

Quarterly Investment Insights  
4<sup>th</sup> Quarter 2025

# Resilience, Rotation and Recalibration

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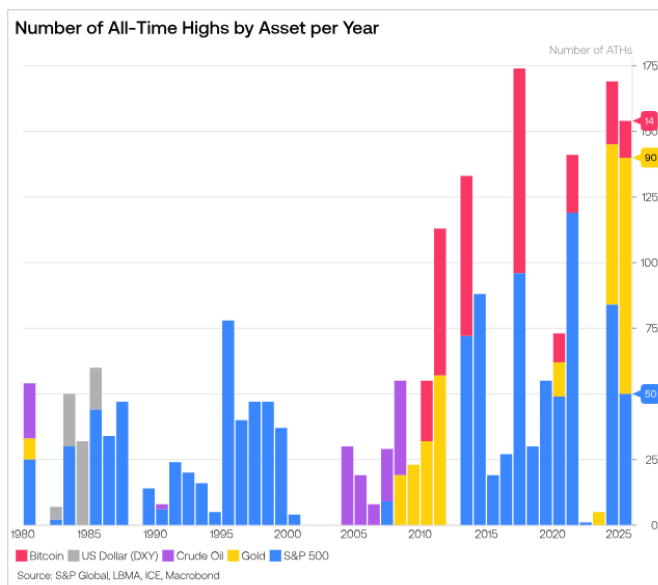
## Key Takeaways

- Global markets remained resilient in 2025, supported by strong earnings, easing inflation and a **broadening of market leadership beyond U.S. mega-cap technology stocks**.
- Policy and political uncertainty drove volatility, but markets adapted quickly, reinforcing the importance of **long-term discipline** and **diversification**.
- **Global monetary easing provided a supportive backdrop**, coupled with fiscal expansion helped sustain growth and support risk assets.
- **Structural themes continued to shape opportunities**, led by artificial intelligence, evolving human capital and China's long-term plan on innovation-driven growth.

## GLOBAL MARKETS: A STRONG FINISH TO A TRANSFORMATIONAL YEAR

Global equity and bond markets ended 2025 on a positive note, with steady fourth-quarter gains reinforcing a strong year for risk assets. Major equity indices closed near record or multi-year highs, supported by solid earnings growth, easing inflation pressures and expectations of further monetary easing in 2026.

Importantly, market leadership broadened beyond a narrow group of United States (U.S.) technology stocks, and non-U.S. equities outperformed for the full year, benefiting from a weaker U.S. dollar, attractive valuations and improving fundamentals across Europe, Asia and emerging markets. While some year-end profit-taking moderated momentum, investor sentiment remained constructive, underpinned by continued enthusiasm for artificial intelligence and a supportive policy backdrop. In fixed income, performance diverged across regions, with United Kingdom gilts outperforming amid easing fiscal concerns and rate cuts, while U.S. Treasuries delivered more modest returns as the yield curve steepened following gradual Federal Reserve easing.



Source: Macrobond Website. 16 Dec 2025

## TRUMP'S SECOND YEAR TERM: POLICY SHOCKS & MARKET ADAPTATION

The first year of President Donald Trump's second term created a challenging yet manageable environment for investors, marked by aggressive trade policies, frequent policy shifts and heightened political influence on economic institutions. Measures such as the "Liberation Day" tariffs, leadership changes at key agencies and a prolonged government shutdown that disrupted economic data release increased uncertainty, prompting Federal Reserve Chair Jerome Powell to describe policymakers as "driving in the fog." Markets initially reacted sharply to these developments but stabilised quickly as investors recalibrated expectations on the likely scope of policy changes.

Pro-business and deregulatory signals supported corporate profitability in sectors such as Banking, Defence and selected industrials, while strong consumer and government spending helped sustain economic growth. However, tariff-related cost pressures contributed to renewed inflation, constrained monetary policy flexibility and weakened consumer confidence. Despite concerns over public debt and a softer U.S. dollar, markets demonstrated resilience, continuing to reward companies with strong fundamentals.

## GLOBAL CENTRAL BANKS & MARKET IMPLICATIONS

In 2025, monetary policy across major economies shifted decisively toward easing as central banks responded to slowing growth, moderating inflation dynamics and rising economic uncertainties. The U.S. Federal Reserve delivered three 25 basis points rate cuts, bringing the federal funds target range to 3.50% - 3.75%, while the European Central Bank and Bank of England also lowered rates, and many other developed and emerging market central banks followed suit. This coordinated easing cycle provided crucial support for financial markets.

