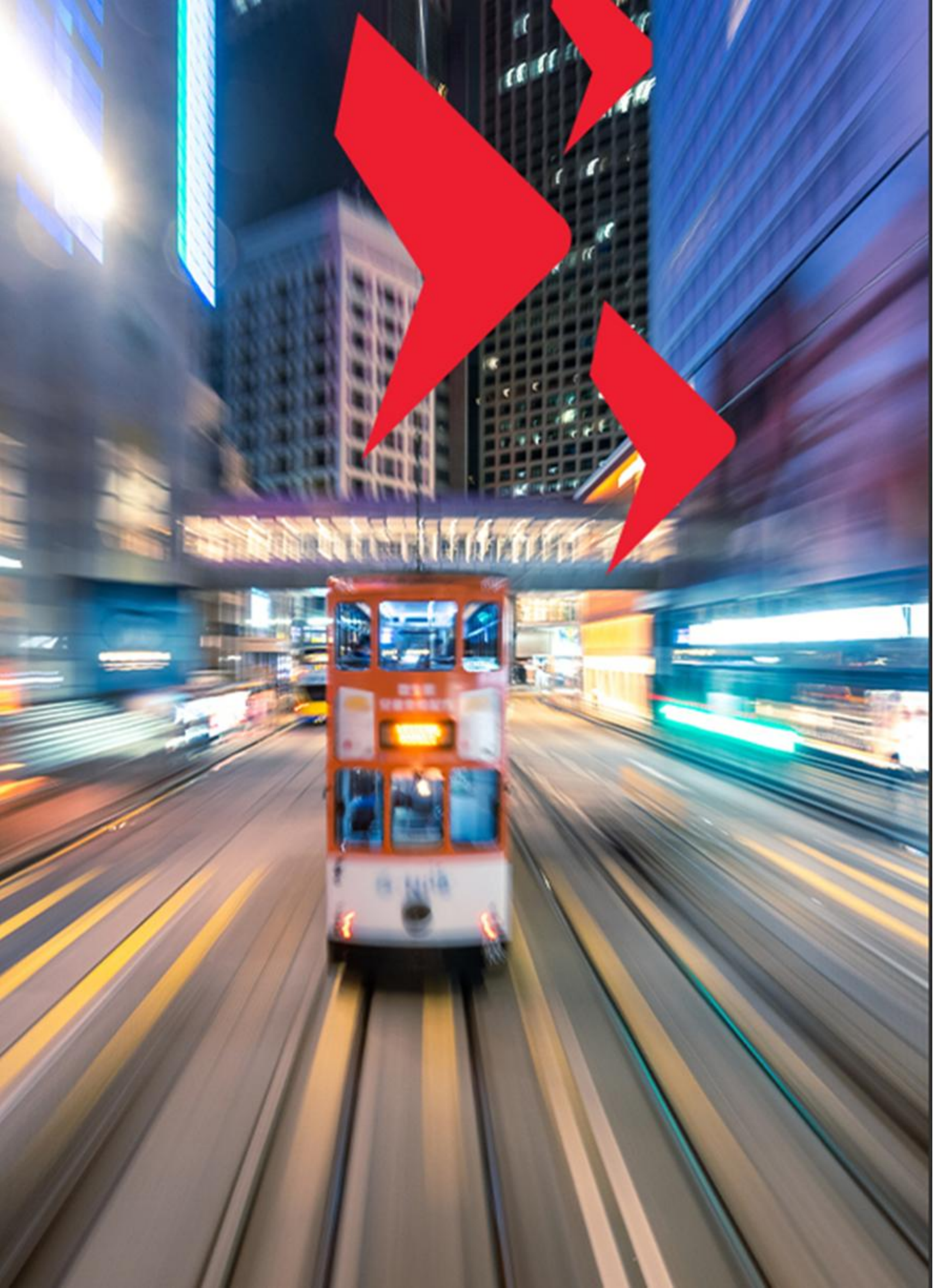

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Q3 2025 Market Outlook

Tariffs, tensions, and a ticking clock

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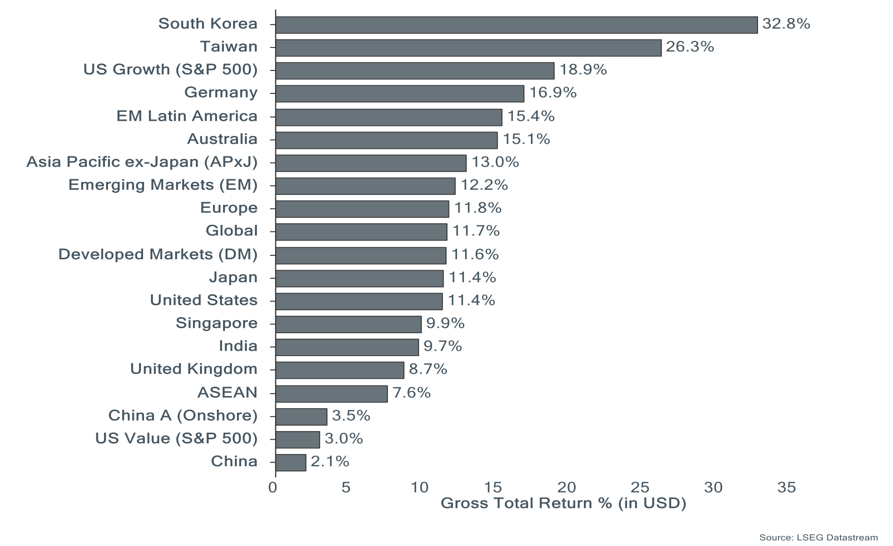
Q2 2025: Quarterly Market Recap

