

FINANCE

Tariffs, Debt and Yield Curves Drive Europe and Gold Rotation

23/06/2025

High US tariffs, rising fiscal debt, and steepening yield curves are squeezing margins and lifting yields, pushing investors toward Europe’s undervalued mid-caps, frontier markets, EM debt, and robust safe havens like gold above \$3,400. This report pinpoints where to pivot equity, bond, and FX allocations to offset policy risk and capture diversification opportunities in 2025.

Key Points

Equities

Global equities face low single-digit returns with the MSCI ACWI 64% US-weighted and a 50% P/E premium, driving rotation to Europe’s mid-caps, low-volatility frontier markets, and record European ETF inflows, while 15% US tariffs, a 7% deficit plus \$3–5 trillion debt risk steepen yields and push capital toward Germany, Asia’s proactive policy, and sectors like Europe’s mid-caps, Japan’s small caps, India and ASEAN supply chain plays, domestic services, Vietnam’s frontier market, and stimulus-backed Chinese tech.

Fixed Income

US yield curves steepen with 2–10Y and 5–30Y spreads near 160bp, 10Y Treasuries stable at 4–4.75%, German yields dropping to 1.55%–2.35%, China’s yields low, Euro IG leverage tighter than US IG, eurozone liquidity rebounding from 43% lows, while the One Big Beautiful Bill Act adds \$3–5 trillion debt and sticky inflation caps Fed cuts, so investors should favour Euro sovereigns and IG credit, hard currency EM bonds like Brazil and Mexico, US 5–10Y Treasuries near 4.5%, avoid Japanese duration, use Chinese bonds for diversification, and hold private credit for stable income.

Currencies

The US NIIP hit negative \$26 trillion with USD spot down 6% since April 2025 as JPY and EUR rose, de-dollarisation boosts SGD/MYR and SGD/IDR liquidity, Asia FX (KRW, MYR, IDR) stays resilient and EUR/SGD gains on safe-haven flows, a \$3–5 trillion US deficit weakens USD vs SGD with Fed delays causing episodic rallies, Eurozone easing and Asia supply chain shifts lift EUR, MYR, IDR, INR while low China yields keep SGD/CNY range-bound but policy-sensitive, so hold JPY/SGD and EUR/SGD for safe havens, use INR, IDR for yield, tactically short USD/SGD, trade AUD, NOK, SEK for cycles, and rely on MAS stability.



Commodities

Gold stays strong above \$3,400 amid Israel-Iran risks and US fiscal stress, oil volatile at Brent \$63–68, copper and nickel rise on tight supply and China-India demand, Latin America and Africa gain from rerouted trade, USD's fading hedge status boosts gold's reserve role, hedge and macro funds add gold for volatility cover, so hold physical gold or SGD-hedged ETFs, add copper and nickel for electrification, trade oil within Brent band, use Latin American and Australian commodity producers, and pair Asia local bonds with gold for SGD resilience.

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	Foundational Assumptions	Key Challenges	Strategic Action
Equities	<p>Equity Trend Insights</p> <p>Global equities may deliver low single-digit returns with persistent sector and regional rotations; the MSCI ACWI remains 64% US-heavy with a 50% P/E premium, while Europe’s attractive mid-caps, frontier market low volatility, and record European ETF inflows highlight diversifying opportunities.</p>	<p>Equity Pressure Analysis</p> <p>US tariffs near 15%, a federal deficit around 7% of GDP, and an extra \$3–5 trillion debt risk keep yields and premiums high, while steepening US curves contrast Europe’s lower rates and fiscal push, favouring capital shifts to Germany and Asia’s proactive policy backdrop.</p>	<p>Equity Investment Guidance</p> <p>Investors should favour Europe’s mid-caps and industrials, Japan’s small caps and dividends, India and ASEAN’s supply chain-driven sectors, domestic and service names that sidestep tariff risks, plus frontier outperformers like Vietnam and stimulus-backed Chinese tech equities.</p>
Fixed Income	<p>Bond Market Trends</p> <p>US curves are steepening with 2–10Y and 5–30Y spreads potentially hitting 160bp, 10Y Treasuries stable at 4–4.75%, German yields dropping to 1.55%–2.35%, China’s yields stay historically low, Euro IG leverage remains tighter than US IG, and eurozone debt liquidity rebounds from a 43% low.</p>	<p>Bond Pressure Drivers</p> <p>The One Big Beautiful Bill Act adds \$3–5 trillion US debt and persistent inflation keeps Fed cuts limited, pushing duration and credit risk higher for Treasuries while Europe’s disinflation shields Bunds and EM yields stay elevated and buffered by dollar weakness and proactive rate cuts.</p>	<p>Bond Investment Strategy</p> <p>Prefer Euro sovereigns and IG credit (especially financials and subordinated debt), hard currency EM bonds like Brazil and Mexico, US 5–10Y Treasuries near 4.5%, avoid Japanese duration, use Chinese bonds for diversification, and add private credit for stable income and lower mark-to-market risk.</p>
Currencies	<p>Currency Movement Trends</p> <p>The US NIIP hit a record negative \$26 trillion, USD spot is down 6% since April 2025 as JPY and EUR rose, regional de-dollarisation boosts SGD/MYR and SGD/IDR liquidity, while Asia FX stays resilient with KRW, MYR, and IDR steady and EUR/SGD gains on safe-haven flows.</p>	<p>Currency Risk Analysis</p> <p>A US deficit jump of \$3–5 trillion weakens USD fundamentals versus SGD, Fed rate delays cause episodic USD rallies, Eurozone easing and Asia’s supply chain shifts support EUR, MYR, IDR, and INR, while RMB stays weak on low China yields, keeping SGD/CNY range-bound but policy-sensitive.</p>	<p>SGD Currency Picks</p> <p>Hold JPY/SGD and EUR/SGD for safe-haven value, consider INR and IDR for yield and growth, short USD/SGD tactically, use AUD, NOK, and SEK for cyclical bursts, and rely on MAS’s steady SGD policy to anchor stability versus Asian peers.</p>

