FINANCE

AI, Tariffs, Bonds, Currencies, and Gold Outlook

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Discover how AI investments, US-China trade shifts, and central bank gold buying shape equity, bond, currency, and commodity markets. Learn where to allocate capital for resilience and growth in a volatile global economy.

Key Points

Equities	Global equities rose on US-China tariff cuts and AI investments, but high US yields pressured real estate, prompting investors to favor tech, semiconductors, gold, and defensives for resilience.
Fixed Income	Bond markets favor a barbell strategy of short-term high-quality and selective long-duration bonds amid improved liquidity, high US yields at 4.5%, policy uncertainty, and rising emerging market credit risks, with a preference for US, German, and Chinese sovereign bonds.
Currencies	The SGD remains stable amid near-term USD and CNH weakness, but rising US policy uncertainty, expected Fed cuts, and projected USD/CNH rebound favor tactical diversification into Middle Eastern currencies, a JPY recovery, and selective CNH and USD positions while avoiding fragile emerging market currencies.
Commodities	Gold remains a key hedge for SGD investors amid strong central bank demand, US fiscal risks, and expected Fed cuts, with ideal accumulation at USD 3,000–3,250, while diversification into industrial metals and energy commodities offers additional resilience against market volatility and currency shifts.

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	Foundational Assumptions	Key Challenges	Strategic Action
Equities	**Equity Trend Insights** Global equities surged as US-China tariffs fell by 115 points for 90 days, lifting the NASDAQ by 4.3% and Hang Seng by 3%; USD250 billion in AI investments from US tech giants and USD100 billion from the Middle East continue to drive tech and semiconductor growth, while IG spreads narrowing from 120 to 98 bps and central bank gold purchases rising to 1,086 tonnes signal elevated systemic risks and defensive positioning.	**Equity Pressure Analysis** The US-China tariff cut reduces recession risks and boosts tech and industrials, but US 10-year yields at 4.5% raise borrowing costs, pressuring real estate and infrastructure; China's pivot to domestic consumption and rare earth export easing supports semiconductors, while persistent recession fears sustain defensive demand.	**Equity Investment Guidance** Focus on tech and semiconductor equities in the US and China, with the Hang Seng Tech Index attractive below 5,250; balance portfolios with gold-linked equities and defensive sectors like consumer staples and healthcare, while adding high-yield bonds and gold between USD 3,000–3,250 for resilience.
Fixed Income	**Bond Market Trends** Bond markets show improved liquidity with US IG spreads tightening from 120 to 98 bps, while the US 10-year yield at 4.5% raises duration risks; synchronized US and China bond yield rises support growth expectations, favoring a barbell strategy with short-term high-quality and selective long-duration bonds.	**Bond Pressure Drivers** Persistent recession risks, US policy uncertainty, and inflation concerns keep bond volatility high; despite expected 75 bps Fed cuts by Q1 2026, elevated US yields pressure long-term bonds, while emerging market debt faces rising credit risks from trade fragmentation.	**Bond Investment Strategy** Prioritize 2-3 year investment-grade bonds as defensive plays and selectively add 7-10 year high-quality bonds before Fed cuts; maintain sovereign bond exposure in the US and Germany, and consider Chinese sovereign bonds with low 1.67% yields, avoiding fragile emerging market debt.
Currencies	**Currency Movement Trends** The SGD benefits from near-term strength as USD/CNH drops to 7.1922 and may test 7.1360, but medium-term volatility looms with a potential rebound to 7.380; DXY rose 1.4%, US-China 10-year yields climbed to 4.45% and 1.67%, reducing carry trade flows and favoring short-term SGD stability.	**Currency Risk Analysis** US policy uncertainty and 75 bps expected Fed cuts weaken the USD, supporting SGD strength; China's trade policy easing boosts CNH and regional flows, but volatility remains high with USD/CNH projected to rebound, making US, China, and export-driven Asian economies vulnerable to FX swings.	**SGD Currency Picks** SGD holders should diversify into Middle Eastern currencies (AED, SAR) supported by USD100 billion AI investments, position for a JPY rebound on future policy shifts, tactically invest in CNH before a rebound to 7.380, and capitalize on short-term USD strength ahead of Fed cuts, while avoiding fragile EM currencies.
Commodities	**Gold & Commodity Trends** Gold remains a key hedge with central bank purchases spiking to 1,086 tonnes; despite a 1.4% DXY rise, gold is attractive for SGD investors at USD 3,000–3,250 as USD/CNH movements favor local price appreciation amid persistent recession risks and financial volatility.	**Commodity Pressure Factors** Gold benefits from US fiscal deficits and debasement risks, with expected Fed cuts and high inflation sustaining demand; trade fragmentation and China's export shifts disrupt supply chains, while USD/CNH rebounds could push gold prices higher in SGD terms, enhancing its hedging appeal.	**Gold Investment Picks** SGD investors should maintain core gold exposure at USD 3,000–3,250, favor physically backed ETFs for liquidity, diversify into industrial metals like copper and aluminum driven by Middle East AI investments, and add energy commodities like LNG and oil, capitalizing on near-term USD/CNH currency translation effects.

