

Global Markets Driven by Innovation, Inflation, and Structural Shifts

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Global markets are being reshaped by innovation-led growth and rising inflation, with investors leveraging strategic diversification and hedging to manage currency volatility, fiscal risks, and emerging market challenges while capitalizing on technology and infrastructure opportunities. This dynamic environment demands adaptive investment approaches to capture long-term value amid evolving economic pressures.

Executive Summary

Equities

The U.S. large-cap market is bullish with earnings growth but faces valuation risks due to an elevated S&P 500 P/E ratio, divergent earnings forecasts favouring the Magnificent 7 tech firms, and a shift from hardware to service-centric platforms amid inflation and tariffs, while tech equities experience heightened volatility exacerbated by currency fluctuations and speculative activity, and emerging markets outperform by 1,200 basis points despite structural constraints.

Fixed Income

Capital allocation balances rebuilding fixed income, equal weighting between U.S. Value and Growth equities, and reduced international underweights, with growing investments in AI-linked service sectors and private markets, as artificial intelligence drives growth across digital infrastructure and automation, quality stocks provide defensive benefits amid volatility, emerging markets offer long-term opportunities, and SGD-exposed investors require active currency risk management and diversification.

Currencies

Elevated bond yields with a steepened U.S. Treasury curve and tightening credit spreads reflect growing investor confidence amid low defaults and expected Fed rate cuts, while fiscal deficits, inflation, and tariffs increase long-term yield volatility but the bond market remains relatively stable compared to early 2025, with emerging market bonds challenged by currency depreciation and structural constraints despite supportive governance reforms.



Commodities

Investors prefer short- to intermediate-duration bonds focusing on investment-grade and high-yield corporates, municipal and securitized debt, and growing private credit markets tied to AI and infrastructure investments, while the U.S. dollar's 11% depreciation drives capital inflows and currency volatility that prompt active hedging for SGD investors, and commodity markets face inflationary pressures from tariffs and geopolitical risks, with capital shifting toward energy, infrastructure, and precious metals as inflation hedges amid evolving supply chain changes.

Strategic Overview

	Foundational Assumptions	Key Challenges	Strategic Action
Equities	<p>U.S. Large-Cap Bull Market and Tech Capital Rotation</p> <p>The U.S. large-cap market is in a bull phase driven by nominal economic and earnings growth, but an elevated S&P 500 P/E ratio of 22 raises vulnerability; meanwhile, earnings forecasts diverge with stable projections for the Magnificent 7 tech firms and downgraded broader market estimates, alongside shifting investor preference from hardware to service-centric tech platforms amid inflation and tariffs.</p>	<p>Tech Equity Volatility and Emerging Market Risks</p> <p>Tech equities face heightened volatility due to tariffs, inflation, and regulatory changes, with significant earnings swings among major firms like the Magnificent 7 and rising speculative activity from profitless small companies, while currency fluctuations, including an 11% U.S. dollar decline, amplify risks.</p>	<p>Strategic Capital Allocation and Currency Risk Management</p> <p>Emerging markets have outperformed U.S. equities by 1,200 basis points YTD, supported by reforms and demographics in Asia and Europe, yet remain constrained by infrastructure gaps, regulatory inconsistencies, currency volatility, and supply chain realignment risks.</p>



<p>Fixed Income</p>	<p>Elevated Yields and Tightening Credit Spreads</p> <p>Capital allocation balances fixed income rebuilding, equal weighting of U.S. Value and Growth equities, and reduced international underweights, with increasing investment in AI-linked, service-centric sectors and private markets aligned with long-term innovation themes.</p>	<p>Fiscal Deficits and Geopolitical Risks Driving Volatility</p> <p>Artificial intelligence leads U.S. investment themes, extending growth across digital infrastructure, automation, and energy-related sectors, with quality stocks offering defensive benefits amid volatility, and emerging markets presenting long-term opportunities driven by reforms and demographics.</p>	<p>Strategic Duration and Currency Hedging in Fixed Income</p> <p>For SGD-exposed investors, active currency risk management using strategic hedging and duration matching is essential to mitigate U.S. dollar fluctuations, complemented by diversification across fixed income and international equities to enhance portfolio resilience.</p>
<p>Currencies</p>	<p>U.S. Dollar Depreciation Drives Global Capital Rebalancing</p> <p>Bond yields remain elevated with a steepened U.S. Treasury curve and tightening credit spreads, as investor confidence grows amid low defaults and Fed rate cut expectations, while fiscal deficits, inflation, and regulatory clarity shape cautious duration management and credit allocation.</p>	<p>Inflation, Debt, and Trade Tensions Heighten Currency Volatility</p> <p>Fiscal deficits, inflation uncertainty, and rising federal debt elevate long-term bond yield volatility, with geopolitical factors such as tariff increases adding inflationary pressures; despite this, the bond market remains relatively stable compared to early 2025.</p>	<p>Dollar Weakness Supports Non-USD Currencies and Hedging Strategies</p> <p>Emerging market bonds face currency depreciation and capital outflow risks amid dollar weakness, though governance reforms in Asia help support investor confidence; however, structural constraints and supply chain shifts continue to challenge bond market stability.</p>



