Goldilocks and the Risk Appetite Bear

Fullerton Investment Views - Quarterly report

Q4 2025

FULLERTON FUND MANAGEMENT
A member of Seviora Group

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Executive summary

- **Consolidating gains ahead of normalisation in 2026**
  - 2025 is the third year running where US S&P500 equity returns have been strong double-digits. MSCI Developed Market (DM) equities increased 20% last year and are tracking similar returns this year, while MSCI Asia ex Japan is up 34% YTD. As a result global investors need to be cautious given weak risk appetite and valuations across equities and fixed income, that have become increasingly stretched.
  - In 2026 active risk management will become increasingly important for investors to defend their gains. Fullerton remains vigilant on when to downgrade our year-ahead investment outlook from Bullish to Positive.
  - Key signposts will be the intelligence gathered from Fullerton's bottom-up assessments – including any significant changes in market access, leverage, and forward guidance – especially as the use of 'circular finance' across the US AI-technology sector has increased.
- **Geographical diversification remains a critical strategy**
  - While our Investment Environment signal has surged away from 'Goldilocks' to 'Late Cycle', it can still be an environment where returns are positive because global growth remains its strongest above trend for this cycle, and liquidity is supportive.
  - Geographical-sector driven diversification remains a critical strategy and as we have emphasised for a while – 'global exceptionalism' means winning companies can be found across many sectors and countries.
  - Fixed income can offer some diversification protection if equities slump because of bubbly performance, poor risk appetite, or geopolitical shocks. However investors still need to be selective, especially across corporate credit exposures, as some spreads are very rich.
- **For the next 12 months, Fullerton is bullish on global risk assets, driven by Asia (i.e China, Singapore, South Korea, Taiwan) and Developed Market (i.e US, Germany, and Japan) equities, with a positive outlook for fixed income returns**

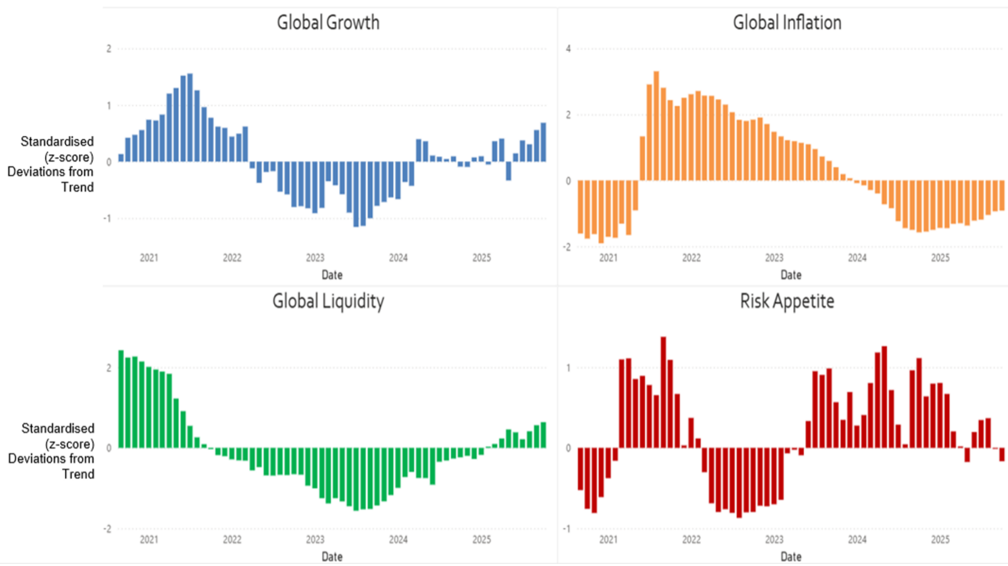
01 Investment Environment and Risk-Asset Outlook

Goldilocks and the one bear – poor Risk Appetite – dictates active management

Even before the sharp and short-lived slump in US-China relations[1], Fullerton's proprietary Risk Appetite factor has been poor (see Figure 1) suggesting investors should be cautious, especially as valuations across global equities (i.e high P/E) and fixed income (i.e low spreads) have become increasingly stretched (see Figure 2, which highlights the US).

Global Growth and Liquidity are above trend. Inflation is rising, but below trend. Poor Risk Appetite is the key worry.

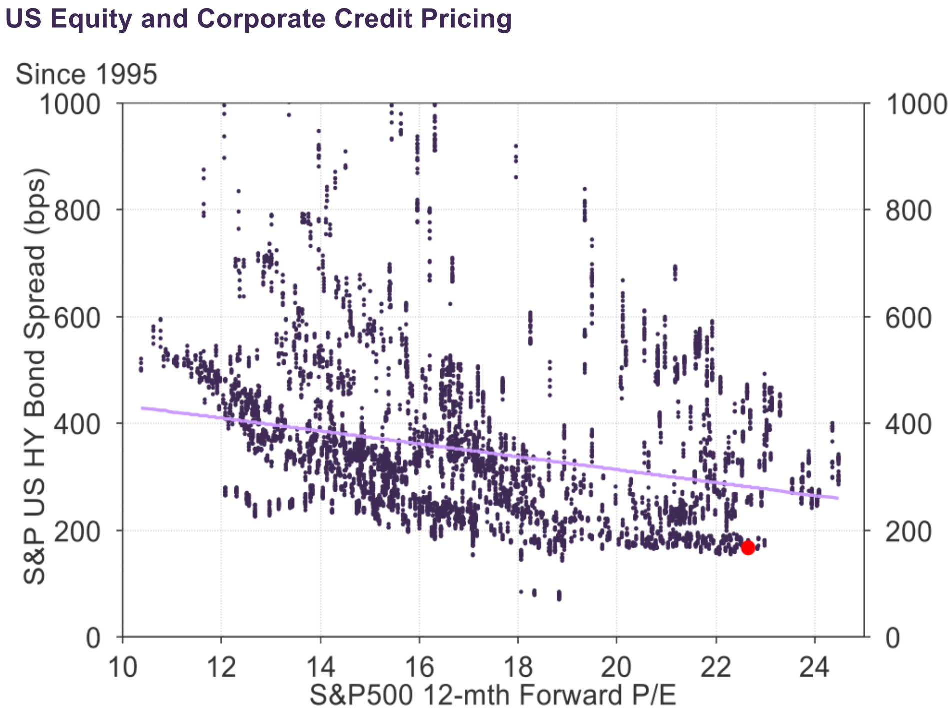
Figure 1: Fullerton's global factors that drive investment returns



Source: Fullerton Fund Management, Oct 2025. These global macro factors of growth, inflation, liquidity, and risk appetite, are constructed by Fullerton and expressed as standardised z-score deviations from trend (or average). In turn, they impact the signal from our Investment Regime Model. The information presented in the graphs above are calculated based on Fullerton's internal methodology and subject to changes. Past performance is not indicative of future returns.

1. On 10 Oct US-China relations deteriorated sharply as China dramatically expanded its rare earths export controls and President Trump retaliated with additional tariffs (i.e +100% levies on all China exports) and new export controls on "any and all critical software" by 1 November. Markets suffered significantly on the news: the S&P 500 fell by more than 2%, its biggest one-day drop since April. Investors fled into the safe haven of gold and US treasuries while the US dollar depreciated (Source: 10 Oct Reuters News).

Figure 2: Valuations are high across equities and fixed income

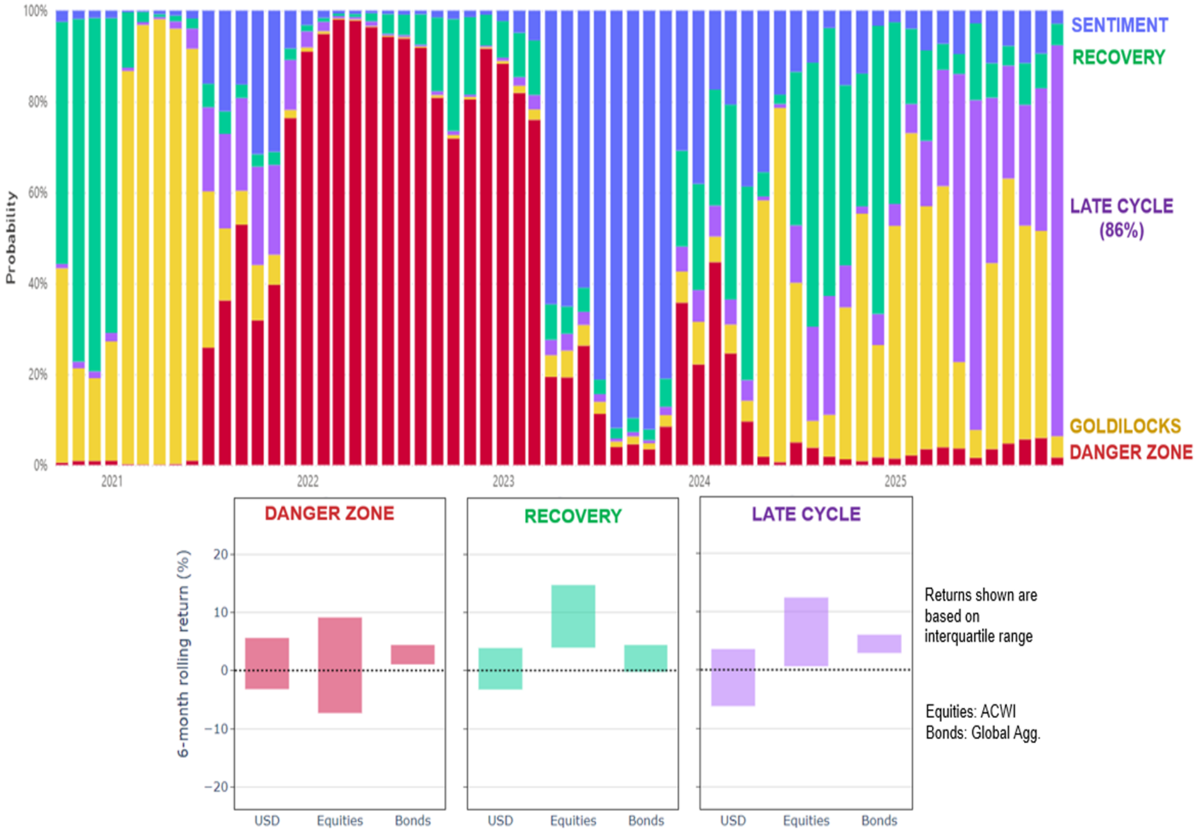


Source: LSEG Datastream, October 2025

Notwithstanding bearish risk appetite, which has been a key driver of our Investment Environment signal jumping away from ‘Goldilocks’ to ‘Late Cycle’ (see Figure 3), it can still be an environment where returns are positive as the bar-chart return distributions are positively centred for equities and bonds. This is because other key factors remain in goldilocks territory, as global growth (led by the US) remains its strongest above trend for this cycle, and liquidity is supportive. In addition, investing in this ‘realpolitik world’ benefits from significant policy stimulus, with fiscal packages around 10% of GDP across Germany, China, and the US[2]. Fullerton has always emphasised that global growth can remain strong because of robust productivity, rising investment, and large gains in wealth and incomes supporting spending.

