FINANCE | WEEKLY INSIGHTS

Capital Rotates to AI-Driven, Defensive, and Global Opportunities

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Global investors are rotating from US mega-cap tech into international equities, short-duration credit, and commodity-linked inflation hedges, as rising bond yields, a weakening dollar, and AI-driven demand reshape market dynamics. SGD portfolios are responding with defensive allocations, structured instruments, and tactical FX and commodity strategies to manage volatility and preserve returns.

Executive Summary

Equities	Global equities have gained nearly 20 percent since April, but investor focus is shifting from US mega-cap tech toward diversified international sectors, defensive and income-generating stocks, driven by valuation pressures, policy uncertainty, and supportive fiscal trends, with SGD portfolios using options strategies for protection.
Fixed Income	US 30-year bond yields have risen above 5 percent due to persistent inflation, fiscal imbalance, and increased term premium demands, fuelling volatility and a rotation into BBB/BB bonds, short-duration high-yield instruments, private credit, and diversified fixed income strategies in SGD portfolios.
Currencies	The US dollar has weakened 10 percent since January amid eroding macro confidence, inflation expectations, and trade tensions, prompting selective FX positioning, with SGD portfolios employing structured notes, private credit, and currency hedging in response to global divergence and emerging market volatility.
Commodities	Commodities have delivered 11 percent annualised returns over five years as precious metals outperformed oil, with future demand supported by tariffs, AI investment, and European infrastructure, while SGD-based portfolios use commodities as tactical inflation hedges through structured tools and long-short strategies amid heightened volatility.

Strategic Overview

	Foundational Assumptions	Key Challenges	Strategic Action
Equities	**Capital Rotation into Resilient and Diversified Sectors** Global equities have gained nearly 20 percent since April, but investor focus is shifting from US mega-cap tech toward diversified global sectors supported by government spending and scalable service platforms.	**Tech Volatility and Emerging Market Headwinds Persist** Technology stocks face rising volatility from valuation pressures, slower growth, and policy uncertainty, while emerging markets contend with currency instability, trade shocks, and weak stimulus traction in China.	**Focus on Scalable, Defensive, and Yield-Oriented Equities** Capital is rotating into undervalued international equities, defensive sectors like healthcare and utilities, and income-generating stocks, with options strategies supporting portfolio protection for SGD-based investors.
Fixed Income	**Rising Yields Drive Short-Duration Bond Rotation** US 30-year bond yields have risen above 5 percent amid persistent inflation, fiscal imbalance, and higher term premium demands, prompting rotation into BBB/BB bonds, private credit, and short-duration instruments.	**Debt and Inflation Fuel Bond Market Volatility** Breakeven inflation rates nearing 2.4 percent and a projected US debt-to-GDP of 130 percent are fuelling bond market volatility, while EM debt remains exposed to FX instability and reduced capital flows.	**Active Credit Strategies Support Yield Resilience** Investors favour short-dated high-yield bonds, structured notes, and private credit for yield and resilience, while SGD portfolios benefit from FX hedging, sector diversification, and selective securitised credit exposure.
Currencies	**US Dollar Weakens Amid Capital Rotation** The US dollar has weakened 10 percent since January as macro confidence erodes, driving flows into EM currencies and diversified global assets, while rate differentials and trade metrics pressure dollar demand.	**China Fragility Drives FX Volatility Risk** US inflation expectations and trade tensions are driving FX volatility, with the renminbi under pressure from capital outflows and policy weakness, while EM currencies remain exposed to commodity and political risk.	**Targeted Currency Strategies Support SGD Portfolios** Currency positioning is increasingly selective, with SGD portfolios using structured notes and private credit to manage volatility, while FX trends are shaped by rate divergence and local inflation dynamics.

	Foundational Assumptions	Key Challenges	Strategic Action
Commodities	**Strong Returns and Shifting Commodity Demand Drivers** Oil has weakened while precious metals outperformed, with commodities delivering 11 percent annualised returns over five years and future demand supported by tariffs, AI investment, and European infrastructure spending.	**Tariff Volatility and Emerging Market Constraints Persist** Tariff shocks and slowing growth have heightened commodity volatility, with EM supply constrained by infrastructure gaps and China's property sector instability undermining export consistency.	**Tactical Hedging Supports SGD Portfolio Stability** Commodities serve as tactical inflation hedges, with structured tools, long-short strategies, and geopolitical demand drivers supporting income stability and portfolio resilience for SGD-sensitive investors.

FINANCE | EQUITIES

AI, Defence, and Healthcare Drive Global Equity Reallocation

Capital Rotation into Resilient and Diversified Sectors

Global equities have risen nearly 20 percent since April, with capital rotating from concentrated US tech exposures into broader and more resilient sectors such as cloud, healthcare, and digitally supported infrastructure, aided by supportive fiscal policies and emerging market digitalisation.