As illustrated in the chart below, historical experience shows that equity markets tend to perform more favorably following the first Fed rate cut when economic growth remains resilient and recession is avoided. The current cycle has so far looked closer to these positive “soft landing” periods, with equities rebounding after initial volatility and continuing to trend higher. This reinforces the view that easing policy, when accompanied by stable growth and solid earnings, can create a constructive environment for risk assets.

Looking ahead, central banks are expected to remain data-dependent, making macroeconomic resilience and corporate fundamentals key drivers of market performance.

### Bullish tilt toward equities hinges on macro resilience during easing cycle



Source: Macrobond, SPX Index. 8 Dec 2025

*Historical market trend is not necessarily indicative of future market trends.*

# CHINA: RESILIENCE, INNOVATION AND STRUCTURAL CHALLENGES

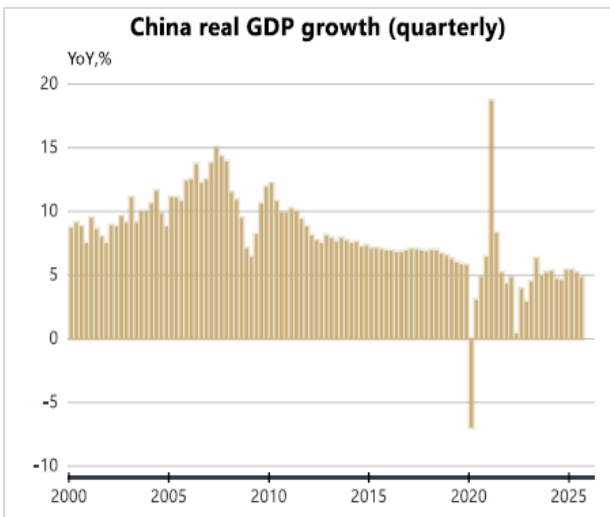
China entered 2025 facing external pressures from global trade tensions and domestic economic headwinds, yet ended the year on a relatively strong note, achieving its official gross domestic product (GDP) growth target of around 5% (shown on chart #1) and realised a record annual trade surplus driven by resilient exports.

Improved export performance, rising initial public offering (IPO) activity and steady inflows of foreign capital from mid-year reflected renewed international investor confidence, particularly in high-growth sectors such as artificial intelligence, autonomous driving and robotics.

Chinese enterprises continued to demonstrate strong competitiveness and adaptability, reinforcing the country's position as an important innovation hub for both domestic and multinational companies. However, growth remained uneven, with weak consumer spending, a prolonged property downturn and demographic challenges weighing on domestic consumption (shown on chart #2). Analysts also highlighted increasing reliance on exports and price competition as potential risks to long-term profitability.

Looking ahead to 2026, China's transition toward higher-quality, technology-driven growth will depend on its ability to revitalise traditional industries, strengthen domestic confidence and balance structural reforms with targeted policy support.

