

FINANCE

Strategic Allocation Across Equities, Bonds, Currencies, and Gold

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Identify the best investment strategies amid China's equity undervaluation, EM local bond yield advantages, USD/SGD currency divergence, and gold's dominance as a safe-haven asset. Learn where to position across sectors, geographies, and asset classes to protect capital and capture growth.

Key Points

Equities	Global equity markets are shaped by undervaluation in China, strong YTD performance and shareholder returns in Japan, and rising investor interest in emerging markets, while policy uncertainty and weak demand pose ongoing financial pressures, prompting investors to favor defensive plays in the US and Singapore alongside selective opportunities in EMs and hedge fund strategies.
Fixed Income	Global bond markets face duration and credit risks from high US yields and inflation, but opportunities exist in Eurozone long-duration bonds, short-term US and Singapore government securities, and EM local currency debt, with China's short-term bonds and Asian investment-grade credit offering resilience amid market volatility.
Currencies	The SGD faces mild weakening against higher-yielding currencies like USD and VND, while maintaining relative strength against weaker Asian currencies such as MYR and THB, with Singapore's resilient equity market and the DXY's stability helping to keep USD/SGD range-bound.
Commodities	Gold's 26.5% YTD and 41.4% YoY surge reflects strong safe-haven demand amid persistent US inflation, China-driven Asian demand, and Eurozone rate cuts, making it a highly effective hedge for SGD investors against inflation and currency volatility.

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	Foundational Assumptions	Key Challenges	Strategic Action
Equities	<p>Equity Trend Insights</p> <p>Global equity performance is shaped by valuation gaps, policy interventions, and shifting investor preferences. Chinese equities remain undervalued with a P/E ratio of 13.0 versus the S&P 500's 22.7, supported by RMB800bn liquidity injections. Japanese equities are outperforming YTD by 5 percentage points in USD terms, offering attractive valuations at a 1.4x price-to-book and a 2.5% dividend yield. Asia ex-Japan equities hold fair valuations with a forward P/E of 14.0, underpinned by China's fiscal stimulus. Emerging markets have outpaced developed markets with a 14.4% one-month return, reflecting growing investor appetite for high-growth, undervalued assets.</p>	<p>Equity Pressure Analysis</p> <p>Equity markets face mounting financial pressures from policy uncertainty, weakening consumer sentiment, and trade tensions. US indices have underperformed (S&P 500 YTD -3.7%, NASDAQ -7.2%), while tight IG credit spreads and rising high-yield risks highlight vulnerability in lower-rated sectors. China's stimulus injects RMB1tn liquidity to support financial markets, but demand remains weak. Singapore and Hong Kong face downside risks in trade-exposed sectors, and Vietnam's export-led industries confront post-tariff growth challenges amid a fragile global demand outlook.</p>	<p>Equity Investment Guidance</p> <p>Investors should prioritize Chinese large-cap equities and CSI 300 ETFs, benefiting from RMB800bn liquidity support and low P/E valuations (13.0). Japanese equities offer strong fundamentals with improved ROE at 10% and low corporate leverage. Emerging markets present attractive forward P/E of 9.7, with Mexico favored for its macro stability and rate cuts. In Singapore, focus on REITs and essential services, while US technology and AI sectors remain defensive plays. Hedge funds using market-neutral and multi-strategy approaches offer volatility mitigation alongside equity exposure.</p>
Fixed Income	<p>Bond Market Trends</p> <p>Global bond markets face elevated duration risks as US 10-year yields remain high at 4.36% and the Fed maintains a cautious stance. Eurozone bonds benefit from a dovish policy shift, while China's increased government bond issuance raises supply-driven spread risks. Emerging Market bonds, particularly in Asia and Latin America, offer attractive opportunities amid easing inflation and rate cuts. High-yield bonds remain vulnerable to widening spreads, whereas Asia investment-grade credit stands out for its shorter duration and stronger liquidity profiles.</p>	<p>Bond Pressure Drivers</p> <p>Bond markets face sustained financial pressures from sticky US inflation (CPI at 3.0%) and elevated yields (US 10-year above 4%), increasing risks for long-duration bonds and EM issuers with USD liabilities. Vietnam and Hong Kong remain vulnerable due to trade-related credit risks and liquidity constraints, while China faces spread risks from increased sovereign issuance. EM local currency bonds, particularly in Mexico and Brazil, present relative opportunities as US dollar weakness and improving macro fundamentals offer support.</p>	<p>Bond Investment Strategy</p> <p>Investors should favor long-duration Eurozone sovereign bonds as ECB rate cuts support capital gains, while short-duration US Treasuries (yielding ~3.86%) and Singapore government bonds provide defensive positioning. EM local currency bonds, particularly from Mexico, the Philippines, and Indonesia, offer attractive yields and currency tailwinds. China's short-term sovereign and SOE bonds remain resilient with direct policy support, and Asian investment-grade credit is preferred for its shorter duration and strong liquidity. Private credit also presents an opportunity for higher yields and long-term resilience.</p>