Rotation From US Tech Concentration	Global equities have rebounded nearly 20 percent since April, but beneath the surface, capital is rotating away from overexposed US mega-cap tech stocks toward broader and more geographically diversified segments amid downward revisions to earnings and valuation concerns.
Fiscal Support Boosts Equity Valuations	Government fiscal measures in the eurozone and structural trends in emerging markets, including AI and digitalisation, are lifting equity valuations, while increased defence spending and IP-focused AI platforms are benefiting from targeted policy support.
Shift to Scalable Service Models	Investors are reallocating from hardware-based tech to scalable, service-oriented models like cloud and AI, favouring sectors with stronger margin durability, lower valuation risk, and resilience in infrastructure, healthcare, and digital services.

Tech Volatility and Emerging Market Headwinds Persist

Tech markets remain volatile as slowing growth, elevated valuations, and policy uncertainty erode investor confidence, while emerging markets continue to face challenges from currency instability, political risk, and unresolved infrastructure deficits.

Valuation and Policy Drive Volatility	Tech equities remain volatile due to elevated valuations, slowing growth, inflation risks, and policy uncertainty, with reduced investor confidence in large-cap leaders like the Magnificent 7 highlighting rising competitive pressure and regulatory vulnerability.

Currency and Infrastructure Hinder EM Growth	Despite attractive valuations, emerging markets face persistent headwinds from currency volatility, political risk, and infrastructure limitations, with short-term export relief failing to address structural gaps in funding and logistics.

Focus on Scalable, Defensive, and Yield-Oriented Equities

Capital is flowing into undervalued global equities with scalable platforms and strong IP, with AI, defence, and healthcare identified as long-term growth themes, while SGD-based investors are advised to diversify, hedge, and prioritise income-generating sectors amid currency fluctuations.

Capital Targets Undervalued IP Platforms	Capital is shifting into undervalued international segments and companies with scalable platforms and defensible IP, particularly in AI and healthcare, as monetization strategies aligned with valuation support and policy stability gain traction.
AI, Defence, Healthcare Lead Gains	Artificial intelligence, European defence, and healthcare offer compelling long-term equity themes due to their innovation momentum and resilience, while utilities and consumer staples provide stable, income-generating opportunities in a decelerating macro environment.
Diversification and Hedging for SGD Portfolios	Broader geographic diversification, options-based hedging, and strategic allocation into yield-generating sectors are key for SGD-based investors managing volatility, especially amid USD fluctuations and concentrated exposure in US equities.

FINANCE | FIXED INCOME

Rising Yields Drive Shift to Short-Duration and Private Credit

Rising Yields Drive Short-Duration Bond Rotation

Thirty-year US bond yields have climbed above 5 percent due to persistent inflation, fiscal pressures, and limited monetary easing, prompting investors to favor short-duration instruments and BBB/BB-rated bonds to manage duration and spread risks.

Term Premiums Push US Yields Higher	Thirty-year US bond yields have risen above 5 percent amid persistent inflation and long-term fiscal pressures, while a projected debt-to-GDP increase to 130 percent by 2034 and potential foreign investor retreat may further elevate yields.
Inflation and Tariffs Steepen Yield Curves	Elevated inflation expectations, stagnant core PCE inflation, and tariff-induced price pressures are steepening yield curves and sustaining duration risk, as central banks like the Fed and Bank of England signal limited easing.
Shift to Short-Dated Credit Instruments	Investors are rotating into BBB and BB-rated bonds and private credit to capture yield with lower default risk, favoring short-duration instruments and structured notes to manage spread volatility and interest rate exposure.

Debt and Inflation Fuel Bond Market Volatility

Bond market volatility is intensifying as US debt reaches USD 36 trillion and inflation expectations rise, while emerging market bonds remain vulnerable to geopolitical tensions, trade disruptions, and weak capital inflows.

US Debt and Inflation Spur Volatility	Rising inflation expectations and a growing US fiscal burden, with debt now at USD 36 trillion, are driving bond market volatility and reinforcing investor demand for higher term premiums despite muted credit downgrade reactions.

Geopolitical and FX Risks Weigh on EM Bonds	Emerging market bonds face instability from geopolitical tensions, trade-related shocks, weak Chinese stimulus, and declining USD inflows, constraining capital support and amplifying outflow risks.

Active Credit Strategies Support Yield Resilience

Investors are reallocating toward structured notes, private credit, and high-yield short-term instruments, supported by stable rate environments and active strategies such as rate swaps and currency hedging to mitigate FX risk and enhance income resilience.

Tactical Rotation into Yield-Defensive Credit	Investors are tactically shifting toward short-term high-yield bonds and structured products to navigate credit spread compression, balancing yield generation with reduced sensitivity to macro uncertainty.
Private Credit and Sovereigns Attract Inflows	Attractive valuations in private credit, eurozone sovereigns, and US/UK investment-grade bonds are driving inflows, supported by stable rate environments and fiscal backing, with real asset-linked instruments offering additional illiquidity premiums.
Rate Swaps and FX Hedging Enhance Stability	Active fixed income strategies using rate swaps, currency hedging, and structured notes are helping SGD-based investors buffer against tight spreads and FX risk, while diversified allocations into securitised and EM credit enhance yield resilience.