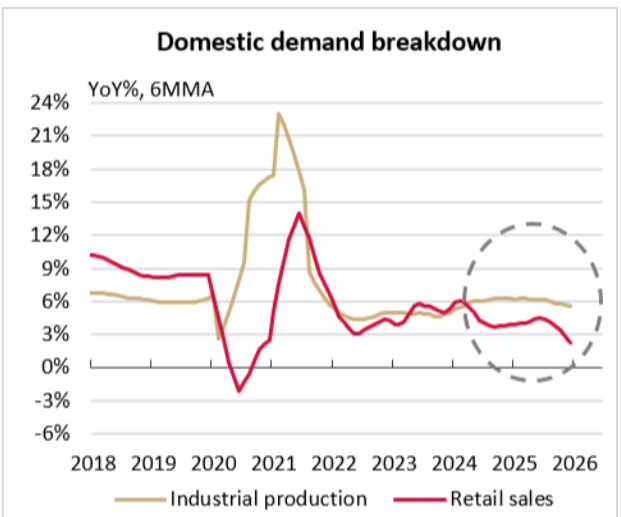
**Chart #1**



Source: NBS, Macrobond, AIA Investment 13 Jan 2026

\*YoY = Year-Over-Year

**Chart #2**



Source: NBS, Bloomberg, AIA Investment 13 Jan 2026

\*6MMA = 6 Months Moving Average

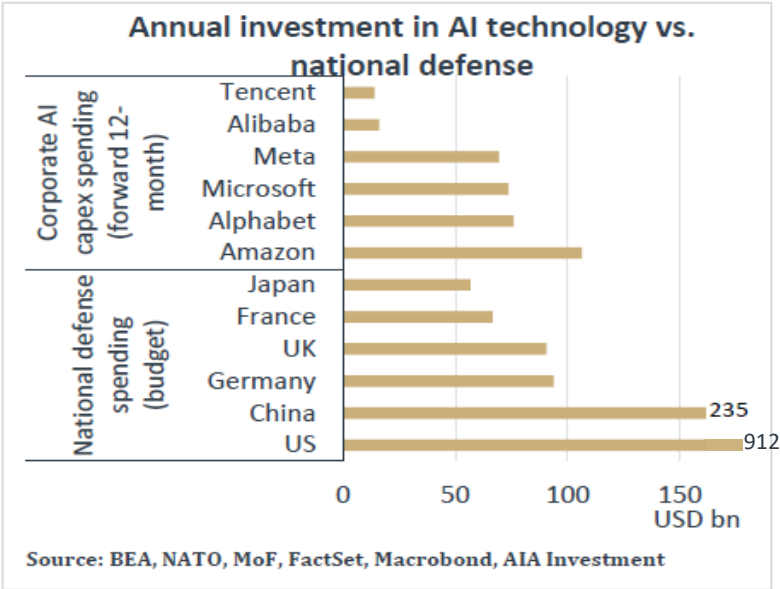
ARTIFICIAL INTELLIGENCE: FROM HYPE TO MEASUREABLE VALUE

In 2025, artificial intelligence (AI) moved beyond early excitement and began delivering real business value across sectors such as Technology, Healthcare, Manufacturing and Financial Services. Companies increasingly explore using AI to improve data analysis, automate processes and enhance decision-making, helping to support stronger earnings and productivity. This momentum was led by the “Magnificent 7” stocks -Nvidia, Microsoft, Alphabet, Apple, Amazon, Meta and Tesla, with Nvidia benefiting from strong demand for AI chips, and Microsoft and Alphabet embedding AI into their cloud and software platforms.

The scale of investment highlights how strategic AI has become. Leading technology companies are now spending an estimated USD 70-100 billion annually on AI infrastructure, an amount comparable to the defense budgets of major developed economies (shown in chart below), reflecting long-term commitment rather than short-term speculation.

However, the benefits of AI have not been evenly distributed. Companies with strong data, clear strategies and skilled teams have achieved meaningful efficiency gains, while others have struggled to translate spending into results. In this sense, AI has amplified differences in execution quality across businesses.

Overall, AI has strengthened investor confidence and supported market performance in 2025, particularly in semiconductors, cloud computing and digital infrastructure. Looking ahead, long-term winners are likely to be those that combine technological investment with disciplined execution, strong leadership and continuous talent development.



HUMAN CAPITAL IN THE AI ERA: OPPORTUNITY, NOT OBSOLESCENCE

Alongside technological progress, concerns have emerged over whether excessive reliance on AI, particularly among younger users, could weaken critical thinking, creativity and problem-solving abilities. Automation has also reshaped traditional entry-level roles, changing how experience and judgement are developed. Rather than creating a “lost generation,” however, AI is more likely to reward individuals who use technology as a complement to human intelligence rather than a substitute. Employers continue to place strong emphasis on analytical thinking, adaptability and leadership, highlighting the growing importance of continuous learning and human-centred skills in the digital economy.

## WHAT'S NEXT

As markets enter 2026, the investment outlook remains sanguine in an environment of late-cycle expansion. Global growth may moderate, but should remain supported by easing monetary policy, stabilising inflation and resilient corporate earnings. With major central banks approaching more neutral policy settings, investor focus is shifting from interest rate movements to earnings quality, balance sheet strength and long-term competitiveness.

Equity markets are likely to benefit from broader participation beyond mega-cap technology stocks, with opportunities emerging in international markets, value-oriented sectors and structural themes such as Artificial Intelligence, Healthcare and Energy transition. In fixed income, lower policy rates should continue to support bond valuations, while careful credit selection remains essential.

Geopolitical risks, trade policies and fiscal sustainability will continue to influence markets, alongside demographic and technological shifts. In this environment, effective long-term investing in 2026 will depend less on short-term timing and more on disciplined portfolio construction, diversification and long-term focus to navigate volatility and capture sustainable growth.