Currencies

<p>Currency Movement Trends</p> <p>SGD faces modest weakening pressures against higher-yielding currencies like USD and VND, with the US maintaining a 4.00–4.50% policy rate and Vietnam at 4.50%. Regional currencies such as MYR (-1.4% YTD vs USD) and THB (-14.2% YTD equity underperformance) remain weak against SGD, while the JPY continues to struggle despite rising yields (10-year at 1.35%). The DXY’s stability and Singapore’s strong equity performance (+2.3% YTD) provide resilience, keeping USD/SGD range-bound and supporting SGD strength against weaker Asian currencies.</p>	<p>Currency Risk Analysis</p> <p>Currency performance against the SGD is shaped by sticky US inflation (CPI at 3.0%) and elevated US Treasury yields (10-year at 4.36%), supporting USD resilience. China’s RMB1tn liquidity injection and policy easing weaken the CNY, while Vietnam’s VND faces post-tariff volatility. Hong Kong’s capital controls and Singapore’s downgraded growth forecast (0.0–2.0%) weigh on SGD strength. Despite global USD weakness benefiting EM currencies, policy-driven FX shifts remain uneven, with the Mexican peso showing resilience and the Japanese yen staying weak due to persistent rate differentials.</p>	<p>SGD Currency Picks</p> <p>SGD holders should consider USD for its higher yields and safe-haven appeal, PHP and IDR for attractive carry trade returns (policy rates at 5.75%), and EUR for diversification as ECB rate cuts create capital gain potential. The MXN stands out for high real yields and nearshoring-driven growth, while the TWD offers tactical appreciation opportunities. CNY exposure can be considered for undervalued equity assets despite currency depreciation risks, and the JPY remains a medium-term recovery trade as policy normalization progresses.</p>
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Commodities

<p>Gold & Commodity Trends</p> <p>Gold prices have surged 26.5% YTD to USD 3,319 per ounce and 41.4% over the past year, outperforming other commodities as persistent US inflation (3.0%) and high Fed rates support safe-haven demand. China’s RMB1tn liquidity injection and weak property market drive Asian demand, while Eurozone rate cuts favor gold investment. Singapore’s stable fiscal position and growing status as a gold trading hub enhance liquidity access for SGD investors, making gold a highly attractive hedge against currency volatility and inflation.</p>	<p>Commodity Pressure Factors</p> <p>Gold prices have surged over 40% YoY, driven by persistent US inflation (core CPI at 2.4%), rising geopolitical risks, and strong central bank demand, particularly in Asia. Weaker SGD growth prospects (0.0–2.0% projection) and currency softness further support gold’s role as a hedge, making it a critical asset for SGD investors seeking inflation protection and portfolio stability amid global market volatility.</p>	<p>Gold Investment Picks</p> <p>Gold remains the top investment recommendation for SGD holders, with prices up 26.5% YTD and strong hedging benefits against market volatility and policy uncertainty. Preferred vehicles include SPDR Gold Shares (GLD), iShares Gold Trust (IAU), and SGX-listed gold ETFs. For direct exposure, physical gold held in Singapore offers liquidity and currency stability. Additional diversification into silver and selected EM commodity producers (Brazil and South Africa) can enhance returns, while maintaining gold as the core defensive asset.</p>
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Reference: HSBC Asset Management. (2025). Investment Weekly.
 DBS Group. (2025). CIO Weekly.