FINANCE | CURRENCIES

Dollar Weakness and FX Volatility Reshape Global Currency Strategies

US Dollar Weakens Amid Capital Rotation

The US dollar has depreciated 10 percent since January as macroeconomic confidence weakens and capital rotates into undervalued international markets, driving FX volatility and lifting emerging market currencies while pressuring the dollar in risk-off settings.

US Dollar Declines on Capital Rotation	The US dollar has fallen 10 percent since January due to reduced macroeconomic confidence and capital rotation into undervalued international markets, supporting emerging market currencies despite risks from ongoing US-China trade tensions.
Monetary Policy Divergence Drives FX Volatility	A controlled easing path from the Bank of England supports the pound, while global policy shifts and weakening US trade and fiscal metrics increase FX volatility and reduce demand for dollar-denominated assets.
Reinvestment Flows Shift Safe-Haven Demand	Currency performance is increasingly tied to political stability and trade exposure, with the renminbi and Australian dollar reacting to China's growth trajectory, while the US dollar faces pressure from declining reinvestment flows in risk-off settings.

China Fragility Drives FX Volatility Risk

Elevated US inflation expectations and persistent structural weakness in China are amplifying FX volatility, with depreciation risks rising for the renminbi and emerging market currencies exposed to trade and political shocks.

Inflation and Trade Uncertainty Fuel Volatility	Rising US inflation expectations and 10 percent dollar depreciation are intensifying FX volatility, as political and trade uncertainty weigh on the euro and renminbi against the dollar.

China Weakness Pressures EM Currencies	Persistent weakness in China's property sector and structural imbalances are increasing depreciation risk for the renminbi, while emerging market currencies remain exposed to US tariffs, commodity shocks, and political instability.

Targeted Currency Strategies Support SGD Portfolios

Investors are adopting selective currency strategies based on inflation and policy divergence, with sterling and yen performance varying by macro conditions, while SGD portfolios use structured tools to manage FX risk and improve income resilience.

Selective EM FX Positioning Favoured	Targeted emerging market currency strategies aligned with inflation and policy flexibility are preferred, while sterling gains from improved trade sentiment and the yen's complex profile demands vigilant FX management.
Rate Paths Shape Major Currency Outlook	Dollar downside is likely as Fed easing progresses, while the euro and yen face mixed prospects depending on rate paths, inflation trends, and global risk sentiment.
SGD Portfolios Employ Structured FX Tools	SGD-sensitive portfolios are using structured-rate notes, private credit, and forward currency strategies to navigate FX volatility, enhance income stability, and capture cross-market yield opportunities.

FINANCE | COMMODITIES

AI and Infrastructure Spending Fuel Tactical Commodity Demand

Strong Returns and Shifting Commodity Demand Drivers

Commodities have delivered over 11 percent annualised returns over five years, with precious metals outperforming amid economic slowdowns and infrastructure spending expected to lift long-term demand.

Precious Metals Outperform as Oil Weakens	Oil has weakened while precious metals outperformed, with commodities delivering over 11 percent annualised returns over five years; forward returns are projected at 1.7 percent, still favourable relative to historical averages.
Tariffs and Infrastructure Lift Demand	US tariff actions and reversals in April disrupted global supply chains and inflated input costs, while Germany's €500 billion infrastructure fund is expected to raise long-term commodity demand.
Safe-Haven Demand vs Growth Exposure	Precious metals outperform during economic slowdowns due to safe-haven demand, while industrial metals benefit from growth trends like digitalisation and AI investment.

Tariff Volatility and Emerging Market Constraints Persist

Volatility in commodity markets persists due to tariff shocks, inflation, and interest rate shifts, while emerging market production remains constrained by infrastructure gaps and policy uncertainty.

Tariff Shocks Amplify Volatility	Commodity markets remain volatile due to April's tariff shocks, inflation pressures, and shifting interest rate expectations, with input costs rising across energy and agriculture.
China-Led Constraints on EM Output	Emerging markets face output limitations due to infrastructure shortfalls and policy uncertainty, particularly in China, affecting commodity production and pricing stability.

Tactical Hedging Supports SGD Portfolio Stability

Commodities serve as tactical inflation hedges, with sector-specific strategies and structured instruments helping SGD-based portfolios manage volatility and stabilise income.

Tactical Rotation for Inflation Hedging	Commodities are used tactically for inflation hedging, with long-short and sector-based strategies helping navigate price dispersion and macro volatility.
Geopolitics and AI Boost Metals	Precious metals and industrial inputs like steel and copper are gaining support from geopolitical risk, European infrastructure spending, and AI-driven resource demand in emerging markets.
Structured Tools Stabilise SGD Portfolios	SGD-based portfolios use futures, options, and structured-rate notes to manage commodity-linked volatility, currency risks, and preserve income stability.

References:

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