2. The policy stimulus we call the ‘10% club’ reflects: (1) US fiscal stimulus of around 10% of GDP (over 10 years) is contributing to the current investment boom, (2) Germany: €500bn infrastructure investment (12% of GDP over 12 years), and China’s stimulus: 9% of GDP in total, with around 3%pts of GDP spent YTD-2025, with around 6%pts remaining. Sources: see Investing in a Realpolitik world - Fullerton Fund Management and for US stimulus specifically see the One Big Beautiful Bill Act (OBBBA, 4 July 2025). Germany, Bundestag, 18 March 2025. China, NPC, 8 November 2024.

Figure 3: Fullerton's Investment Environment Indicator with Return Distributions



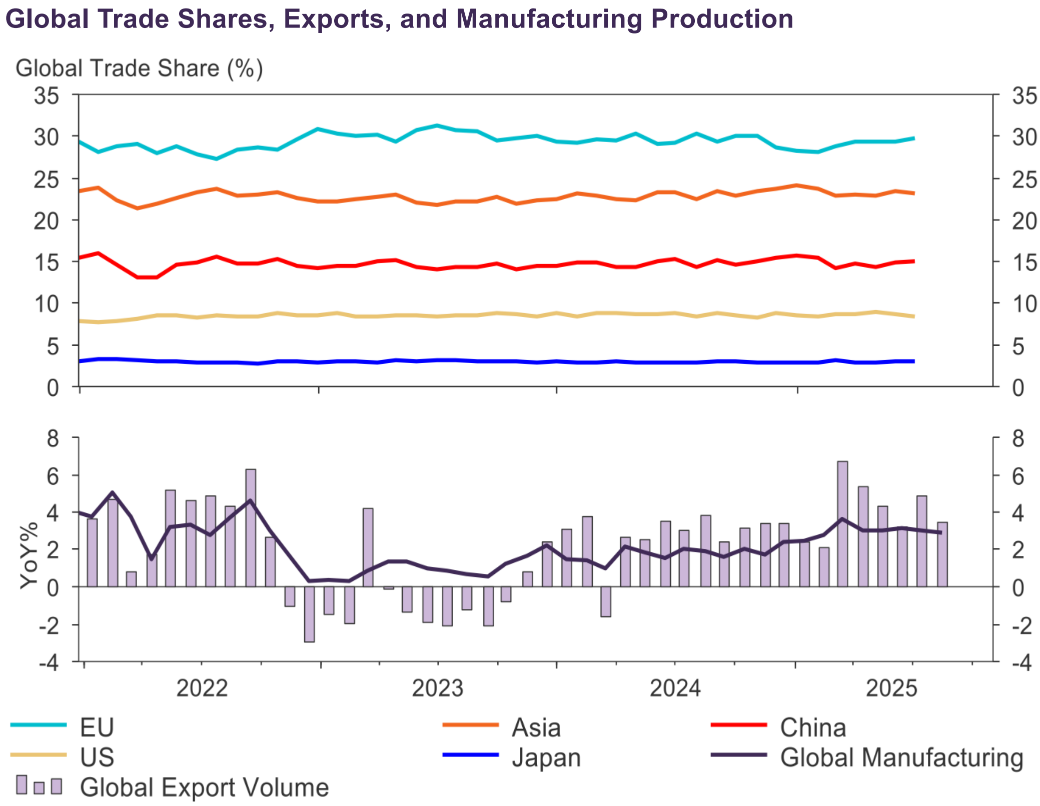
Source: Fullerton Fund Management, Oct 2025. The Investment Regime Model is calculated based on Fullerton's internal methodology and is subject to change. Past performance may not necessarily be indicative of future performance. The bottom bar chart of potential risk asset returns under Danger Zone, Recovery, and Late Cycle is the 6mth rolling return (%pts) based on the interquartile range of outcomes for the USD dollar (DXY Index), the MSCI AC World Index (equity returns), and the BB Global Aggregate Bond Index (fixed income returns).

Inflation is elevated as tariff impacts bite, but it should not become a significant nor sustained threat to markets. We maintain our view that global trade restrictions are not expected to derail risk asset returns because of on-going competitiveness gains, and sustained demand for high-value added products[3]. Growth in global trade volume remains strong, supported by the steady improvement in industrial production, and global trade shares are being defended (see Figure 4).

In fact, the global trade shares for Europe and China have increased, while the US has slipped. We believe producers and consumers are well-advanced in adapting their behaviours to this re-globalisation of trade flows. Nominal GDP growth, which tends to have a solid correlation with corporate earnings performance, is tracking at least 3-5%p.a for most countries (see Figure 5).

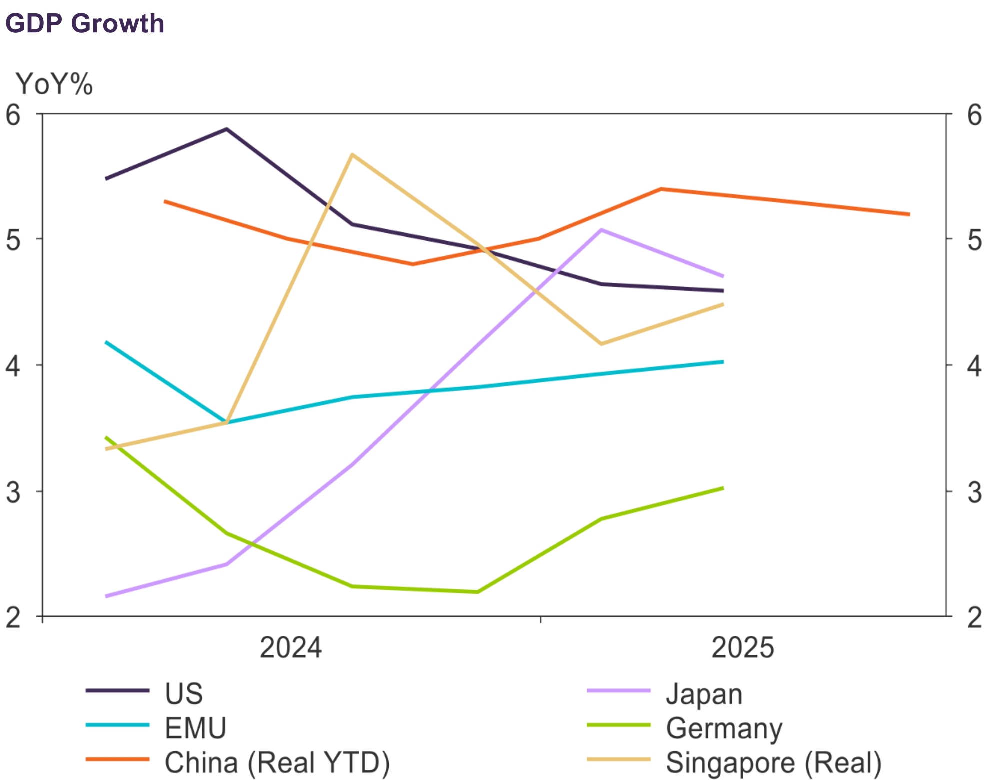
3. See Investing in a Realpolitik world - Fullerton Fund Management

Figure 4: Global trade and manufacturing performance



Source: LSEG Datastream, October 2025

Figure 5: Strong GDP growth across most countries



Source: LSEG Datastream, October 2025

A mix of favourable and adverse factors have been impacting risk appetite

US-China relations are always likely to remain strained, but investors do appear to be adapting to the greater incidence of geopolitical shocks[4]. Then, into the end of October, gold prices fell sharply perhaps reflecting over-buying coupled with some easing of geopolitical fears, and a lack of further significant US dollar weakness.

Some abatement in geopolitical fears may have reflected some of the following:

- Investors are becoming more relaxed about US-China trade tensions, as President Trump down-played the risk of clashing with President Xi Jinping over Taiwan. After the first day of talks at the Association of Southeast Asian Nations meetings in Kuala Lumpur (25 October) media reports declared that the US and China had “very constructive” discussions in the build-up to the key meeting (on 30 October) to further discuss tariffs and rare earth policies[5].
- Consistent with US protectionism largely being a negotiation tool, media reports that India and the US are likely to reach a trade agreement that would reduce US tariffs on India’s US exports to around 15% from the current 50%[6].
- The conformation of Sanae Takaichi as Japan’s Prime Minister[7] boosted investor sentiment that her policies may continue to drive productivity gains, competitiveness, and stronger earnings performance.

That said, other geopolitical risk factors remain unresolved and may weigh negatively on risk appetite:

- The planned summit between US President Donald Trump and Russian President Vladimir Putin has been postponed along with any potential ceasefire in the Russia-Ukraine war for now[8].
- Investors have become more concerned about pockets of risk building across the US financial sector, as capital inflows continue to surge into areas such as AI and credit. The latest scare unfolded on 16 October when US regional bank Zions Bancorporation lost $1bn of its listed-value after disclosing $60m of bad loans[9]. This sparked broader fears surrounding the quality of lending by US regional banks over this cycle - broadly similar to the systemic fears surrounding the failure of Silicon Valley Bank more than two years ago[10].
    - In addition, the ECB’s chief economist warned that some EMU banks could face spill-over stresses from any adverse pressures on US regional banks, especially European banks with significant USD-denominated liquid assets and off-balance sheet exposures[11].
- The US government shutdown is now 23 days long (as at 24 Oct) and has limited signs of any progress towards a resolution. That said, encouragingly as we anticipated, it does not seem to be having any significant drag on risk appetite so far[12].

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4. For example, when the Middle-East conflict re-ignited in June this year demand for downside protection jumped by much more than the VIX-fear index
5. Source: Reuters News 25 Oct 2025
6. Source: Reuters News 25 Oct 2025
7. Takaichi’s victory was secured after her Liberal Democratic Party, which has governed Japan for most of its postwar history, agreed to form a coalition with the right-wing Japan Innovation Party, known as Ishin. Source: Reuters News 21 Oct 2025.
8. President Trump also hit Russia’s two biggest oil companies (Rosneft and Lukoil, which together account for around 5% of global oil output) with sanctions to further pressure the Kremlin to end the war in Ukraine. The US sanctions prompted Chinese state oil majors to announce they would suspend Russian oil purchases in the short term, while refiners in India, the largest buyer of seaborne Russian oil, are set to cut their crude imports. In another bid to starve Moscow of revenue, the European Union adopted its 19th package of sanctions against Russia in banning Russian liquefied natural gas imports. Source: Reuters News 24 Oct 2025
9. Source: Reuters News 21 Oct 2025
10. See Silicon Valley Bank (SVB) and Signature Bank collapse: what happened and the implications - Fullerton Fund Management
11. Source: Reuters News 21 Oct 2025
12. See US Government Shutdown: October 2025 - Fullerton Fund Management

Active management remains critical to defend gains

Active risk management will remain critical for investors to defend their gains going forward, especially as valuations, across both global equities and fixed income, have become stretched. Fullerton remains vigilant on when to downgrade our year-ahead investment outlook from Bullish to Positive.

