



AI Innovation and Capital Rotation Reshape Global Market Dynamics

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Accelerated AI adoption and strategic capital shifts are transforming global markets, driving strong earnings growth and reshaping sector leadership for 2025 and beyond. Discover how AI investments and policy reforms are the key catalysts shaping the future of technology and equity markets worldwide.

Executive Summary

Equities

Investor confidence in US technology increased as fund managers raised allocations by 2.3 percentage points between March and May 2025, supported by strong operating margins and projected earnings growth, with capital shifting toward AI and service-centric platforms aided by initiatives in Meta, Singapore, India, and Japan amid rising tech sector volatility from macroeconomic pressures, while SGD portfolios manage risk with gold, hedge funds, and FX hedging strategies.

Fixed Income

Bond markets are adjusting to higher yields and stable credit spreads with investor preference for short-duration investment-grade bonds amid rising US 30-year Treasury yields and political uncertainty in Japan and Europe, while about 80% of global fixed income yields exceed 4%, currency-hedged euro sovereigns offer attractive returns, emerging markets face deflation and capital outflows, and investors favour inflation-linked securities and barbell strategies complemented by gold and hedge funds to enhance resilience.

Currencies

Currency markets are volatile due to rate expectations, fiscal policies, and trade dynamics, with the US dollar expected to weaken from 104.21 to 92.47 by end-2026, the yuan and euro gaining traction, safe havens like the yen and Singapore dollar remaining resilient, China's renminbi pressured by deflation, Singapore's dollar facing short-term outflows, and SGD portfolios employing targeted FX hedging, barbell credit strategies, and diversification including currency-hedged European bonds, gold, and hedge funds.



Commodities

Gold prices surged 20% in early 2025 amid stagflation fears and risk aversion, reinforcing its safe-haven status with an 8% average annual return over five decades and strong crisis performance, while commodity markets face volatility from tariffs, geopolitical tensions, and supply-demand imbalances, emerging markets confront structural export challenges, and commodity allocations increasingly favour gold as a volatility buffer alongside defensive yen positions and selective credit and sovereign exposures, with industrial commodities benefiting from fiscal-driven demand in Japan and Europe.

Strategic Overview

	Foundational Assumptions	Key Challenges	Strategic Action
Equities	<p>Policy-Backed Shift to High-Margin Tech Platforms</p> <p>Investor confidence in US technology grew as fund managers increased allocations by 2.3 percentage points from March to May 2025, supported by strong operating margins (27.0% tech, 22.8% communication services) and robust earnings growth projected at 11.0% for 2025. Capital is shifting toward AI and service-centric platforms, aided by initiatives like Meta’s AI investments and Singapore’s SGD 5 billion Equity Market Development Programme, while global reforms in India and Japan bolster innovation-led growth.</p>	<p>Macro Pressures Constrain EM Equity Growth</p> <p>Tech sector volatility is rising due to macroeconomic pressures including tariffs, inflation, and interest rates, with 30-year US Treasury yields near 4.99% pressuring valuations. Uncertainty over Fed policy, regulatory reforms in China, and deflationary trends in emerging markets limit earnings visibility and investor confidence amid infrastructure deficits and currency volatility.</p>	<p>Capital Rotation into Scalable, Hedged Strategies</p> <p>Capital rotation favors scalable, policy-aligned tech equities, with fund managers raising US tech exposure by 2.3 percentage points and strong AI/cloud inflows in China supported by governance reforms in Japan and innovation in India. SGD portfolios use gold, hedge funds, and FX hedging strategies to manage volatility, while Singapore-listed equities offer diversification across defensives like REITs and telecoms.</p>