Reference:

DBS Bank Ltd. (2025). Portfolio Resilience in Era of Policy Ambiguity.

Standard Chartered Group. (2025). Market Watch.

Global Equities Rally on AI Investments and Trade De-escalation but Face Rising Yields and Policy Risks

AI Investment and Trade De-escalation Drive Global Equity Optimism

Global equities are rising on trade de-escalation and massive AI-driven investments.

- US-China tariffs reduced by 115 percentage points for 90 days, immediately lifting NASDAQ by 4.3% and Hang Seng Index by 3%.
- Microsoft, Amazon, and Google plan to invest a combined USD250 billion in AI infrastructure, data centres, chip procurement, and next-gen algorithms in 2025.
- The Middle East is emerging as a new AI growth hub, with USD100 billion in AI-driven technology investments planned over the next decade.
- IG spreads narrowed from 120 to 98 bps, signaling improved corporate fundamentals and credit market liquidity.
- Central bank gold purchases surged to 1,086 tonnes in Q1 2025, highlighting persistent systemic risks and elevated demand for safe-haven assets.

Rising Yields and Policy Uncertainty Weigh on Equity Market Outlook

Policy uncertainty and rising bond yields create headwinds for equities.

- US 10-year bond yields at 4.5% increase borrowing costs, pressuring real estate and infrastructure sectors.
- China's strategic pivot toward domestic consumption and the easing of rare earth export controls alleviate cost pressures on global semiconductor production.
- Historical trade war data shows goods subjected to 25% tariffs experienced a one-third decline in US exports, reinforcing the importance of the current tariff relief.
- Ongoing recession risks sustain investor demand for defensive sectors, while elevated policy volatility encourages a flight to quality and safe-haven assets like gold.

Focus on Technology, Semiconductors, and Defensive Plays for Equity Portfolios

Investors should prioritize growth sectors and balance with defensive plays.

- Technology and semiconductor equities in the US and China remain top picks, underpinned by unprecedented AI investment commitments.
- The Hang Seng Technology Index remains attractively priced, trading around -1 standard deviation below its historical mean, with tactical opportunities identified below 5,250.
- Defensive allocations to gold-linked equities, high-quality consumer staples, and healthcare stocks help hedge against ongoing macroeconomic volatility.

- A barbell strategy combining high-growth technology stocks with resilient defensive sectors ensures portfolio stability amid policy uncertainty and recession risks.
- Maintain diversified equity exposure across regions, with a focus on US technology and communication services, European industrials, and Chinese technology equities for balanced growth potential.

Improved Bond Market Liquidity Presents Selective Opportunities Amid Rising Yields and Trade Fragmentation

Bond Market Liquidity Improves as Yield Curves Steepen

Bond markets are experiencing healthier liquidity, improved corporate fundamentals, and favorable conditions for selective duration strategies.

- IG spreads have tightened from their YTD high of approximately 120 bps to 98 bps, reflecting improved corporate balance sheets and reduced near-term default risks.
- A steeper yield curve presents opportunities to pick up high-quality credit in the 7-10Y bucket, rewarding moderate duration exposure.
- Corporate fundamentals are strengthening as companies proactively de-leverage amid trade uncertainty, supporting lower bond volatility.
- Net credit upgrades highlight positive momentum in corporate debt quality, lowering systemic risk and stabilizing spreads.
- Liquidity ratios have improved significantly, particularly in US investment-grade corporate bonds, as spreads continue to decline.

High Yields and Fragmented Trade Increase Bond Market Risks

Rising yields, fragmented global trade, and policy uncertainty heighten credit and duration risks in bond markets.