Key signposts will be the intelligence gathered from Fullerton's bottom-up assessments – including any significant changes in market access, leverage, and forward guidance – especially as the use of 'circular finance' across the US AI-technology sector has increased.

For the next 12 months, Fullerton is bullish on global risk assets, driven by Asia and Developed Market (DM) equities, with a positive outlook for fixed income returns

Summary of Fullerton's Views (12 months ahead)

	Bearish	Negative	Positive	Bullish
Risk Assets (overall)				✓
Developed Market Equity				✓
Asia ex-Japan Equity				✓
Global Sovereign Bonds			✓	
Asia IG Credit			✓	

Source: Fullerton Fund Management, October 2025. Views may be subject to change without prior notice.

02 Equities

Dennis Lee
Head of Equities
Fullerton Fund Management

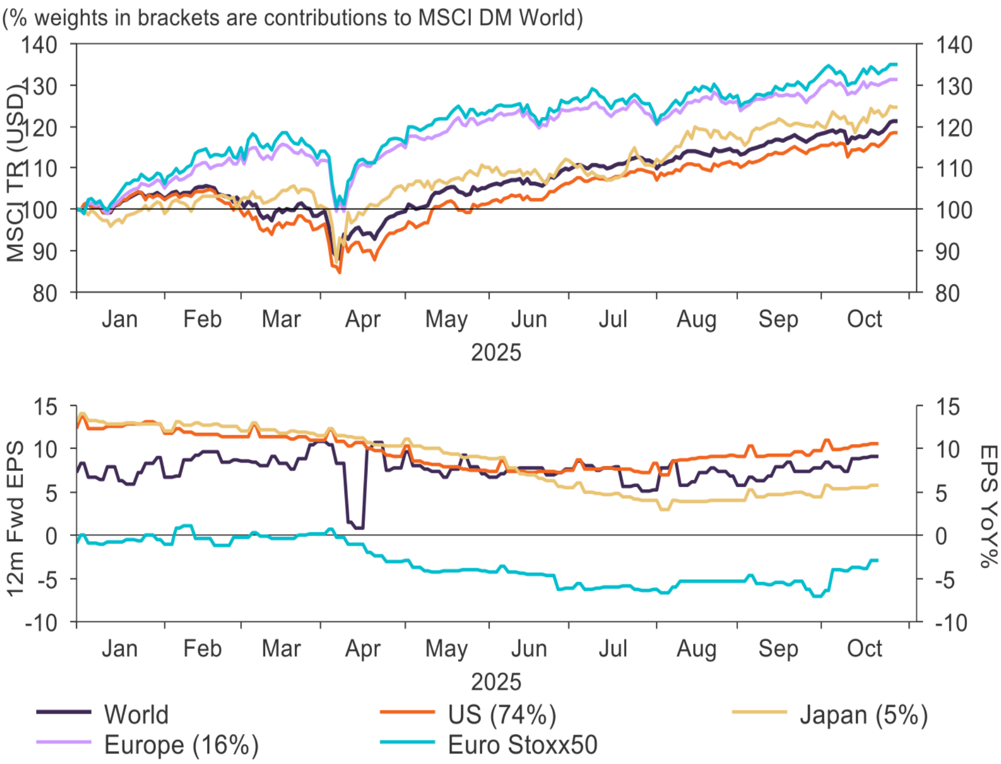
Our bullish outlook for Developed Market (DM) equity returns reflects 'global exceptionalism' across the US, Germany, and Japan

We believe DM equities can continue to benefit from robust earnings growth, as forward expectations continue to grind higher (see Figure 6), with positive contributions from the US, Japan, and Europe (especially Germany).

Bullish returns across Europe are being driven by Germany's Industrials, Financials, and Utilities - all part of the positive sentiment on Germany's very large infrastructure stimulus and productivity rebuild. Japan's market can also remain a robust source of alpha for investors, as the corporate sector continues to defend competitiveness with productivity gains.

Figure 6: Equity returns and 12mth forward earnings growth expectations for DM

MSCI World Equity Returns and Earnings (YTD)



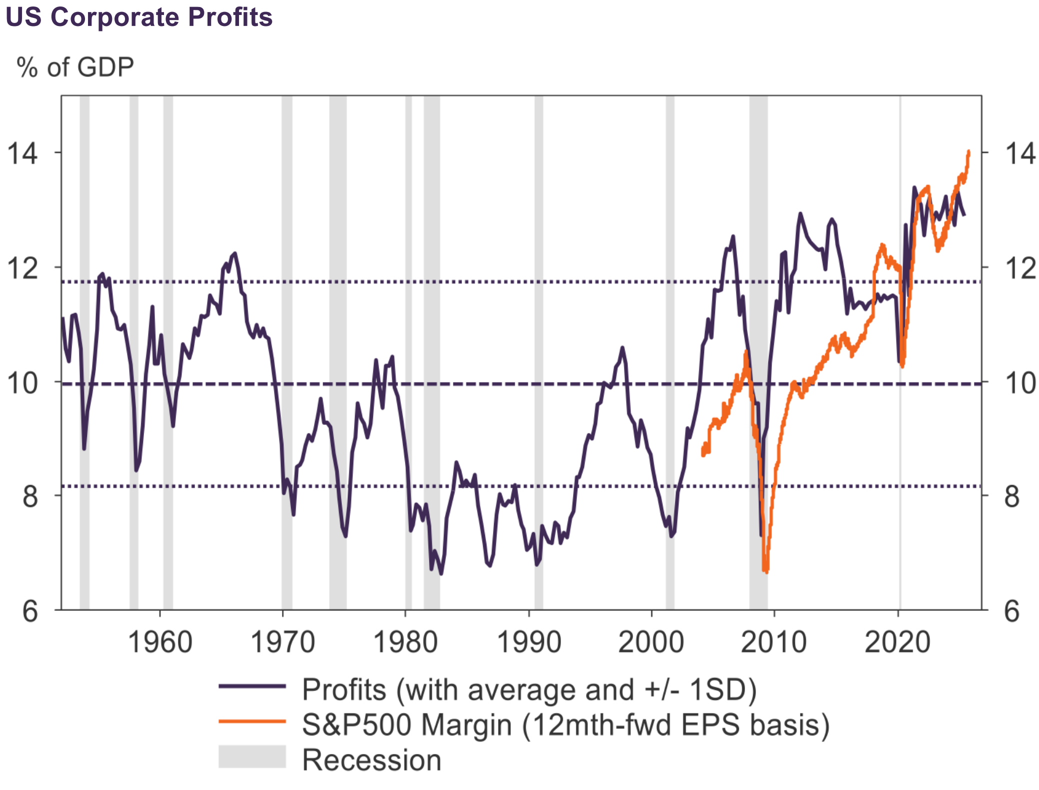
Source: LSEG Datastream, October 2025

The US maintains one of the strongest productivity performances in the world[13], and its real unit production costs are falling, which has pushed corporate profits to record-highs (see Figure 7). Alpha is back for investors in the US from IT, and remains robust across Industrials and Communications. Such resilient fundamentals, combined with easy liquidity conditions, may defend the re-rating of US equity returns.

But goldilocks factors also increase bubble risks

Investors need to be cautious because the gap between listed (S&P500) expected year-ahead earnings performance and realised economy-wide corporate profit is increasing (see Figure 7) – and a common cause of painful corrections is that greed pushes equity prices too far and realised profit disappoints. Equity valuations are already very high across the US and most key markets (i.e at least 1 standard deviation rich, see Figure 8), and such headwinds can depress risk appetite and increase the risk of an eventual sharp sell-off.

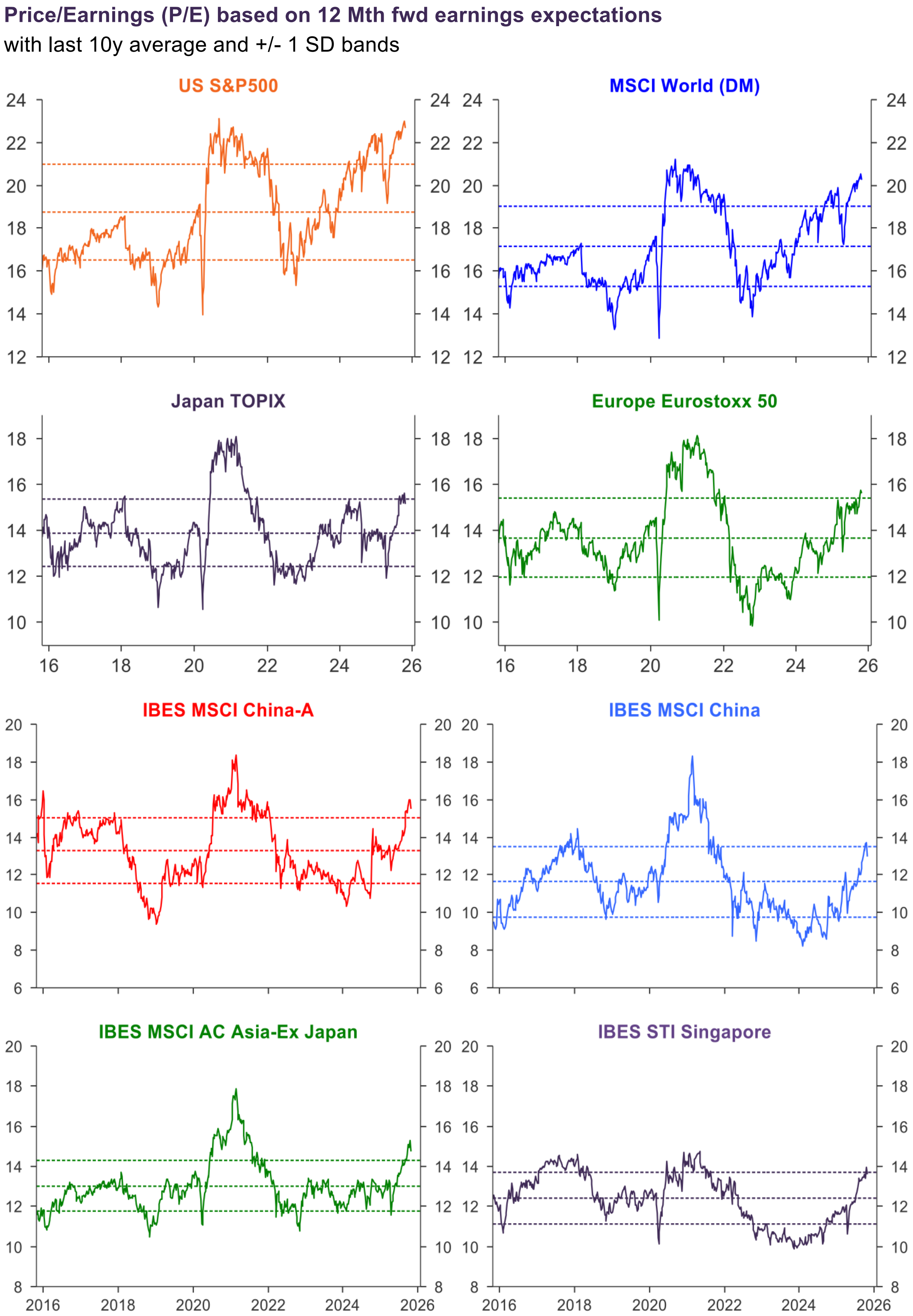
Figure 7: Actual US corporate profit and S&P500 (expected) margin