Chinese and Japanese Equities Lead Market Recovery Amid Valuation Gaps

Global equity performance is driven by valuation gaps and policy support

- Chinese equities remain undervalued (P/E 13.0 vs. S&P 500 at 22.7), supported by RMB800bn liquidity injections.
- US equities show resilience, recovering after early April sell-off despite S&P 500 YTD -3.7% and NASDAQ -7.2%.
- Japanese equities outperform YTD by 5% in USD terms with low corporate leverage (10%) and attractive valuations (Price-to-Book 1.4x, Dividend Yield 2.5%).

Asia ex-Japan equities attract capital inflows driven by structural reforms and sectoral optimism

- Asia ex-Japan forward P/E stands at 14.0, backed by China's fiscal stimulus.
- Technology, consumer discretionary, and renewable energy sectors are key beneficiaries, supported by China's RMB800bn stimulus and policy incentives for green energy.
- Emerging markets delivered a 14.4% one-month return; Mexico leads with strong fundamentals and policy easing, including 175bp rate cut expectations and robust FDI inflows.

Trade Uncertainty and Consumer Weakness Are Increasing Equity Market Volatility

- July tariff deadline looms, heightening market volatility, as seen by the 12.7% y/y jump in US imports from stockpiling behaviors.
- US consumer sentiment hits lowest level since mid-2022, confirmed by the University of Michigan Sentiment Index.
- Tight IG credit spreads and widening high-yield spreads signal rising credit risk, evidenced by high-yield spreads widening on cooling consumer confidence.
- Singapore and Hong Kong trade sectors face downside risks; Vietnam's export industries weaken post-tariff, with Vietnam's export growth driven by a temporary 90-day tariff suspension.

Investors Should Target Defensive Plays in Singapore and Growth Sectors in China and Japan

- Investors should focus on defensive sectors and undervalued markets.
- Prioritize Chinese large-cap equities and CSI 300 ETFs, supported by direct RMB800bn policy-driven liquidity injections.

- Japanese equities remain attractive with strong fundamentals and low leverage, ROE improving to 10%, double the pre-Abenomics average.
- Mexico and Brazil offer compelling EM opportunities; Mexico's macro stability is supported by robust fiscal balances and nearshoring trends.
- In Singapore, favor REITs and essential services; US technology and AI sectors act as defensive plays amid ongoing policy uncertainty.

US Duration Risks Rise While Eurozone Bonds Offer Capital Gain Opportunities

Bond markets present contrasting opportunities and risks based on regional policies

- US 10-year Treasury yields remain elevated at 4.36%, increasing duration risks.
- Eurozone bonds offer capital gain opportunities as ECB rate cuts approach, with rates forecasted to decline from 2.50% to 2.00% by 2Q25.
- China's rising sovereign bond supply pressures yields; total social financing data shows increased government bond issuance alongside weak private sector demand.

Persistent Inflation and Trade Policy Risks Keep Credit Markets Under Pressure

- US inflation remains sticky at 3.0%, pushing yields higher.
- High-yield credit spreads widen amid global policy uncertainty and signs of weakening consumer confidence.
- Vietnam and Hong Kong face elevated credit risks, with Vietnam's refinancing rate at 4.50% and unresolved trade tensions.