## AIA GROUP INVESTMENTS HOUSE VIEW

Asset Class	-	=	+	Comment	Underweight (-)	Neutral (=)	Overweight (+)
Global Equities			+	<ul style="list-style-type: none"> <li>Maintain a moderate overweight in global equities, supported by resilient macro fundamentals, strong momentum, contained inflation, ongoing fiscal support, U.S. tax refunds, and prospective Fed easing, which together are driving synchronized global growth.</li> <li>Within equities, strong earnings momentum and a resilient economy continue to justify an overweight stance in U.S. equities, though this has been moderated to a slight overweight due to relative weakness versus other regions. Market rotation is broadening beyond Technology from U.S. to non-U.S. equities; and from AI infrastructure builders (Tech/hyperscalers) into AI adopters (Industrials, Financials).</li> </ul>			
- Asia Ex-Japan Equities			+	<ul style="list-style-type: none"> <li>Maintain an overweight to Asian equities as earnings growth trend higher on robust AI-related demand and improving technical profile, with earnings per share (EPS) growth continuing to rise steadily. Strong set of structural drivers that include wider AI adoption, improved economic security and governance reforms, and domestic consumption recovery that offer broad opportunities.</li> </ul>			
Fixed Income	-			<ul style="list-style-type: none"> <li>Maintain an underweight stance as market consensus points to a slower pace of rate cut by the Federal Reserve, capping the price upside from declining yields and making bonds less compelling versus risk assets.</li> </ul>			
Cash	-			<ul style="list-style-type: none"> <li>Underweight cash during a rate-cutting cycle and in favor of potential opportunities in risk assets.</li> </ul>			



# Stewardship Insights:

## Exploring Investment Excellence with



**As markets shift from peak rates toward an easing cycle, how is the AIA Global Corporate Bond Fund positioned to capture total returns amid tight credit spread and maturing credit cycle?**

M&G: The Fund is managed in a flexible manner based on M&G's disciplined and value-oriented investment process. Looking at the corporate bond markets with our value lens, it becomes apparent that interest rates remain elevated in many areas, while credit spreads seem extremely tight and, in our view, offer little margin for error.

Our value-based investment framework therefore encourages us to seek exposure to interest rate risk and remain highly selective within corporate bonds. This initial view is further supported by our current macro-economic assessment. As labor markets and inflation continue to cool, central banks in most developed economies - such as in the U.S. and UK - are likely to continue to cut interest rates further.

This backdrop in our view should be favorable for longer duration assets, and the Fund is currently positioned to benefit from this tailwind with currently a small overweight duration position, for example in GBP denominated bonds. In addition, as regions decouple and the monetary easing cycle matures, there will likely be more opportunities for active managers such as ourselves to take advantage of these divergences.

Within credit, while corporate fundamentals have remained robust, with spreads at very tight levels we believe that in many areas we are not being compensated for the risks, and we maintain an up in quality bias within the portfolio. Our patient and value approach to investing dictates that there will likely be better entry points for adding corporate bonds in the future.

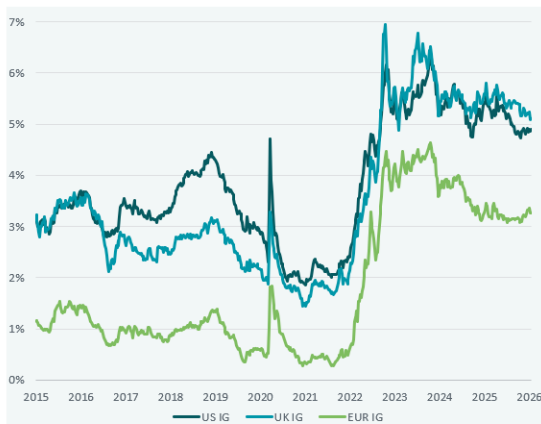
## In the current environment of higher yields and easing cycle, how are you evaluating the trade-off between yield carry and price risk (Risk-Return trade-off)?

M&G: We remain constructive on investment grade corporate bonds, as overall yields remain attractive and the prospect of even lower yields in the future offers the potential for investors to generate capital gains on top of the carry. However, as mentioned previously, bond markets stand at a unique juncture in the sense that nowadays the large majority of the yield comes from the interest rate component, rather than the spread component.