Source: LSEG Datastream, October 2025

13. Details on this discussion are in Fullerton Investment Views Q1 2025. Source quoted within: 'Investing in Productivity Growth' by McKinsey (March 2024).

Figure 8: Equity valuations across many key markets are stretched

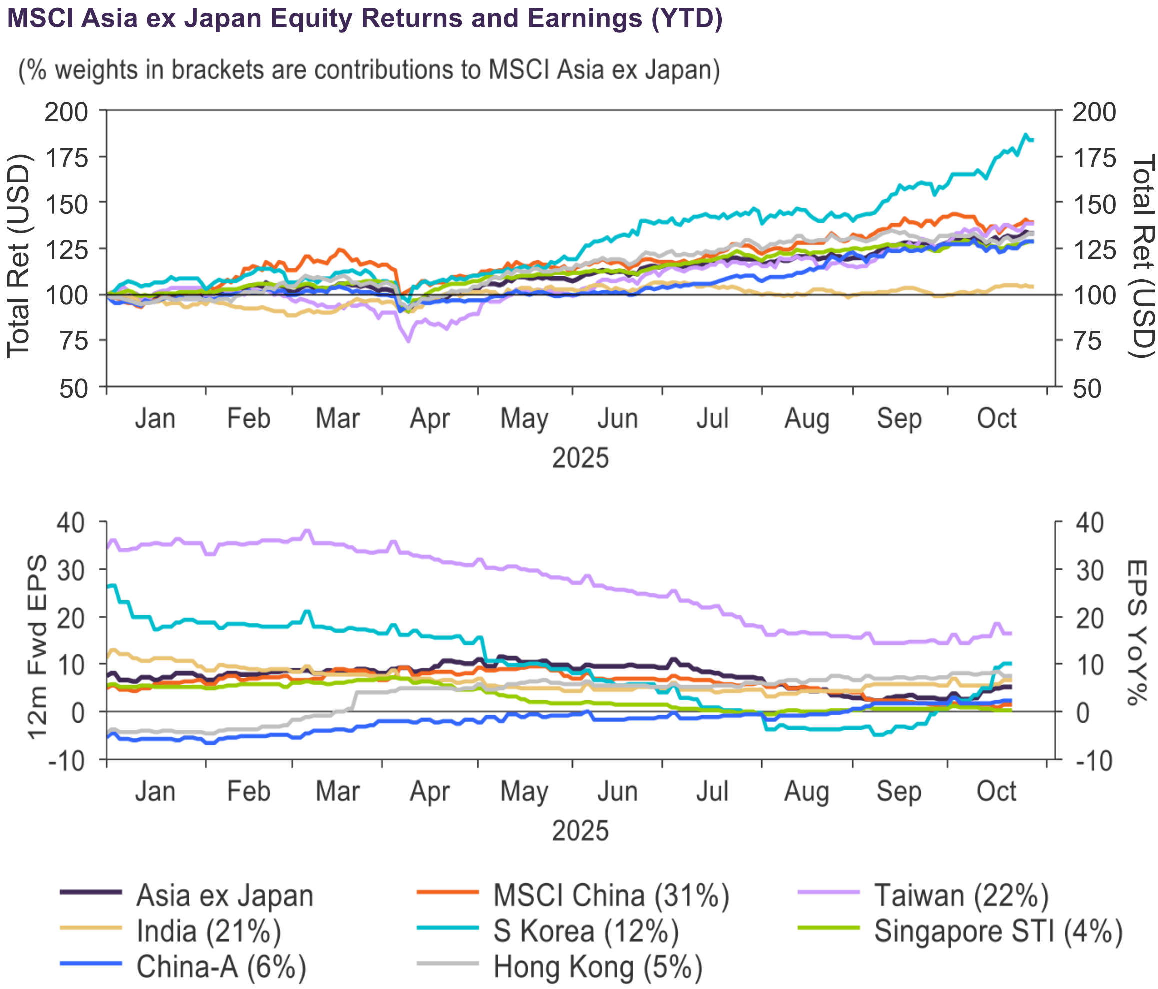


Source: LSEG Datastream, October 2025

Asia ex Japan equities are outperforming DM, with very strong contributions from most markets

Asia (ex-Japan) returns are very strong this year (tracking 34%, see Figure 9), and the region should continue to benefit from global demand, higher export prices, and rising competitiveness. South Korea's equities have surged from the very poor performance last year, as its corporates benefit from the same positive re-rating drivers across Asia (i.e competitiveness gains and rising external demand). Returns from Taiwan have rebounded strongly since the April low, and its earnings growth expectations continue to lead the region as it benefits from robust global demand for IT and capital goods.

Figure 9: Equity returns and 12mth forward earnings growth expectations for Asia

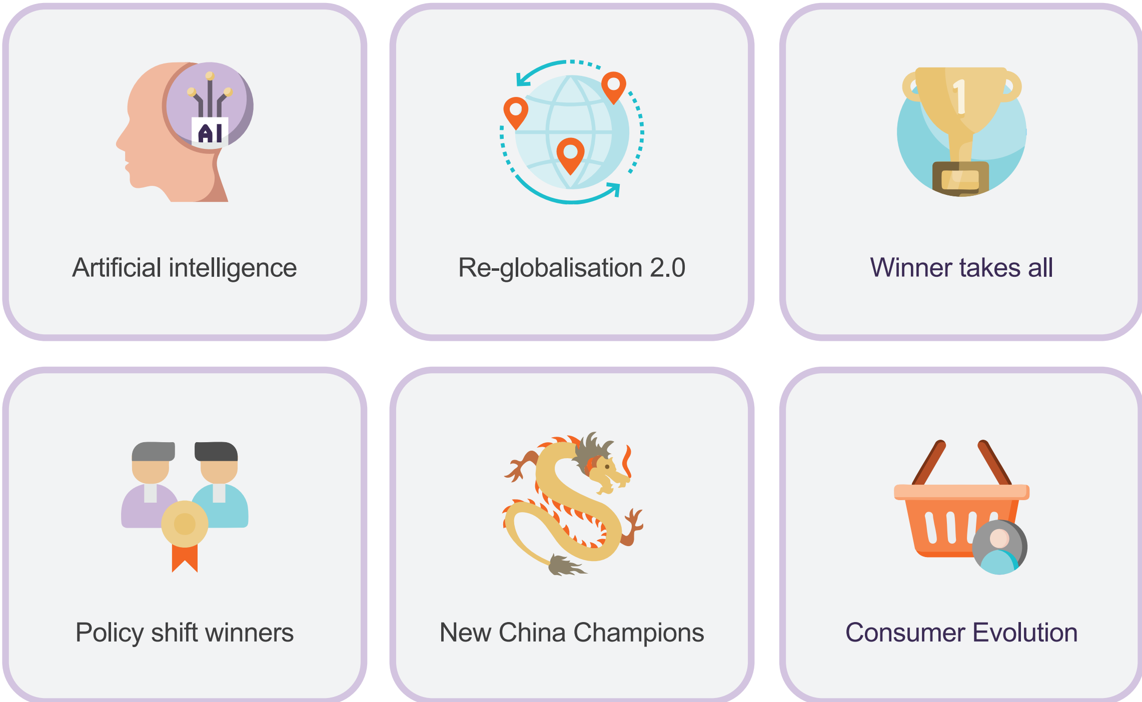


Source: LSEG Datastream, October 2025

We first suggested in Q4 2024 that China's stimulus could unfold as the 'whatever it takes moment' for investors because the supports are so large and they target key areas of deflation to help boost corporate profitability[14]. Now 12 months on, China's policymakers continue to gain traction with the reform-driven fight against diminishing returns from investment and resources. On 24 October China's government outlined its broad plans for economic development out to 2030[15]. Key priorities remain to enhance technology utilisation, education services, R&D, and productivity over time, especially across manufacturing. As China continues to reduce its excess capacity it will strive for breakthroughs in key technologies and make more efforts to boost domestic consumption. The latter requires keeping economic growth solid, which will support household incomes, and fits with our positive outlook on China's macro fundamentals.

China has already cut its US trade dependence to extreme lows and has defended its global trade share at the same time. China is benefitting from its rising export prices, exchange rate competitiveness, and its significant global market share - especially across products like rail, maritime, new energy, IT, medical, and robotics. Investment opportunities across China – 'New China Champions' - are a flagship within our key global investment themes (see Figure 10)[16].

Figure 10: Fullerton's global investment themes



Source: Fullerton Fund Management, October 2025. Investment themes are developed from our internal methodology and are subject to change.

