Monthly Investment Outlook

October 2025

Market Recap

- **Equities gained on AI optimism and rate cut hopes.** Global equities were buoyed by strong optimism on Artificial Intelligence (AI) growth and rate cut hopes. The S&P 500 reached record highs yet again while Asia ex-Japan also outperformed with North Asia markets leading the gains.

- **Modest bond returns across IG and HY segments.** Fixed income posted modest returns across both investment grade (IG) and high yield (HY) segments with U.S. Federal Reserve (Fed) resuming its rate cut as expected. Notably, the 10-year (10Y) U.S. Treasury (UST) yield dipped to end below 4.2%.

- **Gold surged in September on Fed easing.** Gold rallied on the back of the Fed's dovish stance, while oil retreated on higher OPEC+ supply despite lingering geopolitical uncertainty.

Macro Outlook and Asset Allocation

- **U.S. growth to moderate but recession is unlikely.** The impact of tariffs is becoming more evident, reflected in a softening U.S. labour market and a modest uptick in inflation. Still, the Fed's easing stance as well as robust AI-related capex will likely lend support to the U.S. and global economy.

- **Build protection to mitigate downside risks.** Robust corporate earnings and easing financial conditions may continue to support risk assets, including equities. However, the increasingly elevated equity valuations suggest that markets may be priced for perfection and thus increasingly susceptible to negative surprises. With volatility remaining subdued, it may be prudent to consider cost-effective hedging strategies to help mitigate the potential downside risks.

- **Stay invested in diversified portfolio beyond AI plays.** While we retain a defensive asset allocation stance, we reiterate the importance of staying invested through a well-diversified core portfolio. Apart from selected opportunities in AI-related names, we have added U.S. utilities and European consumer discretionary to our list of preferred sectors. We also aim to generate resilient income via quality dividend stocks and IG credits as interest rates trend lower. Last but not least, we maintain a constructive view on gold, with the price uptrend expected to persist in the medium-term.

Tactical Asset Allocation

Asset Class *		Segment*	
Equity	-	U.S.	-
		Europe	=
		Japan	-
		Asia ex-Japan	=
Fixed Income	=	U.S. Treasuries	+
		Developed Market (DM) Investment Grade (IG)	=
		Developed Market High Yield (HY)	-
		Emerging Market (EM) Asia	=
Hedge Funds	=		
Gold	+		
Cash	=		

* Overweight : +, Neutral : =, Underweight : -
Source: Maybank Group Wealth Management (GWM)

Asset Class	Changes to date (in USD currency)		
	1M	3M	YTD
MSCI AC World	3.7%	7.7%	18.9%
MSCI USA	3.7%	8.1%	15.0%
MSCI Europe	2.0%	3.7%	28.2%
MSCI Japan	2.6%	8.2%	21.1%
MSCI Asia ex-Japan	6.8%	11.1%	27.5%
China	9.8%	20.8%	41.8%
Hong Kong	1.5%	9.1%	31.9%
Taiwan	9.4%	14.7%	26.6%
South Korea	10.5%	12.8%	57.6%
India	0.5%	-6.6%	-0.5%
Singapore	-0.3%	8.9%	31.0%
Malaysia	4.1%	6.4%	6.7%
Indonesia	-2.2%	-3.1%	-6.2%
Thailand	3.1%	17.6%	2.2%
Philippines	-5.2%	-7.7%	-2.9%
BBG Multiverse	0.6%	0.6%	7.9%
BBG U.S. Treasury	0.9%	1.5%	5.4%
BBG Global IG	1.0%	1.8%	9.6%
BBG Global HY	0.7%	2.7%	9.7%
BBG EM Asia	1.0%	2.8%	7.1%
BBG EM Asia IG	0.9%	2.6%	6.9%
BBG EM Asia HY	1.5%	4.0%	8.2%
Gold	11.9%	16.8%	47.0%
WTI Crude	-2.6%	-4.2%	-13.0%
Dollar Index (DXY)	0.0%	0.9%	-9.9%

Source: Bloomberg (BBG) | 30 September 2025

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Fixed Income Outlook

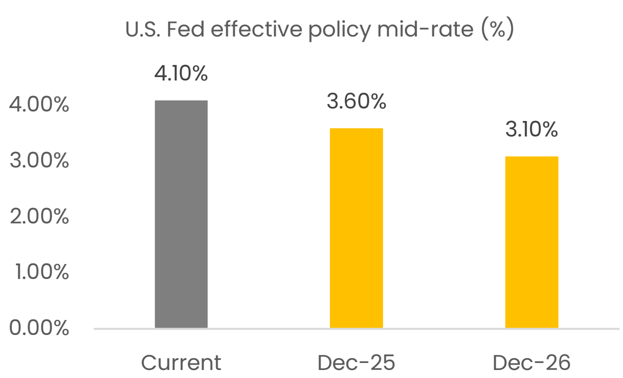
- **Fed's easing to help cushion slow down in growth.** After the well-anticipated rate cut in September, the Fed is expected to cut another 50 basis points (bps) for the rest of 2025. We also expect the Fed to implement another 50 bps rate cut in 2026 to cushion the expected moderation in U.S. economic growth. Nevertheless, upside risks in inflation persist and could lead to shifting Fed policy rate expectations from time to time. Nonetheless, we expect the 10Y UST yield to decline below 4% in tandem with lower Fed rates by year-end. With current all-in bond yields still attractive by historical standards, investors could achieve steady carry returns through high quality credits. However, we remain cautious towards ultra-long UST which remains vulnerable to U.S. fiscal and Fed independence concerns.