Fixed Income

<p>Repricing Drives Shift to Short-Term Credit</p> <p>Bond markets are adjusting to higher yields and stable credit spreads, with investors preferring short-duration investment-grade bonds amid rising US 30-year Treasury yields and political uncertainty in Japan and Europe. About 80% of global fixed income yields exceed 4%, with currency-hedged euro sovereigns like Spain offering attractive returns without FX risk.</p>	<p>Inflation and Fiscal Risk Elevate Volatility</p> <p>Bond market volatility stems from inflation, fiscal risks, and political uncertainty, exemplified by US debt issuance pressures and rising Japanese yields amid sticky inflation and election concerns. Emerging markets face deflation and capital outflows, while Singapore maintains bond market stability through sound monetary and FX policies.</p>	<p>Barbell Strategies and FX Hedging Gain Traction</p> <p>Investors favour short- and intermediate-term investment-grade credit with yields around 5%, shifting toward inflation-linked securities and Asian and European credits offering yield and stability. Currency hedging, barbell duration strategies, and alternative assets like gold and hedge funds enhance resilience and liquidity management.</p>
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Currencies

<p>Rate Differentials and Politics Drive FX Volatility</p> <p>Currency markets face volatility driven by rate expectations, fiscal policies, and trade dynamics; the US dollar is expected to weaken from 104.21 to 92.47 by end-2026, while the yuan and euro gain traction supported by hedging strategies. Safe havens like the yen and Singapore dollar remain resilient, and emerging market currencies improve amid higher real rates and policy stability.</p>	<p>Inflation and Trade Tensions Pressure Currencies</p> <p>The US dollar's projected decline, rising long-term Japanese yields, and fiscal stimulus in Japan and Europe create currency valuation challenges, while China's deflation pressures its renminbi. Singapore's dollar may see short-term outflows amid economic slowing, with investors favouring currencies of countries offering high real rates amid global uncertainty.</p>	<p>SGD Portfolios Embrace Hedging and Diversification</p> <p>SGD portfolios focus on targeted FX hedging and barbell credit strategies to manage risks, supported by long SGD positions, yuan equity strength, and unhedged yen exposure for volatility defence. Currency-hedged European bonds yield attractive returns for SGD investors, while gold and hedge funds provide additional macro risk resilience.</p>
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Commodities

<p>Stagflation and Policy Risks Drive Gold Surge</p> <p>Gold prices surged 20% in early 2025 amid stagflation fears and risk aversion, reinforcing its role as a safe-haven with an 8% average annual return over five decades and strong performance in financial crises. Commodity markets face volatility from tariffs, geopolitical tensions, and supply-demand imbalances, while capital flows favour emerging markets and European bank debt amid infrastructure spending.</p>	<p>Inflation and Instability Fuel Commodity Volatility</p> <p>Commodity markets show high volatility due to inflation, interest rate shifts, and geopolitical risks; gold outperforms during downturns but is vulnerable to aggressive monetary tightening. Emerging markets face structural challenges limiting commodity export growth, while gold remains preferred for liquidity and credit risk avoidance compared to industrial commodities.</p>	<p>Gold Allocation Outperforms in Volatile Cycles</p> <p>Commodity allocations increasingly favour gold, which outperformed traditional 60:40 portfolios over two decades and acts as a volatility buffer amid uncertain macro conditions. Investors prefer gold and defensive unhedged yen positions, complemented by selective credit and sovereign exposures, while industrial commodities benefit from fiscal-driven demand in Japan and Europe.</p>
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FINANCE | EQUITIES

AI Infrastructure Boom Drives Global Equity Rotation and Earnings Momentum

Policy-Backed Shift to High-Margin Tech Platforms

Investor allocations are increasing toward high-margin, AI-driven US and Asian tech sectors, supported by policy incentives, structural reforms, and a shift from hardware to service-oriented platforms.

AI-Led Rotation Into US Tech

Investor confidence in US technology has risen, with fund managers increasing tech allocations by 2.3 percentage points between March and May 2025, supported by strong operating margins of 27.0 percent and robust 2025 earnings growth projected at 11.0 percent. Capital flows favour AI-linked investments like Meta’s data centres, while the S&P 500’s gains reflect the sector’s resilience amid inflation and tariff risks.

Policy Stimulus Lifts Tech Valuations

Government policies, such as Singapore’s SGD 5 billion equity programme and US deregulation prospects, are lifting tech valuations, while reforms in China aim to support margins by reducing deflationary pressure. However, UK tax reforms pose near-term risks, and infrastructure spending continues to benefit adjacent sectors like cybersecurity and industrial tech.