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14. We have a short Market Update on Key reasons to be bullish on China - Fullerton Fund Management For further background also see Fullerton Investment Views Q4 2024 and Asia ex-Japan equity outlook: from positive to bullish - Fullerton Fund Management
15. The Fourth Plenary Session (Fourth Plenum) of the 20th Central Committee of the Chinese Communist Party (CCP) concluded on 23 October 2025. The official communiqué was released here: https://www.gov.cn/yaowen/liebiao/202510/content_7045444.htm
16. For more details on our six global investment themes for 2025 see Investing in a Realpolitik world - Fullerton Fund Management

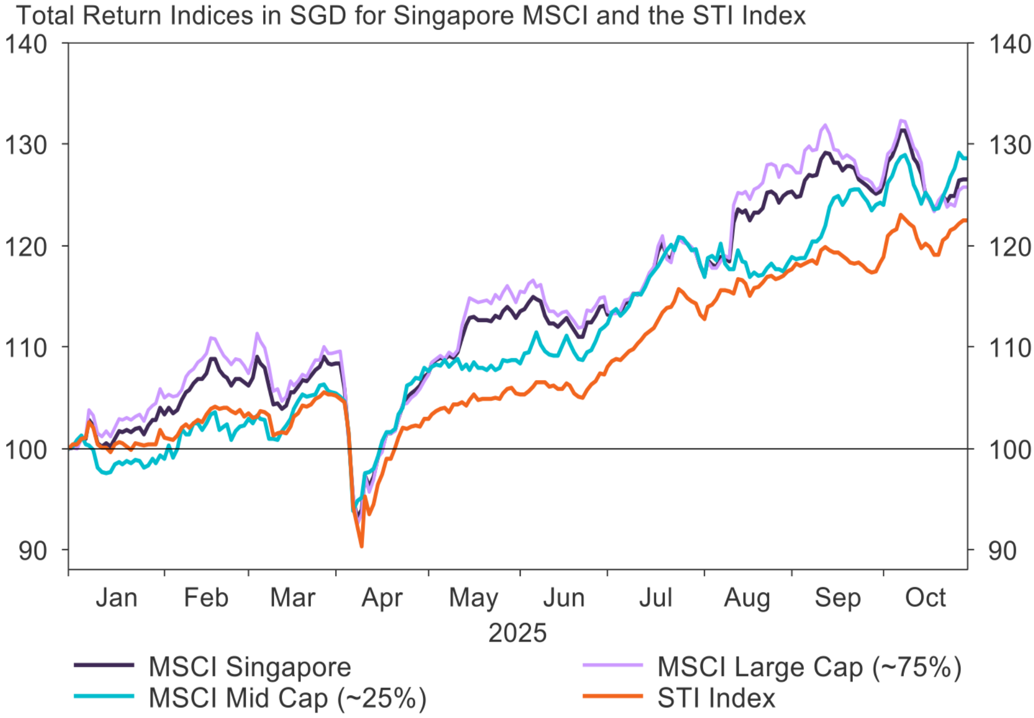
All of Asia will continue to deepen its economic linkages beyond the US with supports from the Regional Comprehensive Economic Partnership (RCEP). Fullerton expects equity returns to remain strong across Taiwan, South Korea, and Singapore, as Asia benefits from China's stimulus spillovers, rising export prices and competitiveness, strong demand from DM and increasing intra-Asia trade (especially for higher value-added goods and services).

We are excited about Singapore's Equity Market Development Programme and our Fund[17]

We remain bullish on Singapore equities as we believe that Singapore's macro environment can trigger sustainably stronger earnings performance across much of the listed-market capital structure (i.e beyond large caps). Earnings growth should continue to improve because of very low cost pressures (reflecting Singapore's productivity gains and low inflation), and with higher revenues over time from the global demand/industrial boom for high-value added outputs. The STI equity market is already 'pricing-in' a significant re-rating as it adjusts to this potentially higher profitability paradigm (see Figure 11).

Figure 11: Singapore's equity returns

Singapore Equity Return Indices



Source: LSEG Datastream, October 2025

17. See [Fullerton Fund Management launches Fullerton Singapore Value-Up, first retail fund under Equity Market Development Programme (EQDP) - Fullerton Fund Management]

Geographical diversification remains a key strategy because winning sectors are everywhere

Seeking exceptional companies, at a fair price, is a global exercise as equity returns across Europe and Asia, often judged laggards, are much stronger, while returns are rising significantly for the US. Firms rising to the top of their peer group will be driven by productivity-enhanced earnings, rising investment, and sustained demand. These creative leaders will be found across many different sectors and countries. That is why it is vital for investors to harmonise their top-down strategy with active management and stock selection.

Figure 12 shows the leading sources of alpha by sector[18] this year (and versus the last 5 year's average) and a key takeaway is that many sources of excess returns have aligned very well with many of Fullerton's sector investment themes. For example, alpha from China's equity market is broad-based (i.e more than half the market), and consumerism and communications have been increasingly important sources of returns as on-line retail sales growth is strong and margins are high. Healthcare has benefited a lot from China's domestic policy stimulus, IT-driven technology gains, and competitive pricing. China is also benefitting from its significant export competitiveness, and strong global market power, across sectors like Materials and IT.

Figure 12: Top sources of alpha have aligned well with Fullerton's sector investment themes

	Alpha Sector Ranking in Domestic Market	1st	2nd	3rd	4th	5th
Taiwan	2025	IT (83%)				
	-5Y	IT				
Soutth Korea	2025	Utl (1%)	IT (45%)	Ind (19%)		
	-5Y	Fin	Ind	IT	Utl	
US	2025	Utl (2%)	Comms (10%)	IT (34%)	Ind (9%)	
	-5Y	Energy	IT	Fin	Comms	Ind
India	2025	Mats (8%)	Comms (5%)	Fin (29%)	Energy (9%)	ConsD (13%)
	-5Y	Ind	ConsD	Comms	Mats	Fin
Germany	2025	Utl (3%)	Ind (23%)	Fin (20%)		
	-5Y	Fin	Ind	Comms	IT	
Japan	2025	Comms (9%)	Energy (1%)	IT (14%)	Ind (23%)	Fin (17%)
	-5Y	Fin	Energy	Ind	IT	Comms
Singapore	2025	Comms (7%)	Ind (14%)			
	-5Y	Fin	Ind			
China	2025	Mats (3%)	Health (3%)	Comms (21%)	IT (8%)	ConsD (31%)
	-5Y	Energy	Mats	Fin	IT	Ind

Source: Brackets are sector % weight in the local MSCI Index. LSEG DataStream, 17 October 2025.

18. That is where sector returns have been above the market aggregate return.

03 Fixed Income

Angus Hui
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Head of Fixed Income
Fullerton Fund Management

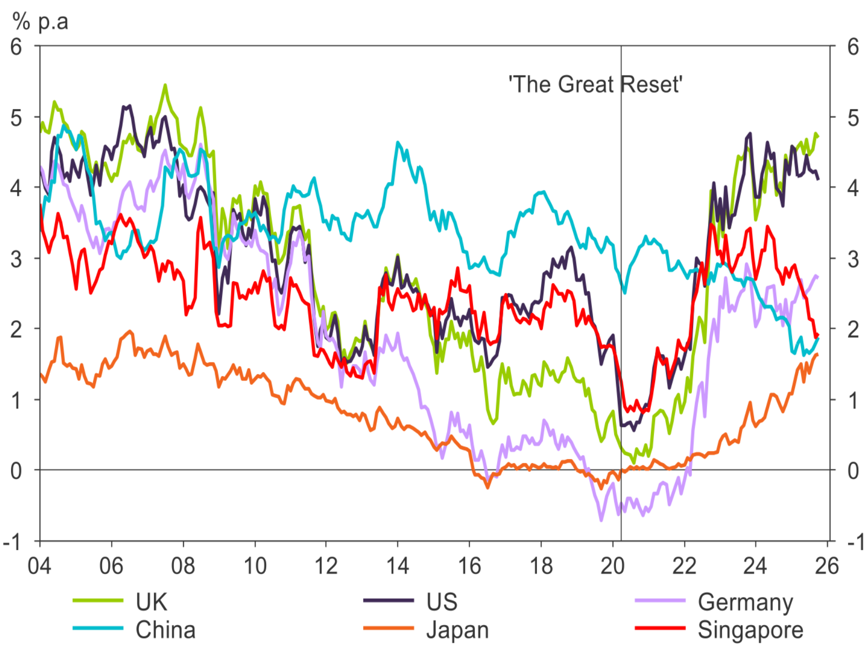
Sustainably higher yields can be positive for investors longer-term

Our core investment theme remains 'the Great Reset'[19] where this realpolitik world results in the 'discount factor' for all risk asset returns – the bond yield – repricing across key markets to settle at levels not seen since before the GFC 2008/09 (See Figure 13). Such yields are higher than many investors are accustomed to, but they can be rewarding and may be a fairer refection of the risks associated with leverage and geopolitical uncertainties.

With China's significant monetary and fiscal stimulus unfolding it may have established a 'defendable floor' for its 10y yield, but any increases in yield over time may be gradual as policymakers do not want any headwinds for credit demand (as they seek to boost consumption and investment). Singapore is proving that it can avoid its 10y yield rising beyond its post-2010 historic average of 2.2%p.a because of its very strong fiscal position and high national savings rate.

Figure 13: Key bond yields are around highs not seen in 15 years

Global 10y Bond Yields



Source: LSEG Datastream, October 2025

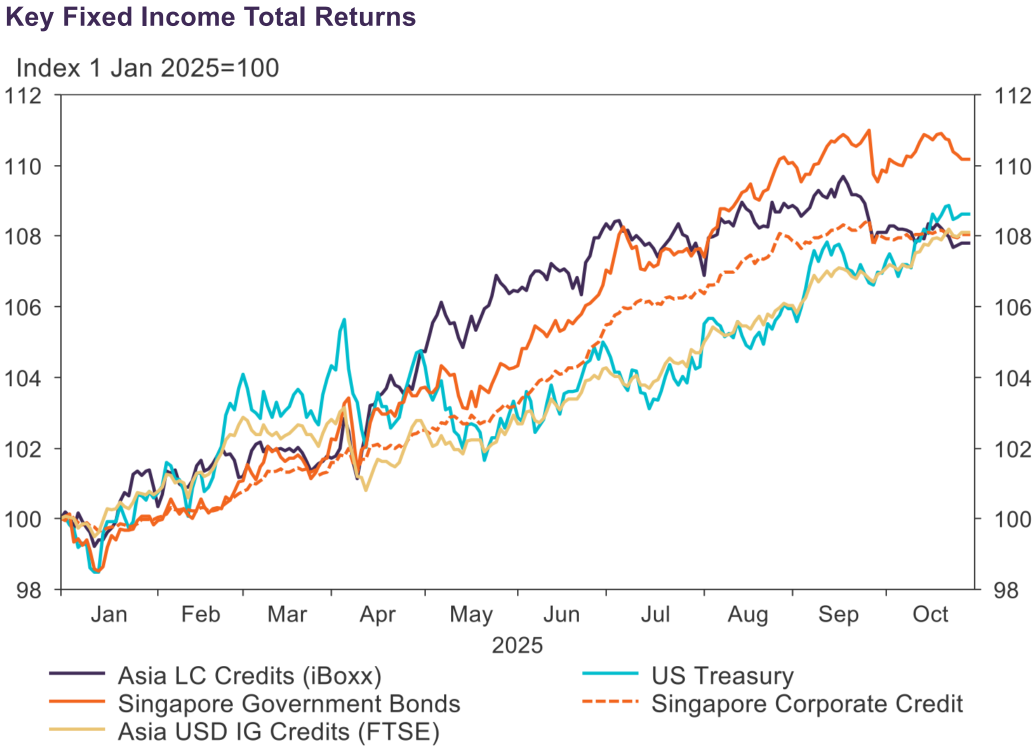
19. See: Investing in a 3G environment - Fullerton Fund Management

While active management is critical to try and harvest trading gains

This cycle has proven active management to be very important to secure trading gains, especially across markets in Asia where key yields have fallen, and in the US. On the latter, Scott Bessent (US Treasury Secretary) has declared it a victory for President Trump's policies as since 28 Jan 2025 the US 10y bond yield has fallen by almost 50bps to 4%p.a, while equities are up 12% YTD[20].

