

4Q 2025 Market Outlook

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Global growth is anticipated to moderate towards the end of 2025, amid US tariffs and softer consumer spending in the US, with manufacturing and capital investment showing strength. China faces economic slowdown, weak property markets, and export challenges, but has much room for policy easing. The Eurozone's economy is stagnant but expected to improve next year. The Federal Reserve has cut rates amid inflation concerns, while AI investment and liquidity support market optimism despite high valuations and volatility risks. Our investment views have largely stayed the same as the last update. We are positive on Asian equities and especially for Singapore equities. And we have turned slightly negative on India equities and Japan equities in this update.

MACRO OUTLOOK

1. Global economic growth is anticipated to moderate in the latter half of 2025, influenced by ongoing US trade tariffs, though the broader restrictive impact has been gradual in materializing. In the US, retail sales remained robust through July and August, but a softer consumer trend is expected due to rising goods prices, declining consumer sentiment, the resumption of student loan repayments, and a labor market shifting to a slower pace. August payroll figures were unexpectedly weak, with revisions turning June payrolls negative. The unemployment rate ticked higher to 4.3% from 4.2%, indicating labor demand softened faster than supply. Manufacturing continues to offer economic support, with strong new orders and increased capital expenditure plans reflecting growing business confidence, partly fueled by full expensing allowances for equipment and research and development investments.
2. In China, economic activity slowed significantly in August. Industrial production and retail sales grew by 5.2% and 3.4% year-on-year respectively, but fixed asset investments sharply declined due to anti-involution policies weighing on new investments. Export growth slowed to 4.4% year-on-year, heavily impacted by a 33% drop in exports to the US; however, exports to Latin America, Africa, and ASEAN regions accelerated. The depreciation of the RMB against non-USD currencies this year has partly offset export headwinds. Attempts to stabilize the property market have largely failed, with weak domestic demand and fragile employment conditions dragging on home sales. Fiscal stimulus measures may be increased to support growth objectives.
3. The Eurozone currently experiences minimal economic growth but is expected to improve in 2026 due to stronger external demand and fiscal stimulus from Germany. Germany struggles with weak exports and rising competition from China, while France faces political uncertainty after another government collapse. Spain remains relatively resilient due to robust domestic demand.
4. Tariff-induced inflation is becoming more evident in the US, especially for goods prices, whereas China's competitive export sector is contributing to deflationary pressures globally, excluding the US.



5. The Federal Reserve cut interest rates by 25 basis points in September amidst signs of labor market weakness and political pressure from the White House. Although the Federal Open Market Committee (FOMC) forecasts two more rate cuts this year, Fed Chair Powell expressed caution about inflation risks related to tariffs, indicating future cuts will depend on data. The European Central Bank (ECB) is expected to maintain its current policy stance, viewing the Eurozone economy as balanced after eight rate reductions totaling 200 basis points, supported by steady inflation and solid second-quarter growth. Meanwhile, Japan is expected to continue monetary policy normalization driven by inflation and rising wage demands. China retains some room to loosen borrowing costs and bank reserve requirements to meet its 5% growth target.
6. The ongoing growth in artificial intelligence (AI) investment, combined with Fed rate cuts steering the economy toward a soft landing, underpins current market optimism. However, elevated valuations and seasonal volatility mean markets could face choppiness amid a softening labor market. Market expectations for Fed easing appear overly optimistic, as persistent inflation and resilient growth suggest fewer rate cuts and a steeper US Treasury yield curve. Risks to Fed independence remain amid President Trump's appointments of more dovish Fed leadership.
7. At the August Jackson Hole symposium, Fed Chair Powell emphasized the potential need to adjust monetary policy due to increasing employment risks. Despite inflation in the US remaining above the 2% target, the Fed's "risk management" rate cut to 4.0–4.25% in September acknowledges labor market softening. The median projection anticipates two more rate cuts this year. In Europe, ongoing French political instability and US trade tariffs continue to weigh on growth. China faces its third consecutive year of deflation, driven by a prolonged housing market downturn and subdued domestic demand. Yet, ample liquidity fuels a rally in Chinese equities as investors seek higher returns amid low interest rates.
8. Overall, the environment remains favorable for risk assets, supported by proactive Fed rate cuts, abundant liquidity, and positive investor sentiment. Even with some softening in the US labor market, AI spending is expected to bolster growth and allow equities to advance despite elevated valuations. Fixed income markets have room to steepen their yield curves as concerns over inflation, Fed independence, and US fiscal sustainability exert upward pressure on long-term yields.
9. Regionally, we are neutral on the US and Europe equities, more positive on Asia Pacific ex-Japan equities, and slightly cautious on India and Japan equities. The weaker US dollar benefits Asian equity markets, and China's liquidity-driven equity rally may continue, underpinned by optimism about AI innovation and potential government stimulus.