Following early April's tariff-induced sell-off, markets rebounded swiftly

Equities

In the second quarter of 2025, the MSCI ACWI Index rose by 11.7% despite heightened volatility, supported in part by positive trade developments from the Trump administration's decision to pause tariffs, and the U.S.-brokered ceasefire between Israel and Iran, which significantly eased geopolitical tensions. U.S. equities rose by 11.4% against this backdrop, led by strong gains in Technology, Industrials, and Communication Services. European stocks rose 11.8%, primarily due to the postponement of the 50% tariff on European Union (EU) imports by Trump, lower energy costs, and strong labour markets. Emerging Markets (EM) posted a 12.2% gain, outperforming developed markets, propelled by positive developments in the trade war and strong performances in Korea, Taiwan, and India. Korean equities soared 32.8%, with semiconductor chipmakers and automakers leading the market gains. Taiwan's 26.3% gain was due to improved economic confidence, strong artificial intelligence (AI) demand, and easing U.S.-China trade tensions. Chinese equities, a relative laggard, rose 2.1% while navigating a volatile quarter shaped by shifting trade dynamics and policy signals.

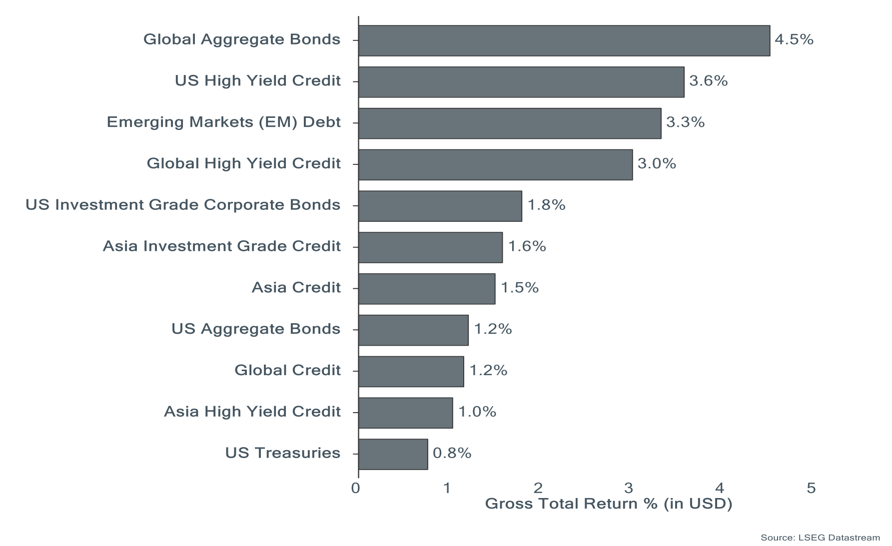
Global Equities: Q2 2025 Performance



Fixed Income

In the face of heightened volatility stemming from escalated geopolitical tensions, global bond markets largely rallied in the second quarter of 2025, with the Bloomberg Global Aggregate Index gaining 4.5%. The Federal Reserve (Fed) kept rates unchanged during the quarter, as it cautiously assesses the economic effects of President Trump's policies. Central banks in Europe, the United Kingdom, China, Korea, and India all delivered rate cuts to foster economic growth, while none of the major economies raised interest rates during the quarter. While the U.S. 10-year Treasury yield remained relatively steady at 4.24%, the Treasury yields on the U.S. 20-year and U.S. 30-year rose by 17 bps and 19 bps, respectively. Following the initial tariff concerns in early April, credit markets in general staged a strong recovery for the remainder of the quarter, with U.S. high yield (+3.6%) and global high yield bonds (+3.0%) in particular, seeing their spreads recover strongly and outperforming their investment-grade counterparts. The JP Morgan EMBI Global Diversified Index, a proxy for USD-denominated EM bonds, returned 3.3%, benefitting from a weaker USD.

Global Fixed Income: Q2 2025 Performance



Data source: Eastspring Investments; MSCI; LSEG Datastream. Performance data is provided as of 30 June 2025. Equity returns are referenced by the respective MSCI market indices quoted in USD (gross total returns). Exceptions are the "US Growth (S&P 500)" and "US Value (S&P 500)", which are represented by the S&P 500 Growth (TR) Index and S&P 500 Value (TR) Index, respectively. "DM Equities" is represented by the MSCI World Index. The fixed income markets are represented as follows: "Asia High Yield Credit": J.P. Morgan Asia Credit Non-Investment Grade Index, "Global High Yield Credit": ICE BofA Global High Yield Index, "Asia Credit": J.P. Morgan Asia Credit Index, "US High Yield Credit": ICE BofA US High Yield Constrained Index, "Asia Investment Grade Credit": J.P. Morgan Asia Credit Investment Grade Index, "Emerging Markets (EM) Debt": J.P. Morgan EMBI Global Diversified Index, "US Treasuries": ICE BofA US Treasury Index, "US Investment Grade Corporate Bonds": ICE BofA US Corporate Index, "US Aggregate Bonds": Bloomberg US Aggregate Index, "Global Credit": ICE BofA Global Credit Index, and "Global Aggregate Bonds": Bloomberg Global Aggregate Index.