Commodities

<p>Tariff-Driven Inflation Boosts Energy and Infrastructure Demand</p> <p>Investors favour short- to intermediate-duration bonds with shifts toward investment-grade and high-yield corporates, municipal bonds, and underappreciated sectors like securitized debt, while private credit markets grow amid infrastructure investments linked to AI and automation.</p>	<p>Elevated Tariffs and Fiscal Incentives Impact Commodity Costs</p> <p>The U.S. dollar’s 11% depreciation in 2025 drives capital inflows and equity gains abroad, reducing the dollar’s safe-haven role amid rising tariffs and fiscal stimulus; currency volatility reflects shifting macroeconomic and geopolitical dynamics, prompting active hedging strategies for SGD investors.</p>	<p>Diversified Risk Management and Hedging for Commodity Portfolios</p> <p>Commodity markets face inflation-driven price pressures due to tariffs and geopolitical risks, with capital rotating into energy and infrastructure sectors linked to rising electricity demand, while precious metals retain inflation-hedging roles amid evolving supply chain realignments and policy uncertainties.</p>
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FINANCE | EQUITIES

AI and Policy-Driven Equity Rotation Shapes Global Markets

U.S. Large-Cap Bull Market and Tech Capital Rotation

The U.S. large-cap market is in a bull phase supported by earnings growth despite a high 22x P/E ratio and downgraded 2025 forecasts for broad equities, while international equities outperform driven by a weaker dollar, with capital shifting from hardware to service-centric tech platforms supported by regulatory changes, tax cuts, and rising AI investments.

U.S. Large-Cap Bull Supported by Earnings Growth

The U.S. large-cap market has resumed a bull phase supported by economic and earnings growth, though a high 22x P/E ratio increases vulnerability, with downgraded 2025 earnings for broad equities contrasting stable projections for leading tech firms; international equities have outperformed by 1,200 basis points driven by a weaker dollar and strong expansions, while markets favour large-cap, quality stocks amid modest growth and elevated rates.

Regulatory and Tax Policies Boost Tech Earnings

Regulatory changes boost earnings expectations for large banks and automation firms, tariffs affect margins variably based on pricing power, and recent tax cuts are set to raise disposable income, supporting tech-linked earnings despite inflationary pressures; AI investment is growing, supported by tax incentives and policy, with hyperscalers monetizing rising R&D costs.

Shift from Hardware to Service-Centric Platforms

Equity allocations are shifting from hardware to service-centric platforms like cloud computing and AI ecosystems due to better margin preservation amid inflation and tariffs, with capital flowing into infrastructure, cybersecurity, software, and utilities; slowing earnings surprises in hardware firms drive preference for stable service models supported by long-term AI, automation, and energy trends.



Tech Equity Volatility and Emerging Market Risks

Tech equities exhibit increased volatility due to tariffs, interest rates, regulatory shifts, currency fluctuations, and competition, while emerging markets outperform U.S. equities amid reforms and multiple expansions but face risks from currency volatility, capital flow uncertainty, and infrastructure gaps.