Shift Toward Service-Centric Platforms

Equity strategies are rotating toward service-centric and AI-based platforms, as seen in Meta’s infrastructure investments and investor preference for cloud and software over hardware. High-margin tech firms are favoured for their inflation resilience, with emerging markets like India and Japan drawing interest for their digital innovation and reform momentum.

Macro Pressures Constrain EM Equity Growth

Macroeconomic pressures, including inflation, tariffs, rate hikes, and regulatory changes, are amplifying volatility and constraining equity growth in emerging markets due to weak demand and infrastructure limitations.



<p>Inflation and Rates Drive Volatility</p>	<p>Tech sector volatility is driven by inflation, rising tariffs, and high interest rates, with the 30-year US Treasury yield nearing 4.99 percent. Competition from aggressive capex and shifting regulations adds uncertainty, while tight credit spreads highlight market vulnerability despite elevated risk appetite.</p>
<p>Deflation and Capex Limit EM Growth</p>	<p>Emerging market equity growth is hindered by weak domestic demand, deflation, limited private capital, and infrastructure gaps, especially in China. Currency volatility and policy uncertainty further limit capital expansion, keeping investors cautious amid geopolitical and monetary risks.</p>

Capital Rotation into Scalable, Hedged Strategies

Capital is concentrating in scalable, policy-supported tech and infrastructure plays, while SGD portfolios are hedging through gold, FX overlays, and exposure to stable local defensives amid accommodative monetary policy.

<p>Capital Targets Scalable, Aligned Sectors</p>	<p>Capital is shifting toward scalable, policy-aligned sectors like US tech and AI-driven Chinese platforms, while Singapore’s equity development initiative channels funding into large caps. Infrastructure and defence-related equities also attract investment, with selective EM exposure guided by reform readiness and innovation capacity.</p>
<p>AI and Reforms Guide Equity Picks</p>	<p>Technology equities are positioned for strong near-term gains, led by 11.0 percent US earnings growth and a forward P/E of 24.3, with AI driving both productivity and valuations. China, Japan, and India are viewed as key long-term growth markets due to structural reforms, governance improvements, and innovation momentum.</p>
<p>Hedged SGD Portfolios Emphasise Resilience</p>	<p>SGD-based portfolios benefit from gold, hedge funds, and selective FX hedging, especially with MAS maintaining accommodative policy and SGD stability. Diversification into Singapore-listed defensives and unhedged Japanese equities provides downside protection, while resilient capital structures and yield-focused strategies remain essential under evolving rate expectations.</p>



FINANCE | FIXED INCOME

Fiscal Strains and Inflation Reshape Global Bond Allocation Strategies

Repricing Drives Shift to Short-Term Credit

Global bond markets are undergoing broad repricing, with over 80 percent of fixed income yielding above 4 percent, prompting investor rotation into short- to intermediate-term investment grade credit and European bank debt amid fiscal-driven long-end yield pressures.

Yield Repricing Boosts Credit Rotation	Global bond markets are repricing as 80 percent of fixed income now yields above 4 percent, with long-end US and Japanese yields rising on inflation and fiscal concerns, while investors rotate into higher-yielding assets and European bank debt for stability.
Diverging Policies Reshape Bond Valuations	Bond valuations are adjusting to diverging global policies, with US and Japanese long-end yields pressured by fiscal stimulus and debt issuance, while Singapore’s flatter curve and Europe’s easing prospects reshape duration preferences.
Preference for Short-Term Investment Grade	Investors are favouring short- to intermediate-term investment grade credit globally, avoiding long-dated bonds due to fiscal and curve steepening risks, and seeking yield through currency-hedged euro area sovereigns and high-quality Asian credit.

Inflation and Fiscal Risk Elevate Volatility

Bond market volatility is fuelled by persistent inflation, fiscal and political uncertainty in the US and Japan, while emerging market stability is constrained by China’s deflation and FX risks, with Singapore maintaining resilience through credible monetary policy.