Currencies

During the quarter, the broad-based U.S. Dollar Index (DXY) decreased by an average of 7.0% against a basket of six major currencies, and down -10.7% for the year-to-date period. The greenback continued to be pressured by a combination of Trump's uncertain trade policies, rising fiscal deficit concerns from the "Big Beautiful Bill", and increasing prospects of a diminishing dominance as the world's reserve currency.

The Taiwan dollar's (TWD) strong 13.9% appreciation was largely buoyed by strong foreign capital inflows into Taiwan's domestic markets. Both the Swiss franc (CHF) and Euro (EUR) also observed sharp rises of 11.5% and 9.0%, respectively, amid a volatile backdrop whereby investors grappled with concerns over escalating trade and geopolitical tensions, in addition to U.S. policy uncertainty.

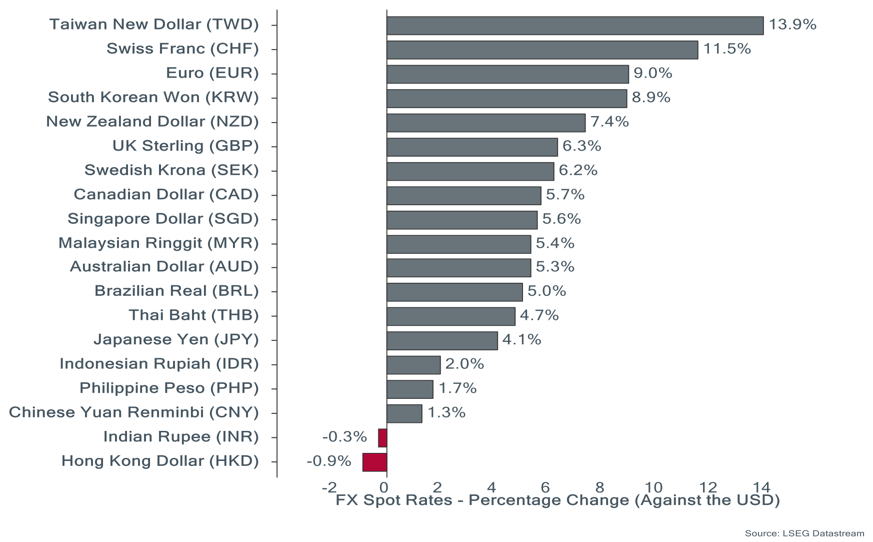
On the other side of the spectrum, the Indian rupee (INR) fell by -0.3% during the quarter, emerging as Emerging Asia's worst performer as the Reserve Bank of India (RBI) seeks to hedge against geopolitical risks by diversifying and preserving its foreign-exchange reserves.

Commodities

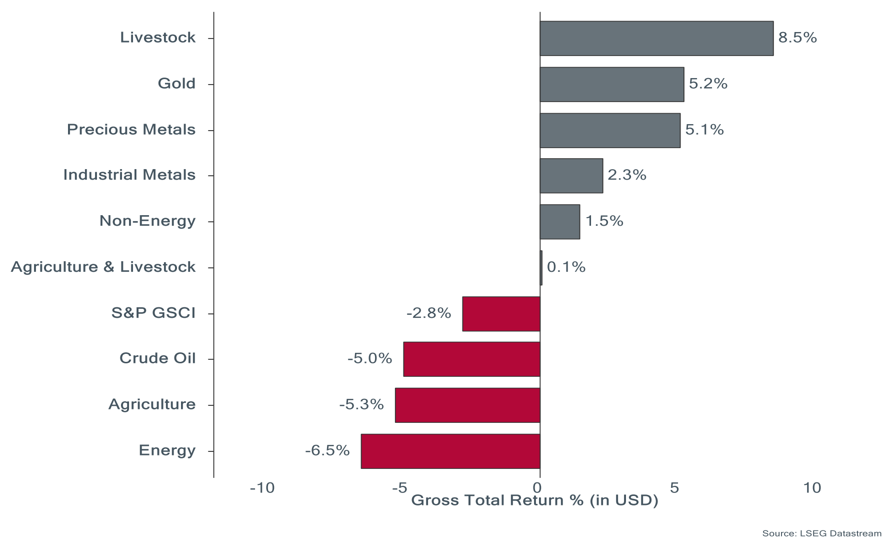
During the quarter, the S&P GSCI Index detracted by -2.8%. Livestock, gold, precious metals and industrial metals led the outperformances. The livestock's sub-sector was supported by cattle markets, which hit new all-time highs in June, owing to stronger demand and seasonality effects. A general diversification out of the US dollar alongside ongoing global trade tensions, continue to bolster demand for precious metals (e.g., gold, silver).

The energy, agriculture, and crude oil sectors all underperformed during the quarter. A backdrop of escalating geopolitical tensions and overcapacity concerns weighed on the energy sector.

Currencies: Q2 2025 Performance (against the USD)



Commodities: Q2 2025 Performance



Source: LSEG Datastream; S&P Global. Performance data is provided as of 30 June 2025. For the "Currencies (against the USD)" chart, the currency performances for the respective currencies are based on the closing spot rates (versus the USD), as calculated by Refinitiv. For the "Commodities" chart, please note the following. Crude Oil: S&P GSCI Crude Oil Index, Energy: S&P GSCI Energy Index, Livestock: S&P GSCI Livestock Index, Gold: S&P GSCI Gold Index, Precious Metals: S&P GSCI Precious Metals Index, Agriculture & Livestock: S&P GSCI Agriculture and Livestock Index, Non-Energy: S&P GSCI Non-Energy Index, Agriculture: S&P GSCI Agriculture Index, and Industrial Metals: S&P GSCI Industrial Metals Index.