<p>Inflation, Rates, and Policy Drive Tech Volatility</p>	<p>Tech equities face heightened volatility from tariff-driven inflation, elevated interest rates, regulatory shifts, currency fluctuations, and competition; the Magnificent 7 show increased swings with slowing earnings momentum, while valuation disparities and speculative behaviours raise uneven sector risks.</p>
<p>Emerging Markets Face Currency and Infrastructure Risks</p>	<p>Emerging markets have outperformed U.S. equities by 1,200 basis points due to multiple expansions and reforms but remain vulnerable to currency volatility, capital flow risks, and infrastructure and governance gaps; supply chain restructuring and uneven regulatory progress may constrain equity growth despite demographic and reform-driven opportunities.</p>

Strategic Capital Allocation and Currency Risk Management

Capital allocation balances fixed income rebuilding and diversified equity weightings with a focus on AI-linked investments, where monetization of service revenues enhances shareholder value, and SGD-based investors are advised to actively manage currency risks through hedging and diversification to maintain portfolio stability.

<p>Balanced Allocation Prioritizes AI and Fixed Income</p>	<p>Capital allocation balances rebuilding fixed income, equal weighting of U.S. Value and Growth equities, and reducing international underweights, prioritizing AI-linked investments such as Meta’s data centre expansion; monetization through service revenues enhances shareholder value, supported by private equity, venture capital, and regulatory-driven sectors like large banks.</p>
<p>AI Expansion and Automation Underpin Equity Picks</p>	<p>AI remains the leading U.S. investment theme, expanding into infrastructure, cybersecurity, software, industrials, and utilities; automation and robotics sectors benefit from policies and rising input costs, while quality stocks offer near-term defense amid volatility, and international markets with governance reforms present attractive long-term prospects.</p>



SGD Investors Employ Strategic Currency Hedging

For SGD-based investors, active currency risk management is essential to mitigate USD fluctuations, employing strategic hedging through duration barbell strategies and diversified fixed income allocations; exposure to international equities offers currency diversification benefits, and a flexible capital structure supports portfolio stability amid evolving policy risks.



FINANCE | FIXED INCOME

Monetary Policy and Inflation Drive Global Bond Market Dynamics

Elevated Yields and Tightening Credit Spreads

Bond yields remain elevated with a steepening yield curve and tightening credit spreads amid low defaults, supported by strong fundamentals and ongoing capital inflows, while the Federal Reserve’s gradual rate cut bias influences fixed income valuations amid rising fiscal deficits.

<p>Elevated Yields and Steepening Curve</p>	<p>Bond yields remain elevated with modest declines, the U.S. Treasury yield curve has steepened by 100 basis points since late 2023, and credit spreads have tightened following early-year volatility, supported by low defaults and strong fundamentals, while capital flows into corporate credit continue amid a Fed bias toward gradual rate cuts and rising fiscal deficits.</p>
<p>Gradual Rate Cuts Support Longer Duration</p>	<p>Monetary policy’s gradual rate cut bias makes longer-duration bonds more attractive, fiscal deficits and inflation uncertainty set a floor for long-term yields, regulatory clarity boosts financial corporate bonds, fiscal incentives aid business investment, and investors should prioritize credit quality amid signs of stress in riskier credit segments; municipal bonds benefit from favorable fiscal and regulatory conditions.</p>
<p>Preference for Short-Intermediate Maturities</p>	<p>Investors favour short- to intermediate-term maturities balancing yield and duration risk, credit spreads remain compressed due to strong fundamentals, caution prevails in riskier sectors like leveraged loans, and underrepresented securitized and municipal bonds offer diversification and yield opportunities with varying risk premiums.</p>

Fiscal Deficits and Geopolitical Risks Driving Volatility

Elevated fiscal deficits, inflation uncertainty, and geopolitical risks sustain long-term yield volatility, with emerging markets challenged by currency depreciation and capital flow risks, though governance reforms in select countries help mitigate structural constraints.



<p>Fiscal Deficits and Inflation Drive Volatility</p>	<p>Elevated fiscal deficits and inflation uncertainty keep long-term yields high and volatile until a recession, Fed’s gradual easing bias reflects sensitivity to inflation and fiscal stimulus, rising federal debt increases fiscal risk, and geopolitical factors like tariffs raise inflation and bond market volatility, though overall conditions remain stable relative to early 2025.</p>
<p>Currency Risks Challenge Emerging Market Bonds</p>	<p>Emerging markets face bond market challenges from currency depreciation and capital flow risks, prompting active hedging; governance reforms in Japan, Korea, and India help mitigate structural constraints, but limited regional integration and infrastructure needs continue to weigh on stability and investor confidence.</p>

Strategic Duration and Currency Hedging in Fixed Income

Investors favor short- to intermediate-duration bonds for income and risk management, cautiously extend duration as recession protection, prioritize investment-grade and high-yield bonds, find value in underrepresented fixed income sectors, and manage currency risk strategically, especially for SGD-exposed portfolios.