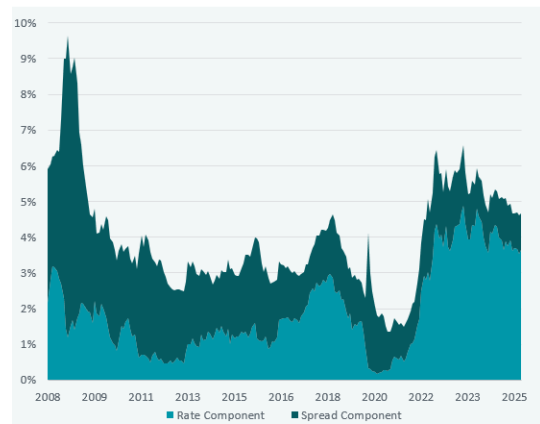
### Attractive entry point from a yield perspective



Elevated Yields with reliable income (Yield to maturity, %)



Investment Grade: Yield components – 5-year treasuries and credit spread (bps)



Yields remain attractive for investment grade corporate bonds. The large majority of the yield comes from the interest rate component

Source: M&G, ICE BofA indices (Ref. COA0, UR00, ER00), as at 16 January 2025, Right hand chart: 31 December 2025

While the elevated level of yield coming from the asset class provides some protection in case of market volatility, this is not necessarily the case when analysing the pure spread component of investment grade corporate bonds. Indeed, given the starting point, if spreads reverted from the current 8th percentile of expensiveness back to the median spread observed since 1996, investors with passive exposure to a global investment grade corporate bond index would experience an instantaneous loss of about 2.5%, everything else equal.

Similarly, the right-hand panel of the slide below shows that for a 10-year corporate bond, a spread widening of about 12 basis points would be enough to offset the excess return that the bond would generate above its reference government bond over the course of a year. This spread breakeven level then declines to less than 5 basis points for a 30-year corporate bond.

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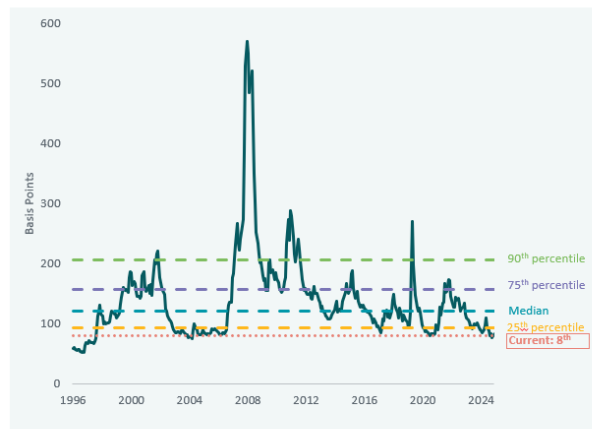


Because of these razor thin margins and given the starting point of credit spreads, we maintain an up in quality approach to credit within the portfolio and a bias towards shorter dated corporate bonds, which are likely to protect capital more efficiently should spreads widen throughout the course of 2026.

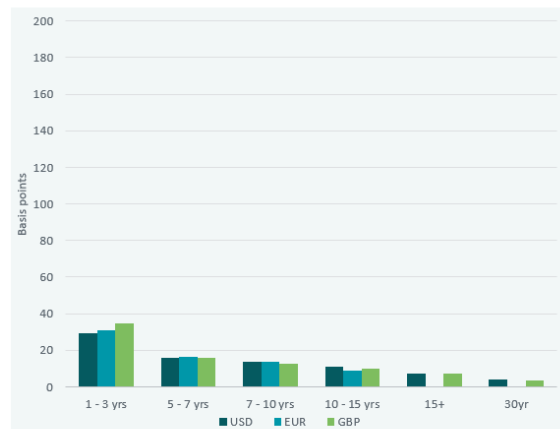
## The risk-reward of credit spreads is not compelling



Global IG corporate bond spreads since 1996 (bps)



Spread breakeven (OAS / spread duration) (bps)



If spreads reverted to the median, the index would lose 2.5% of its value

Source: Bloomberg, ICE Bank of America indices, 31 December 2025. Note: spread is adjusted for rating and maturity changes over time.

Overall, we remain constructive on the outlook for investment grade corporate bonds and believe that the still elevated level of yield of the asset class is likely to offer attractive risk adjusted return for investors. But the asset class is attractive because of the cheapness of the interest rate component, and portfolios should be positioned accordingly in our view.