Macro Outlook

Tariff-related strains expected to manifest in H2, heightening global growth risks

Growth

Tariff delays and temporary exemptions have allowed the US to grow stronger than expected in H1. However, we expect US GDP growth to slow to roughly 1.6% year-over-year (yoy) by year-end, while remaining in sub-trend territory in 2026. Tariff collections rose in June to an annualised run rate of 1.1% of GDP and will likely climb further in the coming quarters. Future trade deals are likely to see some reduction in the new reciprocal tariff rates, ranging from 25% (e.g., Japan, Korea, Malaysia) to as high as 40% (e.g., Myanmar), that US President Trump originally announced on July 7, for implementation on August 1. The 20% tariff rate agreement struck with Vietnam implies that future deals will likely result in tariff rates that are much higher than the current 10% baseline rate. New Section 232 sectoral tariffs of 25% to 50% are likely to be announced in Q4 and take effect in Q1 of 2026. As trade agreements solidify tariff rates, we expect companies to potentially escalate the passing on of these tariffs to consumers, potentially weighing on the US consumer, a key source of US growth. Consequently, a slowdown in US consumption would negatively impact global exporters, and hence, weigh on overall global growth. That said, while downside risks remain to global growth overall, we anticipate many countries will eventually arrive at deals, or at least frameworks of sorts. And while a deceleration of growth momentum is expected in H2, extreme left-tail growth risk scenarios are less likely, in our view, amid signs of easing of trade tensions.

The surge in US frontloading of imports in January through May, which has boosted Asian exports in H1, is likely to weaken in H2, exerting downward pressure on Asian growth. We believe China and India are best positioned to weather this dynamic.

China's economic growth is likely to moderate in Q3 from over 5% growth in H1, as exports and retail sales slow, but new fiscal and monetary stimulus may push it back up toward 5% in Q4. With the property market likely to continue contracting and exports likely to face higher tariffs, GDP growth in 2026 will remain heavily dependent on government fiscal stimulus. We expect stimulus to increasingly focus on boosting domestic consumption and improving social services.

India's economic growth should rise gradually from currently sluggish range of 6.3% to 6.5% in Q2, to the 6.6% to 6.7% range in H1 2026. The Reserve Bank of India (RBI) is anticipated to cut its key policy rate by another 50 bps this year, on top of the 100bps of cuts thus far since December last year. Inflation fell to 2.8% yoy in May, well below the RBI's 4% target; INR strength should help keep it low. We expect this policy easing to begin gaining economic traction by Q4 this year.

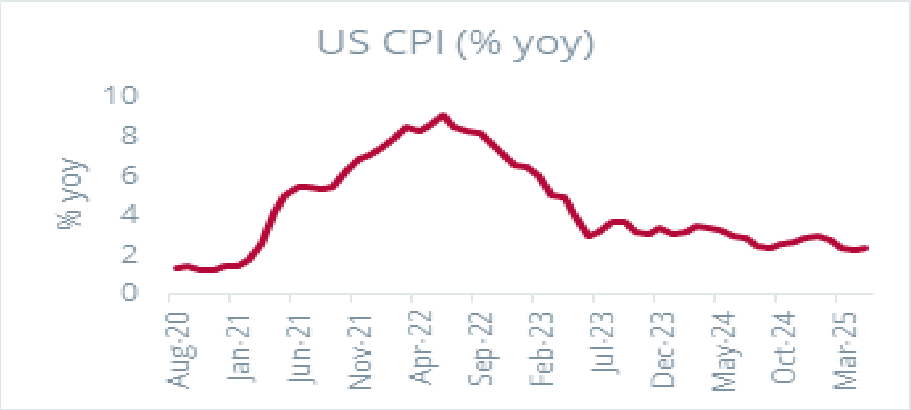
Inflation

The observed moderation in US inflation through May began reversing course as of late, with the US Consumer Price Index (CPI) prints for June 2025 finally demonstrated some impact of tariffs in hard economic data, (though less aggressive than feared). During H1, companies have generally absorbed much of the cost of tariffs thus far given the uncertainty about which countries would face which tariff levels. However, with tariffs now at risk of cutting profit margins by at least 2%, companies are likely to begin gradually increasing their prices. We believe the "pass-through rate" will rise in Q4 and early next year, as higher tariffs resulting from trade deals, and the conclusion of Section 232 investigations, raise tariff costs further.

In contrast, inflation in Asia ex-Japan should remain low or fall further. Anticipated slower growth, low oil prices, and currently promising rice harvests should exert downward pressure on inflation over the next several months. However, the lagged impact of the ongoing easing of monetary policy in the region should begin reducing disinflationary pressure by year-end and into early 2026.

In China, the recent shift in policy to address excess manufacturing capacity and "involution" is a key uncertainty. If this proves to be an aggressive policy initiative, it could reverse current wholesale price deflation somewhat, pushing up consumer inflation in China and the region somewhat. However, we doubt this would become problematic given the intensity of disinflationary pressure coming from China's ongoing property market contraction.