Focus on Short-Duration Bonds and EM Local Currency Debt for Stability and Yield

- Long-duration Eurozone bonds offer capital gain potential as ECB prepares for rate cuts to 2.00%.
- Short-duration US Treasuries (~3.86%) and Singapore bonds provide defensive positions amid volatile markets.
- EM local currency bonds from Mexico, Philippines, and Indonesia offer strong yields, with policy rates holding at 5.75%.
- Private credit remains attractive for long-term resilience, offering higher returns through illiquidity premiums.

SGD Faces Modest Pressures While USD and Regional Currencies Drive Divergence

Currency markets show divergence driven by interest rate differentials

- SGD faces pressure against USD and VND due to higher policy rates (USD 4.50%, VND 4.50%).
- MYR and THB remain weak against the SGD; JPY struggles despite rising yields, as seen by JPY at 145 per USD with a 10-year bond yield at 1.35%.
- DXY stability supports range-bound USD/SGD movements, with the DXY remaining flat despite inflation pressures.

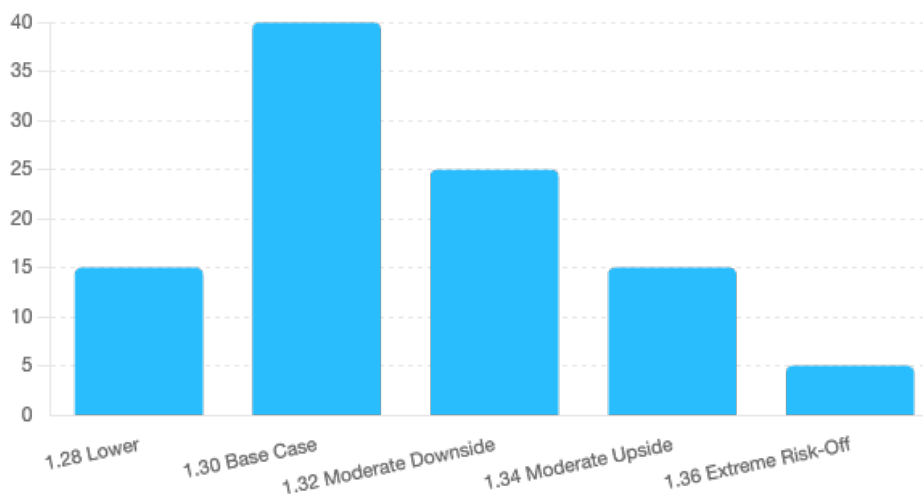
Sticky US Inflation and Chinese Policy Easing Create Divergent FX Conditions

- US CPI remains at 3.0%, sustaining USD strength.
- China's liquidity injections of RMB1tn weaken the CNY.
- VND volatility rises post-tariff suspensions; Vietnam's export boom likely to reverse after the temporary suspension ends.
- SGD weakens on lower growth projections (0.0-2.0%) and fiscal easing.

USD Remains a Safe Haven While EM Currencies Offer Carry Trade Opportunities

- USD remains a safe-haven investment, with persistently high policy rates at 4.50%.
- PHP and IDR offer attractive carry trade returns with policy rates stable at 5.75%.
- EUR remains suitable for diversification despite the ECB's expected rate cuts, primarily because:
 - Capital Gain Potential: Rate cuts typically boost bond prices in the Eurozone, presenting early-entry opportunities for capital gains.
 - Lower Volatility: The EUR remains relatively stable compared to more volatile EM currencies, even with expected rate reductions.
 - Portfolio Diversification: Holding EUR-denominated assets provides balance for portfolios otherwise concentrated in USD and high-volatility EM currencies.
- TWD presents tactical appreciation opportunities with a 1.7% YTD appreciation; CNY offers undervalued equity asset plays despite depreciation risks.