Commodities

Gold & Commodity Trends	Commodity Pressure Factors	Gold Investment Picks
Gold remains strong above \$3,400 amid Israel-Iran tensions, oil trades volatile at Brent \$63–68, base metals like copper and nickel gain on tight inventories, Latin America and Africa benefit from rerouted supply, and hedge funds use gold and copper to cushion drawdowns, supporting Asia bonds and gold overweight.	Persistent geopolitics, US fiscal stress, and tariffs lift gold’s safe-haven demand, China and India boost base metal use, USD’s fading hedge status elevates gold as a reserve anchor, supply-side inflation persists, and macro funds add gold to navigate policy swings and volatility.	Hold physical gold or SGD-hedged ETFs as a core hedge above \$3,400, add copper and nickel for electrification upside, trade oil tactically within the \$63–68 Brent band, access Latin American and Australian producers via commodity funds, and pair Asia local bonds with gold for balanced SGD protection.

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Amundi Investment Institute. (2025). Ride the policy noise and shifts.

Equity markets offer modest headline returns, but investors should rotate into European mid-caps, frontier markets, and service-oriented sectors to offset tariff and valuation risks

Global equity returns remain modest while rotation favours Europe's mid-caps and frontier stability

Equities may generate low single-digit returns in the second half, but rotations will continue. The MSCI ACWI is heavily concentrated in US stocks at 64%, with a P/E premium above 50% relative to ex-US. Post-election, the forward P/E ratio for the S&P 500 peaked above 22x compared to 14–15x for the rest of the world. Europe's appeal is likely to become a structural theme, favouring small- and mid-caps where valuations remain highly attractive. Annualised equity volatility for frontier markets has remained consistently lower than for developed peers over the past decade. European banks have become one of the best-performing areas in developed markets, driven by dividends and share buybacks. ETF flow data confirms this, with European equity ETFs recording their strongest cumulative inflows in at least five years.

Elevated US tariffs, fiscal debt, and rate spreads sustain global equity pressure while Europe and Asia find support

Average US tariffs are assumed around 15%, compressing margins for import-reliant sectors and adding cost pressures. The One Big Beautiful Bill Act could expand US debt by \$3–5 trillion over the next decade, sustaining higher yields and risk premiums. The US federal deficit remains near 7% of GDP, levels typically reserved for crises. The effective tariff rate has climbed to nearly 3% in 2025, the highest in decades. Correlation between the USD and US equities has turned positive, eroding the dollar's role as a portfolio hedge. Yield curves in the US are set to steepen, while Europe enjoys lower long-term rates due to fiscal expansion and ECB flexibility. Germany's pivot to growth-oriented spending and Asia's proactive monetary stance provide structural tailwinds for non-US assets.

Investors should focus on Europe's mid-caps, Japan's small caps, India and ASEAN supply chain sectors, and domestic services to mitigate global shocks

Europe's rotation is structural, with mid-caps and industrials set to benefit from defence and infrastructure spending. Japan's Tokyo Stock Exchange reform is creating a more investor-friendly environment, making small caps and high dividend equities attractive. India and ASEAN are winners from supply chain rerouting, with 'Make in India' boosting defence and IT sectors. Domestic and service-oriented sectors globally are favoured to mitigate tariff exposure. European banks and industrials are primed for a valuation rerating as

growth stabilises and fiscal support expands. Vietnam has emerged as a key beneficiary of the 'China Plus One' strategy, with frontier markets outperforming both developed and emerging markets year-to-date. Chinese tech equities, supported by state stimulus and credit, continue to attract capital despite global uncertainty.