US inflation has yet to show a meaningful tariff impact



Source: Bloomberg. July 2025

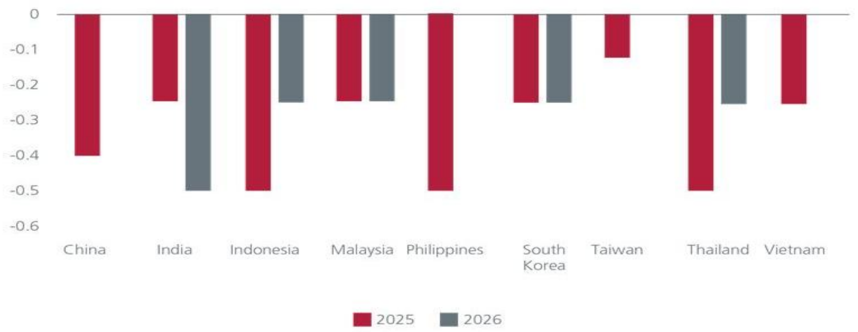
Monetary Policy

The US Federal Reserve (Fed) is biased to cut the Federal Funds rate 25bps to 50bps by year-end. However, its credible outlook for tariffs to push up inflation means that the Fed requires the unemployment rate to rise to between 4.4% and 4.5% to justify the cuts. We expect the unemployment rate to nudge up to 4.3% by September amid rising continuing claims, and such momentum may prompt a 25 basis points (bps) cut in October. However, uncertainty remains high. If tariffs fail to meaningfully materialise in the upcoming July 2025 US CPI data, the Fed could resume cuts in September even if the unemployment rate does not rise. Alternatively, if inflation rises and the unemployment rate remains below 4.4% the Fed might delay cuts until December.

Within Asia, monetary policy is likely to ease further in almost all major Asian economies over the next six months (please see chart below). Currently, inflation levels are broadly below central bank targets and has fallen in the recent months in almost all countries. In contrast, real policy rates are well above historic norms and thus, are still in restrictive territory.

Korea and Taiwan, the strong export-oriented economies, appear to be the main inflation exceptions. That said, our expectation for weaker export growth in H2 to weigh on GDP growth should shift both central banks back to rate cuts in Q4. Inflation is essentially at target in Korea while the real policy rate is somewhat high. However, the Bank of Korea (BOK) is concerned about the continued rise in household debt and property price inflation. Inflation in Taiwan is slightly above target, but so is the real policy rate. The risk we see is that these cuts get pushed out to Q1 2026. We expect Singapore's Monetary Authority of Singapore (MAS) to ease by cutting its SGD nominal effective exchange rate policy bands to nil appreciation. A resumption of broad USD strength would be the main constraint on Asian central bank easing, but we expect the USD to trend weaker over the next six months.

Asia forecast policy rate change, %



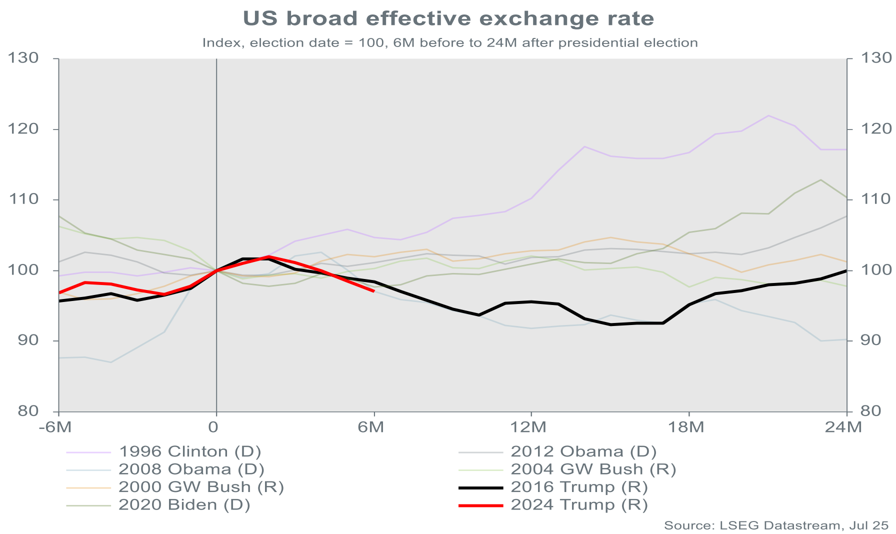
Source: Eastspring. 24 July 2025.

Currency Outlook

The USD is following the weakening path it took in the first year of US President Trump's first term. We expect this trend to persist with the USD falling another potential 3% to 5% against the major currencies over the next 6 to 9 months. The key to our view is that historically the greenback tends to weaken in the past when US growth meaningfully slows relative to global growth, something that we expect to accelerate over the next few quarters. Notably, the USD goes into this backdrop of a shrinking growth rate differential (versus the world), still richly valued in most valuation models, and with an outlook for the Fed to cut interest rates. With US rate cuts priced in for 1H2025 despite rising US inflation, real interest rate support for the USD will fall.

Historically, when the USD weakens against a basket of its other key trade partners' currencies, it has also weakened against Asia's currencies. This pattern has repeated so far this year, as evidenced by Asian FX broadly rallying, ranging from 1.9% (CNY) to 12.4% (TWD) for the year-to-date period as of 30 June 2025. Only the HKD, IDR and INR have weakened during the same period, but by less than 1%. Asian currency appreciation is also likely to be a quid pro quo in some of the trade deals that Asian countries achieve with the US. The Trump Administration believes that many Asian central banks have cheapened their currencies over the past several years to support export growth to the detriment of the US. Valuation metrics for the JPY, CNY, KRW, IDR and INR, for example, make them look cheap to varying degrees and thus such currencies are at risk of political pressure from the US to appreciate.