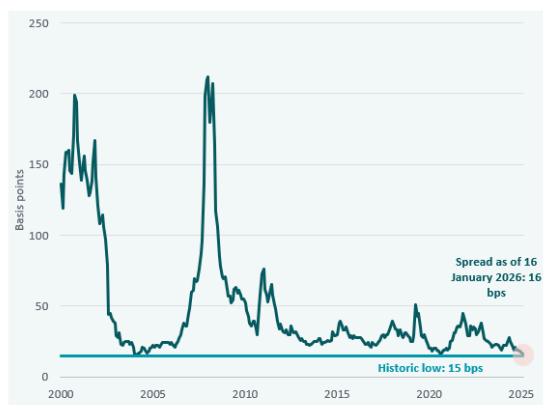
**With credit spreads still relatively tight despite improving rate expectations, how selective is the AIA Global Corporate Bond Fund in taking credit risk, and what signals do you rely on to assess corporate resilience in the next phase of the cycle?**

M&G: Indeed, given our value approach to corporate bond investing, the fund management team remains highly selective within credit. In practise, this manifests itself within the portfolio with a relatively large underweight to BBB and A rated corporate bonds, and conversely an overweight allocation to higher quality AAA and AA rated bonds. What is also interesting in our view is that the Fund can be positioned defensively without giving up too much from a carry perspective. Indeed, the difference in spread nowadays between an A rated bond and a AA rated corporate bond is 16 bps of spread, which is 1 bp away from the historic lows. Similarly, the spread difference between a BBB rated corporate bond and an A rated corporate bond is now 29 bps, also 1 bp away from the historical lower bound. This acute compression of credit spreads means that we can remain selective within corporate bonds and still generate attractive levels of returns for investors, while waiting for better entry points in the future.

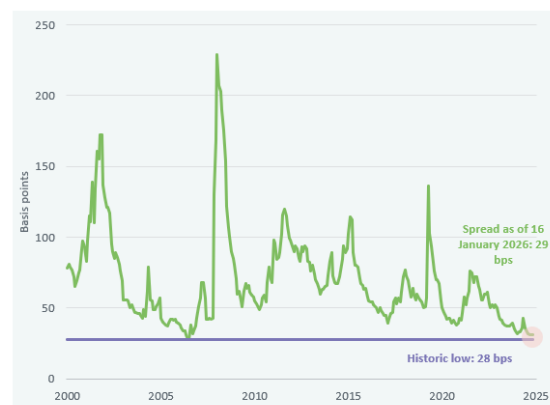
## The case for being cautious with credit spreads



Global IG A-rated – Global IG AA-rated credit spread (Govt OAS) bps



Global IG BBB-rated – Global IG A-rated credit spread (Govt OAS) bps



When spreads are compressed, we move up in quality

Source: M&G, ICE BofA Indices (Ref. GBC2, GBC3, GBC4), Govt OAS spread, as at 16 January 2026

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Looking across corporate bond sectors, we currently have a bias for financials and see value in high quality bank and insurance bonds. Spreads remain relatively attractive in this space, and many large banks are significantly better capitalised and more resilient than in the past, especially in Europe and in the UK where regulation is much more stringent.

We also currently maintain an overweight exposure to utility bonds within the Fund, on the basis that the consistency and predictability of the cash flows should prove supportive even in the case of market volatility.

Finally, we also recently added some exposure to very high-quality technology companies within the Fund. Indeed, AI related issuance surged last October and November, as many companies issued new bonds simultaneously in view of financing their future AI capex plans. This caused some over-supply in the markets, causing spreads to widen temporarily. The fund management team took advantage of these conditions to add some high-quality corporate bond exposure within the portfolio. This episode also showcases that the team stands ready to adjust the overall positioning of the strategy as market conditions change.

**How are you balancing exposure between developed and emerging markets within the AIA Global Corporate Bond Fund, considering current macro divergence? Will currency play a meaningful role in your decision-making for 2026?**

M&G: At present, the Fund is primarily invested in developed markets, with the U.S., Western Europe and the UK making up the bulk of the Fund's geographical allocation. Given the Fund's current focus on quality, the team does not feel compelled to invest significantly in emerging markets at present, and total exposure is currently around 2% of Fund NAV, a small underweight versus the benchmark. As the Fund does not use currency as a lever to generate active returns, the potential to generate returns from active currency views is also quite limited.

However, given how many emerging economies have demonstrated their resilience and continue to exhibit strong growth momentum, the fund management team remains attentive to how credit spreads will evolve in emerging markets relative to developed markets. As always, we remain highly attentive to market conditions and stand ready to adjust our exposure across sectors, maturities, geographies and issuers as market conditions change.

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