Inflation and Fiscal Risks Drive Volatility	Volatility in bond markets is driven by persistent inflation, fiscal uncertainty, and political risk, with the US issuing nearly USD 500 billion weekly and Japan facing yield pressures from tax and election uncertainty.
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Deflation and FX Risks Weigh on EM Bonds	<p>Emerging market bond stability is hindered by China’s deflation, weak private capital formation, and FX risk, while Singapore remains resilient due to credible monetary management and stronger investor confidence.</p>
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Barbell Strategies and FX Hedging Gain Traction

Investors are favouring short-duration IG bonds and securitised assets for income and risk control, while identifying relative value in Asian credit, European bank debt, and selected Singapore corporates, supported by barbell strategies and FX hedging.

Short-Duration Bonds Anchor Allocations	<p>Short- and intermediate-duration investment-grade bonds are gaining favour as investors seek to balance income with lower duration risk, with US Treasuries around 4.5 percent anchoring allocations and securitised assets attracting flows.</p>
Selective Opportunities in Regional Credit	<p>Bond opportunities are emerging in Asian IG credit, Chinese SOEs, and European bank debt, while peripheral euro sovereigns, Japanese corporates, and selected Singapore firms aligned with state equity initiatives offer relative value.</p>
Barbell and FX Hedging Strategies Strengthen Portfolios	<p>SGD-based investors are adopting barbell strategies, FX hedging into European debt, and selective exposure to sovereign and securitised instruments, while monitoring long-end US Treasuries and using gold and hedge funds for protection.</p>



FINANCE | CURRENCIES

USD Weakening Spurs Global FX Repositioning and Hedging Strategies

Rate Differentials and Politics Drive FX Volatility

Currency markets are being driven by rate differentials, political risk, and capital flows, with USD expected to weaken in H2 2025, the yuan supported by export strength, and the SGD and JPY maintaining safe-haven stability amid rising volatility and shifting investor sentiment.

USD Weakening, Yuan Gains on Trade	Major currency movements are driven by rate differentials, capital flows, and trade dynamics, with USD expected to weaken in H2 2025 despite its recent rebound, while the yuan gains on export strength and the SGD faces limited upside due to potential MAS easing.
Political and Fiscal Uncertainty Drives FX Volatility	Foreign exchange volatility is rising due to political and fiscal uncertainty, with USD undermined by speculation on Fed leadership and massive debt issuance, the yen supported by rising yields, and the euro vulnerable to falling EURIBOR and dovish monetary expectations.
Safe-Haven Demand Supports SGD and JPY	Risk-on and risk-off dynamics are shaping currency performance, with the SGD and JPY maintaining stability and safe-haven appeal, while a weaker USD outlook and improving EM fundamentals support yuan and EM currency resilience into 2026.

Inflation and Trade Tensions Pressure Currencies

Directional pressures on currencies stem from inflation and structural risks, with USD projected to fall from 104.21 to 92.47, yen yields rising on sticky inflation, the euro and yuan facing headwinds from trade tensions, and EM currencies exposed to deflation and policy credibility concerns.

Inflation and Geopolitics Shift FX Direction	Currency markets face directional shifts due to inflation and geopolitics, with the USD projected to decline from 104.21 to 92.47, yen yields rising on sticky inflation, and euro and yuan pressured by trade tensions and structural risks.
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Deflation and Credibility Weigh on EM Currencies

EM currencies remain vulnerable to deflation, FX volatility, and policy credibility concerns, with China’s weak demand and prolonged deflation weighing on the renminbi, while Singapore’s resilience and preference for high real rates drive cautious investor positioning.

SGD Portfolios Embrace Hedging and Diversification

SGD-based portfolios are using FX hedging and diversification to manage volatility, with short USDSGD, long CNY and JPY trades favoured, forwards used to enhance income, and barbell strategies and gold allocations helping to balance currency and interest rate exposures.

Tactical FX Trades Favour CNY and JPY

Tactical FX strategies favour short USDSGD, long CNY and JPY, with eurozone hedged bond trades offering yield advantages, while sterling exposure is selectively managed amid fiscal risk and MAS policy decisions guide SGD positioning.

Hedging and Barbell Strategies Guide SGD Portfolios

SGD-based portfolios are adopting FX hedging and diversification, using forwards for income, staying unhedged in JPY during stress periods, and balancing currency exposure through barbell duration strategies and allocation to gold and hedge funds.