- The US 10-year government bond yield rose to 4.5%, signaling elevated duration risk and compressing bond prices.
- US and China government bond yields climbed by 3-4 bps, reflecting synchronized growth expectations but also increasing volatility spreads.
- The 10-year US yield is above the expected 12-month range of 4.00-4.25%, suggesting potential for mean reversion and price volatility.
- Liquidity indicators show short-term improvements, but bond markets remain sensitive to policy announcements and economic data surprises.
- Export-reliant emerging markets face heightened credit risks as global trade patterns fragment, negatively impacting their bond issuance attractiveness.

Diversify Bond Portfolios with Developed Market Sovereigns and Chinese Bonds

Investors should diversify bond portfolios with high-quality sovereigns and select opportunities in Chinese government bonds.

- Maintain overweight positions in short-duration high-quality investment-grade bonds (2-3Y) as a defensive strategy against policy uncertainty.

- Take advantage of the steeper yield curve by selectively adding duration exposure through high-quality bonds in the 7-10Y range.
- US and German sovereign bonds remain effective defensive assets against economic uncertainty and market volatility.
- Chinese sovereign bonds offer diversification benefits with low 10-year yields at 1.67% and potential capital appreciation from policy support.
- Investors should remain cautious on emerging market debt, particularly in Asia, due to rising credit risks from trade fragmentation and policy shifts.

SGD Strengthens in the Near Term but Faces Currency Volatility from US and China Policy Shifts

SGD Benefits from Near-Term Strength but Faces Medium-Term Volatility

The SGD shows near-term resilience supported by regional currency dynamics but may weaken as external risks escalate.

- USD/CNH declined to 7.1922 and is expected to test support at 7.1360, signaling short-term SGD strength through trade linkages.
- A medium-term rebound in USD/CNH toward 7.380 is projected, introducing renewed currency volatility and potential SGD depreciation.
- US and China 10-Year Government Bond Yields climbed to 4.45% and 1.67%, narrowing interest rate differentials and reducing carry trade incentives in favor of the SGD in the short term.

US Policy and Chinese Currency Dynamics Create Ongoing Currency Risks

Elevated policy uncertainty in the US and structural shifts in China's economy drive FX market volatility, directly impacting SGD performance.

- US political volatility and fiscal stimulus measures increase inflation risks and policy uncertainty, weakening the USD's safe haven appeal relative to the SGD.
- Anticipated 75 bps of Fed rate cuts by Q1 2026 place further downward pressure on the USD, while the MAS's currency-focused policy supports SGD stability.
- China's export diversification and suspension of rare earth export controls improve regional trade flows, offering temporary support for the CNH and SGD.
- However, the USD/CNH is expected to rebound in the medium term, introducing potential headwinds for the SGD.

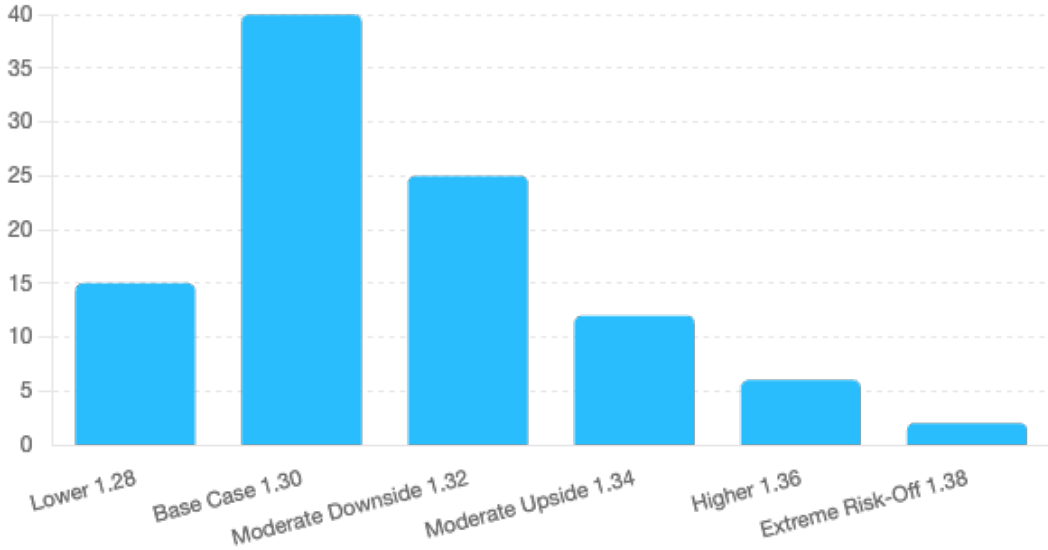
Diversify SGD Holdings into Middle Eastern Currencies, JPY, and CNH

Investors should diversify SGD holdings by allocating into currencies supported by structural growth trends and policy normalization opportunities.

