-sheet resilience remain the foundation of portfolios, but the improved opportunity set now warrants a more constructive tactical stance.

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