Returns in 2025 are running high single-digits across Asia (local-currency) corporate credit, Asia (USD) credits, and US treasuries. Singapore's fixed income returns have been especially strong[21], benefiting from plentiful liquidity and capital inflows that have bid-up returns (and have also driven Singapore's equity returns higher).

Figure 14: Key fixed income returns in 2025 – some extra boost from yield slippage



Source: LSEG Datastream, October 2025

20. Source: "Where the hell is the market risk?" – The Financial Times, Washington 25 Oct 2025.

21. Also see our November 2024 publication - The 5 Myths of the SGD credit markets de-bunked - Fullerton Fund Management - for a deeper-dive into why the Singapore (SGD) credit market can be a valuable source of alpha for global investors.

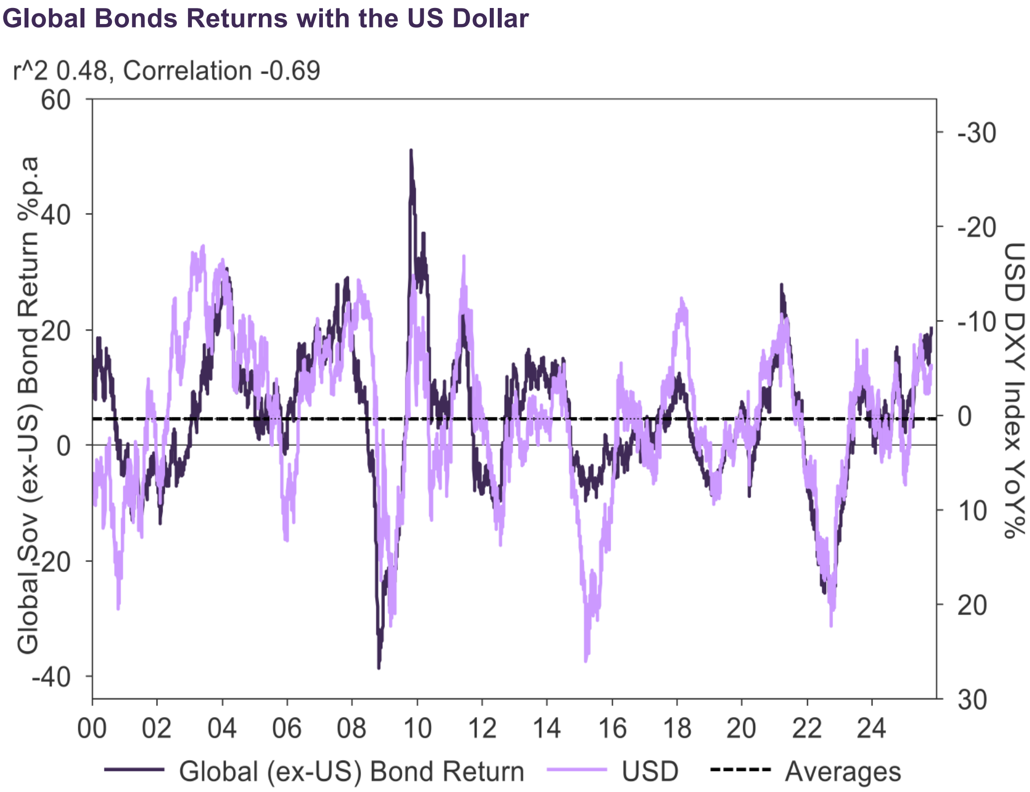
We remain positive on global sovereign bonds and IG corporate credit

Our positive view for returns from global sovereign bonds reflects current trends continuing, along with the likelihood that yields settle at levels generating a favourable income-stream, as well as offering some protection if equities fall sharply.

The weak US dollar can also be supportive for investors in local currency fixed-income

In 2025 US liquidity has been the highest across DM and this 'excess supply' of dollars has depreciated its value. A weak US dollar can allow global central banks, especially across Asia (where inflation is low) to run easier policy than otherwise (and to offset any excessive local-currency appreciation forces) which can reduce interest rates (vis-à-vis increase bond prices – see Figure 15) and boost growth. We maintain our positive outlook for corporate credit across Asia, as default rates can remain modest with global growth holding around trend, coupled with robust profitability and liquidity.

Figure 15: A weaker US dollar correlates with stronger bond returns for the rest of the world

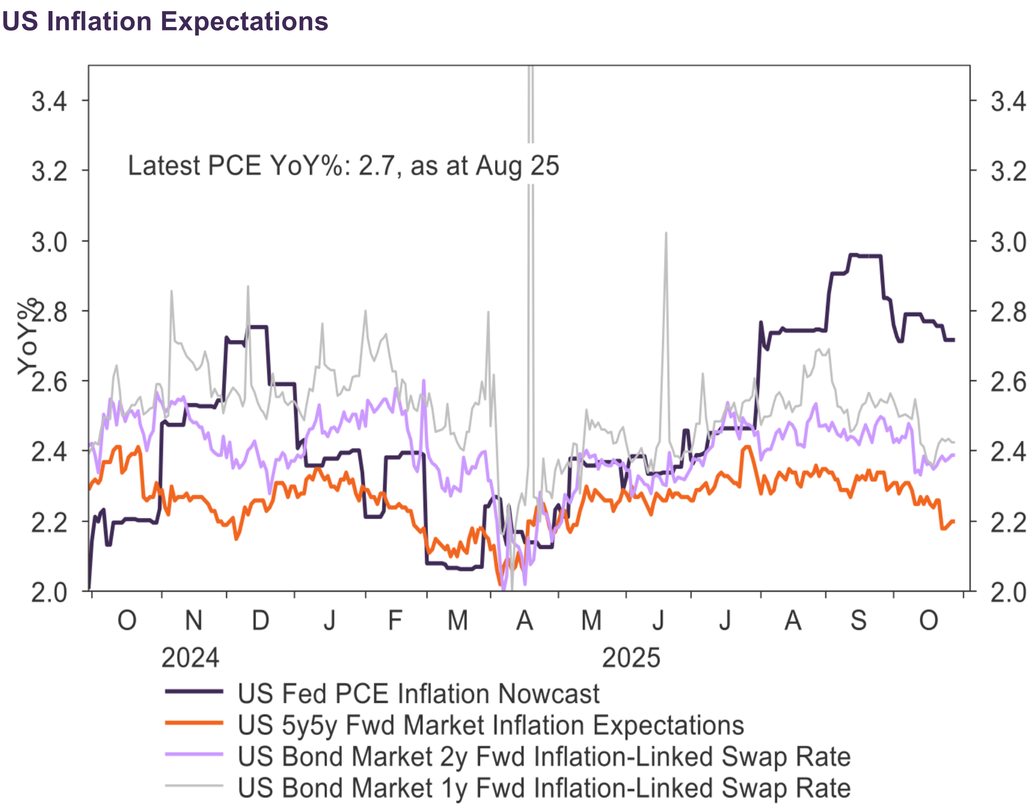


Source: LSEG Datastream, October 2025

US inflation is higher this year as tariff impacts bite, but not to levels that become a sustained threat to markets.

Strong US productivity growth, coupled with investment in AI and technologies, continues to push down real unit production costs, which gives significant cushion against any renewed inflation pressures. We continue to believe that tariff impacts will not boost US inflation to the extent that it will stress markets or the Fed - which has maintained its view that rate cuts can gradually unfold. What remains most encouraging is that the Fed's nowcast of US PCE inflation is slipping and US forward-market inflation expectations for 2026 (and beyond) are all clustering around 2.5%p.a or less (see Figure 16).

Figure 16: The Fed's nowcast of PCE inflation with forward market inflation expectations



Source: LSEG Datastream, October 2025

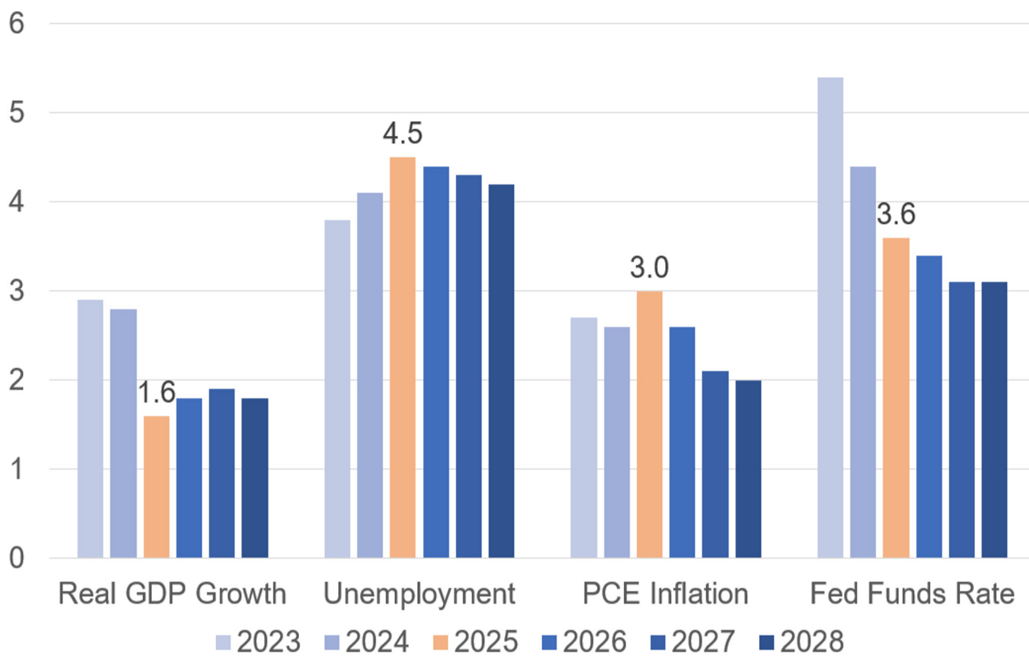
The Fed has resumed its rate cuts but remains very pessimistic on US growth prospects

In September, as expected, the Fed cut its policy rate by 25bps (to 4.25%), and with more cuts to come – potentially to a 3.6% policy rate by end-Dec 2025 (as signalled by the Fed – see Figure 17). What is good is that the September rate cut was 'into strength' as the Fed revised its growth outlook up, its unemployment view down, and inflation up. On 29 October, again as expected, the Fed cut its policy rate by 25bps to 4%p.a, but stressed at the press conference that a 10 December 2025 rate cut is still not guaranteed.