- **Opportunities in French issuers.** We retain our constructive view on Europe banks Tier 2, Australia banks Additional Tier 1 and Japan insurers Tier 2 instruments. In addition, we see an opportunity in French issuer bonds given the recent credit spread widening – except the SGD bond complex. No doubt, Fitch has recently downgraded France's long-term sovereign rating to A+ amid rising fiscal risks. S&P's negative outlook on France also remains a concern. However, the negatives may have been priced in. Given the above, investors may look to add exposure in bonds of French issuers with solid credit fundamentals and compelling valuation.

- **Asia credits buoyed by resilient fundamentals.** Asia credit spreads have tightened since the beginning of the year, driven by robust investor demand and constrained supply. While the fundamentals of Asia credits remain generally sound, tighter valuations call for increased selectivity. We continue to favour S-REIT issuers, which benefit from lower interest rates and strong demand for income-generating assets. Specifically, investors may enhance yield on their cash by focusing on perpetual bonds with short call dates and high reset spreads, given their greater probability of being called within the next 12 to 18 months.

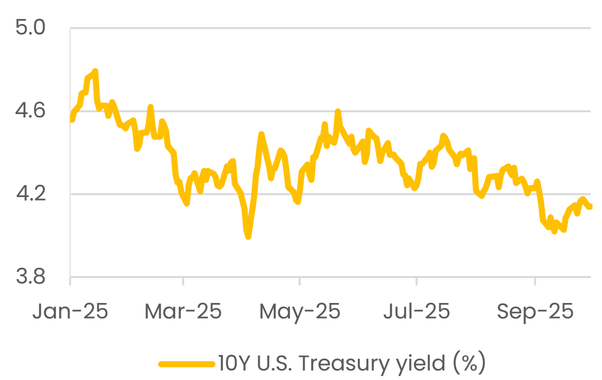
- **Favour high-quality Gulf banks and quasi-sovereign bonds.** We favour high-quality Gulf bank credits, particularly those with robust balance sheets, alongside quasi-sovereign bonds from strong Gulf economies. These instruments offer compelling spread pickup underpinned by solid fundamentals and supportive macro conditions. In contrast, we are cautious on lower-rated credits from Bahrain and Oman due to their relatively weaker fundamentals.

Figure 1: We expect the U.S. Fed to cut rates by another 100 bps by end 2026



Source: Maybank IBG I 30 September 2025

Figure 2: 10-year UST yield likely to trend lower below 4% on the back of Fed easing



Source: Bloomberg | 30 September 2025

Monthly Investment Outlook

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Equity Outlook

- **Selectivity remains key for U.S. equities.** Given the market's stretched valuations and positioning, we remain selective in our approach to U.S. stocks. While the combination of Fed easing and strong AI-related capital expenditure is likely to support the market, earnings upgrades have not been broadly distributed across sectors. Additionally, the increasingly interconnected nature of AI-related companies is raising some concerns. For now, we see more attractive opportunities in communication services and healthcare sectors as well as utilities stocks that are poised to benefit from AI advancements and industrial growth.

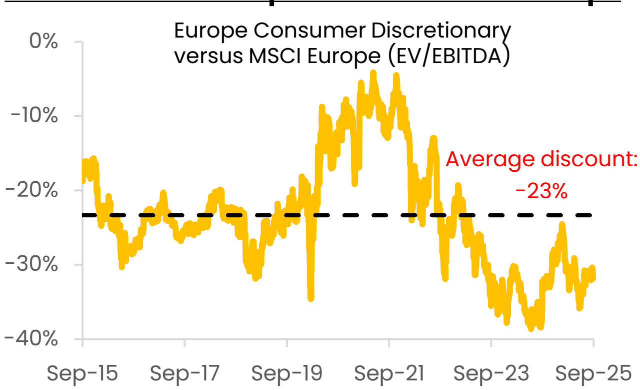
- **Upgrade Europe consumer discretionary.** Europe equities have shown resilience despite ongoing political uncertainties in France and the U.K. Notably, the European Central Bank's earlier rate cuts are facilitating improved credit flow across the region, underpinning our constructive outlook on the banks. We are also turning more positive on the consumer discretionary sector given the compelling risk-reward with upcoming earnings as a potential re-rating catalyst.

- **Selectively favour Japan healthcare and financials.** Japan remains our least preferred market amid near-term uncertainties from the leadership contest following Prime Minister Shigeru Ishiba's resignation and the upcoming Bank of Japan (BOJ)'s interest rate decision. Sectors-wise, we favour healthcare for its attractive valuation and financials which stands to benefit from the BOJ's monetary policy normalisation.