<p>Short-Duration Focus with Credit Caution</p>	<p>Bond investors increasingly prefer short- to intermediate-duration bonds for income and risk management, cautiously extend duration as recession protection, favour investment-grade and high-yield bonds for attractive yields, show interest in municipal bonds with strong fundamentals, but remain wary of stressed credit sectors like leveraged loans.</p>
<p>Value in Securitized and Municipal Bonds</p>	<p>Underappreciated fixed income sectors like securitized and municipal bonds offer near- and long-term value, banking sector corporate bonds benefit from regulatory clarity, reform momentum in Japan and India supports opportunities, private credit aligns with rising public-private investments, and infrastructure-related sectors reflect evolving monetary and credit dynamics.</p>
<p>SGD Investors Emphasize Hedging Strategies</p>	<p>Fixed income investors exposed to SGD should actively hedge currency risk amid USD volatility, use tactical duration management with barbell strategies, rebuild diversified core allocations including corporate and securitized credit, expand beyond traditional benchmarks to include municipal bonds, and combine these approaches to enhance portfolio resilience and risk management.</p>



FINANCE | CURRENCIES

U.S. Dollar Depreciation Drives Global Currency and Capital Rebalancing

U.S. Dollar Depreciation Drives Global Capital Rebalancing

The U.S. dollar’s 11 percent depreciation in 2025 has driven capital inflows and equity gains in Europe, China, and emerging markets, reflecting a shift from interest rate differentials toward global capital rebalancing and portfolio diversification.

<p>U.S. Dollar Depreciation Fuels Capital Flows</p>	<p>The U.S. dollar has depreciated 11 percent in 2025, fueling capital inflows and equity gains in Europe, China, and emerging markets, with a shift away from interest rate differentials driving a global capital rebalancing toward non-U.S. currencies amid portfolio diversification.</p>
<p>Tariffs and Fiscal Policy Elevate FX Volatility</p>	<p>Elevated U.S. tariffs raise inflation by about 1 percent in 2025, while fiscal stimulus supports demand and influences currency strength; the Fed’s bias toward gradual rate cuts and rising federal debt contribute to dollar volatility and reduced safe-haven appeal.</p>
<p>Japanese Yen Strengthens as Risk-Off Haven</p>	<p>The Japanese yen strengthens in risk-off environments as a safe haven, while the U.S. dollar’s 4 percent depreciation during early 2025 highlights its vulnerability to risk sentiment; macroeconomic factors like inflation and employment shape currency valuations amid diminished influence of interest rate differentials.</p>

Inflation, Debt, and Trade Tensions Heighten Currency Volatility

Since April, reduced influence of interest rate differentials alongside tariff-driven inflation, rising federal debt, and trade tensions has increased geopolitical risks and currency volatility, while emerging market currencies face ongoing structural and demographic challenges despite some mitigating reforms.



Interest Rate Shifts Heighten Currency Volatility	<p>Since April, the fading role of interest rate differentials, combined with tariff-driven inflation, rising federal debt, and trade tensions, heightens geopolitical risks and inflationary pressures, driving currency market volatility and shifting directional trends.</p>
Emerging Markets Face Currency and Structural Risks	<p>Emerging market currencies benefit from dollar weakness but remain exposed to capital outflows and volatility, with structural reforms in Japan, Korea, and India mitigating some risks, while demographic shifts and supply chain realignments present ongoing challenges.</p>

Dollar Weakness Supports Non-USD Currencies and Hedging Strategies

Continued U.S. dollar depreciation favors non-USD currencies in reforming markets like Japan and India, with SGD-sensitive investors employing FX forwards, duration management, and diversification to manage risk amid sectoral capital flows and evolving monetary policies.

