

Monthly Investment Insights

Macro Commentary

- Global equities broadly declined in September as surging bond yields and elevated oil prices weighed on market sentiments. Oil prices traded above \$100 per barrel during the month as tensions between U.S.-Iran continued with uncertainty surrounding oil supply from the Middle East. On Technology, excitement in AI-related stocks continue to support U.S. large-cap stocks and Tech-related industries in Asia.
- The combination of high energy prices, mounting fiscal deficits, stronger-than-expected economic data, and rising AI-related debt issuance, pushed long-dated U.S. Treasury yields to their highest levels in two decades, raising concerns on borrowing costs and stock valuations. That said, AI-related stocks and mega cap Technology companies stood out as market breadth narrowed, continuing to show resilience and support for equity markets. Several top AI leaders have, in recent weeks, highlighted growing safety concerns around the pace of AI development, and have suggested to slowdown the frontier-model developments.
- At its Sep FOMC meeting, the Federal Reserve (Fed) approved its first interest rates hike in more than three years, raising its benchmark rates by 25 basis points (bps) to a target range of 3.75% to 4.00%, as part of a continued effort to combat inflation. Reasons cited by Fed chairman Warsh to back the decision include a resilient economy and labor market, as well as continued tensions in the Middle East.
- Similarly in Europe, the European Central Bank (ECB) raised its key policy rate by 25 bps, as expected to 2.50%, highlighting upside risk to inflation from higher energy prices, as headline Eurozone Consumer Price Index (CPI) rose 3.2% year-over-year in August. In Asia, the Bank of Japan (BOJ) raised its policy rate by 25 bps in September, its 2nd time this year, to 1.25% as expected and taking rates to their highest level in more than three decades. Ongoing discussions between the U.S. and Japan fueled speculations that further steps could be taken to support the currency.

AIA Asset Allocation View

		--	-	=	+	++	House View
Equities	United States						We remain constructive on risk assets but are becoming incrementally more cautious given a growing set of risks, including Iran conflict escalation, U.S. mid-term election uncertainty, AI regulatory developments, late-cycle dynamics, and rising interest rate volatility. Market leadership has become less stable, rotating between AI beneficiaries and reflationary sectors amid higher bond yields and volatile AI-related news flow. We therefore favour a diversified portfolio approach and greater tactical flexibility.
	Europe						
	Japan						
	Asia ex Japan (AxJ)						
Fixed Income	U.S. Investment Grade (IG)						Maintain slight UW in U.S. IG due to large amount of supply and weakening credit metrics.
	U.S. High Yield (HY)						Maintain Neutral on the back of improving credit quality, manageable supply and stable spreads.
Cash	Cash						Remain invested, using cash to add to longer term structural opportunities.

-- : Underweight
- : Moderate Underweight
= : Neutral
+ : Moderate Overweight
++ : Overweight

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