USD/SGD Exchange Rate Scenarios (Next 3–6 Months) (%)



Category	Rate	Probability	Rationale
Lower	1.28	15%	Aggressive U.S. Fed rate cuts, potential for 50-75bps over the next two quarters, combined with MAS maintaining a neutral-to-slightly tighter policy stance, support SGD strength. Global slowdown risks increase safe-haven demand for SGD.
Base Case	1.30	40%	Fed adopts a "wait-and-see" stance, cutting rates gradually (25-50bps). Singapore growth remains subdued but stable (0.0–2.0% projection). DXY remains range-bound, sustaining USD/SGD near current levels.
Moderate Downside	1.32	25%	Delayed Fed rate cuts keep USD yields elevated. MAS policy remains accommodative to support Singapore's weak growth. Risk sentiment improves slightly, reducing safe-haven demand for SGD.
Moderate Upside	1.34	15%	US inflation proves sticky at 3.0%, limiting the pace of Fed rate cuts. MAS refrains from tightening due to weak domestic growth, and capital outflows from Asia toward higher-yielding US assets resume.
Extreme Risk-Off	1.36	5%	A financial shock or major geopolitical event (e.g., escalation in US-China tensions or global credit market stress) triggers a surge in USD demand. Capital flight from emerging markets and SGD weakness drives USD/SGD sharply higher.

Definitions

Lower	Indicates a scenario where the local currency strengthens relative to the foreign currency, typically due to favorable domestic policy conditions, external monetary easing, or safe-haven demand for the local currency.
Base Case	Represents the most probable outcome based on prevailing economic trends, where policy expectations, inflation dynamics, and risk sentiment are broadly balanced and no significant shocks are anticipated.
Moderate Downside	Reflects a mild depreciation of the local currency against the foreign currency, typically due to softer domestic growth, mild policy divergence, or temporary capital outflows—without significant external shocks or aggressive monetary shifts.
Moderate Upside	Describes a moderate strengthening of the foreign currency versus the local currency, often linked to policy delays, interest rate divergence, or modest capital outflows from the local market.
Higher	Signals a more pronounced appreciation of the foreign currency against the local currency, generally due to increased global uncertainty, risk aversion, or sustained capital flight into foreign assets.
Extreme Risk-Off	Captures a tail-risk event where the foreign currency surges sharply against the local currency, driven by systemic crises such as financial shocks, geopolitical escalations, or sudden liquidity stresses that override macro policy settings.

Gold Remains the Preferred Inflation Hedge as Prices Surge 41.4% Year-on-Year

Gold continues to outperform due to its safe-haven appeal and inflation protection

- Gold prices surged 26.5% YTD to USD 3,319 per ounce and 41.4% YoY.
- US inflation and high Fed rates sustain demand, with core CPI at 2.4% and the Fed maintaining a cautious stance.
- China's liquidity support and Eurozone rate cuts enhance global gold demand, with Eurozone rates forecasted to fall to 2.00%.
- Singapore's position as a gold trading hub improves liquidity access for SGD investors, offering better access and lower transaction costs.

Geopolitical Risks and Central Bank Buying Support Long-Term Gold Demand

- Strong demand for gold is underpinned by geopolitical risks and central bank diversification.
- Gold remains the most effective hedge against market volatility, insulating portfolios against 90% of recent market weakness.
- Central banks, particularly in Asia, continue to diversify reserves into gold.
- Rising geopolitical tensions (US-China relations, Vietnam tariff risks) and inflation sustain long-term gold demand.
- Industrial metals like copper remain more volatile despite China's pro-growth measures, with LME Copper rising 7.6% YTD.

Gold ETFs and Physical Gold in Singapore Offer the Best Hedging Benefits

- Investors should maintain gold as the core defensive asset while exploring complementary metals.
- SPDR Gold Shares (GLD), iShares Gold Trust (IAU), and SGX-listed ETFs are preferred for liquid exposure.
- Physical gold in Singapore offers liquidity and currency stability, benefiting from Singapore's strong fiscal position and stable SGD.
- Silver and EM commodity producers in Brazil and South Africa provide diversification through strong export demand.
- Despite cyclical opportunities in industrial metals, gold remains the superior defensive hedge for SGD-based investors, with lower volatility and stable demand driven by central banks and retail investors.