- Middle Eastern currencies such as the AED and SAR are positioned for appreciation, benefiting from USD100 billion in AI-driven investments and strong capital inflows.
- The Japanese Yen presents a medium-term rebound opportunity, as Japan's low interest rates and rising inflation expectations suggest future policy normalization.
- Tactical investments in CNH offer near-term currency gains, with the USD/CNH expected to test 7.1360 support before rebounding to 7.380 over the next 1-3 months.

- While the USD remains under pressure from policy uncertainty, elevated US yields peaking at 4.5% create a window for short-term gains before anticipated Fed rate cuts weaken the USD.

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



Category	Rate	Probability	Rationale
Lower	1.28	15%	Aggressive U.S. Fed rate cuts of 75bps by Q1 2026, a relatively tighter MAS stance, and safe-haven flows into SGD driven by persistent global slowdown risks support this scenario.
Base Case	1.30	40%	Balanced inflation expectations, gradual Fed easing, and stable MAS policy maintain SGD strength while moderating USD gains, making this the most probable outcome.
Moderate Downside	1.32	25%	Mild depreciation of SGD as MAS policy remains unchanged, and USD benefits from short-term strength driven by elevated U.S. bond yields and delayed Fed cuts.
Moderate Upside	1.34	12%	USD strengthens moderately on resilient U.S. economic data, higher bond yields at 4.5%, and delayed policy normalization, causing moderate SGD weakness.
Higher	1.36	6%	Persistent inflation and geopolitical risks create strong demand for USD assets, triggering capital outflows from Singapore and driving USD/SGD higher.
Extreme Risk-Off	1.38	2%	Tail-risk scenario with financial market stress, geopolitical escalations, or systemic liquidity crises driving sharp USD appreciation against SGD.

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.

Central Bank Gold Purchases Surge as Inflation Risks and Trade Disruptions Sustain Commodity Demand

Central Banks Accelerate Gold Buying as Safe-Haven Demand Intensifies

Gold remains a critical hedge for SGD portfolios amid rising geopolitical risks and US fiscal pressures.

- Central bank gold purchases spiked to 1,086 tonnes in Q1 2025, more than doubling the 2010–2021 average of 473 tonnes, reflecting aggressive accumulation.
- US fiscal deficits drive monetary debasement risks, supporting higher gold prices globally and relative appreciation in SGD terms.
- Heightened geopolitical tensions sustain gold's safe-haven appeal, even as financial market volatility remains elevated.
- Persistent recession risks and policy uncertainty amplify volatility in gold prices, increasing its importance as a portfolio stabilizer.

Inflation Risks and Trade Realignments Sustain Commodity Demand

Global macroeconomic and geopolitical pressures continue to drive commodity performance, particularly for gold and industrial metals.

- Persistent inflation concerns and expectations of 75 bps Fed rate cuts by Q1 2026 maintain demand for gold as a strategic inflation hedge.
- Trade fragmentation and China's export policy shifts disrupt supply chains, supporting higher prices for critical metals and energy commodities.
- Strong liquidity conditions, indicated by IG spreads tightening from 120 bps to 98 bps, reduce forced gold selling and stabilize market demand.
- Rising US and China bond yields signal financial uncertainty, reinforcing gold's safe-haven appeal for SGD investors.

Expand Gold Holdings and Diversify into High-Demand Commodities

Investors should prioritize gold as a core hedge while diversifying into industrial and energy commodities for growth.

- Maintain core gold exposure between USD 3,000 and 3,250 to capitalize on sustained demand and currency hedging benefits.
- Invest in physically backed gold ETFs for liquidity and price transparency, supporting portfolio resilience against financial market stress.
- Diversify into industrial metals like copper and aluminum, backed by USD100 billion in AI-driven Middle East infrastructure investments.

- Energy commodities such as LNG and oil remain strategically valuable amid policy-driven supply realignments and Singapore’s role as a regional trading hub.
- Anticipated USD strength over the next 1-3 months favors gold and USD-denominated commodities as effective portfolio hedges for SGD-based investors.