We generally expect most (if not all) of Asia's currencies to appreciate against the USD over the next six months but expect further gains to be limited and modest at a target range of 1% to 3%, tempered by Asian central bank interest rate cuts.



Source: LSEG. 9 July 2025.

Assessment of Key Risks

Key Areas	Likelihood	Magnitude of Market Impact
The US economy slowing more-than-expected due to higher-than-expected inflation, amongst other factors, in the coming quarters presents a key downside risk, in our view. The Trump Administration's failure to agree to trade deals, leading to forms of the higher April 2 reciprocal tariffs being imposed broadly is one possibility. Another is that Trump surprises with more aggressive than expected sectoral tariffs in Q4 2025 and Q1 2026 as the result of current Section 232 investigations (e.g., lumber, basic materials, building materials, pharmaceuticals, semiconductors). Particularly, a failure to reach a trade deal with Japan and resulting high reciprocal tariffs could result in JPY depreciation that creates depreciation pressure for other Asian currencies. Alternatively, a disorderly USD depreciation could result if the Federal Reserve (Fed) cuts interest rates significantly because of pressure from the Trump Administration despite rising inflation. In Asia specifically, a risk is that Asian trade deals with the US create tension with China because of requirements to impose tariffs or other impediments to trade with China.	Medium	High
Key upside risks we are actively monitoring include but are not limited to: a) the US economy proves more resilient to tariffs than previously expected and b) the Federal Reserve (Fed) cuts its Federal Funds Rate earlier than expected. In our view, one route for a lower-than-expected impact of tariffs would be if the Trump Administration manages to sign trade deals with the US' main trading partners, lowering tariff rates below the 10% baseline rate and giving wider exemptions (or delays) to the sectoral tariffs that have been imposed thus far. For the Fed, an upside risk is that Trump's appointment to replace Fed Chairman Powell adopts the role of a "shadow" chairman who promises rate cuts upon taking the role. This could create a significant kink in the structure of US interest rate curves that lowers forward discount rates sooner than is currently priced.	Medium	Medium
Escalating geopolitical instability. While trade tensions have featured prominently in headlines throughout 2025 and served as a key source of market volatility, geopolitical tensions still loom in the background and can have a significant impact on investor sentiment. This is seen from the recent escalation in the Israel-Iran tensions. Supply-side inflation shocks may emerge in the near-term, such as a rise in energy prices or some other event that would raise inflation expectations. While we believe investors should be prepared for heightened volatility ahead, historically, markets tend to look through such events (i.e., such events generally not having long-lasting impact on risk assets).	Medium	Medium
China's growth slowdown (and its impact on global growth overall) may persist if Beijing's stimulus response to the trade war remains slow and inadequate. The lack of sufficient, timely support for the domestic economy may cause China's GDP growth to fall below 4%, leading to a decline in Asian export growth and lower commodity prices. We would like to see more targeted support measures aimed at a broad-based recovery (versus merely stabilising growth). Further, if China's government concern about fiscal deficits leads it to shift toward fiscal consolidation, China's growth could downshift sooner than expected.	Medium	Medium

Data source: Eastspring Investments (Singapore) Limited. Views are as of 8 July 2025. Please note that the information provided here is subject to change at Eastspring's discretion without prior notice.

Asset Allocation Views

Tariff uncertainty persists, but de-escalating trade tensions afford runway for tactical risk positioning

Following Trump's "Liberation Day" announcement on April 2nd, which initially caused stocks to precipitously fall and credit spreads to sharply widen, a variety of factors have since helped restore market risk appetite and trading sentiment. These factors include but are not limited to the 90-day tariff "truce", and a moderation in trade tensions overall since Liberation Day.

Eastspring's Multi-Asset Portfolio Solutions (MAPS) team now views the potential impact of tariffs on the US economy as less severe than previously assessed (since Liberation Day). Consequently, the team has generally reduced cash holdings across its multi-asset portfolios, while adopting a more constructive tactical stance on risk assets, especially in equities and credits. In particular, the macroeconomic fundamentals and leading risk indicators actively monitored by the team, such as global PMI data and corporate earnings revisions, for example, indicate a still supportive backdrop for risk assets, at least over the short-term, tactical horizon. As trade policy uncertainty will persist after Trump's newly extended August 1 deadline, the team seeks to implement barbell strategies via equity options-based strategies to stay engaged in equity upside participation, while also seeking to limit overall downside risk.

Over the 3-month tactical horizon, while US equities may still have some runway ahead, the team's equity exposure preference is more tilted towards Emerging Markets and Asia, where market valuations and macroeconomic conditions make these markets relatively attractive as compared to the US market. Within credits, there is a preference for US high yield, given its still attractive all-in 7% yield, and for Emerging Market bonds, given their potential to benefit from USD depreciation. The team maintains a constructive stance on US Treasuries given both currently attractive yield levels and the potential as a hedge against a slowing US growth slowdown scenario beyond the 3-month horizon.