- **Better risk reward in China tech over U.S. tech.** Investor optimism around China tech is growing, aided by solid progress in the development of home-grown AI chips amid strong policy support. Despite robust year-to-date gains, China tech stocks continue to trade at a significant valuation discount to their U.S. peers. We believe further monetisation and advancements in China's AI chip development will help close this gap.

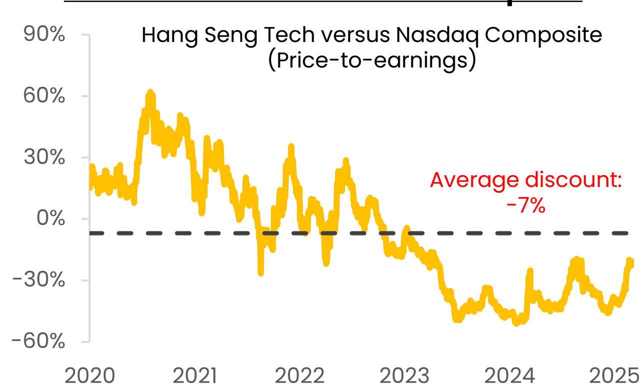
- **India's long-term growth remains intact.** Despite the near-term headwinds for India, including higher U.S. tariffs and visa fees, we remain optimistic about its long-term growth prospects. Notably, the government's latest GST reform, which simplifies the tax structure and helps ease inflation as well as supports domestic consumption, offers a silver lining. As for ASEAN, the region is trading at undemanding valuation. Nevertheless, we remain selective, preferring Malaysia and Singapore due to their more resilient macro fundamentals and supportive policy environment.

Figure 3: Europe consumer discretionary stocks are at a steep discount to MSCI Europe



Source: Bloomberg | 30 September 2025

Figure 4: China tech stocks offer relatively better risk reward than U.S. tech peers



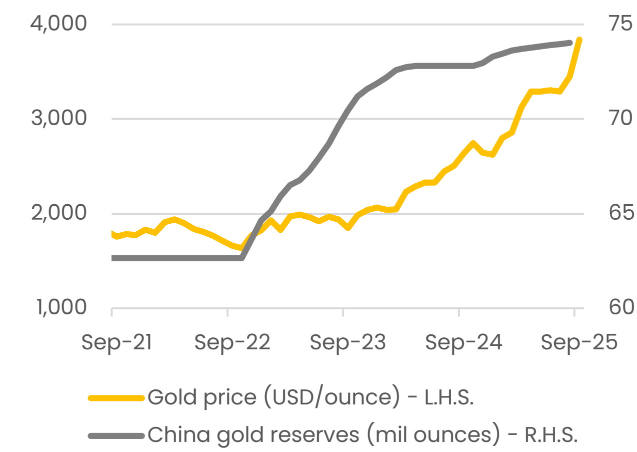
Source: Bloomberg | 30 September 2025

Commodities Outlook

- **Gold upward price momentum set to sustain.** Gold surged to a record high in September 2025, surpassing USD 3,800 per ounce. This rally is supported by expectations of further Fed rate cuts and sustained central bank demand, particularly from China, where reserves have steadily increased since late 2022. While short-term profit-taking may lead to some consolidation, the medium-term uptrend remains intact. We anticipate gold prices could exceed USD 4,000 per ounce by mid-2026. In light of these factors, we maintain a constructive outlook on gold, which continues to play a critical role as a strategic portfolio diversifier.

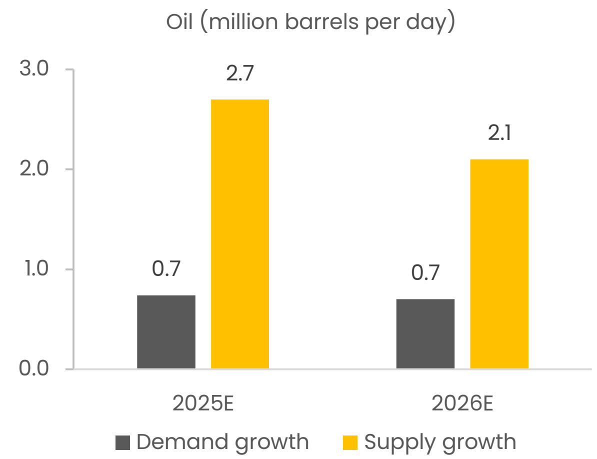
- **OPEC+ output increase may continue to weigh on oil prices.** Oil prices are expected to remain under pressure as supply growth continues to outpace demand. Notably, OPEC+ has approved a production increase of 137,000 barrels per day for October. A potential hike of similar scale in November could further exacerbate the oversupply concerns and weigh on prices. While geopolitical tensions may trigger intermittent price spikes, such increases are expected to be short-lived unless accompanied by a prolonger disruption in supply.

Figure 5: Gold moving higher amid the steady increase in China's gold reserves



Source: Bloomberg I 30 September 2025

Figure 6: Oil likely to be subdued with supply growth outpacing demand growth



Source: International Energy Agency I 11 September 2025

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