Bond investors face US yield curve steepening and fiscal headwinds, but should prioritise eurozone sovereigns, quality IG credit, and selective EM debt amid stable Bunds and easing cycles

US yield curve steepening and rate volatility contrast with stable German Bunds and recovering eurozone liquidity

US yield curves are set to steepen, with yields falling below the 10-year area but rising above the 15-year maturities, and 2–10Y and 5–30Y spreads could reach 160bp, levels last seen in early 2021. The 10-year US Treasury yield is projected to remain within a 4%–4.75% range, while 5-year nominal yields could trend toward 3.6% and real yields toward 1.2% by year-end. German 2-year yields are forecast to decline to 1.55% and 10-year Bund yields to about 2.35% by year-end. China's bond yields remain at historical lows due to domestic deflation, contrasting with multi-decade highs in developed markets. Net debt-to-EBITDA for Euro IG corporates remains below US IG corporates, at around 2.5x versus 3.0x. Treasury yields remain volatile and range-bound, driven by conflicting inflation signals, shifting term premia, and ambiguous Fed communication. Foreign investment in eurozone sovereign debt rebounded from a low of 43% back toward historical norms, indicating strengthening liquidity and lower volatility spreads.

High US debt and sticky inflation drive Treasury risk while European and EM bonds gain protection from fiscal divergence and local easing

Rising fiscal risks in the US, with the One Big Beautiful Bill Act potentially increasing debt by \$3–5 trillion over the next decade, keep supply elevated and support a steepening curve. Persistent inflation risk in the US prevents the Fed from cutting aggressively, sustaining higher nominal and real yields. The US federal deficit remains near 7% of GDP, adding duration and credit risk to long-dated Treasuries. Bond vigilantes are back in town, keeping longer-dated bond yields sticky. Europe's softer growth and disinflation allow the ECB more room to ease, insulating Bunds and peripheral bonds from US fiscal spillovers. Emerging market bond yields exceed developed market yields and benefit from dollar weakness, cushioning them against global rate volatility. Emerging market central banks, including the Reserve Bank of India, have moved into an easing mode with front-loaded rate cuts, moderating short-term local duration risk.

Diversify into Euro sovereigns, quality IG credit, select EM hard currency bonds, and maintain flexible exposure across US mid-curve, avoiding Japanese long duration

Steeper yield curves and rate volatility ahead favour diversification into European bonds and selective emerging market debt. Continue to play quality credit, with a preference for Euro Investment Grade, especially financials and subordinated credit. Hard currency emerging market bonds are opportunistic, with yields still providing a spread premium over US Treasuries. US Treasuries in the 5–10Y part of the curve benefit from a downward drift in yields amid growth moderation, with 4.5% on the 10Y considered a tactical entry point. Japanese JGB yields in the 2–10Y range are likely to rise as the Bank of Japan winds down its balance sheet, suggesting avoidance of Japanese duration extension. Liquidity remains solid for Euro IG and peripheral sovereigns, while Chinese bonds provide diversification despite low yields. Private credit instruments provide insulation from shifting macro narratives and are not subject to daily mark-to-market volatility.

USD weakness, fiscal stress, and global trade realignment favour holding JPY/SGD and EUR/SGD, while tactical opportunities exist in INR, IDR, and commodity FX

The USD's record net deficit, weaker spot, and de-dollarisation trends lift JPY/SGD and EUR/SGD while stabilising Asia FX pairs

The US Net International Investment Position has fallen to record lows of \$26 trillion while foreign USD asset ownership reached \$31 trillion in 2024. The USD FX Spot Performance vs Net IIP graph shows the USD down about 6% since April 2025 while JPY and EUR gained, supporting moderate SGD strength. Payment systems bypassing USD and SWIFT are proliferating in Asia and BRICS, benefiting pairs like SGD/MYR and SGD/IDR. The dollar has weakened amid financial stress and rising Treasury yields, breaking its correlation with yields and increasing directional swings for USD/SGD pairs. Emerging market currencies have benefited as the weaker dollar allowed EM central banks to lower rates, compressing interest differentials with SGD. The Euro has exhibited safe-haven characteristics, rallying during equity sell-offs and supporting the EUR/SGD pair. Asia FX shows a mild positive bias, supported by local easing cycles and stable trade balances, keeping KRW, MYR, and IDR relatively resilient against SGD.