Asset Allocation Views

● Underweight ● Neutral ● Overweight

↑↓ Upgrade/downgrade in view from previous quarter – No change

Asset	3m		12m		Rationale
Global Equities	● (Overweight)	↑	● (Neutral)	–	While post 'Liberation Day' volatility led us to initially become more defensive, the subsequently announced 90-day trade "truce", easing trade tensions, and improved market risk appetite overall, in our view, were all conducive to a much more supportive backdrop and hence, we remain more constructive on risk assets such as Global equities in the near term. Further, money market liquidity conditions remain seemingly flush amid a more accommodative tone by many global central banks as of late, creating an environment in which, absent new shocks from oil or tariffs, equity markets could still have some runway in the near term to try to re-test their highs. We are more cautious over the longer-term 12m horizon as late cycle dynamics in the US economy should eventually challenge the outlook for corporate earnings and pressure equity valuation lower, especially in the US market which is roughly 64% of the universe.
Government Bonds	● (Overweight)	–	● (Overweight)	–	Reduced purchases in US Treasuries, US fiscal challenges and continued concerns over Trump's agenda bill all have contributed to higher US term premium, keeping longer-dated US Treasuries yields at attractive levels. While we remain cognizant of near-term inflation concerns related to tariffs, any signs of a material weakening in US economic data (e.g., consumer spending), and the labour market in particular, can compel the Fed to rapidly cut rates; hence, exerting further downward pressure on US yields. Over the longer-term 12m horizon, despite better-than-expected resiliency in US growth during the year-to-date (YTD) period, ongoing US policy uncertainty alongside increased odds of a global growth slowdown, support our preference for government bonds/cash over risky assets (e.g., equities, credits).
Cash	● (Neutral)	↓	● (Overweight)	↑	We maintain a more neutral short-term stance on cash, as the aforementioned improved market sentiment and appetite following the 90-day tariff truce afford attractive tactical opportunities over the near term. Over the longer 12m horizon, higher cash holdings will be beneficial amidst higher uncertainty, affording flexibility to take advantage of investment opportunities as they arise.

Data source: Eastspring's Multi-Asset Portfolio Solutions (MAPS) team. 3m = 3-month view. 12m = 12-month view. Asset class views are as of 8 July 2025, and should not be taken as a recommendation. The information provided here is subject to change at the discretion of the Investment Manager without prior notice.

Asset Allocation Views (cont.)

Asset Allocation Views

Global Equities	3m		12m		Rationale
US	●	↑	●	–	Over the near term, we believe that US equities can continue to perform on the back of continued easing trade tensions and imminent monetary policy easing by the Fed. Please also refer to our comments under Global Equities on the previous page. Over the longer-term 12m horizon , when considering currently lofty valuations, which seem to underprice weaker growth prospect, a strong equity performance does not appear sustainable without meaningful upside catalysts (i.e., improvement in earnings growth).
Europe	●	–	●	–	Better economic momentum (e.g., still positive economic surprise data), largely buoyed by fiscal support in Germany, has brought investors back to the region thereby lifting valuations in 2025 from previously depressed levels. Looking forward, after observing a robust year-to-date rally (i.e., the MSCI Europe Index gained 23.7% in USD terms for the YTD period as of June end), Europe remains vulnerable to any potential bouts of trade shocks and the stronger EUR is becoming a headwind for earnings.
Emerging Markets (EMs)	●	↑	●	–	Fundamentally, while the US economy faces concerns of slowing growth momentum ahead, the direction of the economic data surprises for the EM region has generally been positive. Despite the MSCI EM Index's 15.6% total return in USD terms for the YTD period as of June end, EM equities are still trading at a relative discount when compared to US equities. Within our multi-asset portfolios, the equity exposure is generally more tilted towards EM and Asia, where market valuations and macro conditions make these markets more attractive as compared to US market.
Asia Pacific ex-Japan	●	↑	●	–	Please refer to our comments above for Emerging Markets, given the large overlap of Asian countries (e.g., China, Taiwan, India, South Korea), which constitute roughly 76% of the MSCI Emerging Market (EM) Index, which China itself accounting for approximately 28% of the MSCI EM Index.
Government Bonds	**3m**		**12m**		**Rationale**
US	●	–	●	–	Higher term premium on longer-dated US Treasuries keep US yields at attractive levels. Any signs of a material weakening in US economic data and/or the US labour market can compel the Fed to rapidly cut rates, hence, exerting further downward pressure on US yields. Over the longer-term 12m horizon, as we anticipate higher odds of a global growth slowdown, we aim to increase duration overall within our multi-asset portfolios, given our preference for safer government bonds/cash over riskier assets (e.g., equities, credits).
Europe	●	–	●	–	With the Eurozone facing more subdued inflationary pressures and weaker growth, this likely opens the door for further European Central Bank (ECB) rate cuts, which should pressure European bond yields lower.
Singapore	●	–	●	–	Singapore Government Bonds continue to be attractive due to low inflation dynamics in Singapore persisting. Although core inflation edged up 0.7% yoy in April, MAS forecasts remain muted, especially with disinflationary forces driven by weaker global demand amidst US' tariffs. We are focused on the faster moving data globally to observe the effects of front-loading on future demand, if it moves down markedly.

Data source: Eastspring's Multi-Asset Portfolio Solutions (MAPS) team. 3m = 3-month view. 12m = 12-month view. Asset class views are as of 8 July 2025, and should not be taken as a recommendation. The information provided here is subject to change at the discretion of the Investment Manager without prior notice.

Asset Allocation Views (cont.)