U.S. Dollar Weakness Favors Reform-Driven Currencies	<p>Further U.S. dollar depreciation is expected, favoring non-USD currencies in reform-driven markets like Japan and India; SGD-based investors use FX forwards and hedging to manage volatility, supported by international equity outperformance and sectoral capital flows.</p>
Yen Safe Haven vs. Dollar Vulnerability	<p>The Japanese yen’s safe-haven status contrasts with the dollar’s vulnerability amid inflation and anticipated Fed rate cuts; currency pairs involving the dollar offer trade opportunities shaped by policy divergence and historical cycles of dollar weakness.</p>
SGD Portfolios Prioritize Active Currency Hedging	<p>For SGD-sensitive portfolios, active currency hedging via FX forwards, duration matching, and geographic diversification are key to managing FX risk, with a focus on rebuilding fixed income allocations and broadening beyond traditional benchmarks to enhance resilience.</p>



FINANCE | COMMODITIES

Tariffs and Infrastructure Demand Drive Commodity Market Dynamics

Tariff-Driven Inflation Boosts Energy and Infrastructure Demand

Commodity prices are rising due to tariffs-driven inflation, with capital flows favoring energy and infrastructure sectors amid supply chain shifts like friendshoring, while emerging markets including Europe and China show strong demand supported by private credit investments.

<p>Tariff-Driven Inflation Boosts Commodity Demand</p>	<p>Commodity prices are rising due to tariffs fueling inflation, with capital flowing into energy and infrastructure sectors driven by electricity demand and supply chain shifts like friendshoring; emerging markets, especially Europe, China, and others, show strong commodity demand supported by private credit investments in infrastructure.</p>
<p>Elevated Tariffs and Fiscal Incentives Impact Pricing</p>	<p>U.S. tariffs have increased sharply, raising commodity input costs and consumer prices by nearly \$200 billion annually, while fiscal incentives for AI and automation bolster industrial commodity demand; policy uncertainty from tariff use and regional reforms in Europe affect commodity investment and market stability.</p>
<p>Precious Metals Hedge Inflation, Industrials Cycle</p>	<p>Precious metals serve as inflation hedges and risk diversifiers with stable demand amid volatility, whereas industrial commodities tied to infrastructure and energy show cyclical sensitivity to economic growth, with capital rotating away from hardware toward service-centric platforms, highlighting differing investment risk profiles.</p>

Elevated Tariffs and Fiscal Incentives Impact Commodity Costs

Elevated tariffs increase commodity input costs and consumer prices by nearly \$200 billion annually, fiscal incentives for AI and automation boost industrial commodity demand, and policy uncertainty alongside regional reforms influence investment stability.



<p>Tariffs and Geopolitics Heighten Commodity Volatility</p>	<p>Tariffs, geopolitical tensions, and fiscal deficits sustain inflation and financial volatility that elevate commodity price risk; supply chain realignment and rising defense and infrastructure spending add structural demand pressures, while policy-driven market volatility further impacts commodity risk appetite.</p>
<p>Emerging Markets Face Supply Constraints, Infrastructure Gaps</p>	<p>Infrastructure gaps and rising electricity demand in emerging markets drive commodity demand but also constrain supply; friendshoring disrupts sourcing stability, while financial volatility influences capital availability for infrastructure projects, with regional integration and strong local fundamentals supporting supply chain resilience.</p>

Diversified Risk Management and Hedging for Commodity Portfolios

Diversified strategies focus on managing risk through sector rotation and active management, favoring energy, infrastructure, and precious metals, while SGD-sensitive portfolios mitigate currency and commodity volatility via hedging, duration matching, and broad diversification.

<p>Diversified Allocation Mitigates Commodity Risk</p>	<p>Diversified allocation strategies emphasize risk mitigation by avoiding concentration in overowned segments, focusing on energy and infrastructure commodities, and using active management and sector rotation to leverage valuation dispersion; precious metals and hedge funds provide buffers against currency and commodity volatility.</p>
<p>Energy, Industrials, and Precious Metals Outperform</p>	<p>Energy and power utilities are positioned to outperform due to infrastructure-driven demand, industrial metals benefit from automation and robotics growth, and precious metals maintain safe-haven status; emerging markets and geopolitical shifts in Europe add risk premiums supporting commodity sector performance.</p>
<p>Hedging and Diversification Protect SGD Portfolios</p>	<p>For SGD-sensitive portfolios, combining active currency hedging, credit duration matching, forward curve positioning, and diversified exposure across private equity, credit, and infrastructure sectors helps mitigate currency and commodity price volatility, with prudent position sizing and derivatives usage advised to avoid concentration risks.</p>



References: Standard Chartered Bank. (2025). Market Watch. 22 July 2025.

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