With such bullish revisions to the Fed's outlook in September the obvious question is why cut rates? Because as we have argued for a while the Fed still has policy tight with the policy rate being above the Fed's assumed long-term 3% policy rate. Where the Fed remains very pessimistic is that even with its upward revisions it does not foresee US growth ever achieving 2%p.a – this seems increasingly at odds with how the Fed's growth nowcast is tracking (at 3.9%p.a, see Figure 18).

Figure 17: The Fed's outlook: below 2%p.a US growth for 4 years, falling unemployment, US inflation back to target in 2027 at the same time as the policy rate is back at the Fed's assumed neutral 3%

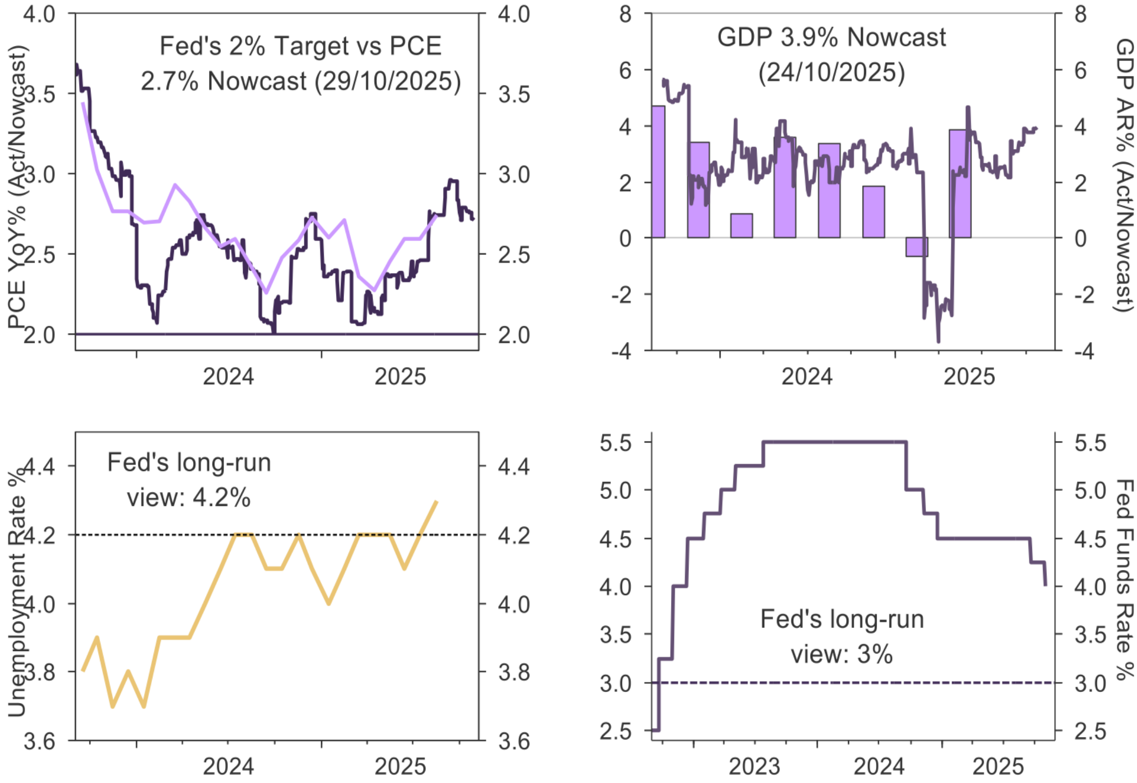
US Fed Projections from September 2025 (%pts)



Source: FOMC 18 September 2025

Figure 18: Key variables on the Fed's data-watch

US PCE Inflation, Growth, Unemployment, and Fed Policy Rate

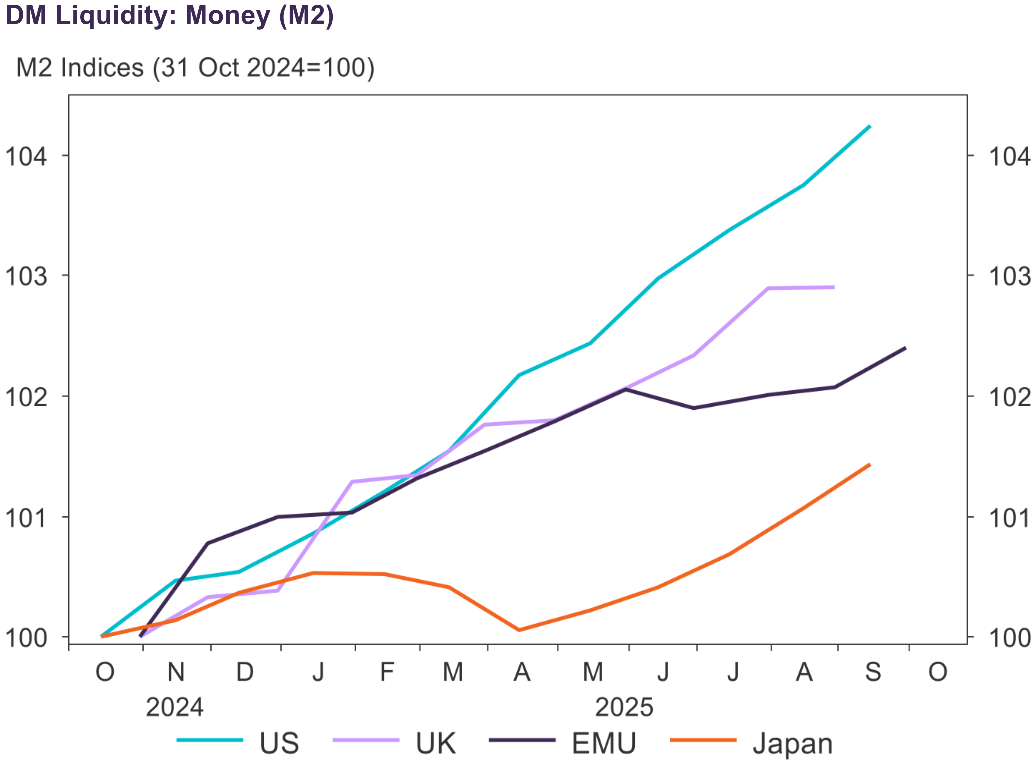


Source: LSEG Datastream, October 2025

Any further US dollar depreciation may be modest and slow

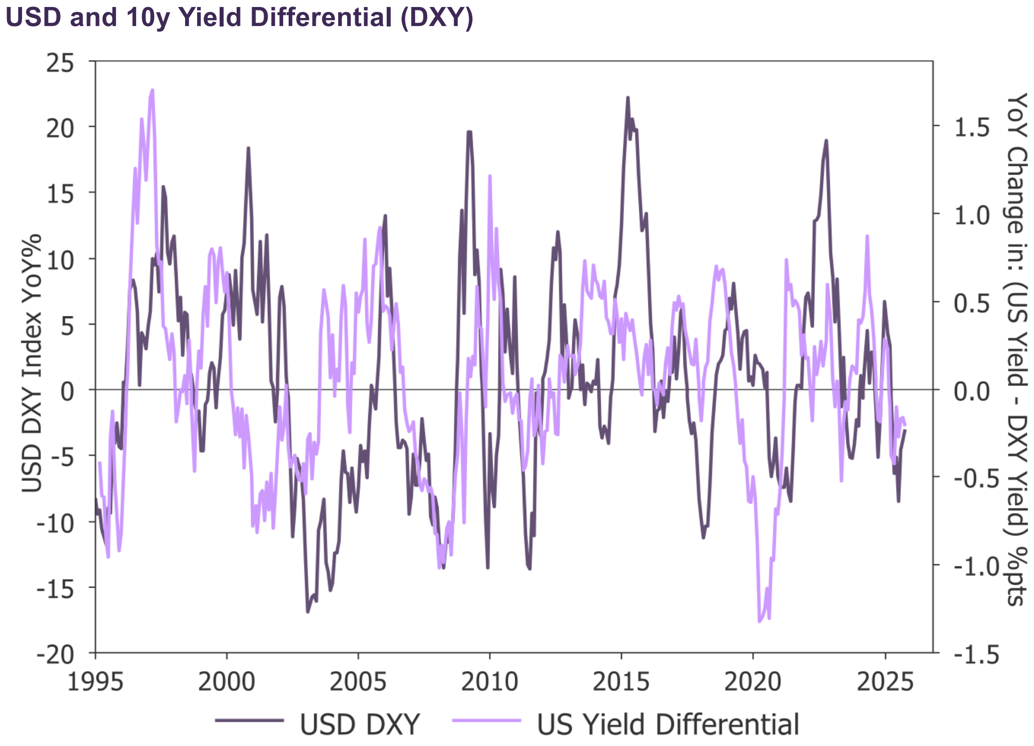
Since the US dollar (DXY index) reached its peak late last year, US liquidity has been the highest across DM and this 'excess supply' of dollars has seen the value of the greenback slide (see Figure 19). The USD DXY has been stable at 10% down (YTD) for around 6 months now, and the key fundamental drivers of the US dollar – the yield differential (see Figure 20) and the terms of trade/oil prices (see Figure 21) - suggest the US dollar may be around its fair value (see Figure 22 for the latest % over/under valuation metrics). However, with Fed rate cuts likely to continue in 2026 there could be more US dollar downside from liquidity growth, and from the US yield differential, not priced-in yet.