Asset Allocation Views

Credit	3m		12m		Rationale
US High Yield	●	↑	●	↑	Despite a notable retracement in the US high yield spread (OAS) level from recent April 'wides' (from 461 bps on 7 April 2025 down to now 280 bps as of 3 July 2025), the all-in yield for the asset class remains attractive at approximately 7%, especially as the overall quality of the asset class is much higher today relative to early 2000s.
US Investment Grade (IG)	●	↑	●	–	Despite still trading at a historically tight OAS level (i.e., 80 bps as of 3 July 2025), US IG can still offer a decent yield of over 5%, contributing to an attractive overall total return with the higher carry helping to buffer against potential spread widening. The higher 'hard' duration profile (relative to US HY) of the asset class should be beneficial if our scenario of an on-going US economic deceleration materialises.
Emerging Markets (USD) Bonds	●	↑	●	↑	Over the tactical 3m horizon, the multi-asset team holds a more constructive tactical view on Emerging Market (EM) bonds relative to US investment grade corporates. EM sovereign (USD) bonds tend to benefit from a weakening USD, which makes USD-denominated debt relatively cheaper for non-US entities to service. EM local bonds, which we recently started incorporating into select portfolios, can also benefit from a weakening USD and are attractive as "carry" trades, while also standing to benefit from deflationary pressures outside of the US allowing EM central banks to respond with increased policy rate cuts.
Asian Credit	●	–	●	–	Over the 3m horizon, the Asia region's relatively sound macroeconomic foundation and anticipated decrease in corporate bond supply in 2025 compared to the US are expected to support the Asian USD bond market. The asset class is backed by stable financial profiles, positive credit rating trends and decent credit profiles for Asian investment grade bond issuers.

Data source: Eastspring's Multi-Asset Portfolio Solutions (MAPS) team. 3m = 3-month view. 12m = 12-month view. Asset class views are as of 8 July 2025, and should not be taken as a recommendation. The information provided here is subject to change at the discretion of the Investment Manager without prior notice.

The tariff landscape is rapidly becoming messy

In early July, President Trump sent letters to various countries, announcing tariffs to a list of countries but delayed imposition from July 9 to August 1 in order to give additional time for negotiation. He added that in the event countries were to retaliate, he will add their retaliation to the US tariff rate on them. Trump apparently singled out the Japanese and South Korean trade surpluses with the US as threats to national security. The clear message is that Japan and most Asian countries are not going to get a baseline 10% tariff rate because Trump seems to remain obsessed with trade balances.

Trump seems emboldened since US data seems to be still holding up; the US unemployment rate has remained low at 4.1% and tariffs have yet to meaningfully impact inflation. Though, notably there has been some recent tariff pass-through in the June 2025 US CPI data. The headline inflation level rose 0.3% month-on-month (mom), in line with expectations, while core inflation rose 0.2% mom, slightly below expectations. These pushed up the year-on-year (yoy) inflation rates to 2.7% and 2.9%, for US headline inflation and US core inflation, respectively from 2.4% and 2.8%.

Under the hood, the underlying inflation components seemingly demonstrate that tariffs are beginning to impact prices, but US companies have thus far mitigated the impact of tariffs by delaying and moderating price increases, resulting in only modest effects on inflation and consumption. The impact is still modest in our view, and not the “shock” needed to lead the Trump Administration to back down from the rates announced in the July 7 letters.

In our estimation, it appears increasingly likely that many countries will eventually arrive at deals, or at least frameworks of sorts, somewhat similar to those of the United Kingdom and China that lowered the tariff increase from the levels announced. However, these “deal” tariff rates will likely be higher than the current 10% baseline.

This means that a day of reckoning may still coming for the US economy. The already high June 2025 annualised run rate of tariff collection of 1.1% of GDP is going to rise significantly when these deals are reached, primarily owing to the following factors:

1) The deals will raise the imposed tariff rate from the current 10% to something higher

2) Amid increased deals and less uncertainty, companies are more likely to ‘pass-through’ tariff costs to end consumers, driving inflation in the near-term and eventually dampening consumption. In the event they do not, then margins could fall from over 13% to around 11%, thus jeopardising earnings forecasts that assume margins will rise to nearly 14% by 2027.

Historical evidence suggests that tariffs will not boost US production meaningfully, especially given current labour constraints. As such, firms are more likely to raise prices (rather than expand capacity), as tariff protections often prove politically unsustainable before long-term investments pay off.

Nonetheless, the key investment lesson takeaway from the past few months is that any meaningful tariff-induced impact on economic data will come with a delay. They probably will not show meaningfully in the hard data until Q4. The main thing that would shock markets would be significantly higher-than-expected US CPI prints beyond June.

Separately, the ongoing Section 232 of the Trade Expansion Act of 1962 (i.e., Section 232) investigations into lumber, basic materials, pharmaceuticals, and semiconductors, for example, will conclude in October and December. These will result in new sectoral tariffs that will take effect in late Q4 and early Q1 of 2026. Hence, the full effect of tariffs will probably emerge only in late Q1 of 2026 or early Q2 of 2026, in our estimation.

The anticipated tariff induced, upward pressure on inflation over the near-term, and the drag on consumption (and employment) will be a gradual build-up that reaches a crescendo in Q2 of 2026. We believe that the Fed will have cut rates by then, and the small stimulus from the “One Big Beautiful Bill Act” will likely have taken effect. This policy easing will help to moderate the negative impact of tariffs on economic growth, likely keeping the US from falling off a major economic cliff.

Thus, the ultimate outcome may perhaps lead to a weaker USD, and potentially a disorderly weakening in the USD at some point next year, contingent on just how dovish the eventual replacement for Fed chair Jerome Powell leans, ahead of taking over Powell.

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