Key risks to our views include:

- i) Escalation of US-China trade tensions if agreements fail;
- ii) Persistent inflation forcing the Fed to pause rate cuts;
- iii) Failure of Chinese policymakers to stabilize growth.

INVESTMENT HIGHLIGHTS

Singapore Equities

We are positive on Singapore equities. Singapore's Ministry of Trade and Industry has raised its 2025 GDP growth forecast from 0.0–2.0% to 1.5–2.5%, reflecting stronger-than-expected 1H results with 4.3% year-on-year growth. Second-quarter GDP expanded 4.4% year-on-year, improving on the first quarter's 4.1%, while seasonally adjusted quarter-on-quarter growth was 1.4%, reversing a prior contraction. Inflation pressures are moderating, with core inflation easing to 0.5% year-on-year in July and headline inflation declining. The Singapore Exchange (SGX) is boosting market vitality with a new index tracking non-STI companies and initiatives aimed at unlocking corporate value and enhancing market communication and collaboration. Despite strong gains this year, valuations remain reasonable with the Straits Times Index trading at a 13.4x PE ratio, slightly above average, and an attractive 5.1% dividend yield. Confidence remains high as corporates focus on shareholder value creation with liquidity support from Monetary Authority of Singapore initiatives.

India Equities

We are less constructive on Indian equities. India's outlook has been dampened by President Trump's 50% tariff on Indian goods and increased restrictions on H-1B visas, undermining the narrative of India as a preferred US partner. Sectors such as gems & jewelry, textiles, and IT services that employ many workers have been affected, raising concerns about employment growth and its broader consumption effects. Whether pro-consumption policies will be sufficient to offset job market challenges remains uncertain.

Japan Equities

We are slightly cautious on Japan equities. Japan's market faced uncertainty with US tariff threats in early July and potential losses by the ruling Liberal Democratic Party in Upper House elections but rebounded following a softening of tariffs to 15%. This triggered a rally leading to record highs in mid-August and late September. The Bank of Japan maintained interest rates but began unwinding ETF holdings without major market impact. Corporate earnings were subdued amid tariff uncertainties, though shareholder returns remained stable. AI and data center stocks led gains, fueled by expanding AI adoption and infrastructure build-out. Global liquidity is abundant, maintaining buoyant markets with investor hopes pinned on additional fiscal and monetary stimulus. Structural growth themes like digitalization, sustainability, and automation (including AI) guide preferences toward globally competitive companies that combine growth with shareholder returns.

Fixed Income

Given tariff uncertainties and a slowing Chinese economy, we are slightly cautious on the Asian credit market for 2025. While strong technical factors and attractive yields provide some support, tight credit spreads in investment-grade credit offer limited compensation for risks. As a result, a defensive positioning is preferred, focusing on the front end of investment-grade credit and defensive sectors.

Credit spreads on bonds are near historically tight levels. A decompression of credit spreads in response to falling interest rates is possible. Nonetheless, markets are currently driven by the focus on all-in bond yields, which are attractive by historical standards. In a soft-landing scenario, we anticipate company fundamentals and credit trends to remain supported. Near term, spreads are expected to move sideways to modestly wider, supported by supply technicals. The trajectory for central bank policy rate easing has been lowered globally. What remains uncertain for the Fed is the frequency and magnitude of rate cuts beyond the initial insurance cuts in 2024. The key risk for longer-dated bonds is renewed US inflation, partly driven by tariffs.

*All data are sourced from Lion Global Investors and Bloomberg as at 7 October 2025 unless otherwise stated.

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