Figure 19: DM liquidity growth: the US leads in 2025 which has depreciated the USD



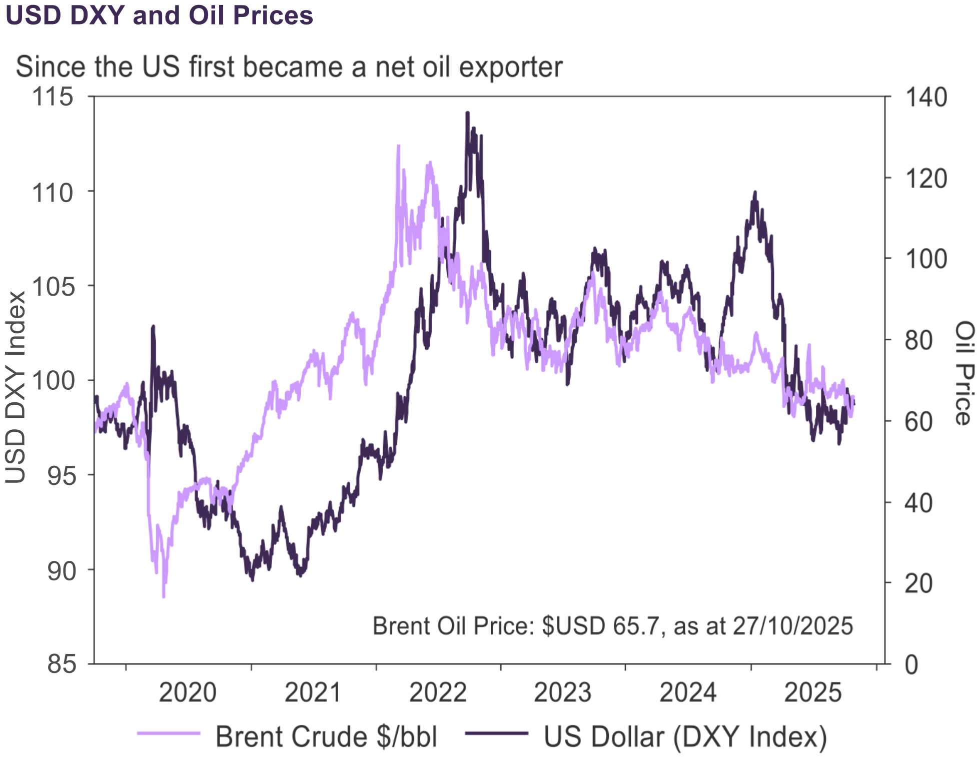
Source: LSEG Datastream, October 2025

Figure 20: The unsupportive US yield differential has been all 'priced-in' to the US dollar so far (as the lines track so closely)



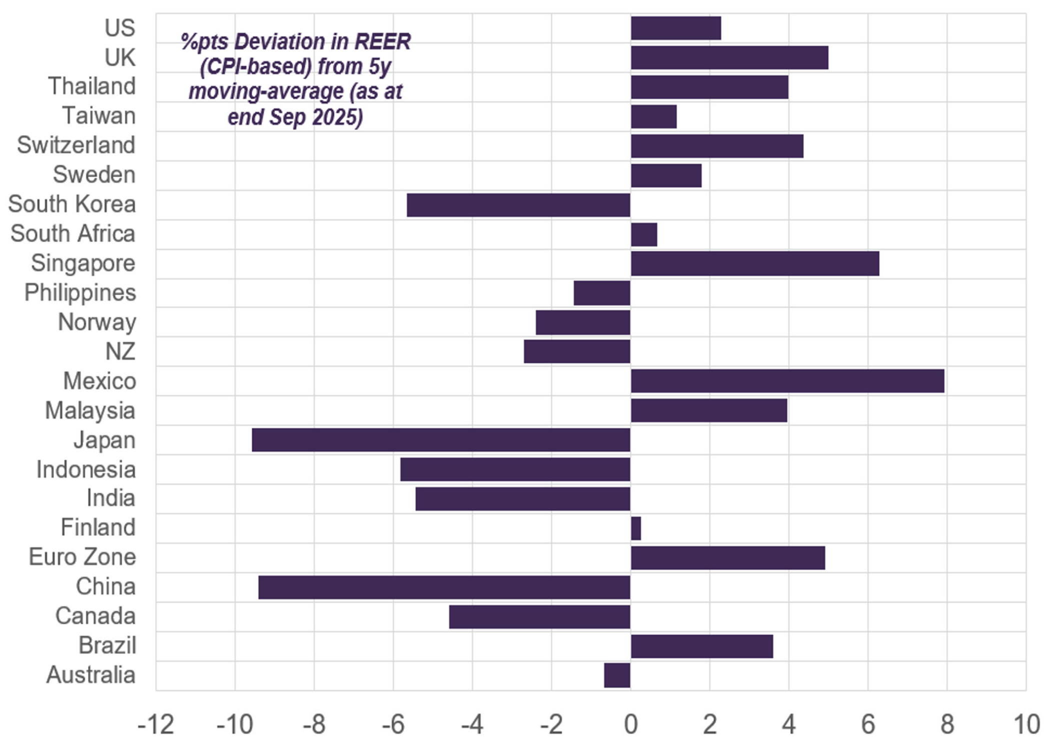
Source: LSEG Datastream, October 2025

Figure 21: Oil prices and the US terms of trade also suggest the US dollar is around fair



Source: LSEG Datastream, October 2025

Figure 22: The US dollar is no longer significantly overvalued (%pts under/over-valued)



Source: FFMC calculations. LSEG, BIS, Oct 2025. This is the %pts deviation in the real exchange rate (REER, CPI-based) from its trend (a 5y moving-average)

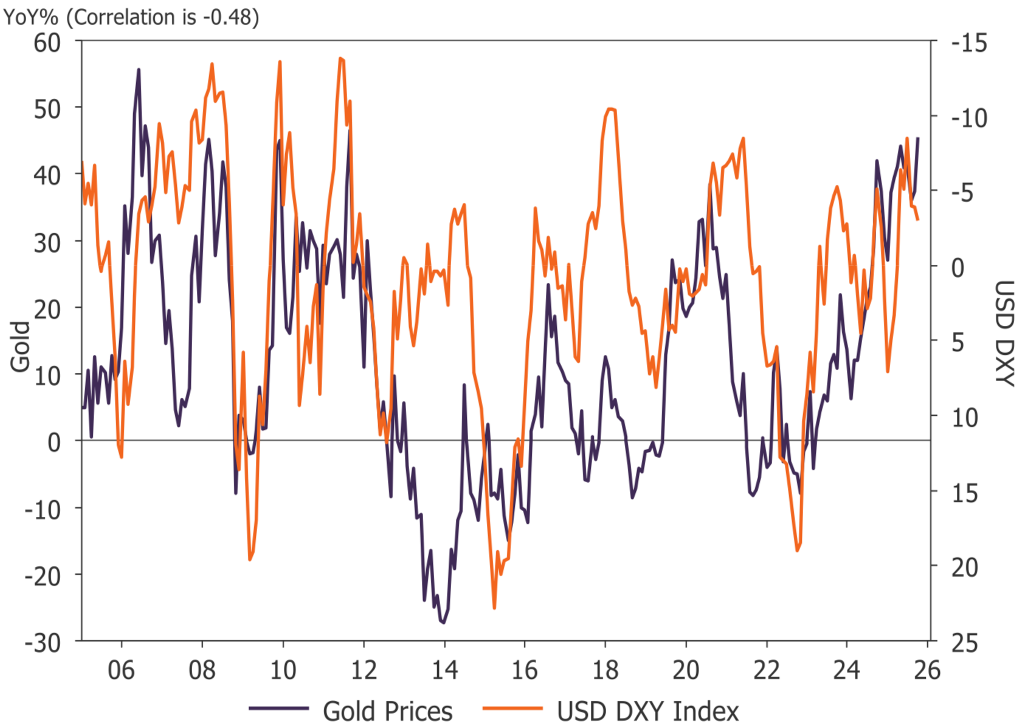
Gold prices do not seem excessive and have proved a good hedge for geopolitical shocks

Continuing its trend of strong returns from last year, gold has proved a very useful hedge (in a balanced portfolio) against geopolitical fears, recession risks, and de-dollarisation forces. Despite being very high in real terms gold prices do not seem 'excessive' as they have tracked the weaker US dollar very well (see Figure 23).

While President Trump's 'Big Beautiful' Bill (4 July 2025) is a significant net stimulus the US fiscal deficit can still fall over time if improved corporate profitability increases fiscal revenue sufficiently. This prospect may be one reason the US treasury risk premium is holding below 1%pts (see Figure 24) – and the US dollar has not depreciated any further towards it - as global investors appreciate that high government debt is not a problem for the US alone.

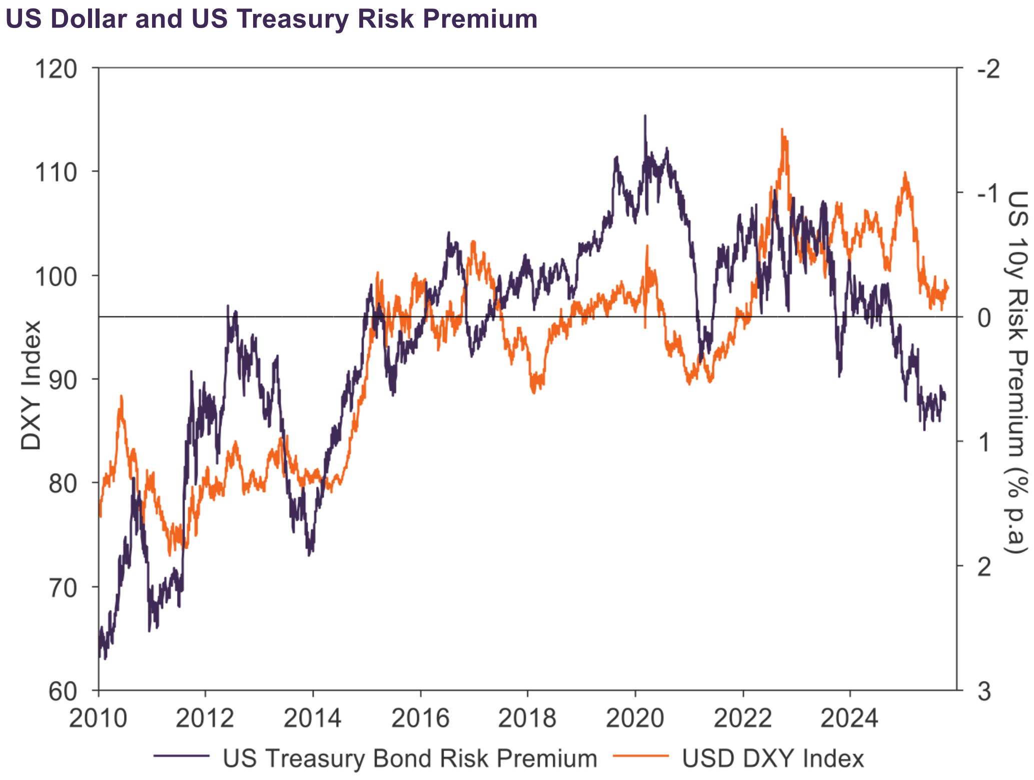
Figure 23: Gold price movements have been well explained by US dollar weakness

USD (DXY) and Gold Prices



Source: LSEG Datastream, October 2025

Figure 24: The US bond risk premium is holding along with the US dollar



Source: LSEG Datastream, October 2025