US fiscal stress, yield curve dynamics, and global trade shifts drive USD/SGD swings while Asia FX and EUR remain resilient floors

The US fiscal deficit trajectory remains worrisome with an additional \$3–5 trillion debt possible due to the One Big Beautiful Bill Act, undermining USD fundamentals relative to SGD. US yield curves are steepening, but with sticky inflation, Fed rate cuts are delayed, creating episodic USD strength on rate spread spikes. Eurozone disinflation and softening growth enable ECB easing sooner than the Fed, supporting a stronger EUR that may indirectly lift SGD through correlated flows. Emerging Asian currencies benefit from robust domestic demand, with India and ASEAN attracting supply chain rerouting, supporting MYR, IDR, and INR relative to SGD. China's bond yields at historical lows amid deflation weigh on RMB strength, keeping SGD/CNY range-bound but sensitive to further policy easing. Global supply chains remain vulnerable to geopolitical realignment and tariffs, elevating Asia FX volatility including CNY/SGD and KRW/SGD pairs. The Eurozone's net lender position and stable institutional framework bolster EUR resilience, providing a floor for EUR/SGD.

Hold JPY/SGD and EUR/SGD as safe havens, tactically position in INR, IDR, AUD, NOK, and SEK, and manage USD/SGD shorts

JPY and EUR screen the best among G10 for relative value, while CHF is rich and commodity FX like AUD remains cyclical. Modest long positions in JPY/SGD and EUR/SGD pairs can hedge global volatility. Emerging currencies like INR and IDR benefit from supply chain inflows and domestic growth, suggesting moderate SGD weakness versus these pairs. Gold prices remain well above \$3,400 as a hedge against USD debasement and geopolitical risks. MAS typically allows modest SGD appreciation to anchor imported inflation while ensuring competitiveness, favoring a slightly stronger SGD profile versus USD but stable versus Asian peers. FX Spot vs Net IIP and carry charts confirm AUD, NOK, and SEK remain opportunistic for cyclical positioning but require active monitoring due to commodity swings. The Euro's strength during equity risk-off events highlights its role as a credible safe haven, supporting EUR/SGD as a defensive position.



Gold remains a resilient hedge above \$3,400, while copper, nickel, and oil offer tactical upside amid global tensions, supply constraints, and institutional demand for portfolio protection

Gold stays strong above \$3,400 amid geopolitical risks while copper, nickel, and oil show tactical upside driven by tight supply and rerouted trade

Gold prices could remain supported, even above the target of \$3,400, amid heightened geopolitical risks from the Israel-Iran conflict. Oil market volatility persists with Brent guided at \$63–68 and WTI at \$60–65 due to supply dynamics and possible escalation in the Middle East. Base metals are poised for mid single-digit upside as inventories fall below historical averages, indicating tight supply. The ‘Gold as a Strategic Asset’ graph positions gold explicitly as a hedge against US fiscal stress and dollar debasement, supporting SGD’s purchasing power in a crisis. Emerging market exporters in Latin America and Africa benefit from commodity rerouting, gaining from base metals and energy demand shifts. Balanced hedge fund portfolios insulated investors from approximately 90% of the first-quarter equity market drawdown, partly through commodities like gold and copper. Asia local bonds and gold maintain a positive bias under the house view, indicating robust institutional support for gold despite market volatility.

Persistent global tensions, tariffs, and supply-side inflation sustain commodity hedging demand, with gold replacing USD as a stable crisis anchor

Persistent geopolitical tensions, the US fiscal overhang, and trade war escalation risks reinforce demand for safe-haven commodities like gold. High nominal and real yields in the US temporarily cap gold upside, but fiscal and debt risks sustain long-term demand. China’s stimulus and India’s domestic growth fuel base metal consumption, tightening global supply chains. The breakdown of the USD’s traditional hedge role means gold increasingly replaces the dollar as a crisis hedge. The Commodity Carry and Spot Trends graph shows that gold’s liquidity remains deep and stable, aligning well for SGD-based safe haven allocation. Sticky supply-side inflation due to tariffs supports commodities as cost push passes through global prices, keeping gold prices in SGD resilient. Hedge funds and macro strategies added gold exposure to exploit commodity volatility, indicating expectations of continued swings driven by inflation and central bank policy uncertainty.

Overweight physical gold or SGD-hedged ETFs, complement with copper, nickel, oil positions, and regional producers, balancing with Asia local bonds for portfolio resilience

Gold remains a top strategic hedge, with prices sustained well above \$3,400 in worst-case scenarios, and dollar weakness amplifies this benefit for SGD portfolios. Base metals offer mid single-digit upside driven by understocked inventories, with copper and nickel benefiting from global electrification themes. Oil volatility suggests tactical positions via short-duration futures or energy ETFs, with Brent in the \$63–68 band implying mean-reversion trades. Producers in Latin America for base metals and Australia for gold and bulk commodities are well positioned, providing reliable exposure points. Gold maintains a positive bias under the house view, supporting a tactical overweight in gold within an SGD-based commodities allocation. Global macro funds and trend-following strategies continue to benefit from commodity trends, especially precious metals. Asia local bonds and gold maintain an overweight position as defensive plays, balancing yield generation and volatility protection for SGD-based portfolios.