Targeted FX Hedging Enhances SGD Portfolio Stability

SGD-sensitive portfolios should use targeted FX hedging—especially with forwards on euro bonds—and diversify into gold and hedge funds to manage currency risk and enhance returns, while the Singapore dollar remains a stable natural hedge. Maintaining unhedged yen exposure in risk-off periods and employing barbell credit strategies aligned with currency and interest rate cycles further minimise risk and support yield opportunities through diversified, fiscally sound sovereign holdings.



FINANCE | COMMODITIES

Gold Reallocation Accelerates Amid Inflation, Tariffs, and Policy Shifts

Stagflation and Policy Risks Drive Gold Surge

Gold rose 20% to a USD 21.72 trillion market cap by March 2025 amid stagflation and macro uncertainty, while commodity flows were shaped by tariffs, policy agreements, and geopolitical risks.

<p>Stagflation Drives Gold and Capital Flows</p>	<p>Gold rose 20% in three months to a USD 21.72 trillion market cap by March 2025, outperforming during stagflation as investor inflows increased amid inflation fears, while Brent crude remained volatile due to supply imbalances and geopolitical risk. A strong USD and macro uncertainty shaped trade flows and revived capital interest in commodity-linked emerging markets.</p>
<p>Tariffs and Policy Frameworks Shape Pricing</p>	<p>Commodity prices and flows are shaped by key fiscal policies and trade frameworks, including the 1999 Central Bank Gold Agreement and the 1997 US Taxpayer Relief Act, while current US tariffs increase input costs and supply chain pressure. Despite these risks, resilient credit markets and Europe’s energy transition frameworks support commodity demand stability.</p>
<p>Gold Outperforms in Stress; Industrials in Expansion</p>	<p>Gold outperforms during financial stress and easing cycles, as shown by its 47.5% rise during the GFC versus steep equity and commodity losses, while industrial resources perform better during pro-cyclical expansions. During stagflation, gold returned 22.1% versus 15.0% for industrials, confirming its inflation hedge role alongside rising demand from macro reforms.</p>

Inflation and Instability Fuel Commodity Volatility

Persistent inflation, rate hikes, and geopolitical tensions continue to drive commodity volatility, with gold outperforming equities during recessions and emerging markets facing infrastructure and trade-related challenges.



<p>Inflation and Rates Heighten Volatility</p>	<p>Gold has historically outperformed equities during US recessions with an average 37% excess return, while aggressive rate hikes, such as post-2022, can reverse gains. Inflation, tariffs, and geopolitical instability continue to drive commodity volatility, with persistent inflation limiting monetary easing and amplifying price sensitivity.</p>
<p>Emerging Market Exports Face Structural Barriers</p>	<p>Emerging markets face export and production challenges due to weak infrastructure, trade shocks, and macro instability, despite improved debt levels and currency resilience. Gold remains a preferred asset during financial stress, unlike industrial commodities which suffer from tighter funding conditions and margin pressures.</p>

Gold Allocation Outperforms in Volatile Cycles

A 10% gold allocation significantly outperformed traditional portfolios from 1999–2019, with investors favouring gold and select industrial inputs amid volatility, inflation, and pro-growth fiscal reforms.

<p>Gold Allocation Outperforms Traditional Portfolios</p>	<p>A 10% gold allocation outperformed traditional 60:40 portfolios from 1999–2019, growing USD 100,000 to USD 250,000, while gold also averaged 11.5% gains in crises versus a 6.6% commodity decline. Investors are rotating into gold over energy amid volatility, favouring equities in fiscally strong, resource-linked regions.</p>
<p>Pro-Growth Policies Support Industrial Inputs</p>	<p>Gold is expected to continue outperforming during inflationary and risk-off periods, while infrastructure demand and structural reforms in Japan and Europe support select industrial inputs. Crude oil remains volatile, but base metals may benefit from fiscal expansion and manufacturing-linked investment flows.</p>
<p>SGD Portfolios Use Gold and FX Overlays</p>	<p>SGD-based portfolios use gold for liquidity and downside protection, but must time allocations carefully around rate cycles; active FX overlays with USD or EUR also help mitigate commodity risk. Unhedged yen exposures, short-duration credit, and sovereign diversification further enhance resilience against commodity-driven volatility.</p>

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